Consolidated Financial Statements for the Fiscal Year Ended March 31, 2007

May 15, 2007

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

NEC Networks & System Integration Corporation
Telephone: 81-3-5463-1111
http://www.nesic.co.jp
Representative: Masahiko Yamamoto, President
Contact: Shoichi Fukaya, General Manager, Corporate Finance & Controller Division

Stock exchange listing: Tokyo
Code number: 1973

Annual General Meeting of Stockholders (scheduled): June 26, 2007
Start of distribution of dividends (scheduled): June 5, 2007
Filing of Securities Report (*Yuka shoken hokokusho*) (scheduled): June 26, 2007

Note: All amounts are rounded down to the nearest million yen.

1. Consolidated Results for the Fiscal Year Ended March 31, 2007 (April 1, 2006 – March 31, 2007)

(1) Revenues and Income (Percentages represent change compared with the previous fiscal year.)

	Revenues (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Fiscal 2007	254,641	19.2	7,849	29.6	7,860	31.4
Fiscal 2006	213,672	7.6	6,056	25.9	5,982	25.9

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)	Return on equity (%)	Ordinary income/total assets (%)	Operating income/total revenues (%)
Fiscal 2007	3,476	33.3	70.72	—	6.0	5.5	3.1
Fiscal 2006	2,609	113.5	60.56	—	4.9	4.6	2.8

(Reference) Equity in earnings (loss) of affiliates: Fiscal 2007: ¥ — million (Fiscal 2006: ¥ — million)

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net worth (%)	Net assets per share (¥)
Fiscal 2007	148,797	62,201	41.3	1,233.52
Fiscal 2006	134,911	54,017	40.0	1,285.92

(Reference) Stockholders' equity: Fiscal 2007: ¥ 61,384 million (Fiscal 2006: ¥ — million)

(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 2007	7,899	(2,129)	(7,360)	8,602
Fiscal 2006	3,493	(2,874)	(968)	9,903

2. Dividends

	Dividends per share (¥)			Total dividends paid (full year) (¥ million)	Payout ratio (%)	Dividends/net assets (%)
	Interim	Year-end	Full year			
Fiscal 2007	7.00	7.00	14.00	696	19.8	1.1
Fiscal 2006	7.00	7.00	14.00	587	23.1	1.1
Fiscal 2008 (est.)	10.00	10.00	20.00		23.1	

3. Projected Results for the Fiscal Year Ending March 31, 2008 (April 1, 2007 – March 31, 2008)

(Percentages represent change compared to the previous interim period or fiscal year, as applicable)

	Revenues		Operating income		Ordinary income		Net income		Earnings per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
Interim Fiscal 2008	118,000	2.9	3,500	16.2	3,500	17.9	1,550	0.6	31.15
Fiscal 2008 (Full year)	270,000	6.0	9,300	18.5	9,000	14.5	4,300	23.7	86.41

2. Business Results

(1) Analysis of Business Results

① Business Results for Year Ended March 31, 2007

In the year ended March 31, 2007, despite concerns about factors including high prices for crude oil and other raw materials, the end of the zero interest rate policy, exchange rate fluctuations, and the effects of uncertainty in international conditions, the Japanese economy remained on a recovery path with increased capital investment along with improved corporate performance and an upturn in employment.

In the business environment of the NEC Networks & System Integration Group ("the Group"), trials began for the Next-Generation Network (NGN) at telecommunications carriers, and measures aimed at commercialization continued to grow in scale. In addition, mobile communications carriers introduced a mobile phone number portability system in October 2006. In line with this introduction, and in order to acquire new customers, mobile communications carriers expanded development of base stations to make service enhancements, including improved voice quality. Other companies introduced internal control related systems and security systems to prevent information leaks in line with the Japanese version of the Sarbanes-Oxley Act, in addition to IP telephony*[1] systems for the purpose of increasing operating efficiency. These and other factors resulted in steady domestic private-sector demand for network-related investment.

In this business environment, the Group strengthened its market responsiveness, and boldly moved to enhance its business structure through measures including bolstering profitability and improving the quality of construction.

In April 2006, the Company added NEC Telenetworx, Ltd. to the Group in order to enhance the Group's comprehensive services in the network field (the Company merged NEC Telenetworx, Ltd. on April 1, 2007). This addition allowed the Company to establish a firmer foundation, and to pursue related measures including strengthening responsiveness to telecommunications carriers in areas including NGN and expanding support services for other companies.

In addition to the above, the Company improved sales efficiency in order to strengthen its sales operations, and reinforced its market responsiveness. Specifically, the Company introduced a new solutions menu by expanding marketing functions, and aggressively expanded the market through measures including entering the Japanese PLC*[2] market, which was legalized in October 2006.

Moreover, the Company enhanced profitability by accelerating cost reforms, including cost reductions, and undertook measures to improve construction quality such as establishing a training center for construction of mobile base stations.

As a result, consolidated orders received during the fiscal year totaled ¥253,577 million, a 13.5 percent increase year-on-year, and consolidated net sales were ¥254,641 million, a 19.2 percent increase. Consolidated operating income increased ¥1,793 million year-on-year, or 29.6 percent, to ¥7,849 million, due to increased sales and improved profitability. Ordinary income was ¥7,860 million, a 31.4 percent increase year-on-year, due to improved operating income. Consolidated net income was ¥3,476 million, a 33.3 percent increase.

Results by business segment are as follows.

Network Integration/Support Service

For the year ended March 31, 2007, orders received were ¥164,634 million, a 39.0 percent increase year-on-year, and sales were ¥161,473 million, a 38.0 percent increase.

The main factors behind the 39.0 percent, or ¥46,223 million, increase in orders received were the strengthening of the business structure through the addition of NEC Telenetworx, Ltd. to the Group; the introduction of relocation and consolidation solutions and other new solutions; and aggressive system proposal activities in areas including new network systems such as VoIP*[3] systems.

The principal factors behind the 38.0 percent, or ¥44,475 million, increase in sales were the same as for the increase in orders.

Telecommunications Engineering

Orders received were ¥65,192 million, a 4.8 percent decrease year-on-year, and sales were ¥67,085 million, a 5.2 percent increase.

The main factors in the 4.8 percent, or ¥3,270 million, decrease in orders received were that despite steady orders for construction of regional information networks for local governments due to aggressive proposal activities and strengthening of construction systems, orders for construction of broadcast systems for broadcasters, including cable TV companies, and for telecommunications carriers decreased in reaction to the large-scale projects ordered in the previous fiscal year.

The main factors in the 5.2 percent, or ¥3,320 million, increase in sales were strong construction of base stations for mobile telecommunications carriers; regional information networks and firefighting/disaster prevention systems for local governments; and increased construction of telecommunications facilities including backbone networks for electric power companies.

Device Sales

Orders received were ¥23,750 million, a 34.9 percent decrease year-on-year, and sales were ¥26,082 million, a 20.7 percent decrease.

The main factor in the 34.9 percent, or ¥12,759 million, decrease in orders and the 20.7 percent, or ¥6,826 million, decrease in sales was a decline in transactions in stand-alone devices not accompanied by system integration. This resulted from the Company’s concentration of resources in the network integration/support service business, where it can exercise its strengths in system integration.

Main Contents of Business Segments by Type

Business	Main Contents
Network Integration/Support Service	Planning and consulting, software development, construction, 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.

*[1] IP telephony: This system, which can be used with so-called IP phones, transmits sound in the form of computer data over internet protocol (IP) networks.

*[2] PLC: Power Line Communication. PLC technology allows power lines to be used for telecommunications. Within the Group, TOYO NETWORK SYSTEMS CO., LTD. manufactures and sells PLC modems.

*[3] VoIP: Voice Over IP. VoIP technology permits transmission of sound over IP networks.

② Outlook for the Next Fiscal Year

A. Overall Outlook

Although the Japanese economy can be expected to continue its gradual recovery, factors including uncertainty in international conditions and rising interest rates are creating concern about the future.

In the Group's business areas, in regard to domestic demand, domestic network-related investment by telecommunications carriers is projected to remain firm, due to expected expansion of investment in NGN infrastructure.

