Empowered by Innovation

Annual Report 2013 (Financials)

Year ended March 31, 2013

Transforming into a Social Value Innovator

NEC Corporation

Contents

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥94 = U.S.$1.

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, 2013. 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 fiscal 2013, the NEC Group has administered structural reforms for transitioning to profitability and taken efforts to transform the NEC Group into a stable cash flow generating entity based on four key business areas.

The NEC Group generates sales from four segments: the IT Solutions, Carrier Network, Social Infrastructure, and Personal Solutions businesses. In fiscal 2013, the IT Solutions business generated 40.6% of net sales, the Carrier Network business 21.1%, the Social Infrastructure business 12.1% and the Personal Solutions business 19.2%. (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 Solutions business are derived mainly from systems integration (systems implementation, consulting); maintenance and support; outsourcing (data center services, IT operation management); cloud services; the manufacturing and sale of IT equipment (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, 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 including postal/logistics automation systems, transportation and public network systems such as train radio systems, fire and disaster prevention systems including 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 smartphones, mobile phones, business PCs, 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 Solutions, 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 2013 Business Results

In fiscal 2013, the worldwide economy was characterized by a continued economic downturn in Europe against the backdrop of its expanding fiscal crisis, and although high economic growth in emerging countries, such as China and India, had been maintained until now, their economic growth rates slowed due to the impact from stagnating exports to developed countries and the monetary tightening aimed at controlling inflation.

The Japanese economy was characterized by continued reconstruction demand from the Great East Japan Earthquake of March 2011, despite appreciation of the yen and a continuing decline in exports due to the economic slowdown overseas. However, following the start of the new government administration in December 2012, expectations for its new economic policies and monetary easing have promoted a depreciation of the yen and higher stock prices, resulting in expectations of recovery from the economic slowdown.

In this business environment, the NEC Group has administered structural reforms for transitioning to profitability and taken efforts to transform the NEC Group into a stable cash flow generating entity based on four key business areas.

Regarding the structural reforms, a personnel reduction of approximately 10,000 people, consisting of approximately 7,000 domestic staff, including external resources, and roughly 3,000 overseas staff, was carried out as originally planned. Furthermore, in order to adapt to the harsh market environment, the mobile phone business streamlined development, production and promoted offshore outsourcing, while the Platform business also streamlined development and production. Additionally, as a result of temporary personnel measures, such as wage reductions for executives, managers and general employees, the NEC Group achieved its goal of improving operating income by approximately 40 billion yen.

Regarding the NEC Group's business portfolio, for the electronic components business, a capital and business alliance with KEMET Electronics Corporation in the United States was formed and NEC TOKIN Corporation is no longer consolidated. Moreover, Renesas Electronics Corporation, an NEC affiliated company accounted for by the equity method, resolved a capital increase by a third party allotment of shares to Innovation Network Corporation of Japan and eight private enterprises.

Overall, the NEC Group worked to build a foundation for growth through concentrated investment in four specific fields representing the company's key business areas.

In the IT Solutions business, the NEC Group promoted global business expansion in the IT services area by acquiring the Technology Solutions business of CSG Limited, an Australia-based Information and Communications Technology (ICT) company. The NEC Group also expanded its solutions menu for growth areas, such as big data consulting services and M2M (Machine to Machine) solutions for the manufacturing industry.

In the Carrier Network business, the NEC Group made efforts to capture business opportunities arising from increasing demand related to smart phones in the domestic market as well as from LTE service expansion and the steady implementation of submarine cable system projects. In the field of the services and management business, the NEC Group expanded business by acquiring the business support systems operations of United States-based Convergys Corporation, then integrating this business with the operation support systems operations of NetCracker Technology Corporation, an NEC subsidiary, making it possible to provide integrated operational management systems globally.

In the Social Infrastructure business, the NEC Group actively contributed to the reconstruction of social infrastructure systems as part of recovering from the Great East Japan Earthquake. Furthermore, the NEC Group responded to strong demands for expanding fire prevention systems and digitizing wireless emergency systems, in addition to forming a partnership for the development of cyber security measures with INTERPOL, an international police organization, and acquiring Cyber Defense Institute, Inc., a company specializing in security, in order to expand business that helps ensure the safety and security of communities.

Lastly, in the Energy business, the NEC Group exercised efforts to commercialize new fields including the beginning of mass production of home energy storage systems at NEC Computertechno, Ltd.'s Kofu factory, as well as the beginning of collaborative business among ORIX Corporation and EPCO Incorporated towards a rental business for household energy storage systems. Additionally, the NEC Group received an order from Enel Distribuzione S.p.A., an affiliate of leading Italian power company Enel S.p.A., to provide a 2MWh energy storage system for field trial, one of the largest high-capacity lithium-ion energy storage systems in Europe.

In addition to these initiatives, as of April 1, 2013, the NEC Group changed its organizational structure in order to realize the company's new mid-term management plan, become more responsive to market and customer sentiment and create globally competitive products and services.

In fiscal 2013, NEC recorded consolidated net sales of 3,071.6 billion yen, an increase of 34.8 billion yen or 1.1% year on year. This increase was mainly due to increased sales from the IT Solutions business, the Carrier Network business and the Social Infrastructure business, in spite of decreased sales from the Personal Solutions business.

Regarding profitability, consolidated operating income improved by 40.9 billion yen year on year to 114.6 billion yen, mainly due to increased sales, the execution of structural reforms, an improved cost percentage and streamlined selling, general and administrative expenses. Consolidated ordinary income improved by 50.0 billion yen year on year, to 92.0 billion yen, mainly due to the improvement of operating income and equity in earnings of affiliates.

Income before income taxes and minority interests improved by 66.0 billion yen year on year to 69.3 billion yen. This was primarily due to improved ordinary income and a decrease in business structure improvement expenses.

Consolidated net income improved by 140.7 billion yen year on year to 30.4 billion yen, mainly due to the influence of the revision of deferred tax assets for the previous fiscal year.

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

a. *IT Solutions business*

Sales:	1,245.8 billion yen	(+4.8%)
Operating income:	66.1 billion yen	(+21.3 billion yen)

In the IT Solutions business, sales were 1,245.8 billion yen, an increase of 56.6 billion yen or 4.8% year on year, mainly due to the steady growth of sales of IT services in the manufacturing and distribution/service fields as well as increased sales of hardware and software from large-scale projects for the platform business.

Operating income improved by 21.3 billion yen year on year to 66.1 billion yen, mainly owing to increased sales and structural reforms.

b. *Carrier Network business*

Sales:	647.7 billion yen	(+7.5%)
Operating income:	63.1 billion yen	(+12.5 billion yen)

In the Carrier Network business, sales were 647.7 billion yen, an increase of 45.0 billion yen or 7.5% year on year, mainly due to the steady growth in domestic business and the consolidation of the business support systems operations of United States-based Convergys Corporation.

Operating income improved by 12.5 billion yen year on year to 63.1 billion yen, mainly owing to an increase in sales.

c. *Social Infrastructure business*

Sales:	372.3 billion yen	(+12.7%)
Operating income:	27.8 billion yen	(+11.6 billion yen)

In the Social Infrastructure business, sales were 372.3 billion yen, an increase of 41.9 billion yen or 12.7% year on year, mainly due to the steady growth in fire and disaster prevention systems in the Social System field as well as the aerospace and defense system fields.

Operating income improved by 11.6 billion yen year on year to 27.8 billion yen, mainly owing to an increase in sales and a reduction in costs.

d. *Personal Solutions business*

Sales:	589.1 billion yen	(-10.9%)
Operating income(loss):	-3.7 billion yen	(-4.7 billion yen)

In the Personal Solutions business, sales were 589.1 billion yen, a decrease of 71.9 billion yen or 10.9% year on year, mainly due to the personal computer business for private users no longer being consolidated from the second quarter of fiscal 2012 and a decline in mobile phone shipments.

Operating loss worsened by 4.7 billion yen year on year to 3.7 billion yen, mainly owing to the decrease in sales, despite efficiency in development and structural reforms.

e. Others

In Others, sales were 216.6 billion yen, a decrease of 36.9 billion yen or 14.5% year on year, mainly due to the LCD module business no longer being consolidated from the second quarter of fiscal 2012 and a decrease in the electronic components business.

Operating income improved by 11.2 billion yen year on year to 22.3 billion yen, mainly owing to the sale of patents related to LCDs.

3. Liquidity and Capital Resources

a. Cash Flows

Net cash inflows from operating activities for fiscal 2013 were 143.7 billion yen, an improvement of 59.9 billion yen year on year, mainly due to improved consolidated income before income taxes and minority interests, despite outflows for early retirement programs.

Net cash outflows from investing activities for fiscal 2013 were 101.7 billion yen, an increase of 52.0 billion yen year on year, mainly due to increased outflows for business acquisitions.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for fiscal 2013 totaled a cash inflow of 42.0 billion yen, an improvement of 7.9 billion yen year on year.

Net cash flows from financing activities for fiscal 2013 totaled a cash outflow of 98.8 billion yen, mainly due to the redemption of commercial papers.

As a result, cash and cash equivalents as of March 31, 2013 amounted to 197.1 billion yen, a decrease of 54.7 billion yen as compared with the end of the previous fiscal year.

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, 2013, NEC had a sufficient amount of liquidity. Total liquidity in hand as of March 31, 2013 was 518.9 billion yen, comprising cash and cash equivalents of 197.1 billion yen and unused committed credit facilities of 321.8 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 500.0 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 321.8 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 2016 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.

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 NEC Group's fund procurement status was as follows:

As of March 31,	2012	2013
Long-term fund procurement*1	71.8%	66.4%
Use of capital market instruments*2	47.3%	43.1%

*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, 2013, long-term fund procurement was 66.4% and the use of capital market instruments was 43.1%.

4. Capital Expenditures

Capital expenditures of NEC and its consolidated subsidiaries for fiscal 2013 are broken down as follows (amounts do not include consumption taxes):

	Millions of Yen		*YoY Change*
	2012	2013	2013/2012
IT Solutions business	¥ 6,712	¥ 7,923	Up 18.0%
Carrier Network business	4,169	4,458	Up 6.9%
Social Infrastructure business	4,476	5,280	Up 18.0%
Personal Solutions business	7,614	3,834	Down 49.6%
Others	19,009	24,119	Up 26.9%
Total	¥ 41,980	¥ 45,614	Up 8.7%

In the IT Solutions business, capital expenditures included investment in facilities related to cloud services, 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 investment in facilities related to the "BIGLOBE" Internet service. In others, capital expenditures included investments in production facilities for home energy storage systems and for lithium-ion rechargeable battery electrodes used in electric vehicles.

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" as part of the NEC Group Vision 2017.

In April 2013, the NEC Group established its "Mid-term Management Plan 2015," featuring mid-term management policies that include (1) the focus on Solutions for Society, (2) the focus on Asian markets and the promotion of "locally-led" business, and (3) the creation of a stable financial foundation.

1) Focus on Solutions for Society

In recent years, some of the most important concerns for society include the effective use of the earth's limited resources in line with its growing population, as well as crisis management in response to natural disasters, crimes and other emergencies.

The NEC Group is providing new social infrastructure based on Information and Communication Technologies (ICT) by assembling knowledge and technologies, inside and outside of the NEC Group, in order to help realize a society that is safe, secure, efficient and equitable. The NEC Group leverages a foundation of internal strengths among networks, IT infrastructure, sensors, terminal technologies and know-how, as well as external technologies and know-how, as it strives to provide innovative "Solutions for Society" based on ICT.

The NEC Group provides integrated solutions for government offices and enterprises, including financial, distribution, logistics and transportation companies, that utilize high-performance, highly-reliable IT infrastructure technologies, a variety of sensor and terminal technologies, as well as its know-how from providing system integration and services. Additionally, the NEC Group provides total solutions that meet customer needs by focusing on consulting and system operational services for businesses, as well as forming alliances with partners in other industries and financial institutions to provide financing to the NEC Group's customers. Specifically, the NEC Group strengthens business domains that include smart energy, cyber security, satellite deployment, distribution and logistics infrastructure, and contributes to the advancement of social infrastructure in global markets.

