Consolidated Financial Statements for the Fiscal Year Ended March 31, 2006

April 26, 2006

NEC Networks & System Integration Corporation
1-39-9 Higashishinagawa,
Shinagawa-ku, Tokyo 140-8620, Japan
http://www.nesic.co.jp
Representative: Yukihiko Baba, President
Contact: Shoichi Fukaya,
General Manager, Corporate Finance & Controller Division

Stock exchange listing: Tokyo
Code number: 1973
Board of Directors meeting: April 26, 2006
Use of U.S. accounting standards: No
Parent Company: NEC Corporation
(Code number：6701)
Percentage of the Company's voting rights held by the parent company: 42.4%

1. Results for Fiscal 2006 (April 1, 2005 - March 31, 2006)

(1) Sales and Income

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Fiscal 2006	213,672	7.6	6,056	25.9	5,982	25.9
Fiscal 2005	198,625	2.4	4,812	8.9	4,750	8.6

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)	Return on equity (%)	Ordinary income/total assets (%)	Ordinary income/net sales (%)
Fiscal 2006	2,609	113.5	60.56	—	4.9	4.6	2.8
Fiscal 2005	1,222	144.0	28.24	—	2.4	3.9	2.4

Notes: 1. Equity in earnings of affiliates: ¥— million (Fiscal 2005: ¥— million)
2. Average number of shares outstanding (consolidated): 41,958,482 shares (Fiscal 2005: 41,966,058 shares)
3. Changes in accounting methods: Yes
4. Year-on-year change for net sales, operating income, ordinary income and net income is based on the previous fiscal year.

(2) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/ total assets [%]	Shareholders' equity per share (¥)
Fiscal 2006	134,911	54,017	40.0	1,285.92
Fiscal 2005	123,935	51,704	41.7	1,231.28

Note: Number of shares outstanding at end of period (consolidated): 41,954,000 shares (Fiscal 2005: 41,962,292 shares)

(3) Cash Flows

	Cash flows from operating activities (¥ million)	Cash flows from investing activities (¥ million)	Cash flows from financing activities (¥ million)	Cash and cash equivalents at end of period (¥ million)
Fiscal 2006	3,493	(2,874)	(968)	9,903
Fiscal 2005	1,032	(2,394)	2,110	10,202

(4) Scope of consolidation and application of the equity method
Consolidated subsidiaries: 11 companies
Unconsolidated subsidiaries accounted for by the equity method: None
Affiliated companies accounted for by the equity method: None

(5) Changes in scope of consolidation and application of the equity method:
Consolidation: (New) 3 (Eliminated) None
Equity method: (New) None (Eliminated) None

2. Projected Results for Fiscal 2007 (April 1, 2006 - March 31, 2007)

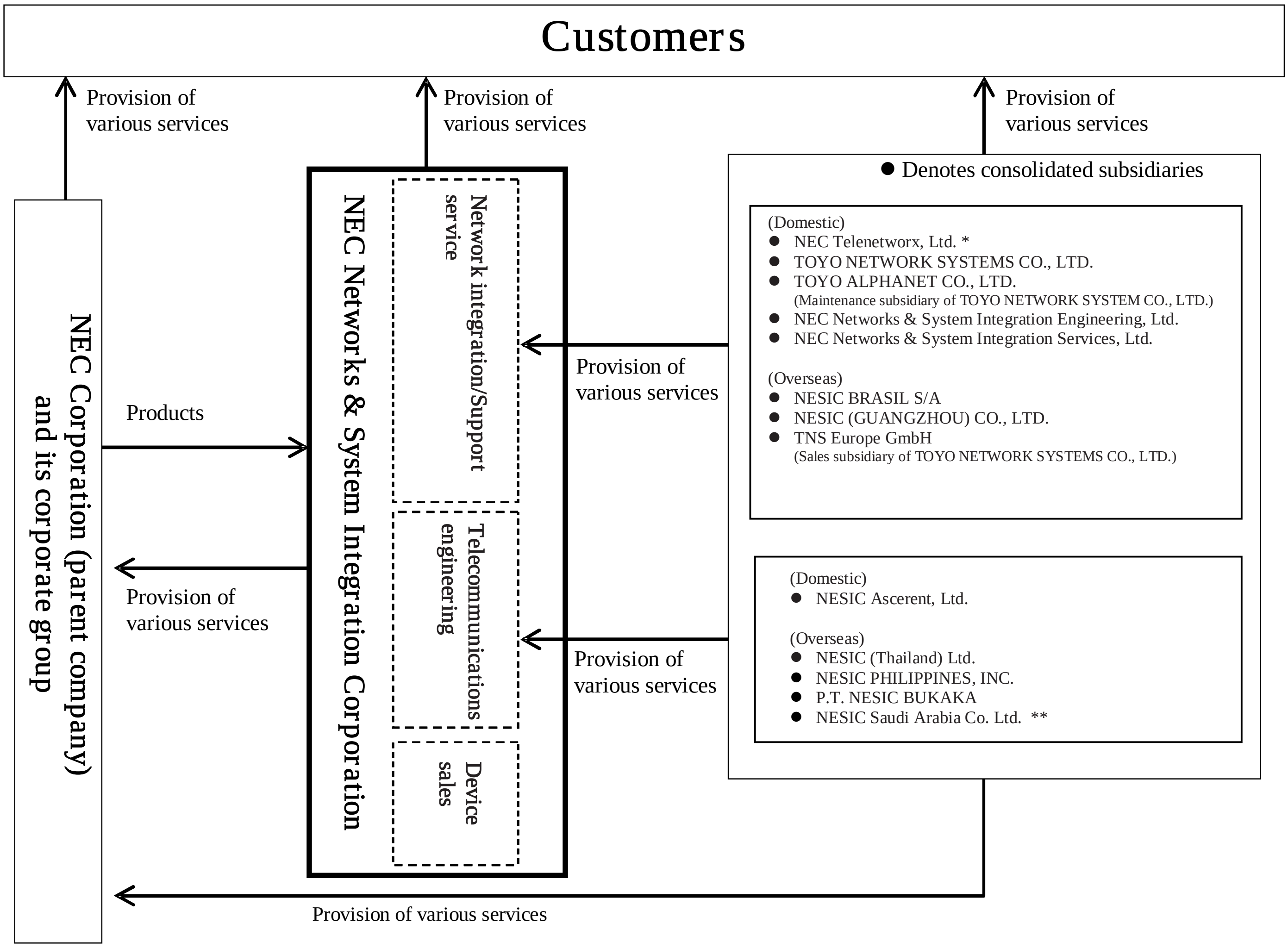
	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)
Interim period	112,500	2,600	1,200
Fiscal 2007	260,000	7,600	3,800

Reference: Estimated earnings per share (fiscal 2007): ¥76.35
Note: Estimated earnings per share (fiscal 2007) were calculated by considering the common shares allocated pursuant to a share exchange on April 1, 2006 (7,815,300 shares) in the total number of shares issued and outstanding as of March 31, 2006.

Please refer to page 11 of the attached materials for items concerning the projected results.

Corporate Group

As of April 2006, the NEC Networks & System Integration Group consists of 13 consolidated subsidiaries with NEC Networks & System Integration Corporation as the core. As a system integrator, the Group provides total system planning and consulting, design, integration, maintenance, network operation and monitoring, and outsourcing services centered on its network-related fields, its main area of business. The Group also manufactures and sells network communication equipment.



* NEC Telenetworx, Ltd. became a consolidated subsidiary on April 1, 2006.

** NESIC Saudi Arabia Co., Ltd. was established on April 11, 2006 as a subsidiary in the Kingdom of Saudi Arabia. Note that NESIC Saudi Arabia is an abbreviated name; the company's official name is Networks & System Integration Saudi Arabia Co., Ltd.

Management Policies

1. Basic Policies of the Company's Management

NEC Networks & System Integration Corporation ("the Company") was established in 1953 as a builder of communication network infrastructure. Today, the Company is working to expand its business realm and increase shareholder value as a system integrator with its principal business in network integration and support service and telecommunications engineering.

