Consolidated Financial Statements for the Fiscal Year Ended March 31, 2009

May 12, 2009

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 Stock exchange listing: Tokyo
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Representative: Masahiko Yamamoto, President
Contact: Katsunobu Mizutani, Associate Senior Vice President
Annual General Meeting of Stockholders (scheduled): June 23, 2009
Start of distribution of dividends (scheduled): June 2, 2009
Filing of Securities Report (*Yuka shoken hokokusho*) (scheduled): June 23, 2009

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

1. Consolidated Results for the Fiscal Year Ended March 31, 2009 (April 1, 2008 – March 31, 2009)

(1) Operating Results (Percentages represent change compared with the previous fiscal year.)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
FY ended 3/09	249,070	(3.5)	10,968	2.1	11,211	7.6
FY ended 3/08	258,212	1.4	10,743	36.9	10,423	32.6

	Net income (¥ million)	Year-on-year change (%)	Net income per share (¥)	Net income per share (diluted) (¥)	Net return on equity (%)	Ordinary income/Total assets (%)	Operating income/Net sales (%)
FY ended 3/09	5,154	16.8	103.61	—	7.7	7.4	4.4
FY ended 3/08	4,412	26.9	88.67	—	7.0	6.9	4.2

(Reference) Equity method income and loss in investment of affiliated companies: FY ended 3/09: ¥ — million (FY ended 3/08: ¥ — million)

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owners' equity ratio (%)	Net assets per share (¥)
March 31, 2009	147,462	69,340	46.6	1,381.92
March 31, 2008	154,171	66,132	42.3	1,311.71

(Reference) Owners' equity: March 31, 2009: ¥68,730 million (March 31, 2008: ¥65,267 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)
FY ended 3/09	6,971	(2,193)	(2,096)	16,614
FY ended 3/08	8,809	(2,454)	(727)	14,341

2. Dividends

	Dividends per share (¥)					Total dividends paid (full year) (¥ million)	Payout ratio (consolidated) (%)	Dividends/ Net assets (consolidated) (%)
	1st quarter	Interim	3rd quarter	Year-end	Full year			
FY ended 3/08	—	10.00	—	10.00	20.00	995	22.6	1.6
FY ended 3/09	—	11.00	—	11.00	22.00	1,094	21.2	1.6
FY ending 3/10 (est.)	—	11.00	—	11.00	22.00		21.2	

3. Projected Results for the Fiscal Year Ending March 31, 2010 (April 1, 2009 – March 31, 2010)

(Percentages represent change compared to the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
6 months ending 9/09	105,000	(8.8)	3,000	(27.5)	3,000	(32.5)	1,650	(33.6)	33.18
Full year	230,000	(7.7)	9,200	(16.1)	9,200	(17.9)	5,160	0.1	103.75

4. Other

(1) Changes in major subsidiaries during the period (Changes in specified subsidiaries due to changes in the scope of consolidation): no

(2) Changes in accounting rules, procedures, presentation method, etc. for the consolidated financial statements (Changes in material items that form the basis of presentation of the consolidated financial statements)
(a) Changes related to revisions in consolidated accounting standards: Yes
(b) Changes other than (a) above: No

(3) Number of shares issued and outstanding (common stock)
(a) Number of shares issued and outstanding at the end of period (including treasury stock):
Fiscal 2009: 49,773,807 shares, Fiscal 2008: 49,773,807 shares
(b) Treasury stock at the end of period:
Fiscal 2009: 38,581 shares, Fiscal 2008: 16,352 shares

(Reference) Summary of Non-consolidated Results

1. Non-consolidated Results for the Fiscal Year Ended March 31, 2009 (April 1, 2008 – March 31, 2009)

(1) Operating Results

(Percentages represent change compared with the previous fiscal year.)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
FY ended 3/09	225,943	(5.0)	10,376	(0.3)	10,504	3.2
FY ended 3/08	237,893	25.5	10,408	159.1	10,174	114.8

	Net income (¥ million)	Year-on-year change (%)	Net income per share (¥)	Net income per share (diluted) (¥)
FY ended 3/09	4,881	(6.4)	98.13	—
FY ended 3/08	5,217	77.2	104.86	—

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owners' equity ratio (%)	Net assets per share (¥)
March 31, 2009	137,663	67,297	48.9	1,353.12
March 31, 2008	144,857	63,555	43.9	1,277.30

(Reference) Owners' equity: March 31, 2009: ¥67,297 million (March 31, 2008: ¥63,555 million)

Note: Forecasts of results mentioned in this document are future estimates and are thus inclusive of risks and uncertain factors since they are not based on definite facts. Please be aware that a variety of factors could cause actual results to differ significantly from those projected. The major factors affecting actual results include the economic climate and social trends surrounding the business of this Company's group, consumer trends vis-a-vis systems and services provided by this Company's group, as well as pressure to lower prices and ability to cope with the market in response to intensified competition.
Factors affecting results are not limited to the ones mentioned above.
For information about assumptions used for deriving forecasts of results, please refer to "(1) Analysis of Business Results" in "1. Business Results" on page 3.