The NEC Group also provides comprehensive operational management systems for telecommunications carriers by integrating its existing network operational support system business with the business support system business that was acquired in 2012 in order to streamline system operations associated with providing extensive services by telecommunications carriers to their customers, operational monitoring and billing. Furthermore, the NEC Group provides solutions that enable secure and stable networks by leveraging next generation network technologies (Software-Defined Networking) that utilize software to manage network functions and configuration in order to change network environments flexibly.

The system platform business that supports the Social Solutions business is also strengthening competitiveness in global markets and ensuring stable quality. In addition, the NEC Group proposes servers, network equipment and software as a single system that can be introduced at a low cost and in a short period of time, optimized for specific businesses and industries.

Regarding the mobile phone business, the NEC Group is considering alliances with other companies as a framework to ensure global competitiveness in this area.

Through these measures, the NEC Group aims to improve corporate value by selecting and concentrating on business that revolves around the Social Solutions business.

2) Focus on Asian markets and the promotion of "locally-led" business

The NEC Group is establishing a foundation to expeditiously realize an overseas sales ratio of 25%, focusing largely on the Social Solutions business.

The NEC Group focuses on Asian markets, where there is strong demand for social infrastructure advancement. The NEC Group's 5 regional headquarters, located throughout the world, reinforce functions such as local marketing and development, enable each region to promote its strengths throughout the NEC Group's worldwide network, and accelerate "locally-led" business.

NEC established the Global Safety Business Division in Singapore in order to strategically plan and implement its safety business. This will help to rapidly adapt locally developed solutions and provide them in additional markets. Going forward, the NEC Group aims to accelerate global business and increase its awareness of local needs.

3) Creation of a stable financial foundation

The NEC Group aims to strengthen cost competitiveness by carrying out a full range of cost reductions and improving quality control. The NEC Group is working to ensure net income by reducing non-operating loss and extraordinary loss, establishing a profit structure that enables continual payment of dividends and improving accounts receivable, inventory and accounts payable turnover in order to build a financial base that is stable and provides for an annual free cash flow of more than 100 billion yen by the 2015 fiscal year.

The NEC Group continues its comprehensive observation of compliance as well as efforts to maintain and operate internal control systems. Recently, it was found that a consolidated subsidiary of the company, NETCOMSEC Co. Ltd., recorded and billed an excessive amount of working hours to certain contracts with Japan's Ministry of Defense. NETCOMSEC reported this and was suspended from participating in requests for proposals for future contracts with Japan's Ministry of Defense.

The NEC Group is making every effort to prevent a repeat of this kind of incident and to reinforce the NEC Group's comprehensive observation of compliance.

The NEC Group will devote its full attention to implementing these measures and increasing corporate value, while on the path to realizing an "information society friendly to humans and the earth."

Consolidated Balance Sheets

NEC Corporation and Subsidiaries
March 31, 2012 and 2013

ASSETS	Millions of Yen 2012	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2013
CURRENT ASSETS:			
Cash and cash equivalents *(Note 20)*	¥ 251,843	¥ 197,132	$ 2,097,149
Short-term investments *(Note 20)*	2,007	1,829	19,457
Trade notes and accounts receivable *(Note 20)*	810,579	834,052	8,872,894
Inventories *(Note 7)*	249,917	242,639	2,581,266
Deferred tax assets *(Note 14)*	76,222	78,761	837,883
Other current assets *(Notes 20 and 21)*	128,522	164,055	1,745,266
Allowance for doubtful accounts	(4,653)	(4,662)	(49,596)
Total current assets	1,514,437	1,513,806	16,104,319
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION *(Notes 3 and 8)*:			
Land	72,317	66,502	707,468
Buildings and structures	134,618	124,283	1,322,160
Machinery and equipment	35,445	25,586	272,191
Furniture and fixtures	60,268	62,695	666,968
Construction in progress	13,247	15,701	167,032
Total property, plant and equipment	315,895	294,767	3,135,819
INVESTMENTS AND OTHER ASSETS:			
Investment securities *(Notes 6 and 20)*	153,688	138,139	1,469,564
Investments in affiliated companies *(Note 20)*	117,635	92,668	985,830
Goodwill *(Note 18)*	75,969	93,895	998,883
Software	121,541	114,088	1,213,702
Long-term loans receivable *(Notes 5 and 20)*	836	44,019	468,287
Deferred tax assets *(Note 14)*	96,476	97,570	1,037,979
Other assets *(Notes 5 and 9)*	180,380	212,868	2,264,553
Allowance for doubtful accounts	(19,287)	(20,854)	(221,851)
Total investments and other assets	727,238	772,393	8,216,947
TOTAL ASSETS	¥ 2,557,570	¥ 2,580,966	$ 27,457,085

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen 2012	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2013
CURRENT LIABILITIES:			
Short-term borrowings *(Notes 8 and 20)*	¥ 126,981	¥ 56,587	$ 601,989
Current portion of long-term debt *(Notes 8 and 20)*	68,046	145,883	1,551,947
Trade notes and accounts payable *(Note 20)*	466,177	458,724	4,880,043
Accrued expenses *(Note 20)*	156,175	169,221	1,800,223
Other current liabilities *(Notes 10,14,20 and 21)*	241,233	293,241	3,119,585
Total current liabilities	1,058,612	1,123,656	11,953,787
LONG-TERM LIABILITIES:			
Long-term debt *(Notes 8 and 20)*	497,707	400,981	4,265,755
Liabilities for retirement benefits *(Note 9)*	182,735	178,868	1,902,851
Deferred tax liabilities *(Note 14)*	3,040	2,231	23,734
Other long-term liabilities *(Note 11)*	37,862	39,083	415,777
Total long-term liabilities	721,344	621,163	6,608,117
COMMITMENTS AND CONTINGENT LIABILITIES *(Notes 19,21 and 22)*			
NET ASSETS *(Notes 12 and 25)*:			
SHAREHOLDERS' EQUITY:			
Common stock:			
Authorized — 7,500,000 thousand shares			
Issued — 2,604,733 thousand shares in 2012 and 2013	397,199	397,199	4,225,521
Capital surplus	192,834	148,405	1,578,776
Retained earnings	82,659	157,771	1,678,415
Treasury stock—at cost: 6,321 thousand shares in 2012 and 6,381 thousand shares in 2013	(2,939)	(2,946)	(31,340)
Total shareholders' equity	669,753	700,429	7,451,372
ACCUMULATED OTHER COMPREHENSIVE INCOME:			
Valuation difference on available-for-sale securities	16,273	18,333	195,032
Deferred gains or losses on hedges	(142)	(1,076)	(11,447)
Foreign currency translation adjustments	(28,928)	(7,020)	(74,681)
Total accumulated other comprehensive income	(12,797)	10,237	108,904
STOCK SUBSCRIPTION RIGHTS *(Note 13)*	24	—	—
MINORITY INTERESTS	120,634	125,481	1,334,905
Total net assets	777,614	836,147	8,895,181
TOTAL LIABILITIES AND NET ASSETS	¥ 2,557,570	¥ 2,580,966	$ 27,457,085

Consolidated Statements of Operations

NEC Corporation and Subsidiaries
Years Ended March 31, 2011, 2012 and 2013

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2011	2012	2013	2013
NET SALES	¥ 3,115,424	¥ 3,036,836	¥ 3,071,609	$ 32,676,691
COST OF SALES *(Notes 3 and 9)*	2,199,973	2,128,920	2,142,243	22,789,819
Gross profit	915,451	907,916	929,366	9,886,872
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES *(Notes 3, 9 and 15)*	857,631	834,174	814,719	8,667,223
Operating income	57,820	73,742	114,647	1,219,649
NON-OPERATING INCOME:				
Interest and dividends income	5,445	6,108	5,247	55,819
Reversal of provision for contingent loss *(Note 5)*	1,668	1,188	2,971	31,606
Foreign exchange gain, net	—	—	446	4,745
Equity in earnings of affiliated companies, net	—	—	409	4,351
Other non-operating income *(Note 5)*	9,840	11,320	6,504	69,192
Total non-operating income	16,953	18,616	15,577	165,713
NON-OPERATING EXPENSES:				
Interest expense	6,614	5,446	5,979	63,606
Retirement benefit expenses *(Note 9)*	12,057	11,867	11,631	123,734
Equity in losses of affiliated companies, net	38,533	12,705	—	—
Foreign exchange loss, net	1,488	2,672	—	—
Other non-operating expenses	16,040	17,618	20,590	219,043
Total non-operating expenses	74,732	50,308	38,200	406,383
Ordinary income	41	42,050	92,024	978,979
SPECIAL GAINS *(Note 16)*	28,270	28,375	16,780	178,511
SPECIAL LOSSES *(Note 16)*	43,998	67,124	39,525	420,479
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	(15,687)	3,301	69,279	737,011
INCOME TAXES *(Note 14)*:				
Current	27,788	23,911	30,724	326,851
Deferred	(36,584)	84,283	(198)	(2,106)
Total income taxes	(8,796)	108,194	30,526	324,745
INCOME(LOSS) BEFORE MINORITY INTERESTS	(6,891)	(104,893)	38,753	412,266
MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES	5,627	5,374	8,319	88,500
NET INCOME (LOSS)	¥ (12,518)	¥ (110,267)	¥ 30,434	$ 323,766

	Yen			U.S. Dollars (Note 1)
	2011	2012	2013	2013
PER SHARE OF COMMON STOCK *(Note 24)*:				
Basic net income (loss)	¥ (4.82)	¥ (42.44)	¥ 11.71	$ 0.12
Diluted net income	—	—	—	—
Cash dividends applicable to the year	—	—	4.00	0.04

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

NEC Corporation and Subsidiaries
Years Ended March 31, 2011, 2012 and 2013

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2011	2012	2013	2013
INCOME(LOSS) BEFORE MINORITY INTERESTS	¥ (6,891)	¥ (104,893)	¥ 38,753	$ 412,266
OTHER COMPREHENSIVE INCOME *(Note 17)*:				
Valuation difference on available-for-sale securities	(5,941)	12,156	2,096	22,298
Deferred gains or losses on hedges	11	(231)	(845)	(8,990)
Foreign currency translation adjustments	2,470	(1,250)	16,724	177,915
Share of other comprehensive income of associates accounted for using equity method	(3,975)	(476)	5,690	60,532
Total other comprehensive income	(7,435)	10,199	23,665	251,755
COMPREHENSIVE INCOME	¥ (14,326)	¥ (94,694)	¥ 62,418	$ 664,021
Comprehensive income attributable to				
owners of the parent	¥ (22,861)	¥ (100,073)	¥ 53,468	$ 568,808
minority interests	8,535	5,379	8,950	95,213

Consolidated Statements of Changes in Net Assets

NEC Corporation and Subsidiaries
Years Ended March 31, 2011, 2012 and 2013

	Thousands	Shareholders' equity			
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, APRIL 1, 2010	2,604,733	¥ 397,199	¥ 192,843	¥ 216,439	¥ (2,929)
Net income(loss)				(12,518)	
Cash dividends paid, ¥ 4 per share				(10,395)	
Purchases of treasury stock					(40)
Disposals of treasury stock			(6)		12
Change in equity in affiliates accounted for by equity method-treasury stock					23
Change of scope of equity method				(583)	
Net changes in items other than shareholders' equity during the year					
BALANCE, MARCH 31, 2011	2,604,733	397,199	192,837	192,943	(2,934)
Net income(loss)				(110,267)	
Purchases of treasury stock					(10)
Disposals of treasury stock			(3)		5
Change of scope of equity method				(17)	
Net changes in items other than shareholders' equity during the year					
BALANCE, MARCH 31, 2012	2,604,733	397,199	192,834	82,659	(2,939)
Deficit disposition			(44,426)	44,426	
Net income				30,434	
Purchases of treasury stock					(11)
Disposals of treasury stock			(3)		4
Change of scope of equity method				252	
Net changes in items other than shareholders' equity during the year					
BALANCE, MARCH 31, 2013	2,604,733	¥ 397,199	¥ 148,405	¥ 157,771	¥ (2,946)

