Empowered by Innovation

Annual Report 2014

Year Ended March 31, 2014

NEC Networks & System Integration Corporation

Profile

Growing with evolving communications, NEC Networks & System Integration Corporation has celebrated its 60th anniversary.

Since its establishment in 1953, NEC Networks and System Integration Corporation (NESIC) has expanded its businesses from the installation of telecommunications infrastructure to the SI and maintenance of office networks and the service businesses, including the operation of network systems and outsourcing. NESIC offers unique services, including EmpoweredOffice, an office innovation solution, taking advantage of its ability to provide a broad range of ICT related services, from system integration to installation and other services for diverse customers in an integrated manner.

Leveraging the strengths it has developed over 60 years, NESIC aims to grow by revitalizing its customers' communications and adding new value. It has been more than 30 years since the Company listed its shares. We aim to enhance our enterprise value to become the top brand in the industry and increase the satisfaction of all stakeholders as an entity that contributes to society in various ways.

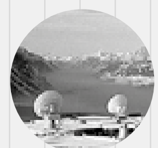

Founded in 1953

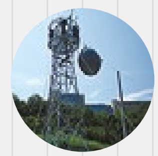

First construction of TV broadcasting systems


Crossbar switching equipment


Construction of broadcast automation systems for NHK


The Kashima Branch of the Radio Research Laboratory of the former Ministry of Posts and Communications


Construction of satellite communication systems in Switzerland


Construction of mobile base stations

1953 Nippon Electric Installation Company founded

1973 Sales ¥10 bn

1980 The company name changed to NEC System Integration & Construction, Ltd.

1983 Listed on the Tokyo Stock Exchange Second Section

1988 Sales ¥100 bn

1950

Age of **supporting the base of telecommunications**

Nippon Electric Installation Company founded (1953)

- Starting with the installation of switching, broadcasting, and radio systems
- Contributing to the creation of communications infrastructure in the postwar years of recovery

1960 / 1970

Age of **supporting global communications**

Full-scale development of international communications and satellite communications

- Building communications infrastructure worldwide
- Expanding the installation of broadcasting systems, submarine cables, and radio communication systems (satellite communications, microwave communications)

1980

Age of **responding to the diversification of communications**

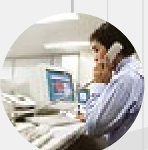
Liberalization of telecommunications, the rise of New Common Carriers

- Expanding business for NCCs and the building of mobile communications networks
- Expanding system integration business for companies

Contents

Cautionary Statement with Respect to Forward-Looking Statements

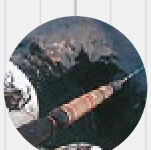
This annual report contains forward-looking statements concerning NEC Networks & System Integration Corporation and its consolidated subsidiaries' current plans, projections, strategies and performance. These forward-looking statements are not historical facts. Rather, they represent the assumptions and beliefs of the company management based on information currently available. The company therefore wishes to caution readers that actual results may differ materially from expectations, and that forward-looking statements are subject to a number of risks or uncertainties.



Integrating intra-office voice network systems

1992
Listed on the Tokyo Stock Exchange First Section

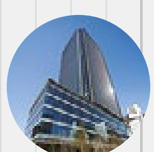
1996
Sales ¥200bn

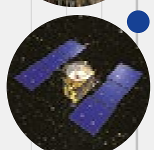


Submarine cables / Submarine seismometer systems

2005
The company name changed to NEC Networks & System Integration Corporation

2006
Acquired NEC Telenetworks Co., Ltd.





2010
The head office relocated to Iidabashi
Operation and control of asteroid probe Hayabusa and satellites

2011
Industry classification on the Tokyo Stock Exchange changed from Construction to Information & Communication

2013
A corporate message announced as the Company celebrated its 60th anniversary: "Re-designing your Communication"
Acquired Q&A Corporation
Acquired NEC Magnus Communications., Ltd.

2014
Sales ¥270.3bn

1990

2000

Age of
creating value in communications

Developing IP and broadband networks
- The solution business expanding
- Responding to the digitization of terrestrial broadcasting and community informatization

Starting "EmpoweredOffice" (2007)
- Concept for changing ways of working and communication, using ICT and office facility

Now

Age of
designing new communications creating new value

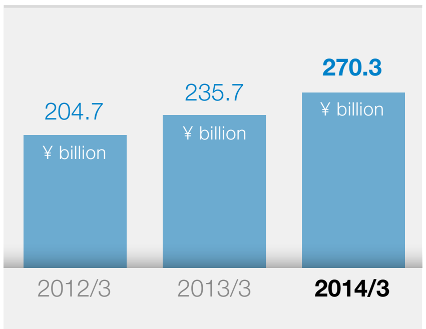
- Accelerating the expansion of "EmpoweredOffice"
- Promoting measures to enhancing service businesses
- Promoting the digitization of fire-fighting and disaster prevention networks, speeding up mobile networks

Financial Highlights

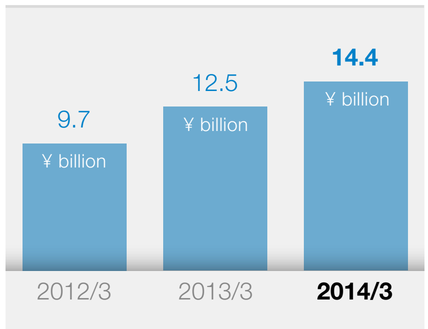
Key points of the results of the fiscal year under review

1. Orders and net sales were both at record highs.
2. All profit items were at all-time highs.
3. Shareholder return expanded, as NESIC strengthened its earnings power.

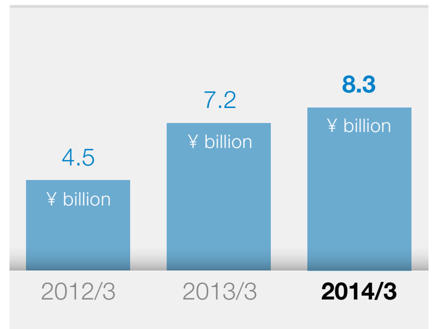
Net sales
¥270.3 billion
14.7% increase year on year



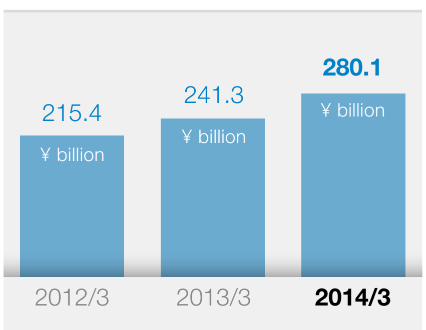
Operating income
¥14.4 billion
15.5% increase year on year



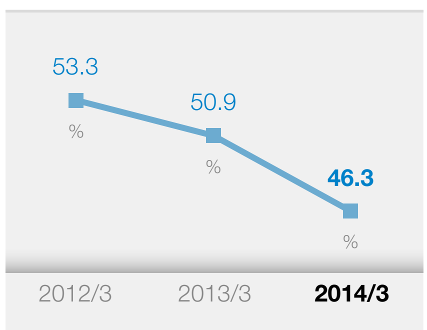
Net income
¥8.3 billion
13.9% increase year on year



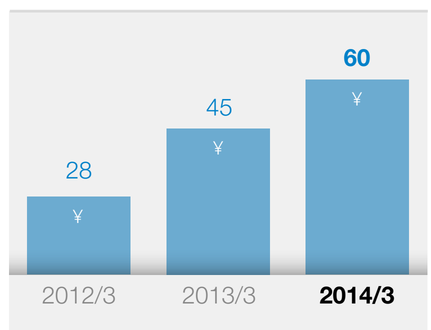
Orders
¥280.1 billion
24.1% increase year on year



Owner's equity ratio
46.3%
4.6 points decrease from the end of the previous fiscal year



Annual dividends
¥60 per share
¥15 increase year on year



For the latest company news and IR information, please visit our website: http://www.nesic.co.jp/english/ir/index.html

Interview with the President

Thank you as always for your continued support.

As part of this Annual Report for the fiscal year ended March 31, 2014, I would like to take this opportunity to provide an overview of our operations and our results.

I hope we can continue to rely on the support and understanding of all of our shareholders in the future.

Masao Wada
President

Q How were the company's results for the fiscal year ended March 31, 2014?

A We achieved record results in terms of orders, net sales and income.

We achieved record results in the fiscal year ended March 31, 2014, in terms of orders, net sales and across all income categories. We performed strongly throughout, including double-digit growth (year-on-year) for orders and net sales in all three of our main segments (see p4).

This was due to a number of factors. First, we expanded our social infrastructure business thanks to an increase in public investment, including the installation of digital fire-fighting and disaster prevention network systems operated by the likes of fire-fighting command centers and local authorities. We also expanded operations based on our office innovation solution EmpoweredOffice (EO), providing total support for our customers' office ICT (information and communications technology) needs. Another key factor was the acquisition of Q&A Corporation, which is strong in the technical support area centering on contact centers, and NEC Magnus Communications Ltd., which has an established customer base that includes communications carriers and CATV (cable TV) providers and making them consolidated subsidiaries.

Q What are you forecasts like for the fiscal year ending March 31, 2015?

A We will continue to steadily increase sales and profits, to achieve further growth.

Despite concerns regarding the impact of rising consumption tax rates, amongst other things, I believe that the business environment is holding steady on the whole, thanks in part to economic measures taken by the government.

Active public investment is set to continue in the social infrastructure segment, with high hopes for the continued development of fire-fighting and disaster prevention network systems, and other infrastructure to ensure public safety and security. In the enterprises networks segment too, we expect to see growing demand on the back of new working practices in offices, ICT-based efficiency drives and management reforms.

In spite of a general air of uncertainty regarding investment in the carrier networks segment, communications carriers are expected to maintain a relatively high level of capital investment in order to cope with the increasing volume of traffic as smartphones become ever more popular. Demand for comprehensive technical services meanwhile, including inspection, operations and maintenance of ICT equipment of overseas vendors, is likely to keep on growing in the future. In the midst of this environment, we are aiming to produce concrete results from measures carried out this year, including corporate acquisitions, so that we can break new records once again for both net sales and income.

Q Following on from the fiscal year ended March 31, 2014, are you planning to increase dividends again in the fiscal year ending March 31, 2015?

A We are planning to increase dividends for the eighth consecutive year.

We operate on the basis of stable dividends. As well as actively investing in growth, we aim to give back more and more to our shareholders as our income increases. As a result of this underlying policy, in the fiscal year ended March 31, 2014 we distributed a year-end dividend of ¥30 per share, as planned. Combined with an interim dividend of ¥30 per share, that makes an annual dividend of ¥60, an increase of ¥15 year on year.

In the fiscal year ending March 31, 2015, we plan to pay an interim dividend of ¥32 per share and an annual dividend of ¥64 per share. That would mean an increase in dividends for the eighth consecutive year since the fiscal year ended March 31, 2008. We are committed to achieving our medium-term business plan and further strengthening our earning capability, so that we can give something back to our shareholders and live up to their expectations in the future.

Q Can you tell us about new targets under the company's medium-term business plan (targets for the fiscal year ending March 31, 2016) and progress in key businesses?

A We are aiming to increase sales and profits for the third consecutive year and achieve record results.

We have revised our medium-term business plan because we achieved our sales target this year. Our new medium-term targets are ¥290 billion in net sales and ¥16 billion in operating income, with an operating margin of 5.5% and ROE (return on equity) of 10%. We have slightly lowered our operating margin target on the basis that margins at companies we have acquired are still relatively low. We nonetheless intend to continue increasing profits and making further improvements, and remain determined to achieve a margin of 6% or higher.

I will briefly outline progress with initiatives in key businesses as follows.

As part of our EmpoweredOffice (EO) business, we have introduced EO operations at all of our regional divisions and offices nationwide and are starting see results, in terms of securing orders for instance. Having introduced EO operations at our Kansai Regional Division in April this year, we have captured customers' interest through initiatives such as establishing efficient working practices using the latest ICT. We intend to keep on expanding our market nationwide in the future.

In the technical outsourcing business meanwhile, we opened our Service Delivery Operation Center in June this year, in order to bring together services from nine separate locations around Tokyo and integrate supply chain management capabilities. Using this center we will expand services for medium-sized and overseas companies, as well as enhancing cost competitiveness. (See Topics (1))

As part of our infrastructure business, we have reinforced our nationwide project response capabilities in relation to mobile communications base stations, by focusing on synergy with operations transferred from NEC Mobiling Ltd. (now MX Mobiling Ltd.). We are also increasing our share of the market for fire-fighting and disaster prevention network systems through collaboration within the NEC Group, and have achieved results such as equipping fire departments with multilingual contact center services for emergency 119 calls. We are continuing to focus on harnessing synergy through integrated operations and on expanding our share of the market. In terms of renewable smart energy meanwhile, including promising growth markets such as solar power, we are working to provide services that make the most of our superior total capabilities, from system design and installation through to maintenance. (See Topics (2))

With regard to overseas business, we have secured a large order from AIS (Advanced Info Service Plc), a major communications carrier in Thailand, and are expanding our communications infrastructure operations in areas such as rail communications. We will continue to expand our business in the future, particularly in Asia, and also intend to step up support services for Japanese companies moving into overseas markets.

We are committed to working together as a group in the future, as we make every effort to achieve our new medium-term targets.

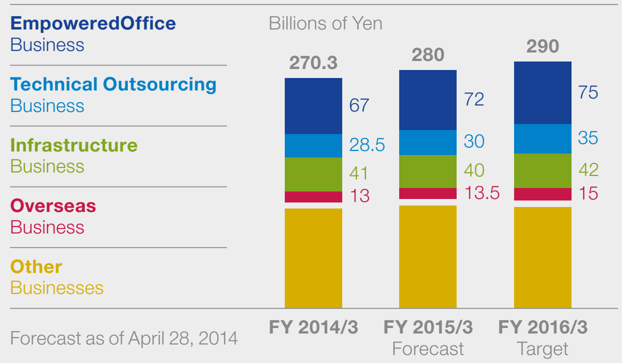
I hope we can continue to rely on the support of all of our shareholders, now and in the future.