In response to this business environment, the Group will work to further strengthen its business foundation and increase efficiency, having merged NEC Telenetworx, Ltd. on April 1, 2007. For telecommunications carriers, the Group enhanced its business operations through measures including the establishment of specialty divisions for accumulating expertise related to NGN technologies and services and for personnel training to respond fully to the NGN business. For other companies, the Group established the ICT*[1] Solutions Promotion Department in April 2007 in order to further strengthen capabilities for new solution planning, development and implementation. As a result, the Group will develop a new solutions menu that makes use of Company strengths, and will aggressively execute network-related businesses to meet domestic demand. Moreover, the Group will conduct cost reform activities; implement and promote measures to further enhance quality and CS*[2]; further strengthen profitability; and increase customer satisfaction.

Due to factors including growth in the network integration/support service business, centered on domestic private-sector demand from telecommunications carriers and other companies, the Company projects the following consolidated results for the full fiscal year:

Orders received	**¥275.0 billion (8.4% increase year-on-year)**
Net sales	**¥270.0 billion (6.0% increase year-on-year)**
Operating income	**¥9.3 billion (18.5% increase year-on-year)**
Ordinary income	**¥9.0 billion (14.5% increase year-on-year)**
Net income	**¥4.3 billion (23.7% increase year-on-year)**

*[1] ICT: Information and Communication Technology

*[2] CS: Customer Satisfaction. This term refers to an approach to providing products and services that puts customers first.

B. Outlook by Segment

[Network Integration/Support Service Business (NI/SS Business)]

Due to strengthening of the business infrastructure for the aforementioned telecommunications carriers and other companies, construction of network systems, including NGN, for telecommunications carriers, construction of networks and security systems for other companies, and related support services are expected to continue increasing. As a result, in the network integration/support service business in the next fiscal year, orders are expected to be ¥182.5 billion, a 10.9 percent increase year-on-year, and sales are expected to be ¥177.5 billion, a 9.9 percent increase year-on-year.

[Telecommunications Engineering]

Strong demand is expected for installation of base stations for mobile communications carriers and construction of regional information networks for local governments. However, consolidated results for the telecommunications engineering business for the full fiscal year are expected to be impacted by decreasing capital investment for cable television and terrestrial broadcast stations. Orders are expected to be ¥67.5 billion, a 3.5 percent increase year-on-year, and sales are expected to be ¥67.5 billion, a 0.6 percent increase year-on-year.

[Device Sales]

Transactions in the stand-alone device category, which is independent of the system integration business, are forecast to be essentially unchanged year-on-year. Therefore, in the device sales business for the full year, orders are expected to be ¥25.0 billion, a 5.3 percent increase year-on-year, and sales are expected to be ¥25.0 billion, a 4.2 percent decrease year-on-year.

(2) Analysis of Financial Condition

① Assets, Liabilities and Net Assets

(Assets)

Current assets increased by ¥12,379 million compared to the end of the previous fiscal year. The main factor was a ¥12,697 million increase in notes and accounts receivable compared to the end of the previous fiscal year, due to factors including the addition of NEC Telenetworx, Ltd. to the Group in the consolidated fiscal year.

Fixed assets increased by ¥1,506 million compared to the end of the previous fiscal year.

As a result of the above, total assets increased by ¥13,886 million compared to the end of the previous fiscal year.

(Liabilities)

Current liabilities increased by ¥4,413 million compared to the end of the previous fiscal year. The main factor was a ¥4,738 million increase in notes and accounts payable, trade compared to the end of the previous fiscal year, due to factors including the addition of NEC Telenetworx, Ltd. to the Group in the consolidated fiscal year.

Long-term liabilities increased by ¥1,897 million compared to the end of the previous fiscal year.

As a result of the above, overall liabilities increased by ¥6,310 million compared to the end of the previous fiscal year.

(Net Assets)

Net assets increased by ¥7,575 million compared to the end of the previous fiscal year, in which minority interests in consolidated subsidiaries were included. The main factors in this increase were an increase in capital surplus resulting from the allocation of Company treasury stock and newly issued shares in the share exchange conducted with NEC Telenetworx, Ltd. on April 1, 2006, and an increase in retained earnings.

② Cash Flow

Cash and cash equivalents (“cash”) at the end of the fiscal year decreased by ¥1,301 million compared to the end of the previous fiscal year to ¥8,602 million. While cash flow from operating activities and cash flow from investing activities increased, cash flow from financing activities decreased.

(Cash Flow from Operating Activities)

Net cash provided by operating activities in the fiscal year ended March 31, 2007 was ¥7,899 million, due to factors including a decrease in notes and accounts receivable and a decrease in inventories, although trade notes and accounts payable increased. Net cash provided by operating activities increased by ¥4,406 million from ¥3,493 million for the previous fiscal year.

(Cash Flow from Investing Activities)

Investing activities used cash of ¥2,129 million, due to factors including purchases of property and equipment and intangible fixed assets. Net cash used in investing activities decreased ¥744 million compared to ¥2,874 million for the previous fiscal year.

(Cash Flow from Financing Activities)

Net cash used in financing activities was ¥7,360 million, due to factors including a decrease in short-term bank loans. This represented an increase of ¥6,391 million compared to the ¥968 million used in financing activities in the previous fiscal year.

Cash dividends paid totaled ¥644 million, an increase of ¥59 million compared to the previous fiscal year.

Cash Flow Indicators

Year ended March 31	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007
Shareholders' equity ratio (%)	43.0	41.7	40.0	41.3
Debt repayment period (years)	2.0	7.9	2.5	0.7
Interest coverage ratio	20.3	11.2	38.9	108.3

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) Basic Policy on Profit Distribution, and Dividends in the Current and Next Fiscal Year

The Company places importance on increasing shareholder returns. While seeking to strengthen its operating foundation, enhance its financial position and increase earnings, the Company aims to return profits to shareholders by increasing its corporate value. The Company's policy in regard to dividends is to make appropriate dividend payments to meet the expectations of shareholders, taking into general account factors such as consolidated performance and investment trends.

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.

Dividends for the current fiscal year and next fiscal year are as follows.

	Dividend Per Share (Yen)		
	Interim	Year-End	Annual
Fiscal 2007	7.00	7.00	14.00
Fiscal 2008 (projected)	10.00	10.00	20.00

(4) 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 Company has obtained Privacy Mark certification, and has obtained ISO/IEC27001 certification for information security management at its Customer Support Center in the Customer Engineering Division and the Outsourcing Service Division. In addition, the Company provides ethics education to employees and thorough training in 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