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, MARCH 31, 2012	$ 4,225,521	$ 2,051,425	$ 879,351	$ (31,266)
Deficit disposition		(472,617)	472,617	
Net income			323,766	
Purchases of treasury stock				(117)
Disposals of treasury stock		(32)		43
Change of scope of equity method			2,681	
Net changes in items other than shareholders' equity during the year				
BALANCE, MARCH 31, 2013	$ 4,225,521	$ 1,578,776	$ 1,678,415	$ (31,340)

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						
	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
	¥ 803,552	¥ 10,218	¥ 61	¥ (22,927)	¥ (12,648)	¥ 93	¥ 140,915	¥ 931,912
	(12,518)							(12,518)
	(10,395)							(10,395)
	(40)							(40)
	6							6
	23							23
	(583)							(583)
	—	(6,051)	71	(4,363)	(10,343)	(60)	(22,561)	(32,964)
	780,045	4,167	132	(27,290)	(22,991)	33	118,354	875,441
	(110,267)							(110,267)
	(10)							(10)
	2							2
	(17)							(17)
	—	12,106	(274)	(1,638)	10,194	(10)	2,280	12,465
	669,753	16,273	(142)	(28,928)	(12,797)	24	120,634	777,614
	—							—
	30,434							30,434
	(11)							(11)
	1							1
	252							252
	—	2,060	(934)	21,908	23,034	(24)	4,847	27,857
	¥ 700,429	¥ 18,333	¥ (1,076)	¥ (7,020)	¥ 10,237	¥ —	¥ 125,481	¥ 836,147

Thousands of U.S. Dollars (Note 1)

		Accumulated other comprehensive income						
	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
	$ 7,125,031	$ 173,117	$ (1,511)	$ (307,745)	$ (136,139)	$ 256	$ 1,283,341	$ 8,272,489
	—							—
	323,766							323,766
	(117)							(117)
	11							11
	2,681							2,681
	—	21,915	(9,936)	233,064	245,043	(256)	51,564	296,351
	$ 7,451,372	$ 195,032	$ (11,447)	$ (74,681)	$ 108,904	$ —	$ 1,334,905	$ 8,895,181

Consolidated Statements of Cash Flows

NEC Corporation and Subsidiaries
Years Ended March 31, 2011, 2012 and 2013

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2011	2012	2013	2013
Cash flows from operating activities				
Income (loss) before income taxes and minority interests	¥ (15,687)	¥ 3,301	¥ 69,279	$ 737,011
Depreciation	90,614	83,058	83,612	889,489
Amortization of long-term prepaid expenses	8,521	7,711	6,748	71,787
Impairment losses on property, plant and equipment, and other assets	5,873	6,501	21,949	233,500
Amortization of goodwill	12,983	12,660	15,428	164,128
Increase in allowance for doubtful accounts	6,577	2,589	591	6,287
Decrease in product warranty liabilities	(2,327)	(4,686)	(1,183)	(12,585)
Decrease in provision for loss on guarantees	(10,412)	—	—	—
Increase (decrease) in provision for loss on construction contracts and others	(4,320)	193	7,987	84,968
Increase in liabilities for retirement benefits	6,942	6,855	(3,939)	(41,904)
Increase (decrease) in provision for business structure improvement	(2,826)	18,463	(22,644)	(240,894)
Decrease in provision for contingent loss	(4,946)	(939)	(3,575)	(38,032)
Decrease in provision for loss on repurchase of computers	(1,735)	(1,151)	(1,143)	(12,160)
Interest and dividends income	(5,445)	(6,108)	(5,247)	(55,819)
Interest expense	6,614	5,446	5,979	63,606
Equity in losses (earnings) of affiliated companies	38,533	12,705	(409)	(4,351)
Loss (gain) on change in equity	5,996	(18)	(2,657)	(28,266)
Gain on sales of property, plant and equipment	(1,266)	(966)	(1,569)	(16,691)
Loss on retirement of property, plant and equipment	—	—	636	6,766
Gain on sales of investment securities	(2,492)	(1,357)	(9,057)	(96,351)
Loss on sales of investment securities	8	11	2	21
Write-off of investment securities	4,319	16,037	804	8,553
Gain on sales of investments in affiliated companies	(2,299)	(15,376)	(1,728)	(18,383)
Loss on sales of investments in affiliated companies	1,002	1,118	880	9,362
Loss (gain) on contribution of securities to retirement benefit trust	(19,206)	—	5,898	62,745
Loss on disaster	5,972	2,131	—	—
Gain on insurance claim	—	(10,648)	(1,625)	(17,287)
Increase in trade notes and accounts receivable	(478)	(88,216)	(9,600)	(102,128)
(Increase) decrease in inventories	3,349	(150)	5,496	58,468
(Increase) decrease in accounts receivable, other	(5,344)	15,591	(2,792)	(29,702)
Increase (decrease) in trade notes and accounts payable	(10,380)	28,976	(8,548)	(90,936)
Others—net	(46,130)	(7,690)	22,267	236,883
Sub total	62,010	86,041	171,840	1,828,085
Interest and dividends received	5,513	6,111	4,481	47,670
Interest paid	(6,464)	(5,152)	(5,928)	(63,064)
Income taxes paid	(27,399)	(22,650)	(28,653)	(304,819)
Proceeds from insurance income	—	19,507	2,008	21,362
Net cash provided by operating activities	¥ 33,660	¥ 83,857	¥ 143,748	$ 1,529,234

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

NEC Corporation and Subsidiaries
Years Ended March 31, 2011, 2012 and 2013

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2011	2012	2013	2013
Cash flows from investing activities				
Purchases of property, plant and equipment	¥ (57,580)	¥ (39,772)	¥ (46,012)	$ (489,489)
Proceeds from sales of property, plant and equipment	3,768	4,759	5,208	55,404
Acquisitions of intangible assets	(29,471)	(17,421)	(14,556)	(154,851)
Purchases of investment securities	(1,259)	(1,977)	(1,159)	(12,330)
Proceeds from sales of investment securities	3,767	1,999	27,601	293,628
Disbursements for acquisitions of shares of newly consolidated subsidiaries	(1,572)	(2,345)	(58,072)	(617,787)
Proceeds from sales of shares of subsidiaries being excluded from the consolidation	2,551	1,178	553	5,883
Disbursements for sales of shares of subsidiaries being excluded from the consolidation	(1,738)	(4,308)	(524)	(5,574)
Purchases of investments in affiliated companies	(59,615)	(358)	(582)	(6,192)
Proceeds from sales of investments in affiliated companies	145	6,779	1,151	12,245
(Increase) decrease in short-term loans receivable, net	1	(101)	187	1,989
Disbursements for loans receivable	(46)	(475)	(17,543)	(186,628)
Collection of loans receivable	200	294	195	2,074
Others—net	(5,395)	2,042	1,811	19,266
Net cash used in investing activities	(146,244)	(49,706)	(101,742)	(1,082,362)
Cash flows from financing activities				
Increase (decrease) in short-term borrowings, net	125,829	(85,998)	(70,289)	(747,755)
Proceeds from long-term borrowings	6,167	191,760	58,456	621,872
Repayments of long-term borrowings	(177,176)	(20,351)	(82,996)	(882,936)
Proceeds from issuance of bonds	150,000	30,000	—	—
Redemption of bonds	(19,835)	—	—	—
Redemption of convertible bonds	—	(97,669)	—	—
Proceeds from stock issuance to minority shareholders	1,866	—	—	—
Dividends paid	(10,396)	(39)	(4)	(42)
Dividends paid to minority shareholders	(3,302)	(3,211)	(3,949)	(42,011)
Others—net	(78)	200	(25)	(266)
Net cash provided by (used in) financing activities	73,075	14,692	(98,807)	(1,051,138)
Effect of exchange rate changes on cash and cash equivalents	(4,073)	(879)	6,200	65,957
Net increase (decrease) in cash and cash equivalents	(43,582)	47,964	(50,601)	(538,309)
Cash and cash equivalents, at beginning of year	330,548	203,879	251,843	2,679,181
Decrease in cash and cash equivalents resulting from change of scope of consolidation	(92,787)	—	(4,110)	(43,723)
Increase in cash and cash equivalents resulting from merger	9,700	—	—	—
Cash and cash equivalents, at end of year	¥ 203,879	¥ 251,843	¥ 197,132	$ 2,097,149
Non-cash investing and financing activities				
Finance leases	¥ 3,986	¥ 2,372	¥ 1,670	$ 17,766
Contribution of securities to retirement benefit trust	70,992	—	26,437	281,245
Assets acquired and liabilities assumed in merger *(Note 18)*				
Current assets	42,652	—	—	—
Fixed assets	3,523	—	—	—
Total	¥ 46,175	¥—	¥—	$—
Current liabilities	40,612	—	—	—
Long-term liabilities	1,021	—	—	—
Total	¥ 41,633	¥—	¥—	$—

Notes to Consolidated Financial Statements

NEC Corporation and Subsidiaries

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, 2013.

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 principally 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 ¥94 to $1, the approximate rate of exchange at March 31, 2013. 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, 2013 include the accounts of the Company and its 270 subsidiaries (collectively, the “NEC Group”). Investments in 53 affiliated companies are accounted for by the equity method.

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

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. ***Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** — The Company applies Accounting Standards Board of Japan (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; and 5) Exclusion of minority interests from net income, if contained.

c. ***Cash Equivalents*** — Cash equivalents are short-term highly liquid 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 paper and bond funds, all of which mature or become due within three months of the date of acquisition.

d. ***Inventories*** — Inventories are stated at the cost method (where the book value of inventories is written down based on decreases in profitability), determined by the following valuation methods:

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

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

Cost of raw materials and supplies is determined mainly by the first-in, first-out method (Note 7).

e. ***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 6).

f. ***Property, Plant and Equipment*** — Property, plant and equipment are stated at cost. For the year ended March 31, 2011, depreciation of property, plant and equipment of the NEC Group was computed principally by the declining-balance method based on the estimated useful lives of the assets. For the years ended March 31, 2012 and 2013, depreciation of property, plant and equipment of the NEC Group was computed by the straight-line method based on the estimated useful lives of the assets (Note 3).

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 for furniture and fixtures. Leased assets are depreciated by the straight-line method over the respective lease periods.

Accumulated depreciation of property, plant and equipment as of March 31, 2011, 2012 and 2013 were ¥838,310 million, ¥786,212 million and ¥720,665 million ($7,666,649 thousand), respectively.

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

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

h. ***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.

i. ***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 collectability of receivables that are expected to be uncollectable due to deterioration in financial condition or insolvency of the debtor.

j. ***Product Warranty Liabilities*** — The NEC 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.

k. ***Provision for Loss on Repurchase of Computers*** — The Company accrues for the estimated losses arising from repurchase of computers based on experience in past years.

l. ***Provision for loss on construction contracts and others*** — Provision for loss on construction contracts and others is the estimated amount of future losses on customized software or construction contracts whose costs are probable to exceed total contract revenues.

m. ***Provision for Business Structure Improvement*** — The Company maintains a provision for the amount of the estimated losses and expenses to be incurred in connection with business structure improvements.

n. ***Provision for Contingent Loss*** — In relation to matters such as legal proceedings and litigations, the Company maintains a provision for the amount of expected losses and expenses when they are reasonably estimated considering individual risks associated with each contingency.