Revised Medium-Term Target FY 2016/3

	Previous Medium-Term Target	Revised Medium-Term Target
Net Sales	¥260 billion	**¥290 billion**
Operating Income	¥15.6 billion	**¥16 billion**
Operating Margin	6.0%	**5.5%**
ROE	10%	**10%**

Targets as of May 8, 2014

Accelerating the growth in Strategic Business Areas



Forecast as of April 28, 2014

Topics

New initiatives to provide customers with the highest level of service

We have established Service Delivery Operation Center (sDOC), as the cornerstone of our technical outsourcing business.

Our Service Delivery Operation Center, or sDOC for short, has enabled us to integrate supply chain management capabilities that were previously based in separate locations around Tokyo. That covers everything from technical assessment of ICT products through to system configuration, repairs, storage of replacement parts, maintenance and delivery. Operations are now based in Tatsumi, centrally located in the Tokyo Bay Area for superior transport access. This has enabled us to improve efficiency and has also helped to reduce running costs. By providing multiple service capabilities from a single location, we are also planning to work on standardizing processes so that we can provide the highest quality services quickly and at a reasonable price.

This facility actually visualizes our wide-ranging service capabilities in the eyes of our customers, giving them a real appreciation of the extent of our services, and the peace of mind and reliability to outsource to us. We have also taken into account business continuity, including choosing a location that will enable us to continue delivery within the capital even in the event of a disaster.

A large-scale service facility to enable us to expand operations

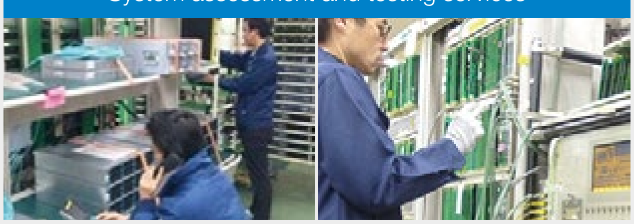
sDOC will enable us to provide customers with greater support in every respect, including delivery services supplying replacement parts to all major cities nationwide within the hour, repair services, preliminary design and modification services in line with customers' needs, and system configuration, assessment and testing services for a range of ICT systems from all over the world. By expanding our BPO (Business process outsourcing) business around this new facility, focusing particularly on medium-sized and overseas companies that don't have access to such large-scale services and facilities in-house, we are aiming to increase net sales from our technical outsourcing operations to ¥35 billion in the fiscal year ending March 31, 2016.

Integrating multiple services to provide the highest quality services quickly and at a reasonable price

Repair services for IT/network equipment

Nationwide delivery services for equipment and replacement parts

System assessment and testing services



System configuration services

Initiatives in new areas

"Smart energy" is all about harnessing renewable energy and is one of the key growth areas we are focusing on as part of our infrastructure business, in support of people's everyday lives. With the government increasingly keen to invest in energy-related projects, we are actively working on initiatives in this area.

Smart energy initiatives

More and more companies are looking into and installing solar power facilities and other forms of renewable energy, as they continue to be thrust into the spotlight. We also regard this as a promising growth area for the future and are actively working on a range of measures. In terms of specifics, we are rolling out energy solutions in areas such as solar power, storage batteries, EV* charging equipment and energy management systems. One of our strengths is our ability to provide total services, covering monitoring and maintenance as well as system design and installation services based on our unique technologies and expertise. We offer our customers optimized solutions that combine three key elements, namely energy creation, energy storage and energy conservation.

** EV: Electric vehicles*

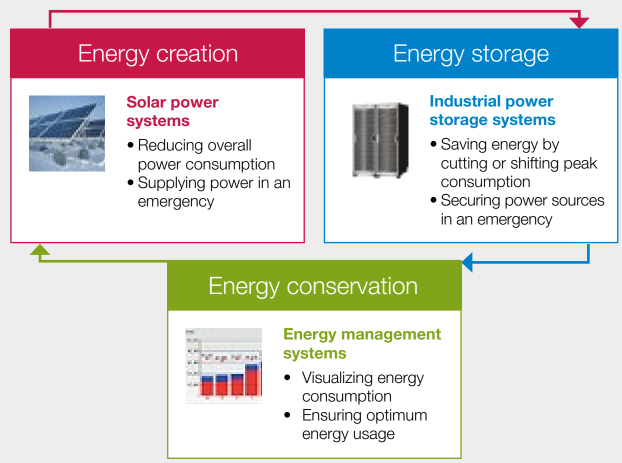
Using large projects as a foothold to expand operations

Within the field of smart energy, one of the areas we are currently focusing on is mega-solar, large-scale solar technology capable of producing over one megawatt (1,000 kilowatts) of power. We have taken orders for the installation and operation of large-scale solar power systems at large sites that were formerly factories, quarries and other facilities. In fact, some of those systems are already up and running. Making the most of our superior nationwide 24-7 maintenance infrastructure, we also offer remote monitoring and maintenance services capable of quickly detecting faults with solar panels in order to maintain generation efficiency. We are starting to provide real-time monitoring systems too, designed to visualize power consumption on a daily basis so that users can monitor consumption and take steps to save power.

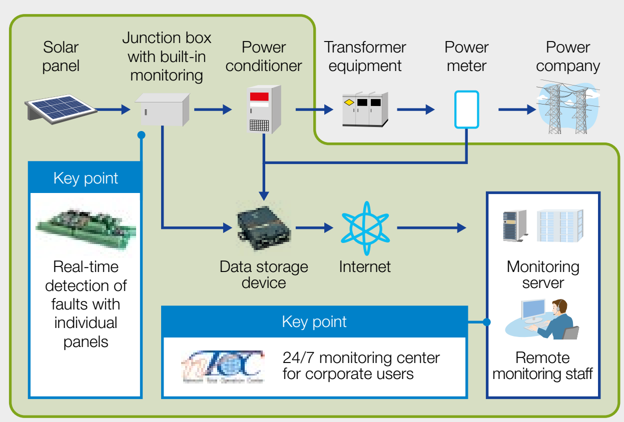
As well as continuing with large-scale mega-solar projects, we intend to expand into other types of smart energy in the future, and develop new markets in areas such as smart cities*, as we continue to expand our businesses.

** Smart cities: Towns, cities or regions using ICT, environmental and other cutting-edge technologies to create more efficient, more advanced social infrastructure*

Providing customers with optimized smart energy solutions



Outline of remote monitoring and maintenance solutions for solar panels



Solar power system installed onsite at a factory in Tochigi prefecture

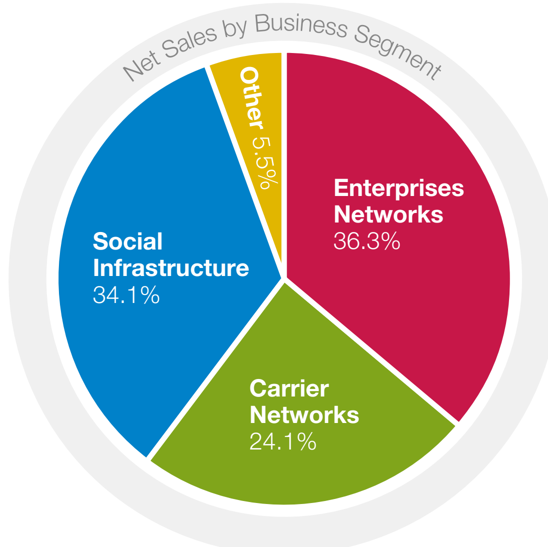
Junction box with built-in remote monitoring device (example)

Business Performance by Segment

Our three core businesses

NESIC provides a range of services from planning to system design, maintenance, and operation in an integrated manner in a variety of fields ranging from ICT within companies to public and social infrastructure. NESIC has three core businesses: the Enterprises Networks business, Carrier Networks business, and Social Infrastructure business.

We will help a range of customers enhance their value, harnessing our ability to make proposals from customers' perspectives and our expertise and technological capabilities for all sorts of networks.



Enterprises Networks business

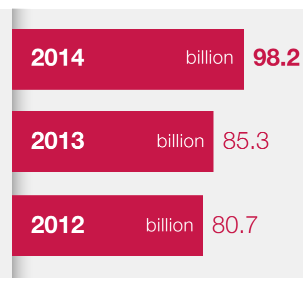
Service integration of ICT solutions, mainly for the enterprises market. Total office solutions based on ICT with securities or environmental solutions and related operations, monitoring, and outsourcing services, as well as cloud-type solutions using our own data centers.

NESIC's sales focusing on its office innovation solution EmpoweredOffice* increased further in response to customer needs for management innovation. NESIC also promoted the introduction of EmpoweredOffice to its regional offices and branches and expanded the target institutions to local companies, public offices, public facilities and other institutions, without limiting the targets to general corporate customers in the Tokyo metropolitan area. In addition, NESIC continued to expand and strengthen its system for providing comprehensive services such as cloud computing and BPO, including using outside resources through partnerships to help customers improve their operations and management. As part of this effort, in June 2013 NESIC made Q&A Corporation, which is strong in the technical support and consulting service field, a consolidated company to produce moresynergistic effects, and to enforce contact center business.

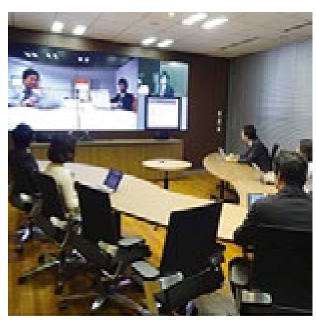
Sales Trends

Net Sales
¥98.2 billion

15.1% increase year on year



Years ended March 31



***EmpoweredOffice:**

EmpoweredOffice is our office innovation solution. It combines our strengths in ICT and facility installation to enable more intellectual and creative styles of work through process reforms. It also proposes new methods and places of work that enable customers to fulfill their social responsibilities, such as the strengthening of security and environmental responsiveness.

Carrier Networks business

Service integration of ICT platforms mainly for telecom carriers. Systems integration of large-scale, wide-area, carrier-grade ICT platforms and data centers and related operations, monitoring services.

To capture businesses related to investments in network development by telecommunications carriers in response to the increase in communications volume in step with the increasing number of smartphone users, NESIC took aggressive initiatives, mainly by taking over the SI and service business related to the base stations from NEC Mobiling, Ltd. (now MX Mobiling Co., Ltd.). With the impact of these initiatives, as well as the impact of the inclusion of NEC Magnus Communications, Ltd., which had its unique network technologies and security technologies in its consolidated subsidiaries in October 2013, net sales rose 19.0% year on year, to ¥65,142 million, offsetting the impact of the decrease of sales of temporary large-scale projects with a high equipment ratio and sales of submarine seismometer systems that were recorded in the previous fiscal year.

Sales Trends

Net Sales
¥65.1 billion

19.0% increase year on year

2014	billion	65.1
2013	billion	54.7
2012	billion	46.7

Years ended March 31

Social Infrastructure business

Service integration of ICT infrastructure for governments and public utilities (broadcasters, electric power companies, etc.), such as systems integration, operation, and monitoring, and the construction of telecom infrastructure.

NESIC improved its ability to implement projects as well as its price competitiveness. NESIC also increased its investment in the digitization of fire-fighting and disaster-prevention systems, which gained momentum, and investments in the installation of mobile base stations in response to new frequency ranges. As a result, net sales increased rose 13.9% year on year, to ¥92,203 million.

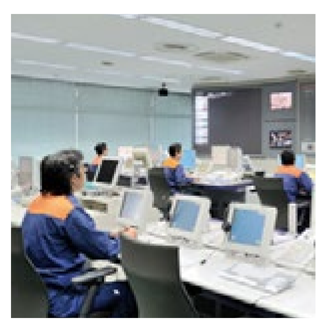
Sales Trends

Net Sales
¥92.2 billion

13.9% increase year on year

2014	billion	92.2
2013	billion	80.9
2012	billion	64.5

Years ended March 31



Corporate Social Responsibility (CSR)

CSR Policy

NEC Networks & System Integration Corporation is a network system integrator that creates new communication. Harnessing its strengths—technologies and experience associated with networks—and its expertise in IT, NESIC engages in a range of services, from planning and design to system integration, installation and outsourcing, for systems that enable diverse forms of communication.

The Company's corporate message, "Re-designing your communication," expresses its aspirations to enhance communication through those services and to create and develop connections, ties, and links between people, between people and society, and between people and the earth. In addition to contributions through our services, we will engage in a range of activities that help to protect the global environment and strengthen our connection with the earth. We will also take steps to enhance customer satisfaction so that we build trust and strengthen our connection with our customers. Meanwhile, we will participate in local contribution activities to maintain and enhance our connection with communities.

The basis of those connections are our human resources, organization, and activities to ensure compliance, safety and security. We are hiring diverse human resources and offering systematic career development. In addition, we are creating better working environments. We ensure compliance and security while developing and providing secure systems and services with reliable quality.

Through a range of challenges in society through all our corporate activities, we are contributing to sustainable development in society and the world.

Major Themes in CSR

1 People's communication

As a network system integrator, we will fuse our strengths—technologies and experience associated with networks—and our IT expertise to provide systems that enable diverse forms of communication. Through these systems, we will enhance human communication and help to create and develop connections between people, between people and society, and between people and the earth.

2 Connection with the earth

We will offer systems and services that help reduce CO_2 emissions and energy consumption. Meanwhile, we will contribute to reducing society's environmental footprint (load) and protecting the global environment through activities in our business that minimize the environmental burden, use resources effectively, and maintain biological diversity.

3 Connection with customers

As a partner of our customers, we will strive to build trust by providing systems and services that contribute to our customers' businesses.

4 Connection with communities

As a good corporate citizen, we will engage in assistance to disaster areas and international cooperation, among other activities, in response to demands from society. We will contribute to communities through communication with them.

5 Enhancing compliance and achieving safety and security

We will consistently enhance compliance and pursue and ensure information security and safe work. We will deliver systems and services that have reliable quality.

6 Cultivating diversity and creating better working environments

We will respect fundamental human rights in all corporate activities and will hire and cultivate human resources with diverse individuality. We will take steps to create better working environments where people can fulfill their potential.

Assistance in disaster areas

Volunteer reconstruction assistance in areas affected by the Great East Japan Earthquake

Contribution to education for the young

Antarctic Club natural science classes are held in elementary schools. In the classes, NESIC employees that we have dispatched to the Antarctic each year to join winter groups there come together for talks.

