\Orchestrating a brighter world

NEC

Annual Report 2015 (Financials)

Year ended March 31, 2015

Contents

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥120 = U.S.$1.

This section contains forward-looking statements concerning the NEC Group's analysis of financial condition, business results and cash flows. These statements are based on the judgment of the NEC Group as of March 31, 2015. 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." 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.

In the following sections, NEC reports the business results in four main segments: Public, Enterprise, Telecom Carrier and System Platform. In fiscal 2015, Public generated 28.0% of net sales, Enterprise 9.2%, Telecom Carrier 25.2%, and System Platform 24.8%. (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 2015 Business Results

In fiscal 2015, the worldwide economy was characterized by stable economic performance in the United States of America (hereafter USA), mainly due to continued high stock prices and low interest rates as a result of monetary easing policy, in addition to a stable corporate sector and the steady performance of consumer spending in response to the improving employment situation. In European markets, the United Kingdom's economy performed well and Germany experienced a modest recovery. However, growth slowed throughout France and Southern European countries. Moreover, growth slowed in some emerging countries due to a worldwide decline in demand for resources.

As for the Japanese economy, consumer spending and investment in housing declined owing in part to a rise in the consumption tax rate. Although the corporate sector performed well, capital investment was sluggish. Additionally, there was steady investment in the public sector.

Under this business environment, the NEC Group moved forward to deliver results with efforts supporting the second year of its "Mid-term Management Plan 2015" for transforming NEC into a "Social Value Innovator" 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 focusing on performance to achieve growth in fiscal 2015, formulating a new brand message of "Orchestrating a brighter world" and seeking to accelerate the company's social solutions business.

Focus on Solutions for Society

In terms of the "Focus on Solutions for Society," NEC promoted activities for commercializing Software-Defined Networking (SDN), a next generation networking technology that ensures both efficiency and security, for domestic and foreign telecommunications carriers and was selected by NTT DOCOMO, INC. as a partner vendor for the development of network virtualization technologies. Moreover, NEC has worked towards carrying out a massive trial of Virtualized Customer Premises Equipment (vCPE) solutions on commercial networks with Telefônica Brasil. Furthermore, NEC has deployed approximately 250 systems that utilize SDN, including systems for hospitals, transportation authorities, local governments, telecommunications carriers and data centers, thereby contributing to the efficient construction and operations of customer networks. Regarding cloud development, NEC promoted sales of its cloud infrastructure service, “NEC Cloud IaaS,” which capitalizes on the capabilities of the NEC Kanagawa Data Center to provide cost friendly, high performance, highly reliable services.

As for Big Data, NEC delivered a system for monitoring signs of malfunction in large-scale plants for the Chugoku Electric Power Co., Inc. This system detects abnormalities more accurately and faster than existing systems, which enables users to implement maintenance measures prior to the occurrence of a malfunction. Moreover, NEC conducted Proof of Concept (POC) testing of water leakage monitoring services in Texas in the USA, which combine high-precision sensors with the cloud in order to provide low cost water resource management services.

Regarding the safety sector, in June 2014, NEC began full operations of its “Cyber Security Factory” established as a base for protecting information assets against cyber attack. Today, the Cyber Security Factory supports comprehensive information security measures for approximately 100 customers. As underlying technologies of those safety businesses, NEC's face recognition technology ranked first for the third consecutive time, while its fingerprint identification technology also ranked first in the U.S. National Institute of Standards and Technology (NIST) benchmark test/evaluation. In terms of smart energy business, NEC provided a smart meter communications unit for Tokyo Electric Power Company, Incorporated, and established NEC Energy Solutions in the USA as a foundation for international energy storage solutions business.

Focus on Asia, Promotion of Locally-led Business

Regarding the “Focus on Asia, Promotion of Locally-led Business,” NEC won a succession of large-scale optical submarine cable systems concentrated mainly in the Asia/Pacific Ocean regions. Moreover, NEC expanded its global business areas, including the integration of a public transportation fare system in Dhaka, Bangladesh, the introduction of face recognition technology for an urban monitoring system in Tigre, Argentina, a smart city project for waste collection management services in Santander, Spain and the managed services business in Australia.

Stabilize Our Financial Foundation

Regarding the goal to “Stabilize Our Financial Foundation,” NEC made NEC Fielding, Ltd. a wholly owned subsidiary and promoted greater efficiency by strengthening and integrating service delivery systems. Moreover, as part of reinforcing its “Solutions for Society”, NEC restructured domestic hardware and software development and production bases as well as began operational reform centering on NEC Management Partner, Ltd. in order to improve operational efficiency and restrain costs.

Condensed Consolidated Income Statements

	Billions of Yen		YoY Change
	2014	2015	2015/2014
Net Sales	¥ 3,043.1	¥2,935.5	-3.5%
Operating income	106.2	128.1	+20.6%
Ordinary income	69.2	112.1	+62.1%
Net income	33.7	57.3	+69.8%

In fiscal 2015, the NEC Group recorded consolidated net sales of 2,935.5 billion yen, a decrease of 107.6 billion yen or 3.5% year on year. This decrease was mainly due to decreased sales from Others due to the Internet service business and mobile phone sales business no longer being consolidated, as well as decreased sales from the System Platform business, in spite of increased sales from the Public business.

Regarding profitability, consolidated operating income improved by 21.9 billion yen year on year to 128.1 billion yen, mainly due to increased sales in the Public business and improved mobile phone terminal business.

In terms of consolidated ordinary income, the NEC Group recorded a profit of 112.1 billion yen, improving by 43.0 billion yen year on year, mainly due to the improvement of consolidated operating income, in addition to improving equity in earnings of affiliates and foreign exchange gain, and decreased provision for contingent loss.

Consolidated income before income taxes and minority interests was 96.7 billion yen, a year-on-year improvement of 12.8 billion yen. This was primarily due to improving consolidated ordinary income, in addition to decreased business structure improvement expenses and decreased impairment loss, despite decreased gain on sales of subsidiaries and affiliates' stocks.

Consolidated net income was a profit of 57.3 billion yen, a year-on-year improvement of 23.6 billion yen, mainly due to improved income before income taxes and minority interests, in addition to acquiring minority shareholder interest from making NEC Fielding, Ltd. a wholly-owned subsidiary.

In terms of the fiscal year ending March 31, 2016 (fiscal 2016), the NEC Group anticipates consolidated net sales of 3,100.0 billion yen, a year-on-year increase of 5.6%, mainly due to the NEC Group experiencing growth from its Focus on Solutions for Society and the expansion of global business. Moreover, the NEC Group anticipates consolidated operating income of 135.0 billion yen for fiscal 2016, a year-on-year increase of 6.9 billion yen. The NEC Group also expects 65.0 billion yen of net income attributable to owner of the parent for the same period.

a. Public business

Sales: 821.9 billion yen (+11.3 %)
Operating income: 74.8 billion yen (+16.2 billion yen)

In the Public business, sales were 821.9 billion yen, an increase of 83.5 billion yen or 11.3% year on year, mainly due to the steady sales from government offices and public services.

Operating income improved by 16.2 billion yen year on year to 74.8 billion yen, mainly owing to increased sales.

b. Enterprise business

Sales: 270.5 billion yen (-0.7%)
Operating income: 8.3 billion yen (+1.8 billion yen)

In the Enterprise business, sales were 270.5 billion yen, a decrease of 1.8 billion yen or 0.7% year on year, mainly due to decreased sales from the manufacturing industry.

Operating income improved by 1.8 billion yen year on year to 8.3 billion yen, mainly owing to improved profitability of system integration services.

c. Telecom Carrier business

Sales:	740.2 billion yen	(+2.0 %)
Operating income:	62.0 billion yen	(+1.6 billion yen)

In the Telecom Carrier business, sales were 740.2 billion yen, an increase of 14.4 billion yen or 2.0% year on year, mainly due to an increase in the international sales of submarine cable systems and wireless communication equipment (mobile backhaul).

Operating income improved by 1.6 billion yen year on year to 62.0 billion yen, mainly due to increased sales.

d. System Platform business

Sales:	728.9 billion yen	(-6.6 %)
Operating income:	31.4 billion yen	(+0.7 billion yen)

In the System Platform business, sales were 728.9 billion yen, a decrease of 51.9 billion yen or 6.6% year on year, mainly due to decreased sales in hardware.

Operating income improved by 0.7 billion yen year on year to 31.4 billion yen, mainly due to cost efficiency.

e. Others

In Others, sales were 374.1 billion yen, a decrease of 151.8 billion yen or 28.9% year on year, mainly due to a decline in mobile phone shipments as well as the Internet service business and the mobile phone sales business no longer being consolidated.

Operating income improved by 5.4 billion yen year on year to 4.0 billion yen, mainly owing to improved mobile phone terminal business.

3. Liquidity and Capital Resources

a. Assets, Liabilities and Net Assets

Condensed Consolidated Balance Sheets

	Billions of Yen		*YoY Change*
	2014	2015	2015/2014
Assets			
Current assets	¥ 1,502.9	¥ 1,576.8	¥+73.9
Property, plant and equipment	346.2	338.1	-8.1
Investments and other assets	656.2	705.8	+49.5
Total Assets	2,505.3	2,620.7	+115.3
Liabilities			
Current liabilities	985.6	1,069.5	+84.0
Noncurrent liabilities	752.1	666.9	-85.2
Total liabilities	1,737.7	1,736.5	-1.2
Net assets			
Shareholders' equity	725.2	749.9	+24.7
Accumulated other comprehensive income	-29.2	73.8	+103.0
Minority interests	71.7	60.5	-11.2
Total net assets	767.7	884.2	+116.5
Total liabilities and net assets	2,505.3	2,620.7	+115.3
Interest-bearing debt	575.2	520.8	-54.4
Net interest-bearing debt	368.5	339.6	-28.9
Owner's equity	695.9	823.7	+127.7
Owner's equity ratio	27.8%	31.4%	+3.6
Debt equity ratio	0.83 times	0.63 times	-0.20
Net debt equity ratio	0.53 times	0.41 times	-0.12

Total assets were 2,620.7 billion yen as of March 31, 2015, an increase of 115.3 billion yen as compared with the end of the previous fiscal year. Current assets as of March 31, 2015 increased by 73.9 billion yen compared with the end of the previous fiscal year to 1,576.8 billion yen, mainly due to an increase in accounts receivable-trade. Noncurrent assets as of March 31, 2015 increased by 41.4 billion yen compared with the end of the previous fiscal year to 1,043.9 billion yen, mainly due to increased net defined benefit assets.

Total liabilities as of March 31, 2015 decreased by 1.2 billion yen compared with the end of the previous fiscal year, to 1,736.5 billion yen. The balance of interest-bearing debt amounted to 520.8 billion yen, a decrease of 54.4 billion yen as compared with the end of the previous fiscal year. The debt-equity ratio as of March 31, 2015 was 0.63 (an improvement of 0.20 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of March 31, 2015, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 339.6 billion yen, a decrease of 28.9 billion yen as compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2015 was 0.41 (an improvement of 0.12 points as compared with the end of the previous fiscal year).

Total net assets were 884.2 billion yen as of March 31, 2015, an increase of 116.5 billion yen as compared with the end of the previous fiscal year, mainly due to the recording of net income and an increase in the remeasurements of defined benefit plans for fiscal 2015.

As a result, the owner's equity as of March 31, 2015 was 823.7 billion yen and owner's equity ratio was 31.4% (an improvement of 3.6 point as compared with the end of the previous fiscal year).

b. Cash Flows

Condensed Consolidated Cash Flows

		Billions of Yen		*YoY Change*
		2014	2015	2015/2014
I	Cash flows from operating activities	¥ 94.1	¥ 87.9	¥-6.2
II	Cash flows from investing activities	-38.9	-47.5	-8.6
I+II	Free cash flows	55.2	40.4	-14.8
III	Cash flows from financing activities	-50.0	-72.0	-22.0
Cash and cash equivalents at end of period		206.6	181.1	-25.5

Net cash inflows from operating activities for fiscal 2015 were 87.9 billion yen, a worsening of 6.2 billion yen as compared with the previous fiscal year, mainly due to worsened working capital.

Net cash outflows from investing activities for fiscal 2015 were 47.5 billion yen, an increase of 8.6 billion yen as compared with the previous fiscal year. This was mainly due to increased outflows for business acquisitions, despite the acquisition of trust beneficiary rights set to land and buildings of the NEC Group's Tamagawa business facilities recorded in the same period of the previous fiscal year, offset by cash inflows from gain on sales of subsidiaries and affiliates' stocks.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for fiscal 2015 totaled a cash inflow of 40.4 billion yen, a worsening of 14.8 billion yen year on year.