To reflect the change in the nature of its business, and aiming to further develop and grow as a systems integrator, the Company changed its name on October 1, 2005 from NEC System Integration & Construction, Ltd. to NEC Networks & System Integration Corporation. In addition, the NEC Networks & System Integration Group established the following corporate philosophy and management guidelines.

NEC Networks & System Integration Group Corporate Philosophy

As a business partner to its customers, the NEC Networks & System Integration Group aims to build a bridge to a new era by:

- increasing customer value
- helping create a more convenient and prosperous society
- creating peace of mind through the establishment of reliable networks.

NEC Networks & System Integration Group Management Guidelines

- Aim to increase the corporate value of our customers.
- Contribute to shareholders, customers and communities through sound management.
- Maintain a commitment to the highest levels of quality and safety.
- Act as a good, environmentally conscious corporate citizen
- Aim to create a workplace in which employees can fully exercise their capabilities.

The NEC Networks & System Integration Group ("the Group") is a core company in the network solutions business of the NEC Group. As such, the Group will work in unison to fulfill this corporate philosophy and management guidelines, and will organically combine the Group's strengths in sales, system integration (including telecommunications construction), and software development and maintenance to further reinforce its business capabilities amid a rapidly changing operating environment.

2. Basic Policy on Profit Distribution

The Company considers increasing shareholder returns a management priority, and is working to raise its corporate value by strengthening its operating foundation, enhancing its financial structure and increasing earnings capabilities. The Company regards improving shareholder returns as a key management issue, and its basic policy is to distribute dividends that are appropriate in terms of overall consideration of consolidated performance, investment trends and other factors, and that meet shareholders' expectations.

Based on this policy, for the year ended March 31, 2006, performance was relatively stable, and therefore the Company increased the interim dividend by ¥2.00 per share (from ¥5.00 to ¥7.00) and plans to pay total dividends for the year of ¥14.00 per share (from ¥12.00 to ¥14.00) to return profits to the shareholders who have given their support.

The Company's fundamental policy for deploying internal capital reserves is to invest strategically in growth sectors, new businesses and enhanced competitiveness based on assessment of future developments in network-related markets.

3. Medium- and Long-Term Management Strategies

In network-related business, the Company's main business area, progress in adopting IP telephony and strengthening of security measures to raise the sophistication of network environments and increase management efficiency are steady among private-sector companies. Among telecommunications carriers, as competition between companies to obtain new subscribers increases, there is a trend toward expanded investment in development of networks and upgrading of communications services. Looking ahead, network-related investment, including the full-scale development of the Next Generation Network (NGN*) and expected investment in the services that will go into it, is forecast to continue on an expansion trend over the medium and long term. Meanwhile, regarding the trend of new companies entering the mobile communications market, there are many uncertain elements involved in investment plans and their scale, and their effect on the Company's performance is unclear at present.

In this business environment, the Company will strengthen its network integration/support service business, and will also focus its efforts on developing new markets and expanding its business areas through measures such as new market development centered on niche markets.

On June 1, 2005, the Company made TOYO NETWORK SYSTEMS CO., LTD., which is primarily engaged in the electronic equipment business, a consolidated subsidiary for the purpose of further strengthening its network integration/support service business. In addition, on April 1, 2006, the Company made a consolidated subsidiary of NEC Telenetworx, Ltd., which is mainly engaged in the business of maintenance and outsourcing services, including providing equipment and performing maintenance and support services for telecommunications companies and broadcasters, and network monitoring services for other private-sector companies. In the field of network businesses, where further market expansion is anticipated, these additions will further enhance the Company's competitiveness in the network integration/support service business by expanding and strengthening the menu of services in response to customer needs, while the know-how, technologies, markets and personnel of the two companies will create synergy throughout the Group. In addition, by raising business efficiency, the Company will aim expand the earnings of the Group and further advance its businesses.

In the telecommunications engineering business, construction continues to decrease due to progress in the shift to IP and technological developments, but is trending toward a bottoming out. The Company will implement further cost-cutting measures to increase the cost-competitiveness of this business, and will enhance reliability by further improving construction quality.

To promote these business developments and respond to expanding markets, the Company will also work to expand orders through business tie-ups and collaborative business arrangements with other companies.

*NGN (Next Generation Network):
The next-generation IP network that will integrate the networks built by telecommunications carriers for services such as fixed-line telephone, mobile phone and Internet service by converting them to IP. This will enable the use of high-quality, highly reliable IP networks not only for telephones but also for other communications services such as the Internet and television broadcasting, without affecting access methods.

One service that will be made possible over the NGN is Fixed Mobile Convergence (FMC), which will allow a single telephone number and handset to be used for both fixed line and mobile telephone service, depending on the usage environment.

4. Issues Facing the Company

In response to rapid changes in the business environment, the entire Company is currently undertaking business innovations to shift to a balanced, high-value-added business structure.

Specific measures are:

1) Expanding High-Value-Added Businesses
   In network-related business, we are strengthening our system building technologies and our ability to offer user-oriented solutions that extend to proposals for customer business models. In support service business, we will expand maintenance and outsourcing services by leveraging synergy with NEC Telenetworx, Ltd. We will also strengthen niche businesses such as system installation materials and multicasting IP systems by introducing the products of TOYO NETWORK SYSTEMS CO., LTD.
2) Improving Our Competitiveness in the Telecommunications Engineering Business
   We will make innovations in construction technology and steadily implement cost-cutting measures to boost our competitiveness and further improve construction quality, thus increasing the trust of customers.
3) Strengthening Market Responsiveness
   In addition to strengthening our sales force through measures such as adding sales staff, we will cultivate new markets by introducing niche products and services. We will also work to expand markets through tie-ups and alliances with other companies.
4) Improving Profitability through Comprehensive Cost Reductions
   We will enhance our comprehensive cost reform efforts and will improve personnel efficiency and promote more efficient allocation of expenses to further strengthen our cost competitiveness.
5) Cultivating Management Capabilities and Strategically Superior Human Resources
   We will cultivate and strengthen superior human resources from a management and strategic perspective.

By forcefully promoting these business structure innovations, the Company will work to further increase its overall management efficiency, improve its management structure and increase its corporate value.

5. Information Regarding Parent Company, Etc.

(1) Name, Etc., of Parent Company

Name of parent company	Category	Percentage of voting rights held (%)	Stock exchanges on which stock certificates of the parent company are listed
NEC Corporation	Parent company	51.50 (*1) [12.92(*2)]	Tokyo Stock Exchange Osaka Securities Exchange Nagoya Stock Exchange Fukuoka Stock Exchange Sapporo Stock Exchange NASDAQ (U.S.) Frankfurt Stock Exchange(*3) Swiss Exchange(*3)

*1 The percentage of material voting rights held by NEC Corporation was 42.41% as of March 31, 2006. However, in connection with making NEC Telenetworx, Ltd. a subsidiary through an exchange of shares on April 1, 2006, the Company allotted 7.81 million shares to NEC Corporation, which had been the parent company of NEC Telenetworx, Ltd. As a result, the actual proportion of shares held by NEC Corporation as a percentage of total outstanding shares became 51.25%.
The percentage of material voting rights held by NEC Corporation listed above (51.50%) is the theoretical figure calculated by adding the event of the exchange of shares in connection with making NEC Telenetworx, Ltd. a consolidated subsidiary to the Company's stock data as of March 31, 2006.

*2 The figure in brackets represents the 640 million shares, included in the percentage of voting rights held, that NEC Corporation contributed as a retirement benefit trust held by the Japan Trustee Services Bank, Ltd. (The Sumitomo Trust and Banking Company, Limited beneficiary trust account, NEC Corporation retirement benefit trust account)

*3 NEC Corporation has applied for delisting of its shares from the Frankfurt and Swiss exchanges.

(2) Position of Listed Companies in the Corporate Group of the Parent Company, Etc. and Relationship between Other Listed Companies and the Parent Company, Etc.

NEC Corporation is the parent company, and materially held 25.50 million (51.50%) of the voting shares of the Company as of April 1, 2006.

The Company's role in the NEC Group is to serve as the core company in the area of network solutions. The Company provides total systems and performs support services, including maintenance, network operation and monitoring, and outsourcing, primarily in this area, and conducts these businesses throughout Japan as well as overseas.