Corporate Governance (As of June 26, 2014)

The Company believes that the cornerstone of corporate governance is ensuring management soundness and transparency by establishing a management system that enables quick decision-making to respond promptly to changes in the operating environment, and by practicing timely, appropriate disclosure. To that end, the Company has adopted a Board of Corporate Auditors system and has established a corporate governance system in which the Board of Directors and Board of Corporate Auditors play key roles.

The Company has also adopted an executive officer system to clearly demarcate the supervisory function and the business execution function. To enhance management transparency, the Company has outside directors and outside corporate auditors and seeks to achieve sound management by encouraging cooperation among corporate auditors, the Internal Auditing Division, and independent accounting auditors.

I. Description of Corporate Organs

1 Board of Directors

The Board of Directors is composed of ten directors, including four outside directors. In addition to maintaining the number of directors at an optimum level for quick decision making, the Company has reduced the terms of directors to one year in order to clarify the management responsibility of directors and strengthen its management structure.

2 Executive Officers, Executive Committee, and Business Execution Committee

Based on an executive officer system, the Company also formed the Executive Committee, to discuss policies pertaining to key management and operating issues, and the Business Execution Committee, to monitor the progress of and report on significant matters concerning business execution, consisting of mainly executive officers at senior vice president level and higher and corporate auditors.

3 Board of Corporate Auditors

The Board of Corporate Auditors consists of five corporate auditors, including three outside auditors. It decides audit policies and related matters, and reports on the status of audits performed by each auditor. Corporate auditors also attend Board of Directors meetings and other important meetings, examine significant documents related to final decisions, and listen to directors and employees on performance of their duties, thus contributing to a system for sufficiently scrutinizing directors' performance of their duties.

4 Internal Auditing Division

The Internal Auditing Division has been established as an internal audit unit independent from the business execution divisions. It examines through internal audits whether business execution is being conducted legally and properly according to relevant laws, regulations and Company rules.

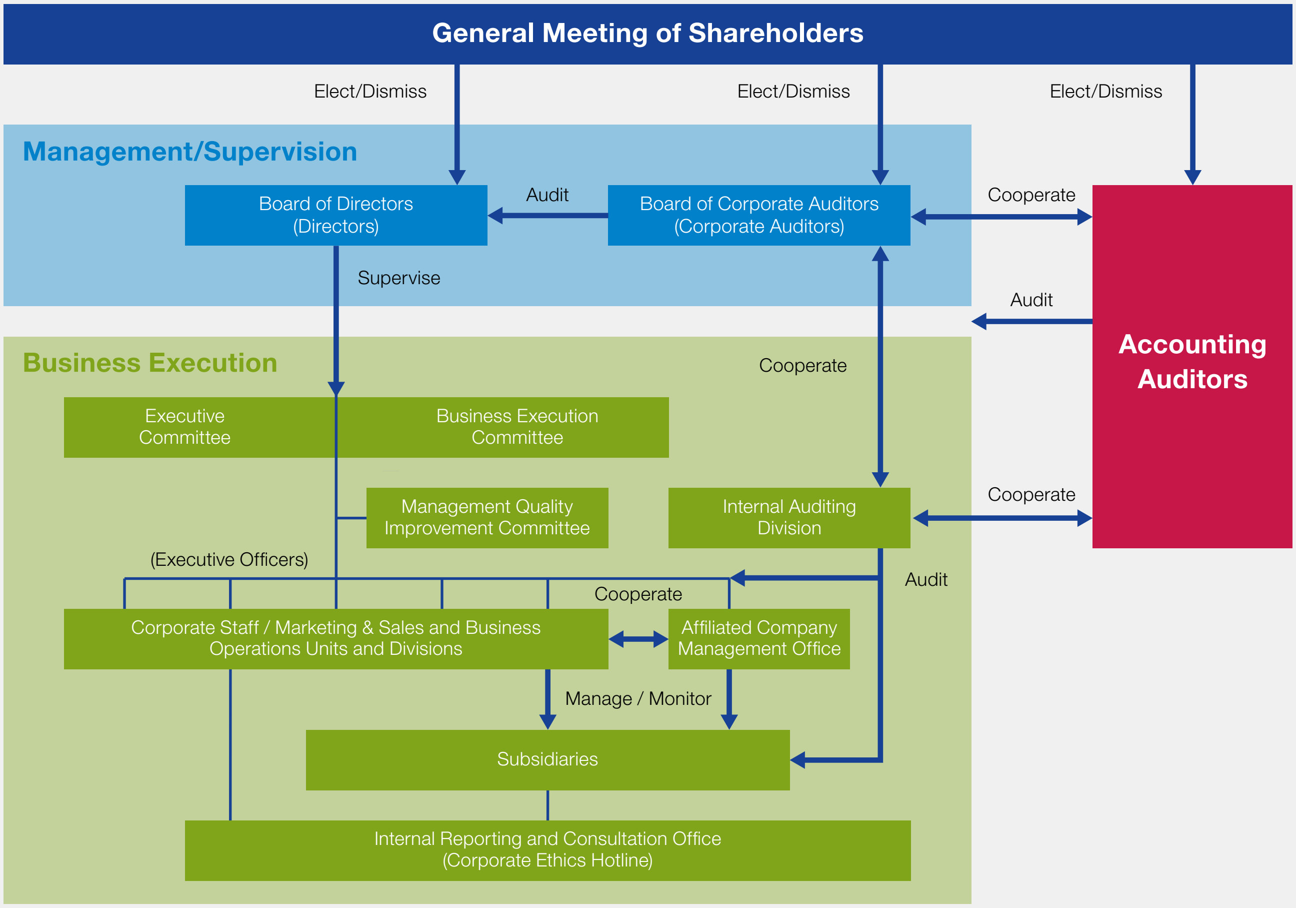
5 Accounting Auditors

The Company has an audit contract with KPMG AZSA LLC as its accounting auditors. KPMG AZSA LLC expresses its views on the financial statements as an auditor from an independent viewpoint.

II. Development of Internal Control Systems

The Company has established a basic policy for the development of internal control systems, as shown below, under Article 362, Paragraph 4, Item 6 of the Company Law and Article 100, Paragraphs 1 and 3 of the Enforcement Regulations of the Company Law. The Company maintains the appropriate execution of operations under the basic policy, laws and regulations, and internal regulations.

The Company's mechanisms of business execution, management oversight, and internal control



III. Situation of Outside Directors and Outside Corporate Auditors

Of the Company's ten directors, four are outside directors. The Company believes this number is appropriate for giving advice and participating in decision making from fair and objective standpoints, strengthening the Company's corporate governance.

Outside Director Takayuki Matsui is a professor at the Graduate School of Professional Accountancy of Aoyama Gakuin University. The Company has Mr. Matsui use his expert knowledge in business administration, including internal control, to ensure transparency in the management of the Company and to strengthen corporate governance. Mr. Matsui attended all 14 meetings of the Board of Directors held in the fiscal year ended March 31, 2014. He has been designated as an independent director defined in Rule 436-2, Paragraph 1 of the Securities Listing Regulations of the Tokyo Stock Exchange.

Outside Director Tetsujiro Arano is engaged in the network solution business of NEC Corporation and uses his extensive experience and knowledge for the management of the Company. Mr. Arano attended 12 of 14 meetings of the Board of Directors held in the fiscal year ended March 31, 2014.

Outside Director Yumiko Ichige is a lawyer at Nozomi Sogo Attorneys at Law. Using her professional knowledge and viewpoint about the corporate legal affairs, Ms. Ichige oversees the business execution of the Company from a fair and objective standpoint of an outsider.Ms. Ichige attended all 14 meetings of the Board of Directors held in the fiscal year ended March 31, 2014. She has been designated as an independent director defined in Rule 436-2, Paragraph 1 of the Securities Listing Regulations of the Tokyo Stock Exchange.

Outside Director Masamitsu Kisaki is engaged in corporate planning of NEC Corporation and is expected to use his extensive experience and knowledge for the management of the Company. Mr. Kisaki became an outside director at the ordinary general meeting of shareholders held on June 24, 2014.

Of the Company's five corporate auditors, three are outside corporate auditors. We believe this number is appropriate for auditing the directors' execution of their duties from fair and objective standpoints, to strengthen the Company's corporate governance.

Outside Corporate Auditor Junichi Okuyama has been engaged in monitoring of sales activities and accounting for many years. Taking advantage of his extensive experience and knowledge relating to internal control, Mr. Okuyama primarily audits the legality of business execution from a fair and objective standpoint. Mr. Okuyama attended all 14 meetings of the Board of Directors and all 13 meetings of the Board of Corporate Auditors held in the fiscal year ended March 31, 2014.

Outside Corporate Auditor Takaaki Yamamoto is engaged in accounting in NEC Corporation. Making full use of his extensive experience and knowledge relating to internal control, Mr. Yamamoto chiefly audits the legality of business execution from a fair and objective standpoint. Mr. Yamamoto attended all 10 of 11 meetings of the Board of Directors and all 10 meetings of the Board of Corporate Auditors held in the fiscal year ended March 31,2014 after his appointment on June 25, 2013.

Outside Corporate Auditor Yuji Kikuchi is qualified as a lawyer and has considerable knowledge in finance and accounting. Using his professional knowledge and viewpoint about the law, Mr. Kikuchi is expected to audit the directors' performance of their duties from a fair and objective standpoint of an outsider. Mr. Kikuchi became an outside corporate auditor at the ordinary general meeting of shareholders held on June 24, 2014. Mr. Kikuchi has been designated as an independent auditor defined in Rule 436-2, Paragraph 1 of the Securities Listing Regulations of the Tokyo Stock Exchange.

There are no special interests between the Company and its outside directors or outside corporate auditors.

The outside directors and outside corporate auditors regularly exchange information and consult with the Internal Auditing Division and staff departments, receiving reports on business execution at meetings of the Board of Directors and on other occasions.

The outside corporate auditors cooperate with the independent auditors, exchanging information and consulting with them regularly at meetings of the Board of Corporate Auditors and on other occasions.

IV. Internal Audits and Audits by Auditors

The Internal Auditing Division cooperates with the corporate auditors. The division reports the results of audits carried out under an audit plan for each fiscal year to the corporate auditors once a year and exchanges opinions with them as necessary.

The corporate auditors, the Internal Auditing Division, and the accounting auditors cooperate with each other, exchanging opinions as necessary for statutory audits.

Directors and Corporate Auditors
(As of June 24, 2014)

Board of Directors

President	Masao Wada
Senior Vice Presidents and Members of the Board	Takahiko Hara
	Yoichi Sato
	Shougo Minami
	Yoshifumi Kodama
Associate Senior Vice President and Member of the Board	Yushi Ushijima
Members of the Board	Takayuki Matsui *1, 2
	Tetsujiro Arano *1
	Yumiko Ichige *1, 2
	Masamitsu Kisaki *1

Corporate Auditors

Corporate Auditors	Junichi Okuyama (full-time) *3
	Akinori Kanehako (full-time)
	Hirotaka Akizuki
	Takaaki Yamamoto *3
	Yuji Kikuchi *3, 4

*1 Outside directors as stipulated in Item 15 of Article 2 of the Company Law of Japan

*2 Independent director stipulated in Rule 436-2, Paragraph 1 of the Securities Listing Regulations of the Tokyo Stock Exchange

*3 Outside corporate auditors as stipulated in Item 16 of Article 2 of the Company Law of Japan

*4 Independent auditor stipulated in Rule 436-2, Paragraph 1 of the Securities Listing Regulations of the Tokyo Stock Exchange

Six-Year Summary of Selected Financial Data

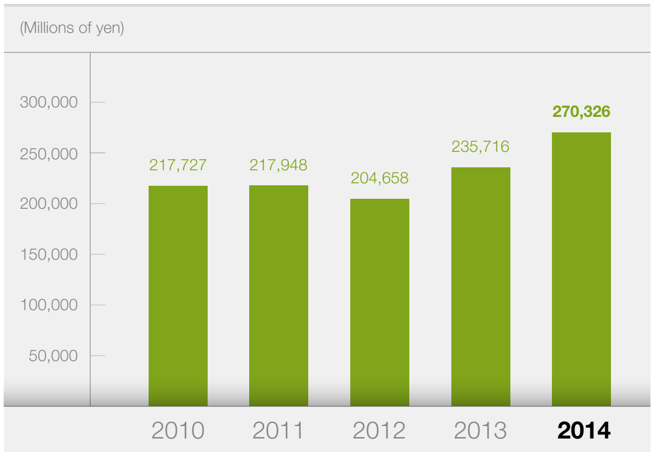
NEC Networks & System Integration Corporation and Consolidated Subsidiaries

	Millions of yen						Thousands of U.S. dollars [1]
Years ended March 31	**2014**	2013	2012	2011	2010	2009	**2014**
For the year:							
Orders	¥ 280,071	¥ 241,271	¥ 215,373	¥ 212,277	¥ 222,046	¥ 245,257	$ 2,695,064
Net sales	270,326	235,716	204,658	217,948	217,727	249,070	2,601,289
Selling, general and administrative expenses	30,271	24,699	22,332	22,297	23,070	24,501	291,291
Operating income	14,418	12,483	9,747	10,835	9,867	10,968	138,741
Net income	8,257	7,246	4,474	4,660	5,644	4,995	79,455
Free Cash Flows	17,809	-5,152	15,946	-3,499	14,185	4,760	171,372
Depreciation and amortization	2,565	2,164	1,941	2,151	2,244	2,270	24,682
Research and development costs	632	98	92	52	119	290	6,082
At year-end:							
Total assets	¥ 189,059	¥ 167,472	¥ 149,130	¥ 149,464	¥ 146,543	¥ 147,251	$ 1,819,274
Shareholders' equity	91,182	85,717	80,115	76,986	73,670	69,123	877,425
Total net assets	89,166	85,974	80,074	77,005	73,849	69,129	858,025
Per share of common stock (yen and U.S. dollars) :							
Net income	¥ 166.06	¥ 145.73	¥ 89.98	¥ 93.72	¥ 113.50	¥ 100.41	$ 1,598
Net assets (BPS)	1,760.06	1,714.74	1,598.77	1,537.19	1,472.14	1,377.68	16,937
Cash dividends applicable to the year	60.00	45.00	28.00	26.00	25.00	22.00	577
Ratios and return indicators:							
Operating income to net sales (%)	5.3	5.3	4.8	5.0	4.5	4.4	
Net income to net sales (%)	3.1	3.1	2.2	2.1	2.6	2.0	
Return on assets (ROA) (%) [2]	8.2	7.7	6.3	7.3	6.7	7.3	
Return on equity (ROE) (%) [3]	9.6	8.8	5.7	6.2	8.0	7.5	
Owners' equity (Net worth) ratio (%)	46.3	50.9	53.3	51.1	50.0	46.5	
Debt to equity ratio (times) [4]	0.07	0.05	0.05	0.08	0.07	0.07	
Number of employees	7,164	6,024	5,936	5,939	5,998	5,906	
Net sales per employee (thousands of yen) [5]	¥ 40,996	¥ 39,417	¥ 34,469	¥ 36,516	¥ 36,580	¥ 42,493	$ 394,207
Net income per employee (thousands of yen) [6]	1,252	1,212	754	781	948	852	12,067