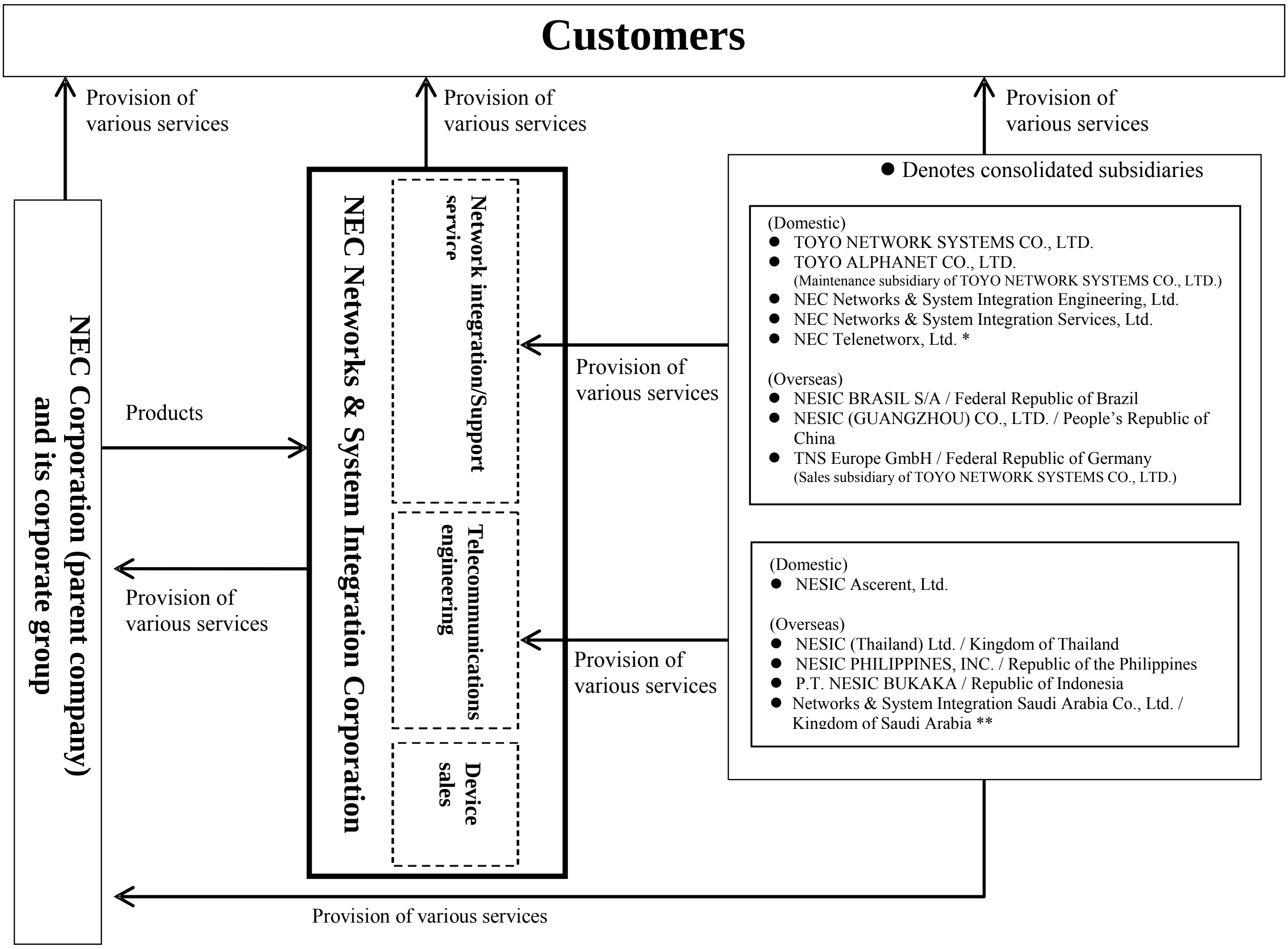
In executing its overseas business, the Group conducts business based on project management that leverages the know-how it has accumulated in regard to the various risks in each region.

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.

Corporate Group

As of May 2007, the NEC Networks & System Integration Group consists of 12 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., which became a consolidated subsidiary in April 2006, is included in the scope of consolidation from this consolidated fiscal year, and was absorbed on April 1, 2007.

** Networks & System Integration Saudi Arabia Co., Ltd. is included in the scope of consolidation from this consolidated fiscal year as a result of its establishment in April 2006.

3. 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 areas and increase shareholder value as a system integrator with its principal business in network integration and support service and telecommunications engineering.

The NEC Networks & System Integration Group ("the Group") is made up of core companies 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. While strengthening its capabilities in national sales development, system creation, construction technology and support services, the Group will promote further corporate innovation, amid a rapidly changing operating environment.

The NEC Networks & System Integration Group's corporate philosophy and management guidelines follow below.

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.

(2) Management Targets

The Group considers it important to conduct efficient management that focuses on improving income on net assets, shareholders' equity and sales, while pursuing steady growth.

As medium-term targets, the Group aims for sales above ¥300 billion and operating income above ¥11.5 billion by fiscal 2009.

(3) Medium- and Long-Term Management Strategies

In the Group's business domain of network-related business, the long-term expansion trend in domestic investment by telecommunications carriers and other private-sector companies is expected to continue, due to factors such as the anticipated full-scale development of the Next-Generation Network (NGN) and investment in services derived from it.

In this business environment, the Group will work to contribute to increasing the value of its customers, as their best partner, by providing highly reliable systems and services that satisfy customers. The Group will do so based on its corporate philosophy and management guidelines. In addition, the Group will promote continuous innovation, strengthen its business and earnings capabilities, and work to establish a firm position in the network business with leading-edge technology. Moreover, the Group will aim to be trusted and well-regarded by stakeholders, including customers and shareholders. The Group will work together to achieve these objectives.

(4) Issues Facing the Company

In the midst of a rapidly changing business environment, intensifying competition, and more sophisticated and complex customer demands in regard to price, quality and turnaround times, the Group will respond with speed in providing services that satisfy customers. While continuing to pursue its principal of compliance-focused management, the Group will work in unison to reform its business structure and strengthen its operating foundation, and by doing so achieve steady growth and stronger profitability.

Specific measures are:

1) Expanding Network Integration/Support Service (NI/SS)

Through the merger with NEC Telenetworx, Ltd., the Group will work to strengthen its business foundation, which includes existing businesses, by demonstrating synergy in the short term in the following ways: 1) Strengthening responsiveness to the NGN business; 2) enhancing support services; and 3) efficiently using management resources. In addition, we will expand the NI/SS business by strengthening our solutions proposal business and system construction technologies, which utilize Group strengths.

2) Market Expansion

In addition to reforms to promote sales efficiency such as review of business processes and resources related to sales activities and reinforcement of sales capabilities through measures including expansion of our sales force, we will develop new markets by investing in a new service menu that includes office relocation and consolidation, and in proprietary special services and systems.

3) Strengthening Our NGN Business Infrastructure

We will work as a member of the NEC Group to prepare for trials for NGN application by telecommunications carriers, followed by full-fledged NGN development. We will also strengthen our business infrastructure, including the organization and resources.

4) 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.

5) Strengthening Profitability with Comprehensive Cost Reforms

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.

6) Enhancing Internal Controls

We are strengthening internal controls based on the U.S. Sarbanes-Oxley Act, ensuring the compliance of financial statements and other documents with the Japanese version of the act, and conducting thoroughly upright operations through measures including strict compliance with order reporting regulations. In addition, we will strengthen our evaluatory functions for determining the appropriateness of our business dealings, and take other steps to further strengthen our internal controls.

7) Developing and Enhancing Human Resources

We will develop and strengthen engineers who can respond to increasingly sophisticated and complex technologies and human resources who can exercise a high level of ability in smooth project management. We will also acquire advanced technical qualifications to respond to changes in the environment.

By strengthening these internal controls and forcefully promoting these management reforms, the Company will work to further increase its overall management efficiency, improve its management structure and increase its corporate value.

(5) Significant Matters Concerning Business Operations

On April 1, 2007, the Company absorbed NEC Telenetworx, Ltd., which became a consolidated subsidiary in April 2006, and took over all of its business operations.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2007		As of March 31, 2006		Year-on-Year Change
ASSETS					
I Current assets	125,498	84.3%	113,119	83.8%	12,379
Cash and cash equivalents	8,602		9,910		(1,307)
Notes and accounts receivable, trade	95,353		82,656		12,697
Inventories	15,090		16,744		(1,653)
Deferred income taxes	5,493		3,045		2,447
Other current assets	1,159		1,977		(818)
Allowance for doubtful accounts	(200)		(1,214)		1,013
II Fixed assets	23,298	15.7	21,791	16.2	1,506
Property, plant and equipment:	8,260	5.6	7,760	5.8	499
Buildings and structures	3,391		3,151		240
Machinery and vehicles	49		60		(10)
Furniture and fixtures	2,070		1,841		229
Land	2,423		2,422		1
Construction in progress	325		283		41
Other fixed assets	—		2		(2)
Intangible fixed assets	3,758	2.5	3,226	2.4	532
Investments and other assets:	11,279	7.6	10,804	8.0	475
Investment securities	686		1,164		(478)
Deferred income taxes	6,549		6,405		143
Other fixed assets	4,169		3,368		801
Allowance for doubtful accounts	(125)		(134)		9
Total assets	148,797	100.0	134,911	100.0	13,886

(Millions of yen)

