

# FINANCIAL SECTION

CONTENTS	35	MANAGEMENT'S DISCUSSION AND ANALYSIS
	45	CONSOLIDATED BALANCE SHEETS
	47	CONSOLIDATED STATEMENTS OF OPERATIONS
	48	CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
	49	CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
	51	CONSOLIDATED STATEMENTS OF CASH FLOWS
	53	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
	95	INDEPENDENT AUDITORS' REPORT

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥83 = U.S.\$1.

# Management's Discussion and Analysis

## Year Ended March 31, 2011 (Fiscal 2011)

### Compared With the Year Ended March 31, 2010 (Fiscal 2010)

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This section contains forward-looking statements concerning the NEC Group's analysis of financial condition, business results and cash flows. These statements are based on the judgment of the NEC Group as of March 31, 2011. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated.

## 1. Business Overview and Key Business Drivers

Guided by the NEC Group Vision 2017, NEC aims to be a leading global company leveraging the power of innovation to realize "an information society friendly to humans and the earth." In February 2010, the NEC Group determined its medium-term policy of realizing the NEC Group Vision 2017 through customer-driven solutions leveraging its competitive strengths in the integration of IT and network. The NEC Group also formulated its Mid-Term Growth Plan "V2012—Beyond boundaries, Toward our Vision." In fiscal 2011, the plan's first year, NEC worked on the three key initiatives of the Mid-Term Growth Plan "V2012": Focus on the "C&C Cloud Strategy," expand global business and create new businesses.

The NEC Group generates sales from five segments: the IT Services, Platform, Carrier Network, Social Infrastructure, and Personal Solutions businesses. In fiscal 2011, the IT Services business generated 25.8% of total consolidated net sales, the Platform business 12.1%, the Carrier Network business 19.4%, the Social Infrastructure business 10.2% and the Personal Solutions business 24.6%. (The ratios of segment sales to total net sales were calculated based on segment sales to external customers.)

The following is an overview of products and services by segment:

Sales in the IT Services business are derived mainly from systems integration such as systems implementation and consulting as well as maintenance and support services and outsourcing services. Cloud services such as data center services and IT operation management are another source of sales. These services are provided primarily to government agencies and private-sector companies.

Sales in the Platform business are derived mainly from the manufacturing and sale of PC servers, UNIX servers, mainframes, supercomputers, storage and ATMs, IP telephony systems, WAN and wireless access equipment, and LAN products. Sales are also derived from software, including integrated operation management, application server, security, operating system, and database software.

Sales in the Carrier Network business are derived mainly from the manufacturing and sale of network infrastructure such as backbone network systems and access network systems, primarily to telecom carriers. Sales are also derived from provision of services and management, including network operation support systems (OSS), business support systems (BSS), network control platform systems, and network service delivery platform systems for telecom carriers.

Sales in the Social Infrastructure business are derived mainly from the manufacturing and sale of broadcasting and video distribution systems such as digital terrestrial TV transmitters, control systems such as postal/logistics automation systems, transportation and public network systems such as train radio systems, fire and disaster prevention systems such as fire-fighting command systems, and aerospace and defense systems such as air traffic control systems and uncooled infrared sensors.

Sales in the Personal Solutions business are derived mainly from the manufacturing and sale of mobile phones, smartphones, personal computers, tablet devices, mobile routers and wireless routers, as well as the provision of "BIGLOBE" Internet services and display solutions, including monitors, projectors, and public displays for digital signage.

The performance of the IT Services, Platform, Carrier Network, and Social Infrastructure businesses is subject to changes in economic conditions, IT investment trends and investment by telecom carriers. The performance of the Personal Solutions business is subject to the business strategies of telecom carriers, demand from corporate and individual customers and other factors.

## 2. Analysis of Fiscal 2011 Business Results

\*NEC has revised its business segments during the accounting period of fiscal 2011. To make comparisons, figures for the previous fiscal year have also been adjusted in accordance with the new segments.

In fiscal 2011, the global economy showed signs of a self sustaining recovery as a result of continued expansion in emerging countries such as China and India and the effects of economic measures taken by governments in developed countries, including the United States and Europe, despite continued high unemployment throughout such developed countries, and the emergence of the financial crisis in Europe.

The Japanese economy exhibited positive signs through slow manufacturing improvement from the recovery of export and steady improvement of consumer spending being influenced by economic stimulus packages. However, severe consumer income conditions and employment continued and corporate capital investment have yet to make a full-scale recovery. Furthermore, economic activity was significantly impacted by the damages and accompanying production and distribution disruption, as well as power shortages and other results from the Great East Japan Earthquake of March 2011.

Under this business environment, the NEC Group took measures to implement NEC's three key strategic policies - Focus on the "C&C Cloud Strategy," expand global business and create new businesses, and strived to strengthen profitability for this first year of its mid-term growth plan, "V2012 -Beyond boundaries, Toward our Vision-."

Firstly, concerning NEC's "C&C Cloud strategy", the NEC Group promoted the delivery of cloud services throughout a wide variety of domains, including core operating services for local governments, together with the management of resident information and information sharing services between hospitals through the use of the NEC Group's accomplishments in the IT and Network fields as well as its technologies and know-how. Moreover, the NEC Group thoroughly revised its business processes across the entire group as part of improving business efficiency and reducing costs, in addition to advancing activities that concentrate key IT systems for accounting, sales and procurement within a cloud environment. The technology and know-how acquired from the implementation and operation of these new systems, which began full operations during fiscal 2011, will be used

for the implementation of core systems for customers. Additionally, the NEC Group actively promoted the creation of new business models in cooperation with customers, including the broad expansion of cloud services that combine the NEC Group's cloud technologies with customer business know-how. The NEC Group also took measures to expand data centers as part of strengthening business foundations for the provision of cloud services, in addition to maintaining and optimizing shared IT foundations for service provision. In support of telecom carriers, NEC provided the communications infrastructure for NTT DOCOMO, INC.'s launch of "Xi" (read "Crossy") in December 2010, a high-speed, high-capacity LTE mobile communications service.

Regarding the expansion of global business, the NEC Group promoted business expansion through regional headquarters in North America, Greater China, APAC (Asia Pacific) and EMEA (Europe, Middle East and Africa) that each utilize local leadership and cater to regional characteristics. In addition, a regional headquarters was established in Latin America in April 2011. NEC is now able to expand its global business through the five regional headquarters structure, responding to customers needs in each region. Furthermore, the NEC Group established competence centers for bringing together the necessary technologies and know-how for promoting global business. This includes the carrier cloud business in support of expanding cloud services for telecom carrier subscribers, public safety business, including fingerprint and biometrics identification for room access control and immigration control solutions, as well as the indoor ultra-compact wireless base station (femtocell) business. Collectively, these technologies and know-how will be used to create optimized solutions that meet customer needs and to horizontally develop business throughout the entire NEC Group.

In relation of new business creation, the NEC Group's developments in the environment and energy fields include its promotion of lithium-ion rechargeable batteries for automotives through a joint venture with Nissan Motor Co., Ltd., and its verification trials for quick charging systems that are needed for the spread of electric automotives. Moreover, the NEC Group began activities in support of the future smart grid markets, including the active promotion of verification trials with business partners for large-scale storage systems for electricity distribution, as well as energy management systems that optimize the use of energy for both homes and businesses. In the multifunction terminal domain, NEC began providing Android™ based smartphones to the domestic market in Japan and expanded its lineup of tablet devices.

Regarding the strengthening of profitability, in addition to reducing costs, the management system for assessing profitability risks was also reinforced.

On top of these activities, NEC also improved its competitive strengths by integrating its mobile phone business with Casio Hitachi Mobile Communications, Co., Ltd. and by reaching a strategic partnership agreement with Lenovo Group Limited in order to unify the two companies' personal computer business.

In fiscal 2011, NEC recorded consolidated sales of 3,115.4 billion yen, a decrease of 467.7 billion yen or 13.1%, year on year. This was mainly due to NEC Electronics Corporation (currently Renesas Electronics Corporation), which had been engaged in the semiconductors business within the NEC Group, no longer being a consolidated subsidiary of NEC, the delayed recovery of domestic IT investment and the Great East Japan Earthquake.

Regarding profitability, consolidated operating income was 57.8 billion yen, improving by 6.9 billion yen year on year, mainly due to NEC Electronics Corporation, which recorded an operating loss during the previous fiscal year, no longer being a consolidated subsidiary, and improving operating income from the Platform business, despite worsening operating income (loss) from the IT Services business and Personal Solutions business.

In terms of ordinary income, NEC recorded 0.04 billion yen, worsening by 49.4 billion yen year on year, despite improving operating income, mainly due to equity in losses of affiliates.

Loss before income taxes and minority interests was 15.7 billion yen, a year on year worsening of 71.3 billion yen. This was mainly due to worsening ordinary income and worsening special income (loss) from reduced gain on sales of subsidiaries and affiliates' stocks.

Consolidated net loss was 12.5 billion yen, worsening by 23.9 billion yen year on year mainly due to larger loss before income taxes and minority interests, despite an improvement from reduced income taxes-deferred.

Sales and operating income (loss) in each segment were as follows (figures in parentheses represent year on year changes):

**a. IT Services business**

Sales:	804.2 billion yen	(-7.2%)
Operating income:	21.4 billion yen	(-31.8 billion yen)

Sales of the IT Services business for fiscal 2011 amounted to 804.2 billion yen, a decrease of 62.1 billion yen or 7.2% year on year, mainly impacted by the delayed recovery of IT investment in Japan and a decline in large-scale projects, despite the steady growth of sales in cloud services and outsourcing.

Operating income was 21.4 billion yen, worsened by 31.8 billion yen year on year, mainly owing to reduced sales, worsening profitability from severe price competition and an increase in loss-making projects.

**b. Platform business**

Sales:	375.8 billion yen	(+0.6%)
Operating income:	8.9 billion yen	(+10.6 billion yen)

Sales of the Platform business for fiscal 2011 amounted to 375.8 billion yen, an increase of 2.1 billion yen or 0.6% year on year, mainly due to the steady growth of software sales, despite a decrease in hardware sales, including servers.

Operating income was 8.9 billion yen, improving by 10.6 billion yen year on year, mainly owing to an increase in sales and continued cost reductions.

**c. Carrier Network business**

Sales:	605.4 billion yen	(-3.5%)
Operating income:	40.7 billion yen	(+9.4 billion yen)

Sales of the Carrier Network business for fiscal 2011 amounted to 605.4 billion yen, a decrease of 22.0 billion yen or 3.5% year on year, mainly due to the influence of exchange rate fluctuation and the delay of contractual procedures for submarine cable systems, despite an increase in the sales of wireless communications equipment in domestic markets and cable television related systems.

Operating income was 40.7 billion yen, improving by 9.4 billion yen year on year, mainly owing to streamlining costs and increased sales in the second half of this fiscal year.

**d. Social Infrastructure business**

Sales:	318.8 billion yen	(+0.7%)
Operating income:	14.6 billion yen	(-7.1 billion yen)

Sales of the Social Infrastructure business for fiscal 2011 amounted to 318.8 billion yen, an increase of 2.2 billion yen or 0.7% year on year, mainly due to the steady growth of the social systems field, including transportation systems and fire and disaster prevention systems, despite a decrease in sales in the aerospace and defense systems fields.

Operating income was 14.6 billion worsening by 7.1 billion yen year on year, mainly owing to the influence of highly profitable projects from the previous fiscal year and increasing costs for strengthening NEC's organization of development and sales in the social systems field, despite an effort to reduce costs.

**e. Personal Solutions business**

Sales:	766.5 billion yen	(+3.9%)
Operating loss:	1.9 billion yen	(-20.8 billion yen)

Sales of the Personal Solutions business for fiscal 2011 amounted to 766.5 billion yen, an increase of 28.8 billion yen or 3.9% year on year, mainly due to the integration of the mobile phone business with Casio Hitachi Mobile Communications Co., Ltd. and an increase in sales in display business for overseas markets, despite sluggish sales of mobile phones.

Operating loss was 1.9 billion yen, worsening by 20.8 billion yen year on year, mainly owing to sluggish sales of mobile phones and an increase in development costs for new devices, including smartphones.

**f. Others**

In the Others segment, sales were 244.7 billion yen, a decrease of 416.6 billion yen or 63.0% year on year, mainly due to NEC Electronics Corporation (currently Renesas Electronics Corporation), which had been engaged in the semiconductor business within the NEC Group, no longer being a consolidated subsidiary.

Operating income was 7.3 billion yen, improved by 52.2 billion yen year on year, mainly due to NEC Electronics Corporation, which recorded an operating loss during the previous fiscal year, no longer being a consolidated subsidiary.

### 3. Liquidity and capital resources

#### a. Cash Flows

	<i>Billions of Yen</i>		<i>Millions of</i>
	2010	2011	<i>U.S. Dollars</i>
Net cash provided by (used in)			2011
Operating activities (net)	¥ 134.8	¥ 33.7	\$ 405.5
Investing activities (net)	(41.2)	(146.2)	(1,762.0)
Financing activities (net)	(80.4)	73.1	880.4
Effect of exchange rate changes on cash and cash equivalents	0.1	(4.1)	(49.1)
Net increase (decrease) in cash and cash equivalents	13.3	(43.6)	(525.1)
Cash and cash equivalents, at beginning of year	317.3	330.5	3,982.5
Decrease in cash and cash equivalents resulting from change of scope of consolidation	-	(92.8)	(1,117.9)
Increase in cash and cash equivalents resulting from merger	-	9.7	116.9
Cash and cash equivalents, at end of year	¥ 330.5	¥ 203.9	\$ 2,456.4

#### b. Basic Liquidity Management Policy / Capital Resources

The NEC Group's basic policy is to maintain sufficient liquidity in hand for conducting business activities. Liquidity in hand is the sum of cash and cash equivalents and the unused portion of committed credit facilities established with multiple financial institutions. As of March 31, 2011, NEC had a sufficient amount of liquidity. Total liquidity in hand as of March 31, 2011 was 453.8 billion yen, comprising cash and cash equivalents of 203.9 billion yen and unused committed credit facilities of 249.9 billion yen. Cash and cash equivalents are mainly denominated in yen as well as other denominations that include U.S. dollars and euros.

The NEC Group maintains credit facilities that it believes are sufficient to meet its short-term and long-term financing needs. With regard to short-term financing, the NEC Group relies primarily on commercial paper ("CP") in Japan to provide for short-term financing. It has a 515.0 billion yen CP program. To prepare for unexpected short-term funding needs or instability in fund procurement through the issue of CP, the NEC Group maintains committed short-term credit facilities of 255.0 billion yen to ensure that funds may be borrowed from financial institutions at all times. Of this amount, 80.0 billion yen represents a committed credit facility with a contract period effective through March 2014 that enables NEC to obtain short-term loans. For long-term financing, the NEC Group has a 300.0 billion yen straight bond issuance program in Japan.

In June 2010, the NEC Group raised 100 billion yen through the issuance of unsecured bonds in Japan to finance the repayment of borrowings and the redemption of bonds during fiscal 2011. In December 2010, the NEC Group raised an additional 50 billion yen through the issuance of unsecured bonds in Japan to finance the redemption of commercial paper issued for debt repayment purposes during fiscal 2011.

Our basic policy regarding the structure of liabilities on the balance sheets is to maintain a balanced mix of fund procurement from debt and capital market instruments, while securing adequate long-term funds, from the standpoint of satisfying funding requirements in a stable manner.

The Group's fund procurement status was as follows:

As of March 31,	2010	2011
Long-term fund procurement*1	60.1%	51.1%
Use of capital market instruments*2	41.1%	68.3%

\*1 Long-term fund procurement is calculated by dividing the sum of bonds and long-term borrowings and others (lease obligations with maturities of more than one year) by interest-bearing debt.

\*2 Use of capital market instruments is calculated by dividing the sum of bonds (including the current portion) and CPs by interest-bearing debt.

As of March 31, 2011, long-term fund procurement was 51.1% and the use of capital market instruments was 68.3%.