Notes

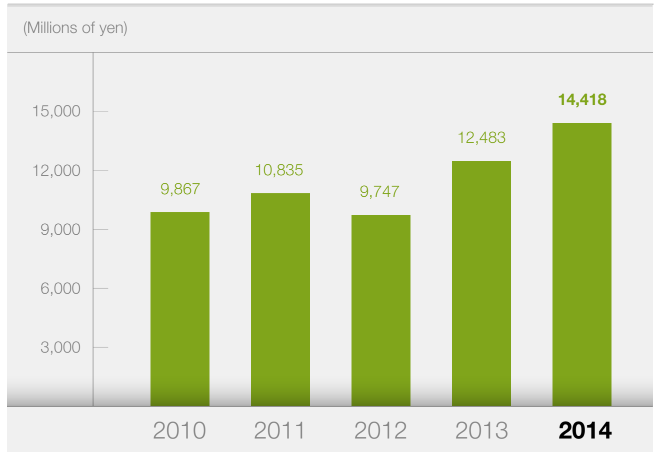
1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥103.92 = U.S.$1.00, the approximate Tokyo foreign exchange market rate as of March 31, 2014.
2. Return on assets: Ordinary income / Average total assets during the term
3. Return on equity: Net income / Average net assets during the term
4. Debt to equity ratio: Interest-bearing debt / Net assets
5. Net sales per employee: Net sales / Average number of employees during the term
6. Net income per employee: Net income / Average number of employees during the term

Net Sales



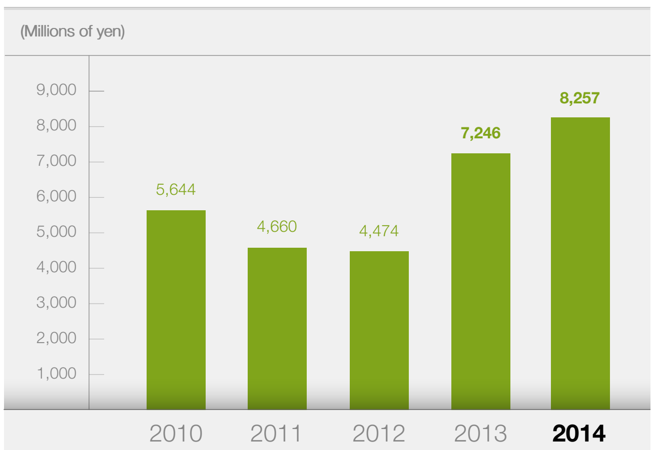
Years ended March 31

Operating Income



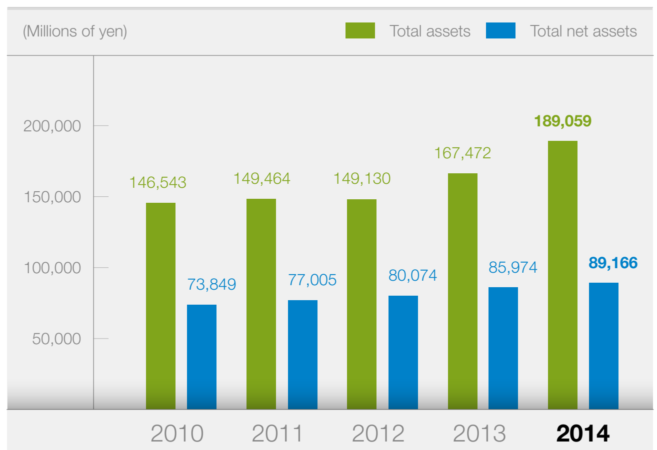
Years ended March 31

Net Income



Years ended March 31

Total Assets and Total Net Assets

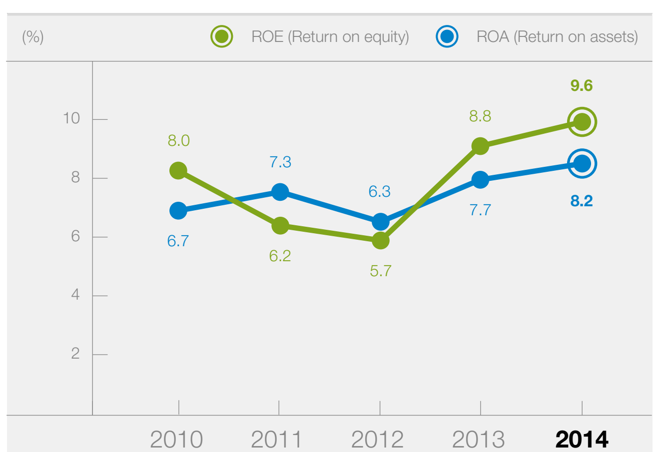


As of March 31

Operating Income to Net Sales and Net Income to Net Sales

Years ended March 31

ROE and ROA



Years ended March 31

Consolidated Financial Statements

Contents

CONSOLIDATED BALANCE SHEETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
As of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (note 3)
	2014	2013	2014
Assets			
Current assets:			
Cash and cash equivalents	¥ 44,434	¥ 30,315	$ 431,733
Notes and accounts receivable (notes 4 and 23)	95,975	92,332	932,520
Inventories (note 7)	8,149	10,374	79,178
Deferred tax assets (note 11)	5,255	4,941	51,059
Other current assets	3,596	3,324	34,940
Allowance for doubtful accounts	(59)	(116)	(573)
Total current assets	157,351	141,172	1,528,867
Property and equipment:			
Land	2,508	2,508	24,368
Buildings and structures	9,748	8,549	94,714
Machinery and vehicles	275	215	2,672
Furniture and fixtures	12,577	9,515	122,202
Construction in progress	687	163	6,675
Other	1,414	1,315	13,739
Accumulated depreciation	(16,252)	(12,973)	(157,909)
Property and equipment, net	10,959	9,292	106,481
Intangibles, net of accumulated amortization (note 9)	6,516	4,241	63,311
Investments and other assets:			
Investment securities (notes 5 and 6)	530	747	5,150
Deferred tax assets (note 11)	9,518	6,683	92,480
Other assets (notes 8, 12 and 23)	5,784	6,730	56,199
Allowance for doubtful accounts (note 8)	(1,602)	(1,395)	(15,565)
Total investments and other assets	14,231	12,765	138,272
Total assets	¥ 189,059	¥ 167,472	$ 1,836,951

	Millions of yen		Thousands of U.S. dollars (note 3)
	2014	2013	2014
Liabilities and Net Assets			
Current liabilities:			
Short-term bank loans (note 10)	¥ 1,742	¥ 599	$ 16,926
Current installments of long-term debt (note 10)	171	500	1,661
Notes and accounts payable (notes 4 and 23)	43,191	36,404	419,656
Advances received (note 23)	3,122	2,550	30,334
Accrued income taxes (note 11)	4,711	4,367	45,773
Accrued bonuses to directors and corporate auditors	104	96	1,010
Accrued warranty on products	374	90	3,634
Accrued losses on sales contracts (note 7)	357	1,028	3,469
Other current liabilities	16,218	13,975	157,579
Total current liabilities	69,994	59,612	680,082
Long-term liabilities:			
Long-term debt (note 10)	4,518	3,000	43,898
Accrued employees' retirement benefits (note 12)	—	17,641	—
Liability for retirement benefits (note 12)	24,152	—	234,668
Other liabilities (notes 11 and 13)	1,227	1,243	11,922
Total long-term liabilities	29,898	21,884	290,497
Total liabilities	99,893	81,497	970,589
Shareholders' equity (note 14):			
Common stock:	13,122	13,122	127,497
Authorized 100,000,000 shares; issued and outstanding 49,773,807 shares at March 31, 2014 and 2013			
Capital surplus	16,650	16,650	161,776
Retained earnings	61,474	56,001	597,299
Treasury stock, at cost; 51,535 shares at March 31, 2014 and 48,119 shares at March 31, 2013	(64)	(56)	(622)
Total shareholders' equity	91,182	85,717	885,950
Accumulated other comprehensive income:			
Net unrealized holding gain on other securities (note 5)	25	13	243
Foreign currency translation adjustments	(233)	(464)	(2,264)
Accumulated adjustments for retirement benefits	(3,459)	—	(33,609)
Total accumulated other comprehensive income	(3,668)	(451)	(35,639)
Minority interests	1,652	708	16,051
Total net assets	89,166	85,974	866,362
Commitments and contingencies (note 15)			
Total liabilities and net assets	¥ 189,059	¥ 167,472	$ 1,836,951

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (note 3)
	2014	2013	2014
Net sales (note 23)	¥ 270,326	¥ 235,716	$ 2,626,564
Cost of sales (notes 7 and 23)	225,635	198,533	2,192,334
Gross profit	44,690	37,182	434,221
Selling, general and administrative expenses (notes 17 and 18)	30,271	24,699	294,122
Operating income	14,418	12,483	140,089
Other income (expense):			
Interest income	38	45	369
Interest expense	(84)	(44)	(816)
Gain on sale of investment securities	99	6	962
Dividends income of insurance	151	106	1,467
Insurance income	71	39	690
Gain on step acquisitions	477	—	4,635
Gain on negative goodwill	170	—	1,652
Loss on disposal of property and equipment	(368)	(149)	(3,576)
Provision of allowance for doubtful accounts (note 8)	(170)	(387)	(1,652)
Loss on sale of investment in subsidiaries	(369)	—	(3,585)
Restructuring charges	(214)	—	(2,079)
Impairment loss	—	(165)	—
Other, net	93	83	904
	(105)	(466)	(1,020)
Income before income taxes and minority interests	14,313	12,016	139,069
Income taxes (note 11):			
Current	5,866	5,554	56,996
Deferred	12	(863)	117
	5,878	4,691	57,112
Income before minority interests	8,435	7,325	81,957
Minority interests	178	78	1,729
Net income	¥ 8,257	¥ 7,246	$ 80,227

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (note 3)
	2014	2013	2014
Income before minority interests	¥ 8,435	¥ 7,325	$ 81,957
Other comprehensive income arising during the year (note 19):			
Net unrealized holding loss on other securities	12	12	117
Foreign currency translation adjustments	299	208	2,905
Total other comprehensive income arising during the year	312	221	3,031
Comprehensive income	¥ 8,747	¥ 7,546	$ 84,988
Comprehensive income attributable to:			
Owners of the parent	¥ 8,500	¥ 7,407	$ 82,588
Minority interests	247	139	2,400

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Numbers of shares of common stock	Millions of yen				
		Shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total
	(Thousands)					
Balance at April 1, 2012	49,773 ¥	13,122 ¥	16,650 ¥	50,396 ¥	(53) ¥	80,115
Changes arising during year:						
Cash dividends				(1,640)		(1,640)
Net income				7,246		7,246
Purchase of treasury stock					(2)	(2)
Disposition of treasury stock						—
Net changes in accounts other than shareholders' equity						
Total changes during the year	—	—	—	5,605	(2)	5,602
Balance at March 31, 2013	49,773	13,122	16,650	56,001	(56)	85,717
Changes arising during year:						
Cash dividends				(2,784)		(2,784)
Net income				8,257		8,257
Purchase of treasury stock					(7)	(7)
Disposition of treasury stock			0		0	0
Net changes in accounts other than shareholders' equity						
Total changes during the year	—	—	0	5,472	(7)	5,464
Balance at March 31, 2014	49,773 ¥	13,122 ¥	16,650 ¥	61,474 ¥	(64) ¥	91,182

	Millions of yen					
	Accumulated other comprehensive income					
	Net unrealized holding gain on other securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total	Minority interests	Total net assets
Balance at April 1, 2012	¥ 0	¥ (612)	¥ —	¥ (611)	¥ 571	¥ 80,074
Changes arising during year:						
Cash dividends						(1,640)
Net income						7,246
Purchase of treasury stock						(2)
Disposition of treasury stock						—
Net changes in accounts other than shareholders' equity	12	147		160	136	297
Total changes during the year	12	147	—	160	136	5,900
Balance at March 31, 2013	13	(464)	—	(451)	708	85,974
Changes arising during year:						
Cash dividends						(2,784)
Net income						8,257
Purchase of treasury stock						(7)
Disposition of treasury stock						0
Net changes in accounts other than shareholders' equity	11	231	(3,459)	(3,217)	944	(2,272)
Total changes during the year	11	231	(3,459)	(3,217)	944	3,191
Balance at March 31, 2014	¥ 25	¥ (233)	¥ (3,459)	¥ (3,668)	¥ 1,652	¥ 89,166

	Thousands of U.S. Dollars (note 3)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at April 1, 2013	$ 127,497	$ 161,776	$ 544,122	$ (544)	$ 832,851
Changes arising during year:					
Cash dividends			(27,050)		(27,050)
Net income			80,227		80,227
Purchase of treasury stock				(68)	(68)
Disposition of treasury stock		0		0	0
Net changes in accounts other than shareholders' equity					
Total changes during the year	—	0	53,168	(68)	53,090
Balance at March 31, 2014	$ 127,497	$ 161,776	$ 597,299	$ (622)	$ 885,950