	As of March 31, 2007		As of March 31, 2006		Year-on-Year Change
LIABILITIES					
I Current liabilities:	65,173	43.8%	60,760	45.0%	4,413
Notes and accounts payable, trade	48,333		43,594		4,738
Short-term bank loans	531		3,800		(3,268)
Accrued income taxes	2,457		2,060		396
Accrued consumption taxes	1,529		1,407		121
Advances received	3,451		4,156		(705)
Accrued bonuses for directors and corporate auditors	78		—		78
Accrued losses on sales contracts	183		24		159
Other current liabilities	8,608		5,716		2,892
II Long-term liabilities:	21,422	14.4	19,524	14.5	1,897
Long-term debt	5,000		5,000		—
Accrued employees' retirement benefits	16,300		14,353		1,947
Accrued retirement benefits for directors and corporate auditors	95		130		(35)
Other liabilities	25		40		(14)
Total liabilities	86,596	58.2	80,285	59.5	6,310
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES					
Minority interests in consolidated subsidiaries	—	—	608	0.5	—
SHAREHOLDERS' EQUITY					
I. Common stock	—	—	13,122	9.7	—
II. Capital surplus	—	—	12,622	9.4	—
III. Retained earnings	—	—	29,413	21.8	—
IV. Unrealized holding gain on securities	—	—	150	0.1	—
V. Foreign currency translation adjustments	—	—	(370)	(0.3)	—
VI. Treasury stock, at cost	—	—	(920)	(0.7)	—
Total shareholders' equity	—	—	54,017	40.0	—
Total liabilities, minority interests and shareholders' equity	—	—	134,911	100.0	—
NET ASSETS					
I. Shareholders' equity	61,692	41.5%	—	—	—
Common stock	13,122		—		
Capital surplus	16,650		—		
Retained earnings	31,931		—		
Treasury stock, at cost	(11)		—		
II. Adjustments for valuation, foreign currency translation and others	(308)	(0.2)	—	—	—
Unrealized holding gain on securities	(14)		—		—
Deferred hedge gain (loss)	(40)		—		—
Foreign currency translation adjustments	(253)		—		—
III. Minority interests in consolidated subsidiaries	816	0.5	—	—	—
Total net assets	62,201	41.8	—	—	—
Total liabilities and total net assets	148,797	100.0	—	—	—

(2) Consolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2007		Year ended March 31, 2006		Year-on-Year Change	
I. Net sales	254,641	100.0%	213,672	100.0%	40,969	19.2%
II. Cost of sales	221,379	86.9	187,113	87.6	34,265	18.3
Gross profit	33,262	13.1	26,559	12.4	6,703	25.2
III. Selling, general and administrative expenses	25,413	10.0	20,502	9.6	4,910	23.9
Operating income	7,849	3.1	6,056	2.8	1,793	29.6
IV. Non-operating income:	683	0.3	414	0.2	268	64.9
Interest income	26		25		0	3.8
Gain on reversal of allowance for doubtful accounts	203		—		203	—
Other income	452		388		64	16.5
V. Non-operating expenses:	672	0.3	488	0.2	183	37.6
Interest expense	74		93		(19)	(20.9)
Evaluation loss on fixed assets	80		38		42	111.0
Evaluation loss on inventories	77		—		77	—
Other losses	440		356		83	37.6
Ordinary income	7,860	3.1	5,982	2.8	1,878	31.4
VI. Extraordinary losses:	586	0.2	451	0.2	135	29.9
Loss on liquidation of business of a subsidiary	586		—		586	—
Expense for a change in a company's name	—		159		(159)	—
Loss on sale of land	—		154		(154)	—
Loss on disposal of obsolete inventories	—		138		(138)	—
Income before income taxes and minority interests	7,273	2.9	5,530	2.6	1,742	31.5
Income taxes - current	3,784	1.5	2,804	1.4	980	34.9
- deferred	(29)	(0.0)	66	0.0	(96)	—
Minority interests in consolidated subsidiaries	41	0.0	50	0.0	(8)	(16.9)
Net income	3,476	1.4	2,609	1.2	867	33.3

(3) Consolidated Statements of Retained Earnings

(Millions of yen)

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

(4) Consolidated Statements of Changes in Shareholders' Equity, etc.

Period April 1, 2006 to March 31, 2007

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at March 31, 2006	13,122	12,622	29,413	(920)	54,238
Changes during the year					
Change due to exchange of shares	—	3,779	—	916	4,695
Dividends from retained earnings	—	—	(642)	—	(642)
Bonuses paid to directors and corporate officers	—	—	(68)	—	(68)
Net income	—	—	3,476	—	3,476
Purchase of treasury stock	—	—	—	(8)	(8)
Disposal of treasury stock	—	0	—	0	0
Transfer to retained earnings from other capital surplus	—	248	(248)	—	—
Net change of items other than shareholders' equity during the year	—	—	—	—	—
Total changes during the year	—	4,027	2,518	908	7,454
Balance at March 31, 2007	13,122	16,650	31,931	(11)	61,692

	Valuation, foreign currency and other adjustments				Minority interests in consolidated subsidiaries	Total net assets
	Unrealized holding gain on securities	Deferred hedge gain (loss)	Foreign currency translation adjustments	Total valuation, foreign currency and other adjustments		
Balance at March 31, 2006	150	—	(370)	(220)	608	54,625
Changes during the year						
Change due to exchange of shares	—	—	—	—	—	4,695
Dividends from retained earnings	—	—	—	—	—	(642)
Bonuses paid to directors and corporate officers	—	—	—	—	—	(68)
Net income	—	—	—	—	—	3,476
Purchase of treasury stock	—	—	—	—	—	(8)
Disposal of treasury stock	—	—	—	—	—	0
Transfer to retained earnings from other capital surplus	—	—	—	—	—	—
Net change of items other than shareholders' equity during the year	(164)	(40)	117	(87)	208	120
Total changes during the year	(164)	(40)	117	(87)	208	7,575
Balance at March 31, 2006	(14)	(40)	(253)	(308)	816	62,201

(5) Consolidated Statements of Cash Flows

(Millions of yen)

	Year ended March 31, 2007	Year ended March 31, 2006
I. Cash flows from operating activities		
Income before income taxes and minority interests	7,273	5,530
Depreciation and amortization	2,203	1,966
Amortization of excess of costs over net assets acquired	53	53
Provision for doubtful receivables	(1,115)	(18)
Provision for prepaid pension expenses	(162)	—
Provision for accrued employees' retirement benefits	(1,011)	(885)
Provision for retirement benefits for directors and corporate auditors	(35)	52
Provision for bonuses for directors and corporate auditors	78	—
Provision for accrued losses on sales contracts	159	24
Interest and dividend income	(39)	(38)
Interest expense	76	93
Impairment loss on investment securities	48	70
Gain on sales of investment securities	(63)	(82)
Gain on sales of property and equipment	(22)	(12)
Loss on sales of property and equipment	0	154
Loss on disposal of fixed assets	80	—
Loss on liquidation of business of a subsidiary	586	—
Trade notes and accounts receivable	1,280	(5,701)
Inventories	2,614	4,095
Trade notes and accounts payable	(1,171)	679
Other	406	(365)
Subtotal	11,240	5,616
Interest and dividends received	39	38
Interest paid	(72)	(89)
Income taxes paid	(3,307)	(2,072)
Net cash provided by operating activities	7,899	3,493
II. Cash flows from investing activities		
Purchases of property and equipment	(1,216)	(1,506)
Sales of property and equipment	32	129
Purchases of intangibles, net of allowance for amortization	(1,149)	(738)
Purchases of investment securities	(42)	(113)
Sales of investment securities	96	94
Dividends from investment associations	54	—
Refund from investment in investment associations	15	—
Loans receivable made	(55)	(22)
Collection of loans receivable	56	19
Purchases of common stocks of newly consolidated subsidiaries	—	(748)
Other	77	11
Net cash used in investing activities	(2,129)	(2,874)
III. Cash flows from financing activities		
Net decrease in short-term bank loans	(6,521)	(5,366)
Proceeds from long-term debt	—	5,000
Purchases of treasury stock	(8)	(11)
Proceeds from sales of treasury stock	0	1
Cash dividends paid	(644)	(585)
Dividends paid to minority interests in consolidated subsidiaries	(1)	(1)
Other	(184)	(4)
Net cash used in financing activities	(7,360)	(968)
IV. Effect of exchange rate changes on cash and cash equivalents	82	51
V. Net (increase) decrease in cash and cash equivalents	(1,507)	(298)
VI. Cash and cash equivalents at beginning of year	9,903	10,202
VII. Increase in cash and cash equivalents due to change in the scope of consolidation	56	—
VIII. Increase in cash and cash equivalents due to share exchange	150	—
IX. Cash and cash equivalents at end of year	8,602	9,903

(6) Basis of Preparation of the Consolidated Financial Statements

1. Scope of Consolidation

Number of consolidated subsidiaries: 13

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

Notes:

1. Due to an exchange of shares in April 2006, NEC Telenetworx, Ltd. is included in the scope of consolidation from the year ended March 31, 2007.
2. Networks & System Integration Saudi Arabia Co., Ltd. was established in April 2006, and is included in the scope of consolidation from the year ended March 31, 2007.