NEC Corporation is the main supplier of the information and communications equipment related to the network systems the Company provides to its customers. From the standpoint of the NEC Group's consolidated results, the Company has traditionally focused on developing its own markets and users. This means that the Company will continue to focus on this field in consideration of its own performance as well as its contribution to expanding the business and enhancing the business foundation of the NEC Group overall. In addition, NEC Corporation outsources installation and maintenance services for the network-related systems it provides to its customers, and these services account for about 30 percent (in the year ended March 2006) of the Company's consolidated net sales. The terms of transactions with NEC Corporation and its group companies are the same as the terms of transactions with companies outside the NEC Group.

The Company has appointed one outside director and two outside auditors from the parent company in order to strengthen tie-ups in management activities with the parent company and to facilitate information sharing, but this has been done at the request of the Company. In addition, the number of outside directors from the parent company does not constitute a majority of the Company's Board of Directors, and decisions on important management matters are determined after thorough discussion at Board of Directors meetings, thus ensuring independent management judgment.

As of April 3, 2006, the Company had accepted 109 employees (3.7 percent of the total number of employees) from the parent company, and similarly, had seconded 100 of its own employees to NEC Corporation. These are a part of personnel exchanges for the purpose of strengthening tie-ups in the areas of sales and technology, and accumulating and enhancing information and expertise. The Company believes that this will strengthen its general business capabilities, including the areas of sales and technology.

These appointments of directors and auditors with concurrent duties at the parent company and the status of seconded employees are not at a level that could hinder independent decision making, and the Company believes that a certain degree of independence is ensured. The Company also believes that its independence is ensured in its relationship with NEC Corporation in the area of management, as management decisions and fund procurement concerning matters such as the Company's business operations are based on the Company's own judgment.

NEC Corporation is a large and stable customer of the Company, but a significant change in the Company's role and position in business tie-up relationships with NEC Corporation, or a major change in the competitiveness and positioning of NEC Corporation's products and devices in the market, could have an effect on the Company's business performance and business operations.

Currently, the Company and the NEC Group maintain a good relationship. The Company will continue information exchanges and collaboration with the NEC Group to respond to new markets and technological fields, and as a member of the NEC Group, will contribute to expansion of the group's overall business.

Significant transactions with the parent company are described in the note, "Transactions with Related Parties," on page 26.

(3) Directors with Concurrent Duties (as of April 1, 2006)

Position	Name	Position at Parent Company, etc.	Reason for Appointment
Director	Saburo Takizawa	Executive Vice President and Member of the Board, NEC Corporation	- Has extensive experience and knowledge related to the Company's business operations - Participation of outsiders enhances objectivity and transparency in the Company's management
Corporate Auditor	Yasuo Matoi	Executive Vice President and Member of the Board, NEC Corporation	- Has extensive experience and knowledge related to the Company's business operations - Audits directors' execution of duties from a fair, objective standpoint as an outsider
Corporate Auditor	Tetsujiro Arano	Deputy General Manager, Carrier Network Planning Division, NEC Corporation	- Has extensive experience and knowledge related to the Company's business operations - Audits directors' execution of duties from a fair, objective standpoint as an outsider

Notes:

1. Of the Company's six directors and four corporate auditors, two are concurrently officers of the parent company.
2. Director Saburo Takizawa is an outside director as provided in Article 188, Paragraph 2, No. 7-2 of the Commercial Code.
3. Corporate Auditors Yasuo Matoi and Tetsujiro Arano are outside auditors as provided in Article 18, Paragraph 1 of the "Law for Special Provisions for the Commercial Code Concerning Audits, etc. of Kabushiki-Kaisha."

(4) Acceptance of Employees Seconded from the Parent Company

(As of April 3, 2006)

Department name	Number of employees	Name of seconding company (Parent company)	Reason for accepting the employee
Marketing & Sales Development Unit	13	NEC Corporation	Sales support, exchange of information and expertise, etc.
SI & Services Operations Unit	58	NEC Corporation	Technology support, exchange of information and expertise, etc.
Customer Engineering Division	10	NEC Corporation	Technology support, exchange of information and expertise, etc.
Networks Operations Unit	8	NEC Corporation	Technology support, exchange of information and expertise, etc.
Regional Operations Unit	16	NEC Corporation	Sales and technology support, exchange of information and expertise, etc.
Other staff divisions, etc.	4	NEC Corporation	Support of specialized work in management administration, exchange of information and expertise, etc.
Total	109	—	—

Note: The Company had 2,935 employees as of April 3, 2006. The number of employees as of March 31, 2006 was 2,913.
(Number of employees excludes directors and employees seconded to other companies.)

(5) Employees Seconded to the Parent Company

(As of April 3, 2006)

Department	Number of Employees	Name of Seconding Company	Reason for Secondment
Sales and technology departments of NEC Corporation	100	NEC Networks & System Integration Corporation	Exchange of information and expertise, etc., in the areas of sales and technology

Business Results and Financial Condition

1. Summary of the Year Ended March 31, 2006

The Japanese economy moved toward a general recovery in the year ended March 31, 2006, despite a delay in the recovery of regional economies, as improvement in corporate earnings led to increased capital investment, and consumer spending and the employment environment also improved.

The business environment of the NEC Networks & System Integration Group ("the Group") was firm. Telecommunications companies expanded communication services to attract new subscribers, and capital investment in development of networks increased, particularly among mobile communications providers. However, there were completions of cycles and timing differences in large-scale investments by certain companies. Among other companies, despite some delays in the actualization of network-related investment of regional companies, network-related investment was solid overall, including investment in IP telephony for the purpose of creating advanced network environments and increasing management efficiency. Moreover, in addition to the adoption of outsourcing services, the introduction of total security systems to prevent information leaks and protect personal information has been expanding in recent years.

In this business environment, the Group quickly and organically coordinated its strengths — a sales force covering the entire nation, expertise in system engineering, system integration and software development, and maintenance bases at 200 locations nationwide — to reinforce sales and proposal activities that realize customer needs. The Company has also been taking measures to enhance the earnings of the overall Group and expand and develop business. These included the start of operations of TOYO NETWORK SYSTEMS CO., LTD., which became a consolidated subsidiary on June 1, 2005, development of business in new fields, and sharing of markets.

As a result, consolidated orders received during the fiscal year totaled ¥233,383 million, a 7.7 percent increase year-on-year. The increase was mainly due to solid domestic private-sector demand for network integration support services as well as the addition of TOYO NETWORK SYSTEMS CO., LTD. during the consolidated fiscal term. By market, among telecommunications carriers, although certain companies completed a cycle of large-scale investments, but mobile communications companies expanded investment in base stations in order to upgrade voice quality and customer service. Despite weak orders from regional companies, orders from other private-sector companies were solid overall as the Group devoted maximum effort to sales and proposal activities, which resulted in renewal orders for networks and information systems, mainly in the financial and manufacturing sectors. Orders for maintenance and outsourcing services related to network system integration increased for both telecommunication carriers and other private-sector companies.

Consolidated net sales were ¥213,672 million, a 7.6 percent increase year-on-year, due to the same factors behind the increase in orders.

Consolidated operating income was ¥6,056 million, a 25.9 percent increase, and consolidated ordinary income was ¥5,982 million, a 25.9 percent increase, as a result of the increase in net sales and an improved cost of sales ratio due to promotion of cost-cutting activities. Consolidated net income was ¥2,609 million, a 113.5 percent increase. However, this was mainly due to the improvement in ordinary income and because the five-year amortization of net retirement benefit obligation at transition (¥2,138 million), which had been recorded as an extraordinary loss in the previous fiscal year, was completed in the year ended March 2005.

Results by business segment are as follows.

Network Integration / Support Service

For the year ended March 31, 2006, orders received were ¥118,410 million, a 31.5 percent increase year-on-year, and sales were ¥116,997 million, a 36.4 percent increase.

The main factors behind the 31.5 percent, or ¥28,330 million, increase in orders received were solid orders for new network systems (including VoIP compatible systems) and improvement of existing systems for private-sector companies, as well as firm orders from private-sector companies and telecommunications carriers in Japan and telecommunications carriers overseas for support services including network operation and outsourcing. In addition, at TOYO NETWORK SYSTEMS CO., LTD., which became a consolidated subsidiary on June 1, 2005, orders related to automated ticket machines were solid as demand continued for machines that accommodate redesigned currency notes, and orders for new products related to coin processing applications were strong.