1. Business Results

(1) Analysis of Business Results

i. Business Results for the Year Ended March 31, 2009

In the year March 31, 2009, financial instability originating from subprime mortgages in the United States led to deterioration of the global economy, centered on the United States and Europe. In the second half of the period, worsening economic conditions spread worldwide as exports from emerging countries declined and consumption dropped significantly amid deepening financial concerns. In Japan, the economy took a sharp downturn in the second half due to these deteriorating economic conditions and the sharp rise in the yen, which led to declining corporate earnings, particularly among financial companies and export-related companies, and weakening employment conditions.

In the network-related business field, where the NEC Networks & System Integration Group ("the Group") operates, Next-Generation Network (NGN) related businesses and infrastructure improvements by local governments, broadcasting and cable TV companies were firm. However, market conditions were challenging due to factors including restraint and postponement of investment in corporate networks, primarily among financial companies and manufacturers, in addition to a decrease in investment by certain mobile communications carriers.

In this difficult operating environment, the Group posted the following results for the year ended March 31, 2009:

Orders received	¥245,257 million (a 3.6 percent decrease year-on-year)
Net sales	¥249,070 million (a 3.5 percent decrease year-on-year)
Operating income	¥10,968 million (a 2.1 percent increase year-on-year)
Ordinary income	¥11,211 million (a 7.6 percent increase year-on-year)
Net income	¥5,154 million (a 16.8 percent increase year-on-year)

Despite a year-on-year decrease in orders received and net sales, all income items reached record-high levels as the Group aggressively carried out management innovation activities to raise productivity and boost operating efficiency.

Orders received and net sales decreased in the Product Sales segment due to factors including postponement of investments by financial companies. However, sales in the Telecommunications Engineering and Network Integration (NI) / Support Services (SS) segments remained near the levels of the previous fiscal year, reflecting stronger market responsiveness.

In the Telecommunications Engineering segment, relay system and related construction increased with the expansion of terrestrial digital broadcasting reception areas, and orders from local governments for regional information, firefighting and disaster prevention networks were also solid. In Network Integration, the Group proactively carried out client-centered sales activities, including enhancement of solutions to strong customer needs for cost reduction and improved operating efficiency, with a focus on EmpoweredOffice* (EO). In addition, enterprise sales showed a solid increase due to factors including the effect of making Nichiwa Co., Ltd. a consolidated subsidiary in April 2008. Orders and sales in the Support Services business are also expanding steadily. Factors behind the increase included strengthening of the Group's nationwide support system for NGN, terrestrial digital broadcasting and other networks, and increased enterprise business due to stronger proposals for operation/monitoring and outsourcing services that help ease the burden of customers in ways such as reducing operating costs and enhancing security.

In terms of profit, we focused on expanding the All Cost & Management Innovation (AC-I) activities we have been implementing group-wide to general business reform through management reinforcements, including improvements to internal business processes, to raise productivity and improve profitability. Among measures to improve processes, we increased sales efficiency in ways such as using the innovations of EmpoweredOffice in our own sales offices to reduce time spent on internal work so we can spend more time with customers. We also established the Total SI Center to concentrate functions such as hardware configuration for IP telephone systems previously conducted at individual workplaces, thus achieving a substantial improvement in productivity.

As a result, the cost of sales ratio improved 0.4 percentage points over the previous fiscal year, operating income increased ¥225 million to ¥10,968 million, and the ratio of operating income to net sales improved 0.2 percentage points to 4.4 percent. Ordinary income increased ¥787 million year on year to ¥11,211 million due to factors including the increase in operating income and a reduction in foreign exchange loss. Net income increased ¥742 million year on year to ¥5,154 million. All income figures represented record highs. Return on equity rose 0.7 percentage points to 7.7 percent.

Operating results by business segment are as follows.