Net cash flows from financing activities for fiscal 2015 totaled a cash outflow of 72.0 billion yen, mainly due to outflow from the payment of long-term debt and the redemption of bonds.

As a result, cash and cash equivalents as of March 31, 2015 amounted to 181.1 billion yen, a decrease of 25.5 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, 2015, NEC had a sufficient amount of liquidity. Total liquidity in hand as of March 31, 2015, was 503.1 billion yen, comprising cash and cash equivalents of 181.1 billion yen and unused committed credit facilities of 322.0 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 322.0 billion yen to ensure that funds may be borrowed from financial institutions at all times. Of this amount, 80.0 billion yen represents a committed credit facility with a contract period effective through March 2018 that enables NEC to obtain short-term loans. For long-term financing, the NEC Group has a 300.0 billion yen straight bond issuance program in Japan.

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

The NEC Group's fund procurement status was as follows:

As of March 31,	2014	2015
Long-term fund procurement*1	82.9%	74.0%
Use of capital market instruments*2	27.8%	26.9%

*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.

4. Capital Expenditures

Capital expenditures of NEC and its consolidated subsidiaries for fiscal 2015 are broken down as follows (amounts do not include consumption taxes):

	Billions of Yen		*YoY Change*
	2014	2015	2015/2014
Public business	¥16.0	¥16.1	+0.3%
Enterprise business	1.8	0.3	-84.8%
Telecom Carrier business	6.8	5.9	-13.2%
System Platform business	5.3	7.6	+43.7%
Others	68.7	7.5	-89.0%
Total	¥98.7	¥37.4	-62.1%

In the Public business, capital expenditures included construction of a plant for assembly and testing artificial satellites as well as investments in R&D equipment and production facilities for defense, satellite and other systems. In Enterprise business, capital expenditures included 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 investment in data center facilities.

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

5. Risk Factors

The NEC Group's business is subject to various risks. The principal risks affecting the NEC Group's business are described briefly below.

(a) Risks related to economic conditions and financial markets

1) Influence of economic conditions

The NEC Group's business is dependent, to a significant extent, on the Japanese market. The NEC Group's consolidated net sales to customers in Japan accounted for 80.0% of its total net sales in fiscal 2015. The deterioration of economic conditions in Japan in the future could have a material adverse effect on the results of operations and the financial position of the NEC Group.

Moreover, the NEC Group's business is also influenced by the economic conditions of countries and regions including Asia, Europe and the USA in which the NEC Group operates its business.

Uncertainties in the economy make it difficult to forecast future levels of economic activity. Because the components of the NEC Group's planning and forecasting depend upon estimates of economic activity in the markets that the NEC Group serves, the prevailing economic uncertainty makes it more difficult than usual to estimate its future income and required expenditures. If the NEC Group is mistaken in its planning and forecasting, there is a possibility that the NEC Group will not be able to appropriately respond to the changing market conditions.

2) Volatile nature of markets

Markets for some of the NEC Group's products are volatile. Downturns have been characterized by diminished demand, obsolete products, excess inventories, accelerated erosion of prices, and periodic overproduction. The volatile nature of the relevant markets may lead to future recurrences of downturns with similar or more adverse effects on the NEC Group's results of operations.

3) Fluctuations in foreign currency exchange and interest rate

The NEC Group is exposed to risks of foreign currency exchange rate fluctuations. The NEC Group's consolidated financial statements, which are presented in Japanese yen, are affected by fluctuations in foreign exchange rates. Changes in exchange rates affect the yen value of the NEC Group's equity investments and monetary assets and liabilities arising from business transactions in foreign currencies. They also affect the costs and sales proceeds of products or services that are denominated in foreign currencies. Despite measures undertaken by the NEC Group to reduce, or hedge against, foreign currency exchange risks, foreign exchange rate fluctuations may hurt the NEC Group's business, results of operations and financial condition. Depending on the movements of particular foreign exchange rates, the NEC Group may be adversely affected at a time when the same currency movements are benefiting some of its competitors.

The NEC Group is also exposed to risks of interest rate fluctuations, which may affect its overall operational costs and the value of its financial assets and liabilities, in particular, long-term debt. Despite measures undertaken by the NEC Group to hedge a portion of its exposure against interest rate fluctuations, such fluctuations may increase the NEC Group's operational costs, reduce the value of its financial assets, or increase the value of its liabilities.

(2) Risks related to the NEC Group's Management Policy

1) Finance and profit fluctuations

The NEC Group's results of operations for any quarter or year are not necessarily indicative of results to be expected in future periods. The NEC Group's results of operations have historically been, and will continue to be, subject to quarterly and yearly fluctuations as a result of a number of factors, including:

- the introduction and market acceptance of new technologies, products, and services;
- variations in product costs, and the mix of products sold;
- the size and timing of customer orders, which in turn will often depend upon the success of customers' businesses or specific products or services;
- the impact of acquired businesses and technologies;
- manufacturing capacity and lead times; and
- fixed costs.

There are other trends and factors beyond the NEC Group's control which may affect its results of operations, and make it difficult to predict results of operations for a particular period. These include:

- adverse changes in the market conditions for the products and services that the NEC Group offers;
- governmental decisions regarding the development and deployment of IT and communications infrastructure, including the size and timing of governmental expenditures in these areas;
- the size and timing of capital expenditures by its customers;
- inventory practices of its customers;
- general conditions for IT and communication markets, and for the domestic and global economies;
- changes in governmental regulations or policies affecting the IT and communications industries;
- adverse changes in the public and private equity and debt markets, and the ability of its customers and suppliers to obtain financing or to fund capital expenditures; and
- adverse changes in the credit conditions of its customers and suppliers.

These trends and factors could have a material adverse effect on the NEC Group's business, results of operations and financial condition.

2) Acquisitions and other business combinations and reorganizations

The NEC Group has completed and continues to seek appropriate opportunities for acquisitions and other business combinations and reorganizations in order to expand its business and strengthen its competitiveness. The NEC Group faces risks arising from acquisitions, business combinations and reorganizations, which could adversely affect its ability to achieve its strategic goals. For example,

- The NEC Group may be unable to realize the growth opportunities, improvement of its financial position, investment effect and other expected benefits by these acquisitions, business combinations and reorganizations in the expected time period or at all;
- The planned transactions may not be completed as scheduled or at all due to legal or regulatory requirements or contractual and other conditions to which such transactions are subject;
- Unanticipated problems could also arise in the integration process, including unanticipated restructuring or integration expenses and liabilities, as well as delays or other difficulties in coordinating, consolidating and integrating personnel, information and management systems, and customer products and services;
- The combined or reorganized entities may not be able to retain existing customers and strategic partners to the extent that they wish to diversify their suppliers for cost and risk management and other purposes;
- The combined or reorganized entities may require additional financial support from the NEC Group;
- The diversion of management and key employees' attention may detract from the NEC Group's ability to increase revenues and minimize costs;

- The goodwill and other intangible assets arising from the acquisitions and business reorganizations are subject to amortization and impairment charges;
- NEC Group's investments in the combined or reorganized entities are subject to valuation and other losses; and
- The transactions may result in other unanticipated adverse consequences.

Any of the foregoing and other risks may adversely affect the NEC Group's business, results of operations, financial condition and stock price.

3) Alliance with strategic partners

The NEC Group has entered into a number of long-term strategic alliances with leading industry participants, both to develop new technologies and products and to manufacture existing and new products. If the NEC Group's strategic partners encounter financial or other business difficulties, if their strategic objectives change or if they no longer perceive the NEC Group to be an attractive alliance partner, they may no longer desire or be able to participate in the NEC Group's alliances. The NEC Group's business could be hurt if the NEC Group is unable to continue one or more of its alliances. The NEC Group participates in large projects where the NEC Group and various other companies provide services and products that are integrated into systems to meet customer requirements. If any of the services or products that any other company provides have any defects or problems causing the integrated systems to malfunction or otherwise fail to meet customer requirements, the NEC Group's reputation and business could be harmed.

4) Expansion of global business

The NEC Group's strategies include expanding its business in markets outside Japan. In many of these markets, the NEC Group faces entry barriers such as the existence of long-standing relationships between its potential customers and their local suppliers, and protective regulations. In addition, pursuing international growth opportunities may require the NEC Group to make significant investments long before it realizes returns on the investments, if any. Increased investments may result in expenses growing at a faster rate than revenues.

The NEC Group's overseas projects and investments, particularly in China, could be adversely affected by:

- exchange controls;
- restrictions on foreign investment or the repatriation of income or invested capital;
- nationalization of local industries;
- changes in export or import restrictions;
- changes in the tax system or rate of taxation in the countries; and
- economic, social, and political risks.

In addition, difficulties in foreign financial markets and economies, particularly in emerging markets, could adversely affect demand from customers in the affected countries. Because of these factors, the NEC Group may not succeed in expanding its business in international markets. This could hurt its business growth prospects and results of operations.

(3) Risks related to the NEC Group's business and operations

1) Technological advances and response to customer needs

The markets for the products and services that the NEC Group offers are characterized by rapidly changing technology, evolving technical standards, changes in customer preferences, and the frequent introduction of new products and services. The development and commercialization of new technologies and the introduction of new products and services will often make existing products and services obsolete or unmarketable. The NEC Group's competitiveness in the future will depend at least in part on its ability to:

- keep pace with rapid technological developments and maintain technological leadership;
- enhance existing products and services;
- develop and manufacture innovative products in a timely and cost-effective manner;
- utilize or adjust to new products, services, and technologies;
- attract and retain highly capable technical and engineering personnel;
- accurately assess the demand for, and perceived market acceptance of, new products and services that the NEC Group develops;
- avoid delays in developing or shipping new products;
- address increasingly sophisticated customer requirements; and
- have the NEC Group's products integrated into its customers' products and systems.

The NEC Group may not be successful in identifying and marketing product and service enhancements, or offering and supporting new products and services, in response to rapid changes in technologies and customer preferences. If the NEC Group fails to keep up with these changes, its business, results of operations and financial condition will be significantly harmed. In addition, the NEC Group may encounter difficulties in incorporating its technologies into its products in accordance with its customers' expectations, which may adversely affect its relationships with its customers, its reputation and revenues.

The NEC Group seeks to form and enhance alliances and partnerships with other companies to develop and commercialize technologies that will become industry standards for the products that it currently sells and plans to sell in the future. The NEC Group spends significant financial, human and other resources on developing and commercializing such technologies. The NEC Group may not, however, succeed in developing or commercializing such standard-setting technologies if its competitors' technologies are accepted as industry standards. In such a case, the NEC Group's competitive position, reputation and results of operations could be adversely affected.

The process of developing new products entails many risks. The development process can be lengthy and costly, and requires the NEC Group to commit a significant amount of resources well in advance of sales. Technology and standards may change while the NEC Group is in the development stage, rendering its products obsolete or uncompetitive before their introduction. The NEC Group's newly developed products may contain undetected errors that may be discovered after their introduction and shipment. These undetected errors could make the NEC Group liable for damages incurred by its customers.

2) Production process

The markets in which the NEC Group operates are characterized by the introduction of products with short life cycles in a rapidly changing technological environment. Production processes of electronics products are highly complex, require advanced and costly manufacturing facilities, and must continuously be modified to improve efficiency and performance. Production difficulties or inefficiencies might affect profitability or interrupt production, and the NEC Group may not be able to deliver products on time in a cost-effective and competitive manner. If production is interrupted, the NEC Group may not be able to shift production to other facilities quickly, and customers may purchase products from other suppliers. The resulting shortage of manufacturing capacity for some products could adversely affect the NEC Group's ability to compete. The resulting reductions in revenues could be significant.

Legal and practical restrictions on the termination of employees, union agreements, and other factors limit the NEC Group's ability during industry downturns to reduce its production capacity and costs in order to adjust to reduced levels of demand. Conversely, during periods of increasing demand, the NEC Group may not have sufficient capacity to meet customer orders. As a result, the NEC Group may lose sales as customers turn to competitors who may be able to satisfy their increased demand.

3) Defects in products and services

The NEC Group faces risks arising from defects in its products and services. Many of its products and services are used in "mission critical" situations where the adverse consequences of failure may be severe, exposing it to even greater risk. Product and service defects could make the NEC Group liable for damages incurred by its customers. Negative publicity concerning these problems could also make it more difficult to convince customers to buy the NEC Group's products and services.