Like the increase in orders, the principal factors behind the 36.4 percent, or ¥31,211 million, increase in sales were integration of network systems for private-sector companies and the increase in related support services such as operation and maintenance, as well as the solid results of TOYO NETWORK SYSTEMS CO., LTD.

Telecommunications Engineering

Orders received were ¥68,462 million, a decrease of 9.6 percent year-on-year, and sales were ¥63,765 million, a decrease of 9.4 percent.

The main factors in the 9.6 percent, or ¥7,241 million, decrease in orders received were that despite increased orders for installation of base stations for mobile communications companies and construction of regional information networks for local governments, orders for construction of broadcast systems for broadcasters, including cable TV companies, as well as orders for overseas companies, decreased in reaction to the large-scale projects ordered in the previous fiscal year.

The main factor in the 9.4 percent, or ¥6,639 million, decrease in sales was the reactive decline in large-scale projects for cable TV companies ordered in the previous fiscal year, although, as in the case of orders, installation of mobile communication base stations increased.

Device Sales

Orders received were ¥36,510 million, a 12.4 percent decrease year-on-year, and sales were ¥32,909 million, a 22.4 percent decrease.

The main factors in the 12.4 percent, or ¥5,165 million, decrease included the fact that demand for information terminals and equipment for the financial sector to accommodate redesigned currency notes ran its course.

The main factors in the 22.4 percent, or ¥9,525 million, decrease in sales were largely the same factors that affected orders.

Main Contents of Business Segments by Type

Business	Main Contents
Network Integration / Support Service	Planning and consulting, software development, integration, operation and maintenance, outsourcing services and supply of originally developed products and devices for network systems to strengthen the operating efficiency and competitiveness of customers.
Telecommunications Engineering	Installation of data communication bases and construction of ancillary facilities
Device Sales	Sales of data communication devices, etc.

2. Cash Flow

Cash and cash equivalents ("cash") at the end of the fiscal year decreased by ¥298 million compared to the end of the previous fiscal year to ¥9,903 million. Although cash flow from operating activities increased, cash flow from investing activities and cash flow from financing activities decreased.

(Cash Flow from Operating Activities)

Net cash provided by operating activities in the fiscal year ended March 31, 2006 was ¥3,493 million, due to factors including a decrease in inventories and an increase in trade notes and accounts payable, although notes and accounts receivable increased. Net cash provided by operating activities increased by ¥2,460 million from ¥1,032 million for the previous fiscal year.

(Cash Flow from Investing Activities)

Investing activities used cash of ¥2,874 million, due to factors including purchases of property and equipment and shares of subsidiaries. Net cash used in investing activities increased ¥480 million compared to ¥2,394 million for the previous fiscal year.

(Cash Flow from Financing Activities)

Net cash used in financing activities was ¥968 million. Although the Company made long-term borrowings of ¥5.0 billion to fund purchases of the shares of subsidiaries and property and equipment, the net decrease in short-term bank loans totaled ¥5,366 million and cash dividends paid totaled ¥585 million. Financing activities reduced cash by ¥3,078 million compared to the increase of ¥2,110 million for the previous fiscal year.

Financial Indicators

Year ended March 31	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006
Shareholders' equity ratio (%)	44.6	43.0	41.7	40.0
Debt repayment period (years)	0.8	2.0	7.9	2.5
Interest coverage ratio	38.4	20.3	11.2	38.9

Shareholders' equity ratio: Shareholders' equity/Total assets
Debt repayment period: Interest-bearing debt/Operating cash flow
Interest coverage ratio: Operating cash flow/Interest expense
Notes: All financial indicators are calculated using consolidated financial figures.
For operating cash flow, cash flow from operating activities in the consolidated statements of cash flows is used. Interest-bearing debt includes all debt recorded in the consolidated balance sheets on which the Company pays interest.

3. Outlook for the Next Fiscal Year

Although the Japanese economy can be expected to continue its gradual recovery, the effects of high crude oil prices and rising interest rates are creating concern about the future.

In the Group's business areas, in regard to domestic demand, network-related investment by telecommunications carriers and other private-sector companies is projected to remain firm, but delays in network-related investment by regional companies and the effects of the completion of large-scale investments by certain telecommunications carriers, financial institutions, cable TV companies and others, as well as an intensification of the competitive environment, are expected. Conditions are also uncertain regarding the trend of new companies entering the mobile communications market.

In response to this business environment, the Group will work to strengthen its market responsiveness and competitive power, and will aim to further develop business in the area of networks, which is expected to grow. Specifically, in the network integration and support service business, the Group will aggressively develop its IP network related business, with a focus on the private-sector market. Through the addition of TOYO NETWORK SYSTEMS CO., LTD. and NEC Telenetworx, Ltd. as consolidated subsidiaries, the Group will organically combine the expertise, technology, markets and human resources of those companies with systems integration and software development capabilities, its nationwide sales force and nationwide maintenance coverage to maximize synergy. In this way, the Group will further strengthen its competitiveness in the network integration and support service business, improve business efficiency and expand the earnings of the entire Group in order to further advance its business. In the telecommunications engineering business, the Company will continue to promote cost reductions and will take measures to enhance its project responsiveness, including management capabilities, and further improve construction quality.

In addition, to respond to the fiercely competitive business environment, the Company will work to further strengthen its cost competitiveness by reinforcing overall cost reform measures and promoting improved personnel efficiency and greater efficiency in the use of expenses.

Regarding the outlook for consolidated results for the next fiscal year, there will be effects from delays in network-related investment by regional companies and the completion of a cycle of large-scale investments by certain telecommunications carriers, financial institutions, cable TV companies and other companies. However, growth is expected in the network integration/support service business, centered on domestic private-sector demand, and the addition of NEC Telenetworks Co., Ltd. as a consolidated subsidiary will increase revenues. The Company therefore projects the following results:

Orders received	¥266.5 billion (19.3% increase year-on-year)
Net sales	¥260.0 billion (21.7% increase year-on-year)
Operating income	¥7.9 billion (30.4% increase year-on-year)
Ordinary income	¥7.6 billion (27.0% increase year-on-year)
Net income	¥3.8 billion (45.6% increase year-on-year)

Note: The consolidated results outlook above is a forecast of the future that is not based on established facts, and therefore is subject to risks and uncertainties. Readers should be aware that actual results could differ materially from this outlook due to changes in various factors. Significant factors that could influence results include, but are not limited to, the economic environment surrounding the Group's businesses, trends in society, demand trends for the systems and services the Group provides, downward price pressure due to increasing competition, and the Group's ability to respond to markets.

4. Significant Items Concerning Business Management

On April 1, 2006, the Company made NEC Telenetworx, Ltd. a subsidiary through an exchange of shares with NEC Corporation for the purpose of further expanding its network integration/support service business. NEC Telenetworx, Ltd. plans to merge with the Company within the next year.

- Main businesses of NEC Telenetworx, Ltd.:

  Maintenance, operation and monitoring services for telecommunications network systems and on-site adjustment and outsourcing services, etc.

5. Business and Other Risks

(1) About Security Management

As a system integrator, the NEC Networks & Systems Integration Group is engaged in the supply and maintenance of total systems with a focus on networks and related fields; network operation and monitoring services; and outsourcing services, and therefore possesses the information of a large number of customers. The Group has obtained ISMS certification, a system for evaluating the proper functioning of the information security management system (ISMS), and also acquired Privacy Mark certification in September 2005. In addition, the Group is also promoting ethics education for employees and education on measures to prevent information leaks.

However, the occurrence of an information leak, in spite of measures the Group is implementing such as those described above, not only could cause harm to the Group, but would also be expected to be detrimental to operating activities due to loss of social trust, and therefore could potentially have an impact on the Group's business results.

(2) Response to Complaints from Customers

The Group follows the principles of "Customers First" and "Customer Oriented," based on its policy of always taking the customer's perspective in its various points of contact with customers.