## 4. Capital Expenditures

Capital expenditures of NEC and its consolidated subsidiaries for fiscal 2011 are broken down as follows (amounts do not include consumption taxes):

	<i>Millions of Yen</i>		<i>YoY Change</i>
	2010	2011	2011/2010
IT Services business	¥ 4,388	¥ 3,598	Down 18.0%
Platform business	2,475	3,266	Up 32.0%
Carrier Network business	4,597	6,297	Up 37.0%
Social Infrastructure business	7,062	3,458	Down 51.0%
Personal Solutions business	5,013	7,776	Up 55.1%
Others	59,563	28,455	Down 52.2%
Total	¥ 83,098	¥ 52,850	Down 36.4%

In the IT Services business, capital expenditures included investment in facilities related to cloud services. In the Platform business, capital expenditures included investments in R&D equipment and production facilities for computers, such as servers and storage, along with production facilities for key telephones and POS systems. In the Carrier Network business, capital expenditures included investments in R&D equipment and production facilities mainly for next-generation wireless communications systems. In the Social Infrastructure business, capital expenditures included investments in R&D equipment and production facilities for defense, satellite and other systems. In the Personal Solutions business, capital expenditures included investments in R&D equipment and production facilities for mobile phones and smartphones; and facilities related to the "BIGLOBE" Internet service. In others, capital expenditures included investments in production facilities for automotive lithium-ion rechargeable battery electrodes and the construction of a new building at the Tamagawa Plant.

NEC primarily used its own capital and borrowings to fund these capital expenditures.

## 5. Management Strategy and Policy

The NEC Group aims “to be a leading global company leveraging the power of innovation to realize an information society friendly to humans and the earth” in the “NEC Group Vision 2017.” In February 2010, the NEC Group outlined in its mid-term growth plan, “V2012 - Beyond boundaries, Toward our Vision -” that it aims to achieve the “NEC Group Vision 2017” through customer-driven solutions leveraging competitive strengths in the integration of IT and network. During this first year of the mid-term growth plan “V2012”, the NEC Group took measures to implement its key strategic policies in support of “V2012”: Focus on the “C&C Cloud Strategy,” expand global business and create new businesses. However, the NEC Group was unable to achieve its original targets due to an inability to quickly implement strategies for global business structure or the development of new products and services for business expansion.

In the fiscal year ending March 31, 2012, the NEC Group will concentrate on business expansion while also accelerating its efforts to strengthen profitability as part of its mid-term growth plan “V2012” and the succeeding “NEC Group Vision 2017.”

With regards to business expansion, the NEC Group will first dedicate itself to three key strategic policies in support of “V2012.”

The NEC Group is capitalizing on its strengths in both the IT and Network fields to provide total solutions that include the cloud services for enterprises and local governments, IT platforms for the provision of cloud services, sensors that handle a wide variety of electric information as electronic data, and multifunction terminals. Furthermore, the NEC Group is providing communications infrastructure, including high speed, high capacity mobile communications systems, in anticipation of increased communications demand from the spread of multifunction terminals, such as smartphones and tablet devices. This communications infrastructure will be the platform for the provision of various cloud services.

Looking forward, the NEC Group seeks to leverage its achievements and know-how to enhance its lineup of the most suitable cloud services for a full range of industries, including government agencies, manufacturers and distributors, and to drive the expansion of sales. Furthermore, the NEC Group will utilize the technologies and know-how cultivated through the group’s internal implementation of cloud services for core IT systems in order to win orders from customers for additional core cloud service development. Moreover, the NEC Group will strengthen its international business coordination in order to expand cloud service sales on a global scale. The NEC Group will drive the promotion of its “C&C Cloud Strategy,” including its provision of cloud services for mobile environments, by capitalizing on the NEC Group’s wireless technology strengths.

Regarding global business, the NEC Group aims to expand business by executing decisions quickly and effectively, and by promoting operations through the unified regional leadership of five regional headquarters covering North America, Latin America, Greater China, APAC (Asia Pacific) and EMEA (Europe, Middle East, Africa), accelerating the transfer of responsibility to local subsidiaries, localizing the management layer and advancing personnel policies. The NEC Group will devote particular attention to the educational, environmental, energy, medical and public safety fields which are forecast to experience particularly high growth in emerging markets, including Asia.

Concerning new business, the NEC Group aims to increase sales for the business of lithium-ion rechargeable batteries for automotives together with Nissan Motor Co., Ltd. through expanded production capacity, improved

quality, advanced price competitiveness and reduced lead time. Furthermore, the NEC Group is also leveraging these technologies for lithium-ion rechargeable batteries to expand sales outside of the automotive field. Moreover, in the smart grid field, business ties are steadily being formed from the results of verification trials conducted in the fiscal year ended March 31, 2011 for energy management systems for homes and businesses as well as trials for large-scale energy storage systems for energy distribution.

In the area of multifunction terminals, including smartphones and tablet devices, the NEC Group seeks to provide the products utilizing its technologies and know-how to support a wide range of needs while the NEC Group forms additional partnerships in order to further drive the full development of new business.

Additionally, the NEC Group focuses on effectively combining its wide range of assets, including products, services and technologies, in order to create new business opportunities as “One NEC.”

In terms of reinforcing profitability, the NEC Group seeks to reduce loss-making projects by strengthening the risk management regarding its project profitability as well as its contract conditions. Moreover, NEC aims to fully engage in quality control. In order to maximize its profits, the NEC Group will continue to promote cost reductions and to drive the operational efficiency of back offices.

To all of those impacted by the Great East Japan Earthquake, the NEC Group is contributing towards ongoing recovery efforts by concentrating its technologies and assets as “One NEC.” Specifically, the NEC Group is utilizing its IT and Network strengths to reestablish communications infrastructure, including wireless communications, in preparation for future disasters. The NEC Group is also providing cloud services for local governments that enable the use of information systems through networks, as well as providing cloud services that enable information sharing between hospitals. All of these are part of the NEC Group’s efforts towards the realization of a safe and secure society that uses information and communications technology (ICT) to create an environment where services can be utilized at any time, from any location. The NEC Group leverages its technologies and know-how to contribute to energy policies through lithium-ion rechargeable batteries for automotives, energy management systems that optimize the energy of homes and businesses and energy saving products such as servers.

Additionally, focusing on comprehensive compliance, the NEC Group will continue its ongoing maintenance of internal control systems as well as concentrating on the reinforcement of consolidated operational management as “One NEC.”

The NEC Group will devote its full attention to implementing these measures, which target expanded business and reinforced earnings, while on the path to realizing an “information society friendly to humans and the earth.”

**NEC Corporation and Subsidiaries**  
**Consolidated Balance Sheets**  
**March 31, 2010 and 2011**

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2011	2011
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 18)	¥ 330,548	¥ 203,879	\$ 2,456,373
Short-term investments (Note 18)	1,294	1,540	18,555
Trade notes and accounts receivable (Note 18)	773,388	726,355	8,751,265
Inventories (Note 6)	315,552	264,743	3,189,675
Deferred tax assets (Note 13)	93,307	97,431	1,173,867
Other current assets (Note 18 and 19)	134,900	153,104	1,844,627
Allowance for doubtful accounts	(6,024)	(4,472)	(53,880)
Total current assets	<u>1,642,965</u>	<u>1,442,580</u>	<u>17,380,482</u>
<b>PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION (Note 7):</b>			
Land	91,938	75,550	910,241
Buildings and structures	207,535	146,782	1,768,458
Machinery and equipment	133,018	43,933	529,313
Furniture and fixtures	77,681	61,862	745,325
Construction in progress	43,879	13,048	157,205
Total property, plant and equipment	<u>554,051</u>	<u>341,175</u>	<u>4,110,542</u>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Note 5 and 18)	151,221	137,692	1,658,940
Investments in affiliated companies (Note 18)	89,499	133,993	1,614,373
Goodwill (Notes 2.a and 16)	97,458	88,941	1,071,578
Software	117,278	116,169	1,399,626
Deferred tax assets (Note 13)	140,829	174,707	2,104,904
Other assets (Note 8)	154,183	210,940	2,541,446
Allowance for doubtful accounts	(9,840)	(17,266)	(208,024)
Total investments and other assets	<u>740,628</u>	<u>845,176</u>	<u>10,182,843</u>
<b>TOTAL ASSETS</b>	<u><u>¥ 2,937,644</u></u>	<u><u>¥ 2,628,931</u></u>	<u><u>\$ 31,673,867</u></u>

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2011	2011
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings (Note 7 and 18)	¥ 91,161	¥ 212,758	\$ 2,563,349
Current portion of long-term debt (Note 7 and 18)	200,286	117,658	1,417,566
Trade notes and accounts payable (Note 18)	522,533	464,529	5,596,735
Accrued expenses (Note 18)	175,660	160,559	1,934,446
Other current liabilities (Notes 9, 13, 18 and 19)	288,507	225,024	2,711,133
Total current liabilities	1,278,147	1,180,528	14,223,229
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Note 7 and 18)	438,101	345,382	4,161,229
Liabilities for retirement benefits (Note 8)	237,645	182,022	2,193,036
Deferred tax liabilities (Note 13)	8,913	1,125	13,554
Other long-term liabilities (Note 10)	42,926	44,433	535,337
Total long-term liabilities	727,585	572,962	6,903,156
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b> (Notes 17, 19 and 20)			
<b>NET ASSETS (Notes 11 and 23):</b>			
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock:			
Authorized — 7,500,000 thousand shares			
Issued — 2,604,733 thousand shares in 2010 and 2011	397,199	397,199	4,785,530
Capital surplus	192,843	192,837	2,323,337
Retained earnings	216,439	192,943	2,324,615
Treasury stock—at cost:	(2,929)	(2,934)	(35,349)
6,190 thousand shares in 2010 and 6,270 thousand shares in 2011			
Total shareholders' equity	803,552	780,045	9,398,133
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>			
Valuation difference on available-for-sale securities	10,218	4,167	50,205
Deferred gains or losses on hedges	61	132	1,590
Foreign currency translation adjustments	(22,927)	(27,290)	(328,795)
Total accumulated other comprehensive income	(12,648)	(22,991)	(277,000)
STOCK SUBSCRIPTION RIGHTS (Note 12)	93	33	397
MINORITY INTERESTS	140,915	118,354	1,425,952
Total net assets	931,912	875,441	10,547,482
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>¥ 2,937,644</b>	<b>¥ 2,628,931</b>	<b>\$ 31,673,867</b>

**NEC Corporation and Subsidiaries**  
**Consolidated Statements of Operations**  
**Years Ended March 31, 2009, 2010 and 2011**

	<i>Millions of Yen</i>			<i>Thousands of U.S. Dollars (Note 1)</i>
	2009	2010	2011	2011
NET SALES	¥ 4,215,603	¥ 3,583,148	¥ 3,115,424	\$ 37,535,229
COST OF SALES (Note 8)	2,929,567	2,492,403	2,199,973	26,505,699
Gross profit	1,286,036	1,090,745	915,451	11,029,530
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 3,8 and 14)	1,292,237	1,039,840	857,631	10,332,903
Operating income (loss)	(6,201)	50,905	57,820	696,627
NON-OPERATING INCOME:				
Interest and dividend income	8,599	5,489	5,445	65,603
Reversal of provision for contingent loss	—	30,853	1,668	20,096
Equity in earnings of affiliated companies, net	—	7,336	—	—
Other non-operating income	11,712	12,869	9,840	118,554
Total non-operating income	20,311	56,547	16,953	204,253
NON-OPERATING EXPENSES:				
Interest expense	12,578	9,736	6,614	79,687
Retirement benefit expenses (Note 8)	14,791	14,441	12,057	145,265
Loss on disposals of property, plant and equipment	9,590	8,249	4,071	49,048
Provision for contingent loss (Note 2.m)	30,365	6,496	1,367	16,470
Foreign exchange loss, net	10,952	1,953	1,488	17,928
Equity in losses of affiliated companies, net	12,647	—	38,533	464,253
Other non-operating expenses	16,358	17,148	10,602	127,735
Total non-operating expenses	107,281	58,023	74,732	900,386
Ordinary income (loss)	(93,171)	49,429	41	494
SPECIAL GAINS (Note 15)	20,631	31,511	28,270	340,602
SPECIAL LOSSES (Note 15)	218,430	25,286	43,998	530,096
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	(290,970)	55,654	(15,687)	(189,000)
INCOME TAXES (Note 13):				
Current	30,196	28,577	27,788	334,795
Deferred	5,107	12,661	(36,584)	(440,771)
Total income taxes	35,303	41,238	(8,796)	(105,976)
INCOME(LOSS) BEFORE MINORITY INTERESTS	(326,273)	14,416	(6,891)	(83,024)
MINORITY INTERESTS IN NET INCOME(LOSS) OF SUBSIDIARIES	(29,627)	2,988	5,627	67,795
NET INCOME (LOSS)	¥ (296,646)	¥ 11,428	¥ (12,518)	\$ (150,819)
		<i>Yen</i>		<i>U.S. Dollars (Note 1)</i>
	2009	2010	2011	2011
PER SHARE OF COMMON STOCK (Note 22):				
Basic net income (loss)	¥ (146.64)	¥5.04	¥ (4.82)	\$ (0.06)
Diluted net income	—	4.91	—	—
Cash dividends applicable to the year	—	4.00	—	—

See notes to consolidated financial statements.

**NEC Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended March 31, 2010 and 2011**

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 1)</i>
	2010	2011	2011
INCOME(LOSS) BEFORE MINORITY INTERESTS	¥ 14,416	¥ (6,891)	\$ (83,024)
OTHER COMPREHENSIVE INCOME			
Valuation difference on available-for-sale securities	15,307	(5,941)	(71,578)
Deferred gains or losses on hedges	122	11	133
Foreign currency translation adjustment	1,238	2,470	29,759
Share of other comprehensive income of associates accounted for using equity method	2,375	(3,975)	(47,892)
Total other comprehensive income	<u>19,042</u>	<u>(7,435)</u>	<u>(89,578)</u>
COMPREHENSIVE INCOME	<u>¥ 33,458</u>	<u>¥ (14,326)</u>	<u>\$ (172,602)</u>
Comprehensive income attributable to			
owners of the parent	¥ 30,683	¥ (22,861)	\$ (275,433)
minority interests	2,775	8,535	102,831

**NEC Corporation and Subsidiaries**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended March 31, 2009, 2010 and 2011**

	<i>Thousands</i>			
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings
BALANCE, APRIL 1, 2008	2,029,733	¥ 337,940	¥ 464,875	¥ 179,391
Net income(loss)				(296,646)
Cash dividends paid, ¥ 4 per share				(8,101)
Purchases of treasury stock				
Disposals of treasury stock				(921)
Net changes in items other than shareholders' equity during the year				
BALANCE, MARCH 31, 2009	2,029,733	337,940	464,875	(126,276)
Net income				11,428
Issuance of new shares	575,000	59,260	59,260	
Deficit disposition			(331,287)	331,287
Purchases of treasury stock				
Disposals of treasury stock				(5)
Net changes in items other than shareholders' equity during the year				
BALANCE, MARCH 31, 2010	2,604,733	397,199	192,843	216,439
Net income(loss)				(12,518)
Cash dividends paid, ¥ 4 per share				(10,395)
Purchases of treasury stock				
Disposals of treasury stock				(6)
Change in equity in affiliates accounted for by equity method-treasury stock				
Change of scope of equity method				(583)
Net changes in items other than shareholders' equity during the year				
BALANCE, MARCH 31, 2011	<u>2,604,733</u>	<u>¥ 397,199</u>	<u>¥ 192,837</u>	<u>¥ 192,943</u>

	Shareholders' Equity		
	Common Stock	Capital Surplus	Retained Earnings
BALANCE, MARCH 31, 2010	\$ 4,785,530	\$ 2,323,409	\$ 2,607,699
Net income(loss)			(150,819)
Cash dividends paid, \$0.05 per share			(125,241)
Purchases of treasury stock			
Disposals of treasury stock			(72)
Change in equity in affiliates accounted for by equity method-treasury stock			
Change of scope of equity method			(7,024)
Net changes in items other than shareholders' equity during the year			
BALANCE, MARCH 31, 2011	<u>\$ 4,785,530</u>	<u>\$ 2,323,337</u>	<u>\$ 2,324,615</u>

Conforming to separate financial statements, total amounts seem to be inconsistent with calculation in some cases.

See notes to consolidated financial statements.