In order to prevent the defects of products and services or unprofitable projects, the NEC Group takes thorough measures to control risks in projects such as system development projects from the beginning of business negotiation, through understanding of customer's confirmed system requirements or technical difficulties, and quality control measures on hardware and software of which systems consist. However, it is difficult to prevent them completely. The defects of its products or services or unprofitable projects could hurt the NEC Group's business, results of operations and financial condition.

4) Material procurement

The NEC Group's manufacturing operations depend on obtaining deliveries of raw materials, components, equipment, and other supplies in a timely manner. In some cases, the NEC Group purchases on a just-in-time basis. Because the products that the NEC Group purchases are often complex or specialized, it may be difficult for the NEC Group to substitute one supplier for another or one product for another. Some products are available only from a limited number of suppliers or a single supplier. Although the NEC Group believes that supplies of the raw materials, components, equipment, and other supplies that the NEC Group uses are currently adequate, shortages in critical materials could occur due to an interruption in supply or an increase in industry demand. In addition, a financial market disruption could pose liquidity or solvency risks for the NEC Group's suppliers, which could reduce its sources of supply or disrupt its supply chain. The NEC Group's results of operations would be hurt if it could not obtain adequate delivery of these supplies in a timely manner, or if it had to pay significantly more for them. Reliance on suppliers and industry supply conditions generally involve several risks, including:

- insolvency of, or other liquidity constraints affecting, key suppliers;
- the possibility of defective raw materials, components, equipment or other supplies, which can adversely affect the reliability and reputation of the NEC Group's products;
- a shortage of raw materials, components, equipment or other supplies, and reduced control over delivery schedules, which can adversely affect the NEC Group's manufacturing capacity and efficiencies; and
- an increase in the cost of raw materials, components, equipment and other supplies, which can adversely affect the NEC Group's profitability.

5) Intellectual property rights

The NEC Group depends on its proprietary technology, and its ability to obtain patents and other intellectual property rights covering its products, services, business models, and design and manufacturing processes. The applications for patents and the maintenance of registered patents can be a time and cost consuming process. The NEC Group's patents could be challenged, invalidated, or circumvented. The fact that the NEC Group holds many patents or other intellectual property rights does not ensure that the rights granted under them will provide competitive advantages to the NEC Group. For example, the protection afforded by the NEC Group's intellectual property rights may be undermined by rapid changes in technologies in the industries in which the NEC Group operates. Similarly, there can be no assurance that claims allowed on any future patents will be broad enough to protect the NEC Group's technology. Effective patent, copyright, and trade secret protection may be unavailable or limited in some countries, and the NEC Group's trade secrets may be vulnerable to disclosure or misappropriation by employees, contractors, and other persons. Further, pirated products of inferior quality infringing the NEC Group's intellectual property rights may damage its brand and adversely affect sales of its products. Litigation, which could consume financial and management resources, may be necessary to enforce the NEC Group's patents or other intellectual property rights.

6) Intellectual property licenses owned by third parties

Many of the NEC Group's products are designed to include software or other intellectual property licenses from third parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of the NEC Group's products, the NEC Group believes that, based upon experience and industry's standard practices, these licenses can be obtained on commercially reasonable terms in principle. There can be no assurance that the NEC Group will be able to obtain, on commercially reasonable terms or at all, from third parties the licenses that the NEC Group will need.

7) Intense competition

Competition creates an unfavorable pricing environment for the NEC Group in many of the markets in which it operates. Competition places significant pressure on the NEC Group's ability to maintain gross margins and is particularly acute during market slowdowns. The entry of additional competitors into the markets in which the NEC Group operates increases the risk that its products and services will become subject to intense price competition. Some of the NEC Group's competitors mainly in Asian countries may have an advantage of lower production cost than the NEC Group does and may be able to compete for customers more effectively than it can in terms of price. In recent years, the time between the introduction of a new product developed by the NEC Group and the production of the same or a comparable product by its competitors has become shorter. This has increased the risk that the products the NEC Group offers will become subject to intense price competition sooner than in the past.

The NEC Group has many competitors in Japan and other countries, ranging from large multinational corporations to a number of relatively small, rapidly growing, and highly specialized companies. Unlike many of the NEC Group's competitors, however, it operates in many businesses and competes with companies that specialize in one or more of its product or service lines. As a result, the NEC Group may not be able to fund or invest in some of its businesses as much as its competitors can, and it may not be able to change or take advantage of market opportunities as quickly or as well as they can.

The NEC Group sells products and services to some of its current and potential competitors. For example, the NEC Group receives orders from, and provides solutions to, competitors that further integrate or otherwise use its solutions for large projects for which such competitors are engaged as the primary solutions provider. If these competitors cease to use the NEC Group's solutions for such large projects for competitive or other reasons, the NEC Group's business could be harmed.

8) Dependence on the NTT Group

The NEC Group derived approximately 10.7% of its net sales in fiscal 2015 from the NTT group (Nippon Telegraph and Telephone Corporation and its affiliates including NTT DOCOMO, INC.). If the NTT group reduces its level of capital expenditures or current procurement or shifts its investment focus as a result of such factors as significant business or financial problems, the NEC Group's business results of operations and financial condition may be adversely affected. In addition, the NEC Group's business may be adversely affected if the NTT group begins to manufacture products that the NEC Group supplies or acquires its competitors.

9) Risks related to customers' financial difficulties

The NEC Group sometimes provides vendor financing to its customers or offer customers extended payment terms or other forms of financing to assist their purchase of the NEC Group's products and services. If the NEC Group is unable to provide or facilitate such payment arrangements or other forms of financing to its customers on terms acceptable to them or at all, due to financial difficulties or otherwise, the NEC Group's results of operations could be adversely affected. In addition, many of the NEC Group's customers purchase products and services from the NEC Group on payment terms that provide for deferred payment. If the NEC Group's customers for whom it has extended payment terms or provided other financing terms, or from whom it has substantial accounts receivable, encounter financial difficulties or inability to access credit from others, and are unable to make payments on time, the NEC Group's business, results of operations and financial condition could be adversely affected.

10) Retention of personnel

The NEC Group must compete for talented employees to develop its products, services and solutions. As a result, the NEC Group's human resources organization focuses significant efforts on attracting and retaining individuals in key technology positions. If the NEC Group experiences a substantial loss of, or an inability to attract, talented personnel, it may experience difficulty in meeting its business objectives.

11) Financing

The NEC Group's primary sources of funds are cash flows from operations, borrowings from banks and other institutional lenders, and funding from the capital markets, such as offerings of commercial paper and other debt securities. A downgrade in the NEC Group's credit ratings could result in increases in its interest expenses and could have an adverse impact on its ability to access the commercial paper market or other debt markets, which could have an adverse effect on the NEC Group's financial position and liquidity.

A failure of one or more of the NEC Group's major lenders, a decision by one or more of them to stop lending to the NEC Group or instability in the capital markets could have an adverse impact on the NEC Group's access to funding. If the NEC Group fails to obtain external financing on terms acceptable to it, or at all, or to generate sufficient cash flows from its operations or sales of its assets, when necessary, the NEC Group will be unable to fulfill its obligations, and its business will be materially adversely affected. In addition, to the extent the NEC Group finances its activities with additional debt, the NEC Group may become subject to financial and other covenants that may restrict its ability to pursue its growth strategy.

(4) Risks related to internal control, legal proceedings, laws and governmental policies

1) Internal control

The NEC Group is taking action to guarantee the accuracy of its financial reporting by strengthening its internal controls with expanding documentation of the business process and implementing stronger internal auditing. However, even effective internal control systems can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. For example, the inherent limitations of internal control systems include fraud, human error, or circumvention of controls, such as through collusion among multiple employees. In addition, the systems may not be able to effectively deal with changes in the business environment unforeseen at the time that the systems were implemented or with non-routine transactions. The NEC Group's established business processes may not function effectively, and fraudulent acts, such as false financial reporting or embezzlement, or inadvertent mistakes may occur. Such events may require restatement of financial information and could adversely affect the NEC Group's financial condition or results of operations. The NEC Group's reputation in the financial markets may also be damaged as a result of these events. In addition, if any administrative or judicial sanction is issued against the NEC Group as a result of these events, it may lose business opportunities.

If the NEC Group identifies a material weakness in its internal control systems, the NEC Group may incur significant additional costs for remedying such weakness. Despite the efforts by the NEC Group to continually improve and standardize its business processes from the perspective of ensuring effective operations and enhancing efficiency, it is difficult to design and establish common business processes since the NEC Group operates in a diverse range of countries and regions, using varying business processes. Consequently, the efforts by the NEC Group to further improve and standardize its business processes may continue to occupy significant management and human resources and the NEC Group may incur considerable financial costs.

2) Legal proceedings

From time to time, the NEC Group companies are involved in various lawsuits and legal proceedings, including intellectual property infringement claims. Due to the existence of a large number of intellectual property rights in the fields in which the NEC Group operates and the rapid rate of issuance of new intellectual property rights, it is difficult to completely judge in advance whether a product or any of its components may infringe upon the intellectual property rights of others. Whether or not intellectual property infringement claims against the NEC Group companies have merit, significant financial and management resources may be required to defend the NEC Group from such claims. If an intellectual property infringement claim by a third party is successful and the NEC Group could not obtain a license of technology which is subject of the infringement claim or any substitution thereof, it could have a material adverse effect on the NEC Group's business, results of operations and financial condition.

The NEC Group may also from time to time be involved in various lawsuits and legal proceedings concerning such laws as business laws, antitrust laws, product liability laws, and environmental laws other than intellectual property infringement actions.

It is difficult to foresee the results of legal actions and proceedings currently involving the NEC Group or of those which may arise in the future, and an adverse result in these matters could have a significant negative effect on the NEC Group's business, results of operations and financial condition. In addition, any legal or administrative proceedings which the NEC Group is subject to could require the significant involvement of senior management of the NEC Group, and may divert management attention from the NEC Group's business and operations.

3) Laws and governmental policies

In many of the countries in which the NEC Group operates, its business is subject to various risks associated with unexpected regulatory changes, uncertainty in the application of laws and governmental policies and uncertainty relating to legal liabilities. Substantial changes in the regulatory or legal environments, including the economic, tax, defense, labor, spending and other policies of the governments of Japan and other jurisdictions in which the NEC Group operates could adversely affect its business, results of operations and financial condition.

Changes in Japanese and international telecommunications regulations and tariffs, including those pertaining to Internet-related businesses and technologies, could affect the sales of the NEC Group's products or services, and this could adversely affect its business, results of operations and financial condition.

4) Environmental laws and regulations

The NEC Group's operations are subject to many environmental laws and regulations governing, among other things, air emissions, wastewater discharges, the use and handling of hazardous substances, waste disposal, chemical substances in products, product recycling, soil and ground water contamination and global warming. The NEC Group faces risks of environmental liability arising from its current, historical, and future manufacturing activities. The NEC Group endeavors to comply with laws and government policies, establishing self-management norms and conducting daily inspections and environmental auditing in accordance with its internal environmental policies. However, costs associated with future additional and stricter environmental compliance or remediation obligations could adversely affect the NEC Group's business, results of operations and financial condition.

5) Tax practice

The NEC Group's effective tax rate could be adversely affected by: earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates; changes in the valuation of the NEC Group's deferred tax assets and liabilities; transfer pricing adjustments; tax effects of nondeductible compensation; or changes in tax laws, regulations, accounting principles or interpretation thereof in the various jurisdictions in which the NEC Group operates. Any significant increase in the NEC Group's future effective tax rates could reduce net income for future periods.

The NEC Group currently carries deferred tax assets resulting from tax loss carry forwards and deductible temporary differences, both of which will reduce its taxable income in the future. However, the deferred tax assets may only be realized against taxable income. The amount of the NEC Group's deferred tax assets that is considered realizable could be reduced from time to time if estimates of future taxable income from its operations and tax planning strategies during the carry forward period are lower than forecasted, due to further deterioration in market conditions or other circumstances. In addition, the amount of the NEC Group's deferred tax assets could be reduced due to changes in tax laws, regulations or accounting principles related to future deductions of income tax rates. Any such reduction will adversely affect the NEC Group's income for the period of the adjustment.