	Thousands of U.S. Dollars (note 3)					
	Accumulated other comprehensive income					
	Net unrealized holding gain on other securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total	Minority interests	Total net assets
Balance at April 1, 2013	$ 126	$ (4,508)	$ —	$ (4,382)	$ 6,879	$ 835,34
Changes arising during year:						
Cash dividends						(27,05
Net income						80,22
Purchase of treasury stock						(6
Disposition of treasury stock						[illegible]
Net changes in accounts other than shareholders' equity	107	2,244	(33,609)	(31,257)	9,172	(22,07
Total changes during the year	107	2,244	(33,609)	(31,257)	9,172	31,00
Balance at March 31, 2014	$ 243	$ (2,264)	$ (33,609)	$ (35,639)	$ 16,051	$ 866,36

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (note 3)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 14,313	¥ 12,016	$ 139,069
Depreciation and amortization	2,565	2,164	24,922
Impairment loss	—	165	—
Loss on sale of investment in subsidiaries	369	—	3,585
Restructuring charges	214	—	2,079
Gain on step acquisitions	(477)	—	(4,635)
Amortization of goodwill	331	81	3,216
Gain on negative goodwill	(170)	—	(1,652)
Increase in allowance for doubtful receivables	141	103	1,370
Increase in (decrease) liability for retirement and severance benefits	(17,641)	808	(171,405)
Increase in liability for retirement benefits	17,534	—	170,365
Increase in accrued bonuses to directors and corporate auditors	8	37	78
Increase (decrease) in accrued warranty on products	(186)	89	(1,807)
Increase (decrease) in accrued losses on sales contracts	(673)	991	(6,539)
Interest and dividend income	(46)	(52)	(447)
Interest expense	84	44	816
Loss on disposal of property and equipment	369	149	3,585
(Increase) decrease in notes and accounts receivable	3,361	(19,650)	32,656
(Increase) decrease in inventories	4,261	(2,317)	41,401
Increase in notes and accounts payable	2,827	5,953	27,468
Other, net	1,852	2,049	17,995
Subtotal	29,039	2,634	282,151
Interest and dividend received	46	52	447
Interest paid	(86)	(45)	(836)
Income taxes paid	(5,685)	(4,365)	(55,237)
Net cash provided by (used in) operating activities	23,313	(1,723)	226,516

	Millions of yen		Thousands of U.S. dollars (note 3)
	2014	2013	2014
Cash flows from investing activities:			
Purchase of property and equipment	(1,903)	(1,529)	(18,490)
Proceeds from sale of property and equipment	1	1	10
Purchase of intangibles	(849)	(1,418)	(8,249)
Proceeds from sale of intangibles	36	—	350
Purchase of investment securities	(52)	(49)	(505)
Proceeds from sale of investment securities	158	8	1,535
Loans receivable made	(34)	(10)	(330)
Collection of loans receivable	32	14	311
Purchase of investments in subsidiaries	(1,479)	—	(14,370)
Payments for transfer of business	(1,857)	—	(18,043)
Purchase of investments in affiliates accounted for by the equity method	—	(396)	—
Other, net	443	(50)	4,304
Net cash used in investing activities	(5,504)	(3,429)	(53,478)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(1,143)	552	(11,106)
Proceeds from long-term debt	1,500	3,000	14,574
Repayments of long-term debt	(898)	(3,500)	(8,725)
Proceeds from sale and purchase of treasury stock, net	(7)	(2)	(68)
Dividends paid to shareholders	(2,776)	(1,642)	(26,972)
Dividends paid to minority shareholders of subsidiaries	(3)	(2)	(29)
Other, net	(495)	(470)	(4,810)
Net cash used in financing activities	(3,824)	(2,066)	(37,155)
Effect of exchange rate changes on cash and cash equivalents	134	77	1,302
Net increase (decrease) in cash and cash equivalents	14,119	(7,141)	137,184
Cash and cash equivalents at beginning of year	30,315	37,456	294,549
Cash and cash equivalents at end of year	¥ 44,434	¥ 30,315	$ 431,733

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
March 31, 2014 and 2013

1. BASIS OF PREPARATION

NEC Networks & System Integration Corporation (the "Company") and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan. Its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.
The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Japanese Financial Instruments and Exchange Law and, have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of IFRSs.

As permitted by the Japanese Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.
Prior year's consolidated financial statements have been restated to reflect retrospectively the effects of a fraud committed by a subsidiary's employee.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The Company has 21 subsidiaries (companies over which the Company has the ability to control their operations) as of March 31, 2014 (14 subsidiaries as of March 31, 2013) and 1 affiliated company which the Company has the ability to exercise significant influence (the "Group").

As a result of additional acquisition of shares, from the year ended March 31, 2014, Q&A Corporation and its four subsidiaries were included in the consolidation.
As a result of acquisition of shares, from the year ended March 31, 2014, NEC Magnus Communications, Ltd. and its subsidiary were included in the consolidation.

The accompanying consolidated financial statements include the accounts of the Company and the significant companies controlled directly or indirectly by the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

Investment in an affiliate is accounted for by the equity method.

The financial statements of the subsidiaries with year-end of December 31 have been used for consolidation. All material transactions that occurred in the periods from such year-end and March 31, which is the Company's year-end, have been adjusted.

The difference between the carrying amount and the underlying net assets at fair value at the respective dates of acquisition is allocated to identifiable assets and liabilities based on fair market value at the dates of acquisition. The unallocated portion of the difference, which is recognized as goodwill, is amortized by the straight-line method over a period of up to 20 years in which the future benefit of each investment is expected.

(b) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet dates. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is credited or charged to income.

The revenue and expense accounts of the foreign subsidiaries are translated into yen at the average exchange rates prevailing during the year, and, except for the components of shareholders' equity, the balance sheet accounts are translated at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Translation adjustments, except for the portion included in minority interests, are presented as a separate component of net assets in the accompanying consolidated financial statements.

(c) Cash equivalents

Cash and cash equivalents include all highly liquid investments – generally with original maturities of three months or less – that are readily convertible to known amounts of cash and have negligible risk of changes in value due to their short maturities.

(d) Investment securities

Investment securities other than those in subsidiaries are classified into one of three categories: trading, held-to-maturity or other securities. Trading securities are measured at fair value, and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are measured at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Investment securities classified as other securities are reviewed for impairment. An impairment loss is recognized when the fair value of investment securities declines significantly. Cost of securities sold is determined by the moving-average method.

(e) Inventories

Work in process is stated at the lower of cost or net selling value determined on a specific project basis. Purchased goods and materials are stated at the lower of cost or net selling value determined primarily by the moving-average method.

(f) Depreciation and amortization

Depreciation of property and equipment is principally computed by the straight-line method.

Significant renewals and improvements are capitalized. Maintenance and repair costs are charged to income.

The useful lives of property and equipment are summarized as follows:

Buildings and structures	2 to 47 years
Machinery and vehicles	2 to 17 years
Furniture and fixtures	2 to 20 years

Intangibles are amortized by the straight-line method over their estimated useful lives.
Software for sale is amortized based on projected sales volumes over the estimated effective periods (within 3 years). Software for internal use is amortized by the straight-line method over the estimated useful lives (within 5 years).

(g) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debt with respect to ordinary receivables, and an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

(h)Accrued warranty on products

Accrued warranty on products is provided for at the estimated warranty cost.

(i) Accrued losses on sales contracts

Accrued losses on sales contracts are provided for at the amount of estimated losses for work in process at the balance sheet date. Among sales orders of the Company on hand at the balance sheet date, for projects in which the estimated cost is expected to exceed the amount of the sales order, such excess costs on sales contracts are accrued

(j) Leases
Leased assets related to finance lease transactions without title transfer are depreciated by the straight-line method, with the lease term as their useful lives and no residual value.

(k) Research and development costs
Research and development costs are charged to income as incurred.

(l) Retirement benefits
Liability for 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, as adjusted for the actuarial gain or loss and past service costs that are yet to be recognized. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of services of the eligible employees. Actuarial gain or loss is amortized in the subsequent year that it occurs by the straight-line method within the average remaining years of service of the employees. Past service costs is amortized beginning from the year it is incurred by the straight-line method within the average remaining years of service of the employees.

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Statement No.26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the "Guidance No.25")) except the article 35 of the Statement No.26 and the article 67 of the Guidance No.25 and actuarial gains and losses and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as a liability for retirement benefits.
In accordance with the article 37 of the Statement No.26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income.
As a result of the application, a liability for retirement benefits in the amount of ¥24,152 million ($234,668 thousand) has been recognized, deferred tax assets has increased by¥1,916 million($18,616 thousand) and accumulated other comprehensive income has decreased by ¥ 3,459 million($33,609 thousand), at the end of the current fiscal year.
The effects of this change on earnings per share are described in the note 20.

A certain consolidated subsidiary has unfunded defined benefit pension plans for its directors. A provision for the plans has been made in the accompanying consolidated financial statements for vested benefits to which directors are entitled if they were to retire and sever immediately at the balance sheet date

(m) Income taxes
Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(n) Derivative financial instruments
Derivatives are recorded at their fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is directly included in net assets.

(o) Revenue recognition
The percentage-of-completion method is applied if the outcome of the construction activity can be estimated reliably, otherwise, the completed-contract method is applied. The percentage of completion as of the end of the reporting period is estimated based on the percentage of the cost incurred to the estimated total cost.

(p) Accrued bonuses to directors and corporate auditors
The Company and its domestic consolidated subsidiaries provide accrued bonuses to directors and corporate auditors (except for internal corporate auditors) based on the estimated amounts to be paid in respect of the year.

(q) Accounting for consumption taxes
Consumption taxes generally withheld upon sale, as well as those paid for purchases of goods or services, are recorded as a liability or an asset, and are excluded from relevant revenue, costs or expenses.

(r) Accounting standards issued but not yet applied
Accounting standard for retirement benefits
On May 17, 2012, the ASBJ issued ASBJ Statement No.26, the "Accounting Standard for Retirement Benefits," and ASBJ Guidance No.25, the "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 and the other related guidance.
The Company expects to apply the revised accounting standard regarding the amendment of the calculation method for present value of retirement benefit obligations and current service costs from the beginning of the fiscal year ending March 31, 2015.
As a result of the adoption of the revised accounting standard, the Company expects that deferred tax assets will increase by ¥692 million ($6,724 thousand), Liability for retirement benefits will increase by ¥1,943 million ($18,879thousand) and retained earnings will decrease by ¥1,250 million ($12,145 thousand) at the beginning of the fiscal year ending March 31, 2015.
Operating profit and income before income taxes and minority interests are expected to increase by ¥134 million ($1,302 thousand) for the fiscal year ending March 31, 2015.

(s) Reclassifications
Certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2013 to conform to the presentation for the year ended March 31, 2014.

3. U.S. DOLLAR AMOUNTS
The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at ¥102.92 = U.S.$1.00, the approximate rate of exchange on March 31, 2014. The translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

4. NOTES MATURING ON MARCH 31, 2013
As financial institutions in Japan were closed on March 31, 2013, notes maturing on March 31, 2013 were settled on the following business day.
The following notes are included in the consolidated balance sheets.

	Millions of yen
Notes and accounts receivable	¥ 255
Notes and accounts payable	53

5. INVESTMENT SECURITIES

The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2014	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 128	¥ 71	¥ 56	$ 1,244	$ 690	$ 544
Subtotal	128	71	56	1,244	690	544
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	70	86	(15)	680	836	(146)
Subtotal	70	86	(15)	680	836	(146)
Total	¥ 198	¥ 157	¥ 40	$ 1,924	$ 1,525	$ 389

	Millions of yen		
March 31, 2013	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 97	¥ 62	¥ 34
Subtotal	97	62	34
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	27	40	(12)
Subtotal	27	40	(12)
Total	¥ 124	¥ 103	¥ 21

Sales of securities classified as other securities for the year ended March 31, 2014 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Proceeds from sales	¥ 154	$ 1,496
Gains on sales	97	942
Losses on sales	—	—

There were no sales of securities classified as other securities for the year ended March 31, 2013.

Unlisted equity securities of ¥205 million ($1,992 thousand) and ¥262 million at March 31, 2014 and 2013, respectively, are not included in the above table because there is no market value thereof and future cash flows cannot be estimated therefor, thus, making it extremely difficult to measure the fair value.

6. INVESTMENT IN AN AFFILIATE

The aggregate carrying amount of investment in an affiliate as of March 31, 2014 and 2013 was ¥126 million ($1,224 thousand) and ¥360 million, respectively.

7. INVENTORIES

a) Inventories at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Work in process	¥ 5,841	¥ 8,965	$ 56,753
Purchased goods and materials	2,308	1,408	22,425
Total	¥ 8,149	¥ 10,374	$ 79,178

b) Losses from revaluation of the lower of cost or net selling value for the years ended March 31, 2014 and 2013 were ¥638 million ($6,199 thousand) and ¥476 million, respectively.

c) Losses on sales contracts for the years ended March 31, 2014 and 2013 were ¥151 million ($1,467 thousand) and ¥1,032 million, respectively.

d) Accrued losses on sales contracts and work in process corresponding to the loss contract are not offset in the accompanying consolidated balance sheets.
Work in process inventories corresponding to accrued losses on sales contracts at March 31, 2014 and 2013 were as follows

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Work in process	¥ 212	¥ 930	$ 2,060

8. AMOUNTS RELATING TO FRAUD COMMITTED BY A SUBSIDIARY'S EMPLOYEE

Balances relating to fraud committed by a subsidiary's employee at March 31, 2014 and 2013 and related provision for doubtful accounts for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Balances:			
Other assets in investments and other assets	¥ 1,557	¥ 1,326	$ 15,128
Allowance for doubtful accounts in investments and other assets	(1,557)	(1,326)	(15,128)
Provision of allowance for doubtful accounts	¥ 231	¥ 396	$ 2,244

9. GOODWILL

Goodwill at March 31, 2014 and 2013 are recorded in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Intangibles, net of accumulated amortization	¥ 3,502	¥ 1,080	$ 34,026

10. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans and long-term debt are unsecured.