Millions of Yen

Accumulated other comprehensive income

Treasury Stock	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign Currency Translation Adjustments	Total	Stock Subscription Rights	Minority Interests	Total Net Assets
¥ (3,233)	¥ 978,973	¥ 29,898	¥ (283)	¥ (4,367)	¥ 25,248	¥ 115	¥ 181,185	¥ 1,185,521
	(296,646)							(296,646)
	(8,101)							(8,101)
(900)	(900)							(900)
1,151	229							229
	-	(36,126)	163	(21,188)	(57,151)	8	(37,397)	(94,540)
(2,982)	673,557	(6,228)	(120)	(25,555)	(31,903)	123	143,788	785,565
	11,428							11,428
	118,519							118,519
(47)	(47)							(47)
100	95							95
	-	16,446	181	2,628	19,255	(30)	(2,873)	16,352
(2,929)	803,552	10,218	61	(22,927)	(12,648)	93	140,915	931,912
	(12,518)							(12,518)
	(10,395)							(10,395)
(40)	(40)							(40)
12	6							6
23	23							23
	(583)							(583)
	-	(6,051)	71	(4,363)	(10,343)	(60)	(22,561)	(32,964)
¥ (2,934)	¥ 780,045	¥ 4,167	¥ 132	¥ (27,290)	¥ (22,991)	¥ 33	¥ 118,354	¥ 875,441

Thousands of U.S. Dollars (Note 1)

Accumulated other comprehensive income

Treasury Stock	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign Currency Translation Adjustments	Total	Stock Subscription Rights	Minority Interests	Total Net Assets
\$ (35,289)	\$ 9,681,349	\$ 123,109	\$ 735	\$ (276,229)	\$ (152,385)	\$ 1,120	\$ 1,697,771	\$ 11,227,855
	(150,819)							(150,819)
	(125,241)							(125,241)
(482)	(482)							(482)
145	73							73
277	277							277
	(7,024)							(7,024)
	-	(72,904)	855	(52,566)	(124,615)	(723)	(271,819)	(397,157)
\$ (35,349)	\$ 9,398,133	\$ 50,205	\$ 1,590	\$ (328,795)	\$ (277,000)	\$ 397	\$ 1,425,952	\$ 10,547,482

**NEC Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended March 31, 2009, 2010 and 2011**

	<i>Millions of Yen</i>			<i>Thousands of U.S. Dollars (Note 1)</i>
	2009	2010	2011	2011
<b>Cash flows from operating activities</b>				
Income (loss) before income taxes and minority interests	¥ (290,970)	¥ 55,654	¥ (15,687)	\$ (189,000)
Depreciation	174,311	148,008	90,614	1,091,735
Amortization of long-term prepaid expenses	18,652	17,760	8,521	102,663
Impairment losses on property, plant and equipment, and other assets	30,487	6,973	5,873	70,759
Amortization of goodwill	11,113	11,404	12,983	156,422
Increase in allowance for doubtful accounts	1,356	107	6,577	79,241
Increase (decrease) in product warranty liabilities	3,678	(14,376)	(2,327)	(28,036)
Increase (decrease) in provision for loss on guarantees	14,608	(3,312)	(10,412)	(125,446)
Increase (decrease) in provision for loss on construction contracts and others	3,785	4,562	(4,320)	(52,048)
Increase in liabilities for retirement benefits	571	12,571	6,942	83,638
Increase (decrease) in provision for business structure improvement	28,146	(15,890)	(2,826)	(34,048)
Increase (decrease) in provision for contingent loss	29,200	(30,951)	(4,946)	(59,590)
Decrease in provision for loss on repurchase of computers	(2,262)	(879)	(1,735)	(20,904)
Interest and dividend income	(8,599)	(5,489)	(5,445)	(65,602)
Interest expense	12,578	9,736	6,614	79,687
Equity in losses (earnings) of affiliated companies	12,647	(7,336)	38,533	464,253
Loss on change in interests in subsidiaries and affiliated companies	—	—	5,996	72,241
Gain on sales of property, plant and equipment	(465)	(4,225)	(1,266)	(15,253)
Loss on retirement of property, plant and equipment	117	1,527	—	—
Gain on sales of investment securities	(3,957)	(537)	(2,492)	(30,024)
Loss on sales of investment securities	79	39	8	96
Write-off of investment securities	78,759	891	4,319	52,036
Gain on sales of investments in affiliated companies	(16,209)	(22,383)	(2,299)	(27,699)
Loss on sales of investments in affiliated companies	1,706	3,112	1,002	12,072
Gain on contribution of securities to retirement benefit trust	—	—	(19,206)	(231,398)
Loss on disaster	—	—	5,972	71,952
(Increase) decrease in trade notes and accounts receivable	105,458	(25,246)	(478)	(5,759)
Decrease in inventories	70,408	63,132	3,349	40,349
(Increase) decrease in accounts receivable, other	5,725	7,844	(5,344)	(64,386)
Decrease in trade notes and accounts payable	(170,129)	(8,582)	(10,380)	(125,060)
Others—net	(41,844)	(35,523)	(46,130)	(555,783)
Sub total	<u>68,949</u>	<u>168,591</u>	<u>62,010</u>	<u>747,108</u>
Interest and dividends received	8,742	5,623	5,513	66,422
Interest paid	(13,126)	(10,067)	(6,464)	(77,880)
Income taxes – paid	(37,206)	(29,331)	(27,399)	(330,108)
Net cash provided by operating activities	<u>¥ 27,359</u>	<u>¥ 134,816</u>	<u>¥ 33,660</u>	<u>\$ 405,542</u>

**NEC Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended March 31, 2009, 2010 and 2011**

	<i>Millions of Yen</i>			<i>Thousands of U.S. Dollars (Note 1)</i>
	2009	2010	2011	2011
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment	¥ (107,956)	¥ (85,243)	¥ (57,580)	\$ (693,735)
Proceeds from sales of property, plant and equipment	12,106	9,731	3,768	45,398
Acquisitions of intangible assets	(39,376)	(29,592)	(29,471)	(355,072)
Purchases of investment securities	(16,559)	(6,148)	(1,259)	(15,169)
Proceeds from sales of investment securities	6,933	16,081	3,767	45,385
Disbursements for acquisitions of shares of newly consolidated subsidiaries	(31,642)	(4,035)	(1,572)	(18,940)
Proceeds from acquisitions of shares of newly consolidated subsidiaries	175	—	—	—
Proceeds from sales of shares of subsidiaries being excluded from the consolidation	4,334	—	2,551	30,735
Disbursements for sales of shares of subsidiaries being excluded from the consolidation	—	—	(1,738)	(20,940)
Purchases of investments in affiliated companies	(5,879)	(19,645)	(59,615)	(718,253)
Proceeds from sales of investments in affiliated companies	4,599	71,980	145	1,747
(Increase) decrease in short-term loans receivable, net	(235)	63	1	12
Disbursements for loans receivable	(291)	(95)	(46)	(554)
Collection of loans receivable	174	5,180	200	2,410
Others—net	450	482	(5,395)	(65,000)
Net cash used in investing activities	<u>(173,167)</u>	<u>(41,241)</u>	<u>(146,244)</u>	<u>(1,761,976)</u>
<b>Cash flows from financing activities</b>				
Increase (decrease) in short-term borrowings, net	(1,953)	(82,006)	125,829	1,516,012
Proceeds from long-term borrowings	231,233	64,472	6,167	74,301
Repayments of long-term borrowings	(68,753)	(59,872)	(177,176)	(2,134,650)
Proceeds from issuance of bonds	50,000	—	150,000	1,807,229
Redemption of bonds	(96,750)	(118,780)	(19,835)	(238,976)
Proceeds from issuance of common stock	—	118,519	—	—
Proceeds from stock issuance to minority shareholders	—	—	1,866	22,482
Dividends paid	(8,167)	(63)	(10,396)	(125,253)
Dividends paid to minority shareholders	(2,786)	(2,638)	(3,302)	(39,783)
Others—net	(669)	(40)	(78)	(940)
Net cash provided by (used in) financing activities	<u>102,155</u>	<u>(80,408)</u>	<u>73,075</u>	<u>880,422</u>
Effect of exchange rate changes on cash and cash equivalents	(13,914)	110	(4,073)	(49,072)
Net increase (decrease) in cash and cash equivalents	<u>(57,567)</u>	<u>13,277</u>	<u>(43,582)</u>	<u>(525,084)</u>
Cash and cash equivalents, at beginning of year	374,838	317,271	330,548	3,982,506
Decrease in cash and cash equivalents resulting from change of scope of consolidation	—	—	(92,787)	(1,117,916)
Increase in cash and cash equivalents resulting from merger	—	—	9,700	116,867
Cash and cash equivalents, at end of year	<u>¥ 317,271</u>	<u>¥ 330,548</u>	<u>¥ 203,879</u>	<u>\$ 2,456,373</u>
<b>Non-cash investing and financing activities</b>				
Finance leases	¥ 4,350	¥ 2,426	¥ 3,986	\$ 48,024
Contribution of securities to retirement benefit trust	¥—	¥—	¥ 70,992	\$ 855,325
Assets acquired and liabilities assumed in merger(Note16)				
Current assets	¥—	¥—	¥ 42,652	\$ 513,879
Fixed assets	—	—	3,523	42,446
Total	<u>—</u>	<u>—</u>	<u>46,175</u>	<u>556,325</u>
Current liabilities	—	—	40,612	489,301
Long-term liabilities	—	—	1,021	12,301
Total	<u>¥—</u>	<u>¥—</u>	<u>¥ 41,633</u>	<u>\$ 501,602</u>

See notes to consolidated financial statements.

# NEC Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

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### 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (the "Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the presentation used for the year ended March 31, 2011.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which NEC Corporation ("NEC" or the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥ 83 to \$1, the approximate rate of exchange at March 31, 2011. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### 2. Summary of Significant Accounting Policies

- a. Consolidation**— The consolidated financial statements as of March 31, 2011 include the accounts of the Company and its 283 (310 in 2010 and 328 in 2009, respectively) subsidiaries (together, the "Group"). Investments in 55 (60 in 2010 and 63 in 2009, respectively) affiliated companies are accounted for by the equity method.

Under the control or influence concept, those companies in which the Group, directly or indirectly, are able to exercise control over operations are consolidated, and those companies over which the Group has the ability to exercise significant influence in terms of their operating and financial policies are accounted for by the equity method.

For the years ended March 31, 2009 and 2010, in preparation of the consolidated balance sheets, the portion of a consolidated subsidiary's assets and liabilities corresponding to the equity portion held by the Company is principally measured at fair value as at the date of each acquisition of stock, while the portion corresponding to the minority interests reflects the value stated on each subsidiary's non-consolidated balance sheet.

The Accounting Standards Board of Japan ("ASBJ") issued and revised accounting standards regarding the valuation of assets and liabilities of the Company's consolidated subsidiaries. The Company changed the valuation method of minority interests from Partial-fair value method to Full-fair value method with this adoption effective April 1, 2010. (Note 3)

For the years ended March 31, 2011, the assets and liabilities of the acquired consolidated subsidiaries are measured at fair value at the date of acquisition.

Goodwill, which represents cost in excess of fair value of net assets of subsidiaries acquired, is amortized on a straight-line basis over periods not exceeding 20 years (NEC Soft, Ltd. -20 years, NEC System Technologies, Ltd. -20 years, Abeam Consulting Ltd. -10 years, NetCracker Technology Corporation -7 years).

- b. Cash Equivalents**— Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial papers and bond funds, all of which mature or become due within three months of the date of acquisition.

**c. Inventories**— Inventories are stated at the cost method (which writes off the book value of inventories based on decreases in profitability), determined by the following valuation methods.

Of the merchandise and finished goods, the cost of custom-made products is determined mainly by the specific identification method and the cost of mass produced standard products is determined mainly by the first-in, first-out method.

Of the work in process, the cost of custom-made products is determined mainly by the specific identification method and the cost of mass produced standard products is determined mainly by the average cost method.

The cost of raw materials and supplies is determined mainly by the first-in, first-out method (Note 6).

**d. Investment Securities**— Marketable investment securities are valued at the quoted market prices prevailing at the fiscal year end, with unrealized gains and losses, net of applicable taxes, included in a component of net assets. The cost of securities sold is determined based on the moving-average method.

Non-marketable investment securities are stated at cost determined by the moving-average method.

Investments in limited partnerships are accounted for by the equity method (Note 5).

**e. Property, Plant and Equipment**— Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Group is computed principally by the declining-balance method based on the estimated useful lives of the assets.

The range of useful lives is principally from 7 to 60 years for buildings and structures, from 2 to 22 years for machinery and equipment, and furniture and fixtures. Leased assets are depreciated by the declining-balance method over the respective lease periods.

Effective from fiscal year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed their useful lives in accordance with the Corporation Tax Law as amended. The effect of this change in statement of operations was immaterial.

Accumulated depreciation of property, plant and equipment as of March 31, 2009, 2010 and 2011 were ¥1,771,769 million, ¥1,732,061 million and ¥838,310 million (\$10,100,120 thousand), respectively.

**f. Software**— Software for sale to the market is amortized based on either projected sales volumes or projected sales amounts, primarily not to exceed the effective useful life of three years.

Software for internal use is amortized on a straight-line basis over the estimated useful life, not to exceed five years.

**g. Long-lived Assets**— In principle, the Company groups assets for business use based on its business units and managerial accounting segments. The Company groups idle assets on an individual basis. The higher of the estimated net realizable value or the estimated value in use is used as the estimated recoverable amounts of fixed assets in business use. The net realizable value is used as the estimated recoverable amounts of idle assets.

**h. Allowance for Doubtful Accounts** — The allowance for doubtful accounts is provided against potential losses on collections at an amount determined using a historical bad debt loss ratio with the addition of an amount individually estimated on the collectibility of receivables that are expected to be uncollectible due to bad financial condition or insolvency of the debtor.

- i. Product Warranty Liabilities**— The Group accrues product warranty liabilities for estimated future warranty costs using the historical ratio of warranty costs to net sales or other relevant factors, with the addition of an amount individually measured on the incremental costs that are expected to be incurred, in expectation of expenditures for warranty costs after sale of products, or upon delivery of developed software.
- j. Provision for Loss on Repurchase of Computers**— The Company accrues for the estimated losses arising from repurchase of computers based on the experiences in the past years.
- k. Provision for Recycling Expenses of Personal Computers**— In accordance with the personal computer recycling law in Japan, the Group accrues for the estimated recycling expenses of personal computers sold by the Company and its consolidated subsidiaries in Japan based on the volume of shipments and collection ratio.
- The Company annually reviews the various rates used in the calculation of the provision based on reports issued by JEITA (Japan Electronics and Information Technology Industries Association) and the actual collection and recycling records of the subsidiary.
- l. Provision for Business Structure Improvement**— A provision has been made for the amount of the estimated losses and expenses to be incurred in connection with business structure improvements.
- m. Provision for Contingent Loss**— In relation to matters such as legal proceedings and litigations, a provision for the amount of expected losses and expenses has been made when they are reasonably estimated considering individual risks associated with each contingency.
- n. Provision for Loss on Guarantees**— Provision for loss on guarantees is made against losses related to debt guarantees, to which the Company has taken the deterioration of financial conditions of affiliated companies into consideration.
- o. Retirement and Pension Plans**— The Company and its domestic subsidiaries have non-contributory funded defined benefit plans, and most of the overseas subsidiaries have various types of pension benefit plans which are mainly defined contribution plans and defined benefit plans.
- The Company and certain domestic subsidiaries have pension and retirement benefit trusts.
- Liabilities for retirement benefits or prepaid pension expenses are recorded for employees' pension and severance payments based on the projected benefit obligation and the estimated fair value of plan assets as of the fiscal year end.
- The transitional obligation is amortized on a straight-line basis mainly over 15 years since fiscal 2001.
- Prior service costs are amortized on a straight-line basis over the employees' estimated average remaining service periods (mainly 13 years since fiscal 2009).
- Actuarial gains and losses are amortized on a straight-line basis over the employees' estimated average remaining service periods (mainly 13 years since fiscal 2009), starting in the following year after incurrence (Note 8).
- p. Stock Options**—ASBJ Statement No.8, "Accounting Standard for Share-based Payments" and related guidance are applicable to stock options newly granted on and after May 1, 2006.
- This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheets, the stock option is presented as a stock subscription right as a separate component of net assets until exercised. The standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value (Note 12).