Furthermore, the NEC Group is subject to continuous audits and examination of its income tax returns by tax authorities of various jurisdictions. The NEC Group regularly assesses the likelihood of adverse outcomes resulting from these audits and examinations to determine the adequacy of its provisions for income taxes. There can be no assurance that the outcomes of these audits and examinations will not have an adverse effect on the NEC Group's results of operations and financial condition.

6) Information management

The NEC Group stores a voluminous amount of personal information and confidential information in the regular course of its business. There have been many cases where such information and records in the possession of corporations and institutions were leaked or improperly accessed. If personal or confidential information in the NEC Group's possession about its customers or employees is leaked or improperly accessed and subsequently misused, it may be subject to liability and regulatory action, and its reputation and brand value may be damaged.

The NEC Group is required to handle personal information in compliance with the Act on the Protection of Personal Information. The NEC Group may have to provide compensation for economic loss and emotional distress arising out of a failure to protect such information. The cost and operational consequences of implementing further data protection measures could be significant. In addition, incidents of unauthorized disclosure could create a negative public perception of the NEC Group's operations, systems or brand, which may in turn decrease customer and market confidence in the NEC Group and materially and adversely affect its business, results of operations and financial condition.

(5) Other Risks

1) Natural and fire disasters

Natural disasters, fires, abnormal weather (e.g. water shortages) due to climate change, public health issues, armed hostilities, terrorism and other incidents, whether in Japan or any other country in which the NEC Group operates, could cause damage or disruption to the NEC Group, its suppliers or customers, or could create political or economic instability, any of which could harm its business. For example, several of the NEC Group's facilities in Japan could be subject to catastrophic loss caused by earthquakes. The spread of unknown infectious diseases, such as a new type of influenza virus or a worsening of the H1N1 pandemic, could affect adversely the NEC Group's operations by rendering its employees unable to work, reducing customer demand or by disrupting its suppliers' operations. In addition, under the circumstance where network and information systems become more important to operating activities of the NEC Group, such systems are vulnerable to shutdowns caused by unforeseen events such as power outages or natural disasters or terrorism, hardware or software defects, or computer viruses and computer hacking. Although the NEC Group has various measures in place, including the earthquake-resistant reinforcement of its principal facilities in Japan, periodic training drills for employees and redundant back-up information systems, and have adopted and implemented a group-wide business continuity plan outlining countermeasures to be taken in response to these events, any of these events, over which the NEC Group has little or no control, could cause a decrease in demand for its products or services, make it difficult or impossible for the NEC Group to deliver products or for its suppliers to deliver components, require large expenditures to repair or replace its facilities or create delays and inefficiencies in its supply chain.

2) Accounting policies

The methods, estimates and judgments that the NEC Group uses in applying in its accounting policies could have a significant impact on its results of operations. Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that lead the NEC Group to change its methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect the NEC Group's results of operations. Due to the volatility in the financial markets and overall economic uncertainty, the actual amounts realized in the future on the NEC Group's debt and equity investments may differ significantly from the fair values currently assigned to them. The application of new or revised accounting standards may significantly affect the NEC Group's financial condition and its results of operations.

3) Retirement benefit obligations

Changes in actuarial assumptions such as discount rates on which the calculation of projected benefit obligations are based may have an adverse effect on the NEC Group's financial condition and its results of operations. For example, any future reduction of discount rates may cause actuarial losses, or the NEC Group may experience prior service costs in the future resulting from amendments to the plans. Changes in the interest rate environment and other factors may also adversely affect the amount of the NEC Group's retirement benefit liabilities and the resulting annual amortization expense.

4) Sale of NEC's common stock in the USA

As a result of the failure to file annual reports on Form 20-F with the Securities and Exchange Commission in the USA (the "SEC") for the fiscal year ended March 31, 2006 and thereafter, American depositary shares of NEC were delisted from the NASDAQ Stock Market in October 2007. In addition, NEC was subject to an informal inquiry by the SEC concerning matters including its failure to file annual reports on Form 20-F for the fiscal year ended March 31, 2006 and thereafter. In June 2008, NEC entered into a settlement agreement with the SEC, and as part of the settlement, the SEC issued an order under Section 12(j) of the U.S. Securities Exchange Act of 1934 (the "Exchange Act"). The SEC ordered that (a) NEC ceases and desists from the violations of certain provisions of the Exchange Act because the SEC found that certain of its actions violated certain provisions of the Exchange Act, and (b) the registration under the Exchange Act of its common stock and American depositary shares be revoked. NEC did not admit or deny the findings by the SEC set forth in the order. No fine or other monetary payment was required under the order. As a result of the revocation, no broker or dealer worldwide and no member of a U.S. securities exchange may make use of the mails or any means or instrumentality of interstate commerce in the USA to effect any transaction in, or to induce the purchase or sale of, shares of common stock or American depositary shares of NEC. Accordingly, it may be difficult for shareholders of NEC to sell or purchase the shares of NEC's common stock in the USA, and this situation may continue in the future.

6. 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 7.5% in fiscal 2015, but aims for an ROE of 8% in fiscal 2016.

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.

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 is aiming to expand business through investment focused on key areas that include SDN, cloud services, Big Data, safety and energy.

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 promote the expansion of business by focusing on growth areas such as safety and the creation of new business models.

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.

Specifically, the NEC Group integrated the majority of staff and operations from the administrative division of NEC into NEC Management Partner, Ltd. as the pillar of promoting standardization and optimization of business processes that help to improve operational efficiency and restrain costs.

The NEC Group regards compliance as one of the most important management issues and continues its comprehensive observation of compliance. However, the Japan Fair Trade Commission carried out an on-site inspection on suspicions that NEC violated the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade in regard to business dealings for wireless digital emergency firefighting equipment in November 2014, and in regard to transactions with Tokyo Electric Power Company, Incorporated on telecommunications equipment for electric power systems in May 2015. The NEC Group places great importance on this issue and is fully cooperating with the commission's investigation. As reported in the preceding fiscal year's business report, NETCOMSEC Co. Ltd., a consolidated subsidiary of NEC, recorded and billed an excessive amount to Japan's Ministry of Defense. On 25 June 2014, NETCOMSEC Co. Ltd. returned approximately 7.4 billion yen to the National Treasury and reported measures to prevent a recurrence to the Ministry of Defense. Consequently, the suspension of NETCOMSEC Co. Ltd. from participating in requests for proposals for future contracts with the Ministry of Defense was lifted the same day. The NEC Group makes every effort to closely observe compliance and to continuously establish and implement its internal control system.

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."

5. Basic Rationale for Selection of Accounting Standards

The NEC Group is considering the voluntary adoption of International Financial Reporting Standards (IFRS) from the fiscal year ending March 31, 2017 to enhance the international comparability of its financial information in capital markets.

Consolidated Balance Sheets

NEC Corporation and Subsidiaries
March 31, 2014 and 2015

ASSETS	Millions of Yen 2014	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2015
CURRENT ASSETS:			
Cash and cash equivalents *(Note 19)*	¥ 206,637	¥ 181,132	$ 1,509,433
Short-term investments *(Note 19)*	2,322	1,972	16,433
Trade notes and accounts receivable *(Note 19)*	842,308	928,367	7,736,392
Inventories *(Note 7)*	214,395	241,146	2,009,550
Deferred tax assets *(Note 13)*	74,431	65,351	544,592
Other current assets *(Note 19 and 20)*	167,626	163,968	1,366,400
Allowance for doubtful accounts	(4,810)	(5,151)	(42,925)
Total current assets	1,502,909	1,576,785	13,139,875
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION *(Note 8)*:			
Land	63,585	57,787	481,558
Buildings and structures	175,570	172,177	1,434,808
Machinery and equipment	17,878	20,189	168,242
Furniture and fixtures	63,075	67,643	563,692
Construction in progress	26,078	20,319	169,325
Total property, plant and equipment	346,186	338,115	2,817,625
INVESTMENTS AND OTHER ASSETS:			
Investment securities *(Notes 6 and 19)*	147,170	157,078	1,308,983
Investments in affiliated companies *(Note 19)*	78,293	90,153	751,275
Goodwill	76,203	66,985	558,208
Software	98,285	94,194	784,950
Long-term loans receivable *(Note 19)*	40,123	39,424	328,534
Deferred tax assets *(Note13)*	108,398	85,114	709,283
Net defined benefit asset *(Note 9)*	10,404	74,622	621,850
Other assets *(Note 19 and 20)*	112,897	102,682	855,684
Allowance for doubtful accounts	(15,539)	(4,500)	(37,500)
Total investments and other assets	656,234	705,752	5,881,267
TOTAL ASSETS	¥ 2,505,329	¥ 2,620,652	$ 21,838,767

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen 2014	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2015
CURRENT LIABILITIES:			
Short-term borrowings *(Notes 8 and 19)*	¥ 32,415	¥ 28,988	$ 241,567
Current portion of long-term debt *(Notes 8 and 19)*	66,126	106,267	885,558
Trade notes and accounts payable *(Note 19)*	446,494	466,677	3,888,975
Accrued expenses *(Note 19)*	152,792	169,070	1,408,917
Other current liabilities *(Notes 10, 13, 19 and 20)*	287,758	298,546	2,487,883
Total current liabilities	985,585	1,069,548	8,912,900
LONG-TERM LIABILITIES:			
Long-term debt *(Notes 8 and 19)*	476,610	385,523	3,212,692
Net defined benefit liability *(Notes 3 and 9)*	220,457	228,686	1,905,717
Deferred tax liabilities *(Note 13)*	2,213	2,410	20,083
Other long-term liabilities *(Note 11, 19 and 20)*	52,801	50,293	419,108
Total long-term liabilities	752,081	666,912	5,557,600
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 2014 and 2015	397,199	397,199	3,309,992
Capital surplus	148,402	148,694	1,239,116
Retained earnings (Note 3)	182,570	207,021	1,725,175
Treasury stock—at cost:	(2,976)	(3,025)	(25,208)
6,515 thousand shares in 2014 and			
5,916 thousand shares in 2015			
Total shareholders' equity	725,195	749,889	6,249,075
ACCUMULATED OTHER COMPREHENSIVE INCOME:			
Valuation difference on available-for-sale securities	34,292	47,385	394,875
Deferred gains or losses on hedges	(1,359)	(271)	(2,258)
Foreign currency translation adjustments	(1,521)	12,795	106,625
Remeasurements of defined benefit plans	(60,658)	13,852	115,433
Total accumulated other comprehensive income	(29,246)	73,761	614,675
MINORITY INTERESTS *(Note 3)*	71,714	60,542	504,517
Total net assets	767,663	884,192	7,368,267
TOTAL LIABILITIES AND NET ASSETS	¥ 2,505,329	¥ 2,620,652	$ 21,838,767

Consolidated Statements of Operations

NEC Corporation and Subsidiaries
Years Ended March 31, 2013, 2014 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2013	2014	2015	2015
NET SALES	¥ 3,071,609	¥ 3,043,114	¥ 2,935,517	$ 24,462,642
COST OF SALES *(Note 9)*	2,142,243	2,128,457	2,039,499	16,995,825
Gross profit	929,366	914,657	896,018	7,466,817
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES *(Notes 9 and 14)*	814,719	808,464	767,934	6,399,450
Operating income	114,647	106,193	128,084	1,067,367
NON-OPERATING INCOME:				
Interest and dividends income	5,247	6,251	5,658	47,150
Equity in earnings of affiliated companies, net	409	2,719	8,126	67,717
Foreign exchange gain, net	446	593	4,468	37,233
Subsidy income	535	2,165	2,361	19,675
Other non-operating income	8,940	6,507	5,879	48,992
Total non-operating income	15,577	18,235	26,492	220,767
NON-OPERATING EXPENSES:				
Interest expense	5,979	10,036	10,066	83,883
Retirement benefit expenses *(Note 9)*	11,631	11,325	10,357	86,308
Provision for contingent loss	1,327	11,452	5,872	48,934
Other non-operating expenses	19,263	22,463	16,169	134,742
Total non-operating expenses	38,200	55,276	42,464	353,867
Ordinary income	92,024	69,152	112,112	934,267
SPECIAL GAINS *(Note 15)*	16,780	58,341	7,801	65,008
SPECIAL LOSSES *(Note 15)*	39,525	43,532	23,176	193,133
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	69,279	83,961	96,737	806,142
INCOME TAXES *(Note 13)*:				
Current	30,724	33,558	31,868	265,567
Deferred	(198)	8,808	8,944	74,533
Total income taxes	30,526	42,366	40,812	340,100
INCOME BEFORE MINORITY INTERESTS	38,753	41,595	55,925	466,042
MINORITY INTERESTS IN NET INCOME (LOSS) OF SUBSIDIARIES	8,319	7,853	(1,377)	(11,475)
NET INCOME	¥ 30,434	¥ 33,742	¥ 57,302	$ 477,517