Orders Received (Millions of yen)

	NI/SS	Telecommunications Engineering	Product Sales	Total
Year ended March 31, 2009	164,451	66,904	13,900	245,257
Year ended March 31, 2008	164,765	68,846	20,900	254,512
Increase (decrease)	(313)	(1,941)	(7,000)	(9,254)
Percentage increase (decrease)	(0.2)	(2.8)	(33.5)	(3.6)

Network Integration / Support Services

Orders received decreased 0.2 percent compared with the previous fiscal year to ¥164,451 million. The decrease was due to the peak-out of large-scale investments to build third-generation (3G) high-speed networks for mobile communication carriers in the previous fiscal year. However, with the aforementioned initiatives to strengthen our responsiveness to the market, orders increased in primary business areas such as the NGN-related and enterprise fields in the Network Integration business, while orders for Support Services expanded steadily, centered on customers such as telecommunications carriers, broadcasters and enterprises. As a result, we maintained orders near the level of the previous fiscal year even in a challenging operating environment.

Telecommunications Engineering

Orders received decreased 2.8 percent compared with the previous fiscal year to ¥66,904 million. Despite solid demand for regional information network construction, firefighting and disaster prevention-related systems, and construction to convert to digital terrestrial TV broadcasting, orders decreased due in part to the drop in orders resulting from the postponement of investments in development of overseas oil refineries.

Product Sales

Orders received decreased 33.5 percent compared with the previous fiscal year to ¥13,900 million. This was due to a large decline in orders for dedicated terminals from financial businesses.

Net Sales (Millions of yen)

	NI/SS	Telecommunications Engineering	Product Sales	Total
Year ended March 31, 2009	164,996	68,397	15,676	249,070
Year ended March 31, 2008	163,418	70,339	24,454	258,212
Increase (decrease)	1,578	(1,942)	(8,778)	(9,142)
Percentage increase (decrease)	1.0	(2.8)	(35.9)	(3.5)

Network Integration / Support Services

Sales increased 1.0 percent compared with the previous fiscal year to ¥164,996 million. Excluding financial businesses, where investment in systems was restrained, sales of Network Integration business including enterprise solutions such as network system construction and NGN-related systems, increased. Sales of Support Services to enterprises such as telecommunications carriers and broadcasters also increased.

Telecommunications Engineering

Sales decreased 2.8 percent compared with the previous fiscal year to ¥68,397 million. While the business environment was firm in markets such as government and broadcasting, construction of base stations decreased due to waning investment by mobile communications carriers, and the effect from major projects for municipal governments completed in the previous fiscal year.

Product Sales

Sales decreased 35.9 percent compared with the previous fiscal year to ¥15,676 million. Like orders, sales decreased because of a decrease in sales of dedicated terminals to financial businesses, reflecting postponement of investments and other factors.

Main Contents of Business Segments by Type

Business	Main Contents
Network Integration / Support Services	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	Network infrastructure construction and installation of electrical and air conditioning systems
Product Sales	Sales of data communication devices, etc.

* EmpoweredOffice: An office reform solution that we provide. It fuses our strengths in information and communication technology (ICT) and facility installation to reform office work processes toward knowledge-building work styles and propose ideas for changing ways of working and the workplace environment to fulfill social responsibilities such as stronger security and environmental responsiveness.

(2) Outlook for the Next Fiscal Year

i. General Outlook

In the year ending March 31, 2010 (April 1, 2009 – March 31, 2010), an early recovery in the global economy, including the Japanese economy, is not expected, and there are concerns that severe conditions will continue. In the Group’s business areas, the challenging operating environment since the second half of the year ended March 2009 is likely to continue, and investment restraint is expected, particularly among enterprises.

Under these conditions, the Group’s consolidated performance forecast for the year ending March 31, 2010 follows below. While a decrease in sales is projected, we will aim to further improve the cost of sales ratio and strengthen our earnings structure to maintain the ratio of operating income to net sales above 4 percent, and keep net income near the level of the past fiscal year.

Orders received	¥230.0 billion (a 6.2 percent decrease year-on-year)
Net sales	¥230.0 billion (a 7.7 percent decrease year-on-year)
Operating income	¥9.2 billion (a 16.1 percent decrease year-on-year)
Ordinary income	¥9.2 billion (a 17.9 percent decrease year-on-year)
Net income	¥5.16 billion (a 0.1 percent increase year-on-year)

In orders and sales, we will continue to strengthen our market responsiveness. In the Network Integration / Support Services segment, investment in network integration among financial companies and enterprises is expected to be weak, but we will build up orders by proposing solutions to customer needs and secure sales in Support Services and Telecommunications Engineering, where stable business is expected even under the challenging operating environment. In Network Integration, we will focus on EmpoweredOffice, leveraging the results and know-how from adopting it in our own company to strengthen solutions to customer needs such as cost reductions and more efficient business operations. In Support Services, we will expand business with measures such as creating a new menu of services linked to EmpoweredOffice and utilizing our business infrastructure such as the Network Total Operation Center (nTOC) and the Data Center. In Telecommunications Engineering, solid investment is expected in areas such as expansion of terrestrial digital broadcast reception areas, elimination of the digital divide, and measures to expand the coverage of firefighting and disaster prevention systems. By strengthening our nimble business operations, including shifting sales and technical staff to these solid areas of the market, we will expand related business.