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 has been 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).

Actuarial gains and losses are amortized on a straight-line basis over the employees' estimated average remaining service periods (mainly 13 years), starting in the following year after incurrence (Note 9).

p. *Stock Options* — ASBJ Statement No.8, "Accounting Standard for Share-based Payments" and related guidance are applicable to stock options newly granted on or 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 13).

q. *Research and Development Costs* — Research and development costs are charged to earnings as incurred. The amounts charged to earnings for fiscal 2011, 2012 and 2013 were ¥176,514 million, ¥161,968 million and ¥151,676 million ($1,613,574 thousand), respectively.

r. *Leases* — Finance leases as lessee are capitalized and accounted for as ordinary sales transactions (Notes 8 and 19).

s. *Bonuses to Directors* — Bonuses to directors are accrued for in the fiscal year to which such bonuses are attributable.

t. *Construction Contracts* — The percentage-of-completion accounting method has been applied to made-to-order software and construction projects for which the completion percentage can be reasonably measured. The completed-contract accounting method has been applied to other construction projects for which the completion percentage cannot be reasonably measured.

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 14).

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 overseas subsidiaries and affiliated companies are translated into Japanese yen at the exchange rates 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 rates. Differences arising from such translations are recorded in "Foreign currency translation adjustments" or partly included in "Minority interests" in a separate component of net assets.

x. *Derivatives* — The NEC Group enters into foreign exchange forward contracts, currency options 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. Unrealized gains or losses on derivative transactions for derivatives not qualifying for hedge accounting are recognized in the consolidated statements of operations. Unrealized gains or losses on derivatives for derivatives qualifying for hedge accounting are deferred until maturity of the hedged transactions as a separate component of net assets (Note 21).

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 24).

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 25).

3. Accounting Changes

Change in depreciation method for property, plant and equipment and useful lives — From the fiscal year ended March 31, 2012, the NEC Group has changed the depreciation method and revised the useful lives of portion of assets based on actual utilization.

In prior periods, the NEC Group had adopted principally the declining-balance method as a depreciation method for property, plant and equipment. From the fiscal year ended March 31, 2012, the NEC Group has uniformly adopted the straight-line method over the estimated useful lives of the assets.

This change is mainly due to a shift in business conditions such as the exclusion of NEC's semiconductor business from consolidation and a greater focus on services where stable long-term revenues can be expected, notably "Cloud Computing Services."

This shift in business conditions resulted in an increase in the ratio of assets more suitably depreciated by the straight-line method, which enables depreciation cost to be equally allocated over the useful lives of assets (Note 2f).

Compared to the previous method of accounting, the impacts of these changes and revisions on income (loss) and segment information are immaterial.

(Additional Information)

From the fiscal year ended March 31, 2012, the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24 of December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections"(ASBJ Guidance No.24 of December 4, 2009) have been applied to accounting changes and corrections of prior-period errors.

4. Accounting Standards issued but not yet adopted

Accounting Standard for Retirement Benefits — The ASBJ issued the "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26 of May 17, 2012) and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012).

From the perspective of global developments in accounting standards and enhancement of financial reporting, these accounting standards were revised mainly on their processing methods of unrecognized actuarial gains (losses) and unrecognized past service costs, calculation methods of retirement benefit obligations and service costs and expansion of the disclosures.

The NEC Group expects to apply these accounting standards from the end of the fiscal year ending March 31, 2014. However, on the calculation methods of retirement benefit obligations and service costs, it expects to apply from the beginning of the fiscal year ending March 31, 2015.

The Company is in the process of assessing the impact of applying the revised accounting standards.

5. Changes in Presentation Method

(Consolidated Balance Sheets)

"Long-term loans receivable" (¥836 million for the year ended March 31, 2012), which was included in "Other assets" under investments and other assets in prior periods has been presented separately to conform with the current year presentation.

(Consolidated Statements of Operations)

"Reversal of provision for contingent loss"(¥1,668 million and ¥1,188 million for the years ended March 31, 2011 and 2012, respectively), which was included in "Other non-operating income" in prior periods has been presented separately to conform with the current year presentation.

6. Investment Securities

The carrying amounts and aggregate fair values of marketable investment securities as of March 31, 2012 and 2013 were as follows:

	Millions of Yen			
Mar 31, 2012	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 63,021	¥ 31,486	¥ 2,674	¥ 91,833
Debt securities	1,000	—	155	845
Others	1,969	21	11	1,979
Total	¥ 65,990	¥ 31,507	¥ 2,840	¥ 94,657
Mar 31, 2013				
Securities classified as available-for-sale:				
Equity securities	¥ 46,939	¥ 29,942	¥ 1,946	¥ 74,935
Debt securities	1,000	—	100	900
Others	82	34	11	105
Total	¥ 48,021	¥ 29,976	¥ 2,057	¥ 75,940

	Thousands of U.S. Dollars			
Mar 31, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 499,351	$ 318,532	$ 20,702	$ 797,181
Debt securities	10,638	—	1,064	9,574
Others	872	362	117	1,117
Total	$ 510,861	$ 318,894	$ 21,883	$ 807,872

Non-marketable investment securities whose fair value was not readily determinable as of March 31, 2012 and 2013 were as follows:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2012	2013	2013
Available-for-sale:			
Equity securities	¥ 54,547	¥ 56,826	$ 604,532
Investments in limited partnerships	4,157	5,087	54,117
Others	327	286	3,043
Total	¥ 59,031	¥ 62,199	$ 661,692

7. Inventories

Inventories as of March 31, 2012 and 2013 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2013	2013
Merchandise & finished products	¥ 91,898	¥ 93,776	$ 997,617
Work in process	91,408	86,032	915,234
Raw materials and supplies	66,611	62,831	668,415
Total	¥ 249,917	¥ 242,639	$ 2,581,266

8. Short-term Borrowings and Long-term Debt

Short-term borrowings

Short-term borrowings as of March 31, 2012 and 2013 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2013	2013
Loans (weighted-average interest rate of 1.98% as of March 31, 2013)	¥ 28,990	¥ 26,590	$ 282,872
Commercial papers (weighted-average interest rate of 0.15% as of March 31, 2013)	97,991	29,997	319,117
Total	¥ 126,981	¥ 56,587	$ 601,989

As of March 31, 2013, the NEC Group had unused line-of-credit agreements for short-term borrowings with financial institutions totaling ¥321,800 million ($3,423,404 thousand).

Long-term borrowings

Long-term borrowings as of March 31, 2012 and 2013 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2013	2013
Loans from financial institutions, due in 2013 through 2020(weighted-average interest rate of 0.89% as of March 31, 2013)	¥ 327,953	¥ 310,514	$ 3,303,340
Less current portion	(64,793)	(73,486)	(781,766)
Total	¥ 263,160	¥ 237,028	$ 2,521,574

Bonds

	Millions of Yen		Thousands of U.S. Dollars
	2012	2013	2013
NEC 38th unsecured 1.47% bonds due in 2013	¥ 30,000	¥ 30,000	$ 319,149
NEC 39th unsecured 1.68% bonds due in 2015	20,000	20,000	212,766
NEC 40th unsecured 0.50% bonds due in 2013	40,000	40,000	425,532
NEC 41st unsecured 0.73% bonds due in 2015	40,000	40,000	425,532
NEC 42nd unsecured 1.02% bonds due in 2017	20,000	20,000	212,766
NEC 43rd unsecured 0.65% bonds due in 2015	30,000	30,000	319,149
NEC 44th unsecured 1.00% bonds due in 2017	20,000	20,000	212,766
NEC 45th unsecured 0.61% bonds due in 2014	20,000	20,000	212,766
NEC 46th unsecured 0.79% bonds due in 2016	10,000	10,000	106,383
Less current portion of bonds	—	(70,000)	(744,681)
Total	¥ 230,000	¥ 160,000	$ 1,702,128

Lease obligations

	Millions of Yen		Thousands of U.S. Dollars
	2012	2013	2013
Lease obligations, due in 2013 through 2020 (weighted-average interest rate of 1.62% as of March 31, 2013)	¥ 7,800	¥ 6,350	$ 67,553
Less current portion	(3,253)	(2,397)	(25,500)
Total	¥ 4,547	¥ 3,953	$ 42,053

Annual maturities for the fiscal years ending March 31, 2014 through 2020 of long-term debt as of March 31, 2013 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥145,883	$1,551,947
2015	65,238	694,021
2016	101,936	1,084,426
2017	112,969	1,201,798
2018	53,762	571,936
2019 and thereafter	67,076	713,574
Total	¥546,864	$5,817,702

The carrying amounts of assets, net of accumulated depreciation, pledged as collateral for short-term borrowings of ¥1,971 million ($20,968 thousand) and long-term borrowings of ¥300 million ($3,191 thousand) and other debt of ¥42 million ($447 thousand) as of March 31, 2013 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 3,579	$ 38,074
Buildings and structures	261	2,777
Others	5	53
Total, net of accumulated depreciation	¥ 3,845	$ 40,904

9. Retirement and Pension Plans

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

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

Liabilities and assets for employees' retirement benefits as of March 31, 2012 and 2013 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2012	2013	2013
Project benefit obligations	¥ (929,558)	¥ (968,387)	$ (10,301,989)
Fair value of plan assets	627,504	626,582	6,665,766
Unfunded retirement benefit obligations	(302,054)	(341,805)	(3,636,223)
Unrecognized transitional obligation	34,068	22,227	236,457
Unrecognized actuarial gain	231,659	287,071	3,053,947
Unrecognized prior service costs	(63,164)	(54,658)	(581,468)
Net amounts recognized in the consolidated balance sheets	(99,491)	(87,165)	(927,287)
Prepaid pension expenses	83,244	91,703	975,564
Liabilities for retirement benefits	¥ (182,735)	¥ (178,868)	$ (1,902,851)

The components of retirement benefit expenses for the fiscal years ended March 31, 2011, 2012 and 2013 were as follows:

	Millions of Yen			*Thousands of U.S. Dollars*
	2011	2012	2013	2013
Service cost	¥ 31,158	¥ 30,762	¥ 30,697	$ 326,564
Interest cost	23,318	23,051	22,479	239,138
Expected return on plan assets	(12,187)	(12,030)	(12,078)	(128,489)
Amortization of transitional obligation	12,057	11,867	11,631	123,734
Amortization of actuarial gains and losses	21,351	27,921	27,052	287,787
Amortization of prior service costs	(9,187)	(8,882)	(8,749)	(93,075)
Others	6,068	6,596	6,995	74,415
Total retirement benefit expenses	¥ 72,578	¥ 79,285	¥ 78,027	$ 830,074

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

Besides the above retirement benefit expenses, additional expenses mainly for early retirement of employees due to business restructuring were recognized and included in "Restructuring charges" under special losses, in the amount of ¥29,830 million for the fiscal year ended March 31, 2012 (Note 16).

Assumptions used for the fiscal years ended March 31, 2012 and 2013 were as follows:

	2012	2013
Discount rate	Mainly 2.5%	Mainly 1.4%
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.

10. Other Current Liabilities

Other current liabilities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2013	2013
Advances from customers	¥ 57,013	¥ 122,154	$ 1,299,510
Reserve for bonuses to directors	219	335	3,564
Product warranty liabilities	19,278	18,370	195,425
Provision for business structure improvement	25,917	3,993	42,479
Provision for loss on construction contracts and others	9,945	17,955	191,011
Provision for contingent loss	2,762	1,217	12,947
Others	126,099	129,217	1,374,649
Total	¥ 241,233	¥ 293,241	$ 3,119,585

11. Other Long-term Liabilities

Other long-term liabilities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2013	2013
Provision for loss on repurchase of computers	¥ 6,469	¥ 5,326	$ 56,660
Long-term product warranty liabilities	2,676	3,049	32,436
Provision for contingent loss	8,622	6,641	70,649
Provision for business structure improvement	979	750	7,979
Others	19,116	23,317	248,053
Total	¥ 37,862	¥ 39,083	$ 415,777

12. Net Assets

The significant provisions in the Companies Act of Japan (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 a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than the conventional two-year 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 accepted 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, provided that the amount of net assets after dividends is 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 additional paid-in capital and legal reserve equals 25% of 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 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 a 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.

