Empowered by Innovation NEC

Annual Report 2014 (Financials)

Year ended March 31, 2014

Orchestrating a brighter world

NEC Corporation

Contents

Note: U.S. dollar amounts are translated from yen,
for convenience only, at the rate of ¥103 = U.S.$1.

Management's Discussion and Analysis

Year Ended March 31, 2014 (Fiscal 2014)

Compared With the Year Ended March 31, 2013 (Fiscal 2013)

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, 2014. 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 2014, the NEC Group moved forward with efforts supporting its "Mid-term Management Plan 2015," announced in April 2013, based on three management policies consisting of a "Focus on Solutions for Society," a "Focus on Asia, Promotion of Locally-led Business," and the goal to "Stabilize Our Financial Foundation" as part of realizing sustainable sales growth and establishing Social Solutions business with global expanding strength.

As stated in the July 9, 2013 announcement, "NEC to Revise Business Segments," NEC has revised its business segments from the first quarter of fiscal 2014, to four main segments: Public, Enterprise, Telecom Carrier and System Platform. In fiscal 2014, Public generated 24.3% of net sales, Enterprise 8.9%, Telecom Carrier 23.8%, and System Platform 25.7%. (The NEC Group sales also include sales of the Others segment. The ratios of segment sales to total net sales were calculated based on segment sales to external customers.)

Segment information is included in Note 25.

2. Analysis of Fiscal 2014 Business Results

In fiscal 2014, the worldwide economy was characterized by a temporary deceleration in the United States due to reduced government expenditures from the influence of budgetary constraints, as well as retreating expectations in the economic outlook. However, the region's economic recovery trend continued, centered mainly on consumer spending. In Europe, there were signs of a gradual recovery, but there was a deceleration in emerging markets, such as China and Russia. Overall, the worldwide economy experienced a gradual recovery.

The Japanese economy was characterized by solid performance due to the effects of aggressive monetary and fiscal policy measures, as well as an increase in consumer spending owing to a rush in demand leading up to a rise in Japan's consumer tax. In the corporate sector, performance improved in both the manufacturing and non-manufacturing sectors due to the gradual recovery in exports and the expansion in domestic demand in addition to the gradual increase in capital investment centered on the non-manufacturing sector.

In this business environment, the NEC Group moved forward with efforts supporting its "Mid-term Management Plan 2015," announced in April 2013, based on three management policies consisting of a "Focus on Solutions for Society," a "Focus on Asia, Promotion of Locally-led Business," and the goal to "Stabilize Our Financial

Foundation" as part of realizing sustainable sales growth and establishing Social Solutions business with global expanding strength.

Focus on Solutions for Society

Regarding the "Focus on Solutions for Society," aiming to utilize its information and communications technologies (ICT) in order to provide advanced social infrastructure that helps to address the growing social needs that are expected to arise from the world's rising population and urbanization, the NEC Group made investments in the central domains of Software-Defined Networking (SDN), a next generation networking technology, Telecom Operations and Management Solutions (TOMS) and Big Data, where the NEC Group also achieved results by winning orders and participating in field trials.

Specifically, in the Public business, business expanded through the regional enlargement and wireless digitalization of fire-fighting command systems as well as the delivery of field communication systems for the Japan Ground Self-Defense Force. Moreover, NEC established a National ID Business Promotion Department to drive business related to the National ID System being established by Japan's central and local governments in 2016, which will assign an identification number to each citizen in order to integrate their social security and tax related information. NEC has taken some orders for the National ID System.

In the Enterprise business, in addition to the expansion of its existing system integration business, the NEC Group also worked to expand its global business for retailers as well as new business in areas that include cloud services, SDN and Big Data.

Furthermore, the NEC Group's Telecom Carrier business focused on TOMS and SDN as pillars of business growth. In terms of TOMS, the NEC Group began offering telecommunications carriers a comprehensive operational management system that integrates Network Operations Support Systems (OSS) with Business Support Systems (BSS). In the SDN domain, the NEC Group provided the world's first commercial offering of a virtualized mobile core network solution as part of a communications infrastructure construction project in Myanmar. Additionally, the NEC Group promoted activities aimed at commercializing services with leading global carriers such as Spain-based Telefonica.

In the Smart Energy business, the NEC Group won orders for smart meter communications units for the Tokyo Electric Power Company and provided large-capacity lithium-ion energy storage systems for one of Italy's leading power companies. Moreover, the NEC Group reached an agreement to acquire the grid energy storage and commercial systems business of U.S.-based A123 Systems, LLC as part of strengthening its energy storage system business, one of the core areas of the NEC Group's Smart Energy business.

The System Platform business that supports the Social Solutions business carried out a tender offer as part of making NEC Fielding, Ltd. a wholly-owned subsidiary in order to strengthen service delivery systems.

Focus on Asia, Promotion of Locally-led Business

Regarding the "Focus on Asia, Promotion of Locally-led Business," in addition to the NEC Group's establishment of a Global Safety Division in Singapore as a base for global business solutions, the NEC Group also established NEC Laboratories Singapore as a base for research in the same field, thereby promoting the locally-led Safety business. Moreover, the NEC Group made efforts to expand global business by winning orders for disaster prevention systems that capitalize on the disaster-resistant communications infrastructure of Taiwan and the

Philippines, as well as orders for air traffic control systems from a member of the Association of Southeast Asian Nations (ASEAN).

Stabilize Our Financial Foundation

Regarding the goal to "Stabilize Our Financial Foundation," the NEC Group raised 130 billion yen through hybrid financing (subordinated loan). Furthermore, in order to strengthen cost competitiveness, NEC resolved to carry out a reorganization of subsidiaries that conduct development and production as well as subsidiaries that conduct indirect operations, such as human resources and general affairs.

Additionally, the NEC Group reviewed its business portfolio in order to centralize its management resources towards the Social Solutions business, ended the development of smartphones, which was a particularly challenging area in recent years, and sold its shares in NEC Mobiling, Ltd. (currently MX Mobiling, Ltd.), which carried out mobile phone sales, to MX Holdings. Moreover, NEC sold all of its shares in NEC BIGLOBE, Ltd. (currently BIGLOBE Inc.), an Internet service provider, to a special purpose company owned by Japan Industrial Partners IV Investment Limited Partnership and others.

Condensed Consolidated Income Statements

	Billions of Yen		*YoY Change*
	2013	2014	2014/2013
Net Sales	¥ 3,071.6	¥ 3,043.1	-0.9%
Operating income	114.6	106.2	-7.4%
Ordinary income	92.0	69.2	-24.9%
Net income	30.4	33.7	10.9%

In fiscal 2014, NEC recorded consolidated net sales of 3,043.1 billion yen, a decrease of 28.5 billion yen or -0.9% year on year. This decrease was mainly due to decreased sales from Others, due to the mobile phone sales business no longer being consolidated and a decline in mobile phone shipments, in spite of increased sales from the Public business, the Enterprise business and the System Platform business.

Regarding profitability, consolidated operating income worsened by 8.5 billion yen year on year to 106.2 billion yen, mainly due to decreased sales from the mobile phone sales business and the sale of patents related to LCD in the previous fiscal year.

In terms of consolidated ordinary income, the NEC Group recorded 69.2 billion yen, worsening by 22.9 billion yen year on year, mainly due to the worsening of consolidated operating income in addition to increased non-operating expenses.

Consolidated income before income taxes and minority interests was 84.0 billion yen, a year-on-year improvement of 14.7 billion yen. This was primarily due to gain on sales of subsidiaries and affiliates' stocks, despite worsening consolidated ordinary income.

Consolidated net income was 33.7 billion yen, a year-on-year improvement of 3.3 billion yen.

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

a. Public business

Sales:	738.4 billion yen	(+8.5 %)
Operating income:	58.6 billion yen	(+9.6 billion yen)

In the Public business, sales were 738.4 billion yen, an increase of 57.7 billion yen or 8.5% year on year, mainly due to the steady sales from government offices and public services.

Operating income improved by 9.6 billion yen year on year to 58.6 billion yen, mainly owing to increased sales.

b. Enterprise business

Sales:	272.3 billion yen	(+8.2%)
Operating income:	6.5 billion yen	(+1.1 billion yen)

In the Enterprise business, sales were 272.3 billion yen, an increase of 20.7 billion yen or 8.2% year on year, mainly due to the steady sales from the distribution and service industries.

Operating income improved by 1.1 billion yen year on year to 6.5 billion yen, mainly owing to increased sales

c. Telecom Carrier business

Sales:	725.8 billion yen	(+2.3 %)
Operating income:	60.3 billion yen	(-11.2 billion yen)

In the Telecom Carrier business, sales were 725.8 billion yen, an increase of 16.5 billion yen or 2.3% year on year, mainly due to increased international sales of Telecom Operations and Management Solutions (TOMS) and wireless communication equipment (mobile backhaul).

Operating income worsened by 11.2 billion yen year on year to 60.3 billion yen, mainly due to increased investment expenses related to Software-Defined Networking (SDN), a next generation networking technology, and TOMS. In addition, a temporary increase in profit related to intellectual property was recorded in the previous fiscal year.

d. System Platform business

Sales:	780.8 billion yen	(4.9%)
Operating income:	30.7billion yen	(-2.0 billion yen)

In the System Platform business, sales were 780.8 billion yen, an increase of 36.4 billion yen or 4.9% year on year, mainly due to increased sales in hardware.

Operating income worsened by 2.0 billion yen year on year to 30.7 billion yen, mainly due to project lineup changes.

e. Others

In Others, sales were 525.9 billion yen, a decrease of 159.8 billion yen or -23.3% year on year, mainly due to a decline in mobile phone shipments as well as the mobile phone sales business and the electronic components business no longer being consolidated.

Operating loss was 1.4 billion yen, worsened by 18.3 billion yen year on year, mainly owing to decreased sales and the sale of patents related to LCD in the previous fiscal year.

3. Liquidity and Capital Resources

a. Assets, Liabilities and Net Assets

Condensed Consolidated Balance Sheets

	Billions of Yen		*YoY Change*
	2013	2014	2014/2013
Assets			
Current assets	¥ 1,513.8	¥ 1,502.9	¥-10.9
Property, plant and equipment	294.8	346.2	51.4
Investments and other assets	772.4	656.2	-116.2
Total Assets	2,581.0	2,505.3	-75.6
Liabilities			
Current liabilities	1,123.7	985.6	-138.1
Noncurrent liabilities	621.2	752.1	130.9
Total liabilities	1,744.8	1,737.7	-7.2
Net assets			
Shareholders' equity	700.4	725.2	24.8
Accumulated other comprehensive income	10.2	-29.2	-39.5
Minority interests	125.5	71.7	-53.8
Total net assets	836.1	767.7	-68.5
Total liabilities and net assets	2,581.0	2,505.3	-75.6
Interest-bearing debt	603.5	575.2	-28.3
Net interest-bearing debt	406.3	368.5	-37.8
Owner's equity	710.7	695.9	-14.7
Owner's equity ratio	27.5%	27.8%	0.3
Debt equity ratio	0.85 times	0.83 times	-0.02
Net debt equity ratio	0.57 times	0.53 times	-0.04

Total assets were 2,505.3 billion yen as of March 31, 2014, a decrease of 75.6 billion yen as compared with the end of the previous fiscal year. Current assets as of March 31, 2014, decreased by 10.9 billion yen compared with the end of the previous fiscal year to 1,502.9 billion yen. Noncurrent assets as of March 31, 2014, decreased by 64.7 billion yen compared with the end of the previous fiscal year to 1,002.4 billion yen, mainly due to the reduction in prepaid pension cost owing to the application of new accounting standards for retirement benefits, despite an increase from the acquisition of trust beneficiary rights set to land and buildings of the NEC Group's Tamagawa business facilities.