The weighted average interest rates of current installments of long-term debt for both the years ended March 31, 2014 and 2013 were approximately 0.9% and of long-term debt for both the years ended March 31, 2014 and 2013 were approximately 0.8%.

The annual maturities of long-term debt at March 31, 2015 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2016	¥ 3,168	$ 30,781
2017	158	1,535
2018	171	1,661
2019	171	1,661

As of March 31, 2013, the Group executed a ¥11,300 million ($109,794 thousand) committed borrowing facility with four domestic banks, and the outstanding borrowing is ¥100 million ($972 thousand) from this facility.

11. INCOME TAXES

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 38.0% both for 2014 and 2013. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

Following the promulgation of the law, the "Partial Amendment of the Income Tax Act, etc.," on March 31, 2014, the special reconstruction corporation tax will not be imposed from the consolidated fiscal years beginning on or after April 1, 2014. Accordingly, the effective tax rate applied to the calculation of deferred tax assets and liabilities in the current consolidated fiscal year was lowered from 38.01% in the prior fiscal year to 35.64%.
As a result, the amount of deferred tax assets (the amount after offsetting deferred tax liabilities) decreased by ¥345 million ($3,352 thousand) and income tax-deferred for the current year increased by ¥345 million ($3,352 thousand).

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2014 and 2013 differed from the statutory tax rate for the following reasons:

	2014	2013
Statutory tax rate	38.0%	38.0%
Effect of:		
Expenses not deductible for tax purposes	0.9	0.9
Inhabitant tax per capita levy	0.9	0.9
Decrease in valuation allowance	(0.1)	(1.0)
Adjustments of deferred tax assets due to change in statutory tax rate	2.4	—
Other, net	(1.0)	0.2
Effective tax rate	41.1%	39.0%

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Accrued employees' bonuses	¥ 2,451	¥ 2,440	$ 23,815
Social security contribution on employees' bonuses	325	295	3,158
Allowance for doubtful receivables	585	556	5,684
Accrued enterprise tax	372	343	3,614
Loss on revaluation of inventories	2,072	1,718	20,132
Unrealized profit on inventories	36	19	350
Accrued losses on sales contracts	129	387	1,253
Depreciation	367	416	3,566
Software	61	108	593
Accrued employees' retirement benefits	—	6,336	—
Liability for retirement benefits	8,600	—	83,560
Stock dividends	123	123	1,195
Impairment loss on investment securities	65	89	632
Asset adjustment account	468	—	4,547
Other	1,170	816	11,368
Subtotal	16,832	13,651	163,545
Valuation allowance	(1,167)	(1,115)	(11,339)
Total	15,665	12,535	152,206
Deferred tax liabilities:			
Goodwill	(527)	—	(5,120)
Liability adjustment account	(196)	—	(1,904)
Prepaid employees' retirement benefits	—	(813)	—
Other	(206)	(115)	(2,002)
Total	(931)	(929)	(9,046)
Net deferred tax assets	¥ 14,734	¥ 11,606	$ 143,160

Net deferred tax assets and liabilities as of March 31, 2014 and 2013 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current assets - Deferred tax assets	¥ 5,255	¥ 4,941	$ 51,059
Investments and other assets - Deferred tax assets	9,518	6,683	92,480
Long-term liabilities – Other liabilities	(40)	(17)	(389)

12. RETIREMENT BENEFIT PLANS

The Company and consolidated subsidiaries have funded or unfunded defined benefit plans and defined contribution plans.

Lump-sum or annuity payments are paid from the corporate defined benefit pension plans, all of which are funded, based on the employees' basic rates of pay and length of service.

Retirement benefit trust is established for certain corporate defined benefit pension plans. Lump-sum payments are paid from unfunded lump-sum payment plans, and some of them were converted into funded plans because of contributions to a retirement benefit trust based on the employees' basic rates of pay and length of service.

Certain consolidated subsidiaries use a simplified method, which is permitted for small-sized companies in conformity with the Accounting Standard for Retirement Benefits, for calculating liability for retirement benefits and retirement benefit costs for their corporate defined benefit pension plans and lump-sum payment plans.

The information for the Company's and the consolidated subsidiaries' defined benefit plans at March 31, 2014 and for the year then ended is as follows.

(1) Movement in retirement benefit obligations

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation at beginning of year	¥ 44,367	$ 431,082
Service cost	2,141	20,803
Interest cost	833	8,094
Actuarial gain and loss	(488)	(4,742)
Benefits paid	(1,870)	(18,169)
Changes resulting from business combination	2,842	27,614
Other	1,073	10,426
Retirement benefit obligation at end of year	¥ 48,899	$ 475,117

Note: The above table excludes certain plans that have adopted the simplified method.

(2) Movements in plan assets

	Millions of yen	Thousands of U.S. dollars
Plan assets at beginning of year	¥ 22,149	$ 215,206
Expected return on plan assets	566	5,499
Actuarial gain and loss	1,013	9,843
Contributions paid by the employer	1,924	18,694
Benefits paid	(1,148)	(11,154)
Changes resulting from business combination	1,016	9,872
Other	68	661
Plan assets at end of year	¥ 25,591	$ 248,649

Note: The above table excludes certain plans that have adopted the simplified method.

(3) Reconciliation of changes in liability for retirement benefits whose plans adopted the simplified method

	Millions of yen	Thousands of U.S. dollars
Liability for retirement benefits at beginning of year	¥ 431	$ 4,188
Retirement benefit costs	135	1,312
Benefits paid	(72)	(700)
Changes resulting from business combination	350	3,401
Liability for retirement benefits at end of year	¥ 844	$ 8,201

(4) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen	Thousands of U.S. dollars
Funded retirement benefit obligation	¥ 26,869	$ 261,067
Plan assets	25,591	248,649
	1,277	12,408
Unfunded retirement benefit obligation	22,875	222,260
Net liability for retirement benefits	¥ 24,152	$ 234,668
Liability for retirement benefits	¥ 24,152	$ 234,668
Asset for retirement benefits	(0)	(0)
Net liability for retirement benefits	¥ 24,152	$ 234,668

Note: The above table includes certain plans that have adopted the simplified method.

(5) Retirement benefit costs

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 2,141	$ 20,803
Interest cost	833	8,094
Expected return on plan assets	(566)	(5,499)
Net actuarial loss amortization	1,324	12,864
Past service costs amortization	(477)	(4,635)
Retirement benefit costs calculated by the simplified method	135	1,312
Other	8	78
Retirement benefit costs	¥ 3,399	$ 33,026

(6) Accumulated adjustments for retirement benefit

	Millions of yen	Thousands of U.S. dollars
Actuarial gains and losses that are yet to be recognized	¥ (3,252)	$ (31,597)
Past service costs that are yet to be recognized	8,632	83,871
Retirement benefit obligation at end of year	¥ 5,379	$ 52,264

(7) Plan assets

(a) The components of plan assets

	Millions of yen	Thousands of U.S. dollars
Debt securities	¥ 13,200	$ 128,255
Equity securities	4,524	43,956
General account	3,098	30,101
Other	4,768	46,327
Total	¥ 25,591	$ 248,649

Note: Total plan assets include ¥579 million ($5,626 thousand) in a retirement benefit trust established for the corporate pension plan.

(b) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2014 (expressed as weighted averages) follow:

(a) Discount rate 1.7%

(b) Long-term expected rate of return 2.5%

The amount to be paid by the Company and consolidated subsidiaries to the defined contribution plans was ¥399 million ($3,877 thousand) for the year ended March 31, 2014.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2013 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen
Retirement benefit obligation	¥ (44,798)
Plan assets at fair value	22,149
Unfunded retirement benefit obligation	(22,648)
Actuarial gains and losses that are yet to be recognized	11,122
Past service costs that are yet to be recognized	(3,853)
Net amount recognized in the consolidated balance sheets	(15,379)
Prepaid retirement and severance benefits	2,261
Accrued employees' retirement benefits	¥ (17,641)

The components of retirement benefit costs for the year ended March 31, 2013 consisted of the following:

	Millions of yen
Service cost	¥ 2,082
Interest cost	755
Expected return on plan assets	(467)
Net actuarial loss amortization	1,451
Past service costs amortization	(491)
Total	3,330
Other	327
	¥ 3,658

"Other" includes contributions to the defined contribution plan.
The assumptions used in accounting for the above plans at March 31, 2013 were as follows:

Discount rate	Mainly 1.7%
Expected rate of return on plan assets	Mainly 2.5%

13. ASSET RETIREMENT OBLIGATIONS

The asset retirement obligations are based on estimated future restoration obligations related to leasehold contracts of head office and other facilities.
The obligations are calculated based on the estimated office rental period of mainly 20 years and a discounted rate of 1.7%.

The following table provides Company's total asset retirement obligations for the years ended March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Balance, beginning of year	¥ 333	¥ 320	$ 3,236
Obligations incurred by asset acquisition	468	44	4,547
Obligations settled	(34)	(36)	(330)
Accretion expense	6	5	58
Balance, end of year	¥ 774	¥ 333	$ 7,520

14. SHAREHOLDERS' EQUITY

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.
The Companies Act provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal earnings reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal earnings reserve equals 25% of their respective stated capital. The Companies Act also provides that additional paid-in capital and legal earnings reserve are available for appropriations by the resolution of the shareholders. The legal earnings reserve amounted to ¥546 million ($5,305 thousand) as of both March 31, 2014 and 2013. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.
Cash dividends charged to retained earnings for the years ended March 31, 2014 and 2013 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Companies Act.

The movement of treasury stock was as follows:

	Shares	
	2014	2013
At beginning of year	48,119	46,158
Increase - purchase of odd lot shares	3,436	1,961
Decrease - sale of odd lot shares	20	—
At end of year	51,535	48,119

a) Dividends paid during the year ended March 31, 2013
The following was approved by the Board of Directors on April 27, 2012.

(a)	Total dividends	¥696 million
(b)	Cash dividends per common share	¥14
(c)	Record date	March 31, 2012
(d)	Effective date	June 5, 2012

The following was approved by the Board of Directors on October 25, 2012.

(a)	Total dividends	¥944 million
(b)	Cash dividends per common share	¥19
(c)	Record date	September 30, 2012
(d)	Effective date	December 4, 2012

b) Dividends paid during the year ended March 31, 2014
The following was approved by the Board of Directors on April 26, 2013.

(a)	Total dividends	¥1,292 million ($12,553 thousand)
(b)	Cash dividends per common share	¥26 ($0.25)
(c)	Record date	March 31, 2013
(d)	Effective date	June 4, 2013

The following was approved by the Board of Directors on October 30, 2013.

(a)	Total dividends	¥1,491 million ($14,487 thousand)
(b)	Cash dividends per common share	¥30 ($0.29)
(c)	Record date	September 30, 2013
(d)	Effective date	December 3, 2013

c) Dividends to be paid after March 31, 2014 although record date for payment falls within the year ended March 31, 2014
The following was approved by the Board of Directors on April 28, 2014.

(a)	Total dividends	¥1,491 million ($14,487 thousand)
(b)	Dividend source	Retained earnings
(c)	Cash dividends per common share	¥30 ($0.29)
(d)	Record date	March 31, 2014
(e)	Effective date	June 3, 2014

15. CONTINGENT LIABILITIES

At March 31, 2014, the Company was contingently liable as guarantor of indebtedness of the Company's employees in the aggregate amount of ¥40 million ($389 thousand).

16. LEASES

Operating leases

Future minimum operating lease payments subsequent to March 31, 2014 and 2013 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Due within one year	¥ 2,480	¥ 1,974	$ 24,096
Due over one year	2,663	2,350	25,874
Total	¥ 5,143	¥ 4,325	$ 49,971

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The significant components of selling, general and administrative expenses for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Employees salary	¥ 13,467	¥ 11,537	$ 130,849
Provision for bonuses to directors and corporate auditors	107	126	1,040
Retirement benefit costs	1,161	1,313	11,281

18. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses amounted to ¥632 million ($6,141 thousand) and ¥98 million for the years ended March 31, 2014 and 2013, respectively.

19. OTHER COMPREHENSIVE INCOME

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net unrealized holding gain on other securities:			
Unrealized holding gain arising during the year	¥ 19	¥ 19	$ 185
Reclassification adjustment for gain/loss realized in net income	—	—	—
Before tax amount	19	19	185
Tax	(7)	(7)	(68)
Net-of-tax amount	12	12	117
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during the year	303	208	2,944
Reclassification adjustment for gain/loss realized in net income	—	—	—
Before tax amount	303	208	2,944
Tax	(3)	0	(29)
Net-of-tax amount	299	208	2,905
Total other comprehensive income	¥ 312	¥ 221	$ 3,031

20. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2014	2013	2014
Net income per share	¥ 166.06	¥ 145.73	$ 1.61
Net assets per share	1,760.06	1,714.74	17.10

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. There is no equity instruments issued that has dilutive effect on earnings per share.
As described in note 2(l), the Company has applied the "Accounting Standard for Retirement Benefits," and the current consolidated financial statements conform to the transition provision as described in paragraph 37 of the "Accounting Standard for Retirement Benefits." As a result, net assets per share decreased by ¥69.59 at the end of the year.
Amounts per share of net assets are computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at year-end.

21. FINANCIAL INSTRUMENTS

Conditions of Financial instruments

(1) Management policy
The Group makes short-term deposits or uses high-security financial instruments for fund management purposes. The Group obtains funding for capital expenditure plans mainly through bank loans.
The Group utilizes derivative financial instruments to hedge various risks as described in detail below and does not enter into derivatives for trading or speculative purposes.

(2) Financial instruments and risks
The notes and accounts receivable are exposed to credit risk of customers. Operating receivables and payables denominated in foreign currencies are exposed to foreign currency fluctuation risk.
Marketable and investment securities, except for short-term investments, are held for business and capital alliances with business associates, and are exposed to stock market fluctuation risk.
Maturities of notes and accounts payable are within one year.
Long-term debt and lease obligations are for funding capital expenditure, and their maximum maturities are 10 years and 5 years after the balance sheet date for the years ended March 31, 2014 and 2013, respectively. All of the obligations have fixed interest rates and are not exposed to interest rate risk.
In order to hedge the foreign exchange rates fluctuation risk associated with operating receivables and payables denominated in foreign currencies, forward foreign exchange contracts are used.
Hedge accounting is applied for certain derivative transactions. Please refer to note 2(m).