13. Stock Options

The Company recognized no stock-based compensation expense for the year ended March 31, 2013.

The stock options outstanding during the fiscal year ended March 31, 2013 were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Period
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 the options noted above.

Stock option activities during the fiscal year ended March 31, 2013 were as follows:

	Shares 2006 Stock Option
Non-vested	
April 1, 2012 - Outstanding	—
Granted	—
Forfeited	—
Vested	—
March 31, 2013 - Outstanding	—
Vested	
April 1, 2012 - Outstanding	124,000
Vested	—
Exercised	—
Forfeited	(124,000)
March 31, 2013 - Outstanding	—
Exercise price	¥ 600
Average stock price at exercise	—
Fair value price at grant date	¥ 190

14. 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)%, 40.5% and 38.0% for the fiscal years ended March 31, 2011, 2012 and 2013, respectively. Income taxes of 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, 2012 and 2013 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2012	2013	2013
Deferred tax assets :			
Tax loss carryforwards	¥ 219,368	¥ 177,766	$ 1,891,128
Pension and severance costs	115,681	117,047	1,245,181
Accrued expenses and product warranty liabilities	46,625	48,326	514,106
Write-off of inventories	37,214	39,069	415,628
Depreciation	33,437	37,263	396,415
Investments in affiliated companies	17,111	17,059	181,479
Write-off of investment securities	8,024	7,079	75,308
Provision for loss on construction contracts and others	3,755	6,813	72,479
Elimination of unrealized profit by intercompany transactions among consolidated companies	4,241	5,008	53,276
Provision for contingent loss	4,006	2,748	29,234
Research and development expenses	1,182	1,487	15,819
Provision for business structure improvement	10,263	1,372	14,596
Others	43,773	65,860	700,638
Sub-total	544,680	526,897	5,605,287
Less valuation allowance	(326,029)	(313,274)	(3,332,702)
Total	218,651	213,623	2,272,585
Deferred tax liabilities :			
Undistributed earnings of affiliated companies	15,074	17,493	186,096
Gain on contribution of securities to retirement benefit trust	19,317	9,076	96,553
Unrealized gains on available-for-sale securities	7,165	7,681	81,713
Reserves under special taxation measures law	180	16	170
Others	7,289	5,992	63,744
Total	49,025	40,258	428,276
Net deferred tax assets	¥ 169,626	¥ 173,365	$ 1,844,309

Net deferred tax assets were included in the consolidated balance sheets as of March 31, 2012 and 2013 as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2012	2013	2013
Current assets - deferred tax assets	¥ 76,222	¥ 78,761	$ 837,883
Investments and other assets - deferred tax assets	96,476	97,570	1,037,979
Current liabilities - other current liabilities	(32)	(735)	(7,819)
Long-term liabilities - deferred tax liabilities	(3,040)	(2,231)	(23,734)
Net deferred tax assets	¥ 169,626	¥ 173,365	$ 1,844,309

Reconciliations between the statutory tax rates and the effective tax rates for the fiscal years ended March 31, 2011, 2012 and 2013 were as follows:

	2011	2012	2013
Statutory tax rates	(40.5) %	40.5 %	38.0 %
Amortization of goodwill	33.5	179.4	8.5
Undistributed earnings of affiliated companies	(17.4)	247.2	4.2
Non-deductible expenses for tax purposes	5.0	31.2	1.3
Tax rates difference relating to overseas subsidiaries	5.2	(14.6)	0.3
Equity in losses (earnings) of affiliated companies	98.6	152.1	(0.4)
Changes in valuation allowance	58.3	1,786.3	(2.7)
Retirement benefit trust	(105.9)	-	(5.3)
Others	(92.9)	855.5	0.2
Effective tax rates	(56.1) %	3,277.6 %	44.1 %

15. Significant Components of Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the fiscal years ended March 31, 2011, 2012 and 2013 consisted of the following:

	Millions of Yen			*Thousands of U.S. Dollars*
	2011	2012	2013	2013
Salaries for employees	¥ 295,191	¥ 291,188	¥ 285,120	$ 3,033,191
Research and development expenses	170,739	156,626	147,036	1,564,213
Retirement benefit expenses	19,555	22,573	24,685	262,606
Provision for product warranty liabilities	7,666	10,854	12,793	136,096
Provision for loss on repurchase of computers	1,548	964	1,287	13,691
Allowance for doubtful accounts	156	2,073	1,263	13,436

16. Special Gains and Losses

(1) Special gains

Special gains for the fiscal years ended March 31, 2011, 2012 and 2013 consisted of the following:

	Millions of Yen			*Thousands of U.S. Dollars*
	2011	2012	2013	2013
Gain on sales of investment securities	¥ 2,492	¥ 1,357	¥ 9,057	$ 96,351
Gain on change in equity	—	18	2,657	28,266
Gain on sales of investments in affiliated companies	2,299	15,376	1,728	18,383
Gain on insurance claim	—	10,648	1,625	17,287
Gain on sales of property, plant and equipment	1,266	966	1,569	16,691
Gain on business transfers	249	—	120	1,277
Gain on reversal of subscription rights to shares	8	10	24	256
Gain on contribution of securities to retirement benefit trust	19,206	—	—	—
Reversal of provision for loss on guarantees	1,557	—	—	—
Reversal of provision for recycling expenses of personal computers	1,193	—	—	—
Total	¥ 28,270	¥ 28,375	¥ 16,780	$ 178,511

Gain on change in equity

Gain on change in equity for the fiscal year ended March 31, 2013 mainly related to a new share issuance to designated third-party shareholders conducted by NEC TOKIN Corporation.

Gain on sales of investments in affiliated companies

Gain on sales of investments in affiliated companies for the fiscal year ended March 31, 2012 mainly related to the sale of shares of NEC Personal Computers, Ltd.

Gain on insurance claim

Gain on insurance claim for the fiscal years ended March 31, 2012 and 2013 was due to insurance proceeds by the flooding in Thailand, which was offset by losses on noncurrent assets and inventories.

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.

(2) Special losses

Special losses for the fiscal years ended March 31, 2011, 2012 and 2013 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2011	2012	2013	2013
Impairment losses on property, plant and equipment, and other assets	¥ 5,873	¥ 6,501	¥ 21,949	$ 233,500
Loss on contribution of securities to retirement benefit trust	—	—	5,898	62,745
Restructuring charges *(Note 9)*	15,477	40,535	5,538	58,915
Provision of allowance for doubtful accounts for affiliated companies	—	—	3,818	40,617
Loss on sales of investments in affiliated companies	1,002	1,118	880	9,362
Write-off of investment securities	4,319	16,037	804	8,553
Loss on retirement of property, plant and equipment	—	—	636	6,766
Loss on sales of investment securities	8	11	2	21
Loss on disaster	5,972	2,131	—	—
Relocation expenses	—	713	—	—
Loss on sales of noncurrent assets	19	78	—	—
Loss on change in equity	5,996	—	—	—
Cost of corrective measures for products	3,697	—	—	—
Loss on adjustment for changes of accounting standard for asset retirement obligations	1,434	—	—	—
Provision for loss on guarantees	201	—	—	—
Total	¥ 43,998	¥ 67,124	¥ 39,525	$ 420,479

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 a decline in the net realizable value of idle assets of land and others.

The following summarizes the breakdown of impairment losses by account:

	Millions of Yen			Thousands of U.S. Dollars
	2011	2012	2013	2013
Land	¥ 342	¥ 507	¥ 319	$ 3,393
Buildings and structures	863	452	829	8,819
Machinery and equipment	1,827	1,347	1,007	10,713
Furniture and fixtures	208	716	1,787	19,011
Construction in progress	1,192	290	117	1,245
Goodwill	—	2,792	—	—
Software	1,130	220	13,685	145,585
Other assets	311	177	4,205	44,734
Total	¥ 5,873	¥ 6,501	¥ 21,949	$ 233,500

Loss on contribution of securities to retirement benefit trust

Loss on contribution of securities to retirement benefit trust for the fiscal year ended March 31, 2013 was due to transfer of a portion of shares that the Company holds in Renesas Electronics Corporation to the retirement benefit trust.

Restructuring charges

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

Restructuring charges for the fiscal year ended March 31, 2012 mainly related to expenses of ¥29,830 million which were primarily for early retirement of employees due to business restructuring, and ¥7,664 million for loss on noncurrent assets and other expenses due to business reorganization.

Restructuring charges for the fiscal year ended March 31, 2013 mainly related to expenses which were primarily for early retirement of employees due to business restructuring.

Loss on disaster

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

Loss on disaster for the fiscal year ended March 31, 2012 related to the flooding in Thailand, mainly fixed costs during the temporary shutdown of operations.

Loss on change in equity

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

17. Components of Other Comprehensive Income

The components of other comprehensive income for the fiscal years ended March 31, 2012 and 2013 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2012	2013	2013
Valuation difference on available-for-sale securities			
Increase(decrease) during the year	¥ 4,771	¥ 11,346	$ 120,702
Reclassification adjustments	13,826	(9,857)	(104,862)
Sub-total, before tax	18,597	1,489	15,840
Tax (expense) or benefit	(6,441)	607	6,458
Sub-total, net of tax	¥ 12,156	¥ 2,096	$ 22,298
Deferred gains or losses on hedges			
Increase(decrease) during the year	¥ (169)	¥ (1,375)	$ (14,628)
Reclassification adjustments	(157)	192	2,043
Sub-total, before tax	(326)	(1,183)	(12,585)
Tax (expense) or benefit	95	338	3,595
Sub-total, net of tax	¥ (231)	¥ (845)	$ (8,990)
Foreign currency translation adjustments			
Increase(decrease) during the year	¥ (1,321)	¥ 18,114	$ 192,702
Reclassification adjustments	(401)	(1,115)	(11,862)
Sub-total, before tax	(1,722)	16,999	180,840
Tax (expense) or benefit	472	(275)	(2,925)
Sub-total, net of tax	¥ (1,250)	¥ 16,724	$ 177,915
Share of other comprehensive income of associates accounted for using equity method			
Increase(decrease) during the year	¥ (476)	¥ 3,096	$ 32,936
Reclassification adjustments	–	2,594	27,596
Sub-total, net of tax	¥ (476)	¥ 5,690	$ 60,532
Total other comprehensive income	¥ 10,199	¥ 23,665	$ 251,755

18. Additional Cash Flow Information

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

	Millions of Yen
Current assets	¥ 1,482
Fixed assets	875
Goodwill	967
Current liabilities	(882)
Long-term liabilities	(339)
Minority interests	(136)
Acquisition cost of shares	1,967
Cash and cash equivalents	(395)
Disbursements for acquisitions of shares of newly consolidated subsidiaries	¥ 1,572

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

Three companies

	Millions of Yen
Current assets	¥ 2,348
Fixed assets	1,930
Current liabilities	(1,689)
Long-term liabilities	(716)
Foreign currency translation adjustment	10
Valuation difference on available-for-sale securities	(5)
Gain on sales of investments in affiliated companies	1,322
Sale amount of shares	3,200
Cash and cash equivalents	(649)
Proceeds from sales of shares of subsidiaries being excluded from the consolidation	¥ 2,551

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

SGI Japan, Ltd.