Total liabilities as of March 31, 2014, decreased by 7.2 billion yen compared with the end of the previous fiscal year, to 1,737.7 billion yen. This was mainly due to a decrease in bonds and commercial papers, despite an increase in long-term debt due to financing through hybrid finance (subordinated loan) and an increase in net defined benefit liability. The balance of interest-bearing debt amounted to 575.2 billion yen, a decrease of 28.3

billion yen as compared with the end of the previous fiscal year. The debt-equity ratio as of March 31, 2014, was 0.83 (an improvement of 0.02 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of March 31, 2014, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 368.5 billion yen, a decrease of 37.8 billion yen as compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2014, was 0.53 (an improvement of 0.04 points as compared with the end of the previous fiscal year).

Total net assets were 767.7 billion yen as of March 31, 2014, a decrease of 68.5 billion yen as compared with the end of the previous fiscal year, mainly due to the recording of re-measurements of defined benefit plans and a decrease in minority interests, despite net income for fiscal 2014.

As a result, the owner's equity as of March 31, 2014, was 695.9 billion yen and owner's equity ratio was 27.8%, an improvement of 0.3 point as compared with the end of the previous fiscal year.

b. Cash Flows

Condensed Consolidated Cash Flows

	Billions of Yen		*YoY Change*
	2013	2014	2014/2013
I Cash flows from operating activities	¥ 143.7	¥ 94.1	¥-49.6
II Cash flows from investing activities	-101.7	-38.9	62.8
I+II Free cash flows	42.0	55.2	13.2
III Cash flows from financing activities	-98.8	-50.0	48.8
Cash and cash equivalents at end of period	197.1	206.6	9.5

Net cash inflows from operating activities for the fiscal year ended March 31, 2014, were 94.1 billion yen, a worsening of 49.6 billion yen as compared with the previous fiscal year, mainly due to worsened operating income.

Net cash outflows from investing activities for the fiscal year ended March 31, 2014, were 38.9 billion yen, a decrease of 62.8 billion yen as compared with the previous fiscal year. This was mainly due to decreased outflows for business acquisitions and increased inflows from sales of subsidiaries and affiliates' stocks, despite increased outflows for the acquisition of trust beneficiary rights.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for the fiscal year ended March 31, 2014, totaled a cash inflow of 55.2 billion yen, an improvement of 13.2 billion yen year on year.

Net cash flows from financing activities for the fiscal year ended March 31, 2014, totaled a cash outflow of 50.0 billion yen, mainly due to outflow from the redemption of bonds and commercial papers as well as payment for dividends, despite financing through hybrid finance .

As a result, cash and cash equivalents as of March 31, 2014, amounted to 206.6 billion yen, an increase of 9.5 billion yen as compared with the end of the previous fiscal year.

c. 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, 2014, NEC had a sufficient amount of liquidity. Total liquidity in hand as of March 31, 2014, was 529.2 billion yen, comprising cash and cash equivalents of 206.6 billion yen and unused committed credit facilities of 322.6 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 323.2 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 2017 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.

Notably, NEC procured 130.0 billion yen by hybrid financing (subordinated loans) in May 2013. The funds procured from the subordinated loans are planned to help repay existing interest-bearing liabilities and to finance business that is necessary for implementing the Mid-term Management Plan 2015.

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,	2013	2014
Long-term fund procurement*1	66.4%	82.9%
Use of capital market instruments*2	43.1%	27.8%

*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, 2014, long-term fund procurement was 82.9% and the use of capital market instruments was 27.8%.

4. Capital Expenditures

Capital expenditures of NEC and its consolidated subsidiaries for fiscal 2014 are broken down as follows (amounts do not include consumption taxes):

	Millions of Yen		*YoY Change*
	2013	2014	2014/2013
Public business	¥6,133	¥16,045	Up 161.6%
Enterprise business	295	1,841	Up 524.1%
Telecom Carrier business	4,904	6,772	Up 38.1%
System Platform business	6,561	5,316	Down 19.0%
Others	27,721	68,734	Up 147.9%
Total	¥45,614	¥98,708	Up 116.4%

In the Public business, capital expenditures included construction of a plant for the satellite business as well as investments in R&D equipment and production facilities for defense, satellite and other systems. In Enterprise business, capital expenditures included relocation of a subsidiary's office and investments in equipment related to system development. In the Telecom Carrier business, capital expenditures included investment in R&D equipment and facilities mainly for next-generation wireless communication systems. In the System Platform business, capital expenditures included investment 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 others, capital expenditures included the acquisition of trust beneficiary rights set to land and buildings of the TAMAGAWA business facilities, which were leased to the NEC Group, and investment in facilities related to cloud services.

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

5. Management Strategy and Policy

1. Fundamental Management Policy

Based on the NEC Group Corporate Philosophy, "NEC strives through "C&C" to help advance societies worldwide towards deeper mutual understanding and the fulfillment of human potential," the NEC Group aims to become a global company by contributing to the development of an information society through "C&C," the integration of Computers (Information Technology) and Communications (Telecommunication Technology).

To pursue this philosophy, the NEC Group jointly adopted the "NEC Group Vision 2017," which represents the NEC Group's desired image of society and group business in 2017, as well as the "NEC Group Values" of shared behavioral principles and values that are necessary to realize the NEC Group Vision.

NEC Group Vision 2017 :

"To be a leading global company leveraging the power of innovation to realize an information society friendly to humans and the earth"

The NEC Group aims to lead the world in realizing an information society that is friendly to humans and the earth, where information and communication technologies help people as an integral part of their lives, and act in harmony with the global environment through innovation that unites the powers of intelligence, expertise and technology inside and outside of the NEC Group.

NEC Group Core Values :

"Passion for Innovation," "Self-help," "Collaboration," "Better Products, Better Services"

The NEC Group will strive to provide satisfaction and inspiration for our customers through the efforts of self-reliant individuals, motivated by a "passion for innovation," that work as part of a team to continuously pursue the provision of better products and services. This mentality of "Better Products, Better Services"- not settling for less than the best - has been shared among employees since the establishment of the NEC Group. The NEC Group aims to pursue its Corporate Philosophy and realize the Group Vision through actions based on the Values that have been passed down and fostered over the 100-year history of the NEC Group.

Finally, the NEC Group aims for sustained growth for society and business through efforts to increase its corporate value by practicing the "NEC Way" which systemizes the structure of the NEC Group's management activities such as Corporate Philosophy, Vision, Core Values, Charter of Corporate Behavior, Code of Conduct and its drive to bring satisfaction to all of its stakeholders, including shareholders, customers, and employees alike.

2. Management Indicator Goals

The NEC Group aims to realize certain operating results as a leading global corporate group, and attaches paramount importance on ROE as a management indicator for improving profitability. The NEC Group recorded an ROE of 4.8% in the fiscal year ended March 31, 2014, but aims for an ROE of 10% in the fiscal year ending March 31, 2016 through its "Mid-term Management Plan 2015."

3. Middle and Long Term Management Strategy

In April 2013, the NEC Group established a "Mid-term Management Plan 2015," featuring mid-term management policies that include (1) the Focus on Solutions for Society, (2) the Focus on Asia, Promotion of "Locally-led" Business, and (3) the goal to Stabilize Our Financial Foundation. The NEC Group aims to expand business and improve profitability by transitioning to a "social value innovator" and establishing a globally competitive growth base.

By carrying out these measures, the NEC Group aims to reach its mid-term management goals, achieve an operating income ratio of 5% and to realize an international sales ratio of 25% as soon as possible.

4. Challenges to be Addressed by the NEC Group

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 the "Mid-term Management Plan 2015" announced in April 2013, the NEC Group put forth mid-term management policies that include (1) the Focus on Solutions for Society, (2) the Focus on Asia, Promotion of "Locally-led" Business, and (3) the goal to Stabilize Our Financial Foundation. The NEC Group is now accelerating efforts towards the establishment of a globally deployable Social Solutions business in order to realize these growth strategies.

1) Focus on Solutions for Society

The NEC Group is focusing management resources on its Social Solutions business that provides advanced social infrastructure utilizing Information and Communication Technologies (ICT) aiming to contribute to the safety, security, efficiency and equality of society and to accelerate its growth and transformation to a "social value innovator."

Specifically, the NEC Group's Public business is steadily responding to demand related to the establishment of a National ID System by Japan's central and local governments as well as the regional enlargement and wireless digitization of firefighting command systems, while also seeking to expand global business by leveraging a stable domestic business base. In the Enterprise business, the NEC Group is aiming to expand new business, including cloud services, SDN and Big Data, as well as to expand global business through the "Regional Retail Business Support Center" established in Malaysia in order to strengthen the solutions business for retailers. Through these efforts, the NEC Group is seeking to improve profitability of the Enterprise business. The Telecom Carrier business is focused on expanding global business with TOMS and SDN as pillars of growth. In terms of the Smart Energy business, the NEC Group will capitalize on the energy storage system integration business that it agreed to acquire this fiscal year from U.S.-based A123 Systems, LLC in order to strengthen its energy storage system business, while also taking measures to expand new business domains such as smart meters. In the System Platform business that supports the Social Solutions business, NEC will strengthen service delivery systems by making NEC Fielding, Ltd. a wholly-owned subsidiary and will expand data centers and focus on the provision of cloud-based services.

2) Focus on Asia, Promotion of "Locally-led" Business

In the NEC Group's "Mid-term Management Plan 2015," the NEC Group aims to expand business through strong demand for the advancement of social infrastructure, especially in Asian markets, toward establishment of a foundation for growth and competitiveness on a global scale. The NEC Group also seeks to increase its sensitivity to local needs and to accelerate locally-led business.

Specifically, the NEC Group aims to capitalize on the Global Safety Division as a pillar for promoting the expansion of safety business through shared solutions that can be provided horizontally across multiple domains, and also, while strengthening cooperation with governments and financial institutions, reliably secure economic assistance projects in the domain of global social infrastructure construction utilizing ICT. Moreover, the NEC Group will leverage NEC Laboratories Singapore to drive cooperation with local research institutions and customers, to develop new solutions that utilize the NEC Group's cutting-edge technologies and to promote business on a global scale, especially in Asian markets.

3) Stabilize Our Financial Foundation

As part of fulfilling the company's growth strategy, the NEC Group is promoting the strengthening of cost competitiveness, improving its profit structure in order to ensure net income and building towards a financial base that reliably produces annual free cash flows of more than 100 billion yen.

By carrying out these measures, the NEC Group aims to reach its mid-term management goals, achieve an operating income ratio of 5% and to realize an international sales ratio of 25% as soon as possible.

The NEC Group regards compliance as one of the most important management issues and continues its comprehensive observation of compliance as well as efforts to establish and operate its internal control systems. NETCOMSEC Co. Ltd., a consolidated subsidiary of NEC, recorded and billed an excessive amount to Japan's Ministry of Defense. NETCOMSEC Co. Ltd. is in ongoing consultations, and the company remains suspended from participating in requests for proposals for future contracts with the Ministry of Defense. Furthermore, acts of fraud committed by an employee belonging to a subsidiary of NEC Networks & System Integration Corporation, a consolidated subsidiary of NEC, were discovered. As a result, NEC Networks & System Integration Corporation is now implementing preventative measures in response to the findings of an investigation committee led by an outside corporate auditor. NEC is making every effort to prevent a repeat of these kinds of incidents and to reinforce the NEC Group's internal control including observation of compliance.

The NEC Group will devote its full attention to implementing these measures as part of its efforts to contribute to the safety, security, efficiency and equality of society and to accelerate its growth and transformation to a "social value innovator." 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.