	Yen			U.S. Dollars (Note 1)
	2013	2014	2015	2015
PER SHARE OF COMMON STOCK *(Note 23)*:				
Basic net income	¥ 11.71	¥ 12.99	¥ 22.05	$ 0.18
Diluted net income	—	—	—	—
Cash dividends applicable to the year	4.00	4.00	4.00	0.03

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

NEC Corporation and Subsidiaries
Years Ended March 31, 2013, 2014 and 2015

	Millions of Yen			*Thousands of U.S. Dollars (Note 1)*
	2013	2014	2015	2015
INCOME BEFORE MINORITY INTERESTS	¥ 38,753	¥ 41,595	¥ 55,925	$ 466,042
OTHER COMPREHENSIVE INCOME *(Note 16)*:				
Valuation difference on available-for-sale securities	2,096	15,858	12,028	100,233
Deferred gains or losses on hedges	(845)	(253)	674	5,617
Foreign currency translation adjustments	16,724	4,450	11,218	93,483
Remeasurements of defined benefit plans	—	—	78,611	655,092
Share of other comprehensive income of associates accounted for using equity method	5,690	1,239	4,150	34,583
Total other comprehensive income	23,665	21,294	106,681	889,008
COMPREHENSIVE INCOME	¥ 62,418	¥ 62,889	¥ 162,606	$ 1,355,050
Comprehensive income attributable to				
owners of the parent	¥ 53,468	¥ 54,917	¥ 160,309	$ 1,335,908
minority interests	8,950	7,972	2,297	19,142

Consolidated Statements of Changes in Net Assets

NEC Corporation and Subsidiaries
Years Ended March 31, 2013, 2014 and 2015

	Thousands	Shareholders' equity				
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
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
Cumulative effects of changes in accounting policies				(22,458)		(22,458)
Restated balance		397,199	148,402	160,112	(2,976)	702,737
Net income				57,302		57,302
Cash dividends paid, ¥4 per share				(10,393)		(10,393)
Purchases of treasury stock					(54)	(54)
Disposals of treasury stock			(2)		5	3
Change of scope of equity method			294			294
Net changes in items other than shareholders' equity during the year						—
BALANCE, MARCH 31, 2015	2,604,733	¥ 397,199	¥ 148,694	¥ 207,021	¥ (3,025)	¥ 749,889

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
BALANCE, MARCH 31, 2014	$ 3,309,992	$ 1,236,683	$ 1,521,416	$ (24,800)	$ 6,043,291
Cumulative effects of changes in accounting policies			(187,150)		(187,150)
Restated balance	3,309,992	1,236,683	1,334,266	(24,800)	5,856,141
Net income			477,517		477,517
Cash dividends paid, $0.03 per share			(86,608)		(86,608)
Purchases of treasury stock				(450)	(450)
Disposals of treasury stock		(17)		42	25
Change of scope of equity method		2,450			2,450
Net changes in items other than shareholders' equity during the year					—
BALANCE, MARCH 31, 2015	$ 3,309,992	$ 1,239,116	$ 1,725,175	$ (25,208)	$ 6,249,075

Conforming to separate financial statements, total translated 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
¥ 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
					—	(1,608)	(24,066)
34,292	(1,359)	(1,521)	(60,658)	(29,246)	—	70,106	743,597
							57,302
							(10,393)
							(54)
							3
							294
13,093	1,088	14,316	74,510	103,007	—	(9,564)	93,443
¥ 47,385	¥ (271)	¥ 12,795	¥ 13,852	¥ 73,761	¥ —	¥ 60,542	¥ 884,192

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
$ 285,767	$ (11,325)	$ (12,675)	$ (505,484)	$ (243,717)	$ —	$ 597,617	$ 6,397,191
					—	(13,400)	(200,550)
285,767	(11,325)	(12,675)	(505,484)	(243,717)	—	584,217	6,196,641
							477,517
							(86,608)
							(450)
							25
							2,450
109,108	9,067	119,300	620,917	858,392	—	(79,700)	778,692
$ 394,875	$ (2,258)	$ 106,625	$ 115,433	$ 614,675	$—	$ 504,517	$ 7,368,267

Consolidated Statements of Cash Flows

NEC Corporation and Subsidiaries
Years Ended March 31, 2013, 2014 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2013	2014	2015	2015
Cash flows from operating activities				
Income before income taxes and minority interests	¥ 69,279	¥ 83,961	¥ 96,737	$ 806,142
Depreciation	83,612	76,977	78,717	655,975
Amortization of long-term prepaid expenses	6,748	4,972	5,126	42,717
Impairment losses on property, plant and equipment, and other assets	21,949	15,934	8,932	74,433
Amortization of goodwill	15,428	17,085	16,814	140,117
Increase (decrease) in allowance for doubtful accounts	591	(4,163)	(11,030)	(91,917)
Decrease in product warranty liabilities	(1,183)	(1,220)	(979)	(8,158)
Increase (decrease) in provision for loss on construction contracts and others	7,987	(6,634)	(5,763)	(48,025)
Increase (decrease) in provision for business structure improvement	(22,644)	9,086	392	3,267
Increase (decrease) in provision for contingent loss	(3,575)	10,476	787	6,558
Increase (decrease) in provision for loss on repurchase of computers	(1,143)	1,583	(464)	(3,867)
Interest and dividends income	(5,247)	(6,251)	(5,658)	(47,150)
Interest expense	5,979	10,036	10,066	83,883
Equity in earnings of affiliated companies	(409)	(2,719)	(8,126)	(67,717)
Gain on change in equity	(2,657)	(365)	—	—
Gain on sales of property, plant and equipment	(1,569)	(368)	(3,276)	(27,300)
Loss on retirement of property, plant and equipment	636	—	—	—
Gain on sales of investment securities	(9,057)	(2,698)	(2,216)	(18,466)
Loss on sales of investment securities	2	23	10	83
Write-off of investment securities	804	1,738	1,044	8,700
Gain on sales of investments in affiliated companies	(1,728)	(53,923)	(1,706)	(14,217)
Loss on sales of investments in affiliated companies	880	64	—	—
Loss on contribution of securities to retirement benefit trust	5,898	—	—	—
Gain on insurance claim	(1,625)	—	—	—
Increase in trade notes and accounts receivable	(9,600)	(22,680)	(74,822)	(623,516)
(Increase) decrease in inventories	5,496	24,327	(21,830)	(181,917)
(Increase) decrease in accounts receivable, other	(2,792)	3,380	5,665	47,208
Increase (decrease) in trade notes and accounts payable	(8,548)	(4,034)	16,668	138,900
Others—net (Note 5)	18,328	(26,937)	21,635	180,292
Subtotal	171,840	127,650	126,723	1,056,025
Interest and dividends received	4,481	6,216	5,721	47,675
Interest paid	(5,928)	(8,914)	(10,132)	(84,433)
Income taxes paid	(28,653)	(30,828)	(34,395)	(286,625)
Proceeds from insurance income	2,008	—	—	—
Net cash provided by operating activities	¥ 143,748	¥ 94,124	¥ 87,917	$ 732,642

See notes to consolidated financial statements.

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2013	2014	2015	2015
Cash flows from investing activities				
Purchases of property, plant and equipment	¥ (46,012)	¥ (89,458)	¥ (42,461)	$ (353,842)
Proceeds from sales of property, plant and equipment	5,208	5,440	13,790	114,917
Acquisitions of intangible assets	(14,556)	(12,327)	(8,974)	(74,783)
Purchases of investment securities	(1,159)	(995)	(1,367)	(11,392)
Proceeds from sales of investment securities	27,601	14,907	8,729	72,742
Disbursements for acquisitions of shares of newly consolidated subsidiaries	(58,072)	(806)	(10,518)	(87,650)
Proceeds from acquisitions of shares of newly consolidated subsidiaries	—	116	—	—
Proceeds from sales of shares of subsidiaries being excluded from the consolidation	553	42,504	33	275
Disbursements for sales of shares of subsidiaries being excluded from the consolidation	(524)	—	(3,378)	(28,150)
Purchases of investments in affiliated companies	(582)	(27,693)	(7,127)	(59,392)
Proceeds from sales of investments in affiliated companies	1,151	26,515	—	—
(Increase) decrease in short-term loans receivable, net	187	(50)	63	525
Disbursements for loans receivable	(17,543)	(169)	(155)	(1,292)
Collection of loans receivable	195	247	907	7,558
Others—net	1,811	2,876	2,948	24,567
Net cash used in investing activities	(101,742)	(38,893)	(47,510)	(395,917)
Cash flows from financing activities				
Decrease in short-term borrowings, net	(70,289)	(26,745)	(2,275)	(18,958)
Proceeds from long-term borrowings	58,456	138,630	9,875	82,292
Repayments of long-term borrowings	(82,996)	(76,239)	(46,933)	(391,108)
Redemption of bonds	—	(70,000)	(20,000)	(166,667)
Dividends paid	(4)	(10,378)	(10,358)	(86,317)
Dividends paid to minority shareholders	(3,949)	(5,218)	(2,579)	(21,492)
Others—net	(25)	(33)	243	2,025
Net cash used in financing activities	(98,807)	(49,983)	(72,027)	(600,225)
Effect of exchange rate changes on cash and cash equivalents	6,200	4,257	6,115	50,958
Net increase (decrease) in cash and cash equivalents	(50,601)	9,505	(25,505)	(212,542)
Cash and cash equivalents, at beginning of year	251,843	197,132	206,637	1,721,975
Decrease in cash and cash equivalents resulting from change of scope of consolidation	(4,110)	—	—	—
Cash and cash equivalents, at end of year	¥ 197,132	¥ 206,637	¥ 181,132	$ 1,509,433
Non-cash investing and financing activities				
Finance leases	¥ 1,670	¥ 1,326	¥ 781	$ 6,508
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, 2015.

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 ¥120 to $1, the approximate rate of exchange at March 31, 2015. 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, 2015 include the accounts of the Company and its 232 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 Solution Innovators, 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, 2013, 2014 and 2015 were ¥720,665 million, ¥728,969 million and ¥724,049 million ($6,033,742 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 benefit formula 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 2013, 2014 and 2015 were ¥151,676 million, ¥142,723 million and ¥134,205 million ($1,118,375 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 beginning of the fiscal year ended March 31, 2015, the Company and its consolidated domestic subsidiaries have applied the article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26 of May 17, 2012 (hereinafter "Retirement Benefits Standard")) and the article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 of March 26, 2015), and changed our calculation methods of retirement benefit obligations and service costs. The attribution method for projected retirement benefit was changed mainly from a point basis to a benefit formula basis and determination of the discount rate was changed to a method that uses several discount rates which are set at the time of each expected retirement benefit payment.

In accordance with the article 37 of "Retirement Benefits Standard", the effect of the change in calculation methods of retirement benefit obligations and service costs arising from initial application has been recognized in retained earnings in the beginning balance of the fiscal year ended March 31, 2015.

As a result, net defined benefit liability increased by ¥31,981 million ($266,508 thousand) and retained earnings decreased by ¥22,458 million ($187,150 thousand) in the beginning balance of the fiscal year ended March 31, 2015.

The impact on operating income, ordinary income, and income before income taxes and minority interests for the fiscal year ended March 31, 2015 was not material.

The impact on per share information is shown in Note 23 and 24.

4. Accounting Standards issued but not yet adopted

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 Cash Flows)

"Increase (decrease) in liabilities for retirement benefits" in cash flows from operating activities, which was presented separately in prior periods (¥(3,939) million for the year ended March 31, 2013) has been reclassified into "Others-net" in cash flows from operating activities to conform with the current year's presentation.