- q. Research and Development Costs**— Research and development costs are charged to earnings as incurred. The amounts charged to earnings for the fiscal 2009, 2010 and 2011 were ¥346,529 million, ¥275,970 million and ¥176,514 million (\$2,126,675 thousand), respectively.
- r. Leases**— Finance leases as lessee are capitalized and accounted for as ordinary sales transactions (Note 7 and 17).
- s. Bonuses to Directors**— Bonuses to directors are accrued for in the fiscal year to which such bonuses are attributable.
- t. Construction Contracts**— In December 2007, the ASBJ issued ASBJ Statement No. 15 "Accounting Standard for Construction Contracts" and ASBJ Guidance No. 18 "Guidance on Accounting Standard for Construction Contracts". Under the previous Japanese GAAP, either the completed-contract method or the percentage-of-completion method was permitted to account for construction contracts. Under this new accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts. This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009. The Company applied the new accounting standard effective April 1, 2009. Percentage-of-completion accounting method has been applied to made-to-order software and construction projects that completion percentage can be reasonably measured. To other construction projects that completion percentage can not be reasonably measured, completed-contract accounting method has been applied.
- u. Income Taxes**— The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of tax loss carryforwards and temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to tax loss carryforwards and temporary differences. Valuation allowances are established to reduce deferred tax assets to their net realizable value if it is more likely than not that some portion or all of the deferred tax assets will not be realized (Note 13).
- v. Foreign Currency Transactions**— Foreign currency denominated monetary assets and liabilities are translated into Japanese yen at the exchange rates as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of operations.
- w. Foreign Currency Financial Statements**— The balance sheet accounts of the overseas subsidiaries and affiliated companies are translated into Japanese yen at the exchange rate as of the balance sheet date except for components of net assets, which are translated at the historical rates. Income and expense accounts of overseas subsidiaries and affiliated companies are translated into Japanese yen at the average exchange rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" and included in "Minority interests" in a separate component of net assets.

- x. **Derivatives**— The Group enters into foreign exchange forward contracts, currency swaps and interest rate swaps.

Derivatives are classified and accounted for as follows: all derivatives are recognized as either assets or liabilities and measured at fair value, and a) for derivatives not qualifying for hedge accounting, unrealized gains or losses on derivative transactions are recognized in the consolidated statements of operations and b) for derivatives qualifying for hedge accounting, unrealized gains or losses on derivatives are deferred until maturity of the hedged transactions as a separate component of net assets (Note 19).

- y. **Per Share Information**— Basic net income (loss) per share is computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding for the fiscal year.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the fiscal year (or as of the time of issuance) with applicable adjustments for related interest expense, net of tax, and full exercise of outstanding stock subscription rights (Note 22).

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

Net assets per share are computed by dividing net assets available to common shareholders by the outstanding number of shares of common stock as of each balance sheet date (Note 23).

### 3. Accounting Changes

**Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**— In May 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". PITF No.18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. PITF No.18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. The Company applied this accounting standard effective April 1, 2008. The impact of this change on income is immaterial.

**Accounting Standard for Measurement of Inventories**— In July 2006, the ASBJ issued ASBJ Statement No.9, "Accounting Standard for Measurement of Inventories". This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net realizable value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price. The standard was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. The Company applied this new accounting standard for measurement of inventories effective April 1, 2008. The change has no impact on income.

**Depreciation method changes for the property, plant and equipment**— The Company and its domestic consolidated subsidiaries had formerly adopted the declining balance method as their depreciation method for the property, plant and equipment that is used for outsourcing or other businesses which earn regular income. However, they have adopted the straight line method beginning from April 1, 2008 because the importance of these businesses is increasing and this change clarifies the connection between related revenue and depreciation expenses. The impact of this change on income is immaterial.

**Changes in recognition criteria for completed contract revenue and costs**— The "Accounting Standard for Construction Contracts" (ASBJ Statement No.15, December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18, December 27, 2007) are applied from the fiscal year ended March 31, 2010.

The percentage-of-completion method has been applied to the portion of construction performed through the end of this fiscal year, in those cases where the outcome of performance activity is deemed certain (the estimation for the degree of completion of construction is determined by the percentage of the cost incurred to the estimated total cost) for the made-to-order software and construction projects that commenced on or after April 1, 2009. When the outcome of performance activity is not deemed to be certain, the completed-contract method is applied.

The impact of this change on sales, income and segment information is immaterial.

**Accounting standard for retirement benefits**— The "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)" (ASBJ Statement No.19, July 31, 2008) is applied from the fiscal year ended March 31, 2010.

The change has no impact on income, segment information and retirement benefit obligations.

**Treatment of foreign exchange forward contract related to foreign currency future transaction**— Foreign exchange forward contracts measured at fair value and its valuation difference was previously recognized in income and expense. From the fiscal year ended March 31, 2010, deferred hedge accounting is being applied to a portion of the foreign exchange forward contracts.

This is mainly due to the revision of "Risk management policy" related to foreign exchange forward contracts, and the change resulted from the expectation of sales increase in foreign currencies for future long-term projects. Accordingly, the hedge effect is recorded in the financial statements and periodic income and loss are more properly calculated.

The impact of this change on income and segment information is immaterial.

**Accounting Standard for Asset Retirement Obligations**—The ASBJ issued the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18 of March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21 of March 31, 2008). The Group applies these accounting standards from the fiscal year ended March 31, 2011.

Although the impact of this change on operating income (loss), ordinary income (loss) and segment information is immaterial, ¥1,434 million (\$17,277 thousand) is recorded loss on adjustment for changes of accounting standard for asset retirement obligations as extraordinary loss.

**Accounting Standard for Equity Method of Accounting for Investments and Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method**—The ASBJ issued the "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16 of March 10, 2008) and the "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ PITF No.24 of March 10, 2008).The Group applies these accounting standards from the fiscal year ended March 31, 2011.

This change has no impact on income (loss) and segment information.

**Accounting Standard for Business Combinations and others**— The ASBJ issued the "Accounting Standard for Business Combinations" (ASBJ Statement No.21 of December 26, 2008), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22 of December 26, 2008), the "Partial amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No.23 of December 26, 2008), the "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7 of December 26, 2008), the "Revised Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16 of December 26, 2008), and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10 of December 26, 2008). The Group applies these accounting standards from the fiscal year ended March 31, 2011.

Regarding the valuation of assets and liabilities of the Company's consolidated subsidiaries, the Company changed the valuation method of minority interests from Partial-fair value method to Full-fair value method with this adoption (Note 2a).

These changes have no impact on income (loss) and segment information.

#### **4. Changes in Presentation Method**

(Additional Information)

Effective April 1, 2010, the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25, June 30, 2010) has been applied.

The amounts of "Valuation and translation adjustments" and "Total valuation and translation adjustments" of previous fiscal year are shown as those of "Accumulated other comprehensive income" and "Total accumulated other comprehensive income".

## 5. Investment Securities

The carrying amounts and aggregate fair values of marketable investment securities as of March 31, 2010 and 2011 were as follows:

<i>Millions of Yen</i>				
<b>Mar 31, 2010</b>	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 62,525	¥ 26,414	¥ 5,694	¥ 83,245
Debt securities	1,001	—	178	823
Others	3,101	38	802	2,337
<b>Total</b>	<b>¥ 66,627</b>	<b>¥ 26,452</b>	<b>¥ 6,674</b>	<b>¥ 86,405</b>
<b>Mar 31, 2011</b>	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 64,622	¥ 20,093	¥ 8,415	¥ 76,300
Debt securities	1,000	—	188	812
Others	3,094	36	1,022	2,108
<b>Total</b>	<b>¥ 68,716</b>	<b>¥ 20,129</b>	<b>¥ 9,625</b>	<b>¥ 79,220</b>
<i>Thousands of U.S. Dollars</i>				
<b>Mar 31, 2011</b>	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 778,579	\$ 242,084	\$ 101,386	\$ 919,277
Debt securities	12,048	—	2,265	9,783
Others	37,277	434	12,313	25,398
<b>Total</b>	<b>\$ 827,904</b>	<b>\$ 242,518</b>	<b>\$ 115,964</b>	<b>\$ 954,458</b>

Non-marketable investment securities whose fair value is not readily determinable as of March 31, 2010 and 2011 were as follows:

	Carrying amount		
	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2010	2011	2011
Available-for-sale:			
Equity securities	¥ 59,837	¥ 53,565	\$ 645,361
Investments in limited partnerships	4,600	4,577	55,145
Others	379	330	3,976
<b>Total</b>	<b>¥ 64,816</b>	<b>¥ 58,472</b>	<b>\$ 704,482</b>

The equity securities of Anritsu Corporation and other, previously accounted for by the equity method and classified in investments in affiliated companies, were currently reclassified to investment securities from the fiscal year ended March 31, 2011. As a result, investment securities increased by ¥5,301 million, and Valuation difference on available-for-sale securities increased by ¥1,470 million.

## 6. Inventories

Inventories as of March 31, 2010 and 2011 consisted of the followings:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2010	2011	2011
Merchandise & finished products	¥ 109,852	¥ 95,567	\$ 1,151,410
Work in process	121,082	99,868	1,203,229
Raw materials and supplies	84,618	69,308	835,036
Total	<u>¥ 315,552</u>	<u>¥ 264,743</u>	<u>\$ 3,189,675</u>

## 7. Short-term Borrowings and Long-term Debt

### Short-term borrowings

Short-term borrowings as of March 31, 2010 and 2011 consisted of the followings:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2011	2011
Loans (weighted-average interest rate of 0.91% as of March 31, 2011)	¥ 69,163	¥ 48,780	\$ 587,711
Commercial papers (weighted-average interest rate of 0.16% as of March 31, 2011)	21,998	163,978	1,975,638
Total	¥ 91,161	¥ 212,758	\$ 2,563,349

As of March 31, 2011, the Group had line-of-credit agreements for short-term borrowings with financial institutions aggregating ¥255,000 million (\$3,072,289 thousand), of which, ¥249,900 million (\$3,010,843 thousand), was unused.

### Long-term borrowings

Long-term borrowings as of March 31, 2010 and 2011 consisted of the followings:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2011	2011
Loans from financial institutions, due in 2011 through 2018 (weighted-average interest rate of 1.02% as of March 31, 2011)	¥ 328,383	¥ 151,091	\$ 1,820,373
Less current portion	(169,507)	(13,245)	(159,578)
Total	¥ 158,876	¥ 137,846	\$ 1,660,795

### Bonds

	Millions of Yen		Thousands of U.S. Dollars
	2010	2011	2011
NEC 32nd unsecured 2.43% bonds due in 2010	¥ 19,800	¥ —	\$ —
NEC 38th unsecured 1.47% bonds due in 2013	30,000	30,000	361,446
NEC 39th unsecured 1.68% bonds due in 2015	20,000	20,000	240,964
NEC 40th unsecured 0.50% bonds due in 2013	—	40,000	481,928
NEC 41st unsecured 0.73% bonds due in 2015	—	40,000	481,928
NEC 42nd unsecured 1.02% bonds due in 2017	—	20,000	240,964
NEC 43rd unsecured 0.65% bonds due in 2015	—	30,000	361,445
NEC 44th unsecured 1.00% bonds due in 2017	—	20,000	240,964
NEC 10th unsecured 1.00% convertible bonds due in 2011	97,669	97,669	1,176,735
NEC Electronics Euro-yen zero coupon convertible bonds with stock subscription rights due in 2011 subject to certain covenants	110,000	—	—
1.08% bonds due in 2011	35	—	—
Less current portion of bonds	(19,830)	(97,669)	(1,176,735)
Total	¥ 257,674	¥ 200,000	\$ 2,409,639

The details of convertible bonds outstanding as of March 31, 2011 were as follows:

Description	NEC 10th unsecured 1.0% convertible bonds due in 2011
Period of conversion request	June 3, 1996 – September 29, 2011
Conversion price (Yen)	¥1,250.00
Stock to be issued	Common stock
Increase in equity due if converted (Yen/share)	¥625

## Lease obligations

	Millions of Yen		Thousands of U.S. Dollars
	2010	2011	2011
Lease obligations, due in 2011 through 2018 (weighted-average interest rate of 1.94% as of March 31, 2011)	¥ 32,500	¥ 14,280	\$ 172,048
Less current portion	(10,949)	(6,744)	(81,253)
Total	¥ 21,551	¥ 7,536	\$ 90,795

Annual maturities for the fiscal years ending March 31, 2012 through 2017 of long-term debt as of March 31, 2011 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥117,658	\$1,417,566
2013	68,490	825,181
2014	141,874	1,709,325
2015	1,730	20,844
2016	92,403	1,113,289
2017 and thereafter	40,885	492,590
Total	¥463,040	\$5,578,795

The carrying amounts of assets, net of accumulated depreciation, pledged as collateral for short-term borrowings of ¥ 2,051 million (\$24,711 thousand) and long-term borrowings of ¥ 350 million (\$4,217 thousand) and other debt of ¥ 83 million (\$1,000 thousand) as of March 31, 2011 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 4,796	\$ 57,783
Buildings and structures	1,172	14,120
Machinery and equipment	32	386
Others	10	121
Total, net of accumulated depreciation	¥ 6,010	\$ 72,410

## 8. Retirement and Pension Plans

The Company and its domestic subsidiaries have non-contributory funded defined benefit plans, which include defined benefit pension plans, tax-qualified pension plans and lump-sum severance payment plans. Additional retirement benefits are paid in certain circumstances.

Most of overseas subsidiaries have various types of pension benefit plans which cover substantially all employees. Those plans are mainly defined contribution plans and defined benefit plans.

The liability and the asset for employees' retirement benefits as of March 31, 2010 and 2011 consisted of the followings:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2011	2011
Project benefit obligations	¥ (1,092,346)	¥ (939,852)	\$ (11,323,518)
Fair value of plan assets	695,835	671,609	8,091,675
Unfunded retirement benefit obligations	(396,511)	(268,243)	(3,231,843)
Unrecognized transitional obligation	70,824	46,826	564,169
Unrecognized actuarial gain	239,098	228,333	2,751,000
Unrecognized prior service costs	(95,030)	(75,481)	(909,410)
Net amounts recognized in the consolidated balance sheets	(181,619)	(68,565)	(826,084)
Prepaid pension expenses	56,026	113,457	1,366,952
Liabilities for retirement benefits	¥ (237,645)	¥ (182,022)	\$ (2,193,036)

The components of retirement benefit expenses for the fiscal years ended March 31, 2009, 2010 and 2011 were as follows:

	<i>Millions of Yen</i>			<i>Thousands of U.S. Dollars</i>
	2009	2010	2011	2011
Service cost	¥ 38,155	¥ 36,676	¥ 31,158	\$ 375,398
Interest cost	26,821	27,259	23,318	280,940
Expected return on plan assets	(15,110)	(12,472)	(12,187)	(146,831)
Amortization of transitional obligation	14,791	14,441	12,057	145,265
Amortization of actuarial gains and losses	19,379	35,463	21,351	257,241
Amortization of prior service costs	(9,551)	(10,117)	(9,187)	(110,687)
Others	10,406	7,869	6,068	73,108
Total retirement benefit expenses	<u>¥ 84,891</u>	<u>¥ 99,119</u>	<u>¥ 72,578</u>	<u>\$ 874,434</u>

The line item of "Others" above includes the amount of contributions paid for the defined contribution pension plans.

In addition to retirement benefit expenses in the above table, special retirement benefits were recognized and included in "restructuring charges" under special losses, in the amount of ¥22,198 million for the fiscal year ended March 31, 2009. See Note 15.

Assumptions used for the fiscal years ended March 31, 2010 and 2011 were as follows:

	2010	2011
Discount rate	Mainly 2.5%	Mainly 2.5%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%
Amortization period of prior service costs	Mainly 13 years	Mainly 13 years
Amortization period of actuarial gains and losses	Mainly 13 years	Mainly 13 years
Amortization period of transitional obligation	Mainly 15 years	Mainly 15 years

Prior service costs and actuarial gains and losses are amortized on a straight-line basis.