Consolidated Balance Sheets

NEC Corporation and Subsidiaries
March 31, 2013 and 2014

ASSETS	Millions of Yen 2013	Millions of Yen 2014	Thousands of U.S. Dollars (Note 1) 2014
CURRENT ASSETS:			
Cash and cash equivalents *(Note 19)*	¥ 197,132	¥ 206,637	$ 2,006,184
Short-term investments *(Note 19)*	1,829	2,322	22,544
Trade notes and accounts receivable *(Note 19)*	834,052	842,308	8,177,748
Inventories *(Note 7)*	242,639	214,395	2,081,505
Deferred tax assets *(Note 13)*	78,761	74,431	722,631
Other current assets *(Notes 19 and 20)*	164,055	167,626	1,627,437
Allowance for doubtful accounts	(4,662)	(4,810)	(46,699)
Total current assets	1,513,806	1,502,909	14,591,350
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION *(Note 8)*:			
Land	66,502	63,585	617,330
Buildings and structures	124,283	175,570	1,704,563
Machinery and equipment	25,586	17,878	173,573
Furniture and fixtures	62,695	63,075	612,379
Construction in progress	15,701	26,078	253,184
Total property, plant and equipment	294,767	346,186	3,361,029
INVESTMENTS AND OTHER ASSETS:			
Investment securities *(Notes 6 and 19)*	138,139	147,170	1,428,835
Investments in affiliated companies *(Note 19)*	92,668	78,293	760,126
Goodwill	93,895	76,203	739,835
Software	114,088	98,285	954,223
Long-term loans receivable *(Note 19)*	44,019	40,123	389,544
Deferred tax assets *(Notes 3 and 13)*	97,570	108,398	1,052,408
Net defined benefit asset *(Notes 3 and 9)*	—	10,404	101,010
Other assets *(Note 9)*	212,868	112,897	1,096,087
Allowance for doubtful accounts	(20,854)	(15,539)	(150,864)
Total investments and other assets	772,393	656,234	6,371,204
TOTAL ASSETS	¥ 2,580,966	¥ 2,505,329	$ 24,323,583

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen 2013	Millions of Yen 2014	Thousands of U.S. Dollars (Note 1) 2014
CURRENT LIABILITIES:			
Short-term borrowings *(Notes 8 and 19)*	¥ 56,587	¥ 32,415	$ 314,709
Current portion of long-term debt *(Notes 8 and 19)*	145,883	66,126	642,000
Trade notes and accounts payable *(Note 19)*	458,724	446,494	4,334,893
Accrued expenses *(Note 19)*	169,221	152,792	1,483,418
Other current liabilities *(Notes 10,13,19 and 20)*	293,241	287,758	2,793,767
Total current liabilities	1,123,656	985,585	9,568,787
LONG-TERM LIABILITIES:			
Long-term debt *(Notes 8 and 19)*	400,981	476,610	4,627,282
Liabilities for retirement benefits *(Note 9)*	178,868	—	—
Net defined benefit liability *(Notes 3 and 9)*	—	220,457	2,140,359
Deferred tax liabilities *(Note 13)*	2,231	2,213	21,485
Other long-term liabilities *(Note 11)*	39,083	52,801	512,631
Total long-term liabilities	621,163	752,081	7,301,757
COMMITMENTS AND CONTINGENT LIABILITIES *(Notes 18,20 and 21)*			
NET ASSETS *(Notes 12 and 24)*:			
SHAREHOLDERS' EQUITY:			
Common stock:			
Authorized — 7,500,000 thousand shares			
Issued — 2,604,733 thousand shares in 2013 and 2014	397,199	397,199	3,856,301
Capital surplus	148,405	148,402	1,440,796
Retained earnings	157,771	182,570	1,772,524
Treasury stock—at cost: 6,381 thousand shares in 2013 and 6,515 thousand shares in 2014	(2,946)	(2,976)	(28,893)
Total shareholders' equity	700,429	725,195	7,040,728
ACCUMULATED OTHER COMPREHENSIVE INCOME *(Note 3)*:			
Valuation difference on available-for-sale securities	18,333	34,292	332,932
Deferred gains or losses on hedges	(1,076)	(1,359)	(13,194)
Foreign currency translation adjustments	(7,020)	(1,521)	(14,767)
Remeasurements of defined benefit plans	—	(60,658)	(588,913)
Total accumulated other comprehensive income	10,237	(29,246)	(283,942)
MINORITY INTERESTS *(Note 3)*	125,481	71,714	696,253
Total net assets	836,147	767,663	7,453,039
TOTAL LIABILITIES AND NET ASSETS	¥ 2,580,966	¥ 2,505,329	$ 24,323,583

Consolidated Statements of Operations

NEC Corporation and Subsidiaries
Years Ended March 31, 2012, 2013 and 2014

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2012	2013	2014	2014
NET SALES	¥ 3,036,836	¥ 3,071,609	¥ 3,043,114	$ 29,544,796
COST OF SALES *(Note 9)*	2,128,920	2,142,243	2,128,457	20,664,631
Gross profit	907,916	929,366	914,657	8,880,165
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES *(Notes 9 and 14)*	834,174	814,719	808,464	7,849,165
Operating income	73,742	114,647	106,193	1,031,000
NON-OPERATING INCOME:				
Interest and dividends income	6,108	5,247	6,251	60,689
Equity in earnings of affiliated companies, net	—	409	2,719	26,398
Subsidy income *(Note 5)*	630	535	2,165	21,020
Foreign exchange gain, net	—	446	593	5,757
Other non-operating income *(Note 5)*	11,878	8,940	6,507	63,175
Total non-operating income	18,616	15,577	18,235	177,039
NON-OPERATING EXPENSES:				
Interest expense	5,446	5,979	10,036	97,437
Retirement benefit expenses *(Note 9)*	11,867	11,631	11,325	109,952
Provision for contingent loss *(Note 5)*	2,519	1,327	11,452	111,184
Equity in losses of affiliated companies, net	12,705	—	—	—
Foreign exchange loss, net	2,672	—	—	—
Other non-operating expenses *(Note 5)*	15,099	19,263	22,463	218,087
Total non-operating expenses	50,308	38,200	55,276	536,660
Ordinary income	42,050	92,024	69,152	671,379
SPECIAL GAINS *(Note 15)*	28,375	16,780	58,341	566,417
SPECIAL LOSSES *(Note 15)*	67,124	39,525	43,532	422,641
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	3,301	69,279	83,961	815,155
INCOME TAXES *(Note 13)*:				
Current	23,911	30,724	33,558	325,806
Deferred	84,283	(198)	8,808	85,514
Total income taxes	108,194	30,526	42,366	411,320
INCOME(LOSS) BEFORE MINORITY INTERESTS	(104,893)	38,753	41,595	403,835
MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES	5,374	8,319	7,853	76,243
NET INCOME (LOSS)	¥ (110,267)	¥ 30,434	¥ 33,742	$ 327,592

	Yen			U.S. Dollars (Note 1)
	2012	2013	2014	2014
PER SHARE OF COMMON STOCK *(Note 23)*:				
Basic net income (loss)	¥ (42.44)	¥ 11.71	¥ 12.99	$ 0.13
Diluted net income	—	—	—	—
Cash dividends applicable to the year	—	4.00	4.00	0.04

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

NEC Corporation and Subsidiaries
Years Ended March 31, 2012, 2013 and 2014

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2012	2013	2014	2014
INCOME(LOSS) BEFORE MINORITY INTERESTS	¥ (104,893)	¥ 38,753	¥ 41,595	$ 403,835
OTHER COMPREHENSIVE INCOME *(Note 16)*:				
Valuation difference on available-for-sale securities	12,156	2,096	15,858	153,961
Deferred gains or losses on hedges	(231)	(845)	(253)	(2,456)
Foreign currency translation adjustments	(1,250)	16,724	4,450	43,204
Share of other comprehensive income of associates accounted for using equity method	(476)	5,690	1,239	12,029
Total other comprehensive income	10,199	23,665	21,294	206,738
COMPREHENSIVE INCOME	¥ (94,694)	¥ 62,418	¥ 62,889	$ 610,573
Comprehensive income attributable to				
owners of the parent	¥ (100,073)	¥ 53,468	¥ 54,917	$ 533,175
minority interests	5,379	8,950	7,972	77,398

Consolidated Statements of Changes in Net Assets

NEC Corporation and Subsidiaries
Years Ended March 31, 2012, 2013 and 2014

	Thousands	Shareholders' equity				
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
BALANCE, APRIL 1, 2011	2,604,733	¥ 397,199	¥ 192,837	¥ 192,943	¥ (2,934)	¥ 780,045
Net income(loss)				(110,267)		(110,267)
Purchases of treasury stock					(10)	(10)
Disposals of treasury stock			(3)		5	2
Change of scope of equity method				(17)		(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)	669,753
Deficit disposition			(44,426)	44,426		—
Net income				30,434		30,434
Purchases of treasury stock					(11)	(11)
Disposals of treasury stock			(3)		4	1
Change of scope of equity method				252		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)	700,429
Net income				33,742		33,742
Cash dividends paid, ¥4 per share				(10,394)		(10,394)
Purchases of treasury stock					(35)	(35)
Disposals of treasury stock			(2)		5	3
Change of scope of equity method				1,451		1,451
Net changes in items other than shareholders' equity during the year						—
BALANCE, MARCH 31, 2014	2,604,733	¥ 397,199	¥ 148,402	¥ 182,570	¥ (2,976)	¥ 725,195

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
BALANCE, MARCH 31, 2013	$ 3,856,301	$ 1,440,815	$ 1,531,758	$ (28,602)	$ 6,800,272
Net income			327,592		327,592
Cash dividends paid, $0.04 per share			(100,913)		(100,913)
Purchases of treasury stock				(340)	(340)
Disposals of treasury stock		(19)		49	30
Change of scope of equity method			14,087		14,087
Net changes in items other than shareholders' equity during the year					
BALANCE, MARCH 31, 2014	$ 3,856,301	$ 1,440,796	$ 1,772,524	$ (28,893)	$ 7,040,728

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: Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Stock subscription rights	Minority interests	Total net assets
¥ 4,167	¥ 132	¥ (27,290)	¥ —	¥ (22,991)	¥ 33	¥ 118,354	¥ 875,441
							(110,267)
							(10)
							2
							(17)
12,106	(274)	(1,638)	—	10,194	(10)	2,280	12,465
16,273	(142)	(28,928)	—	(12,797)	24	120,634	777,614
							—
							30,434
							(11)
							1
							252
2,060	(934)	21,908	—	23,034	(24)	4,847	27,857
18,333	(1,076)	(7,020)	—	10,237	—	125,481	836,147
							33,742
							(10,394)
							(35)
							3
							1,451
15,959	(283)	5,499	(60,658)	(39,483)	—	(53,767)	(93,250)
¥ 34,292	¥ (1,359)	¥ (1,521)	¥ (60,658)	¥ (29,246)	¥ —	¥ 71,714	¥ 767,663

Thousands of U.S. Dollars (Note 1)

Accumulated other comprehensive income: Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Stock subscription rights	Minority interests	Total net assets
$ 177,990	$ (10,447)	$ (68,155)	$ —	$ 99,388	$ —	$ 1,218,262	$ 8,117,922
							327,592
							(100,913)
							(340)
							30
							14,087
154,942	(2,747)	53,388	(588,913)	(383,330)	—	(522,009)	(905,339)
$ 332,932	$ (13,194)	$ (14,767)	$ (588,913)	$ (283,942)	$ —	$ 696,253	$ 7,453,039