"Increase in net defined benefit liability" and "Decrease in remeasurements of defined benefit plans" in cash flows from operating activities, which were presented separately in prior periods (¥45,828 million and ¥(60,658) million for the year ended March 31, 2014, respectively) has been reclassified into "Others-net" in cash flows from operating activities 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, 2014 and 2015 were as follows:

	Millions of Yen			
Mar 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
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
Mar 31, 2015				
Securities classified as available-for-sale:				
Equity securities	¥ 65,993	¥ 63,557	¥ 3,872	¥ 125,678
Debt securities	1,000	3	2	1,001
Others	99	62	26	135
Total	¥ 67,092	¥ 63,622	¥ 3,900	¥ 126,814

	Thousands of U.S. Dollars			
Mar 31, 2015	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 549,942	$ 529,642	$ 32,267	$ 1,047,317
Debt securities	8,333	25	17	8,341
Others	825	516	216	1,125
Total	$ 559,100	$ 530,183	$ 32,500	$ 1,056,783

Non-marketable investment securities whose fair value was not readily determinable as of March 31, 2014 and 2015 were as follows:

	Carrying amount		
	Millions of Yen		*Thousands of U.S. Dollars*
	2014	2015	2015
Available-for-sale:			
Equity securities	¥ 46,206	¥ 24,852	$ 207,100
Investments in limited partnerships	4,519	5,146	42,883
Others	281	266	2,217
Total	¥ 51,006	¥ 30,264	$ 252,200

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, and valuation difference on available-for sale securities increased by ¥6,814 million.

7. Inventories

Inventories as of March 31, 2014 and 2015 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2014	2015	2015
Merchandise and finished products	¥ 76,235	¥ 88,301	$ 735,842
Work in process	83,922	101,989	849,908
Raw materials and supplies	54,238	50,856	423,800
Total	¥ 214,395	¥ 241,146	$ 2,009,550

8. Short-term Borrowings and Long-term Debt

Short-term borrowings

Short-term borrowings as of March 31, 2014 and 2015 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2014	2015	2015
Loans (weighted-average interest rate of 1.06% as of March 31, 2015)	¥ 32,415	¥ 28,988	$ 241,567

As of March 31, 2015, the NEC Group had unused line-of-credit agreements for short-term borrowings with financial institutions totaling ¥322,000 million ($2,683,333 thousand), of which, ¥322,000 million ($2,683,333 thousand), was unused.

Long-term borrowings

Long-term borrowings as of March 31, 2014 and 2015 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2014	2015	2015
Loans from financial institutions, due in 2015 through 2073(weighted-average interest rate of 1.85% as of March 31, 2015)	¥ 377,818	¥ 346,811	$ 2,890,091
Less current portion	(44,284)	(14,407)	(120,058)
Total	¥ 333,534	¥ 332,404	$ 2,770,033

Bonds

	Millions of Yen		*Thousands of U.S. Dollars*
	2014	2015	2015
NEC 39th unsecured 1.68% bonds due in 2015	¥ 20,000	¥ 20,000	$ 166,667
NEC 41st unsecured 0.73% bonds due in 2015	40,000	40,000	333,333
NEC 42nd unsecured 1.02% bonds due in 2017	20,000	20,000	166,667
NEC 43rd unsecured 0.65% bonds due in 2015	30,000	30,000	250,000
NEC 44th unsecured 1.00% bonds due in 2017	20,000	20,000	166,667
NEC 45th unsecured 0.61% bonds due in 2014	20,000	—	—
NEC 46th unsecured 0.79% bonds due in 2016	10,000	10,000	83,333
Less current portion of bonds	(20,000)	(90,000)	(750,000)
Total	¥ 140,000	¥ 50,000	$ 416,667

Lease obligations

	Millions of Yen		Thousands of U.S. Dollars
	2014	2015	2015
Lease obligations, due in 2015 through 2022 (weighted-average interest rate of 2.77% as of March 31, 2015)	¥ 4,918	¥ 4,979	$ 41,492
Less current portion	(1,842)	(1,860)	(15,500)
Total	¥ 3,076	¥ 3,119	$ 25,992

Annual maturities for the fiscal years ending March 31, 2016 through 2073 of long-term debt as of March 31, 2015 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2016	¥ 106,267	$ 885,558
2017	116,919	974,325
2018	56,700	472,500
2019	71,242	593,684
2020	9,901	82,508
2021 and thereafter	130,761	1,089,675
Total	¥ 491,790	$ 4,098,250

The carrying amounts of assets, net of accumulated depreciation, pledged as collateral for short-term borrowings of ¥281 million ($2,342 thousand) and long-term borrowings of ¥200 million ($1,667 thousand) and other debt of ¥46 million ($383 thousand) as of March 31, 2015 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 3,579	$ 29,825
Buildings and structures	212	1,767
Others	436	3,633
Total, net of accumulated depreciation	¥ 4,227	$ 35,225

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 year ended March 31, 2013 is disclosed in conformity with old standards and requirements.

For the years ended March 31, 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, 2013 were as follows:

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

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

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

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

Defined benefit plans

(1) Reconciliation of changes in Defined benefit obligations during the year ended March 31, 2014 and 2015 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2015	2015
Defined benefit obligations at the beginning of the year	¥ 968,387	¥ 959,420	$ 7,995,167
Cumulative effects of changes in accounting policies	–	34,907	290,892
Restated balance	968,387	994,327	8,286,059
Service cost	32,235	31,818	265,150
Interest cost	16,419	13,549	112,908
Actuarial gains and losses	(2,757)	43,143	359,525
Benefits paid	(54,828)	(53,534)	(446,117)
Other	(36)	(2,330)	(19,417)
Defined benefit obligations at the end of the year	¥ 959,420	¥ 1,026,973	$ 8,558,108

(*) 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 and 2015 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2015	2015
Plan assets at the beginning of the year	¥ 626,582	¥ 749,367	$ 6,244,725
Expected return on plan assets	13,219	14,214	118,450
Actuarial gains and losses	127,397	125,468	1,045,567
Employer contributions	27,140	27,239	226,992
Benefits paid	(45,745)	(45,195)	(376,625)
Other	774	1,816	15,133
Plan assets at the end of the year	¥ 749,367	¥ 872,909	$ 7,274,242

(*) 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	2015	2015
Defined benefit obligations [funded]	¥ 782,067	¥ 835,110	$ 6,959,250
Plan assets	(749,367)	(872,909)	(7,274,242)
	32,700	(37,799)	(314,992)
Defined benefit obligations [unfunded]	177,353	191,863	1,598,859
Net liability (asset) recognized in the consolidated balance sheet	¥ 210,053	¥ 154,064	$ 1,283,867
Net defined benefit liability	¥ 220,457	¥ 228,686	$ 1,905,717
Net defined benefit asset	(10,404)	(74,622)	(621,850)
Net liability (asset) recognized in the consolidated balance sheet	¥ 210,053	¥ 154,064	$ 1,283,867

(4) Retirement benefit expenses

The components of retirement benefit expenses for the fiscal year ended March 31, 2014 and 2015 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2014	2015	2015
Service cost	¥ 32,235	¥ 31,818	$ 265,150
Interest cost	16,419	13,549	112,908
Expected return on plan assets	(13,219)	(14,214)	(118,450)
Amortization of actuarial gains and losses	33,558	22,766	189,717
Amortization of prior service costs	(9,195)	(8,939)	(74,491)
Amortization of transitional obligation	11,325	10,357	86,308
Retirement benefit expenses	¥ 71,123	¥ 55,337	$ 461,142

(*) Certain consolidated subsidiaries adopted the simplified method.

(5) Remeasurements of defined benefit plans (in other comprehensive income)

Amounts recognized in remeasurements of defined benefit plans in other comprehensive income (before adjusting for tax effects) as of March 31, 2014 and 2015 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2014	2015	2015
Prior service costs	¥ –	¥ (10,194)	$ (84,950)
Actuarial gains and losses	–	106,319	885,992
Transitional obligation	–	10,357	86,308
Total	¥ –	¥ 106,482	$ 887,350

(6) Remeasurements of defined benefit plans (in accumulated other comprehensive income)

Amounts recognized in remeasurements of defined benefit plans in accumulated other comprehensive income (before adjusting for tax effects) as of March 31, 2014 and 2015 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2014	2015	2015
Unrecognized prior service costs	¥ (45,398)	¥ (35,204)	$ (293,367)
Unrecognized actuarial gains and losses	123,884	17,565	146,375
Unrecognized transitional obligation	10,357	–	–
Total	¥ 88,843	¥ (17,639)	$ (146,992)

(7) Plan assets

(a) Percentage by major category of plan assets as of March 31, 2014 and 2015 was as follows:

	2014	2015
Equity securities	46%	47%
Debt securities	44%	41%
Other	10%	12%
Total	100%	100%

(*) Total plan assets include 14% for the fiscal year ended March 31, 2014 and 15% for the fiscal year ended March 31, 2015 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.

(8) Basis for calculation of actuarial assumptions

The principal actuarial assumptions for the fiscal year ended March 31, 2014 and 2015 are as follows:

	2014	2015
Discount rate	Mainly, 1.4%	Mainly, 1.3%
Long-term expected rate of return on plan assets	Mainly, 2.5%	Mainly, 2.5%

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

Defined contribution plans

Total defined contribution expense of the NEC Group was ¥7,267 million and ¥7,566 million ($63,050 thousand) for the fiscal year ended March 31, 2014 and 2015, respectively.

10. Other Current Liabilities

Other current liabilities consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2014	2015	2015
Advances received	¥ 128,601	¥ 122,714	$ 1,022,617
Provision for product warranties	16,687	17,031	141,925
Provision for directors' bonuses	318	331	2,758
Provision for loss on construction contracts and others	11,342	5,596	46,633
Provision for business structure improvement	7,359	8,627	71,892
Provision for contingent loss	12,506	13,526	112,717
Others	110,945	130,721	1,089,341
Total	¥ 287,758	¥ 298,546	$ 2,487,883

11. Other Long-term Liabilities

Other long-term liabilities consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2014	2015	2015
Provision for product warranties	¥ 4,197	¥ 2,943	$ 24,525
Provision for loss on repurchase of computers	6,909	6,445	53,708
Provision for business structure improvement	6,859	5,867	48,892
Provision for contingent loss	5,915	5,480	45,667
Others	28,921	29,558	246,316
Total	¥ 52,801	¥ 50,293	$ 419,108

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 38.0%, 38.0% and 35.5% for the fiscal years ended March 31, 2013, 2014 and 2015, 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.9 of 2015) and "Partial Amendment of Local Tax Act, etc. " (Act No.2 of 2015) in Japan on March 31, 2015, revised corporation tax rate will be imposed from the consolidated fiscal years beginning on or after April 1, 2015.

Accordingly, for temporary differences expected to be utilized in the next fiscal year (March 31, 2016), the effective tax rate applied to the calculation of deferred tax assets and liabilities in the consolidated fiscal year ended March 31, 2015, was lowered from 35.5% to 33.0%. The rate was also changed to 32.5% for temporary differences expected to be utilized in the fiscal years beginning on or after April 1, 2016.