In terms of profit, we will focus on increasing personal efficiency and productivity. We will continue to enhance work process improvement initiatives such as improving sales and production processes and ways of working and promoting time management to shift to a lower-cost operating structure. Thus, we will focus on making more effective use of human resources and promotion of in-house production. The Group will continue to strengthen and accelerate management reforms centered on these AC-I activities to reinforce its earnings structure for further growth.

The exchange rates assumed in preparing the forecast for the next fiscal year are 90 yen to the U.S. dollar and 120 yen to the Euro.

ii. Outlook by Business Segment

Orders (Millions of yen)

	NI/SS	Telecommuni-cations Engineering	Product Sales	Total
Forecast for year ending March 31, 2010	150,000	68,000	12,000	230,000
Results for year ended March 31, 2009	164,451	66,904	13,900	245,257
Percentage increase (decrease)	(8.8)	1.6	(13.7)	(6.2)

Net Sales (Millions of yen)

	NI/SS	Telecommuni-cations Engineering	Product Sales	Total
Forecast for year ending March 31, 2010	150,000	68,500	11,500	230,000
Results for year ended March 31, 2009	164,996	68,397	15,676	249,070
Percentage increase (decrease)	(9.1)	0.2	(26.6)	(7.7)

*Network Total Operation Center (nTOC): One of the largest-scale total network integration operation centers in Japan, which aggregates the Company's network system support service functions (monitoring, operation, maintenance services, etc.). Opened in April 2008.

(2) Analysis of Financial Condition

1) Assets, Liabilities and Net Assets

Assets

Current assets at March 31, 2009 were ¥123,312 million, a decrease of ¥6,943 million from the end of the previous fiscal year. As for the main factors, although cash and cash equivalents increased ¥2,272 million, notes and accounts receivable decreased ¥5,230 million and inventories decreased ¥2,392 million.

Fixed assets totaled ¥24,149 million, a decrease of ¥234 million from the end of the previous fiscal year.

As a result, total assets were ¥147,462 million, a decrease of ¥679 million from the end of the previous fiscal year.

Liabilities

Current liabilities at March 31, 2009 were ¥56,511 million, a decrease of ¥9,727 million from the end of the previous fiscal year. The main factors included a decrease of ¥6,709 million in notes and accounts payable and a decrease of ¥1,283 million in accrued income taxes.

Long-term liabilities were ¥21,610 million, a decrease of ¥189 million from the end of the previous fiscal year.

As a result, total liabilities were ¥78,121 million, a decrease of ¥9,917 million from the end of the previous fiscal year.

Interest-bearing debt was ¥5,121 million, a decrease of ¥530 million from the end of the previous fiscal year.

Net Assets

Net assets at March 31, 2009 were ¥69,340 million, an increase of ¥3,208 million from the end of the previous fiscal year. The main factors included a ¥4,108 million increase in retained earnings.

2) Cash Flows

Cash and cash equivalents ("cash") at the end of the fiscal year were ¥16,614 million, an increase of ¥2,272 million from the end of the previous fiscal year.

Cash flows during the year ended March 31, 2009 and their main factors are as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities in the year ended March 31, 2009 was ¥6,971 million, due to factors including an increase from income before income taxes and a decrease due to income taxes paid. Net cash provided by operating activities decreased ¥1,837 million compared with ¥8,809 million for the previous fiscal year.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥2,193 million, due to factors including payment for purchase of property and equipment and intangible fixed assets. Net cash used in investing activities decreased ¥260 million compared with ¥2,454 million for the previous fiscal year.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥2,096 million, due to factors including dividends paid to shareholders and repayment of short-term bank loans. Net cash used in financing activities increased ¥1,368 million compared with ¥727 million for the previous fiscal year.

Cash dividends paid totaled ¥1,040 million, an increase of ¥197 million from the previous fiscal year.

Cash Flow Indicators

Year ended March 31	2006	2007	2008	2009
Owner' equity ratio (%)	40.0	41.3	42.3	46.6
Debt repayment period (years)	2.5	0.7	0.6	0.7
Interest coverage ratio	38.9	111.3	94.5	105.4

Owners' equity ratio: Owners' equity/Total assets

Debt repayment period: Interest-bearing debt/Operating cash flow

Interest coverage ratio: Cash flows from operating activities/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) Profit Distribution Policy and Dividends for 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. In addition, the Company's fundamental policy for deploying internal capital reserves is to reinforce its operating foundation and invest strategically in growth sectors, new businesses and enhanced competitiveness based on assessment of future developments in network-related markets.