Consolidated Statements of Cash Flows

NEC Corporation and Subsidiaries
Years Ended March 31, 2012, 2013 and 2014

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2012	2013	2014	2014
Cash flows from operating activities				
Income before income taxes and minority interests	¥ 3,301	¥ 69,279	¥ 83,961	$ 815,155
Depreciation	83,058	83,612	76,977	747,349
Amortization of long-term prepaid expenses	7,711	6,748	4,972	48,272
Impairment losses on property, plant and equipment, and other assets	6,501	21,949	15,934	154,699
Amortization of goodwill	12,660	15,428	17,085	165,874
Increase (decrease) in allowance for doubtful accounts	2,589	591	(4,163)	(40,417)
Decrease in product warranty liabilities	(4,686)	(1,183)	(1,220)	(11,845)
Increase (decrease) in provision for loss on construction contracts and others	193	7,987	(6,634)	(64,408)
Increase (decrease) in liabilities for retirement benefits	6,855	(3,939)	—	—
Increase in net defined benefit liability	—	—	45,828	444,932
Decrease in remeasurements of defined benefit plans	—	—	(60,658)	(588,913)
Increase (decrease) in provision for business structure improvement	18,463	(22,644)	9,086	88,214
Increase (decrease) in provision for contingent loss	(939)	(3,575)	10,476	101,709
Increase (decrease) in provision for loss on repurchase of computers	(1,151)	(1,143)	1,583	15,369
Interest and dividends income	(6,108)	(5,247)	(6,251)	(60,689)
Interest expense	5,446	5,979	10,036	97,437
Equity in losses (earnings) of affiliated companies	12,705	(409)	(2,719)	(26,398)
Loss (gain) on change in equity	(18)	(2,657)	(365)	(3,544)
Gain on sales of property, plant and equipment	(966)	(1,569)	(368)	(3,573)
Loss on retirement of property, plant and equipment	—	636	—	—
Gain on sales of investment securities	(1,357)	(9,057)	(2,698)	(26,194)
Loss on sales of investment securities	11	2	23	223
Write-off of investment securities	16,037	804	1,738	16,874
Gain on sales of investments in affiliated companies	(15,376)	(1,728)	(53,923)	(523,524)
Loss on sales of investments in affiliated companies	1,118	880	64	621
Loss on contribution of securities to retirement benefit trust	—	5,898	—	—
Loss on disaster	2,131	—	—	—
Gain on insurance claim	(10,648)	(1,625)	—	—
Increase in trade notes and accounts receivable	(88,216)	(9,600)	(22,680)	(220,194)
(Increase) decrease in inventories	(150)	5,496	24,327	236,184
(Increase) decrease in accounts receivable, other	15,591	(2,792)	3,380	32,816
Increase (decrease) in trade notes and accounts payable	28,976	(8,548)	(4,034)	(39,165)
Others—net	(7,690)	22,267	(12,107)	(117,544)
Subtotal	86,041	171,840	127,650	1,239,320
Interest and dividends received	6,111	4,481	6,216	60,350
Interest paid	(5,152)	(5,928)	(8,914)	(86,544)
Income taxes paid	(22,650)	(28,653)	(30,828)	(299,301)
Proceeds from insurance income	19,507	2,008	—	—
Net cash provided by operating activities	¥ 83,857	¥ 143,748	¥ 94,124	$ 913,825

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

NEC Corporation and Subsidiaries
Years Ended March 31, 2012, 2013 and 2014

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2012	2013	2014	2014
Cash flows from investing activities				
Purchases of property, plant and equipment	¥ (39,772)	¥ (46,012)	¥ (89,458)	$ (868,524)
Proceeds from sales of property, plant and equipment	4,759	5,208	5,440	52,816
Acquisitions of intangible assets	(17,421)	(14,556)	(12,327)	(119,680)
Purchases of investment securities	(1,977)	(1,159)	(995)	(9,660)
Proceeds from sales of investment securities	1,999	27,601	14,907	144,728
Disbursements for acquisitions of shares of newly consolidated subsidiaries	(2,345)	(58,072)	(806)	(7,825)
Proceeds from acquisitions of shares of newly consolidated subsidiaries	—	—	116	1,126
Proceeds from sales of shares of subsidiaries being excluded from the consolidation	1,178	553	42,504	412,660
Disbursements for sales of shares of subsidiaries being excluded from the consolidation	(4,308)	(524)	—	—
Purchases of investments in affiliated companies	(358)	(582)	(27,693)	(268,864)
Proceeds from sales of investments in affiliated companies	6,779	1,151	26,515	257,427
(Increase) decrease in short-term loans receivable, net	(101)	187	(50)	(485)
Disbursements for loans receivable	(475)	(17,543)	(169)	(1,641)
Collection of loans receivable	294	195	247	2,398
Others—net	2,042	1,811	2,876	27,922
Net cash used in investing activities	(49,706)	(101,742)	(38,893)	(377,602)
Cash flows from financing activities				
Decrease in short-term borrowings, net	(85,998)	(70,289)	(26,745)	(259,660)
Proceeds from long-term borrowings	191,760	58,456	138,630	1,345,922
Repayments of long-term borrowings	(20,351)	(82,996)	(76,239)	(740,185)
Proceeds from issuance of bonds	30,000	—	—	—
Redemption of bonds	—	—	(70,000)	(679,612)
Redemption of convertible bonds	(97,669)	—	—	—
Dividends paid	(39)	(4)	(10,378)	(100,757)
Dividends paid to minority shareholders	(3,211)	(3,949)	(5,218)	(50,660)
Others—net	200	(25)	(33)	(320)
Net cash provided by (used in) financing activities	14,692	(98,807)	(49,983)	(485,272)
Effect of exchange rate changes on cash and cash equivalents	(879)	6,200	4,257	41,330
Net increase (decrease) in cash and cash equivalents	47,964	(50,601)	9,505	92,281
Cash and cash equivalents, at beginning of year	203,879	251,843	197,132	1,913,903
Decrease in cash and cash equivalents resulting from change of scope of consolidation	—	(4,110)	—	—
Cash and cash equivalents, at end of year	¥ 251,843	¥ 197,132	¥ 206,637	$ 2,006,184
Non-cash investing and financing activities				
Finance leases	¥ 2,372	¥ 1,670	¥ 1,326	$ 12,874
Contribution of securities to retirement benefit trust	—	26,437	—	—

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, 2014.

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 ¥103 to $1, the approximate rate of exchange at March 31, 2014. 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, 2014 include the accounts of the Company and its 258 subsidiaries (collectively, the "NEC Group"). Investments in 51 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. 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.

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, 2012, 2013 and 2014 were ¥786,212 million, ¥720,665 million and ¥728,969 million ($7,077,369 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, primarily 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 and goodwill. 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 contract 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 Benefits* — 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.

With regard to the calculation of retirement benefit obligation, the point basis method is applied when allocating the projected retirement benefit cost to the current consolidated fiscal year.

The transitional obligation has been amortized on a straight-line basis mainly over 15 years since fiscal 2001.

Past 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. ***Research and Development Costs*** — Research and development costs are charged to earnings as incurred. The amounts charged to earnings for fiscal 2012, 2013 and 2014 were ¥161,968 million, ¥151,676 million and ¥142,723 million ($1,385,660 thousand), respectively.

q. ***Leases*** — Finance leases as lessee are capitalized and accounted for as ordinary sales transactions (Notes 8 and 18).

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

s. ***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.

t. ***Income Taxes*** — The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of tax loss carryforwards and temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to tax loss carryforwards and temporary differences. Valuation allowances are established to reduce deferred tax assets to their net realizable value if it is more likely than not that some portion or all of the deferred tax assets will not be realized (Note 13).

u. ***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.

v. ***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.

w. ***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 20).

x. ***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 23).

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 24).

3. Accounting Changes

Accounting Standard for Retirement Benefits — Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26 of May 17, 2012 (hereinafter, the "Statement No.26")) and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 of May 17, 2012 (hereinafter, the "Guidance No.25")) except the article 35 of the Statement No.26 and the article 67 of the Guidance No.25 and unrecognized actuarial gains and losses, past service costs and transitional obligation have been recognized and the difference between defined benefit obligations and plan assets has been recognized as net defined benefit asset or liability.

In accordance with the article 37 of the Statement No.26, the effect of the change in accounting policies arising from initial application has been recognized in remeasurements of defined benefit plans in accumulated other comprehensive income.

As a result of the application, the NEC Group recorded net defined benefit asset of ¥10,404 million ($101,010 thousand) and net defined benefit liability of ¥220,457 million ($2,140,359 thousand) at the end of the fiscal year ended March 31, 2014. In addition, deferred tax assets increased by ¥24,773 million ($240,515 thousand), accumulated other comprehensive income decreased by ¥60,658 million ($588,913 thousand) and minority interests decreased by ¥4,385 million ($42,573).

The effects of this change on net assets per share are described in Note 24.

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).

(1) Overview

From the perspective of global developments in accounting standards and enhancement of financial reporting, these accounting standards were revised mainly on 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.

(2) Scheduled effective date

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.

(3) Impact of applying the revised accounting standards

The impact on operating income, ordinary income, and income before income taxes and minority interests of the fiscal year ending March 31, 2015 of applying the revised accounting standards is immaterial.

Accounting Standard for Business Combination— The ASBJ issued the following revised accounting standards and implementation guidance:

"Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21 of September 13, 2013)

"Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22 of September 13, 2013)

"Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7 of September 13, 2013)

"Revised Accounting Standard for Earnings per Share" (ASBJ Statement No.2 of September 13, 2013)

"Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10 of September 13, 2013)

"Revised Guidance on Accounting Standard for Earnings per Share" (ASBJ Guidance No.4 of September 13, 2013)

(1) Overview

The purpose of this amendment is mainly to revise 1) how to account for change in parent company equity as a result of an additional acquisition of stock, etc. in a subsidiary over which the parent remains in control, 2) how to account for the related acquisition costs, 3) the presentation of net income and change of the presentation of minority interests as non-controlling interests, and 4) provisional accounting treatments.

(2) Scheduled effective date

These accounting standards and guidance will be effective from the beginning of the fiscal year ending March 31, 2016. Provisional accounting treatments will be effective for business combinations that take place on or after April 1, 2015.

(3) Impact of applying the revised accounting standards

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

5. Changes in Presentation Method

(Consolidated Statements of Operations)

"Subsidy income" (¥630 million and ¥535 million for the years ended March 31, 2012 and 2013, respectively), which was included in "Other non-operating income" in prior periods has been presented separately to conform with the current year's presentation.

"Reversal of provision for contingent loss", which was presented separately in prior periods (¥1,188 million and ¥2,971 million for the years ended March 31, 2012 and 2013, respectively) has been reclassified into "Other non-operating income" to conform with the current year's presentation.

"Provision for contingent loss" (¥2,519 million and ¥1,327 million for the years ended March 31, 2012 and 2013, respectively), which was included in “Other non-operating expenses” in prior periods has been presented separately to conform with the current year's presentation.

6. Investment Securities

The carrying amounts and aggregate fair values of marketable investment securities as of March 31, 2013 and 2014 were as follows:

	Millions of Yen			
Mar 31, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
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
Mar 31, 2014				
Securities classified as available-for-sale:				
Equity securities	¥ 48,077	¥ 47,591	¥ 559	¥ 95,109
Debt securities	1,000	—	65	935
Others	93	52	25	120
Total	¥ 49,170	¥ 47,643	¥ 649	¥ 96,164

	Thousands of U.S. Dollars			
Mar 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 466,767	$ 462,048	$ 5,427	$ 923,388
Debt securities	9,709	—	631	9,078
Others	903	505	243	1,165
Total	$ 477,379	$ 462,553	$ 6,301	$ 933,631

Non-marketable investment securities whose fair value was not readily determinable as of March 31, 2013 and 2014 were as follows:

	Carrying amount		
	Millions of Yen		*Thousands of U.S. Dollars*
	2013	2014	2014
Available-for-sale:			
Equity securities	¥ 56,826	¥ 46,206	$ 448,602
Investments in limited partnerships	5,087	4,519	43,874
Others	286	281	2,728
Total	¥ 62,199	¥ 51,006	$ 495,204

The equity securities of Renesas Electronics Corporation and other, previously classified in investments in affiliated companies, were reclassified to investment securities from the fiscal year ended March 31, 2014. As a result, investment securities increased by ¥10,049 million ($97,563 thousand), and valuation difference on available-for sale securities increased by ¥6,814 million ($66,155 thousand).