As a result, the amount of deferred tax assets (the amount remaining after deducting deferred tax liabilities) decreased by ¥9,722 million ($81,017 thousand), while income taxes-deferred recognized in costs increased by ¥10,660 million ($88,833 thousand) during the fiscal year ended March 31, 2015.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2014 and 2015 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2014	2015	2015
Deferred tax assets :			
Net defined benefit liability	¥ 158,678	¥ 117,948	$ 982,900
Tax loss carryforwards	124,235	78,809	656,742
Write-off of investment securities	73,922	67,477	562,309
Accrued expenses and product warranty liabilities	44,000	40,336	336,133
Write-off of inventories	41,526	30,019	250,158
Depreciation	30,908	25,311	210,925
Elimination of unrealized profit by intercompany transactions among consolidated companies	4,729	6,174	51,450
Provision for contingent loss	6,529	6,154	51,283
Investments in affiliated companies	15,083	6,141	51,175
Provision for business structure improvement	4,717	4,460	37,167
Research and development expenses	1,473	1,858	15,483
Provision for loss on construction contracts and others	4,029	1,816	15,133
Others	85,016	82,784	689,867
Sub-total	594,845	469,287	3,910,725
Less valuation allowance	(372,463)	(276,050)	(2,300,417)
Total	222,382	193,237	1,610,308
Deferred tax liabilities:			
Undistributed earnings of affiliated companies	(18,981)	(21,843)	(182,025)
Unrealized gains on available-for-sale securities	(11,987)	(14,318)	(119,317)
Gain on contribution of securities to the retirement benefit trust	(9,016)	(8,400)	(70,000)
Others	(2,374)	(1,801)	(15,008)
Total	(42,358)	(46,362)	(386,350)
Net deferred tax assets	¥ 180,024	¥ 146,875	$ 1,223,958

Net deferred tax assets were included in the consolidated balance sheets as of March 31, 2014 and 2015 as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2014	2015	2015
Current assets - deferred tax assets	¥ 74,431	¥ 65,351	$ 544,592
Investments and other assets - deferred tax assets	108,398	85,114	709,283
Current liabilities - other current liabilities	(592)	(1,180)	(9,834)
Long-term liabilities - deferred tax liabilities	(2,213)	(2,410)	(20,083)
Net deferred tax assets	¥ 180,024	¥ 146,875	$ 1,223,958

Reconciliations between the statutory tax rates and the effective tax rates for the fiscal years ended March 31, 2013, 2014 and 2015 were as follows:

	2013	2014	2015
Statutory tax rates	38.0 %	38.0 %	35.5 %
Adjustment of deferred tax assets due to change in statutory tax rate	—	3.4	11.0
Amortization of goodwill	8.5	10.4	7.0
Undistributed earnings of affiliated companies	4.2	16.3	4.0
Equity in losses (earnings) of affiliated companies	(0.4)	(1.2)	(3.1)
Changes in valuation allowance	(2.7)	(13.6)	(4.0)
Others	(3.5)	(2.8)	(8.2)
Effective tax rates	44.1 %	50.5 %	42.2 %

14. Significant Components of Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the fiscal years ended March 31, 2013, 2014 and 2015 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	2015	2015
Salaries for employees	¥ 285,120	¥ 290,963	¥ 293,344	$ 2,444,533
Research and development expenses	147,036	137,662	128,742	1,072,850
Retirement benefit expenses	24,685	26,018	18,887	157,392
Provision for product warranty liabilities	12,793	12,578	15,694	130,783
Provision for loss on repurchase of computers	1,287	4,372	733	6,108

15. Special Gains and Losses

(1) Special gains

Special gains for the fiscal years ended March 31, 2013, 2014 and 2015 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	2015	2015
Gain on sales of noncurrent assets	¥ 1,569	¥ 368	¥ 3,276	$ 27,300
Gain on sales of investment securities	9,057	2,698	2,216	18,466
Gain on sales of investments in affiliated companies	1,728	53,923	1,706	14,217
Gain on business transfers	120	291	603	5,025
Gain on change in equity	2,657	607	—	—
Gain on step acquisitions	—	454	—	—
Gain on insurance claim	1,625	—	—	—
Gain on reversal of subscription rights to shares	24	—	—	—
Total	¥ 16,780	¥ 58,341	¥ 7,801	$ 65,008

Gain on sales of investments in affiliated companies

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 sales of investments in affiliated companies for the fiscal year ended March 31, 2015 mainly related to the sale of shares of Nittsu NEC Logistics, 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, 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, 2013, 2014 and 2015 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	2015	2015
Restructuring charges	¥ 5,538	¥ 25,304	¥ 11,849	$ 98,742
Impairment losses on property, plant and equipment, and other assets	21,949	15,934	8,932	74,433
Write-off of investment securities	804	1,738	1,044	8,700
Loss on sales of noncurrent assets	—	12	672	5,600
Loss on exchange from business combination	—	—	669	5,575
Loss on sales of investment securities	2	23	10	83
Loss on change in equity	—	242	—	—
Relocation expenses	—	215	—	—
Loss on sales of investments in affiliated companies	880	64	—	—
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	—	—	—
Total	¥ 39,525	¥ 43,532	¥ 23,176	$ 193,133

Restructuring charges

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.

Restructuring charges for the fiscal year ended March 31, 2015 mainly related to expenses which were primarily for early retirement of employees due to business restructuring.

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
	2013	2014	2015	2015
Land	¥ 319	¥ 3,185	¥ 198	$ 1,650
Buildings and structures	829	1,699	1,994	16,617
Machinery and equipment	1,007	1,163	1,005	8,375
Furniture and fixtures	1,787	913	306	2,550
Construction in progress	117	12	5	42
Goodwill	—	5,784	3,031	25,258
Software	13,685	2,799	1,896	15,800
Other assets	4,205	379	497	4,141
Total	¥ 21,949	¥ 15,934	¥ 8,932	$ 74,433

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.

16. Components of Other Comprehensive Income

The components of other comprehensive income for the fiscal years ended March 31, 2013, 2014 and 2015 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	2015	2015
Valuation difference on available-for-sale securities :				
Increase(decrease) during the year	¥ 11,346	¥ 22,176	¥ 17,626	$ 146,883
Reclassification adjustments	(9,857)	(1,924)	(2,119)	(17,658)
Sub-total, before tax	1,489	20,252	15,507	129,225
Tax (expense) or benefit	607	(4,394)	(3,479)	(28,992)
Sub-total, net of tax	¥ 2,096	¥ 15,858	¥ 12,028	$ 100,233
Differed gains or losses on hedges :				
Increase(decrease) during the year	¥ (1,375)	¥ (1,179)	¥ (236)	$ (1,966)
Reclassification adjustments	192	876	1,102	9,183
Sub-total, before tax	(1,183)	(303)	866	7,217
Tax (expense) or benefit	338	50	(192)	(1,600)
Sub-total, net of tax	¥ (845)	¥ (253)	¥ 674	$ 5,617
Foreign currency translation adjustments :				
Increase(decrease) during the year	¥ 18,114	¥ 3,912	¥ 11,693	$ 97,441
Reclassification adjustments	(1,115)	673	(85)	(708)
Sub-total, before tax	16,999	4,585	11,608	96,733
Tax (expense) or benefit	(275)	(135)	(390)	(3,250)
Sub-total, net of tax	¥ 16,724	¥ 4,450	¥ 11,218	$ 93,483
Remeasurements of defined benefit plans :				
Increase(decrease) during the year	¥ –	¥ –	¥ 82,298	$ 685,817
Reclassification adjustments	–	–	24,184	201,533
Sub-total, before tax	–	–	106,482	887,350
Tax (expense) or benefit	–	–	(27,871)	(232,258)
Sub-total, net of tax	¥ –	¥ –	¥ 78,611	$ 655,092
Share of other comprehensive income of associates accounted for using equity method :				
Increase(decrease) during the year	¥ 3,096	¥ 976	¥ 2,603	$ 21,691
Reclassification adjustments	2,594	263	1,547	12,892
Sub-total, net of tax	¥ 5,690	¥ 1,239	¥ 4,150	$ 34,583
Total other comprehensive income	¥ 23,665	¥ 21,294	¥ 106,681	$ 889,008

17. Additional Cash Flow Information

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
Current assets	¥ 97,594
Fixed assets	26,376
Current liabilities	(31,924)
Long-term liabilities	(4,740)
Minority interests	(32,356)
Valuation difference on available-for-sale securities	(148)
Foreign currency translation adjustments	(7)
Acquisition of shares	(164)
Gain on sales of investments in affiliated companies	44,238
Sale amount of shares	98,869
Accrued expenses	(1,143)
Cash and cash equivalents	(55,222)
Proceeds from sales of shares of subsidiaries being excluded from the consolidation	¥ 42,504

The Company acquired shares of NEC Energy Solutions, Inc. which was newly consolidated in the fiscal year ended March 31, 2015. The assets and liabilities on the date of acquisition were as follows:

NEC Energy Solutions, Inc.

	Millions of Yen	*Thousands of U.S. Dollars*
Current assets	¥ 728	$ 6,067
Fixed assets	3,614	30,117
Goodwill	7,092	59,100
Current liabilities	(662)	(5,517)
Long-term liabilities	(278)	(2,317)
Minority interests	24	200
Acquisition cost of shares	10,518	87,650
Disbursements for acquisitions of shares of newly consolidated subsidiaries	¥ 10,518	$ 87,650

The assets and liabilities of Nittsu NEC Logistics, Ltd. and other 8 companies, which were excluded from consolidation due to the sale of shares in the fiscal year ended March 31, 2015, were as follows:

9 companies

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 11,736	$ 97,800
Fixed assets	11,322	94,350
Current liabilities	(7,383)	(61,525)
Long-term liabilities	(10,642)	(88,683)
Minority interests	(2,367)	(19,725)
Foreign currency translation adjustments	(653)	(5,441)
Remeasurements of defined benefit plans	(65)	(542)
Acquisition of shares	(2,555)	(21,292)
Gain on sales of investments in affiliated companies	1,357	11,308
Sale amount of shares	750	6,250
Cash and cash equivalents	(4,128)	(34,400)
Disbursements for sales of shares of subsidiaries being excluded from the consolidation	¥ (3,378)	$ (28,150)

18. Leases

The minimum obligations under noncancelable operating leases as of March 31, 2014 and 2015 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2015	2015
Due within one year	¥ 17,037	¥ 14,437	$ 120,308
Due after one year	29,719	33,906	282,550
Total	¥ 46,756	¥ 48,343	$ 402,858

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 five 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, 2014 and 2015 were as follows:

	Millions of Yen					
	2014			2015		
	Carrying Amount	Fair Value	Difference	Carrying Amount	Fair Value	Difference
Assets:						
Cash and cash equivalents	¥ 206,637	¥ 206,637	¥ —	¥ 181,132	¥ 181,132	¥ —
Short-term investments	2,322	2,322	—	1,972	1,972	—
Trade notes and accounts receivable	842,308	841,358	(950)	928,367	927,860	(507)
Investment securities	96,164	96,164	—	126,814	126,814	—
Investments in affiliated companies	50,754	54,952	4,198	54,696	82,872	28,176
Long-term loans receivable	40,123	40,123	—	39,424	39,424	—
Total	¥1,238,308	¥1,241,556	¥ 3,248	¥ 1,332,405	¥ 1,360,074	¥ 27,669
Liabilities:						
Short-term borrowings(*1)	¥ 32,415	¥ 32,415	¥ —	¥ 28,988	¥ 28,988	¥ —
Current portion of long-term debt(*1)	64,284	64,284	—	104,407	104,407	—
Trade notes and accounts payable	446,494	446,494	—	466,677	466,677	—
Accrued expenses	152,792	152,792	—	169,070	169,070	—
Long-term debt(*1)	473,534	477,076	3,542	382,404	384,995	2,591
Total	¥1,169,519	¥1,173,061	¥ 3,542	¥ 1,151,546	¥ 1,154,137	¥ 2,591
Derivatives (*2)	¥ (3,532)	¥ (3,532)	¥ —	¥ (2,620)	¥ (2,620)	¥ —

	Thousands of U.S. Dollars		
2015	Carrying Amount	Fair Value	Difference
Assets:			
Cash and cash equivalents	$ 1,509,433	$ 1,509,433	$ —
Short-term investments	16,433	16,433	—
Trade notes and accounts receivable	7,736,392	7,732,167	(4,225)
Investment securities	1,056,783	1,056,783	—
Investments in affiliated companies	455,800	690,600	234,800
Long-term loans receivable	328,534	328,534	—
Total	$ 11,103,375	$ 11,333,950	$ 230,575
Liabilities:			
Short-term borrowings(*1)	$ 241,567	$ 241,567	$ —
Current portion of long-term debt(*1)	870,058	870,058	—
Trade notes and accounts payable	3,888,975	3,888,975	—
Accrued expenses	1,408,917	1,408,917	—
Long-term debt(*1)	3,186,700	3,208,292	21,592
Total	$ 9,596,217	$ 9,617,809	$ 21,592
Derivatives (*2)	$ (21,833)	$ (21,833)	$ —

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

(*2) 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*
	2014	*2015*	*2015*
Investment securities:			
unlisted stocks	¥ 46,206	¥24,852	$ 207,100
Investments in affiliated companies:			
unlisted stocks	27,539	35,457	295,475
Investments in limited partnerships and similar partnerships under foreign laws	4,519	5,146	42,883
Others	281	266	2,217
Total	¥ 78,545	¥65,721	$ 547,675

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

March 31, 2015	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	Millions of Yen			
Cash and cash equivalents	¥ 181,132	¥ —	¥ —	¥ —
Short-term investments	1,972	—	—	—
Trade notes and accounts receivable	896,495	30,683	1,189	—
Investment securities				
Available-for-sale securities with contractual maturities (bonds)	—	—	—	1,001
Long-term loans receivable	—	39,101	36	287
Total	¥ 1,079,599	¥ 69,784	¥ 1,225	¥ 1,288

March 31, 2015	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	Thousands of U.S. Dollars			
Cash and cash equivalents	$ 1,509,433	$ —	$ —	$ —
Short-term investments	16,433	—	—	—
Trade notes and accounts receivable	7,470,792	255,692	9,908	—
Investment securities				
Available-for-sale securities with contractual maturities (bonds)	—	—	—	8,342
Long-term loans receivable	—	325,842	300	2,392
Total	$ 8,996,658	$ 581,534	$ 10,208	$ 10,734