## 9. Other Current Liabilities

Other current liabilities consisted of the followings:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2010	2011	2011
Advances from customers	¥ 65,550	¥ 58,437	\$ 704,060
Reserve for bonuses to directors	262	266	3,205
Product warranty liabilities	27,887	24,827	299,121
Provision for business structure improvement	11,602	7,138	86,000
Provision for loss on construction contracts and others	14,088	9,763	117,627
Provision for loss on guarantees	10,985	—	—
Provision for contingent loss	10,886	3,989	48,060
Others	147,247	120,604	1,453,060
Total	<u>¥ 288,507</u>	<u>¥ 225,024</u>	<u>\$ 2,711,133</u>

## 10. Other Long-term Liabilities

Other long-term liabilities consisted of the followings:

	<i>Millions of Yen</i>		<i>Thousands of U. S. Dollars</i>
	2010	2011	2011
Provision for loss on repurchase of computers	¥ 9,355	¥ 7,620	\$ 91,807
Long-term product warranty liabilities	1,566	2,062	24,843
Provision for recycling expenses of personal computers	6,537	6,004	72,337
Provision for contingent loss	11,163	8,810	106,145
Provision for business structure improvement	1,139	1,326	15,976
Others	13,166	18,611	224,229
Total	<u>¥ 42,926</u>	<u>¥ 44,433</u>	<u>\$ 535,337</u>

## 11. Net Assets

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below;

### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. NEC meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements. The amount of retained earnings available for dividends is based on NEC Corporation's retained earnings determined in accordance with generally accounting principles in Japan and the Companies Act of Japan.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate.

The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### (b) Appropriations of retained earnings

Appropriations of retained earnings are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period after approval by the Board of Directors.

### (c) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus). No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(d) Treasury stock and treasury stock subscription rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock subscription rights are presented as a separate component of net assets. The Companies Act also provides that companies can purchase both treasury stock subscription rights and treasury stock. Such treasury stock subscription rights are presented as a separate component of net assets or deducted directly from stock subscription rights.

## 12. Stock Options

The Company and NEC Electronics recognized no material stock-based compensation expense for the years ended March 31, 2010 and 2011.

The Company and NEC Electronics have stock option plans as follows:

### **NEC**

The stock options outstanding during the fiscal years ended March 31, 2010 and 2011 were as follows:

<u>Stock Option</u>	<u>Persons Granted</u>	<u>Number of Options Granted</u>	<u>Date of Grant</u>	<u>Exercise Period</u>
2003 Stock Option	15 directors, and 171 employees of the Company including presidents of subsidiaries	313,000 shares	July 10, 2003	From July 1, 2005 to June 30, 2009
2004 Stock Option	15 directors, and 159 employees of the Company including presidents of subsidiaries	289,000 shares	July 12, 2004	From July 1, 2006 to June 30, 2010
2005 Stock Option	15 directors, and 161 employees of the Company including presidents of subsidiaries	300,000 shares	July 11, 2005	From July 1, 2007 to June 30, 2011
2006 Stock Option	14 directors, and 158 employees of the Company including presidents of subsidiaries	304,000 shares	July 28, 2006	From August 1, 2008 to July 31, 2012

No vesting conditions are specified for options noted above.

The stock option activities during the fiscal years ended March 31, 2010 and 2011 were as follows:

	Shares			
	2003 Stock Option	2004 Stock Option	2005 Stock Option	2006 Stock Option
<b>For the year ended March 31, 2010</b>				
<u>Non-vested</u>				
April 1, 2009 – Outstanding	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
March 31, 2010 – Outstanding	—	—	—	—
<u>Vested</u>				
April 1, 2009 - Outstanding	125,000	171,000	199,000	294,000
Vested	—	—	—	—
Exercised	—	—	—	—
Forfeited	(125,000)	(33,000)	(34,000)	(77,000)
March 31, 2010 – Outstanding	—	138,000	165,000	217,000
<b>For the year ended March 31, 2011</b>				
<u>Non-vested</u>				
April 1, 2010 – Outstanding	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
March 31, 2011 – Outstanding	—	—	—	—
<u>Vested</u>				
April 1, 2010 - Outstanding	—	138,000	165,000	217,000
Vested	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	(138,000)	(39,000)	(43,000)
March 31, 2011 – Outstanding	—	—	126,000	174,000
Exercise price	¥ 769	¥ 756	¥ 601	¥ 600
Average stock price at exercise	¥ 859	—	—	—
Fair value price at grant date	—	—	—	¥ 190

### **NEC Electronics**

The stock options outstanding during the fiscal year ended March 31, 2010 was as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Period
2006 Stock Option	4 directors, and 26 employees of NEC Electronics including presidents of subsidiaries	75,000 shares	July 13, 2006	From July 13, 2008 to July 12, 2012

The 2006 options will vest after two years from the date of grant under the condition that option holders will be in service to NEC Electronics group as of the exercise date of the option. The terms of the options are subject to adjustments if there is a stock split or reverse stock split. The plan provides conditions that options generally lapse automatically at termination of service before the exercise date and generally remain exercisable for one year after termination of service during the exercise period. The stock option activities during the fiscal year ended March 31, 2010 was as follows:

	Shares	
	2006 Stock Option	
<u>For the year ended March 31, 2010</u>		
<u>Non-vested</u>		
April 1, 2009 – Outstanding		—
Granted		—
Forfeited		—
Vested		—
March 31, 2010 – Outstanding		—
<u>Vested</u>		
April 1, 2009 - Outstanding		72,000
Vested		—
Exercised		—
Forfeited		16,000
March 31, 2010 – Outstanding		56,000
Exercise price		¥ 3,927
Average stock price at exercise		—
Fair value price at grant date		¥ 937

### 13. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.5% for the fiscal years ended March 31, 2010 and (40.5)% for the fiscal year ended March 31, 2009 and 2011. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2010 and 2011 were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2010	2011	2011
Deferred tax assets :			
Tax loss carryforwards	¥ 337,827	¥ 237,252	\$ 2,858,458
Pension and severance costs	137,175	122,290	1,473,374
Accrued expenses and product warranty liabilities	54,794	49,265	593,554
Depreciation	50,215	38,951	469,289
Write-off of inventories	40,196	32,674	393,663
Elimination of unrealized profit by intercompany transactions among consolidated companies	11,916	11,743	141,482
Investments in affiliated companies	12,322	11,519	138,783
Write-off of investment securities	10,845	8,136	98,024
Provision for contingent loss	8,283	4,770	57,470
Provision for loss on construction contracts and others	5,667	3,932	47,373
Provision for business structure	4,910	3,230	38,916
Provision for loss on repurchase of computers	3,393	2,789	33,602
Research and development expenses	17,119	2,532	30,506
Others	62,093	60,604	730,169
Sub-total	756,755	589,687	7,104,663
Less valuation allowance	(445,249)	(282,045)	(3,398,133)
Total	311,506	307,642	3,706,530
Deferred tax liabilities:			
Gain on contribution of securities to retirement benefit trust	40,578	22,037	265,506
Undistributed earnings of affiliated companies	9,218	3,970	47,831
Unrealized gains on available-for-sale securities	5,355	944	11,374
Reserves under special taxation measures law	484	59	711
Others	30,684	9,649	116,253
Total	86,319	36,659	441,675
Net deferred tax assets	¥ 225,187	¥ 270,983	\$ 3,264,855

Net deferred tax assets were included in the consolidated balance sheets as of March 31, 2010 and 2011 as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2010	2011	2011
Current assets- deferred tax assets	¥ 93,307	¥ 97,431	\$ 1,173,867
Investments and other assets- deferred tax assets	140,829	174,707	2,104,904
Current liabilities- other current liabilities	(36)	(30)	(362)
Long-term liabilities - deferred tax liabilities	(8,913)	(1,125)	(13,554)
Net deferred tax assets	¥ 225,187	¥ 270,983	\$ 3,264,855

Reconciliation between the statutory tax rate and the effective tax rates reflected in the accompanying consolidated statements of operations for the fiscal years ended March 31, 2009, 2010 and 2011 were as follows:

	2009	2010	2011
Statutory tax rate	(40.5) %	40.5 %	(40.5) %
Equity in losses (earnings) of affiliated companies	(0.5)	(0.3)	98.6
Changes in valuation allowance	55.8	19.2	58.3
Amortization of goodwill	5.0	7.9	33.5
Tax rates difference relating to overseas subsidiaries	1.6	(5.5)	5.2
Non-deductible expenses for tax purposes	1.2	1.1	5.0
Undistributed earnings of affiliated companies	(9.3)	11.3	(17.4)
Retirement benefit trust	—	—	(105.9)
Gain(loss) on change in equity	—	—	(118.7)
Elimination of unrealized profit by intercompany transactions among consolidated companies	(0.7)	(0.4)	—
Others	(0.5)	0.3	25.8
Effective tax rates	12.1 %	74.1 %	(56.1) %

## 14. Significant Components of Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the fiscal years ended March 31, 2009, 2010 and 2011 consisted of the followings:

	<i>Millions of Yen</i>			<i>Thousands of U.S. Dollars</i>
	2009	2010	2011	2011
Salaries for employees	¥ 350,584	¥ 318,385	¥ 295,191	\$ 3,556,518
Research and development expenses	342,425	271,101	170,739	2,057,096
Retirement benefit expenses	18,384	25,786	19,555	235,602
Provision for product warranty liabilities	17,368	12,278	7,666	92,361
Provision for loss on repurchase of computers	2,451	2,995	1,548	18,651
Allowance for doubtful accounts	3,824	1,034	156	1,880

## 15. Special Gains and Losses

### (1) Special gains

Special gains for the fiscal years ended March 31, 2009, 2010 and 2011 consisted of the followings:

	<i>Millions of Yen</i>			<i>Thousands of U.S. Dollars</i>
	2009	2010	2011	2011
Gain on contribution of securities to retirement benefit trust	¥ —	¥ —	¥ 19,206	\$ 231,398
Gain on sales of investment securities	3,957	537	2,492	30,024
Gain on sales of investments in affiliated companies	16,209	22,383	2,299	27,699
Reversal of provision for loss on guarantees	—	3,312	1,557	18,759
Gain on sales of property, plant and equipment	465	4,225	1,266	15,253
Reversal of provision for recycling expenses of personal computers	—	1,024	1,193	14,373
Gain on business transfers	—	—	249	3,000
Gain on reversal of subscription rights to shares	—	30	8	96
<b>Total</b>	<b>¥ 20,631</b>	<b>¥ 31,511</b>	<b>¥ 28,270</b>	<b>\$ 340,602</b>

#### Gain on contribution of securities to retirement benefit trust

Gain on contribution of securities to retirement benefit trust for the fiscal year ended March 31, 2011 was due to transfer of a portion of shares that NEC holds in Renesas Electronics Corporation to the retirement benefit trust.

#### Gain on sales of investments in affiliated companies

Gain on sales of investments in affiliated companies for the fiscal year ended March 31, 2009 was mainly related to the sale of shares of Sony NEC Optiarc Inc. and Pilot Gateway LTD.

Gain on sales of investments in affiliated companies for the fiscal year ended March 31, 2010 was mainly related to the sale of shares of Nippon Electric Glass Co., LTD.

Gain on sales of investments in affiliated companies for the fiscal year ended March 31, 2011 was mainly related to the sale of shares of Tohoku Chemical Industries, LTD.

#### Gain on business transfers

Gain on business transfers for the fiscal year ended March 31, 2011 was mainly due to the sales of assets related to the liquidations of Platform business in the United States of America.

## (2) Special losses

Special losses for the fiscal years ended March 31, 2009, 2010 and 2011 consisted of the followings:

	<i>Millions of Yen</i>			<i>Thousands of U.S. Dollars</i>
	2009	2010	2011	2011
Restructuring charges (Note 8)	¥ 87,362	¥ 10,245	¥ 15,477	\$ 186,470
Loss on change in equity	—	—	5,996	72,241
Loss on disaster	—	—	5,972	71,952
Impairment losses on property, plant and equipment, and other assets	30,487	6,973	5,873	70,759
Write-off of investment securities	78,759	891	4,319	52,036
Cost of corrective measures for products	5,312	2,487	3,697	44,542
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	—	1,434	17,277
Loss on sales of investments in affiliated companies	1,706	3,112	1,002	12,072
Provision for loss on guarantees	14,608	—	201	2,422
Loss on sales of noncurrent assets	—	12	19	229
Loss on sales of investment securities	79	39	8	96
Loss on retirement of property, plant and equipment	117	1,527	—	—
Total	¥ 218,430	¥ 25,286	¥ 43,998	\$ 530,096

### Restructuring charges

Restructuring charges for the fiscal year ended March 31, 2009 was mainly related to losses on the early retirement of employees, losses on disposals of assets following the liquidations of Electron Device business and losses on dismissals of employees working for Mobile/Personal solutions business outside of Japan.

Restructuring charges for the fiscal year ended March 31, 2010 was mainly related to expenses for restoration to the original state of the office in association with relocations, and disposal of assets of Electron Device business.

Restructuring charges for the fiscal year ended March 31, 2011 was mainly related to expenses for early retirement of employees in Personal Solutions business, and office-moving in association with relocations.

### Loss on change in equity

Loss on change in equity for the fiscal year ended March 31, 2011 was mainly related to a change in equity in NEC Electronics Corporation merged with Renesas Technology Corp.

### Loss on disaster

Loss on disaster for the fiscal year ended March 31, 2011 was related to the Great East Japan Earthquake, mainly fixed costs during the temporary shutdown period of operations and business, and losses on noncurrent assets and inventories.

Impairment losses on property, plant and equipment, and other assets

Impairment losses were recognized mainly due to lower profitability of assets for business use, primarily consisting of buildings and structures, intangible assets and goodwill, and net realizable value declines of idle assets, primarily consisting of land and others.

Certain US subsidiary recognized impairment losses in compliant with US GAAP in the fiscal year ended March 31, 2009 and 2010.

The following summarizes the breakdown of impairment losses by account:

	<i>Millions of Yen</i>			<i>Thousands of U.S. Dollars</i>
	2009	2010	2011	2011
Land	¥ 148	¥ 64	¥ 342	\$ 4,121
Buildings and structures	536	2,642	863	10,398
Machinery and equipment	592	1,459	1,827	22,012
Furniture and fixtures	844	617	208	2,506
Construction in progress	704	240	1,192	14,361
Goodwill	24,621	753	—	—
Software	2,899	703	1,130	13,614
Other assets	143	495	311	3,747
Total	<u>¥ 30,487</u>	<u>¥ 6,973</u>	<u>¥ 5,873</u>	<u>\$ 70,759</u>

Cost of corrective measures for products

Cost of corrective measures for products was mainly related to the costs to be incurred due to collection and replacement of defective products sold.

Loss on sales of investments in affiliated companies

Loss on sales of investments in affiliated companies for the fiscal year ended March 31, 2009 was mainly related to the sales of investments in Media Exchange, Inc.

Loss on sales of investments in affiliated companies for the fiscal year ended March 31, 2010 was related to the sales of investments in DAVID Systems GmbH, and others.

Loss on sales of investments in affiliated companies for the fiscal year ended March 31, 2011 was related to the sales of investments in SGI Japan, LTD., and others.

Loss on retirement of property, plant and equipment

Loss on retirement of property, plant and equipment for the fiscal year ended March 31, 2009 was mainly related to the disposal expenses and costs in Sagamihara plants.

Loss on retirement of property, plant and equipment for the fiscal year ended March 31, 2010 was mainly related to removal costs of buildings and structures associated with sales of land and rebuilding expenses and cost in Tamagawa Plant.