7. Inventories

Inventories as of March 31, 2013 and 2014 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2013	2014	2014
Merchandise and finished products	¥ 93,776	¥ 76,235	$ 740,146
Work in process	86,032	83,922	814,777
Raw materials and supplies	62,831	54,238	526,582
Total	¥ 242,639	¥ 214,395	$ 2,081,505

8. Short-term Borrowings and Long-term Debt

Short-term borrowings

Short-term borrowings as of March 31, 2013 and 2014 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2013	2014	2014
Loans (weighted-average interest rate of 1.61% as of March 31, 2014)	¥ 26,590	¥ 32,415	$ 314,709
Commercial papers	29,997	—	—
Total	¥ 56,587	¥ 32,415	$ 314,709

As of March 31, 2014, the NEC Group had unused line-of-credit agreements for short-term borrowings with financial institutions totaling ¥323,200 million ($3,137,864 thousand), of which, ¥322,560 million ($3,131,650 thousand), was unused.

Long-term borrowings

Long-term borrowings as of March 31, 2013 and 2014 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2013	2014	2014
Loans from financial institutions, due in 2014 through 2073(weighted-average interest rate of 1.76% as of March 31, 2014)	¥ 310,514	¥ 377,818	$ 3,668,136
Less current portion	(73,486)	(44,284)	(429,942)
Total	¥ 237,028	¥ 333,534	$ 3,238,194

Bonds

	Millions of Yen		*Thousands of U.S. Dollars*
	2013	2014	2014
NEC 38th unsecured 1.47% bonds due in 2013	¥ 30,000	¥ —	$ —
NEC 39th unsecured 1.68% bonds due in 2015	20,000	20,000	194,175
NEC 40th unsecured 0.50% bonds due in 2013	40,000	—	—
NEC 41st unsecured 0.73% bonds due in 2015	40,000	40,000	388,349
NEC 42nd unsecured 1.02% bonds due in 2017	20,000	20,000	194,175
NEC 43rd unsecured 0.65% bonds due in 2015	30,000	30,000	291,262
NEC 44th unsecured 1.00% bonds due in 2017	20,000	20,000	194,175
NEC 45th unsecured 0.61% bonds due in 2014	20,000	20,000	194,175
NEC 46th unsecured 0.79% bonds due in 2016	10,000	10,000	97,087
Less current portion of bonds	(70,000)	(20,000)	(194,175)
Total	¥ 160,000	¥ 140,000	$ 1,359,223

Lease obligations

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Lease obligations, due in 2014 through 2021 (weighted-average interest rate of 1.95% as of March 31, 2014)	¥ 6,350	¥ 4,918	$ 47,748
Less current portion	(2,397)	(1,842)	(17,884)
Total	¥ 3,953	¥ 3,076	$ 29,864

Annual maturities for the fiscal years ending March 31, 2015 through 2073 of long-term debt as of March 31, 2014 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 66,126	$ 642,000
2016	103,098	1,000,952
2017	113,852	1,105,359
2018	54,530	529,417
2019	68,480	664,855
2020 and thereafter	136,650	1,326,699
Total	¥ 542,736	$ 5,269,282

The carrying amounts of assets, net of accumulated depreciation, pledged as collateral for short-term borrowings of ¥2,297 million ($22,301 thousand) and long-term borrowings of ¥200 million ($1,942 thousand) and other debt of ¥49 million ($476 thousand) as of March 31, 2014 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 3,579	$ 34,747
Buildings and structures	238	2,311
Others	300	2,913
Total, net of accumulated depreciation	¥ 4,117	$ 39,971

9. Retirement Benefits

The Company and its domestic consolidated subsidiaries have the defined benefit type of the corporate pension plans, the defined contribution pension plans, and the lump-sum severance payment plans. Additional retirement benefits are paid in certain circumstances.

Most of 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.

Effective from the year ended March 31, 2014, the NEC Group has applied 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).

In this section, information for the years ended March 31, 2012 and 2013 are disclosed in conformity with old standards and requirements.

For the years ended March 31, 2012 and 2013

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

	Millions of Yen
	2013
Project benefit obligations	¥ (968,387)
Fair value of plan assets	626,582
Unfunded retirement benefit obligations	(341,805)
Unrecognized transitional obligation	22,227
Unrecognized actuarial gains and losses	287,071
Unrecognized prior service costs	(54,658)
Net amounts recognized in the consolidated balance sheets	(87,165)
Prepaid pension expenses	91,703
Liabilities for retirement benefits	¥ (178,868)

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

	Millions of Yen	
	2012	2013
Service cost	¥ 30,762	¥ 30,697
Interest cost	23,051	22,479
Expected return on plan assets	(12,030)	(12,078)
Amortization of transitional obligation	11,867	11,631
Amortization of actuarial gains and losses	27,921	27,052
Amortization of prior service costs	(8,882)	(8,749)
Others	6,596	6,995
Total retirement benefit expenses	¥ 79,285	¥ 78,027

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 15).

Assumptions used for the fiscal year ended March 31, 2013 were as follows:

	2013
Discount rate	Mainly 1.4%
Expected rate of return on plan assets	Mainly 2.5%
Amortization period of prior service costs	Mainly 13 years
Amortization period of actuarial gains and losses	Mainly 13 years
Amortization period of transitional obligation	Mainly 15 years

For the year ended March 31, 2014

Defined benefit plans

(1) Reconciliation of changes in Defined benefit obligations during the year ended March 31, 2014 was as follows:

	Millions of Yen	*Thousands of U.S. Dollars*
	2014	2014
Defined benefit obligations at the beginning of the year	¥ 968,387	$ 9,401,816
Service cost	32,235	312,961
Interest cost	16,419	159,408
Actuarial gains and losses	(2,757)	(26,767)
Benefits paid	(54,828)	(532,311)
Other	(36)	(350)
Defined benefit obligations at the end of the year	¥ 959,420	$ 9,314,757

(*) Certain consolidated subsidiaries adopted the simplified method in calculating the defined benefit obligations.

(2) Reconciliation of changes in Plan assets during the year ended March 31, 2014 was as follows:

	Millions of Yen	*Thousands of U.S. Dollars*
	2014	2014
Plan assets at the beginning of the year	¥ 626,582	$ 6,083,320
Expected return on plan assets	13,219	128,340
Actuarial gains and losses	127,397	1,236,864
Employer contributions	27,140	263,495
Benefits paid	(45,745)	(444,126)
Other	774	7,515
Plan assets at the end of the year	¥ 749,367	$ 7,275,408

(*) Certain consolidated subsidiaries adopted the simplified method.

(3) Reconciliation between Defined benefit obligations (Plan assets) and amounts of Net defined benefit liability (asset) recognized in the consolidated balance sheet:

	Millions of Yen	*Thousands of U.S. Dollars*
	2014	2014
Defined benefit obligations [funded]	¥ 782,067	$ 7,592,883
Plan assets	749,367	7,275,408
	32,700	317,475
Defined benefit obligations [unfunded]	177,353	1,721,874
Net liability (asset) recognized in the consolidated balance sheet	¥ 210,053	$ 2,039,349
Net defined benefit liability	¥ 220,457	$ 2,140,359
Net defined benefit asset	10,404	101,010
Net liability (asset) recognized in the consolidated balance sheet	¥ 210,053	$ 2,039,349

(4) Retirement benefit expenses

The components of retirement benefit expenses for the fiscal year ended March 31, 2014 were as follows:

	Millions of Yen	*Thousands of U.S. Dollars*
	2014	2014
Service cost	¥ 32,235	$ 312,961
Interest cost	16,419	159,408
Expected return on plan assets	(13,219)	(128,340)
Amortization of actuarial gains and losses	33,558	325,806
Amortization of past service costs	(9,195)	(89,272)
Amortization of transitional obligation	11,325	109,952
Retirement benefit expenses	¥ 71,123	$ 690,515

(*) Certain consolidated subsidiaries adopted the simplified method.

(5) Remeasurements of defined benefit plans

Amounts recognized in remeasurements of defined benefit plans (before adjusting for tax effects) as of March 31, 2014 were as follows:

	Millions of Yen	*Thousands of U.S. Dollars*
	2014	2014
Unrecognized past service costs	¥ (45,398)	$ (440,757)
Unrecognized actuarial gains and losses	123,884	1,202,757
Unrecognized transitional obligation	10,357	100,553
Total	¥ 88,843	$ 862,553

(6) Plan assets

(a) Percentage by major category of plan assets as of March 31, 2014 was as follows:

	2014
Equity securities	46%
Debt securities	44%
Other	10%
Total	100%

(*) Total plan assets include 14% of contribution of securities to retirement benefit trust in the corporate pension plan.

(b) Determination procedure of long-term expected rate of return on plan assets

In determining long-term expected rate of return on plan assets, the NEC Group considers the current and projected asset allocations, as well as current and future long-term rate of returns for various categories of the plan assets.

(7) Basis for calculation of actuarial assumptions

The principal actuarial assumptions for the fiscal year ended March 31, 2014 are as follows:

	2014
Discount rate	Mainly 1.4%
Long-term expected rate of return on plan assets	Mainly 2.5%

(*)Defined benefit plans include multi-employer plans in which certain consolidated subsidiaries participate.

Defined contribution plans

The amount to be paid by the Company and its consolidated subsidiaries to the defined contribution plans was ¥7,267 million ($70,553 thousand) for the fiscal year ended March 31, 2014.

10. Other Current Liabilities

Other current liabilities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Advances from customers	¥ 122,154	¥ 128,601	$ 1,248,553
Product warranty liabilities	18,370	16,687	162,010
Reserve for bonuses to directors	335	318	3,087
Provision for loss on construction contracts and others	17,955	11,342	110,117
Provision for business structure improvement	3,993	7,359	71,447
Provision for contingent loss	1,217	12,506	121,417
Others	129,217	110,945	1,077,136
Total	¥ 293,241	¥ 287,758	$ 2,793,767

11. Other Long-term Liabilities

Other long-term liabilities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Long-term product warranty liabilities	¥ 3,049	¥ 4,197	$ 40,748
Provision for loss on repurchase of computers	5,326	6,909	67,078
Provision for business structure improvement	750	6,859	66,592
Provision for contingent loss	6,641	5,915	57,427
Others	23,317	28,921	280,786
Total	¥ 39,083	¥ 52,801	$ 512,631

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.

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 treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by 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. 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%, 38.0% and 38.0% for the fiscal years ended March 31, 2012, 2013 and 2014, respectively. Income taxes of foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

Following the promulgation of the law “Partial Amendment of the Income Tax Act, etc.” (Act No.10 of 2014) in Japan on March 31, 2014, special reconstruction corporation tax will not be imposed from the consolidated fiscal years beginning on or after April 1, 2014.

Accordingly, for temporary differences expected to be reversed in the fiscal year ending March 31, 2015, the effective tax rate applied to the calculation of deferred tax assets and liabilities in the consolidated fiscal year ended March 31, 2014, was lowered from 38.0% in the prior fiscal year to 35.5% in the current fiscal year.

As a result, the amount of deferred tax assets (the amount remaining after deducting deferred tax liabilities) decreased by ¥2,867 million ($27,835 thousand), while income taxes-deferred recognized in costs for the fiscal year ended March 31, 2014 increased by ¥2,867 million ($27,835 thousand).