In particular, in the event that a complaint is received from a customer regarding the Group's systems and services, rules are established for communication and reporting systems at the companywide level according to the content of the complaint, and a system has been created to respond quickly. Also, because the Group's business areas of networks and network-related services are markets in which market environments are constantly changing due to rapid technological innovation and other factors, the Group systematically conducts technical training of its employees and the employees of partner companies to upgrade their skills on a regular basis. However, in spite of such measures as those described above, the occurrence of a shortcoming or dissatisfaction in regard to the Group's technologies or in the speed of its response to customer needs could have an adverse effect on the Group's business results.

(3) Relationship with NEC Corporation

As a member of the NEC Group, the Group conducts its business based on cooperation with NEC Corporation, and primarily handles the products and equipment of NEC Corporation.

Consequently, any major change in the competitiveness or positioning of NEC Corporation's products and equipment in the market could have an adverse effect on the Group's business results.

(4) Overseas Business Development

In executing its overseas business, the Group conducts business based on project management that leverages the know-how it has accumulated in regard to the various risks in each region.

In the event of system damage or the cancellation of projects due to events such as deterioration of political conditions or the occurrence of terrorist acts or war, or if the Group withdraws from a site due to an evacuation advisory from the government, the Group would incur additional costs and could be liable for compensation due to project delays. Such occurrences, or a sudden change in foreign exchange rates, could have an adverse effect on the Group’s business results.

Consolidated Financial Statements

(Millions of yen)

	As of March 31, 2006		As of March 31, 2005		Year-on-Year Change
ASSETS					
I Current assets	113,119	83.8%	102,537	82.7%	10,581
Cash and cash equivalents	9,910		10,212		(302)
Notes and accounts receivable, trade	82,656		72,534		10,122
Inventories	16,744		16,239		504
Deferred income taxes	3,045		2,416		629
Other current assets	1,977		2,321		(344)
Allowance for doubtful accounts	(1,214)		(1,186)		(27)
II Fixed assets	21,791	16.2	21,397	17.3	394
Property, plant and equipment:	7,760	5.8	9,283	7.5	(1,522)
Buildings and structures	3,151		3,218		(67)
Machinery and vehicles	60		13		46
Furniture and fixtures	1,841		3,091		(1,250)
Land	2,422		2,681		(258)
Construction in progress	283		271		12
Other fixed assets	2		7		(5)
Intangible fixed assets	3,226	2.4	2,197	1.8	1,029
Investments and other assets:	10,804	8.0	9,917	8.0	887
Investment securities	1,164		1,029		135
Deferred income taxes	6,405		5,713		691
Other fixed assets	3,368		3,338		30
Allowance for doubtful accounts	(134)		(164)		30
Total assets	134,911	100.0	123,935	100.0	10,976

(Millions of yen)

	As of March 31, 2006		As of March 31, 2005		Year-on-Year Change
LIABILITIES					
I Current liabilities:	60,760	45.0%	58,103	46.9%	2,657
Notes and accounts payable, trade	43,594		37,587		6,006
Short-term bank loans	3,800		8,163		(4,362)
Accrued income taxes	2,060		1,235		825
Reserve for contract losses	24		—		24
Advances received	4,156		5,261		(1,104)
Other current liabilities	7,123		5,856		1,267
II Long-term liabilities:	19,524	14.5	13,584	11.0	5,940
Long-term debt	5,000		—		5,000
Accrued employees' retirement benefits	14,353		13,450		902
Accrued retirement benefits for directors and corporate auditors	130		78		52
Other liabilities	40		55		(14)
Total liabilities	80,285	59.5	71,687	57.9	8,597
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES					
Minority interests in consolidated subsidiaries	608	0.5	543	0.4	65
SHAREHOLDERS' EQUITY					
I Common stock	13,122	9.7	13,122	10.6	—
II Capital surplus	12,622	9.4	12,622	10.2	0
III Retained earnings	29,413	21.8	27,415	22.1	1,997
IV Unrealized holding gain on securities	150	0.1	88	0.0	61
V For reign currency translation adjustments	(370)	(0.3)	(635)	(0.5)	264
VI Treasury stock, at cost	(920)	(0.7)	(909)	(0.7)	(10)
Total shareholders' equity	54,017	40.0	51,704	41.7	2,313
Total liabilities, minority interests and shareholders' equity	134,911	100.0	123,935	100.0	10,976

Consolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2006		Year ended March 31, 2005		Year-on-Year Change	
Ⅰ. Net sales	213,672	100.0%	198,625	100.0%	15,047	7.6%
Ⅱ. Cost of sales	187,113	87.6	176,861	89.1	10,222	5.8
Gross profit	26,559	12.4	21,733	10.9	4,825	22.2
Ⅲ. Selling, general and administrative expenses	20,502	9.6	16,921	8.5	3,581	21.2
Operating income	6,056	2.8	4,812	2.4	1,244	25.9
IV. Non-operating income:	414	0.2	428	0.2	(14)	(3.3)
Interest income	25		52		(27)	(51.6)
Insurance dividend income	82		70		12	17.0
Capital gains from investment securities	82		98		(16)	(16.8)
Other income	223		206		17	8.5
V. Non-operating expenses:	488	0.2	489	0.2	(1)	(0.3)
Interest expense	93		92		1	1.2
Exchange losses	126		71		55	77.3
Provision of allowance for doubtful accounts	62		66		(4)	(6.7)
Loss on valuation of investment securities	70		—		70	—
Other losses	136		259		(123)	(47.5)
Ordinary income	5,982	2.8	4,750	2.4	1,231	25.9
VI. Extraordinary losses:	451	0.2	2,187	1.1	(1,735)	(79.3)
Corporate name change expenses	159		—		159	—
Loss on sale of assets	154		—		154	—
Loss on disposal of inventory	138		—		138	—
Amortization of net transition obligation	—		2,138		(2,138)	—
Provision for prior-year retirement benefits for directors and corporate auditors	—		49		(49)	—
Income before income taxes and minority interests	5,530	2.6	2,563	1.3	2,966	115.7
Income taxes						
Current	2,804	1.4	1,868	0.9	936	50.1
Deferred	66	0.0	(573)	(0.2)	640	—
Minority interests in consolidated subsidiaries	50	0.0	46	0.0	3	7.4
Net income	2,609	1.2	1,222	0.6	1,387	113.5

Consolidated Statements of Retained Earnings

(Millions of yen)

		Year ended March 31, 2006	Year ended March 31, 2005
CAPITAL SURPLUS			
I	Capital surplus, beginning of year	12,622	12,622
II	Increase in capital surplus	0	0
	Gain on retirement of treasury stock	0	0
III	Capital surplus, end of year	12,622	12,622
RETAINED EARNINGS			
I	Retained earnings, beginning of year	27,415	26,691
II	Increase in retained earnings	2,621	1,222
	Net income	2,609	1,222
	Prior year deferred tax adjustment of consolidated subsidiaries	12	—
III	Decrease in retained earnings	624	498
	Cash dividends paid	587	419
	Bonuses to directors and corporate auditors	37	37
	Decreased in retained earnings due to decrease in consolidated subsidiaries	—	41
IV	Retained earnings, end of year	29,413	27,415

Consolidated Statements of Cash Flows

(Millions of yen)