## 16. Additional Cash Flow Information

The Company acquired shares of NetCracker Technology Corporation and other four companies, which were newly consolidated in the fiscal year ended March 31, 2009. The assets and liabilities on the date of acquisition were as follows:

NetCracker Technology Corporation and other four companies

	<i>Millions of Yen</i>
Current assets	¥ 20,172
Fixed assets	6,590
Goodwill	31,004
Current liabilities	(14,587)
Long-term liabilities	(4,123)
Minority interests	(1,570)
Foreign currency translation adjustment	97
Acquisition cost of shares	37,583
Cash and cash equivalents	(5,941)
Disbursements for acquisition of shares of newly consolidated subsidiary	<u>¥ 31,642</u>

The assets and liabilities of Pilot Gateway Ltd. and other two companies, which were excluded from consolidation due to sale of shares for the fiscal year ended March 31, 2009, were as follows:

Pilot Gateway Ltd. and other two companies

	<i>Millions of Yen</i>
Current assets	¥ 158
Fixed assets	61
Current liabilities	(118)
Long-term liabilities	(27)
Foreign currency translation adjustment	324
Gain on sales of investments in affiliated companies	7,586
Sale amount of shares	7,984
Long-term accounts receivables - other	(3,553)
Cash and cash equivalents	(97)
Proceeds from sales of shares of subsidiaries excluded from consolidation	<u>¥ 4,334</u>

The Company acquired shares of three companies, which were newly consolidated in the fiscal year ended March 31, 2010. The assets and liabilities on the date of acquisition were as follows:

Three companies

	<i>Millions of Yen</i>
Current assets	¥ 2,728
Fixed assets	3,228
Goodwill	915
Current liabilities	(1,267)
Long-term liabilities	(324)
Acquisition cost of shares	5,280
Consideration, unpaid	(330)
Cash and cash equivalents	(915)
Disbursements for acquisition of shares of newly consolidated subsidiary	<u>¥ 4,035</u>

The Company acquired shares of four companies, which were newly consolidated in the fiscal year ended March 31, 2011. The assets and liabilities on the date of acquisition were as follows:

Four companies

	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
Current assets	¥ 1,482	\$ 17,855
Fixed assets	875	10,542
Goodwill	967	11,651
Current liabilities	(882)	(10,626)
Long-term liabilities	(339)	(4,084)
Minority interests	(136)	(1,639)
Acquisition cost of shares	1,967	23,699
Cash and cash equivalents	(395)	(4,759)
Disbursements for acquisition of shares of newly consolidated subsidiary	¥ 1,572	\$ 18,940

The assets and liabilities of three companies, which were excluded from consolidation due to sale of shares for the fiscal year ended March 31, 2011, were as follows:

Three companies

	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
Current assets	¥ 2,348	\$ 28,289
Fixed assets	1,930	23,253
Current liabilities	(1,689)	(20,349)
Long-term liabilities	(716)	(8,627)
Foreign currency translation adjustment	10	120
Valuation difference on available-for-sale securities	(5)	(60)
Gain on sales of investments in affiliated companies	1,322	15,928
Sale amount of shares	3,200	38,554
Cash and cash equivalents	(649)	(7,819)
Disbursements for sales of shares of subsidiaries excluded from consolidation	¥ 2,551	\$ 30,735

The assets and liabilities of SGI Japan, LTD., which were excluded from consolidation due to sale of shares for the fiscal year ended March 31, 2011, were as follows:

SGI Japan, LTD.

	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
Current assets	¥ 6,850	\$ 82,530
Fixed assets	682	8,217
Current liabilities	(4,376)	(52,723)
Long-term liabilities	(611)	(7,361)
Minority interests	(1,111)	(13,386)
Valuation difference on available-for-sale securities	(3)	(36)
Deferred gains or losses on hedges	1	12
Loss on sales of investments in affiliated companies	(620)	(7,470)
Sale amount of shares	812	9,783
Other receivables	(81)	(976)
Cash and cash equivalents	(2,469)	(29,747)
Proceeds from sales of shares of subsidiaries excluded from consolidation	¥ (1,738)	\$ (20,940)

**Merger**

NEC CASIO Mobile Communications, Ltd., a consolidated subsidiary, merged with Casio Hitachi Mobile Communications Co., Ltd. during the fiscal year ended March 31, 2011. Asset acquired and liabilities assumed in this merger are presented on consolidated statements of cash flows.

## 17. Leases

The minimum obligations under noncancelable operating leases as of March 31, 2010 and 2011 were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2010	2011	2011
Due within one year	¥ 35,810	¥ 18,310	\$ 220,603
Due after one year	80,082	43,291	521,578
Total	¥ 115,892	¥ 61,601	\$ 742,181

## 18. Financial Instruments

### (1) Summary of financial instruments

#### a. Policy of financial instruments

The Group operates its surplus funds by depositing its funds with major banks or investing into short-term financial assets with lower volatility risk. For the purpose of financing long-term capital, the Group primarily make loans from banks and issue corporate bonds. For the purpose of financing short-term fund, the Company mainly makes loans from banks or issue commercial papers. Derivatives are generally used to hedge the risks further described below, and not for the purpose of speculative investments.

#### b. Content and risks of financial instruments

Receivables from ordinary course of business such as notes and accounts receivable-trade are exposed to credit risk of customers.

Receivables and payables from ordinary course of business denominated in foreign currency are exposed to foreign exchange risk.

Marketable securities and investment securities, excluding financial instruments held for short-term investment, relate to investment activities aimed at strengthening the Company's operational or financial alliance with the investees. These marketable securities and investment securities are exposed to market risk.

Long-term borrowings, bonds payable and finance lease liabilities are generally made for the purpose of financing capital investments. The latest redemption date of such liabilities is in seven (eight in 2010) years. These interest-bearing debts with floating interest rate are exposed to interest rate risks.

Derivatives consist of forward exchange contracts, currency options and interest rate swaps. Forward exchange contracts and currency options are used to hedge foreign exchange risk of foreign currency denominated receivables and payables occurred during ordinary course of businesses. Interest rate swaps are used to hedge the effect from interest rate and market value movements for bank loans and corporate bonds issued.

The hedging instruments, hedged items, policies and assessment of effectiveness concerning the hedge accounting are described in Note19.

#### c. Risk management of financial instruments

##### *Management of credit risk (risk of customer's default)*

NEC and its subsidiaries regularly monitor the financial position of significant customers and manage the due dates and its receivables balance due from each customer to minimize the risk of defaults resulting from deterioration of a customers' financial position at a periodical basis.

Financial institutions with higher credit capabilities are selected as counterparties while dealing in derivative transactions, deposit transactions and purchase of financial assets for short-term investments in order to reduce the counterparty risk.

*Management of market risk (foreign exchange risk, interest rate risk and others)*

The Group manages foreign exchange risk by currency in each due month, and to minimize its risk by utilizing netting settlement of foreign currency receivables and payables, and by utilizing forward exchange contracts and currency options.

Interest rate swap contracts are also used to control interest rate volatility risk in our bank loans and corporate bonds.

Regarding the market price risk of investment securities, the Group regularly monitors the fair value of such securities as well as financial positions of the issuers (customer enterprises). The Group also continuously reviews effectiveness of possessing such securities taking into consideration of business relationship with customer enterprises.

The Group trades derivatives based on the corporate policy which governs risk management, approval, reporting and verification process.

*Management of liquidity risk (risk of impracticability to execute payment)*

Liquidity risk is managed by frequent update of the cash-flow budget and maintaining level of liquidity represented by current cash balance and unused lines of credit.

d. Supplemental explanation concerning the fair value of financial instruments

The fair value of a financial instrument is based on the current market price or using reasonable estimates in case of no readily available market price. Such estimates include various underlying factors and assumptions and may subject to change if other reliable assumptions may used for the calculation.

## (2) Fair value of financial instruments

Carrying amount, fair value and difference between them as of March 31, 2010 and 2011 were as follows:

	Millions of Yen					
	2010			2011		
	Carrying Amount	Fair Value	Difference	Carrying Amount	Fair Value	Difference
<b>Assets:</b>						
Cash and cash equivalents	¥ 330,548	¥ 330,548	¥ —	¥ 203,879	¥ 203,879	¥ —
Short-term investments	1,294	1,294	—	1,540	1,540	—
Trade notes and accounts receivable	773,388	772,993	(395)	726,355	725,974	(381)
Investment securities	86,405	86,405	—	79,220	79,220	—
Investments in affiliated companies	42,755	30,381	(12,374)	89,286	74,958	(14,328)
<b>Total</b>	<b>¥1,234,390</b>	<b>¥1,221,621</b>	<b>¥ (12,769)</b>	<b>¥1,100,280</b>	<b>¥ 1,085,571</b>	<b>¥ (14,709)</b>
<b>Liabilities:</b>						
Short-term borrowings(*)	¥ 91,161	¥ 91,161	¥ —	¥ 212,758	¥ 212,758	—
Current portion of long-term debt(*)	189,337	189,337	—	110,914	110,914	—
Trade notes and accounts payable	522,533	522,533	—	464,529	464,529	—
Accrued expenses	175,660	175,660	—	160,559	160,559	—
Long-term debt(**)	416,550	415,326	(1,224)	337,846	339,440	1,594
<b>Total</b>	<b>¥1,395,241</b>	<b>¥1,394,017</b>	<b>¥ (1,224)</b>	<b>¥1,286,606</b>	<b>¥ 1,288,200</b>	<b>¥ 1,594</b>
Derivatives (**)	¥ (761)	¥ (761)	¥ —	¥ 228	¥ 228	¥ —

2011	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Difference
<b>Assets:</b>			
Cash and cash equivalents	\$ 2,456,373	\$ 2,456,373	\$ —
Short-term investments	18,555	18,555	—
Trade notes and accounts receivable	8,751,265	8,746,675	(4,590)
Investment securities	954,458	954,458	—
Investments in affiliated companies	1,075,735	903,108	(172,627)
<b>Total</b>	<b>\$ 13,256,386</b>	<b>\$ 13,079,169</b>	<b>\$ (177,217)</b>
<b>Liabilities:</b>			
Short-term borrowings(*)	\$ 2,563,349	\$ 2,563,349	\$ —
Current portion of long-term debt(*)	1,336,313	1,336,313	—
Trade notes and accounts payable	5,596,735	5,596,735	—
Accrued expenses	1,934,446	1,934,446	—
Long-term debt(**)	4,070,434	4,089,639	19,205
<b>Total</b>	<b>\$ 15,501,277</b>	<b>\$ 15,520,482</b>	<b>\$ 19,205</b>
Derivatives (**)	\$ 2,747	\$ 2,747	\$ —

(\*) The amounts of lease obligation are not included to either Short-term borrowings, Current portion of long-term debts or Long-term loans debts.

(\*\*) Derivatives are presented as net amount of assets and liabilities, and amounts in parentheses are liabilities as the results of netting.

- a. Measurement of fair value of financial instruments and information related to securities and derivatives trade

*Cash and cash equivalents and Short-term investments*

Fair value equals to carrying amount, since they are to be settled in short term.

*Trade notes and accounts receivable*

For which are to be settled in short term, fair value equals to carrying amount. For others, to be settled in long term, fair value is measured by using discount rate considering credit and other risk.

*Investment securities and Investments in affiliated companies*

Fair value equals to price at financial instrument exchange.

*Trade notes and accounts payable, Short-term borrowings, Current portion of long-term debt and Accrued expenses*

Fair value equals to carrying amount, since they are to be settled in short term.

*Long-term debt*

Fair value of bonds equals to market price. Fair value of long-term borrowings is measured by using discount rate to be applied in case of financing same amount with sum of principal and interest.

*Derivatives*

The information of the fair value for derivatives is included in Note 19.

- b. The followings are not included in "Investment securities" or "Investments in affiliated companies" table above –due to lack of their available market price and not be able to estimate the future cash flows reasonably:

	Carrying Amount		
	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	<i>2010</i>	<i>2011</i>	<i>2011</i>
Investment securities:			
unlisted stocks	¥ 59,837	¥ 53,565	\$ 645,361
Investments in affiliated companies:			
unlisted stocks	46,744	44,707	538,638
Investments in limited partnerships and similar partnerships under foreign laws	4,600	4,577	55,145
Others	379	330	3,976
Total	¥ 111,560	¥ 103,179	\$ 1,243,120

**(3) Maturity analysis for financial assets and securities with contractual maturities**

<i>Millions of Yen</i>				
March 31, 2011	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 203,879	¥ —	¥ —	¥ —
Trade notes and accounts receivable	713,886	11,596	722	151
Short-term investments	1,540	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities (bonds)	—	—	—	812
<b>Total</b>	<b>¥ 919,305</b>	<b>¥ 11,596</b>	<b>¥ 722</b>	<b>¥ 963</b>

  

<i>Thousands of U.S. Dollars</i>				
March 31, 2011	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	\$ 2,456,373	\$ —	\$ —	\$ —
Trade notes and accounts receivable	8,601,036	139,711	8,699	1,819
Short-term investments	18,555	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities (bonds)	—	—	—	9,783
<b>Total</b>	<b>\$ 11,075,964</b>	<b>\$ 139,711</b>	<b>\$ 8,699</b>	<b>\$ 11,602</b>

Please see Note 7 for annual maturities of long-term debt.

## 19. Derivatives

Derivative transactions as of March 31, 2010 and 2011 were as follows:

	<i>Millions of Yen</i>					
	2010			2011		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Currency related						
Foreign exchange forward contracts:						
Buying						
U.S.\$	¥ 48,127	¥ 48,957	¥ 830	¥ 40,481	¥ 40,984	¥ 503
Euro	6,049	6,136	87	—	—	—
Others	10,697	10,895	198	10,580	10,770	190
Selling						
U.S.\$	80,102	82,238	(2,136)	34,486	34,690	(204)
Euro	9,553	9,241	312	8,336	8,643	(307)
Others	2,116	2,126	(10)	4,150	4,099	51
Currency swaps	129	1	1	—	—	—
Total			<u>¥ (718)</u>			<u>¥ 233</u>
Interest rate related						
Interest rate swaps:						
Pay fixed/Receive floating rates	¥ 3,000	¥ (43)	¥ (43)	¥ 2,000	¥ (5)	¥ (5)
Total			<u>¥ (43)</u>			<u>¥ (5)</u>

	<i>Thousands of U.S. Dollars</i>		
	Contract Amount	Fair Value	Unrealized Gain (Loss)
2011			
Currency related			
Foreign exchange forward contracts:			
Buying			
U.S.\$	\$ 487,723	\$ 493,783	\$ 6,060
Euro	—	—	—
Others	127,470	129,759	2,289
Selling			
U.S.\$	415,494	417,952	(2,458)
Euro	100,434	104,133	(3,699)
Others	50,000	49,385	615
Total			<u>\$ 2,807</u>
Interest rate related			
Interest rate swaps:			
Pay fixed/Receive floating rates	\$ 24,096	\$ (60)	\$ (60)
Total			<u>\$ (60)</u>

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

Derivative transactions to which hedge accounting is applied as of March 31, 2010 and 2011, included in the above table, were as follows:

<i>Millions of Yen</i>						
	2010			2011		
	Hedged Item	Contract Amount	Fair Value	Hedged Item	Contract Amount	Fair Value
Currency related						
Foreign exchange forward contracts:						
Buying	Accounts payable			Accounts payable		
U.S.\$		¥3,501	¥3,659		¥7,122	¥ 7,224
Euro		40	38		1	1
Selling	Accounts receivable			Accounts receivable		
U.S.\$		91	84		299	301
Euro		3	3		1,747	1,725
Interest rate related						
Interest rate swaps:						
Pay fixed/Receive floating rates	Long-term borrowings	3,000	(43)	Long-term borrowings	2,000	(5)

<i>Thousands of U.S. Dollars</i>			
2011	Hedged Item	Contract Amount	Fair Value
Currency related			
Foreign exchange forward contracts:			
Buying	Accounts payable		
U.S.\$		\$ 85,807	\$ 87,036
Others		12	12
Selling	Accounts receivable		
U.S.\$		3,602	3,627
Others		21,048	20,783
Interest rate related			
Interest rate swaps:			
Pay fixed/Receive floating rates	Long-term borrowings	24,096	(60)

## 20. Contingent Liabilities

### Other Contingent Liabilities

As of March 31, 2010 and 2011, the Group had the following contingent liabilities:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2010	2011	2011
Trade notes discounted	¥ 1,044	¥ 1,341	\$ 16,157
Guarantees for bank loans and others	9,168	23,260	280,241
Residual value guarantees under operating leases	8,946	—	—

## 21. Related Party Disclosures

There is no significant related party disclosure which shall be disclosed for the fiscal years ended March 31, 2010.

Transactions of the Company with affiliated company for the year ended March 31, 2011 was as follows:

2011	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
Subscription of capital stock (*)	¥ 56,300	\$ 678,313

(\*) The Company invested into the third-party allotment in the amount of 917 yen per share which were issued by Renesas Electronics Corporation.