	Millions of Yen
Current assets	¥ 6,850
Fixed assets	682
Current liabilities	(4,376)
Long-term liabilities	(611)
Minority interests	(1,111)
Valuation difference on available-for-sale securities	(3)
Deferred gains or losses on hedges	1
Loss on sales of investments in affiliated companies	(620)
Sale amount of shares	812
Other receivables	(81)
Cash and cash equivalents	(2,469)
Disbursements for sales of shares of subsidiaries being excluded from the consolidation	¥ (1,738)

The assets and liabilities of NEC LCD Technologies, Ltd., which was excluded from consolidation due to the sale of shares in the fiscal year ended March 31, 2012, were as follows:

NEC LCD Technologies, Ltd.

	Millions of Yen
Current assets	¥ 7,515
Fixed assets	80
Current liabilities	(4,096)
Long-term liabilities	(2,504)
Minority interests	1
Acquisition of shares	(539)
Gain on sales of investments in affiliated companies	3,228
Sale amount of shares	3,685
Other receivables	(185)
Cash and cash equivalents	(2,322)
Proceeds from sales of shares of subsidiaries being excluded from the consolidation	¥ 1,178

The assets and liabilities of NEC Personal Computers, Ltd., which was excluded from consolidation due to the transfer of shares in the fiscal year ended March 31, 2012, were as follows:

NEC Personal Computers, Ltd.

	Millions of Yen
Current assets	¥ 34,129
Fixed assets	13,198
Current liabilities	(24,691)
Long-term liabilities	(11,887)
Valuation difference on available-for-sale securities	(383)
Deferred gains or losses on hedges	1
Acquisition of shares	(17,302)
Gain on sales of investments in affiliated companies	11,589
Transfer amount of shares	4,654
Cash and cash equivalents	(8,962)
Disbursements for transfer of shares of subsidiaries being excluded from the consolidation	¥ (4,308)

The Company acquired shares of NetCracker Technology Solutions Inc. and other 32 companies, which were newly consolidated in the fiscal year ended March 31, 2013. The assets and liabilities on the date of acquisition were as follows:

33 companies

	Millions of Yen	*Thousands of U.S. Dollars*
Current assets	¥ 14,400	$ 153,191
Fixed assets	29,385	312,606
Goodwill	28,381	301,926
Current liabilities	(7,189)	(76,479)
Long-term liabilities	(4,840)	(51,489)
Acquisition cost of shares	60,137	639,755
Cash and cash equivalents	(2,065)	(21,968)
Disbursements for acquisitions of shares of newly consolidated subsidiaries	¥ 58,072	$ 617,787

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. Assets acquired and liabilities assumed in this merger are presented on the consolidated statements of cash flows.

19. Leases

The minimum obligations under noncancelable operating leases as of March 31, 2012 and 2013 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2012	2013	2013
Due within one year	¥ 19,494	¥ 22,312	$ 237,362
Due after one year	84,806	77,457	824,010
Total	¥ 104,300	¥ 99,769	$ 1,061,372

20. Financial Instruments

(1) Summary of financial instruments

a. Policy on financial instruments

The NEC Group manages its surplus funds by depositing these funds with major banks or investing in short-term financial assets with low volatility risk. For the purpose of financing long-term capital, the NEC Group primarily obtains loans from banks and issues corporate bonds. For the purpose of financing short-term funds, the Company mainly obtains loans from banks and issues commercial paper. Derivatives are generally used to hedge the risks described below, and not for the purpose of speculative investments.

b. Description and risks of financial instruments

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

Receivables and payables arising from the ordinary course of business that are denominated in foreign currencies 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 loans receivable are mainly related to affiliated companies.

Long-term borrowings, bonds payable and finance lease liabilities are generally made for the purpose of financing capital investments. The redemption dates of such liabilities are mainly within seven years. These interest-bearing debts with floating interest rates are exposed to interest rate risk.

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

Hedging instruments, hedged items, policies and assessment of effectiveness concerning hedge accounting are described in Note 21.

c. Risk management of financial instruments

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

The Company 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 default resulting from deterioration of a customers' financial position.

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 NEC 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 the interest-rate volatility risk associated with bank loans and corporate bonds.

The NEC Group manages the market price risk of investment securities by regularly monitoring the fair value of such securities as well as the financial positions of the issuers (customer enterprises). The NEC Group also continuously reviews the effectiveness of retaining ownership of such securities, taking into consideration the business relationship with customer enterprises.

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

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

Liquidity risk is managed by frequently updating the cash-flow budget and maintaining an adequate level of liquidity represented by the 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 there is no readily available market price. Such estimates include various underlying factors and assumptions, and may change if different assumptions are used for the calculation.

(2) Fair value of financial instruments

Carrying amounts and fair values as of March 31, 2012 and 2013 were as follows:

	Millions of Yen					
	2012			*2013*		
	Carrying Amount	Fair Value	Difference	Carrying Amount	Fair Value	Difference
Assets:						
Cash and cash equivalents	¥ 251,843	¥ 251,843	¥ –	¥197,132	¥ 197,132	¥ –
Short-term investments	2,007	2,007	–	1,829	1,829	–
Trade notes and accounts receivable	810,579	810,307	(272)	834,052	833,064	(988)
Investment securities	94,657	94,657	–	75,940	75,940	–
Investments in affiliated companies	79,295	68,784	(10,511)	47,931	39,774	(8,157)
Long-term loans receivable	836			44,019		
Less allowance for doubtful accounts(*1)	–			(3,818)		
	836	836	–	40,201	40,201	–
Total	¥1,239,217	¥1,228,434	¥ (10,783)	¥ 1,197,085	¥1,187,940	¥ (9,145)
Liabilities:						
Short-term borrowings(*2)	¥ 126,981	¥ 126,981	¥ –	¥ 56,587	¥ 56,587	¥ –
Current portion of long-term debt(*2)	64,793	64,793	–	143,486	143,486	–
Trade notes and accounts payable	466,177	466,177	–	458,724	458,724	–
Accrued expenses	156,175	156,175	–	169,221	169,221	–
Long-term debt(*2)	493,160	494,478	1,318	397,028	398,880	1,852
Total	¥1,307,286	¥1,308,604	¥ 1,318	¥ 1,225,046	¥1,226,898	¥ 1,852
Derivatives (*3)	¥ (1,992)	¥ (1,992)	¥ –	¥ (4,498)	¥ (4,498)	¥ –

	Thousands of U.S. Dollars		
2013	Carrying Amount	Fair Value	Difference
Assets:			
Cash and cash equivalents	$ 2,097,149	$ 2,097,149	$ –
Short-term investments	19,457	19,457	–
Trade notes and accounts receivable	8,872,894	8,862,383	(10,511)
Investment securities	807,872	807,872	–
Investments in affiliated companies	509,904	423,128	(86,776)
Long-term loans receivable	468,287		
Less allowance for doubtful accounts(*1)	(40,617)		
	427,670	427,670	–
Total	$ 12,734,946	$ 12,637,659	$ (97,287)
Liabilities:			
Short-term borrowings(*2)	$ 601,989	$ 601,989	$ –
Current portion of long-term debt(*2)	1,526,447	1,526,447	–
Trade notes and accounts payable	4,880,043	4,880,043	–
Accrued expenses	1,800,223	1,800,223	–
Long-term debt(*2)	4,223,702	4,243,404	19,702
Total	$ 13,032,404	$ 13,052,106	$ 19,702
Derivatives (*3)	$ (47,851)	$ (47,851)	$ –

(*1) Amounts of allowance for doubtful accounts, which is recorded individually for Long-term loans receivable, are excluded.

(*2) Amounts of lease obligation are not included in either Short-term borrowings, Current portion of long-term debt or Long-term debt.

(*3) Derivatives are presented net of related assets and liabilities. Amounts in parentheses indicate liabilities.

a. Measurement of fair value of financial instruments and information related to securities and derivative transactions

Cash and cash equivalents and Short-term investments

Fair value equals to the carrying amount, as the two are effectively the same since they are to be settled in the short term.

Trade notes and accounts receivable

For short-term receivables, fair value equals to the carrying amount, as the two are effectively the same since they are to be settled in the short term. For long-term receivables, fair value is measured using the discount rate considering credit and other risk.

Investment securities and Investments in affiliated companies

Fair value equals to prices quoted at financial instruments exchange.

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

Fair value equals to the carrying amount, as the two are effectively the same since they are to be settled in the short term.

Long-term loans receivable

Fair value equals to the carrying amount, as the two are effectively the same since they carry a variable interest rate.

Long-term debt

Fair value of bonds equals to market price. Fair value of long-term borrowings is measured assuming the sum of principal and interest is discounted at a rate that would be applied to a new loan of the same amount.

Derivatives

Information about the fair value for derivatives is included in Note 21.

b. The following is not included in the "Investment securities" or "Investments in affiliated companies" table above – due to the lack of available market prices and the inability to reasonably estimate future cash flows:

	Carrying Amount		
	Millions of Yen		*Thousands of U.S. Dollars*
	2012	*2013*	*2013*
Investment securities:			
unlisted stocks	¥ 54,547	¥ 56,826	$ 604,532
Investments in affiliated companies:			
unlisted stocks	38,340	44,737	475,926
Investments in limited partnerships and similar partnerships under foreign laws	4,157	5,087	54,117
Others	327	286	3,043
Total	¥ 97,371	¥ 106,936	$ 1,137,618

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

March 31, 2013	Millions of Yen 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	¥ 197,132	¥ —	¥ —	¥ —
Short-term investments	1,829	—	—	—
Trade notes and accounts receivable	808,729	21,645	3,587	91
Investment securities				
Available-for-sale securities with contractual maturities (bonds)	—	—	—	900
Long-term loans receivable	—	18,355	25,606	58
Total	¥ 1,007,690	¥ 40,000	¥ 29,193	¥ 1,049

March 31, 2013	Thousands of U.S. Dollars 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	$ 2,097,149	$ —	$ —	$ —
Short-term investments	19,457	—	—	—
Trade notes and accounts receivable	8,603,500	230,266	38,160	968
Investment securities				
Available-for-sale securities with contractual maturities (bonds)	—	—	—	9,575
Long-term loans receivable	—	195,266	272,404	617
Total	$ 10,720,106	$ 425,532	$ 310,564	$ 11,160

Please see Note 8 for annual maturities of long-term debt.

21. Derivatives

Derivative transactions as of March 31, 2012 and 2013 were as follows:

	Millions of Yen 2012 Contract Amount	2012 Fair Value	2012 Unrealized Gain (Loss)	2013 Contract Amount	2013 Fair Value	2013 Unrealized Gain (Loss)
Currency related						
Foreign exchange forward contracts:						
Buying						
U.S.$	¥ 58,873	¥ 59,284	¥ 411	¥ 38,657	¥ 39,088	¥ 431
Euro	27	30	3	751	738	(13)
Others	1,704	1,691	(13)	1,599	1,586	(13)
Selling						
U.S.$	44,093	45,996	(1,903)	56,983	61,316	(4,333)
Euro	9,325	9,728	(403)	15,301	15,723	(422)
Others	10,489	10,576	(87)	2,365	2,513	(148)
Total			¥ (1,992)			¥ (4,498)

2013	Thousands of U.S. Dollars Contract Amount	Fair Value	Unrealized Gain (Loss)
Currency related			
Foreign exchange forward contracts:			
Buying			
U.S.$	$ 411,245	$ 415,830	$ 4,585
Euro	7,989	7,851	(138)
Others	17,010	16,872	(138)
Selling			
U.S.$	606,202	652,298	(46,096)
Euro	162,777	167,266	(4,489)
Others	25,159	26,734	(1,575)
Total			$ (47,851)

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 NEC Group's exposure to credit or market risk.