(3) Financial instruments risk management
1) Credit risk
To mitigate and quickly capture collectability issues, the Group regularly monitors customers' credit status, and performs due date controls and balance controls for each customer.
When the Group utilizes derivatives or deposits money and purchases securities for cash management purposes, to mitigate the counterparty risk, the counterparties to these transactions are financial institutions with high credit ratings.

2) Market risk
The Group comprehends foreign currency fluctuation risk by currency and by month, and to mitigate the risk, the Group enters into a forward exchange contract for hedging the cash flow fluctuation risk associated with operating receivables and payables denominated in foreign currencies.
To mitigate the stock market fluctuation risk, the Group regularly monitors stock prices and financial status of its business associates and continuously considers whether the Group holds the stock.
Derivative transactions entered into by the Group are in accordance with policies and rules that provide for risk management, approvals, reporting and verifications.

3) Liquidity risk

To mitigate the liquidity risk, the Group prepares and updates its funds management plan on a timely basis, and maintains an appropriate level of liquidity through its cash and cash equivalents and unused committed lines.

(4) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments are measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments for which quoted market price is not available is calculated based on certain assumptions, and the fair value may differ if different assumptions are used. In addition, the contract amount of the derivative transactions described below in note 22 (DERIVATIVES) does not represent the market risk of the derivative transactions.

(5) Concentration of credit risk

At both March 31, 2014 and 2013, 33% and 37% of operating receivables were receivables from a certain major customer.

Fair value of financial instruments

The carrying amount on the consolidated balance sheets, fair value and differences as of March 31, 2014 and 2013 are as follows.

Financial instruments, of which the fair value is extremely difficult to measure, are not included. (Please see (2) "Financial instruments of which the fair value is extremely difficult to measure")

	Millions of yen			Thousands of U.S. dollars		
March 31, 2014	Carrying amount	Fair value	Differences	Carrying amount	Fair value	Differences
Assets:						
(1) Cash and cash equivalents	¥ 44,434	¥ 44,434	¥ —	$ 431,733	$ 431,733	$ —
(2) Notes and accounts receivable	95,975	95,975	—	932,520	932,520	—
(3) Investments securities: Other securities	198	198	—	1,924	1,924	—
Total	¥ 140,608	¥ 140,608	¥ —	$ 1,366,187	$ 1,366,187	$ —
Liabilities:						
(1) Notes and accounts payable	¥ 43,191	¥ 43,191	¥ —	$ 419,656	$ 419,656	$ —
(2) Short-term bank loans	1,742	1,742	—	16,926	16,926	—
(3) Current installments of long-term debt	171	171	—	1,661	1,661	—
(4) Long-term debt	4,518	4,517	1	43,898	43,888	10
Total	¥ 49,623	¥ 49,622	¥ 1	$ 482,151	$ 482,141	$ 10
Derivative transactions	¥ (6)	¥ (6)	¥ —	$ (58)	$ (58)	$ —

March 31, 2013	Millions of yen Carrying amount	Fair value	Differences
Assets:			
(1) Cash and cash equivalents	¥ 30,315	¥ 30,315	¥ —
(2) Notes and accounts receivable	92,332	92,332	—
(3) Investments securities:			
Other securities	124	124	—
Total	¥ 122,773	¥ 122,773	¥ —
Liabilities:			
(1) Notes and accounts payable	¥ 36,404	¥ 36,404	¥ —
(2) Short-term bank loans	599	599	—
(3) Current installments of long-term debt	500	500	—
(4) Long-term debt	3,000	3,002	2
Total	¥ 40,503	¥ 40,505	¥ 2
Derivative transactions	¥ (0)	¥ (0)	¥ —

* Derivative receivables and liabilities are on a net basis.

(1) Fair value measurement of financial instruments
Assets:
1) Cash and cash equivalents
The carrying amount approximates fair value because of the short maturity of these instruments.

2) Notes and accounts receivable
The carrying amount approximates fair value because of the short maturity of these instruments.

3) Investment securities
The fair value of equity securities is calculated by the quoted market price. Please see note 5 (INVESTMENT SECURITIES) for information by category.

Liabilities:
1) Notes and accounts payable
The carrying amount approximates fair value because of the short maturity of these instruments.

2) Short-term bank loans
The carrying amount approximates fair value because of the short maturity of these instruments.

3) Current installments of long-term debt
The carrying amount approximates fair value because of the short maturity of these instruments.

4) Long-term debt
Fair value of long-term debts is based on the present value of future cash flows discounted using the current borrowing rate for similar debt with comparable maturity.

Derivative transactions:
Please see note 22 (DERIVATIVES).

(2) Financial instruments of which the fair value is extremely difficult to measure

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unlisted equity securities	¥ 205	¥ 262	$ 1,992
Investment in an affiliate	126	360	1,224

(3) Projected future redemption of monetary claims and securities with maturities at March 31, 2014

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 44,434	¥ —	¥ —	¥ —
Notes and accounts receivable	95,975	—	—	—
	¥ 140,409	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	$ 431,733	$ —	$ —	$ —
Notes and accounts receivable	932,520	—	—	—
	$ 1,364,254	$ —	$ —	$ —

(4) The annual maturities of long-term debt and other interest-bearing debt at March 31, 2014

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	¥ 1,742	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	171	3,168	158	171	171	850

	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	$ 16,926	$ —	$ —	$ —	$ —	$ —
Long-term debt	1,661	30,781	1,535	1,661	1,661	8,259

22. DERIVATIVES

The Company enters into forward exchange contracts with major Japanese banks in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates.

At March 31, 2014 and 2013, the disclosure of fair value information for derivatives which are not accounted for as hedges is as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2014	Contract amount	Fair value	Valuation gain	Contract amount	Fair value	Valuation gain
Forward exchange contracts:						
To sell foreign currency:						
Thai baht	¥ 307	¥ (6)	¥ (6)	$ 2,983	$ (58)	$ (58)
U.S. dollars	17	(0)	(0)	165	(0)	(0)
To buy foreign currency:						
U.S. dollars	52	(0)	(0)	505	(0)	(0)
Total	¥ 377	¥ (6)	¥ (6)	$ 3,663	$ (58)	$ (58)

	Millions of yen		
March 31, 2013	Contract amount	Fair value	Valuation gain
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollars	¥ 18	¥ (0)	¥ (0)
Total	¥ 18	¥ (0)	¥ (0)

The fair value of forward exchange contracts is computed based on quotes from counterparties.

23. RELATED PARTY TRANSACTIONS

(1) The Company's balances with related parties and related transactions

NEC Corporation owned 51.42% of the Company's outstanding common stock at both March 31, 2014 and 2013.
Balances with NEC Corporation at March 31, 2014 and 2013, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 81,799	¥ 85,092	$ 794,782
Balances:			
Accounts receivable	¥ 29,039	¥ 34,429	$ 282,151
Advances received	562	440	5,461
Purchases of communication device:			
Transactions:			
Purchases	¥ 36,185	¥ 34,763	$ 351,584
Balances:			
Accounts payable	¥ 10,755	¥ 9,913	$ 104,499

NEC Fielding, Ltd is a subsidiary of NEC Corporation at March 31, 2014 and 2013. Balances with NEC Fielding, Ltd at March 31, 2014 and 2013 and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 1,424	¥ 1,828	$ 13,836
Balances:			
Notes receivable	¥ 92	¥ 200	$ 894
Accounts receivable	352	458	3,420
Advances received	10	12	97
Purchases of communication device:			
Transactions:			
Purchases	¥ 1,300	¥ 978	$ 12,631
Balances:			
Accounts payable	¥ 209	¥ 288	$ 2,031

NEC Communication Systems, Ltd is a subsidiary of NEC Corporation at March 31, 2014 and 2013. Balances with NEC Communication Systems, Ltd at March 31, 2014 and 2013 and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 4,016	¥ 3,333	$ 39,021
Balances:			
Accounts receivable	¥ 1,010	¥ 727	$ 9,813

NEC Engineering, Ltd is a subsidiary of NEC Corporation at March 31, 2014 and 2013. Balances with NEC Engineering, Ltd at March 31, 2014 and 2013 and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 1,392	¥ 1,368	$ 13,525
Balances:			
Accounts receivable	¥ 611	¥ 543	$ 5,937

NEC Facilities, Ltd is a subsidiary of NEC Corporation at March 31, 2014 and 2013. Balances with NEC Facilities, Ltd at March 31, 2014 and 2013, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Rental of a buildings:			
Transactions:			
Lease deposit payment	¥ 113	¥ 122	$ 1,098
Lease deposit repayment	72	130	700
Balances:			
Lease deposit	¥ 1,623	¥ 1,582	$ 15,770

(2) The balances of Company's subsidiaries with related parties and related transactions

Balances with NEC Corporation at March 31, 2014 and related transactions for the year then ended are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Construction and maintenance of network system:		
Transactions:		
Sales	¥ 5,723	$ 55,606
Balances:		
Notes receivable	¥ 21	$ 204
Accounts receivable	2,000	19,433

NEC Access Technica Co., Ltd is a subsidiary of NEC Corporation as at March 31, 2014. Balances with NEC Access Technica Co., Ltd at March 31, 2014 and related transactions for the year then ended are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Purchases of communication device:		
Transactions:		
Purchases	¥ 4,721	$ 45,871
Balances:		
Accounts payable	¥ 1,985	$ 19,287

24. BUSINESS COMBINATION

(1) Corporate split

The Company resolved at the Board of Directors meeting held on February 13, 2013 to succeed the system engineering business of NEC Mobiling Ltd. through a simplified absorption-type corporate split. The system engineering business comprises area surveys, area designing and optimization, installation works, testing and maintenance related to mobile base stations. The Company entered into a corporate split agreement with NEC Mobiling Ltd. on February 13, 2013 and the corporate split was consummated on April 1, 2013.

1. Outline of the corporate split
(a) Corporate split date
April 1, 2013
As this corporate split meets the requirements regarding a simplified absorption-type corporate split stipulated under Article 796, Paragraph 3 and Article 784, Paragraph 3 of the Companies Act of Japan for the Company and NEC Mobiling Ltd., respectively, it does not require either company to obtain a shareholders' resolution.

(b) Corporate split method
Under this corporate split, the Company is the succeeding company and NEC Mobiling Ltd. is the splitting company.

(c) Corporate split objectives
The Company's strength in the mobile base stations business is constructions, and NEC Mobiling Ltd's strength in the base stations business is its upper process such as area surveys, area designing and optimization and maintenance service. Through the corporate split, human resources, technology and knowhow in the mobile base stations business will be concentrated and value chain reinforced, and the Company aims to further expand its business by strengthening comprehensive services for all networks from mobile base stations to backbone networks.

2. Outline of the applied accounting method
This corporate split was accounted for as a "transaction under common control" in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestures" (ASBJ Guidance No. 10, December 26, 2008).

(2) Stock acquisition

The Company resolved at the Board of Directors meeting held on September 4, 2013 to acquire all the outstanding shares of NEC Magnus Communications, Ltd. from NEC Corporation on October 1, 2013, and NEC Magnus Communications, Ltd. and its subsidiary, NEC Net Innovation, Ltd., became subsidiaries of the Company.

1. Outline of the acquisition
(a) Acquisition date
October 1, 2013

(b) Acquisition method
Stock acquisition by cash payment

(c) Acquisition objectives
NEC Magnus Communications, Ltd. has a unique network and security technology, provides system development and sales services in three areas of data, picture and sound to enterprises, telecommunications carrier and cable TV operators. The Company decided that its business would expand through the synergy between the business of NEC Magnus Communications, Ltd. and the Company's customers, technology and services.

2. Outline of the applied accounting method
This acquisition was accounted for as a "transaction under common control" in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestures" (ASBJ Guidance No. 10, December 26, 2008).

25. SEGMENT INFORMATION

The reported segments of the Company are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigation to determine the distribution of management resources and evaluate their business results.
The "enterprises networks business," "carrier networks business" and "social infrastructures business" are the Company's reportable segments. The Company combines business segments which have similar economic characteristics into these reportable segments. The business segments are based on the operation headquarters by service lines, which are the units used for internal reporting for performance management.
The enterprises networks business mainly renders service integration relating to ICT solution for enterprises. The segment renders total office solution services, which includes support for security or environmental issues by using the ITC, operating, monitoring and providing of outsourcing services as part of the total office solution and providing of cloud services through its own data center.
The carrier networks business mainly renders service integration relating to ICT foundation for carriers. The segment renders SI services relating to large-scale and wide-range ICT foundation and data center of carrier grade, as well as operational and monitoring services in connection with the SI services.
The social infrastructures business mainly renders service integration relating to SI services of ICT Infrastructure for governments or public-interest corporations (broadcasters, electric companies, etc.) and related operational and monitoring services, and provides structures for of communication.
Segment sales, income, assets and others are calculated by accounting methods similar to those employed to prepare the accompanying consolidated financial statements.