### Information Concerning Important Related Companies

In the year ended March 31, 2011, important related companies were Renesas Electronics Corporation and NEC Capital Solutions Limited. Condensed financial information prepared based on the consolidated financial statements of both companies was as follows:

	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
Current assets total	¥ 1,403,777	\$ 16,912,976
Noncurrent assets total	562,732	6,779,904
Current liabilities total	999,297	12,039,723
Long-term liabilities total	602,966	7,264,651
Net assets total	364,246	4,388,506
Sales	1,365,519	16,452,036
Income (loss) before income taxes and minority interests	(103,700)	(1,249,398)
Net income (loss)	(111,303)	(1,341,000)

## 22. Net Income Per Share

Reconciliations of the difference between basic and diluted net income per share ("EPS") for the fiscal years ended March 31, 2009, 2010 and 2011 were as follows:

	<i>Millions of Yen</i>	<i>Thousands of shares</i>	<i>Yen</i>
	Net income(loss)	Weighted average shares	EPS
<b><u>For the year ended March 31, 2009:</u></b>			
Basic EPS			
Net loss	¥ (296,646)		
Amounts not attributable to common shareholders			
Participating convertible securities	(143)		
Net loss available to common shareholders	<u>¥ (296,789)</u>	<u>2,023,970</u>	<u>¥ (146.64)</u>
Effect of Dilutive Securities			
Convertible bonds	—	—	
Diluted EPS			
Net income for computation	<u>—</u>	<u>—</u>	<u>—</u>
<b><u>For the year ended March 31, 2010:</u></b>			
Basic EPS			
Net income	¥ 11,428		
Amounts not attributable to common shareholders			
Participating convertible securities	(124)		
Net income available to common shareholders	<u>¥ 11,304</u>	<u>2,241,695</u>	<u>¥ 5.04</u>
Effect of Dilutive Securities			
Convertible bonds	<u>2</u>	<u>60,093</u>	
Diluted EPS			
Net income for computation	<u>¥ 11,306</u>	<u>2,301,788</u>	<u>¥ 4.91</u>
<b><u>For the year ended March 31, 2011:</u></b>			
Basic EPS			
Net loss	¥ (12,518)		
Amounts not attributable to common shareholders			
Participating convertible securities	—		
Net loss available to common shareholders	<u>¥ (12,518)</u>	<u>2,598,491</u>	<u>¥ (4.82)</u>
Effect of Dilutive Securities			
Convertible bonds	—	—	
Diluted EPS			
Net income for computation	<u>—</u>	<u>—</u>	<u>—</u>
	<i>Thousands of U.S. Dollars</i>	<i>Thousands of shares</i>	<i>U.S. Dollars</i>
	Net income(loss)	Weighted average shares	EPS
<b><u>For the year ended March 31, 2011:</u></b>			
Basic EPS			
Net loss	\$ (150,819)		
Amounts not attributable to common shareholders			
Participating convertible securities	—		
Net loss available to common shareholders	<u>\$ (150,819)</u>	<u>2,598,491</u>	<u>\$ (0.06)</u>
Effect of Dilutive Securities			
Convertible bonds	—	—	
Diluted EPS			
Net income for computation	<u>—</u>	<u>—</u>	<u>—</u>

Equity instruments not included in the basis for calculation of diluted net income per share as they are anti-dilutive are certain convertible bonds, bonds with stock subscription rights and stock subscription rights. Diluted net income per share for the fiscal 2009 and 2011 is not disclosed because of the Company's net loss position.

## 23. Net Assets Per Share

Net assets per share as of March 31, 2010 and 2011 were as follows:

	<i>Yen</i>		<i>U.S. Dollars</i>
	2010	2011	2011
Net assets per share	¥ 304.36	¥ 291.35	\$ 3.51

The basis for calculation of net assets per share for the fiscal years ended March 31, 2010 and 2011 were as follows:

	<i>Millions of Yen</i>	<i>Thousands of shares</i>	<i>Yen</i>
		Number of shares of common stock to calculate net assets per share	Net assets per share
<b><u>For the year ended March 31, 2010:</u></b>			
Total net assets	¥ 931,912		
Amounts deducted from total net assets			
Stock subscription rights	(93)		
Minority interests	(140,915)		
Net assets as of the year end attributable to common shareholders	<u>¥ 790,904</u>	<u>2,598,542</u>	<u>¥ 304.36</u>
<b><u>For the year ended March 31, 2011:</u></b>			
Total net assets	¥ 875,441		
Amounts deducted from total net assets			
Stock subscription rights	(33)		
Minority interests	(118,354)		
Net assets as of the year end attributable to common shareholders	<u>¥ 757,054</u>	<u>2,598,462</u>	<u>¥ 291.35</u>
	<i>Thousands of U.S. Dollars</i>	<i>Thousands of shares</i>	<i>U.S. Dollars</i>
		Number of shares of common stock to calculate net assets per share	Net assets per share
<b><u>For the year ended March 31, 2011:</u></b>			
Total net assets	\$ 10,547,482		
Amounts deducted from total net assets			
Stock subscription rights	(397)		
Minority interests	(1,425,952)		
Net assets as of the year end attributable to common shareholders	<u>\$ 9,121,133</u>	<u>2,598,462</u>	<u>\$ 3.51</u>

## 24. Segment Information

From the fiscal year ended March 31, 2011, the Group applies the "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Statement No.17 of March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20 of March 21, 2008). In addition the Group changed its segmentation at the beginning of the fiscal year. In this section, financial information for the year ended March 31, 2009 and 2010 are disclosed in conformity with old requirement and in old segment.

### For the years ended March 31, 2009 and 2010

#### (1) Business Segments

The Group operates in the IT/Network Solutions Business, Mobile/Personal Solutions Business, Electron Devices Business and other industry segments for the fiscal year ended March 31, 2009.

From the April 1, 2009, the number of business segments has been changed to 7 (hereafter "the new business segments"), which are composed of IT Services, IT Products, Network Systems, Social Infrastructure, Personal Solutions, Electron Devices and Others, due to the organizational reform. As a result of that change, the segment information for the fiscal year ended March 31, 2009 has been reclassified in a manner consistent with that used for the fiscal year ended March 31, 2010.

(Fiscal year ended March 31, 2009)

#### a. Sales and operating income (loss)

	Millions of Yen					
	2009					
	IT/Network Solutions Business	Mobile/ Personal Solutions Business	Electron Devices Business	Others	Eliminations/ Corporate	Consolidated
Net sales to external customers	¥2,639,345	¥690,942	¥625,202	¥260,114	¥ —	¥4,215,603
Intersegment sales and transfers	84,604	119,396	27,557	136,328	(367,885)	—
Total net sales	2,723,949	810,338	652,759	396,442	(367,885)	4,215,603
Operating expenses	2,599,086	818,260	732,076	399,910	(327,528)	4,221,804
Operating income(loss)	¥124,863	¥(7,922)	¥(79,317)	¥(3,468)	¥(40,357)	¥(6,201)

#### b. Total assets, depreciation, impairment loss and capital expenditures

	Millions of Yen					
	2009					
	IT/Network Solutions Business	Mobile/ Personal Solutions Business	Electron Devices Business	Others	Eliminations/ Corporate	Consolidated
Total assets	¥1,605,292	¥283,194	¥554,437	¥334,552	¥297,903	¥3,075,378
Depreciation	58,764	21,275	70,570	13,200	10,502	174,311
Impairment loss on property, plant and equipment, and other assets	23,452	217	4,073	2,671	74	30,487
Capital expenditures	91,316	15,957	73,499	8,736	12,763	202,271

(Fiscal year ended March 31, 2009) – on the new business segments' basis

**a. Sales and operating income (loss)**

Millions of Yen									
2009									
	IT Services	IT Products	Network Systems	Social Infra-structure	Personal Solutions	Electron Devices	Others	Eliminations/ Corporate	Consolidated
Net sales to external customers	¥941,812	¥266,529	¥1,001,811	¥340,370	¥848,608	¥671,646	¥144,827	¥ —	¥4,215,603
Intersegment sales and transfers	65,003	42,009	56,791	25,041	64,741	30,085	146,444	(430,114)	—
Total net sales	1,006,815	308,538	1,058,602	365,411	913,349	701,731	291,271	(430,114)	4,215,603
Operating expenses	950,792	286,788	1,016,650	357,220	926,561	789,569	285,510	(391,286)	4,221,804
Operating income (loss)	¥56,023	¥21,750	¥41,952	¥8,191	¥(13,212)	¥(87,838)	¥5,761	¥(38,828)	¥(6,201)

**b. Total assets, depreciation, impairment loss and capital expenditures**

Millions of Yen									
2009									
	IT Services	IT Products	Network Systems	Social Infra-structure	Personal Solutions	Electron Devices	Others	Eliminations/ Corporate	Consolidated
Total assets	¥613,899	¥130,534	¥586,778	¥281,668	¥309,576	¥595,483	¥230,502	¥326,938	¥3,075,378
Depreciation	20,506	6,533	19,877	8,512	22,902	77,350	6,493	12,138	174,311
Impairment loss on property, plant and equipment, and other assets	979	—	22,473	86	2,080	4,359	436	74	30,487
Capital expenditures	35,433	10,108	28,465	10,395	17,260	77,309	8,867	14,434	202,271

(Fiscal year ended March 31, 2010)

**a. Sales and operating income (loss)**

Millions of Yen									
2010									
	IT Services	IT Products	Network Systems	Social Infra-structure	Personal Solutions	Electron Devices	Others	Eliminations/ Corporate	Consolidated
Net sales to external customers	¥ 876,470	¥ 209,217	¥ 785,881	¥ 316,566	¥ 737,870	¥ 572,774	¥ 84,370	¥ —	¥3,583,148
Intersegment sales and transfers	49,440	30,860	43,865	18,407	51,117	19,411	110,792	(323,892)	—
Total net sales	925,910	240,077	829,746	334,973	788,987	592,185	195,162	(323,892)	3,583,148
Operating expenses	866,624	241,201	801,777	312,223	769,708	649,012	184,081	(292,383)	3,532,243
Operating income (loss)	¥ 59,286	¥ (1,124)	¥ 27,969	¥ 22,750	¥ 19,279	¥ (56,827)	¥ 11,081	¥ (31,509)	¥ 50,905

**b. Total assets, depreciation, impairment loss and capital expenditures**

Millions of Yen									
2010									
	IT Services	IT Products	Network Systems	Social Infrastructure	Personal Solutions	Electron Devices	Others	Eliminations/Corporate	Consolidated
Total assets	¥557,625	¥124,918	¥525,420	¥287,644	¥306,410	¥583,735	¥170,120	¥381,772	¥2,937,644
Depreciation	19,257	5,926	16,205	8,364	16,177	65,916	4,567	11,596	148,008
Impairment loss on property, plant and equipment, and other assets	875	—	993	5	769	3,953	281	97	6,973
Capital expenditures	22,635	5,735	12,523	12,365	14,555	65,940	11,132	20,670	165,555

- (a) The business segments are defined based on the similarity of types, characteristics, and the affinity of the sales market of products and services.
- (b) Major services and products for each business segment are as follows:
- IT Services ..... Systems Integration (System Construction, Consulting), Support Service (Maintenance), Outsourcing
  - IT Products ..... PC Servers, Mainframe Computers, UNIX Servers, Supercomputers, Storage Products, Professional Workstations, Computer Software (OS, Middleware, Application Software)
  - Network Systems ..... Network Systems for Communication Service Providers (Mobile Communication Systems, Fixed-line Communication Systems, etc.), Enterprise Network Systems (IP Telephony Systems, etc.)
  - Social Infrastructure ..... Broadcasting Systems and Video Equipment, Control Systems, Transportation Systems, Aerospace Systems (Aircraft Traffic Control Systems, Satellites, etc.), Defense Systems (Radar Equipment, etc.), Fire and Disaster Prevention Systems
  - Personal Solutions ..... Mobile Handsets, Personal Computers, Personal Communication Equipment, Monitors, Projectors, "BIGLOBE" Internet Services
  - Electron Devices ..... System LSIs (For Use in Communications Equipment, Computing and Peripheral Products, Consumer Electronics Products, Automotive and Industrial Products), Microcontrollers, Discrete Devices, Optical and Microwave Devices, Capacitors, Lithium-ion Batteries, Relays, Piezoelectric Devices, IC Cards, IC Tags, LCD Displays, Lighting Equipment, Cold Cathode Fluorescent Lamps (CCFL)
- (c) Unallocable operating expenses included in "Eliminations/Corporate" for the fiscal years ended March 31, 2009 and 2010 were ¥39,851 million (¥38,848 million on the new segments' basis) and ¥32,065 million, respectively. Main components of such expenses were general and administrative expenses incurred at the headquarters of the Company and basic research and development expenses.
- (d) Assets included in "Eliminations/Corporate" as of March 31, 2009 and 2010 amounted to ¥430,143 million (¥456,483 million on the new segments' basis) and ¥496,164 million, respectively. Main components of such assets are surplus funds (cash and cash equivalents, and short-term investments), long-term investment funds (investment securities), deferred tax assets and assets belonging to administrative departments of the Company.
- (e) The effect of changes in accounting policies on business segments for the fiscal years ended March 31, 2009 and 2010 are described in Note.3.

## (2) Geographical Segments

The Group operates in Japan, Asia, Europe and other geographical segments.

Millions of Yen						
2009						
	Japan	Asia	Europe	Others	Eliminations/ Corporate	Consolidated
Net sales to external customers	¥ 3,510,197	¥ 229,357	¥ 228,566	¥ 247,483	¥ —	¥ 4,215,603
Intersegment sales and transfers	333,529	140,562	9,475	20,770	(504,336)	—
Total net sales	3,843,726	369,919	238,041	268,253	(504,336)	4,215,603
Operating expenses	3,799,150	362,808	243,837	286,411	(470,402)	4,221,804
Operating income (loss)	¥ 44,576	¥ 7,111	¥ (5,796)	¥ (18,158)	¥ (33,934)	¥ (6,201)
Total assets	¥ 2,366,522	¥ 166,520	¥ 91,775	¥ 165,166	¥ 285,395	¥ 3,075,378

  

Millions of Yen						
2010						
	Japan	Asia	Europe	Others	Eliminations/ Corporate	Consolidated
Net sales to external customers	¥ 3,022,629	¥ 207,168	¥ 155,815	¥ 197,536	¥ —	¥ 3,583,148
Intersegment sales and transfers	277,794	119,817	4,221	19,574	(421,406)	—
Total net sales	3,300,423	326,985	160,036	217,110	(421,406)	3,583,148
Operating expenses	3,223,221	315,787	160,016	220,368	(387,149)	3,532,243
Operating income (loss)	¥ 77,202	¥ 11,198	¥ 20	¥ (3,258)	¥ (34,257)	¥ 50,905
Total assets	¥ 2,211,035	¥ 196,840	¥ 88,727	¥ 156,710	¥ 284,332	¥ 2,937,644

- (a) Geographical distances are considered in the classification of a country or a region.
- (b) Major countries and regions in segments other than Japan are as follows:
- (i) Asia ..... China, Republic of China, India, Singapore and Indonesia
  - (ii) Europe ..... U.K., France, Netherlands, Germany, Italy and Spain
  - (iii) Others ..... U.S.A.
- (c) Unallocable operating expenses included in "Eliminations/Corporate" for the fiscal years ended March 31, 2009 and 2010 were ¥38,848 million and ¥32,065 million, respectively. Main components of such expenses were general and administrative expenses incurred at the headquarters of the Company and basic research and development expenses. From fiscal year ended March 31, 2010, in relation to change of business segments, the Company redefined scope of unallocable expenses. Before redefinition Unallocable operating expenses included in "Eliminations/Corporate" for the fiscal year ended March 31, 2009 was ¥39,851 million.
- (d) Assets included in "Eliminations/Corporate" as of March 31, 2009 and 2010 amounted to ¥456,483 million and ¥496,164 million, respectively. Main components of such assets are surplus funds (cash and cash equivalents, and short-term investments), long-term investment funds (investment securities), deferred tax assets and assets belonging to administrative departments of the Company. From fiscal year ended March 31, 2010, in relation to change of business segments, the Company redefined scope of corporate assets. Before redefinition Assets included in "Eliminations/Corporate," total assets of "Eliminations/Corporate" and total assets of "Japan" as of March 31, 2009 are ¥430,143 million, ¥259,055 million and ¥2,392,862 million, respectively.
- (e) The effect of changes in accounting policies on geographical segments for the fiscal years ended March 31, 2009 and 2010 are described in Note.3.

### (3) Sales to Foreign Customers

Sales to foreign customers for the fiscal years ended March 31, 2009 and 2010 amounted to ¥934,469 million and ¥712,886 million, respectively.