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, 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, seven 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) Accounting Treatment of Deferred Assets
Share issue expenses: The full amount is charged to income as incurred.

(4) 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 Bonuses for Directors and Corporate Auditors
Provision to cover expenditures for bonuses paid to directors and corporate auditors is made in the amount corresponding to the fiscal year based on the estimated amount to be paid.
Accounting change:
Effective from the year ended March 31, 2007, the Company is applying the "Accounting Standards for Officers' Bonuses" (Corporate Accounting Standard No. 4, issued by the Corporate Accounting Standards Committee on November 29, 2006).
As a result, operating income, ordinary income and income before income taxes decreased by ¥78 million compared to the previous method.
(c) 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.
(d) 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.
(e) 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.

(5) 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.

(6) 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.

(7) 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 Goodwill and Negative Goodwill
Goodwill and negative goodwill are amortized on a straight-line basis over a reasonable number of years, not exceeding 20 years, on a case-by-case basis.

7. 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.

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

(7) Changes in Basis of Preparation of the Consolidated Financial Statements

Accounting Standards for Presentation of Net Assets in Balance Sheets
Effective from the year ended March 31, 2007, the Company applies the “Accounting Standard for Presentation of Net Assets in the Balance Sheets” (Accounting Standards Board Statement No. 5,) and “Implementation Guidance for Accounting Standard for Presentation of Net Assets in the Balance Sheets” (Financial Accounting Standards Implementation Guidance No. 8), both issued by the Accounting Standards Board of Japan on December 9, 2005. These changes have no effect on profit and loss. The amount corresponding to the previously used “Shareholders’ equity” in the balance sheet is ¥61,424 million.
The consolidated financial statements for the year ended March 31, 2007 are prepared in accordance with the revised Rules for Consolidated Financial Statements.

Accounting Standards for Business Combinations
Effective from the year ended March 31, 2007, the Company applies the “Accounting Standard for Business Combinations” (Business Accounting Council, October 31, 2003) and the “Accounting Standard for Business Divestitures” (Accounting Standards Board Statement No. 7, December 27, 2005) and “Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures” (Accounting Standards Board Guidance No. 10, December 22, 2006).

(8) Notes to Consolidated Financial Statements

Notes to Consolidated Balance Sheets (Millions of yen)

As of March 31, 2007	As of March 31, 2006
1. Accumulated depreciation of property and equipment 11,701	1. Accumulated depreciation of property and equipment 8,971
2. Guarantee obligations Sumitomo Mitsui Banking Corporation 194 Total 194	2. Guarantee obligations Sumitomo Mitsui Banking Corporation 236 Total 236
3. Amounts of goodwill and negative goodwill Intangible fixed assets 1,090 Long-term liabilities (Other) 25	3. Amounts of excess of costs over net assets acquired Intangible fixed assets 1,158 Long-term liabilities (Other) 39
4. Accounting treatment of notes maturing on the consolidated balance sheet date Notes maturing on the balance sheet date were treated as settled on the note conversion date. As the balance sheet date was a non-business day for financial institutions, the following notes due on the balance sheet date are included in balance as of March 31, 2007. Notes and accounts receivable – trade 507	————
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 — Difference 11,000	4. 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
————	5. Investment securities include ¥56 million paid for new shares in a subsidiary that was newly established on April 11, 2006.

Notes to Consolidated Statements of Income (Millions of yen)

Year ended March 31, 2007	Year ended March 31, 2006
"Loss on liquidation of business of a subsidiary" is the loss associated with withdrawal from unprofitable business of a subsidiary in Brazil.	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 Changes in Shareholders' Equity, etc.

Year ended March 31, 2007 (April 1, 2006 – March 31, 2007)

1. Outstanding Shares

Type of stock	As of March 31, 2006	Increase	Decrease	As of March 31, 2007
Common stock (shares)	43,069,207	6,704,600	—	49,773,807

Summary of reason for the change:
Breakdown of the number of shares increased is as follows:
Increase due to new shares issued for stock conversions 6,704,600 shares

2. Treasury Stock

Type of stock	As of March 31, 2006	Increase	Decrease	As of March 31, 2007
Common stock (shares)	1,115,207	6,075	1,111,027	10,255

Summary of reason for the change:
Breakdown of the number of shares increased is as follows:
Increase due to repurchase of shares less than one trading unit 6,075 shares

Breakdown of the number of shares decreased is as follows:
Decrease due to allocations related to stock conversions 1,110,700 shares
Decrease due to requests to purchase shares up to one round trading unit 327 shares

3. Share Subscription Rights, etc.
None applicable.

4. Dividends

(1) Cash dividends paid

Resolution	Type of stock	Total amount of cash dividends (million yen)	Cash dividends per share (yen)	Record date	Payment date
June 29, 2006	Common stock	293	7.00	March 31, 2006	June 30, 2006
October 26, 2006	Common stock	348	7.00	September 30, 2006	December 8, 2006

(2) Dividends with record dates in the year ended March 31, 2007 and payment dates in the following fiscal year

Resolution	Type of stock	Dividend resource	Total amount of cash dividends (million yen)	Cash dividends per share	Record date	Payment date
May 15, 2007	Common stock	Retained earnings	348	7.00	March 31, 2007	June 5, 2007

Notes to Consolidated Statements of Cash Flows (Millions of yen)

<table>
<tr><th>Year ended
March 31, 2007</th><th>Year ended
March 31, 2006</th></tr>
<tr><td>1. Relationship between ending balance of cash and cash equivalents and amounts reported in the consolidated balance sheets

Item: “Cash and cash equivalents” 8,602
Total 8,602
Time deposits with maturities exceeding three months —
Cash and cash equivalents 8,602

2. Significant non-cash transactions

In the year ended March 31, 2007, the Company conducted an exchange of shares that made NEC Telenetworx, Ltd. a wholly owned subsidiary, and issued new shares and granted shares of treasury stock. As a result, capital surplus and treasury stock increased and decreased as follows:

Increase in capital surplus due to share exchange 4,028
Decrease in capital surplus due to share exchange (net loss on disposal of treasury stock) 248
Decrease in treasury stock due to share exchange 916</td><td>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
Total 9,910
Time deposits with maturities exceeding three months (6)
Cash and cash equivalents 9,903

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</td></tr>
</table>

Segment Information

1. Business Segment Information

(April 1, 2006 - March 31, 2007) (Millions of yen)

	Network integration/ Support service	Telecommu-nications engineering	Device sales	Total	Eliminations and Corporate	Consolidated
Orders	164,634	65,192	23,750	253,577	—	253,577
Net sales (1) Sales to outside customers	161,473	67,085	26,082	254,641	—	254,641
(2) Intersegment sales and transfers	—	—	—	—	—	—
Total	161,473	67,085	26,082	254,641	—	254,641
Operating expenses	150,508	63,946	25,941	240,397	6,394	246,792
Operating income	10,964	3,139	140	14,244	(6,394)	7,849

(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

2. Geographical Segment Information

(April 1, 2006 - March 31, 2007)
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, 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.

3. Overseas Sales

(April 1, 2006 - March 31, 2007)
Overseas sales information is omitted because overseas sales accounted for less than 10 percent of consolidated net 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.