Derivative transactions to which hedge accounting was applied as of March 31, 2012 and 2013, included in the above table, were as follows:

	Millions of Yen					
	2012			2013		
	Hedged Item	Contract Amount	Fair Value	Hedged Item	Contract Amount	Fair Value
Currency related						
Foreign exchange forward contracts:						
Selling	Accounts receivable			Accounts receivable		
U.S.$		¥ 4,386	¥ 4,615		¥ 10,692	¥ 12,126
Others		1,466	1,471		1,757	1,781

	Thousands of U.S. Dollars		
2013	Hedged Item	Contract Amount	Fair Value
Currency related			
Foreign exchange forward contracts:			
Selling	Accounts receivable		
U.S.$		$ 113,745	$ 129,000
Others		18,692	18,947

22. Contingent Liabilities

As of March 31, 2012 and 2013, the NEC Group had the following contingent liabilities:

	Millions of Yen		*Thousands of U.S. Dollars*
	2012	2013	2013
Guarantees for bank loans and others	¥ 11,477	¥ 8,605	$ 91,543

For the fiscal year ended March 31, 2013, NETCOMSEC Co. Ltd., a wholly owned subsidiary of the Company, was found to have recorded and billed an excessive amount of working hours to certain contracts with Japan Ministry of Defense.

NETCOMSEC Co. Ltd. voluntarily reported this information to the Ministry of Defense, who subsequently suspended NETCOMSEC Co. Ltd. from participating in requests for proposals for future contracts with the Japan Ministry of Defense.

NETCOMSEC Co. Ltd. will return the excess amount to the Ministry of Defense once such amount and period are determined, but no estimate is available for these figures. As a result, the effect of this payment on the NEC Group's consolidated financial condition and results of operations remains unclear.

23. Related Party Disclosures

Transactions of the Company with a third-party entity which has a representative director who is also a director of the Company for the year ended March 31, 2012, were as follows:

2012	Millions of Yen
Borrowings (*)	
Balances:	
Current portion of long-term debt	¥ 5,750
Long-term debt	60,000

(*)Borrowings from Sumitomo Mitsui Banking Corporation, of which Mr. Takeshi Kunibe, the outside director of the Company, is appointed as a representative director, are based on arm's-length terms and conditions. The Company has a 0.1% equity interest in Sumitomo Mitsui Financial Group, Inc.

Transactions of the Company with a third-party entity which has a representative director who is also a director of the Company for the year ended March 31, 2013, were as follows:

2013	Millions of Yen	Thousands of U.S. Dollars
Borrowings (*)		
Balances:		
Current portion of long-term debt	¥ 21,025	$ 223,670
Long-term debt	38,588	410,511
Guarantee of obligation (*)		
Advances from customers	29,179	310,415

(*)Borrowings from and guarantee of obligation by Sumitomo Mitsui Banking Corporation, of which Mr. Takeshi Kunibe, the outside director of the Company, is appointed as a representative director, are based on arm's-length terms and conditions. The Company has a 0.1% equity interest in Sumitomo Mitsui Financial Group, Inc.

Information Concerning Significant Affiliated Companies

Condensed financial information prepared based on the consolidated financial statements of significant affiliated companies for the fiscal years ended March 31, 2012 and 2013 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2013	2013
Current assets total	¥ 1,131,344	¥ 660,138	$ 7,022,745
Noncurrent assets total	520,200	71,834	764,191
Current liabilities total	799,838	253,468	2,696,468
Long-term liabilities total	542,838	398,776	4,242,298
Net assets total	308,868	79,728	848,170
Sales	1,115,872	229,204	2,438,340
Income (loss) before income taxes and minority interests	(50,501)	9,314	99,085
Net income (loss)	(58,627)	4,333	46,096

During the year ended March 31, 2012, significant affiliated companies were Renesas Electronics Corporation and NEC Capital Solutions Limited.

During the year ended March 31, 2013, significant affiliated company was NEC Capital Solutions Limited.

24. Net Income Per Share

Reconciliations of the difference between basic and diluted net income per share ("EPS") for the fiscal years ended March 31, 2011, 2012 and 2013 were as follows:

	Millions of Yen	*Thousands of shares*	*Yen*
	Net income(loss)	Weighted average shares	EPS
For the year ended March 31, 2011:			
Basic EPS			
Net loss	¥ (12,518)		
Amounts not attributable to common shareholders	–		
Net loss available to common shareholders	¥ (12,518)	2,598,491	¥ (4.82)
Effect of Dilutive Securities	–	–	
Diluted EPS			
Net income for computation	–	–	–
For the year ended March 31, 2012:			
Basic EPS			
Net loss	¥ (110,267)		
Amounts not attributable to common shareholders	–		
Net loss available to common shareholders	¥ (110,267)	2,598,442	¥ (42.44)
Effect of Dilutive Securities	–	–	
Diluted EPS			
Net income for computation	–	–	–
For the year ended March 31, 2013:			
Basic EPS			
Net income	¥ 30,434		
Amounts not attributable to common shareholders	–		
Net income available to common shareholders	¥ 30,434	2,598,383	¥ 11.71
Effect of Dilutive Securities	–	–	
Diluted EPS			
Net income for computation	–	–	–

	Thousands of U.S. Dollars	*Thousands of shares*	*U.S. Dollars*
	Net income(loss)	Weighted average shares	EPS
For the year ended March 31, 2013:			
Basic EPS			
Net income	$ 323,766		
Amounts not attributable to common shareholders	–		
Net income available to common shareholders	$ 323,766	2,598,383	$ 0.12
Effect of Dilutive Securities	–	–	
Diluted EPS			
Net income for computation	–	–	–

For the year ended March 31, 2011, certain equity instruments were not included in the basis for calculation of diluted net income per share as they were anti-dilutive. These equity instruments included certain convertible bonds, bonds with stock subscription rights and stock subscription rights.

For the year ended March 31, 2012, stock subscription rights were not included in the basis for calculation of diluted net income per share as these equity instruments were anti-dilutive.

Diluted net income per share for the fiscal 2011 and 2012 is not disclosed because of the Company's net loss position.

Diluted net income per share for the fiscal 2013 is not disclosed because it is anti-dilutive.

25. Net Assets Per Share

Net assets per share as of March 31, 2012 and 2013 were as follows:

	Yen		*U.S. Dollars*
	2012	2013	2013
Net assets per share	¥ 252.83	¥ 273.51	$ 2.91

The basis for calculation of net assets per share for the fiscal years ended March 31, 2012 and 2013 was as follows:

	Millions of Yen	*Thousands of shares*	*Yen*
	Net assets	Number of shares of common stock to calculate net assets per share	Net assets per share
For the year ended March 31, 2012:			
Total net assets	¥ 777,614		
Amounts deducted from total net assets			
Stock subscription rights	(24)		
Minority interests	(120,634)		
Net assets as of the year end attributable to common shareholders	¥ 656,956	2,598,412	¥ 252.83
For the year ended March 31, 2013:			
Total net assets	¥ 836,147		
Amounts deducted from total net assets			
Stock subscription rights	(−)		
Minority interests	(125,481)		
Net assets as of the year end attributable to common shareholders	¥ 710,666	2,598,352	¥ 273.51

	Thousands of U.S. Dollars	*Thousands of shares*	*U.S. Dollars*
	Net assets	Number of shares of common stock to calculate net assets per share	Net assets per share
For the year ended March 31, 2013:			
Total net assets	$ 8,895,181		
Amounts deducted from total net assets			
Stock subscription rights	(−)		
Minority interests	(1,334,905)		
Net assets as of the year end attributable to common shareholders	$ 7,560,276	2,598,352	$ 2.91

26. Segment Information

From the fiscal year ended March 31, 2011, the NEC Group has applied 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).

(1) General information about reportable segments

The reportable 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 established business units that are identified in terms of 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 segments that are identified in terms of products and services based on business units. The Company has four reportable segments: the IT Solutions, Carrier Network, Social Infrastructure, and Personal Solutions businesses.

Descriptions of each reportable segment are as follows:

IT Solutions Business

This segment mainly provides systems integration such as systems implementation and consulting, as well as support services such as maintenance, outsourcing services including data center services and IT operation management, and cloud services.

This segment is engaged in the manufacturing and sales of PC servers, UNIX servers, mainframes, supercomputers, storage and ATMs, IP telephony systems, WAN and wireless access equipment, and LAN products. The segment also develops and sells software, including integrated operation management, application server, security, operating system, and database software.

These services are provided primarily to government agencies and private-sector companies.

Carrier Network Business

This segment manufactures and sells network infrastructure such as backbone network systems and access network systems, primarily to telecom carriers. The segment also provides 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.

Social Infrastructure Business

This segment manufactures and sells broadcasting and video distribution systems such as digital terrestrial TV transmitters, control systems including postal/logistics automation systems, transportation and public network systems such as train radio systems, fire and disaster prevention systems including fire-fighting command systems, and aerospace and defense systems such as air traffic control systems and uncooled infrared sensors.

Personal Solutions Business

This segment is engaged in the manufacturing and sales of smartphones, mobile phones, business PCs, 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.

(2) Basis of measurement for reportable 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 all receivables arising from internal transactions including intersegment transactions.

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

In the fiscal year ended March 31, 2013, the Company reclassified its reportable segments from five reportable segments to four reportable segments, based on the organizational reform on April 1, 2012. The four reportable segments are the IT Solutions, Carrier Network, Social Infrastructure, and Personal Solutions businesses.

This change is the integration of IT services and platform into IT solutions to drive the creation of powerful cloud services and the build-up of cloud platforms that enable flexible business procedures, as well as the consolidation of the energy business from Carrier Network into Others following the setup of the business operation unit, which will supervise the vertical integration of the energy business.

As a result of this change, segment information for the fiscal years ended March 31, 2011 and 2012 has been restated to conform to the presentation used in the fiscal year ended March 31, 2013, as follows.

(Fiscal year ended March 31, 2011)

	Millions of Yen							
	2011							
	Reportable Segments							
	IT Solutions	Carrier Network	Social Infrastructure	Personal Solutions	Total	Others	Adjustment	Consolidated Total
Net Sales								
1. Sales to customers	¥ 1,179,971	¥ 577,169	¥ 318,786	¥ 766,512	¥ 2,842,438	¥ 272,986	¥ —	¥ 3,115,424
2. Intersegment sales and transfers	65,658	33,574	15,267	44,174	158,673	77,056	(235,729)	—
Total sales	¥ 1,245,629	¥ 610,743	¥ 334,053	¥ 810,686	¥ 3,001,111	¥ 350,042	¥ (235,729)	¥ 3,115,424
Segment income(loss) (Operating income(loss))	¥ 30,301	¥ 37,871	¥ 14,575	¥ (1,911)	¥ 80,836	¥ 9,161	¥ (32,177)	¥ 57,820
Other items								
Depreciation	¥ 26,115	¥ 11,834	¥ 9,129	¥ 16,524	¥ 63,602	¥ 14,557	¥ 12,455	¥ 90,614
Amortization of goodwill	6,040	4,554	—	513	11,107	1,497	—	12,604

(a) "Others" for the fiscal year ended March 31, 2011 represents businesses such as Smart Energy (Electrodes/Energy Storage System, Solutions for Utilities, etc.), Electronic Components, LCD Panels and Lighting Equipment, which are not included in reportable segments.

(b) "Adjustment" of segment income (loss) for the fiscal year ended March 31, 2011 included corporate expenses of ¥(39,166) million unallocated to each reportable segment and noncurrent assets related adjustment of ¥4,532 million, respectively.