	Millions of Yen			
	2009			
	Asia	Europe	Others	Total
Overseas sales	¥ 374,288	¥ 260,155	¥ 300,026	¥ 934,469
Consolidated sales	—	—	—	4,215,603
Percentage of overseas sales to consolidated net sales (%)	8.9	6.2	7.1	22.2

  

	Millions of Yen			
	2010			
	Asia	Europe	Others	Total
Overseas sales	¥ 321,790	¥ 164,672	¥ 226,424	¥ 712,886
Consolidated sales	—	—	—	3,583,148
Percentage of overseas sales to consolidated net sales (%)	9.0	4.6	6.3	19.9

- (a) Geographical distances are considered in the classification of a country or a region.
- (b) Major countries and regions in segments other than Japan are as follows:
- (i) Asia · · China, Republic of China, India, Singapore and Indonesia
  - (ii) Europe · · U.K., France, Netherlands, Germany, Italy and Spain
  - (iii) Others · · U.S.A.
- (c) Overseas sales represent sales of the Group to countries and regions outside of Japan.

### **For the year ended March 31, 2011**

#### **(1) General information about reportable segments**

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 distribution of management resources and evaluate their business results. The Company has its business units identified by products and services. Each business unit plans its comprehensive domestic and overseas strategy for its products and services, and operates its business activities.

Therefore, the Company consists of its business units, identified by products and services, that are five reported segments of "IT Services Business", "Platform Business", "Carrier Network Business", "Social Infrastructure Business" and "Personal Solutions Business".

The contents of each reported segment are as follows:

#### **IT Services Business**

This reported segment mainly renders Systems Integration (Systems Implementation, Consulting), Maintenance and Support and Outsourcing and Cloud Services (Data Center Services, IT Operation Management) for Governments and Enterprises.

#### **Platform Business**

This reported segment manufactures and sells PC Servers, UNIX Servers, Mainframes, Supercomputers, Storage, ATMs, IP Telephony Systems, WAN and Wireless Access Equipment, LAN Products and Computer Software (Integrated Operation Management, Application Server, Security, Operating System (OS), Database Software).

#### **Carrier Network Business**

This reported segment manufactures and sells Network Infrastructure for Telecommunications Carriers (Backbone Network Systems, Access Network Systems) and Services and Management for

Telecommunications Carriers (Network Operation Support Systems (OSS), Business Support Systems (BSS), Network Control Platform Systems, Network Service Delivery Platform Systems).

Social Infrastructure Business

This reported segment manufactures and sells Broadcasting and Video Distribution Systems (Digital Terrestrial TV Transmitters), Control Systems (Postal and Logistics Automation Systems), Transportation and Public Network Systems (Train Radio Systems), Fire and Disaster Prevention Systems (Fire-fighting Command Systems) and Aerospace and Defense Systems (Air Traffic Control Systems, Uncooled Infrared Sensors).

Personal Solutions Business

This reported segment manufactures and sells Mobile Phones, Smartphones, Personal Computers, Tablet Devices, Mobile Routers and Wireless Routers, and renders "BIGLOBE" Internet Services and Display Solutions (Monitors, Projectors, Public Displays for Digital Signage).

**(2) Basis of measurement about reported segment sales, segment income or loss, segment assets and other material items**

Segment income (loss) is based on operating income (loss). Intersegment sales and transfers are based on Arm's Length Price.

Segment assets are based on amount of assets after offsetting receivables caused by internal transactions including intersegment transactions.

**(3) Information about reported segment sales, segment income or loss, segment assets and other material items**

From the fiscal year ended March 31, 2011, the reported segment has been changed to five reported segments, which are composed of "IT Services", "Platform", "Carrier Network", "Social Infrastructure" and "Personal Solutions", due to the organizational reform.

In this change, segment information for the fiscal year ended March 31, 2010 has been reclassified in a manner used for the fiscal year ended March 31, 2011 as follows.

(Fiscal year ended March 31, 2010)

	Millions of Yen								
	2010								
	Reported Segments					Total	Others	Adjustment	Consolidated Total
IT Services	Platform	Carrier Network	Social Infrastructure	Personal Solutions					
Net Sales									
1. Sales to customers	¥ 866,349	¥ 373,710	¥ 627,411	¥ 316,566	¥ 737,745	¥ 2,921,781	¥ 661,367	¥ —	¥ 3,583,148
2. Intersegment sales and transfers	49,440	60,549	30,267	18,407	51,117	209,780	91,544	(301,324)	—
Total sales	¥ 915,789	¥ 434,259	¥ 657,678	¥ 334,973	¥ 788,862	¥ 3,131,561	¥ 752,911	¥ (301,324)	¥ 3,583,148
Segment income(loss) (Operating income(loss))	¥ 53,180	¥ (1,705)	¥ 31,342	¥ 21,711	¥ 18,852	¥ 123,380	¥ (44,929)	¥ (27,546)	¥ 50,905
Segment assets	¥ 523,376	¥ 190,609	¥ 405,323	¥ 270,066	¥ 304,063	¥ 1,693,437	¥ 770,572	¥ 473,635	¥ 2,937,644
Other items									
Depreciation	¥ 18,013	¥ 9,158	¥ 12,815	¥ 8,538	¥ 14,377	¥ 62,901	¥ 71,894	¥ 13,213	¥ 148,008
Amortization of goodwill	5,978	—	4,192	—	56	10,226	1,178	—	11,404
Investments in affiliated companies	13,450	968	3,030	811	5,229	23,488	66,558	(547)	89,499
Increase in noncurrent assets	23,821	9,571	9,074	12,628	14,771	69,865	78,791	16,899	165,555

(a) "Adjustment" of segment income (loss) included corporate expenses of ¥ (31,965) million unallocated to each reported segment and noncurrent assets related adjustment of ¥3,484 million.

(b) "Adjustment" of segment assets included corporate assets of ¥ 514,963 million unallocated to each reported segment.

- (c) "Adjustment" of increase in noncurrent assets included increase in assets belonged to headquarters of the Company of ¥23,200 million.

(Fiscal year ended March 31, 2011)

Millions of Yen									
2011									
	Reported Segments					Total	Others	Adjustment	Consolidated Total
	IT Services	Platform	Carrier Network	Social Infrastructure	Personal Solutions				
Net Sales									
1. Sales to customers	¥ 804,201	¥ 375,770	¥ 605,423	¥ 318,786	¥ 766,512	¥ 2,870,692	¥ 244,732	¥ —	¥ 3,115,424
2. Intersegment sales and transfers	48,232	45,410	30,718	15,267	44,174	183,801	71,416	(255,217)	—
Total sales	¥ 852,433	¥ 421,180	¥ 636,141	¥ 334,053	¥ 810,686	¥ 3,054,493	¥ 316,148	¥ (255,217)	¥ 3,115,424
Segment income(loss) (Operating income(loss))	¥ 21,417	¥ 8,884	¥ 40,733	¥ 14,575	¥ (1,911)	¥ 83,698	¥ 7,288	¥ (33,166)	¥ 57,820
Segment assets	¥ 512,773	¥ 192,484	¥ 410,869	¥ 258,424	¥ 369,380	¥ 1,743,930	¥ 360,008	¥ 524,993	¥ 2,628,931
Other items									
Depreciation	¥ 17,258	¥ 8,857	¥ 11,979	¥ 9,129	¥ 16,524	¥ 63,747	¥ 14,412	¥ 12,455	¥ 90,614
Amortization of goodwill	5,961	79	4,554	—	513	11,107	1,497	—	12,604
Investments in affiliated companies	13,691	1,013	3,016	840	5,890	24,450	110,708	(1,165)	133,993
Increase in noncurrent assets	33,245	14,399	12,178	9,460	23,613	92,895	25,183	27,073	145,151

Thousands of U.S. Dollars									
2011									
	Reported Segments					Total	Others	Adjustment	Consolidated Total
	IT Services	Platform	Carrier Network	Social Infrastructure	Personal Solutions				
Net Sales									
1. Sales to customers	\$ 9,689,169	\$ 4,527,349	\$ 7,294,253	\$ 3,840,795	\$ 9,235,084	\$ 34,586,650	\$ 2,948,579	\$ —	\$ 37,535,229
2. Intersegment sales and transfers	581,108	547,109	370,096	183,940	532,217	2,214,470	860,434	(3,074,904)	—
Total sales	\$ 10,270,277	\$ 5,074,458	\$ 7,664,349	\$ 4,024,735	\$ 9,767,301	\$ 36,801,120	\$ 3,809,013	\$ (3,074,904)	\$ 37,535,229
Segment income(loss) (Operating income(loss))	\$ 258,036	\$ 107,036	\$ 490,759	\$ 175,603	\$ (23,024)	\$ 1,008,410	\$ 87,807	\$ (399,590)	\$ 696,627
Segment assets	\$ 6,177,988	\$ 2,319,084	\$ 4,950,229	\$ 3,113,542	\$ 4,450,362	\$ 21,011,205	\$ 4,337,446	\$ 6,325,216	\$ 31,673,867
Other items									
Depreciation	\$ 207,928	\$ 106,711	\$ 144,325	\$ 109,988	\$ 199,084	\$ 768,036	\$ 173,639	\$ 150,060	\$ 1,091,735
Amortization of goodwill	71,819	952	54,867	—	6,181	133,819	18,036	—	151,855
Investments in affiliated companies	164,952	12,205	36,337	10,120	70,964	294,578	1,333,831	(14,036)	1,614,373
Increase in noncurrent assets	400,542	173,482	146,723	113,976	284,494	1,119,217	303,409	326,181	1,748,807

- (a) "Others" represents businesses such as Lithium-ion Rechargeable Batteries, Electronic Components, LCD Panels and Lighting Equipment, which are not included in reported segments. "Others" also includes the former "Electron Devices Business", which has become immaterial since NEC Electronics was no longer a consolidated subsidiary in this period.
- (b) "Adjustment" of segment income (loss) included corporate expenses of ¥ (40,155) million (\$483,795 thousand) for the fiscal year ended March 31, 2011 unallocated to each reported segment and noncurrent assets related adjustment of ¥4,532 million (\$54,602 thousand) for the year ended March 31, 2011. The corporate expenses, unallocated to each reported segment, were mainly both general and administrative expenses incurred at headquarters of the Company, and research and development expenses.
- (c) "Adjustment" of segment assets included corporate assets of ¥ 555,869 million (\$6,697,217 thousand) for the fiscal year ended March 31, 2011 unallocated to each reported segment. Main components of corporate assets, mainly belonged to the Company, were surplus funds (cash and cash equivalents, and short-term investments), deferred tax assets, prepaid pension expenses, long-term investment funds (investment securities) belonging to administrative departments of the Company, noncurrent assets and other assets.

(d) "Adjustment" of increase in noncurrent assets included increase of headquarters of the Company of ¥ 32,891 million (\$396,277 thousand) for the fiscal year ended March 31, 2011 unallocated to each reported segment.

**Related information**

1. Information about products and services

The reported segments of the Company are the business units identified by products and services.

As the information was disclosed in each section, there is no additional information related to products and services to be disclosed in this section.

2. Information about geographic areas

	<i>Millions of Yen</i>				
	2011				
	Japan	Asia	Europe	Others	Total
Net Sales	¥ 2,636,075	¥ 158,470	¥ 109,783	¥ 211,096	¥ 3,115,424
Property, plant and equipment, net of accumulated depreciation	327,737	2,960	1,513	8,965	341,175

  

	<i>Thousands of U.S. Dollars</i>				
	2011				
	Japan	Asia	Europe	Others	Total
Net Sales	\$ 31,759,940	\$ 1,909,277	\$ 1,322,687	\$ 2,543,325	\$ 37,535,229
Property, plant and equipment, net of accumulated depreciation	3,948,638	35,663	18,229	108,012	4,110,542

\* Sales, based in the locations of customers, were classified by country or region.

3. Information about major customers

	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>	reported segment
	2011	2011	2011
Sales to:			
NTT Group *	¥ 454,735	\$ 5,478,735	Carrier Network and Personal Solutions

\* Nippon Telegraph and Telephone Corporation ("NTT") and its subsidiaries and affiliated companies including NTT DOCOMO, Inc.

**Information about impairment loss of noncurrent assets by reported segments**

	<i>Millions of Yen</i>							
	2011							
	IT Services	Platform	Carrier Network	Social Infrastructure	Personal Solutions	Others	Corporate/ Eliminations	Total
Impairment loss of noncurrent assets	¥32	¥ --	¥17	¥2	¥769	¥3,655	¥1,398	¥5,873

  

	<i>Thousands of U.S. Dollars</i>							
	2011							
	IT Services	Platform	Carrier Network	Social Infrastructure	Personal Solutions	Others	Corporate/ Eliminations	Total
Impairment loss of noncurrent assets	\$386	\$ --	\$205	\$24	\$9,265	\$44,036	\$16,843	\$70,759

\* Corporate/Eliminations included Impairment loss mainly incurred at headquarters of the Company unallocated to each reported segment.

**Information about amortization and ending balance of goodwill by reported segments**

Millions of Yen								
2011								
	IT Services	Platform	Carrier Network	Social Infrastructure	Personal Solutions	Others	Corporate/ Eliminations	Total
Amortization	¥5,961	¥79	¥4,554	¥ —	¥513	¥1,497	¥ —	¥12,604
Ending balance	53,300	—	20,472	61	2,449	12,659	—	88,941
Thousands of U.S. Dollars								
2011								
	IT Services	Platform	Carrier Network	Social Infrastructure	Personal Solutions	Others	Corporate/ Eliminations	Total
Amortization	\$71,819	\$952	\$54,867	\$ —	\$6,181	\$18,036	\$ —	\$151,855
Ending balance	642,169	—	246,650	735	29,506	152,518	—	1,071,578

**Information about gain on negative goodwill by reported segments**

(Fiscal year ended March 31, 2011)

Not applicable.

## 25. Business Combinations

On April 1, 2010, the Company's consolidated subsidiary, NEC Electronics Corporation merged with Renesas Technology Corp., and changed its name to Renesas Electronics Corporation (Renesas EL). As a result of this merger, Renesas EL has become an affiliate applying for the equity method of accounting. Outline of the merger is as follows:

Outline of the business combination

a. Company profiles

Surviving company: NEC Electronics Corporation

Major operation: R&D, manufacture, sale and servicing of semiconductor devices mainly on system LSIs

Merged company: Renesas Technology Corp.

Major operation: Development, design, manufacture, sale and servicing of SoC products such as MCUs, logic devices and analog devices; discrete semiconductor products; and memory products such as SRAM

b. Reason for the business combination

In order to strengthen their business foundations and technological assets, while increasing corporate value through enhanced customer satisfaction

c. Date of the business combination

April 1, 2010

d. Legal form of the business combination

Merger by absorption with NEC Electronics Corporation as surviving company

(Name of the new company: Renesas Electronics Corporation)

e. Outline of accounting method

The company applies the purchase method to the business combination with NEC Electronics Corporation as acquiring company and the accounting procedures stipulated by Articles 48, of the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 of December 26, 2008).

f. Name of the reported segment in which the subsidiary was included

In the business segment information for the fiscal year ended March 31, 2010, the subsidiary is included in "Electron Devices". If this information is represented in a manner used for the fiscal year ended March 31, 2011, this is included in the "Others".

## 26. Subsequent Event

The Company issued the following Unsecured Straight Bonds on June 21, 2011:

(1) 45th Series Unsecured Straight Bonds

Aggregate nominal amount	:	20,000 million yen
Issue price	:	100 % of the principal amount
Coupon rate	:	0.608 % per annum
Payment date	:	June 21, 2011
Maturity date	:	June 20, 2014
Redemption price	:	100 % of the principal amount
Use of proceeds	:	Redemption of convertible bonds
Financial covenants	:	Negative pledge clause (with inter-bond pari passu clause) attached

(2) 46th Series Unsecured Straight Bonds

Aggregate nominal amount	:	10,000 million yen
Issue price	:	100 % of the principal amount
Coupon rate	:	0.792 % per annum
Payment date	:	June 21, 2011
Maturity date	:	June 21, 2016
Redemption price	:	100 % of the principal amount
Use of proceeds	:	Redemption of convertible bonds
Financial covenants	:	Negative pledge clause (with inter-bond pari passu clause) attached



## Independent Auditors' Report

To the Board of Directors of NEC Corporation (Nippon Denki Kabushiki Kaisha):

We have audited the accompanying consolidated balance sheets of NEC Corporation and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of operations and comprehensive income for the years ended March 31, 2011 and 2010, statement of operations for the year ended March 31, 2009, and statements of changes in net assets and cash flows for each of the years in the three-year period ended March 31, 2011, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NEC Corporation and subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2011, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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 1 to the consolidated financial statements.

*KPMG AZSA LLC*

Tokyo, Japan  
June 22, 2011