	Year ended March 31, 2006	Year ended March 31, 2005
I Cash flows from operating activities		
Income before income taxes and minority interests	5,530	2,563
Depreciation and amortization	1,966	1,712
Amortization of excess of costs over net assets acquired	53	(6)
Provision for doubtful receivables	(18)	(55)
Provision for accrued employees' retirement benefits	(885)	1,090
Provision for retirement benefits for directors and corporate auditors	52	78
Increase in reserve for losses on orders	24	—
Interest and dividend income	(38)	(63)
Interest expense	93	92
Evaluation loss on investment securities	70	—
Gain on sales of investment securities	(82)	(98)
Gain on sales of property and equipment	(12)	(8)
Loss on sales of property and equipment	154	—
Increase in notes and accounts receivable, trade	(5,701)	(9,592)
Decrease in inventories	4,095	2,859
Increase in notes and accounts payable, trade	679	3,849
Other	(365)	435
Subtotal	5,616	2,858
Interest and dividends received	38	63
Interest paid	(89)	(92)
Income taxes paid	(2,072)	(1,796)
Net cash provided by operating activities	3,493	1,032
II Cash flows from investing activities		
Purchases of property and equipment	(1,506)	(2,132)
Sales of property and equipment	129	22
Purchases of intangibles, net of allowance for amortization	(738)	(695)
Purchases of investment securities	(113)	(26)
Sales of investment securities	94	154
Loans receivable made	(22)	(42)
Collection of loans receivable	19	39
Purchases of subsidiaries stock	(748)	—
Other	11	285
Net cash used in by investing activities	(2,874)	(2,394)
III Cash flows from financing activities		
Net increase (decrease) in short-term bank loans	(5,366)	2,546
Proceeds from long-term debt	5,000	—
Payments for common stock in treasury	(11)	(7)
Proceeds from sales for common stock in treasury	1	1
Dividends paid	(585)	(418)
Dividends paid to minority interests in consolidated subsidiaries	(1)	(1)
Other	(4)	(9)
Net cash (used in) provided by financing activities	(968)	2,110
IV Effect of exchange rate changes on cash and cash equivalents	51	(6)
V Net (increase) decrease in cash and cash equivalents	(298)	741
VI Cash and cash equivalents at beginning of year	10,202	9,463
VII Increase in cash and cash equivalents due to change in the scope of consolidation	—	(3)
VIII Cash and cash equivalents at end of year	9,903	10,202

Basis of Preparation of the Consolidated Financial Statements

1. Scope of Consolidation

Number of consolidated subsidiaries: 11

NEC Networks & System Integration Engineering, Ltd.
NEC Networks & System Integration Services, Ltd.
NESIC Ascerent Company
TOYO NETWORK SYSTEMS CO., LTD.
TOYO ALPHANET CO., LTD.
NESIC BRASIL S/A
NESIC (Thailand) Ltd.
NESIC PHILIPPINES, INC.
P.T. NESIC BUKAKA
NESIC (GUANGZHOU) CO., LTD.
TNS Europe GmbH

Notes:

1. Due to acquisition of its shares in June 2005, TOYO NETWORK SYSTEMS CO., LTD. and its subsidiary TOYO ALPHANET CO., LTD. are included in the scope of consolidation from the year ended March 31, 2006.
2. NEC System Integration & Construction, Engineering, Ltd. and NEC System Integration & Construction, Media Service, Ltd. changed their names to NEC Networks & System Integration Engineering, Ltd. and NEC Networks & System Integration Services, Ltd., respectively.
3. TNS Europe GmbH, a subsidiary of TOYO NETWORK SYSTEMS CO., LTD., is included in the scope of consolidation effective from the year ended March 31, 2006, due to its establishment in October 2005.

Number of unconsolidated subsidiaries: 1

NESIC CHILE S.A.

Note: Reason for exclusion from the scope of consolidation

Since this company's business is small in scale, and its total assets, net sales, consolidated net income (amount in proportion to equity held) and consolidated retained earnings (amount in proportion to equity held) would not have a material effect on the consolidated financial statements, it is not included in the scope of consolidation.

2. Application of the Equity Method

Unconsolidated subsidiaries to which the equity method is applied: None
Unconsolidated subsidiaries to which the equity method is not applied:
1 company (NESIC CHILE S.A.)
Note: Reason equity method is not applied
The equity method is not applied to this company, as it would not have a material effect on consolidated profit and loss and consolidated retained earnings, and the importance of this company in the aggregate is not significant.

3. Fiscal Years of Consolidated Subsidiaries

Of the Company's consolidated subsidiaries, six companies have fiscal years ending December 31. In preparing the consolidated financial statements, the financial statements of those subsidiaries as of December 31 are used, and adjustments are made in consolidation to reflect significant transactions that took place between then and the consolidated balance sheet date.

4. Notes on Accounting Standards

(1) Valuation of Major Assets

(a) Securities

Available-for-sale securities:

Fair value available: At market, based on market quotes at fiscal year-end. (Net unrealized gains and losses are directly charged or credited to shareholders' equity. Selling costs are determined based mainly on the moving average method.)

Fair value not available: At cost, based on the moving average method.

Investments in Investment Limited Partnerships are valued at the net amount proportionate to the Company's ownership interests, based on the financial statements for the most recent fiscal year available, depending on the reporting date specified in the partnership agreement.

(b) Inventories
Equipment and materials
Equipment: At cost determined by the moving average method
Primary materials: At cost determined by the moving average method
Secondary materials: At cost determined by the gross average method
Supplies: Last purchase price method
Work in process: At cost determined on a specific project basis

(2) Depreciation of Major Fixed Assets
(a) Property and Equipment
Principally computed by the declining-balance method except for certain leased assets of the Company and property and equipment of certain foreign subsidiaries on which depreciation is computed by the straight-line method
(b) Intangible Assets
Straight-line method.
Software for sale on the market is depreciated based on its estimated sales volume in the estimated period of validity (within 3 years). Software for internal use is depreciated using the straight-line method based on its estimated useful life (within 5 years).

(3) Major Reserves
(a) Allowance for Doubtful Receivables
The allowance for doubtful receivables is provided mainly at an amount determined based on the historical experience of bad debt with respect to ordinary receivables, plus an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers that are experiencing financial difficulties.
(b) Accrued Employees' Retirement Benefits
Accrued employees' retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates.
Prior service cost is amortized as incurred by the straight-line method over the average remaining years of service of the employees.
Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the employees.

Accounting change:
Effective from the year ended March 31, 2006, the Company is applying the partial revision of the "Accounting Standards for Retirement Benefits" (Corporate Accounting Standard No. 3, issued March 16, 2005) and the "Implementation Guidance for Partial Revision of Accounting Standards for Retirement Benefits" (Implementation Guidance No. 7 for Applying Corporate Accounting Standards, issued March 16, 2005). This change had no effect on the consolidated statements of income.
(c) Accrued Retirement Benefits for Directors and Corporate Auditors
Provision for retirement benefits for directors and corporate auditors is made at estimated amounts required at the balance sheet date based on internal rules.
(d) Reserve for Contract Losses
Provision for future losses on order contracts is made at the amount of losses on order contracts at the balance sheet date.

Supplemental information:
Among orders on hand, some order contracts are expected to incur losses at the balance sheet date. As of the year ended March 31, 2006, the Company provides a reserve in the estimated amount of losses on such contracts. As a result, operating income, ordinary income and income before income taxes were each reduced by ¥24 million.

(4) Accounting for Significant Lease Transactions
Finance lease contracts other than those deemed to transfer the ownership of the leased assets to lessees are accounted for as operating leases, except for certain foreign subsidiaries, which account for them as ordinary sales transactions.

(5) Hedge Accounting

(a) Methods of Hedge Accounting

The Company uses mainly deferred hedging. However, under certain conditions, forward foreign exchange contracts are accounted for as if each hedging instrument and hedged item were one combined financial instrument.

(b) Hedging Instruments and Hedged Items

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Foreign currency receivables and payables Planned foreign currency transactions

(c) Hedging Policy

The Company hedges foreign exchange risk mainly based on its risk management policies.

(d) Method of Assessing Hedge Effectiveness

The Company determines the effectiveness of hedges by comparing the cumulative fluctuation of hedging instruments and the cumulative fluctuation of hedged items. For qualified forward foreign exchange contracts that qualify for accounting as if each hedging instrument and hedged item were one combined financial instrument, the qualification is substituted for assessment of effectiveness.

(6) Other

(a) Accounting for consumption taxes:

Consumption taxes and local consumption taxes are not included in the amounts in the consolidated financial statements.

(b) Revenue recognition:

The Company generally recognizes revenues by the completed-contract method, except that those in the system integration business with contracted amounts exceeding ¥100 million are recognized by the percentage-of- completion method, and revenues from construction work of foreign consolidated subsidiaries (with certain exceptions) are recognized by the percentage-of-completion method.

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

The assets and liabilities of the consolidated subsidiaries are valued using the full mark-to-market method.

6. Amortization of Excess of Cost over Net Assets Acquired

The excess of cost over net assets acquired is amortized on a straight-line basis over a reasonable number of years, not exceeding 20 years, on a case-by-case basis.