Transactions with Related Parties

(April 1, 2006 - March 31, 2007)

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	51.5% (direct)		
Relationship	Officers holding concurrent posts: —		Business relationship: The Company contracts network system installation and maintenance work, etc. from NEC Corporation The Company purchases NEC products
Transactions	Contracting of network system installation and maintenance, etc.		Purchase of communication equipment, etc.
Transaction amounts	¥56,422		¥42,544
Line items	Notes and accounts receivable	Advances received	Notes and accounts payable
Balance at end of period	¥27,222	¥805	¥10,013

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)

Classific-ation	Comp-any name	Address	Capital	Principal business	Percentage of voting shares owned	Relationship		Transactions	Trans-action 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	4,367	Notes and accounts receivable Advances received	1,445 64
								Purchase of communications equipment, etc.	967		291
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 and maintenance of network systems	7,029	Notes and accounts receivable Advances received	1,930 2

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, 2007

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

(Deferred tax assets)	
Excess over deductible amount of reserve for bonuses	1,754
Bonus portion of social insurance premiums denied	201
Excess over deductible amount of allowance for doubtful receivables	59
Accrued business taxes denied	233
Percentage of completion basis denied	125
Loss on valuation of inventories	2,204
Unrealized gain on inventories	21
Reserve for contract losses	74
Excess over deductible amount of depreciation expenses	133
Software	551
Excess over deductible amount of accrued employees' retirement benefits	6,089
Stock distributions	146
Unrealized loss on securities	247
Loss on liquidation of business of subsidiary	586
Other	1,118
Deferred tax assets subtotal	13,550
Valuation reserve	(1,388)
Total deferred tax assets	12,162
(Deferred tax liabilities)	
Reserve for reduction of fixed assets	
Reserve for special depreciation	(1)
Net unrealized loss on other marketable securities	(89)
Other	(29)
	(0)
Total deferred tax liabilities	(119)
Net deferred tax assets	12,042

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 marketable securities	(112)
Other	(3)
Total deferred tax liabilities	(116)
Net deferred tax assets	9,451

Marketable Securities

(Year ended March 31, 2007)

1. Other marketable securities with market values (as of March 31, 2007) (Millions of yen)

	Acquisition cost	Balance sheet amount	Difference
Securities with balance sheet amounts that exceed acquisition cost: Stocks	112	191	78
Total	112	191	78

2. Other marketable securities sold during the fiscal year (April 1, 2006–March 31, 2007)

(Millions of yen)

Amount sold	Total profit on sales	Total loss on sales
96	63	—

3. Description of securities without market values (April 1, 2006–March 31, 2007)

(Millions of yen)

	Balance sheet amount
Other marketable securities	
(1) Unlisted stocks (not including OTC stocks)	284
(2) Investment Limited Partnerships	210
Total	495

Note: The Company made write-offs of ¥48 million for “Other marketable securities” without market values in the year ended March 31, 2007. 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.

(Year ended 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.

Retirement Benefits

As of March 31, 2007 (Millions of yen)	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.	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 (37,646) (2) Fair value of plan assets 20,165 (3) Unfunded retirement benefit obligation (1)＋(2) (17,481) (4) Unrecognized actuarial loss 6,776 (5) Unrecognized prior service cost (5,335) (6) Accrued employees' retirement benefits (3)+(4)+(5) (16,039) (7) Prepaid pension expenses 261 (8) Accrued employees' retirement benefits (6) – (7) (16,300) Note: Some subsidiaries use the simplified method in calculating the retirement benefit obligation.	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) 1,770 (2) Interest cost 924 (3) Expected return on plan assets (449) (4) Amortization of actuarial loss 629 (5) Amortization of prior service cost (395) (6) Retirement benefit expenses (1)+(2)+(3)+(4)+(5) 2,480 Note: Retirement benefit expenses of consolidated subsidiaries using the simplified method are recorded in "(1) Service cost."	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 582 (5) Amortization of prior service cost (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.	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. (1) 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.

Business Combinations

Year ended March 31, 2007 (April 1, 2006 – March 31, 2007)

1. Names and business description of combined business, legal form of business combination and summary of transactions including purpose of transactions

   (1) Name and business description of combined business
      １） Name of combined business
      NEC Telenetworx, Ltd.
      ２） Business description of combined business
      Maintenance, operation and monitoring services for equipment and facilities for wireless and exchange telecommunications, broadcast video, etc., and on-site adjustment and evaluation, technological support, etc.

   (2) Legal form of business combination
   Share exchange

   (3) Summary of transactions including purpose of transactions
   On December 15, 2005, the Company concluded a share exchange agreement to make NEC Telenetworx, Ltd. a wholly owned subsidiary for the purpose of further strengthening its network integration support services business. The share exchange was implemented on April 1, 2006.

   When the share exchange was made, 26.051 common shares of NEC Networks & System Integration Corporation were allocated for each one common share of NEC Telenetworx, Ltd. to the shareholder (NEC Corporation) listed in the final shareholder register of NEC Telenetworx, Ltd. on the day before the share exchange date. The shares allocated and delivered were 1,110,700 shares of the treasury stock held by the Company, in addition to 6,704,600 shares of newly issued common stock (total: 7,815,300 shares).

2. Summary of Accounting Standards Implemented
   This transaction is classified as a transaction under joint control as prescribed in "Accounting Standard for Business Combinations" (Business Accounting Council, October 31, 2003), and accounting treatment in connection with the share exchange was based on this.

Per Share Information

Year ended March 31, 2007		Year ended March 31, 2006	
Net assets per share (yen)	1,233.52	Net assets per share (yen)	1,285.92
Net income per share (yen)	70.72	Net income per share (yen)	60.56

Notes:

1. Diluted net income per share is omitted because no dilution exists.
2. The basis of calculation of the amount of net income per share is as follows:

	Year ended March 31, 2007	Year ended March 31, 2006
Net income on consolidated statements of income (million yen)	3,476	2,609
Amount not attributable to common stock (million yen)	—	68
Officers' bonuses from appropriation of profits (million yen)	—	68
Net income pertaining to common stock (million yen)	3,476	2,541
Average number of shares of common stock during the period (thousand shares)	49,165	41,958

Omission of Disclosure

Disclosure of the notes concerning lease transactions and derivative transactions is omitted because the necessity of disclosure in the consolidated financial statements is not likely to be significant.

5. Unconsolidated Financial Statements

(1) Unconsolidated Balance Sheets

(Millions of yen)

	As of March 31, 2007		As of March 31, 2006		Year-on-Year Change
ASSETS					
I Current assets	99,628	78.8%	101,503	81.4%	(1,874)
Cash and cash equivalents	6,698		7,833		(1,134)
Notes receivable	2,074		1,429		645
Accounts receivable, trade	70,573		75,167		(4,593)
Equipment and materials	2,534		3,489		(954)
Work in process	9,309		10,340		(1,031)
Prepaid expenses	228		204		23
Loans to affiliates	4,304		—		4,304
Deferred income taxes	3,184		2,583		601
Other current assets	835		1,658		(823)
Allowance for doubtful accounts	(115)		(1,204)		1,088
II Fixed assets	26,753	21.2	23,231	18.6	3,521
Property and equipment:	7,211	5.7	7,343	5.9	(132)
Buildings	2,968		3,077		(108)
Structures	35		24		11
Transportation equipment	12		20		(7)
Furniture and fixtures	1,456		1,524		(68)
Land	2,422		2,422		—
Construction in progress	315		274		41
Intangible fixed assets:	1,833	1.5	2,019	1.6	(185)
Trademarks	2		2		(0)
Software	1,727		1,912		(185)
Other	103		104		(0)
Investments and other assets:	17,708	14.0	13,869	11.1	3,839
Investment securities	629		1,108		(478)
Investment in subsidiaries and affiliates	9,020		4,324		4,695
Long-term loans to employees	1		2		(0)
Long-term prepaid expenses	18		18		(0)
Deferred income taxes	2,378		2,392		(14)
Long-term guarantee deposits	5,115		5,385		(269)
Other	666		766		(99)
Allowance for doubtful accounts	(122)		(129)		7
Total assets	126,382	100.0	124,734	100.0	1,647

.