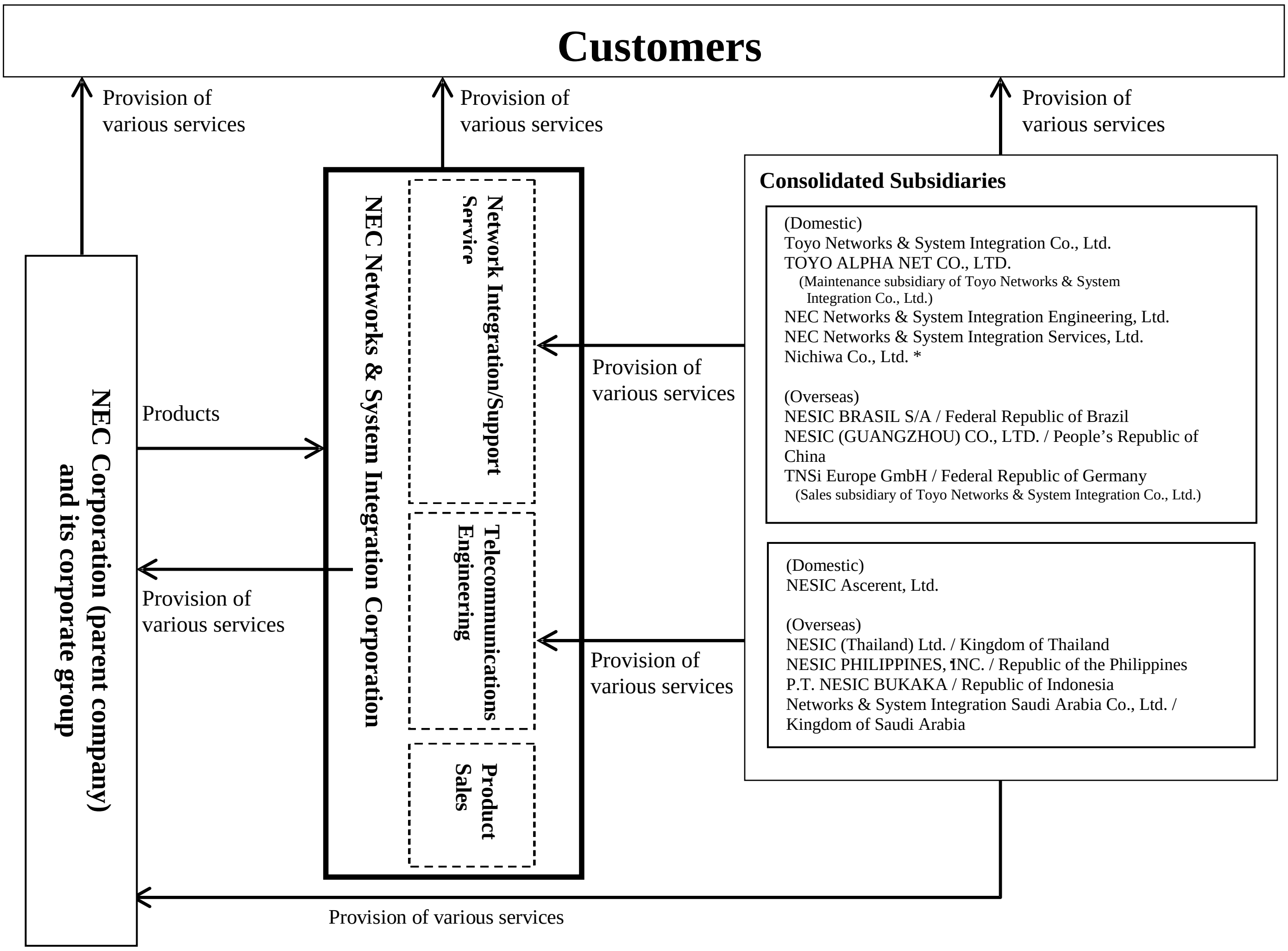
Projected dividends for the fiscal year ended March 31, 2010 are as follows. Although the Company forecasts a decrease in net sales, we will work to maintain net income at the level of the year ended March 31, 2009 by strengthening our earnings structure, and plan to keep dividends unchanged from fiscal 2009.