7. Appropriation of Profits, etc.

The consolidated statements of retained earnings are prepared based on the final appropriation of profits or disposition of loss during the consolidated accounting period.

8. Scope of Funds in the Consolidated Statements of Cash Flows

Funds (cash and cash equivalents) in the consolidated statements of cash flows comprise cash on hand, demand deposits, and short-term investments that have a high degree of liquidity with maturity dates within three months or less, are readily convertible into cash, and are exposed to insignificant risk of changes in value.

9. All amounts herein are rounded down to the nearest million yen.

Change in Accounting Policy:

Effective from the year ended March 31, 2006, the Company applies accounting standards for impairment of fixed assets ("Opinions on Accounting Standards for Impairment of Fixed Assets," Business Accounting Council, August 9, 2002) as well as the "Guidance on Accounting Standards for Impairment of Fixed Assets" (Accounting Standards Board of Japan, Guidance No. 6, October 31, 2003). These changes have no effect on profit and loss.

Supplemental Information:

The Company previously accounted for fixtures for maintenance use in "Furniture and fixtures," but accounts for them in "Inventories" effective from the year ended March 31, 2006, because their significance in terms of value has increased with the expansion of the network integration/support service business.

Furniture and fixtures ¥1,750 million

Notes to Consolidated Balance Sheets

(Millions of yen)

As of March 31, 2006	As of March 31, 2005
1. Accumulated depreciation of property and equipment 8,971	1. Accumulated depreciation of property and equipment 7,287
2. Guarantee obligations Sumitomo Mitsui Banking Corporation 236 Total 236	2. Guarantee obligations Sumitomo Mitsui Banking Corporation 286 Total 286
3. Amounts of excess of costs over net assets acquired Intangible fixed assets 1,158 Long-term liabilities (Other) 39	3. Amounts of excess of costs over net assets acquired Intangible fixed assets 22 Long-term liabilities (Other) 53
4. Investment securities include ¥56 million paid for new shares in a subsidiary that was newly established on April 11, 2006.	―――――
5. The Company has entered into a loan commitment contract with the Sumitomo Mitsui Banking Corporation and two other banks as a method of short-term fund procurement to secure stable funding. The total amount of the contract is ¥11.0 billion and the contract period is from January 2006 to January 2009. The unexercised loan balance related to the loan commitment as of March 31, 2006 is as follows. Total amount of loan commitment 11,000 Exercised loan balance 3,250 Difference 7,750	―――――

Notes to Consolidated Statements of Income

(Millions of yen)

Year ended March 31, 2006	Year ended March 31, 2005
1. Components of loss on sales of fixed assets Land 154	―――――
2. "Loss on disposal of inventory" is a one-time disposal of inventory assets that became obsolete due to rapid changes in markets and technologies.	―――――

Notes to Consolidated Statements of Cash Flows

(Millions of yen)

Year ended March 31, 2006		Year ended March 31, 2005	
1. Relationship between ending balance of cash and cash equivalents and amounts reported in the consolidated balance sheets		1. Relationship between ending balance of cash and cash equivalents and amounts reported in the consolidated balance sheets	
Item: "Cash and cash equivalents"	9,910	Item: "Cash and cash equivalents"	10,212
Total	9,910	Total	10,212
Time deposits with maturities exceeding three months	(6)	Time deposits with maturities exceeding three months	(10)
Cash and cash equivalents	9,903	Cash and cash equivalents	10,202
2. Main components of assets and liabilities of companies that became newly consolidated subsidiaries due to acquisition of their stock			
TOYO NETWORK SYSTEMS CO., LTD. and TOYO ALPHANET CO., LTD. were consolidated due to acquisition of their stock. The components of their assets and liabilities at the start of consolidation and the relationship between the acquisition cost of the shares and the expenditure (net) for the acquisition are as follows.			
Current assets	10,216		
Property and equipment	1,434		
Excess of costs over net assets acquired	1,203		
Current liabilities	(7,472)		
Long-term liabilities	(1,787)		
Acquisition cost of the shares of newly consolidated subsidiaries	3,595		
Cash and cash equivalents of newly consolidated subsidiaries	(2,846)		
Difference: Expenditure for acquisition of newly consolidated subsidiaries	748		

Segment Information

1. Business Segment Information

(April 1, 2005 - March 31, 2006) (Millions of yen)

	Network integration/ Support service	Telecommu-nications engineering	Device sales	Total	Eliminations and Corporate	Consolidated
Orders	118,410	68,462	36,510	223,383	—	223,383
Net sales (1) Sales to outside customers	116,997	63,765	32,909	213,672	—	213,672
(2) Intersegment sales and transfers	—	—	—	—	—	—
Total	116,997	63,765	32,909	213,672	—	213,672
Operating expenses	110,313	60,254	32,874	203,442	4,173	207,616
Operating income	6,684	3,510	35	10,230	(4,173)	6,056

(April 1, 2004 - March 31, 2005) (Millions of yen)

	Network integration/ Support service	Telecommu-nications engineering	Device sales	Total	Eliminations and Corporate	Consolidated
Orders	90,080	75,703	41,676	207,460	—	207,460
Net sales (1) Sales to outside customers	85,786	70,404	42,434	198,625	—	198,625
(2) Intersegment sales and transfers	—	—	—	—	—	—
Total	85,786	70,404	42,434	198,625	—	198,625
Operating expenses	80,000	66,969	42,531	189,500	4,312	193,813
Operating income	5,785	3,434	△96	9,124	(4,312)	4,812

2. Geographical Segment Information

(April 1, 2005-March 31, 2006)
Geographical segment information is omitted because Japan accounted for more than 90 percent of the total net sales and total assets of all segments.

(April 1, 2004-March 31, 2005)
Geographical segment information is omitted because Japan accounted for more than 90 percent of the total net sales and total assets of all segments.

3. Overseas Sales

(April 1, 2005-March 31, 2006)
Overseas sales information is omitted because overseas sales accounted for less than 10 percent of consolidated net sales.

(April 1, 2004-March 31, 2005)
Overseas sales information is omitted because overseas sales accounted for less than 10 percent of consolidated net sales.

Lease Transactions

Omitted due to disclosure on EDINET.

Transactions with Related Parties

(April 1, 2005 - March 31, 2006)

1. Parent Company and Major Corporate Shareholders

(Millions of yen)

Classification	Parent company		
Company name	NEC Corporation		
Address	Minato-ku, Tokyo		
Capital (million)	¥337,821		
Principal business	Manufacture and sale of computers, communication equipment, electronic devices, software, etc., and Internet solutions business including provision of related services		
Percentage of voting shares owned	42.4% (direct)		
Relationship	Officers holding concurrent posts: 2		Business relationship: The Company contracts installation work, etc. from NEC Corporation The Company purchases NEC products
Transactions	Contracting of installation, etc., of information and communication systems		Purchase of communication equipment, etc.
Transaction amounts	¥58,220		¥44,739
Line items	Notes and accounts receivable	Advances received	Notes and accounts payable
Balance at end of period	¥31,405	¥1,981	¥8,313

Notes: 1. Transaction terms and policies for setting transaction terms are the same as those for ordinary transactions.
2. Consumption tax is not included in transaction amounts.
3. Consumption tax is not included in the balance at the end of the period.
4. The percentage of voting shares owned is calculated including the 6,400,000 shares of the Company that NEC Corporation contributed as a pension trust to the Japan Trustee Services Bank, Ltd. (The Sumitomo Trust and Banking Corporation, Limited beneficiary trust account, NEC Corporation retirement benefit trust account).