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2013 and 2014 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2013	2014	2014
Deferred tax assets :			
Pension and severance costs	¥ 117,047	¥ –	$ –
Net defined benefit liability	–	158,678	1,540,563
Tax loss carryforwards	177,766	124,235	1,206,165
Write-off of investment securities	7,079	73,922	717,689
Accrued expenses and product warranty liabilities	48,326	44,000	427,184
Write-off of inventories	39,069	41,526	403,165
Depreciation	37,263	30,908	300,078
Investments in affiliated companies	17,059	15,083	146,437
Provision for contingent loss	2,748	6,529	63,388
Elimination of unrealized profit by intercompany transactions among consolidated companies	5,008	4,729	45,913
Provision for business structure improvement	1,372	4,717	45,796
Provision for loss on construction contracts and others	6,813	4,029	39,117
Research and development expenses	1,487	1,473	14,301
Others	65,860	85,016	825,398
Sub-total	526,897	594,845	5,775,194
Less valuation allowance	(313,274)	(372,463)	(3,616,145)
Total	213,623	222,382	2,159,049
Deferred tax liabilities:			
Undistributed earnings of affiliated companies	(17,493)	(18,981)	(184,281)
Unrealized gains on available-for-sale securities	(7,681)	(11,987)	(116,379)
Gain on contribution of securities to the retirement benefit trust	(9,076)	(9,016)	(87,534)
Reserves under special taxation measures law	(16)	(7)	(68)
Others	(5,992)	(2,367)	(22,981)
Total	(40,258)	(42,358)	(411,243)
Net deferred tax assets	¥ 173,365	¥ 180,024	$ 1,747,806

Net deferred tax assets were included in the consolidated balance sheets as of March 31, 2013 and 2014 as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2013	2014	2014
Current assets - deferred tax assets	¥ 78,761	¥ 74,431	$ 722,631
Investments and other assets - deferred tax assets	97,570	108,398	1,052,408
Current liabilities - other current liabilities	(735)	(592)	(5,748)
Long-term liabilities - deferred tax liabilities	(2,231)	(2,213)	(21,485)
Net deferred tax assets	¥ 173,365	¥ 180,024	$ 1,747,806

Reconciliations between the statutory tax rates and the effective tax rates for the fiscal years ended March 31, 2012, 2013 and 2014 were as follows:

	2012	2013	2014
Statutory tax rates	40.5 %	38.0 %	38.0 %
Undistributed earnings of affiliated companies	247.2	4.2	16.3
Amortization of goodwill	179.4	8.5	10.4
Adjustment of deferred tax assets due to change in statutory tax rate	749.7	–	3.4
Equity in losses (earnings) of affiliated companies	152.1	(0.4)	(1.2)
Changes in valuation allowance	1,786.3	(2.7)	(13.6)
Others	122.4	(3.5)	(2.8)
Effective tax rates	3,277.6 %	44.1 %	50.5 %

14. Significant Components of Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the fiscal years ended March 31, 2012, 2013 and 2014 consisted of the following:

	Millions of Yen			*Thousands of U.S. Dollars*
	2012	2013	2014	2014
Salaries for employees	¥ 291,188	¥ 285,120	¥ 290,963	$ 2,824,883
Research and development expenses	156,626	147,036	137,662	1,336,524
Retirement benefit expenses	22,573	24,685	26,018	252,602
Provision for product warranty liabilities	10,854	12,793	12,578	122,117
Provision for loss on repurchase of computers	964	1,287	4,372	42,447

15. Special Gains and Losses

(1) Special gains

Special gains for the fiscal years ended March 31, 2012, 2013 and 2014 consisted of the following:

	Millions of Yen			*Thousands of U.S. Dollars*
	2012	2013	2014	2014
Gain on sales of investments in affiliated companies	¥ 15,376	¥ 1,728	¥ 53,923	$ 523,524
Gain on sales of investment securities	1,357	9,057	2,698	26,194
Gain on change in equity	18	2,657	607	5,893
Gain on step acquisitions	—	—	454	4,408
Gain on sales of property, plant and equipment	966	1,569	368	3,573
Gain on business transfers	—	120	291	2,825
Gain on insurance claim	10,648	1,625	—	—
Gain on reversal of subscription rights to shares	10	24	—	—
Total	¥ 28,375	¥ 16,780	¥ 58,341	$ 566,417

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 sales of investments in affiliated companies for the fiscal year ended March 31, 2014 mainly related to the sale of shares of NEC BIGLOBE, Ltd. (currently BIGLOBE, Inc.) and NEC Mobiling, Ltd. (currently MX Mobiling Co., Ltd.).

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 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.

(2) Special losses

Special losses for the fiscal years ended March 31, 2012, 2013 and 2014 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2012	2013	2014	2014
Restructuring charges *(Note 9)*	¥ 40,535	¥ 5,538	¥ 25,304	$ 245,670
Impairment losses on property, plant and equipment, and other assets	6,501	21,949	15,934	154,699
Write-off of investment securities	16,037	804	1,738	16,874
Loss on change in equity	—	—	242	2,350
Relocation expenses	713	—	215	2,087
Loss on sales of investments in affiliated companies	1,118	880	64	621
Loss on sales of investment securities	11	2	23	223
Loss on sales of noncurrent assets	78	—	12	117
Loss on contribution of securities to retirement benefit trust	—	5,898	—	—
Provision of allowance for doubtful accounts for affiliated companies	—	3,818	—	—
Loss on retirement of property, plant and equipment	—	636	—	—
Loss on disaster	2,131	—	—	—
Total	¥ 67,124	¥ 39,525	¥ 43,532	$ 422,641

Restructuring charges

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.

Restructuring charges for the fiscal year ended March 31, 2014 were mainly due to reviewing of the mobile phone handset business.

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
	2012	2013	2014	2014
Land	¥ 507	¥ 319	¥ 3,185	$ 30,922
Buildings and structures	452	829	1,699	16,495
Machinery and equipment	1,347	1,007	1,163	11,291
Furniture and fixtures	716	1,787	913	8,864
Construction in progress	290	117	12	117
Goodwill	2,792	—	5,784	56,155
Software	220	13,685	2,799	27,175
Other assets	177	4,205	379	3,680
Total	¥ 6,501	¥ 21,949	¥ 15,934	$ 154,699

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.

Loss on disaster

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.

16. Components of Other Comprehensive Income

The components of other comprehensive income for the fiscal years ended March 31, 2012, 2013 and 2014 consisted of the following:

	Millions of Yen			*Thousands of U.S. Dollars*
	2012	2013	2014	2014
Valuation difference on available-for-sale securities :				
Increase(decrease) during the year	¥ 4,771	¥ 11,346	¥ 22,176	$ 215,301
Reclassification adjustments	13,826	(9,857)	(1,924)	(18,680)
Sub-total, before tax	18,597	1,489	20,252	196,621
Tax (expense) or benefit	(6,441)	607	(4,394)	(42,660)
Sub-total, net of tax	¥ 12,156	¥ 2,096	¥ 15,858	$ 153,961
Differed gains or losses on hedges :				
Increase(decrease) during the year	¥ (169)	¥ (1,375)	¥ (1,179)	$ (11,447)
Reclassification adjustments	(157)	192	876	8,505
Sub-total, before tax	(326)	(1,183)	(303)	(2,942)
Tax (expense) or benefit	95	338	50	486
Sub-total, net of tax	¥ (231)	¥ (845)	¥ (253)	$ (2,456)
Foreign currency translation adjustments :				
Increase(decrease) during the year	¥ (1,321)	¥ 18,114	¥ 3,912	$ 37,981
Reclassification adjustments	(401)	(1,115)	673	6,534
Sub-total, before tax	(1,722)	16,999	4,585	44,515
Tax (expense) or benefit	472	(275)	(135)	(1,311)
Sub-total, net of tax	¥ (1,250)	¥ 16,724	¥ 4,450	$ 43,204
Share of other comprehensive income of associates accounted for using equity method :				
Increase(decrease) during the year	¥ (476)	¥ 3,096	¥ 976	$ 9,476
Reclassification adjustments	—	2,594	263	2,553
Sub-total, net of tax	¥ (476)	¥ 5,690	¥ 1,239	$ 12,029
Total other comprehensive income	¥ 10,199	¥ 23,665	¥ 21,294	$ 206,738

17. Additional Cash Flow Information

The assets and liabilities of NEC LCD Technologies, Ltd. (currently NLT 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
Current assets	¥ 14,400
Fixed assets	29,385
Goodwill	28,381
Current liabilities	(7,189)
Long-term liabilities	(4,840)
Acquisition cost of shares	60,137
Cash and cash equivalents	(2,065)
Disbursements for acquisitions of shares of newly consolidated subsidiaries	¥ 58,072

The assets and liabilities of NEC Mobiling, Ltd. (currently MX Mobiling Co., Ltd.) and NEC BIGLOBE, Ltd. (currently BIGLOBE, Inc.), which were excluded from consolidation due to the sale of shares in the fiscal year ended March 31, 2014, were as follows:

2 companies

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 97,594	$ 947,515
Fixed assets	26,376	256,077
Current liabilities	(31,924)	(309,942)
Long-term liabilities	(4,740)	(46,019)
Minority interests	(32,356)	(314,136)
Valuation difference on available-for-sale securities	(148)	(1,437)
Foreign currency translation adjustments	(7)	(68)
Acquisition of shares	(164)	(1,592)
Gain on sales of investments in affiliated companies	44,238	429,495
Sale amount of shares	98,869	959,893
Accrued expenses	(1,143)	(11,097)
Cash and cash equivalents	(55,222)	(536,136)
Proceeds from sales of shares of subsidiaries being excluded from the consolidation	¥ 42,504	$ 412,660

18. Leases

The minimum obligations under noncancelable operating leases as of March 31, 2013 and 2014 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Due within one year	¥ 22,312	¥ 17,037	$ 165,408
Due after one year	77,457	29,719	288,534
Total	¥ 99,769	¥ 46,756	$ 453,942

19. 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 company.

Long-term borrowings, bonds payable and finance lease liabilities are generally executed for the purpose of financing capital investments. The redemption dates of such liabilities are mainly within six years. However, the redemption date on the hybrid finance (subordinated loan) executed in May 2013 is June 30, 2073. These interest-bearing debts with floating interest rates are exposed to interest rate risk. Some of these debt hedges its interests with derivatives (interest rate swap).

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 20.

c. Risk management of financial instruments

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

The Company and its consolidated 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, 2013 and 2014 were as follows:

	Millions of Yen					
	2013			*2014*		
	Carrying Amount	Fair Value	Difference	Carrying Amount	Fair Value	Difference
Assets:						
Cash and cash equivalents	¥197,132	¥ 197,132	¥ —	¥ 206,637	¥ 206,637	¥ —
Short-term investments	1,829	1,829	—	2,322	2,322	—
Trade notes and accounts receivable	834,052	833,064	(988)	842,308	841,358	(950)
Investment securities	75,940	75,940	—	96,164	96,164	—
Investments in affiliated companies	47,931	39,774	(8,157)	50,754	54,952	4,198
Long-term loans receivable	44,019			40,123		
Less allowance for doubtful accounts(*1)	(3,818)			—		
	40,201	40,201	—	40,123	40,123	—
Total	¥1,197,085	¥1,187,940	¥ (9,145)	¥1,238,308	¥1,241,556	¥ 3,248
Liabilities:						
Short-term borrowings(*2)	¥ 56,587	¥ 56,587	¥ —	¥ 32,415	¥ 32,415	¥ —
Current portion of long-term debt(*2)	143,486	143,486	—	64,284	64,284	—
Trade notes and accounts payable	458,724	458,724	—	446,494	446,494	—
Accrued expenses	169,221	169,221	—	152,792	152,792	—
Long-term debt(*2)	397,028	398,880	1,852	473,534	477,076	3,542
Total	¥1,225,046	¥1,226,898	¥ 1,852	¥1,169,519	¥1,173,061	¥ 3,542
Derivatives (*3)	¥ (4,498)	¥ (4,498)	¥ —	¥ (3,532)	¥ (3,532)	¥ —

	Thousands of U.S. Dollars		
2014	Carrying Amount	Fair Value	Difference
Assets:			
Cash and cash equivalents	$ 2,006,184	$ 2,006,184	$ —
Short-term investments	22,544	22,544	—
Trade notes and accounts receivable	8,177,748	8,168,524	(9,224)
Investment securities	933,631	933,631	—
Investments in affiliated companies	492,757	533,515	40,758
Long-term loans receivable	389,544		
Less allowance for doubtful accounts(*1)	—		
	389,544	389,544	—
Total	$ 12,022,408	$ 12,053,942	$ 31,534
Liabilities:			
Short-term borrowings(*2)	$ 314,709	$ 314,709	$ —
Current portion of long-term debt(*2)	624,117	624,117	—
Trade notes and accounts payable	4,334,893	4,334,893	—
Accrued expenses	1,483,418	1,483,418	—
Long-term debt(*2)	4,597,417	4,631,806	34,389
Total	$ 11,354,554	$ 11,388,943	$ 34,389
Derivatives (*3)	$ (34,291)	$ (34,291)	$ —

(*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 derivatives 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 20.