	Dividend Per Share (Yen)		
	Interim	Year-End	Annual
Year ended March 31, 2009	11.00	11.00	22.00
Year ending March 31, 2010 (projected)	11.00	11.00	22.00

2. Corporate Group

As of March 31, 2009, the NEC Networks & System Integration Group consists of NEC Networks & System Integration Corporation and 13 consolidated subsidiaries.

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.



* Nichiwa Co., Ltd. became a consolidated subsidiary on April 1, 2008.

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 operations in the Network Integration/Support Service and Telecommunications Engineering businesses.

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 has nationwide capabilities in sales, system integration, construction and support services, and its strong point is its ability to deliver comprehensive services to customers. The Group will reinforce these strengths to support business growth, while also promoting further corporate innovation activities and measures to enhance management quality, with AC-I activities at the core, to strengthen its business capabilities and earnings. In addition, the Group will work in unison to fulfill the NEC Group corporate philosophy and group vision, and will aim to be well-regarded and trusted by its customers, shareholders and other stakeholders.

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 return on total assets, net assets and sales while pursuing steady growth.

However, medium-term targets are not yet determined at this time, due in part to the uncertain operating environment.

(3) Medium-to-Long-Term Management Strategies

In the Group's business domain of network-related business, we do not foresee a recovery in investment in the near term because of the economic downturn. However, we believe that business growth can be expected over the medium-to-long term with the full-scale development of the NGN, next-generation mobile networks and related services. In these conditions, we will continue to promote management reforms with AC-I activities to further strengthen our earnings capabilities. We will also continue to carry out initiatives aimed at boosting our growth capacity, including expanding human resources and strengthening the value chain from proposal and construction to operation and outsourcing. Moreover, the Group will strengthen and promote initiatives in areas such as risk management, compliance, customer satisfaction and the environment, centered on the CSR Promotion Division established in July 2008, and is committed to constant improvement of management quality.

(4) Issues Facing the Company

i. Strengthening Responsiveness for Medium-to-Long-Term Growth

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

Expansion of Enterprise Solutions

We will work to develop new markets through proposal and provision of and operating services for enterprise solutions that lower costs, increase efficiency, enhance environmental measures and meet other needs. The cornerstone of these efforts will be EmpoweredOffice, our unique total office solution that effectively combines our ICT technologies, facility construction capabilities and support services.

Expansion of NGN Business

We will work to support NGN construction and implementation by telecommunications carriers and the full-fledged expansion of NGN-based services. We will use the NGN Laboratory, which enables evaluation of new systems and services in an NGN environment, to train engineers and create new services as we work to achieve higher-quality NGN services.

Strengthening of Support Services

We will work to strengthen our Support Services centered on the Network Total Operation Center (nTOC) opened in April 2008, in addition to our nationwide maintenance operations, and will utilize the Data Center to expand our outsourcing business. Besides strengthening and expanding the Support Services business itself, we will use it as an advantage in the value chain to expand orders in the Network Integration and Telecommunications Engineering businesses.

2) Strengthening Sales Capabilities

By improving work processes through AC-I activities, we will aim for efficient sales activities while also working to strengthen sales with flexible, speedy management, including the rapid shift of sales resources to growth markets.

3) Strengthening the Telecommunications Engineering Business

Telecommunications Engineering has been a core business since the Company's founding, and is a feature that sets us apart from competitors. To strengthen our capabilities in building large-scale networks for local governments, broadcasters and mobile communications carriers, which are being upgraded nationwide, we will fortify our nationwide project execution system by reinforcing systems, including those of subsidiaries and cooperating companies, and optimizing the resources of supervising engineers and other project management staff. By doing so, we will enhance our competitiveness and responsiveness to market needs for construction quality and shorter turnaround times. Moreover, we will leverage the know-how gained in Telecommunications Engineering to help differentiate our Network Integration / Support Services business with stronger enterprise solutions, including energy-saving and other environmental businesses.

ii. Strengthening Profitability

We will expand and accelerate AC-I activities throughout the Group as an approach to comprehensive cost reform. Measures to promote process improvements including SI innovations produced at the Total SI Center, established in 2008, and implementation of EmpoweredOffice in our own offices to improve efficiency in sales/marketing and systems engineering work. We will also aim to raise productivity by strengthening management in ways such as making effective use of human resources and promotion of time management. In addition, we will promote cost structure improvements by taking steps including using work efficiency improvements for effective use of human resources and shifting production in-house to lower costs. With these AC-I activities, the entire Group will expand and accelerate its management reform efforts, thus creating a strong earnings structure prepared for further growth.

iii. Strengthening Safety, Quality and Environmental Initiatives

In accordance with the ISO 9001:2000 quality management system, we are working to improve safety and quality in all work processes by making thoroughgoing day-to-day efforts to conduct pre-checks before the start of work, executing work reliably on the basis of various specifications, manuals and protocols, and conducting mandatory and post-work testing and checks for all work processes in order to maintain the quality that our customers demand, as well as providing services that bring customer satisfaction.