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen					
March 31, 2014	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	¥ 98,199	¥ 65,142	¥ 92,203	¥ 14,781	¥ —	¥ 270,326
(2) Intersegment sales	—	—	—	—	—	—
Total	¥ 98,199	¥ 65,142	¥ 92,203	¥ 14,781	¥ —	¥ 270,326
Segment income	¥ 8,034	¥ 6,669	¥ 7,738	¥ 474	¥ (8,498)	¥ 14,418
Segment assets	¥ 33,478	¥ 27,201	¥ 53,220	¥ 9,995	¥ 65,163	¥ 189,059
Others:						
Depreciation and amortization	¥ 989	¥ 212	¥ 116	¥ 113	¥ 1,132	¥ 2,565
Purchases of property and equipment, and intangible assets	1,887	284	110	170	1,246	3,700
Investments in an affiliate accounted for by the equity method	126	—	—	—	—	126

	Thousands of U.S. dollars					
March 31, 2014	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	$ 954,129	$ 632,938	$ 895,871	$ 143,616	$ —	$ 2,626,564
(2) Intersegment sales	—	—	—	—	—	—
Total	$ 954,129	$ 632,938	$ 895,871	$ 143,616	$ —	$ 2,626,564
Segment income	$ 78,061	$ 64,798	$ 75,185	$ 4,606	$ (82,569)	$ 140,089
Segment assets	$ 325,282	$ 264,293	$ 517,101	$ 97,114	$ 633,142	$ 1,836,951
Others:						
Depreciation and amortization	$ 9,609	$ 2,060	$ 1,127	$ 1,098	$ 10,999	$ 24,922
Purchases of property and equipment, and intangible assets	18,335	2,759	1,069	1,652	12,106	35,950
Investments in an affiliate accounted for by the equity method	1,224	—	—	—	—	1,224

	Millions of yen					
March 31, 2013	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	¥ 85,338	¥ 54,732	¥ 80,935	¥ 14,709	¥ —	¥ 235,716
(2) Intersegment sales	—	—	—	—	—	—
Total	¥ 85,338	¥ 54,732	¥ 80,935	¥ 14,709	¥ —	¥ 235,716
Segment income	¥ 7,368	¥ 6,306	¥ 6,162	¥ 396	¥ (7,751)	¥ 12,483
Segment assets	¥ 33,620	¥ 21,824	¥ 51,357	¥ 9,412	¥ 51,256	¥ 167,472
Others:						
Depreciation and amortization	¥ 858	¥ 184	¥ 109	¥ 70	¥ 941	¥ 2,164
Purchases of property and equipment, and intangible assets	976	115	149	357	1,934	3,533
Investments in an affiliate accounted for by the equity method	360	—	—	—	—	360

Notes:

1. "Others" includes Toyo Networks & System Integration Co., Ltd. and purchases of information and telecommunications equipment, etc., which are not included in the reported segments.
2. "Adjustments" of ¥8,498 million ($82,569 thousand) and ¥7,751 million in segment income for the years ended March 31, 2014 and 2013, respectively, are mainly administrative operation expenses.
3. "Adjustments" of ¥65,163 million ($633,142 thousand) and ¥51,256 million in segment assets at March 31, 2014 and 2013, respectively, mainly consist of surplus funds (cash and deposits), land, long-term deposits and assets relating to the administrative operations of the parent company.
4. Segment income is adjusted with operating income in the consolidated statements of income.
5. "Depreciation and amortization" and "purchases of property and equipment, and intangible assets" include long-term prepaid expenses and their amortization.

Related information

Related segment information for the years ended March 31, 2014 and 2013 are as follows:

(1) Information by products and services

Please refer to the reported segment information.

(2) Geographical information

1) Sales

Disclosures are omitted because sales to Japanese customer are over 90% of sales in the consolidated statements of income.

2) Property and equipment

Disclosures are omitted because property and equipment located in Japan are over 90% of property and equipment in the consolidated balance sheets.

(3) Information by major customers

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Customer name:			
NEC Corporation			
Sales	¥ 88,914	¥ 86,079	$ 863,914

The above sales are related to the "enterprise networks" segment, "carrier networks" segment and "social infrastructures" segment.

Information of impairment loss on fixed assets by reported segments for the years ended March 31, 2014 and 2013

	Millions of yen					
March 31, 2014	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Impairment loss	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

	Thousands of U.S. dollars					
March 31, 2014	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Impairment loss	$ —	$ —	$ —	$ —	$ —	$ —

	Millions of yen					
March 31, 2013	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Impairment loss	¥ —	¥ —	¥ —	¥ 165	¥ —	¥ 165

Information of amortization of goodwill and balances of goodwill by reported segments as of and for the years ended March 31, 2014 and 2013

	Millions of yen					
March 31, 2014	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	¥ 106	¥ 164	¥ —	¥ 60	¥ —	¥ 331
Balances as of goodwill	1,360	1,479	—	662	—	3,502

	Thousands of U.S. dollars					
March 31, 2014	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	$ 1,030	$ 1,593	$ —	$ 583	$ —	$ 3,216
Balances as of goodwill	13,214	14,370	—	6,432	—	34,026

	Millions of yen					
March 31, 2013	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	¥ 21	¥ —	¥ —	¥ 60	¥ —	¥ 81
Balances as of goodwill	358	—	—	722	—	1,080

Negative goodwill incurred by reported segments for the years ended March 31, 2014 and 2013

There are no material amounts to report.

KPMG

Independent Auditor's Report

To the Board of Directors of NEC Networks & System Integration Corporation:

We have audited the accompanying consolidated financial statements of NEC Networks & System Integration Corporation, and its consolidated subsidiaries , which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended , and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of NEC Networks & System Integration Corporation and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA LLC

June 24, 2014
Tokyo, Japan

Global Network (As of July 1, 2014)

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Subsidiaries and Affiliates

NEC Magnus Communications., Ltd.
Head office: Tokyo, Japan
Established: November 1985
Capitalization: ¥190 million
Voting rights: 100.0%

Toyo Networks & System Integration Co., Ltd.
Head office: Kanagawa, Japan
Established: May 2005
Capitalization: ¥400 million
Voting rights: 100.0%
Subsidiaries: TOYO ALPHANET CO., LTD.
TNSi Europe GmbH

Nichiwa Co.
Head office: Hyogo, Japan
Established: January 1953
Capitalization: ¥50 million
Voting rights: 100.0%

NEC Net Innovation, Ltd.
Head office: Miyagi, Japan
Established: August 1977
Capitalization: ¥45 million
Voting rights: 100.0%

Q&A Corporation
Head office: Tokyo, Japan
Established: July 1997
Capitalization: ¥897 million
Voting rights: 55.9%
Subsidiaries: D-Cubic Corporation
HORIZON ARCHITECT Corporation
ArkPOWER CO., LTD.

NEC Networks & System Integration Engineering, Ltd.
Head office: Tokyo, Japan
Established: October 1992
Capitalization: ¥50 million
Voting rights: 100.0%

NEC Networks & System Integration Services, Ltd.
Head office: Tokyo, Japan
Established: July 1988
Capitalization: ¥60 million
Voting rights: 100.0%

NESIC Ascerent, Ltd.
Head office: Tokyo, Japan
Established: June 1951
Capitalization: ¥20 million
Voting rights: 100.0%

NESIC BRASIL S/A
Head office: Sao Paulo, Brazil
Established: November 1976
Voting rights: 87.4%

NESIC (Thailand) Ltd.
Head office: Bangkok, Thailand
Established: March 1991
Voting rights: 49.0%

NESIC PHILIPPINES, INC.
Head office: Manila, The Philippines
Established: April 1991
Voting rights: 100.0%

NESIC (GUANGZHOU) CO., LTD.
Head office: Guangzhou, China
Established: August 1998
Voting rights: 100.0%

Networks & System Integration Saudi Arabia Co. Ltd.
Head office: Al-Khobar, Saudi Arabia
Established: April 2006
Voting rights: 95.0%

Certifications

ISO9001: 2008
Certificate No.: JQA-0471

ISO14001: 2004
Certificate No.: JQA-EM0640

ISO/IEC27001: 2013
Certificate No.: JQA-IM0351
Organization: Service Infrastructure Division
(ICT Help Desk Services Department)
(Remote Operation Services Department)

ISO/IEC27001: 2005
Certificate No.: JQA-IM0190
Organization: Office Service Division
(SI & Services Operations Unit)
(Service Infrastructure Construction Department)
(Network Service & Operation Department)
(NEC Platform Service Department "Security Control Center")
*As of March 31, 2014

Certificate No.: BSKS0027
Organization: Public Systems Division
(Network Infrastructures Operations Unit)
*as of March 31, 2014

Certificate No.: JQA-IM1086
Organization: Fire & Disaster Prevention Systems Division
(Network Infrastructures Operations Unit)
*as of March 31, 2014

Certificate No.: JQA-IM1013
Organization: Kansai Solutions Division
(Enterprise Solutions Operations Unit)
(1st Solutions Department)
(3rd Solutions Department)
Nishinihon Systems Division
(Public Infrastructures Solutions Operations Unit)
(Kansai Service Center)

ISO/IEC 20000-1: 2011
Certificate No.: JQA-IT0037
Organization: Office Service Division
Customer Engineering Division
Service Infrastructure Division
(SI & Services Operations Unit)
*as of March 31, 2014

Privacy Mark
Certificate No.: 21000053

ISO 22301: 2012
(Business Continuity Management System)
Certificate No.: BCMS 539922
Certified Organization: 44 departments of NEC Group (BCP)
Scope of the Certification of NESIC Group:
Network Operation & Maintenance Bussiness of Telecom Carrier Business Unit
(Unified Communication Network in Tokyo),
Carrier Operation and Maintenance Business,
CATV Business

Investor Information (As of March 31, 2014)

Corporate Data

Corparate Name	NEC Networks & System Integration Corporation
Established	December 1, 1953 (registered as a stock company on November 26, 1953)
Number of Employees	4,631 (Non-consolidated) 7,164 (Consolidated)
URL	http://www.nesic.co.jp/english/
Listing	Tokyo Stock Exchange, First Section
Ticker Code	1973
Fiscal Year	April 1 - March 31 Annual meeting held in June
Common Stock Authorized	100,000,000 shares
Issued	49,773,807 shares
Number of Shareholders	8,303
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan
Independent Auditors	KPMG AZSA & Co.

Major Shareholders

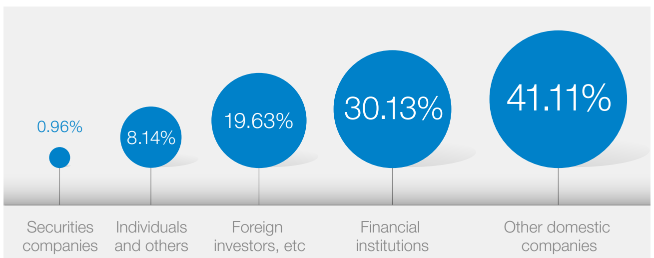
Name of Shareholder	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding [2]
NEC Corporation	19,106	38.43%
Japan Trustee Services Bank, Ltd. [1] (Sumitomo Mitsui Trust Bank, Limited beneficiary trust account, NEC Corporation retirement benefit trust account)	6,400	12.87%
Japan Trustee Services Bank, Ltd. (Trust account)	2,341	4.71%
The Master Trust Bank of Japan, Ltd. (Trust account)	1,620	3.26%
Sumitomo Realty & Development Co., Ltd.	1,200	2.41%
CMBL S . A . Re Mutual Funds	999	2.01%
JP MORGAN CHASE BANK 385166	699	1.41%
Trust & Custody Services Bank, Ltd. (Pension trust account)	662	1.33%
Employees' Stock Ownership Plan	658	1.33%
The Chase Manhattan Bank , N.A. London Secs Lending Omnibus Account	581	1.17%

Notes

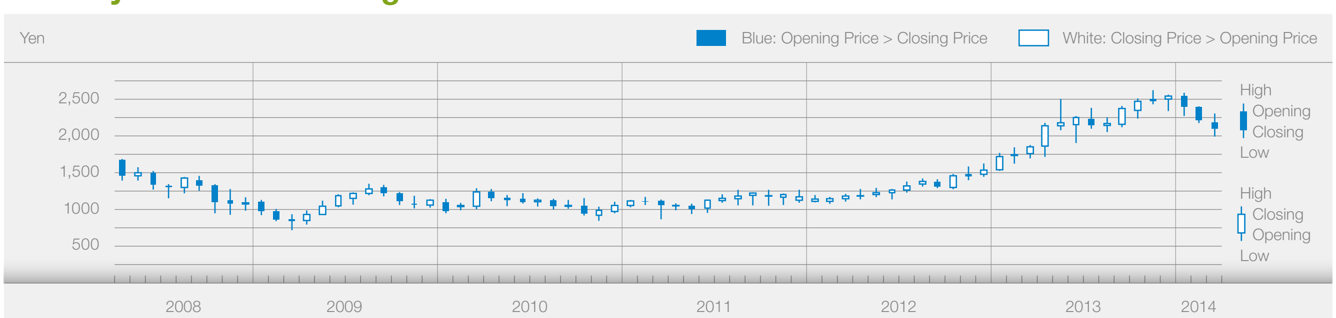
1 Shares held by Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Trust Bank, Limited beneficiary trust account, NEC Corporation retirement benefit trust account) give NEC Corporation material voting rights because NEC Corporation has contributed shares of the Company to its retirement benefit trust.
The percentage of material voting rights held by NEC Corporation as of March 31, 2014 was 51.42%.

2 The percentage of total shares outstanding is calculated based on the number of shares excluding treasury stock (51,635 shares).

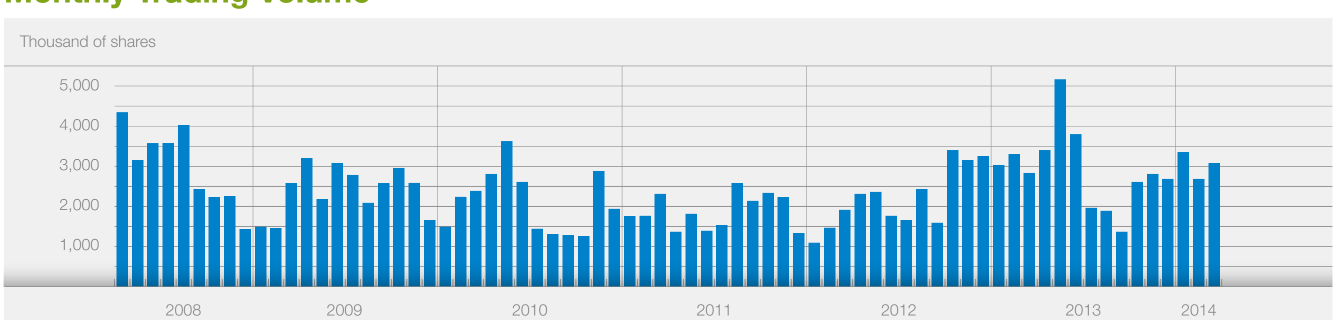
Composition of Shareholders



Monthly Stock Price Range



Monthly Trading Volume



NEC Networks & System Integration Corporation

2-6-1 Koraku, Bunkyo-ku, Tokyo 112-8560, Japan
http://www.nesic.co.jp/english/