(Millions of yen)

	As of March 31, 2007		As of March 31, 2006		Year-on-Year Change
LIABILITIES					
I Current liabilities:	51,154	40.5%	54,865	43.9%	(3,711)
Notes payable	1,834		2,314		(480)
Accounts payable, trade	37,506		36,459		1,046
Short-term bank loans	500		3,750		(3,250)
Other accounts payable	1,285		701		583
Accrued expenses	2,963		2,972		(9)
Accrued income taxes	1,314		1,814		(500)
Advances received	1,261		1,104		156
Reserve for contract losses	2,971		3,708		(737)
Deposits received	1,210		1,912		(702)
Accrued bonuses for directors and corporate auditors	52		—		52
Accrued losses on sales contracts	183		24		159
Other	71		101		(29)
II Long-term liabilities:	16,151	12.8	17,537	14.1	(1,385)
Long-term debt	5,000		5,000		—
Accrued employees' retirement benefits	11,097		12,449		(1,352)
Accrued retirement benefits for directors and corporate auditors	53		87		(33)
Total liabilities	67,305	53.3	72,402	58.0	(5,097)
SHAREHOLDERS' EQUITY					
I Common stock	—		13,122	10.5	—
II Capital surplus	—		12,622	10.2	—
Capital reserve	—		12,622		—
Other capital surplus	—		0		—
Net gain on disposition of treasury stock	—		0		—
III Retained earnings			27,357	21.9	—
Profit reserve	—		546		—
Voluntary reserves	—		23,941		—
Reserve for asset compression	—		1		—
Special reserve	—		23,940		—
Unappropriated retained earnings at the end of the period	—		2,868		—
IV Unrealized gain on available-for-sale securities	—		150	0.1	—
V Treasury stock	—		(920)	(0.7)	—
Shareholders' equity	—		52,332	42.0	—
Total liabilities, minority interests and shareholders' equity	—		124,734	100.0	—

(Millions of yen)

	As of March 31, 2007		As of March 31, 2006		Year-on-Year Change
NET ASSETS					
I. Shareholders' equity	59,128	46.7%	—	—	—
Common stock	13,122		—		—
Capital surplus	16,650		—		—
Capital reserve	16,650				
Retained earnings	29,366		—		—
Legal reserve	546		—		—
Other retained earnings	28,819		—		—
Reserve for advanced depreciation of fixed assets	1		—		—
General reserve	23,940		—		—
Retained earnings carried forward	4,878		—		—
Treasury stock, at cost	(11)		—		—
II. Adjustments for valuation, foreign currency translation and others	(51)	(0.0)	—	—	—
Unrealized holding gain on securities	(10)		—		—
Deferred hedge gain (loss)	(40)		—		—
Total net assets	59,076	46.7	—	—	—
Total liabilities and total net assets	126,382	100.0	—	—	—

(2) Unconsolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2007		Year ended March 31, 2006		Year-on-Year Change	
I. Net sales	189,498	100.0%	191,135	100.0%	(1,636)	(0.9)%
II. Cost of sales	167,159	88.2	168,153	88.0	(994)	(0.6)
Gross profit	22,338	11.8	22,981	12.0	(642)	(2.8)
III. Selling, general and administrative expenses	18,322	9.7	17,826	9.3	495	2.8
Operating income	4,016	2.1	5,154	2.7	(1,138)	(22.1)
IV. Non-operating income:	1,260	0.7	329	0.1	930	282.7
Interest income	21		8		12	147.1
Insurance dividend income	753		25		728	2,850.2
Reversal of allowance for doubtful accounts	201		—		201	—
Other non-operating income	282		294		(12)	(4.2)
V. Non-operating expenses:	539	0.3	448	0.2	91	20.4
Interest expense	71		89		(17)	(19.3)
Exchange losses	77		—		77	—
Evaluation loss on inventories	61		24		36	151.0
Other non-operating expenses	329		335		(5)	(1.7)
Ordinary income	4,736	2.5	5,035	2.6	(298)	(5.9)
VI. Extraordinary losses:	—	—	451	0.2	(451)	—
Corporate name change expenses	—		159		(159)	—
Loss on sale of fixed assets	—		154		(154)	—
Loss on disposal of inventory	—		138		(138)	—
Income before income taxes	4,736	2.5	4,584	2.4	152	3.3
Income, residential and enterprise taxes	1,986	1.0	2,417	1.3	(431)	(17.8)
Income tax adjustment	(194)	(0.1)	(0)	(0.0)	(193)	—
Net income	2,945	1.6	2,167	1.1	777	35.9
Profit brought forward from previous term	—		994		—	—
Interim dividend	—		293		—	—
Net income	—		2,868		—	—

(3) Unconsolidated Statements of Appropriation of Retained Earnings

(Millions of yen)

Item	Date Approved by the 74th General Meeting of Shareholders (June 29, 2006)
I. Unappropriated retained earnings at the end of the period	2,868
II. Reversal of voluntary reserves	
Reversal of reserve for asset compression	0
Total unappropriated retained earnings	2,868
III. We propose to appropriate the foregoing as follows:	
Cash dividends	293
[Regular dividends]	[¥7 per share]
Bonuses to directors and corporate auditors	45
[Bonuses to corporate auditors included in above]	[9]
IV. Profit carried forward to the next term	2,529

Note: The Company paid an interim dividend of ¥293 million (¥7.00 per share) on December 9, 2005.

(4) Unconsolidated Statements of Changes in Shareholders' Equity, etc.

April 1, 2006 to March 31, 2007 (Millions of yen)

	Shareholders' equity			
	Common stock	Capital surplus		
		Additional paid-in capital	Other capital surplus	Total capital surplus
Balance at March 31, 2006	13,122	12,622	0	12,622
Changes during the year				
Change due to exchange of shares	—	4,028	(248)	3,779
Disposal of treasury stock	—	—	0	0
Transfer to retained earnings from other capital surplus	—	—	248	248
Total changes during the year	—	4,028	(0)	4,027
Balance at March 31, 2007	13,122	16,650	—	16,650

April 1, 2006 to March 31, 2007 (Millions of yen)

	Shareholders' equity						
	Retained earnings					Treasury stock	Total share-holders' equity
	Legal reserve	Other retained earnings					
		Special appropriation to reserve for accelerated depreciation	Other reserve	Retained earnings carried forward	Total retained earnings		
Balance at March 31, 2006	546	1	23,940	2,868	27,357	(920)	52,182
Changes during the year							
Change due to exchange of shares	—	—	—	—	—	916	4,695
Dividends from retained earnings	—	—	—	(642)	(642)	—	(642)
Bonuses paid to directors and corporate officers	—	—	—	(45)	(45)	—	(45)
Drawdown of reserve for advanced depreciation	—	(0)	—	0	—	—	—
Net income	—	—	—	2,945	2,945	—	2,945
Purchase of treasury stock	—	—	—	—	—	(8)	(8)
Disposal of treasury stock	—	—	—	—	—	0	0
Transfer to retained earnings from other capital surplus	—	—	—	(248)	(248)	—	—
Total changes during the year	—	(0)	—	2,009	2,009	908	6,946
Balance at March 31, 2007	546	1	23,940	4,878	29,366	(11)	59,128

Valuation, foreign currency and other adjustments	Valuation, foreign currency and other adjustments			Total net assets
	Unrealized holding gain on securities	Deferred hedge gain (loss)	Total valuation, foreign currency and other adjustments	
Balance at March 31, 2006	150	—	150	52,332
Changes during the year				
Change due to exchange of shares	—	—	—	4,695
Dividends from retained earnings	—	—	—	(642)
Bonuses paid to directors and corporate officers	—	—	—	(45)
Drawdown of reserve for advanced depreciation	—	—	—	—
Net income	—	—	—	2,945
Purchase of treasury stock	—	—	—	(8)
Disposal of treasury stock	—	—	—	0
Transfer to retained earnings from other capital surplus	—	—	—	—
Net change of items other than shareholders' equity during the year	(160)	(40)	(201)	(201)
Total changes during the year, net	(160)	(40)	(201)	6,744
Balance at March 31, 2007	(10)	(40)	(51)	59,076

(5) Significant Accounting Policies

1. Valuation of Securities

Stock of subsidiaries: At cost based on the moving average method

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 net assets. 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.