2. Sibling Companies

(Millions of yen)

Classification	Company name	Address	Capital	Principal business	Percentage of voting shares owned	Relationship		Transactions	Transaction amount	Line item	Balance at end of period
Subsidiary of parent company	NEC Fielding, Ltd.	Minato-ku, Tokyo	9,670	Maintenance and installation of computers, etc., and local procurement and sale of supplies	—	—	The Company contracts installation work from this company	Contracting of installation of computer peripheral equipment	4,315	Notes and accounts receivable Advances received	1,604 108
Subsidiary of parent company	NEC Communication Systems Ltd.	Minato-ku, Tokyo	1,000	Development and sale of software for communication equipment, and design of communication equipment	—	Officers holding concurrent posts: 1	The Company contracts installation work from this company	Contracting of installation of communication systems	5,261	Notes and accounts receivable	1,959
Subsidiary of parent company	NEC Telenet worx, Ltd.	Minato-ku, Tokyo	150	Sale, repair and maintenance of communication equipment	—	—	The Company contracts installation work from this company	Contracting of installation of communication systems,	1,880	Notes and accounts receivable	915

Notes: 1. Transaction terms and policies for setting transaction terms are the same as those for ordinary transactions.
2. Consumption tax is not included in transaction amounts.
3. Consumption tax is not included in the balance at the end of the period.

Deferred Tax Accounting

(Millions of yen)

As of March 31, 2006

Breakdown of major factors giving rise to deferred tax assets and liabilities:

(Deferred tax assets)	
Excess over deductible amount of reserve for bonuses	1,281
Bonus portion of social insurance premiums denied	121
Excess over deductible amount of allowance for doubtful receivables	406
Accrued business taxes denied	181
Percentage of completion basis denied	192
Loss on valuation of inventories	571
Unrealized gain on inventories	15
Excess over deductible amount of depreciation expenses	124
Software	400
Excess over deductible amount of accrued employees' retirement benefits	5,807
Other	850
Deferred tax assets subtotal	9,952
Valuation reserve	(384)
Total deferred tax assets	9,567
(Deferred tax liabilities)	
Reserve for reduction of fixed assets	(1)
Net unrealized loss on other	(112)
marketable securities	(3)
Other	
Total deferred tax liabilities	(116)
Net deferred tax assets	9,451

As of March 31, 2005

Breakdown of major factors giving rise to deferred tax assets and liabilities:

(Deferred tax assets)	
Excess over deductible amount of reserve for bonuses	1,115
Excess over deductible amount of allowance for doubtful receivables	512
Accrued business taxes denied	115
Percentage of completion basis denied	174
Unrealized gain on inventories	8
Deduction of foreign taxes carried forward	329
Excess over deductible amount of accrued employees' retirement benefits	5,285
Other	755
Deferred tax assets subtotal	8,297
Valuation reserve	(103)
Total deferred tax assets	8,193
(Deferred tax liabilities)	
Reserve for reduction of fixed	(1)
assets Net unrealized loss on other marketable securities	(60)
Other	(1)
Total deferred tax liabilities	(63)
Net deferred tax assets	8,129

Marketable Securities

(As of March 31, 2006)

1. Other marketable securities with market values

(Millions of yen)

	Acquisition cost	Balance sheet amount	Difference
Securities with balance sheet amounts that exceed acquisition cost: Stocks	136	412	275
Total	136	412	275

2. Other marketable securities sold during the fiscal year (April 1, 2005–March 31, 2006)

(Millions of yen)

Amount sold	Total profit on sales	Total loss on sales
94	82	—

3. Description of securities without market values (April 1, 2005–March 31, 2006)

(Millions of yen)

	Balance sheet amount
Other marketable securities	
(1) Unlisted stocks (not including OTC stocks)	304
(2) Investment Limited Partnerships	391
Total	695

Note: The Company made write-offs of ¥70 million for "Other marketable securities" without market values in the year ended March 31, 2006. In making write-offs, the Company judges the real value of the stock to have dropped significantly if it has declined to 50 percent or less of the net price per share at the time of acquisition due to deterioration of the issuing company's financial condition, and writes off the difference, except in cases in which the stock's recoverability is supported by adequate evidence.

(As of March 31, 2005)

1. Other marketable securities with market values (as of March 31, 2005) (Millions of yen)

	Acquisition cost	Balance sheet amount	Difference
Securities with balance sheet amounts that exceed acquisition cost: Stocks	152	301	149
Total	152	301	149

2. Other marketable securities sold during the fiscal year (April 1, 2004–March 31, 2005)

(Millions of yen)

Amount sold	Total profit on sales	Total loss on sales
154	98	19

3. Description of securities without market values (April 1, 2005–March 31, 2006)

(Millions of yen)

	Balance sheet amount
Other marketable securities	
(1) Unlisted stocks (not including OTC stocks)	373
(2) Investment Limited Partnerships	354
Total	727

Derivative Transactions

Fiscal 2006 (As of March 31, 2006)

None applicable.

The Company makes forward foreign exchange transactions, which do not qualify under this note because hedge accounting is applied.

Fiscal 2005 (As of March 31, 2005)

None applicable.

The Company makes forward foreign exchange transactions, which do not qualify under this note because hedge accounting is applied.

Retirement Benefits

As of March 31, 2006
(Millions of yen)

1. Description of retirement benefit system used

The Company and its consolidated subsidiaries use defined benefit plans consisting of Welfare Pension Fund Plans and lump-sum payment plans.

2. Retirement benefit obligation

(1) Retirement benefit obligation	(28,690)
(2) Fair value of plan assets	13,972
(3) Unfunded retirement benefit obligation (1)＋(2)	(14,718)
(4) Unrecognized actuarial loss	5,998
(5) Unrecognized prior service cost	(5,633)
(6) Accrued employees' retirement benefits (3)+(4)+(5)	(14,353)

Notes: Some subsidiaries use the simplified method in calculating the retirement benefit obligation.

3. Retirement benefit expenses

(1) Service cost (Note)	1,438
(2) Interest cost	685
(3) Expected return on plan assets	(262)
(4) Amortization of actuarial loss	
(5) Amortization of prior service cost	582
	(385)
(6) Retirement benefit expenses (1)+(2)+(3)+(4)+(5)	2,058

Note: Retirement benefit expenses of consolidated subsidiaries using the simplified method are recorded in "(1) Service cost."

4. Basis for calculation of retirement benefit obligation, etc.

(1) Periodic allocation method for projected benefits
Straight-line

(2) Discount rate
2.5%

(3) Expected rate of return
2.5% – 3.5%

(4) Years over which prior service cost is amortized
Amortized on a straight-line basis in proportionate amounts over the average remaining years of service of employees when the cost occurred.

(5) Years over which actuarial gains or losses are amortized
Amortized on a straight-line basis in proportionate amounts over the average remaining years of service of employees when the gain or loss occurred, starting from the year after the gain or loss occurred.

As of March 31, 2005
(Millions of yen)

1. Description of retirement benefit system used

The Company and its consolidated subsidiaries use a defined benefit plan consisting of a corporate pension fund and an unfunded lump-sum retirement benefit plan.

2. Retirement benefit obligation

(1) Retirement benefit obligation	(24,823)
(2) Fair value of plan assets	9,925
(3) Unfunded retirement benefit obligation (1)＋(2)	(14,897)
(4) Unrecognized actuarial loss	6,694
(5) Unrecognized prior service cost	(5,247)
(6) Accrued employees' retirement benefits (3)+(4)+(5)	(13,450)

Notes: Some subsidiaries use the simplified method in calculating the retirement benefit obligation.

3. Retirement benefit expenses

(1) Service cost (Notes 1 and 2)	1,362
(2) Interest cost	643
(3) Expected return on plan assets	(213)
(4) Amortization of net retirement benefit obligation at transition	2,138
(5) Amortization of actuarial loss	543
(6) Amortization of prior service cost	(341)
(7) Retirement benefit expenses (1)+(2)+(3)+(4)+(5)+(6)	4,131

Notes: 1. Excludes employees' contribution to the Welfare Pension Fund.
2. Retirement benefit expenses of consolidated subsidiaries using the simplified method are recorded in "(1) Service cost."

4. Basis for calculation of retirement benefit obligation, etc.

(1) Periodic allocation method for projected benefits
Straight-line

(2) Discount rate
2.5%

(3) Expected rate of return
2.5%

(4) Years over which prior service cost is amortized
Amortized on a straight-line basis in proportionate amounts over the average remaining years of service of employees when the cost occurred.

(5) Years over which actuarial gains or losses are amortized
Amortized on a straight-line basis in proportionate amounts over the average remaining years of service of employees when the gain or loss occurred, starting from the year after the gain or loss occurred.

(6) Years over which net retirement benefit obligation at transition is amortized
Five years