In environmental measures, we aim to be an "enterprise in harmony with the environment through the undertaking of environment-friendly business activities" in line with the ISO 14001:2004 environmental management system. We are taking initiatives to expand our activities on all environmental fronts and comply thoroughly with environmental rules and regulations.

While working to deliver products and services that satisfy customers, all our staff, from project management specialists to on-site workers, will continue to strengthen our efforts for maintaining and improving safety, quality and the environment.

iv. Strengthening Compliance and Internal Controls

We place top priority on compliance and consistently practice business activities based on corporate ethics and a law-abiding spirit. In particular, we work to ensure the adequacy of our financial statements with respect to the internal control provisions of the Corporation Law, Financial Instruments and Exchange Law of Japan and other laws, and conduct fair business transactions, including rigorous order accounting. We have also set up a Monitoring & Verification Office in the Corporate Finance & Controller Division to assess the appropriateness of these transactions.

We have enhanced our internal whistle-blowing system by establishing an outside contact point in addition to our existing internal consultation office to detect compliance problems at an early stage.

Furthermore, we set up a Management Quality Improvement Committee to not only strengthen compliance and internal controls but also carry out review, discussion and company-wide sharing of information on concrete measures for improving management quality in areas such as risk management. Through this approach, we will execute management focused on compliance and further strengthen internal controls.

v. Developing Human Resources

We will strive to develop engineers who can handle advanced and complex technology, staff who can demonstrate a high level of skill in smooth project operation and staff with advanced technical qualifications.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2008	As of March 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	14,341	16,614
Notes and accounts receivable	96,552	91,321
Purchased goods, materials and supplies	2,752	2,081
Work in process	9,054	7,333
Deferred tax assets	5,938	4,858
Other current assets	2,077	1,481
Allowance for doubtful receivables	(461)	(378)
Total current assets	130,256	123,312
Fixed assets		
Property and equipment:		
Buildings and structures	3,559	3,574
Machinery and vehicles	33	27
Furniture and fixtures	2,012	1,676
Land	2,423	2,508
Construction in progress	207	70
Other	—	268
Total property and equipment	8,236	8,126
Intangible fixed assets	3,862	4,307
Investments and other assets:		
Investment securities	445	444
Deferred tax assets	7,602	7,331
Other	3,931	4,114
Allowance for doubtful receivables	(162)	(174)
Total investments and other assets	11,816	11,715
Total fixed assets	23,915	24,149
Total assets	154,171	147,462

		. (Millions of yen)
	As of March 31, 2008	As of March 31, 2009
LIABILITIES		
Current liabilities		
Notes and accounts payable	46,625	39,915
Short-term bank loans	652	121
Accrued income taxes	4,461	3,177
Accrued consumption taxes	2,069	2,207
Advances received	2,913	1,870
Accrued bonuses to directors and corporate auditors	59	70
Accrued losses on sales contracts	467	40
Other current liabilities	8,991	9,107
Total current liabilities	66,239	56,511
Long-term liabilities		
Long-term debt	5,000	5,000
Accrued employees’ retirement benefits	16,660	15,817
Accrued retirement benefits for directors and corporate auditors	60	—
Other liabilities	79	793
Total long-term liabilities	21,800	21,610
Total liabilities	88,039	78,121
NET ASSETS		
Shareholders’ equity		
Common stock	13,122	13,122
Capital surplus	16,650	16,650
Retained earnings	35,497	39,606
Treasury stock	(19)	(45)
Total shareholders’ equity	65,251	69,334
Valuation and translation adjustments		
Net unrealized gain (loss) on other securities	11	(0)
Deferred gains (losses) on hedges	51	(2)
Foreign currency translation adjustments	(46)	(601)
Total valuation and translation adjustments	16	(604)
Minority interests	865	610
Total net assets	66,132	69,340
Total liabilities and net assets	154,171	147,462