2. 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

3. Depreciation of Major Fixed Assets

(1) Property and Equipment

Principally computed by the declining-balance method except for certain leased assets of the Company on which depreciation is computed by the straight-line method

(2) 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).

4. Accounting for Deferred Assets

Share issue expenses: The full amount is charged to income as incurred.

5. Major Reserves

(1) Allowance for Doubtful Receivables

The allowance for doubtful receivables is provided 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.

(2) Accrued Bonuses for Directors and Corporate Auditors

Provision to cover expenditures for bonuses paid to directors and corporate auditors is made in the amount corresponding to the fiscal year based on the estimated amount to be paid.

Accounting change:

Effective from the year ended March 31, 2007, the Company is applying the "Accounting Standards for Officers' Bonuses" (Corporate Accounting Standard No. 4, issued by the Corporate Accounting Standards Committee on November 29, 2006).

As a result, operating income, ordinary income and income before income taxes decreased by ¥52 million compared to the previous method.

(3) Accrued Losses on Sales Contracts

Provision for accrued losses on sales contracts is made at the amount of losses on sales contracts at the balance sheet date.

(4) Accrued Employees' Retirement Benefits

The Company provides for employees' retirement benefits in the amount recognized as arising at the consolidated balance sheet date, mainly based on the projected amount of benefit obligations and pension plan assets at the end of the fiscal year.

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.

(5) 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.

6. Accounting for 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.

7. Hedge Accounting
(1) 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.

(2) Hedging Instruments and Hedged Items

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

(3) Hedging Policy
The Company hedges foreign exchange risk mainly based on its risk management policies.
(4) 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.

8. Other
(1) Accounting for consumption taxes:
Consumption taxes and local consumption taxes are not included in the amounts in the consolidated financial statements.
(2) 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.

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

(6) Changes in Accounting Methods

(Accounting Standards for Presenting Net Assets in the Balance Sheets)
Effective from the business year under review, the Company applied Accounting Standards for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan, Statement No. 5, December 9, 2005) and Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan, Guidance No. 8, December 9, 2005). This change has no effect on profit and loss. The amount corresponding to the previous “Total Shareholders’ Equity” is ¥59,117 million.
The Company has presented Net Assets in the consolidated financial statements in accordance with the revision of the Regulations for Consolidated Financial Statements.

(Accounting Standards for Business Combinations)
Effective from the business year under review, the Company applied Accounting Standards for Business Combinations (Business Accounting Council, October 31, 2003) and Accounting Standard for Business Divestitures (Accounting Standards Board of Japan, Statement No. 7, December 27, 2005) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (Accounting Standards Board of Japan, Guidance No. 10, December 22, 2006).

(7) Notes to Unconsolidated Financial Statements

Notes to Unconsolidated Balance Sheets (Millions of yen)

<table>
<tr><th>As of
March 31, 2007</th><th>As of
March 31, 2006</th></tr>
<tr><td>1. Accumulated depreciation of property and equipment 7,136

2. Guarantee obligations
(1) Sumitomo Mitsui Banking Corporation 194
(2) Related to overseas subsidiaries 592</td><td>1. Accumulated depreciation of property and equipment 6,484

2. Guarantee obligations
Sumitomo Mitsui Banking Corporation 236</td></tr>
<tr><td>3. 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 —
Difference 11,000

4. Accounting treatment of notes maturing on the consolidated balance sheet date:
Notes maturing on the balance sheet date were treated as settled on the note conversion date. As the balance sheet date was a non-business day for financial institutions, the following notes due on the balance sheet date are included in balance as of March 31, 2007.

Notes receivable 333

―――――

―――――</td><td>3. 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

―――――

4. Restrictions on dividends
The increase in net assets as a result of putting fair value on assets defined in Article 124, Paragraph 3 of the Commercial Code Implementation Rules was ¥150 million.

5. Investments in subsidiaries and affiliates includes ¥56 million paid for shares of a new subsidiary established on April 11, 2006.</td></tr>
</table>

Notes to Unconsolidated Statements of Income (Millions of yen)

<table>
<tr><th>Year ended
March 31, 2007</th><th>Year ended
March 31, 2006</th></tr>
<tr><td>―――――</td><td>1. Components of loss on sales of fixed assets
Land 154
2. “Loss on disposal of obsolete inventories” is a one-time disposal of inventory assets that became obsolete due to rapid changes in markets and technologies.</td></tr>
</table>

Notes to Unconsolidated Statements of Changes in Shareholders' Equity, etc.

Fiscal year ended March 31, 2007 (April 1, 2006 – March 31, 2007))

Items related to treasury stock

	Number of Shares at End of Previous Fiscal Year (Shares)	Increase in Number of Shares during the Period (Shares)	Decrease in Number of Shares during the Period (Shares)	Number of Shares at End of Period (Shares)
Common stock	1,115,207	6,075	1,111,027	10,255

（Reason for change）

The increase of 6,075 shares in the number of treasury shares of common stock was due to purchases of odd-lot shares.

The decrease of 1,110,700 shares in the number of outstanding shares of treasury stock was due to issuance of new stock in connection with a share exchange. The decrease of 327 shares in the number of outstanding shares of treasury stock was due to requests to purchase shares up to one round trading unit.

Marketable Securities

(As of March 31, 2007)
There are no shares of subsidiaries with market values.

(As of March 31, 2006)
There are no shares of subsidiaries with market values.

Significant Subsequent Events

Merger of Subsidiary

In accordance with a resolution of the Board of Directors on January 25, 2007, NEC Telenetworx, Ltd., a subsidiary of the Company, was absorbed in a merger on April 1, 2007.

(1) Purpose of the Merger
The purpose of the merger is to expand and strengthen business by further uniting the two companies' mutual strengths, which are nationwide sales networks, system construction, construction technology, and maintenance capabilities, and by concentrating and making more efficient use of management resources.

(2) Merger Method
The absorption merger method was used, with NEC Networks & System Integration Corporation as the surviving company, and NEC Telenetworx, Ltd. was dissolved.

(3) Allocation of New Shares Due to the Merger
NEC Telenetworx, Ltd. was a wholly owned subsidiary of the Company, and therefore no new shares were issued due to the merger.

(4) Increase in Capital, etc. Due to the Merger
There was no increase in capital due to the merger.

(5) Inheritance of Assets
On the day of the merger, the Company inherited all of the assets, liabilities, rights and obligations of NEC Telenetworx, Ltd.

(6) Merger Date
April 1, 2007

(7) Summary of Accounting Standards Implemented
This merger is classified as a transaction under joint control as prescribed in "Accounting Standard for Business Combinations" (Business Accounting Council, October 31, 2003), and accounting treatment in connection with the merger was based on this.

6. Others

Changes in Officers (scheduled for June 26, 2006)

1. Retiring Director
   Director Hiroshi Miwa

2. New Corporate Auditor Candidates

Corporate Auditor (Full-Time)	Tetsuiku Okada (currently Managing Executive Officer and General Manager
Outside Corporate Auditor (Part-Time)	Kiyoshi Nakanishi (currently Executive Officer of NEC Corp.)

3. Retiring Corporate Auditors

Corporate Auditor (Full-Time)	Norikazu Torioka (Adviser to the Company)
Outside Corporate Auditor (Part-Time)	Hiroaki Tomoda

For reference:

The makeup of Directors and Corporate Auditors after June 26, 2007 is planned as follows:

President	Masahiko Yamamoto
Senior Vice Presidents and Members of the Board	Tatsu Fujita
	Yukio Yamazaki
	Tooru Rokusha
	Koshiro Konno
Outside Director	Kazuo Tsuzuki
Outside Corporate Auditor (full-time)	Masayuki Komura
Corporate Auditor	Tetsuiku Okada
Outside Corporate Auditors (part-time)	Harutame Umezawa
	Kiyoshi Nakanishi
	Tetsujiro Arano