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*
	2013	*2014*	*2014*
Investment securities:			
unlisted stocks	¥ 56,826	¥ 46,206	$ 448,602
Investments in affiliated companies:			
unlisted stocks	44,737	27,539	267,369
Investments in limited partnerships and similar partnerships under foreign laws	5,087	4,519	43,874
Others	286	281	2,728
Total	¥ 106,936	¥ 78,545	$ 762,573

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

	Millions of Yen			
March 31, 2014	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	¥ 206,637	¥ —	¥ —	¥ —
Short-term investments	2,322	—	—	—
Trade notes and accounts receivable	799,154	40,962	2,143	49
Investment securities				
Available-for-sale securities with contractual maturities (bonds)	—	—	—	935
Long-term loans receivable	—	39,835	135	153
Total	¥ 1,008,113	¥ 80,797	¥ 2,278	¥ 1,137

	Thousands of U.S. Dollars			
March 31, 2014	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	$ 2,006,184	$ —	$ —	$ —
Short-term investments	22,544	—	—	—
Trade notes and accounts receivable	7,758,777	397,689	20,806	476
Investment securities				
Available-for-sale securities with contractual maturities (bonds)	—	—	—	9,078
Long-term loans receivable	—	386,748	1,311	1,485
Total	$ 9,787,505	$ 784,437	$ 22,117	$ 11,039

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

20. Derivatives

Derivative transactions as of March 31, 2013 and 2014 were as follows:

	Millions of Yen					
	2013			2014		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Currency related						
Foreign exchange forward contracts:						
Buying						
U.S.$	¥ 38,657	¥ 39,088	¥ 431	¥ 53,797	¥ 54,208	¥ 411
Euro	751	738	(13)	1,000	1,004	4
Others	1,599	1,586	(13)	1,046	1,030	(16)
Selling						
U.S.$	56,983	61,316	(4,333)	36,782	39,820	(3,038)
Euro	15,301	15,723	(422)	9,123	9,166	(43)
Others	2,365	2,513	(148)	3,905	3,928	(23)
Total			¥ (4,498)			¥ (2,705)
Interest rate related						
Interest rate swaps:						
Pay fixed/ Receiving floating rates	¥ –	¥ –	¥ –	¥ 65,000	¥ (827)	¥ (827)
Total			¥ –			¥ (827)

	Thousands of U.S. Dollars		
2014	Contract Amount	Fair Value	Unrealized Gain (Loss)
Currency related			
Foreign exchange forward contracts:			
Buying			
U.S.$	$ 522,301	$ 526,291	$ 3,990
Euro	9,709	9,748	39
Others	10,155	10,000	(155)
Selling	–	–	–
U.S.$	357,107	386,602	(29,495)
Euro	88,573	88,991	(418)
Others	37,913	38,136	(223)
Total			$ (26,262)
Interest rate related			
Interest rate swaps:			
Pay fixed/ Receiving floating rates	$ 631,068	$ (8,029)	$ (8,029)
Total			$ (8,029)

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, 2013 and 2014, included in the above table, were as follows:

	Millions of Yen					
	2013			2014		
	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.$		¥ 10,692	¥ 12,126		¥ 4,486	¥ 5,360
Others		1,757	1,781		2,737	2,733
Interest rate related						
Interest rate swaps:				Long-term debt		
Pay fixed/ Receiving floating rates					¥ 65,000	¥ (827)

2014	Thousands of U.S. Dollars Hedged Item	Contract Amount	Fair Value
Currency related			
Foreign exchange forward contracts:			
Selling	Accounts receivable		
U.S.$		$ 43,553	$ 52,039
Others		26,573	26,534
Interest rate related			
Interest rate swaps:	Long-term debt		
Pay fixed/ Receiving floating rates		$ 631,068	$ (8,029)

21. Contingent Liabilities

As of March 31, 2013 and 2014, the NEC Group had the following contingent liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Guarantees for bank loans and others	¥ 8,605	¥ 6,571	$ 63,796

In November 2013, Japan Post Co., Ltd. brought an action for damages against the Company, based on Article 25 of the Antimonopoly Act, where the grounds for the lawsuit are a breach of the Act regarding the acceptance of order of automatic postal code reading and sorting machines, former Ministry of Posts and Telecommunications (currently Japan Post Co., Ltd.) placed in a public tender. The outcome of the legal proceedings is uncertain at this point, and the impact on the consolidated financial condition and results of operations remains unclear.

22. Related Party Disclosures

Transactions of the Company with affiliated companies for the year ended March 31, 2014 were as follows:

2014	Millions of Yen	Thousands of U.S. Dollars
Loans (*1),(*2)		
Balances:		
Long-term loans receivable	¥ 25,418	$ 246,777
Purchases (*1),(*3)		
Transactions	119,766	1,162,777
Balances:		
Trade notes and accounts payable	30,528	296,388

(*1) The terms and conditions such as prices are decided by negotiations based on a market price.

(*2) The Company loaned a fund to NEC TOKIN Corporation.

(*3) NEC Personal Computers, Ltd supplied and performed maintenances of products and parts to the Company.

NEC Personal Computers, Ltd. is a wholly-owned subsidiary of Lenovo NEC Holdings B.D., of which the Company owns 49% shares.

Transactions of the Company with a third-party entity which has a representative director who is also a director of the Company for the years ended March 31, 2013 and 2014 were as follows:

2013	Millions of Yen
Borrowings (*)	
Balances:	
Current portion of long-term debt	¥ 21,025
Long-term debt	38,588
Guarantee of obligation (*)	
Advances from customers	29,179

(*)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.

2014	*Millions of Yen*	*Thousands of U.S. Dollars*
Borrowings (*)		
Balances:		
Current portion of long-term debt	¥ 3,487	$ 33,854
Long-term debt	86,920	843,883
Guarantee of obligation (*)		
Advances from customers	43,476	422,097

(*)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

Significant affiliated company for the fiscal years ended March 31, 2013 and 2014 was NEC Capital Solutions Limited, and the condensed financial information was as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2013	2014	2014
Current assets total	¥ 660,138	¥ 638,393	$ 6,197,990
Noncurrent assets total	71,834	64,029	621,641
Current liabilities total	253,468	180,785	1,755,194
Long-term liabilities total	398,776	443,000	4,300,971
Net assets total	79,728	78,637	763,466
Sales	229,204	228,262	2,216,136
Income before income taxes and minority interests	9,314	16,478	159,981
Net income	4,333	4,990	48,447

23. Net Income Per Share

Reconciliations of the difference between basic and diluted net income per share ("EPS") for the fiscal years ended March 31, 2012, 2013 and 2014 were as follows:

	Millions of Yen	*Thousands of shares*	*Yen*
	Net income(loss)	Weighted average shares	EPS
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	—	—	—
For the year ended March 31, 2014:			
Basic EPS			
Net income	¥ 33,742		
Amounts not attributable to common shareholders	—		
Net income available to common shareholders	¥ 33,742	2,598,290	¥ 12.99
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, 2014:			
Basic EPS			
Net income	$ 327,592		
Amounts not attributable to common shareholders	—		
Net income available to common shareholders	$ 327,592	2,598,290	$ 0.13
Effect of Dilutive Securities	—	—	
Diluted EPS			
Net income for computation	—	—	—

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 2012 is not disclosed because of the Company's net loss position.

Diluted net income per share for the fiscal 2013 and 2014 is not disclosed because it is anti-dilutive.

24. Net Assets Per Share

Net assets per share as of March 31, 2013 and 2014 were as follows:

	Yen		*U.S. Dollars*
	2013	2014	2014
Net assets per share	¥ 273.51	¥ 267.86	$ 2.60

The basis for calculation of net assets per share for the fiscal years ended March 31, 2013 and 2014 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, 2013:			
Total net assets	¥ 836,147		
Amounts deducted from total net assets			
Minority interests	(125,481)		
Net assets as of the year end attributable to common shareholders	¥ 710,666	2,598,352	¥ 273.51
For the year ended March 31, 2014:			
Total net assets	¥ 767,663		
Amounts deducted from total net assets			
Minority interests	(71,714)		
Net assets as of the year end attributable to common shareholders	¥ 695,949	2,598,218	¥ 267.86

	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, 2014:			
Total net assets	$ 7,453,039		
Amounts deducted from total net assets			
Minority interests	(696,253)		
Net assets as of the year end attributable to common shareholders	$ 6,756,786	2,598,218	$ 2.60

As described in Note 3. Accounting Change, the NEC Group applied the "Accounting Standard for Retirement Benefits" and the accompanying financial statements conform to the transitional treatment as defined in Article 37 of the "Accounting Standard for Retirement Benefits".

As a result, Net assets per share decreased by ¥23.35 ($0.23) as of March 31, 2014.

25. Segment Information

The NEC Group changed its segmentation at the beginning of the fiscal year ended March 31, 2014 and the financial information for the years ended March 31, 2013 and 2014 presentation below conform to this change. In this section, the prior years, financial information for the years ended March 31, 2012 and 2013 are disclosed based on old segments.

For the years ended March 31, 2012 and 2013

(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 sale 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.

(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 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 year ended March 31, 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, 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
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

(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
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

(a) "Others" for the fiscal year 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 unallocated to each reportable segment and noncurrent assets related adjustment of ¥(1,844) million, respectively.

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

Information about impairment losses on noncurrent assets by reportable segment

	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

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

For the years ended March 31, 2013 and 2014

(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, services and markets. 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, services and markets based on business units. The Company has four reportable segments: the Public, Enterprise, Telecom Carrier, and System Platform businesses.

Descriptions of each reportable segment are as follows:

Public

This segment mainly renders system integration such as systems implementation and consulting, as well as support services such as maintenance, outsourcing services, cloud services and system equipment for government agencies, public sectors and healthcare, finance and media companies.

Enterprise

This segment mainly renders system integration such as systems implementation and consulting, as well as support services such as maintenance, outsourcing services, and cloud services for manufacturing, distribution and service companies.

Telecom Carrier

This segment mainly provides network infrastructure such as backbone network systems and access network systems, primarily to telecom carriers. The segment also renders services and management, including telecom operations and management solutions (TOMS), network operation support systems (OSS), business support systems (BSS), network control platform systems, and network service delivery platform systems for telecom carriers.

System Platform

This segment mainly renders hardware (servers, mainframes, supercomputers, storage, business PCs, Tablet device, POS, ATMs, control equipment, wireless LAN routers, displays and projectors), software (integrated operation management, application servers, security, database software), enterprise networks solutions (IP telephony systems, WAN/wireless access equipment, LAN products) and services (data center infrastructure and support such as maintenance).

(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

From the fiscal year ended March 31, 2014, the reportable segments have been changed to four reportable segments, which are composed of "Public", "Enterprise", "Telecom Carrier" and "System Platform", due to organizational reform on April 1, 2013.

As a result of this change, segment information for the fiscal year ended March 31, 2013 has been restated to conform to the presentation used in the fiscal year ended March 31, 2014, as follows.