(Fiscal year ended March 31, 2012)

	Millions of Yen							
	2012							
	Reportable Segments							
	IT Solutions	Carrier Network	Social Infrastructure	Personal Solutions	Total	Others	Adjustment	Consolidated Total
Net Sales								
1. Sales to customers	¥ 1,189,201	¥ 602,719	¥ 330,413	¥ 661,026	¥ 2,783,359	¥ 253,477	¥ —	¥ 3,036,836
2. Intersegment sales and transfers	53,704	30,412	14,267	39,942	138,325	68,935	(207,260)	—
Total sales	¥ 1,242,905	¥ 633,131	¥ 344,680	¥ 700,968	¥ 2,921,684	¥ 322,412	¥ (207,260)	¥ 3,036,836
Segment income(loss) (Operating income(loss))	¥ 44,772	¥ 50,629	¥ 16,167	¥ 1,035	¥ 112,603	¥ 11,141	¥ (50,002)	¥ 73,742
Segment assets	¥ 749,838	¥ 405,246	¥ 281,215	¥ 317,535	¥ 1,753,834	¥ 356,399	¥ 447,337	¥ 2,557,570
Other items								
Depreciation	¥ 23,925	¥ 10,660	¥ 7,522	¥ 11,951	¥ 54,058	¥ 15,265	¥ 13,735	¥ 83,058
Amortization of goodwill	5,777	4,635	17	549	10,978	1,682	—	12,660
Investments in affiliated companies	13,078	2,939	842	100	16,959	101,695	(1,019)	117,635
Increase in property, plant and equipment and intangible assets	49,148	11,596	8,379	19,310	88,433	22,198	7,578	118,209

(Fiscal year ended March 31, 2013)

	Millions of Yen							
	2013							
	Reportable Segments							
	IT Solutions	Carrier Network	Social Infrastructure	Personal Solutions	Total	Others	Adjustment	Consolidated Total
Net Sales								
1. Sales to customers	¥ 1,245,827	¥ 647,690	¥ 372,323	¥ 589,149	¥ 2,854,989	¥ 216,620	¥ —	¥ 3,071,609
2. Intersegment sales and transfers	47,595	26,475	14,927	41,061	130,058	65,334	(195,392)	—
Total sales	¥ 1,293,422	¥ 674,165	¥ 387,250	¥ 630,210	¥ 2,985,047	¥ 281,954	¥ (195,392)	¥ 3,071,609
Segment income(loss) (Operating income(loss))	¥ 66,116	¥ 63,129	¥ 27,810	¥ (3,690)	¥ 153,365	¥ 22,316	¥ (61,034)	¥ 114,647
Segment assets	¥ 780,084	¥ 481,698	¥ 323,204	¥ 262,528	¥ 1,847,514	¥ 283,968	¥ 449,484	¥ 2,580,966
Other items								
Depreciation	¥ 27,432	¥ 11,165	¥ 8,819	¥ 9,915	¥ 57,331	¥ 12,198	¥ 14,083	¥ 83,612
Amortization of goodwill	6,819	6,422	33	530	13,804	1,624	—	15,428
Investments in affiliated companies	12,643	3,685	1,003	121	17,452	75,721	(505)	92,668
Increase in property, plant and equipment and intangible assets	54,563	29,108	10,647	10,751	105,069	27,492	8,628	141,189

	Thousands of U.S. Dollars							
	2013							
	Reportable Segments							
	IT Solutions	Carrier Network	Social Infrastructure	Personal Solutions	Total	Others	Adjustment	Consolidated Total
Net Sales								
1. Sales to customers	$ 13,253,479	$ 6,890,319	$ 3,960,883	$ 6,267,542	$ 30,372,223	$ 2,304,468	$ —	$ 32,676,691
2. Intersegment sales and transfers	506,330	281,649	158,798	436,819	1,383,596	695,042	(2,078,638)	—
Total sales	$ 13,759,809	$ 7,171,968	$ 4,119,681	$ 6,704,361	$ 31,755,819	$ 2,999,510	$(2,078,638)	$ 32,676,691
Segment income(loss) (Operating income(loss))	$ 703,362	$ 671,585	$ 295,851	$ (39,255)	$ 1,631,543	$ 237,404	$ (649,298)	$ 1,219,649
Segment assets	$ 8,298,766	$ 5,124,447	$ 3,438,340	$ 2,792,851	$ 19,654,404	$ 3,020,936	$ 4,781,745	$ 27,457,085
Other items								
Depreciation	$ 291,830	$ 118,776	$ 93,819	$ 105,479	$ 609,904	$ 129,766	$ 149,819	$ 889,489
Amortization of goodwill	72,543	68,319	351	5,638	146,851	17,277	—	164,128
Investments in affiliated companies	134,500	39,202	10,670	1,287	185,659	805,543	(5,372)	985,830
Increase in property, plant and equipment and intangible assets	580,457	309,660	113,266	114,372	1,117,755	292,468	91,788	1,502,011

(a) "Others" for the fiscal years ended March 31, 2012 and 2013, represents businesses such as Smart Energy (Electrodes/Energy Storage System, Solutions for Utilities, etc.), Electronic Components and Lighting Equipment, which are not included in reportable segments.

(b) "Adjustment" of segment income (loss) for the fiscal year ended March 31, 2012 included corporate expenses of ¥(50,851) million unallocated to each reportable segment and noncurrent assets related adjustment of ¥785 million, respectively.

"Adjustment" of segment income (loss) for the fiscal year ended March 31, 2013 included corporate expenses of ¥(57,395) million ($(610,585) thousand) unallocated to each reportable segment and noncurrent assets related adjustment of ¥(1,844) million ($(19,617) thousand), respectively.

The corporate expenses, unallocated to each reportable segment, were mainly both general and administrative expenses incurred at headquarters of the Company, and research and development expenses.

(c) "Adjustment" of segment assets for the fiscal years ended March 31, 2012 and 2013 included corporate assets of ¥483,291 million and ¥488,368 million ($5,195,404 thousand), respectively, unallocated to each reportable 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 property, plant and equipment and intangible assets for the fiscal years ended March 31, 2012 and 2013 included increase in the Company of ¥12,912 million and ¥17,134 million ($182,277 thousand), respectively, unallocated to each reportable segment.

Related information

1. Information about products and services

The reportable segments of the Company are the business units identified in terms of 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

	Millions of Yen				
	2012				
	Japan	Asia	Europe	Others	Total
Net Sales	¥ 2,555,344	¥ 152,960	¥ 104,406	¥ 224,126	¥ 3,036,836
Property, plant and equipment, net of accumulated depreciation	301,692	3,586	1,419	9,198	315,895

	Millions of Yen				
	2013				
	Japan	Asia	Europe	Others	Total
Net Sales	¥ 2,588,491	¥ 162,320	¥ 84,168	¥ 236,630	¥ 3,071,609
Property, plant and equipment, net of accumulated depreciation	275,944	5,384	1,762	11,677	294,767

	Thousands of U.S. Dollars				
	2013				
	Japan	Asia	Europe	Others	Total
Net Sales	$ 27,537,138	$ 1,726,809	$ 895,404	$ 2,517,340	$ 32,676,691
Property, plant and equipment, net of accumulated depreciation	2,935,574	57,277	18,745	124,223	3,135,819

* Sales are classified by country or region based on the locations of customers.

3. Information about major customers

	Millions of Yen		*Thousands of U.S. Dollars*	
	2012	2013	2013	Reportable Segments
Sales to:				
NTT Group *	¥ 491,076	¥ 530,472	$ 5,643,319	Carrier Network and Personal Solutions

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

Information about impairment losses on noncurrent assets by reportable segment

	Millions of Yen						
	2011						
	IT Solutions	Carrier Network	Social Infrastructure	Personal Solutions	Others	Corporate/ Eliminations	Total
Impairment losses of noncurrent assets	¥ 32	¥ 17	¥ 2	¥ 769	¥ 3,655	¥ 1,398	¥ 5,873

	Millions of Yen						
	2012						
	IT Solutions	Carrier Network	Social Infrastructure	Personal Solutions	Others	Corporate/ Eliminations	Total
Impairment losses of noncurrent assets	¥ 626	¥ —	¥ 5	¥ 1,663	¥ 3,880	¥ 327	¥ 6,501

	Millions of Yen						
	2013						
	IT Solutions	Carrier Network	Social Infrastructure	Personal Solutions	Others	Corporate/ Eliminations	Total
Impairment losses of noncurrent assets	¥ 4,087	¥ 240	¥ 113	¥ 15,760	¥ 1,634	¥ 115	¥ 21,949

	Thousands of U.S. Dollars						
	2013						
	IT Solutions	Carrier Network	Social Infrastructure	Personal Solutions	Others	Corporate/ Eliminations	Total
Impairment losses of noncurrent assets	$ 43,479	$ 2,553	$ 1,202	$ 167,660	$ 17,383	$ 1,223	$ 233,500

* Corporate/Eliminations included impairment losses mainly incurred at headquarters of the Company and unallocated to each reportable segment.

Information about amortization and ending balance of goodwill by reportable segment

	Millions of Yen						
	2011						
	IT Solutions	Carrier Network	Social Infrastructure	Personal Solutions	Others	Corporate/ Eliminations	Total
Amortization	¥ 6,040	¥ 4,554	¥ —	¥ 513	¥ 1,497	¥ —	¥ 12,604

	Millions of Yen						
	2012						
	IT Solutions	Carrier Network	Social Infrastructure	Personal Solutions	Others	Corporate/ Eliminations	Total
Amortization	¥ 5,777	¥ 4,635	¥ 17	¥ 549	¥ 1,682	¥ —	¥ 12,660
Ending balance	47,270	16,252	110	1,551	10,786	—	75,969

	Millions of Yen						
	2013						
	IT Solutions	Carrier Network	Social Infrastructure	Personal Solutions	Others	Corporate/ Eliminations	Total
Amortization	¥ 6,819	¥ 6,422	¥ 33	¥ 530	¥ 1,624	¥ —	¥ 15,428
Ending balance	53,946	26,561	1,338	2,643	9,407	—	93,895

	Thousands of U.S. Dollars						
	2013						
	IT Solutions	Carrier Network	Social Infrastructure	Personal Solutions	Others	Corporate/ Eliminations	Total
Amortization	$ 72,543	$ 68,319	$ 351	$ 5,638	$ 17,277	$ —	$ 164,128
Ending balance	573,894	282,564	14,234	28,117	100,074	—	998,883

Information about gain on negative goodwill by reportable segment

(Fiscal years ended March 31, 2011, 2012 and 2013)

Not applicable.

27. Subsequent Event

On April 26, 2013, the Company held a Board of Directors meeting and resolved that the Company would enter into a subscription contract with Marubeni Corporation (Marubeni). The contract stipulates that Marubeni, through MX Holdings Co., Ltd., a subsidiary of Marubeni, subscribes all of the Company's shares (7,410,000 shares) in NEC Mobiling, Ltd. (NEC Mobiling), a consolidated subsidiary of the Company (Reportable segment: Personal Solutions Business, Main business: Mobile-phone distributor business), through a tender offer bid scheduled to be implemented from April 30, 2013. This tender offer bid was successfully established. On June 19, 2013, the Company transferred shares for ¥40,829 million ($434,351 thousand), and NEC Mobiling is no longer a consolidated subsidiary of the Company. As a result, a special gain of approximately ¥16,000 million ($170,213 thousand) from the sales of subsidiary's stocks is expected to be recorded in the consolidated financial statements for the fiscal year ending March 31, 2014.

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of NEC Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of operation, statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the years in the three-year period ended March 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of NEC Corporation and its consolidated subsidiaries as at March 31, 2013 and 2012, and their financial performance and cash flows for each of the years in the three-year period ended March 31, 2013, in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 27 to the consolidated financial statements, on April 26, 2013, the Company held a Board of Directors meeting and resolved that the Company would enter into a subscription contract with Marubeni Corporation (Marubeni). The contract stipulates that Marubeni, through MX Holdings Co., Ltd., a subsidiary of Marubeni, subscribes all of the Company's shares in NEC Mobiling, Ltd. (NEC Mobiling), a consolidated subsidiary of the Company, through a tender offer bid scheduled to be implemented from April 30, 2013. This tender offer bid was successfully established. On June 19, 2013, the Company transferred shares and NEC Mobiling is no longer a consolidated subsidiary of the Company.

KPMG

Convenience Translations

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 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

June 24, 2013
Tokyo, Japan

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