(2) Consolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2008	Year ended March 31, 2009
Net sales	258,212	249,070
Cost of sales	222,644	213,600
Gross profit	35,567	35,470
Selling, general and administrative expenses	24,824	24,501
Operating income	10,743	10,968
Non-operating income		
Interest income	25	69
Insurance dividend income	111	123
Other	401	410
Total non-operating income	539	602
Non-operating expenses		
Interest expenses	88	66
Loss on disposal of property and equipment	116	83
Other	654	210
Total non-operating expenses	858	360
Ordinary income	10,423	11,211
Extraordinary income		
Gain on sale of investment securities	—	176
Total extraordinary income	—	176
Extraordinary loss		
Loss on partial termination of an employees' retirement benefit plan	1,041	—
Restructuring charges of a subsidiary	554	—
Total extraordinary loss	1,596	—
Income before income taxes and minority interests	8,827	11,387
Income taxes-current	5,985	4,756
Income tax -differed	(1,575)	1,403
Total income taxes	4,409	6,160
Minority interests	5	72
Net income	4,412	5,154

(3) Consolidated Statements of Cash Flows

	Year ended March 31, 2008	Year ended March 31, 2009
	(Millions of yen)	
Cash flows from operating activities		
Income before income taxes and minority interests	8,827	11,387
Depreciation and amortization	2,130	2,270
Amortization of goodwill	67	66
Amortization of negative goodwill	(13)	(25)
Increase (decrease) in allowance for doubtful receivables	296	(71)
(Increase) decrease in prepaid employees’ retirement benefits	261	—
Increase (decrease) in accrued employees’ retirement benefits	361	(968)
Decrease in accrued retirement benefits for directors and corporate auditors	(35)	—
Increase (decrease) in accrued bonuses to directors and corporate auditors	(19)	11
Increase in accrued losses on sales contracts	283	(426)
Interest and dividend income	(37)	(85)
Interest expenses	88	66
Impairment loss on investment securities	91	11
Gain on sale of investment securities	(12)	(176)
Gain on sale of property and equipment	(12)	(2)
Loss on sale of property and equipment	116	83
Restructuring charges of a subsidiary	554	—
Decrease (increase) in notes and accounts receivable	(971)	4,818
Decrease in inventories	3,198	2,571
Decrease in notes and accounts payable	(1,762)	(7,081)
Decrease in accrued consumption taxes and other	534	65
Other, net	(1,099)	423
Subtotal	12,845	12,940
Interest and dividends received	37	85
Interest paid	(93)	(66)
Income taxes paid	(3,980)	(5,988)
Net cash provided by operating activities	8,809	6,971
Cash flows from investing activities		
Purchase of property and equipment	(1,518)	(1,088)
Sale of property and equipment	19	5
Purchase of intangibles	(1,085)	(1,437)
Purchase of investment securities	(10)	(7)
Sale of investment securities	24	180
Investment limited partnership dividends	145	—
Loans receivable made	(46)	(23)
Collection of loans receivable	55	23
Payment for purchase of investments in subsidiaries	—	(25)
Purchase of investments in newly consolidated subsidiaries	—	175
Other, net	(39)	4
Net cash used in investing activities	(2,454)	(2,193)
Cash flows from financing activities		
Net increase (decrease) in short-term bank loans	125	(950)
Payments on long-term debt	—	(29)
Proceeds from sale and purchase of treasury stock, net	(7)	(26)
Dividends paid to shareholders	(842)	(1,040)
Dividends paid to minority interests in consolidated subsidiaries	(3)	(2)
Other, net	—	(47)
Net cash used in financing activities	(727)	(2,096)
Effect of exchange rate changes on cash and cash equivalents	112	(408)
Net increase in cash and cash equivalents	5,739	2,272
Cash and cash equivalents at beginning of year	8,602	14,341
Cash and cash equivalents at end of year	14,341	16,614

(4) Segment Information
Business Segment Information

Fiscal Year Ended March 31, 2009 (April 1, 2008 – March 31, 2009) (Millions of yen)

	Network Integration/ Support Services	Telecommunications Engineering	Product Sales	Total	Eliminations and corporate	Consolidated
Orders received	164,451	66,904	13,900	245,257	---	245,257
Sales (1) Sales to third parties	164,996	68,397	15,676	249,070	---	249,070
(2) Intersegment sales	---	---	---	---	---	---
Total	164,996	68,397	15,676	249,070	---	249,070
Operating income and loss	12,960	3,206	586	16,754	(5,785)	10,968

Fiscal Year Ended March 31, 2008 (April 1, 2007 – March 31, 2008) (Millions of yen)

	Network Integration/ Support Services	Telecommunications Engineering	Product Sales	Total	Eliminations and corporate	Consolidated
Orders received	164,765	68,846	20,900	254,512	---	254,512
Sales (1) Sales to third parties	163,418	70,339	24,454	258,212	---	258,212
(2) Intersegment sales	---	---	---	---	---	---
Total	163,418	70,339	24,454	258,212	---	258,212
Operating income and loss	11,002	4,197	892	16,091	(5,348)	10,743