(Fiscal year ended March 31, 2013)

	Millions of Yen 2013							
	Reportable Segments							
	Public	Enterprise	Telecom Carrier	System Platform	Total	Others	Adjustment	Consolidated Total
Net Sales								
1. Sales to customers	¥ 680,653	¥ 251,574	¥ 709,282	¥ 744,403	¥ 2,385,912	¥ 685,697	¥ −	¥ 3,071,609
2. Intersegment sales and transfers	17,441	3,165	26,127	60,691	107,424	46,212	(153,636)	−
Total sales	¥ 698,094	¥ 254,739	¥ 735,409	¥ 805,094	¥ 2,493,336	¥ 731,909	¥ (153,636)	¥ 3,071,609
Segment income(loss) (Operating income(loss))	¥ 49,038	¥ 5,461	¥ 71,562	¥ 32,699	¥ 158,760	¥ 16,922	¥ (61,035)	¥ 114,647
Segment assets	¥ 532,904	¥ 152,652	¥ 506,737	¥ 431,407	¥ 1,623,700	¥ 471,899	¥ 485,367	¥ 2,580,966
Other items								
Depreciation	¥ 16,219	¥ 3,319	¥ 11,321	¥ 14,019	¥ 44,878	¥ 25,589	¥ 13,145	¥ 83,612
Amortization of goodwill	7	2,734	6,385	26	9,152	6,276	−	15,428
Investments in affiliated companies	5,681	856	3,711	1,198	11,446	81,727	(505)	92,668
Increase in property, plant and equipment and intangible assets	24,015	10,610	29,143	22,876	86,644	46,768	7,777	141,189

(Fiscal year ended March 31, 2014)

	Millions of Yen 2014							
	Reportable Segments							
	Public	Enterprise	Telecom Carrier	System Platform	Total	Others	Adjustment	Consolidated Total
Net Sales								
1. Sales to customers	¥ 738,364	¥ 272,316	¥ 725,758	¥ 780,755	¥ 2,517,193	¥ 525,921	¥ −	¥ 3,043,114
2. Intersegment sales and transfers	19,983	4,858	21,744	65,545	112,130	45,348	(157,478)	−
Total sales	¥ 758,347	¥ 277,174	¥ 747,502	¥ 846,300	¥ 2,629,323	¥ 571,269	¥ (157,478)	¥ 3,043,114
Segment income(loss) (Operating income(loss))	¥ 58,590	¥ 6,539	¥ 60,329	¥ 30,723	¥ 156,181	¥ (1,398)	¥ (48,590)	¥ 106,193
Segment assets	¥ 575,687	¥ 151,823	¥ 496,844	¥ 449,203	¥ 1,673,557	¥ 379,334	¥ 452,438	¥ 2,505,329
Other items								
Depreciation	¥ 18,102	¥ 3,601	¥ 12,038	¥ 14,216	¥ 47,957	¥ 18,018	¥ 11,002	¥ 76,977
Amortization of goodwill	260	2,747	7,047	26	10,080	7,005	−	17,085
Investments in affiliated companies	6,474	913	1,217	2,073	10,677	68,732	(1,116)	78,293
Increase in property, plant and equipment and intangible assets	30,961	12,207	14,383	19,389	76,940	16,963	67,758	161,661

	Thousands of U.S. Dollars 2014							
	Reportable Segments							
	Public	Enterprise	Telecom Carrier	System Platform	Total	Others	Adjustment	Consolidated Total
Net Sales								
1. Sales to customers	$ 7,168,582	$ 2,643,845	$ 7,046,194	$ 7,580,146	$ 24,438,767	$ 5,106,029	$ −	$ 29,544,796
2. Intersegment sales and transfers	194,010	47,165	211,107	636,359	1,088,641	440,272	(1,528,913)	−
Total sales	$ 7,362,592	$ 2,691,010	$ 7,257,301	$ 8,216,505	$ 25,527,408	$ 5,546,301	$ (1,528,913)	$ 29,544,796
Segment income(loss) (Operating income(loss))	$ 568,835	$ 63,485	$ 585,718	$ 298,282	$ 1,516,320	$ (13,573)	$ (471,747)	$ 1,031,000
Segment assets	$ 5,589,194	$ 1,474,010	$ 4,823,728	$ 4,361,194	$ 16,248,126	$ 3,682,855	$ 4,392,602	$ 24,323,583
Other items								
Depreciation	$ 175,748	$ 34,961	$ 116,874	$ 138,019	$ 465,602	$ 174,932	$ 106,815	$ 747,349
Amortization of goodwill	2,524	26,670	68,418	252	97,864	68,010	−	165,874
Investments in affiliated companies	62,854	8,864	11,816	20,126	103,660	667,301	(10,835)	760,126
Increase in property, plant and equipment and intangible assets	300,592	118,514	139,641	188,243	746,990	164,689	657,845	1,569,524

(a) "Others" for the fiscal year ended March 31, 2013 represents businesses such as Smart Energy (Electrodes/Energy Storage System, Solutions for Utilities, etc.), Smartphones, Mobile Phones, Electronic Components and "BIGLOBE" Internet Services, which are not included in reportable segments.

"Others" for the fiscal year ended March 31, 2014 represents businesses such as Smart Energy (Electrodes/Energy Storage System, Solutions for Utilities, etc.), Mobile Phones and "BIGLOBE" Internet Services, which are not included in reportable segments.

(b) "Adjustment" of segment income (loss) for the fiscal year ended March 31, 2013 included corporate expenses of ¥(57,396) million unallocated to each reportable segment and noncurrent assets related adjustment of ¥(1,844) million, respectively.

"Adjustment" of segment income (loss) for the fiscal year ended March 31, 2014 included corporate expenses of ¥(49,837) million ($(483,854) thousand) unallocated to each reportable segment and noncurrent assets related adjustment of ¥1,008 million ($9,786 thousand), respectively.

The corporate expenses, unallocated to each reportable segment, were mainly 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, 2013 and 2014 included corporate assets of ¥524,253 million and ¥492,110 million ($4,777,767 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, 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, 2013 and 2014 included increase in the Company of ¥16,010 million and ¥72,526 million ($704,136 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 defined in terms of products, services and markets.

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				
	2013				
	Japan	The Americas	Greater China, APAC	EMEA	Total
Net Sales	¥ 2,588,491	¥ 180,579	¥ 202,964	¥ 99,575	¥ 3,071,609
Property, plant and equipment, net of accumulated depreciation	275,944	8,623	8,380	1,820	294,767

	Millions of Yen				
	2014				
	Japan	The Americas	Greater China, APAC	EMEA	Total
Net Sales	¥ 2,473,942	¥ 202,343	¥ 239,450	¥ 127,379	¥ 3,043,114
Property, plant and equipment, net of accumulated depreciation	326,992	9,536	8,087	1,571	346,186

	Thousands of U.S. Dollars				
	2014				
	Japan	The Americas	Greater China, APAC	EMEA	Total
Net Sales	$ 24,018,855	$ 1,964,495	$ 2,324,757	$ 1,236,689	$ 29,544,796
Property, plant and equipment, net of accumulated depreciation	3,174,680	92,583	78,514	15,252	3,361,029

* 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	
	2013	2014	2014	Reportable Segment
Sales to:				
NTT Group *	¥ 530,472	¥ 375,372	$ 3,644,388	Mainly, Telecom Carrier

* 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						
	2013						
	Public	Enterprise	Telecom Carrier	System Platform	Others	Corporate/ Eliminations	Total
Impairment losses of noncurrent assets	¥ 1,086	¥ 2,277	¥ 166	¥ 1,212	¥ 17,093	¥ 115	¥ 21,949

	Millions of Yen						
	2014						
	Public	Enterprise	Telecom Carrier	System Platform	Others	Corporate/ Eliminations	Total
Impairment losses of noncurrent assets	¥ 4,362	¥ 2,366	¥ –	¥ 53	¥ 6,254	¥ 2,899	¥ 15,934

	Thousands of U.S. Dollars						
	2014						
	Public	Enterprise	Telecom Carrier	System Platform	Others	Corporate/ Eliminations	Total
Impairment losses of noncurrent assets	$ 42,349	$ 22,971	$ –	$ 515	$ 60,718	$ 28,146	$ 154,699

* 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						
	2013						
	Public	Enterprise	Telecom Carrier	System Platform	Others	Corporate/ Eliminations	Total
Amortization	¥ 7	¥ 2,734	¥ 6,385	¥ 26	¥ 6,276	¥ –	¥ 15,428
Ending balance	1,254	8,325	26,488	84	57,744	–	93,895

	Millions of Yen						
	2014						
	Public	Enterprise	Telecom Carrier	System Platform	Others	Corporate/ Eliminations	Total
Amortization	¥ 260	¥ 2,747	¥ 7,047	¥ 26	¥ 7,005	¥ –	¥ 17,085
Ending balance	1,031	5,615	21,997	3,115	44,445	–	76,203

	Thousands of U.S. Dollars						
	2014						
	Public	Enterprise	Telecom Carrier	System Platform	Others	Corporate/ Eliminations	Total
Amortization	$ 2,524	$ 26,670	$ 68,418	$ 252	$ 68,010	$ –	$ 165,874
Ending balance	10,010	54,514	213,563	30,243	431,505	–	739,835

Information about gain on negative goodwill by reportable segment

(Fiscal years ended March 31, 2013 and 2014)

Not applicable.

26. Business Combinations

Business combination of a consolidated subsidiary of the Company

On June 19, 2013, the Company transferred all of the Company's shares in NEC Mobiling, Ltd. (currently MX Mobiling Co., Ltd.), a consolidated subsidiary of the Company, to MX Holdings Co., Ltd., a subsidiary of Marubeni Corporation. An outline of the transaction is as follows:

a. Company profiles

Acquiring company:	MX Holdings Co., Ltd.
Major operation:	Operation of mobile business, mainly sales of mobile phone
Acquired company:	NEC Mobiling, Ltd.
Major operation:	Sales of network products, after-sales and support services

b. Reason for the business combination

The Company applied for the tender offer bid implemented from April 30, 2013 to June 12, 2013 by MX Holdings Co., Ltd.

c. Date of the business combination

June 19, 2013

d. Overview of transaction including legal form

Transfer of shares in consolidation for cash

e. Outline of accounting method

The Company has applied accounting procedures stipulated by Articles 35, of the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 of September 13, 2013).

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

Others

Business combination of a consolidated subsidiary of the Company

On March 31, 2014, the Company transferred all of the Company's shares in NEC BIGLOBE, Ltd. (currently BIGLOBE, Inc.) to a special purpose company owned by Japan Industrial Partners Ⅳ Investment Limited Partnership and others, for which Japan Industrial Partners, Inc. manages, operates and provides information. An outline of the transaction is as follows:

a. Company profiles

Acquiring company:	BJ Holdings, Ltd.
Acquired company:	NEC BIGLOBE, Ltd.
Major operation:	Information and communication services using networks such as the internet

b. Reason for the business combination

Further strengthening competitiveness and expanding business of NEC BIGLOBE, Ltd.

c. Date of the business combination

March 31, 2014

d. Overview of transaction including legal form

Transfer of shares in consolidation for cash

e. Outline of accounting method

The Company has applied accounting procedures stipulated by Articles 35, of the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 of September 13, 2013).

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

Others

27. Additional Information

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.

In addition, an employee has embezzled money from a subsidiary of NEC Networks & System Integration Corporation, a consolidated subsidiary of the Company. NEC Networks & System Integration Corporation has determined the amount of money embezzled in each fiscal year and recorded the corresponding amount as non-operating loss in each fiscal year to restate its past consolidated financial statements. Overall, the Company has assessed that the impact of fraud on its consolidated financial statements is not considered material as to influence the decision making of stakeholders. Therefore, the Company has recorded a one-time loss of ¥1,560 million ($15,146 thousand), the aggregated loss of prior years and current year, as "Other non-operating expenses" for the fiscal year ended 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, 2014 and 2013, and the consolidated statements of operations, 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, 2014, 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, 2014 and 2013, and their financial performance and cash flows for each of the years in the three-year period ended March 31, 2014, in accordance with accounting principles generally accepted in Japan.

Convenience Translations

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC.

June 23, 2014
Tokyo, Japan

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