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

20. Derivatives

Derivative transactions as of March 31, 2014 and 2015 were as follows:

	Millions of Yen					
	2014			2015		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Currency related						
Foreign exchange forward contracts:						
Buying						
U.S.$	¥ 53,797	¥ 411	¥ 411	¥ 86,820	¥ 3,344	¥ 3,344
Euro	1,000	4	4	260	(21)	(21)
Others	1,046	(16)	(16)	1,989	11	11
Selling						
U.S.$	36,782	(3,038)	(3,038)	46,654	(5,221)	(5,221)
Euro	9,123	(43)	(43)	4,592	264	264
Others	3,905	(23)	(23)	3,365	(158)	(158)
Total			¥ (2,705)			¥ (1,781)
Interest rate related						
Interest rate swaps:						
Pay fixed/ Receiving floating rates	¥ 65,000	¥ (827)	¥ (827)	¥ 65,000	¥ (839)	¥ (839)
Total			¥ (827)			¥ (839)

	Thousands of U.S. Dollars		
2015	Contract Amount	Fair Value	Unrealized Gain (Loss)
Currency related			
Foreign exchange forward contracts:			
Buying			
U.S.$	$ 723,500	$ 27,867	$ 27,867
Euro	2,167	(175)	(175)
Others	16,575	91	91
Selling			
U.S.$	388,783	(43,508)	(43,508)
Euro	38,267	2,200	2,200
Others	28,042	(1,317)	(1,317)
Total			$ (14,842)
Interest rate related			
Interest rate swaps:			
Pay fixed/ Receiving floating rates	$ 541,667	$ (6,992)	$ (6,992)
Total			$ (6,992)

The fair value of derivatives which are shown in the above table present the amounts recognized in the consolidated balance sheet (excluding contract amount).
The fair value of derivatives for the year ended March 31, 2014, which included contract amount in prior period, have presented the amounts (excluding contract amount) to conform to the current year's presentation.

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, 2014 and 2015, included in the above table, were as follows:

	Millions of Yen					
	2014			2015		
	Hedged Item	Contract Amount	Fair Value	Hedged Item	Contract Amount	Fair Value
Currency related						
Foreign exchange forward contracts:						
Selling	Accounts receivable			Accounts receivable		
U.S.$		¥ 4,486	¥ (874)		¥ 1,132	¥ (33)
Others		2,737	4		2,330	(52)
Interest rate related						
Interest rate swaps:	Long-term debt			Long-term debt		
Pay fixed/ Receiving floating rates		¥ 65,000	¥ (827)		¥ 65,000	¥ (839)

	Thousands of U.S. Dollars		
2015	Hedged Item	Contract Amount	Fair Value
Currency related			
Foreign exchange forward contracts:			
Selling	Accounts receivable		
U.S.$		$ 9,433	$ (275)
Others		19,417	$ (433)
Interest rate related			
Interest rate swaps:	Long-term debt		
Pay fixed/ Receiving floating rates		$ 541,667	$ (6,992)

The fair value of derivatives which are shown in the above table represent the amounts recognized in the consolidated balance sheet (excluding contract amount).
The fair value of derivatives for the year ended March 31, 2014, which included contract amount in prior period, have represented the amounts (excluding contract amount) to conform to the current year's presentation.

21. Contingent Liabilities

As of March 31, 2014 and 2015, the NEC Group had the following contingent liabilities:

	Millions of Yen		*Thousands of U.S. Dollars*
	2014	2015	2015
Guarantees for bank loans and others	¥ 6,571	¥ 4,688	$ 39,067

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 was as follows:

2014	Millions of Yen
Loans (*1),(*2)	
Balances:	
Long-term loans receivable	¥ 25,418
Purchases (*1),(*3)	
Transactions	119,766
Balances:	
Trade notes and accounts payable	30,528

(*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.

There was no significant transaction of the Company with affiliated companies for the year ended March 31, 2015.

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, 2014 and 2015 were as follows:

2014	Millions of Yen
Borrowings (*)	
Balances:	
Current portion of long-term debt	¥ 3,487
Long-term debt	86,920
Guarantee of obligation (*)	
Advances from customers	43,476

(*)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.

2015	Millions of Yen	Thousands of U.S. Dollars
Borrowings (*)		
Balances:		
Current portion of long-term debt	¥ 2,453	$ 20,442
Long-term debt	85,794	714,950
Guarantee of obligation (*)		
Advances from customers	57,019	475,158

(*)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, 2014 and 2015 was NEC Capital Solutions Limited, and the condensed financial information was as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2014	2015	2015
Current assets total	¥ 638,909	¥ 731,642	$ 6,097,017
Noncurrent assets total	64,182	77,089	642,408
Current liabilities total	181,595	321,318	2,677,650
Long-term liabilities total	443,000	381,486	3,179,050
Net assets total	78,496	105,927	882,725
Sales	228,262	213,853	1,782,108
Income before income taxes and minority interests	16,478	4,425	36,875
Net income	5,009	2,816	23,467

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, 2013, 2014 and 2015 were as follows:

	Millions of Yen	*Thousands of shares*	*Yen*
	Net income(loss)	Weighted average shares	EPS
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	–	–	–
For the year ended March 31, 2015:			
Basic EPS			
Net income	¥ 57,302		
Amounts not attributable to common shareholders	–		
Net income available to common shareholders	¥ 57,302	2,598,601	¥ 22.05
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, 2015:			
Basic EPS			
Net income	$ 477,517		
Amounts not attributable to common shareholders	–		
Net income available to common shareholders	$ 477,517	2,598,601	$ 0.18
Effect of Dilutive Securities	–	–	
Diluted EPS			
Net income for computation	–	–	–

Diluted net income per share for the fiscal 2013, 2014 and 2015 is not disclosed because it is anti-dilutive.

As described in Note 3, the NEC Group has applied the “Retirement Benefits Standard” and the accompanying consolidated financial statements for the fiscal year ended March 31, 2015 conform to the transitional treatment as defined in the article 37 of “Retirement Benefits Standard”.

The impact on net income per share is immaterial.

24. Net Assets Per Share

Net assets per share as of March 31, 2014 and 2015 were as follows:

	Yen		*U.S. Dollars*
	2014	2015	2015
Net assets per share	¥ 267.86	¥ 316.93	$ 2.64

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, 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
For the year ended March 31, 2015:			
Total net assets	¥ 884,192		
Amounts deducted from total net assets			
Minority interests	(60,542)		
Net assets as of the year end attributable to common shareholders	¥ 823,650	2,598,817	¥ 316.93

	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, 2015:			
Total net assets	$ 7,368,267		
Amounts deducted from total net assets			
Minority interests	(504,517)		
Net assets as of the year end attributable to common shareholders	$ 6,863,750	2,598,817	$ 2.64

As described in Note 3, the NEC Group has applied the "Retirement Benefits Standard" and the accompanying consolidated financial statements for the fiscal year ended March 31, 2015 conform to the transitional treatment as defined in the article 37 of "Retirement Benefits Standard".

As a result, net assets per share decreased by ¥7.88 ($0.07) at the end of the fiscal year ended March 31, 2015.

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, 2014 and 2015 presentation below conform to this change.

For the years ended March 31, 2013, 2014 and 2015

(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/ cloud services for manufacturing, distribution and service companies.

Telecom Carrier

This segment mainly provides network infrastructure such as optical transmission systems, submarine cable systems, routers/ switches, mobile phone base stations, mobile backhaul (PASOLINK), primarily to telecom carriers. The segment also renders services and management, including telecom operations and management solutions (TOMS) and service/ solutions 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.

As described in Note 3, the NEC Group has changed calculation methods of retirement benefit obligations and service costs.

The calculation method has also been applied to reportable segments from the fiscal year ended March 31, 2015.

The impact of this change is immaterial.

(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 and 2015, 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
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

(Fiscal year ended March 31, 2015)

	Millions of Yen							
	2015							
	Reportable Segments							
	Public	Enterprise	Telecom Carrier	System Platform	Total	Others	Adjustment	Consolidated Total
Net Sales								
1. Sales to customers	¥ 821,860	¥ 270,508	¥ 740,150	¥ 728,854	¥ 2,561,372	¥ 374,145	¥ —	¥ 2,935,517
2. Intersegment sales and transfers	52,170	5,088	20,246	65,290	142,794	32,423	(175,217)	—
Total sales	¥ 874,030	¥ 275,596	¥ 760,396	¥ 794,144	¥ 2,704,166	¥ 406,568	¥ (175,217)	¥ 2,935,517
Segment income(loss) (Operating income(loss))	¥ 74,759	¥ 8,301	¥ 61,964	¥ 31,404	¥ 176,428	¥ 4,023	¥ (52,367)	¥ 128,084
Segment assets	¥ 673,600	¥ 165,019	¥ 560,556	¥ 436,156	¥ 1,835,331	¥ 357,950	¥ 427,371	¥ 2,620,652
Other items								
Depreciation	¥ 21,994	¥ 3,499	¥ 12,809	¥ 14,341	¥ 52,643	¥ 12,816	¥ 13,258	¥ 78,717
Amortization of goodwill	224	2,389	7,220	680	10,513	6,301	—	16,814
Investments in affiliated companies	4,673	1,012	2,140	3,437	11,262	79,878	(987)	90,153
Increase in property, plant and equipment and intangible assets	33,183	18,904	11,673	22,973	86,733	16,817	5,279	108,829

	Thousands of U.S. Dollars							
	2015							
	Reportable Segments							
	Public	Enterprise	Telecom Carrier	System Platform	Total	Others	Adjustment	Consolidated Total
Net Sales								
1. Sales to customers	$ 6,848,834	$ 2,254,233	$ 6,167,916	$ 6,073,784	$ 21,344,767	$ 3,117,875	$ —	$ 24,462,642
2. Intersegment sales and transfers	434,750	42,400	168,717	544,083	1,189,950	270,192	(1,460,142)	—
Total sales	$ 7,283,584	$ 2,296,633	$ 6,336,633	$ 6,617,867	$ 22,534,717	$ 3,388,067	$ (1,460,142)	$ 24,462,642
Segment income(loss) (Operating income(loss))	$ 622,992	$ 69,175	$ 516,367	$ 261,700	$ 1,470,234	$ 33,525	$ (436,392)	$ 1,067,367
Segment assets	$ 5,613,334	$ 1,375,158	$ 4,671,300	$ 3,634,633	$ 15,294,425	$ 2,982,917	$ 3,561,425	$ 21,838,767
Other items								
Depreciation	$ 183,284	$ 29,158	$ 106,742	$ 119,508	$ 438,692	$ 106,800	$ 110,483	$ 655,975
Amortization of goodwill	1,867	19,908	60,167	5,667	87,609	52,508	—	140,117
Investments in affiliated companies	38,942	8,433	17,833	28,642	93,850	665,650	(8,225)	751,275
Increase in property, plant and equipment and intangible assets	276,525	157,533	97,275	191,442	722,775	140,141	43,992	906,908

(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.

"Others" for the fiscal year ended March 31, 2015 represents businesses such as Smart Energy (Electrodes/Energy Storage System, Solutions for Utilities, etc.) and Mobile Phones, 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 unallocated to each reportable segment and noncurrent assets related adjustment of ¥1,008 million, respectively.

"Adjustment" of segment income (loss) for the fiscal year ended March 31, 2015 included corporate expenses of ¥(51,533) million ($(429,442) thousand) unallocated to each reportable segment and noncurrent assets related adjustment of ¥(959) million ($(7,992) 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, 2014 and 2015 included corporate assets of ¥492,110 million and ¥467,421 million ($3,895,175 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, 2014 and 2015 included increase in the Company of ¥72,526 million and ¥10,391 million ($86,592 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				
	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

	Millions of Yen				
	2015				
	Japan	The Americas	Greater China, APAC	EMEA	Total
Net Sales	¥ 2,348,673	¥ 203,873	¥ 246,382	¥ 136,589	¥ 2,935,517
Property, plant and equipment, net of accumulated depreciation	317,382	11,433	8,210	1,090	338,115

	Thousands of U.S. Dollars				
	2015				
	Japan	The Americas	Greater China, APAC	EMEA	Total
Net Sales	$ 19,572,275	$ 1,698,942	$ 2,053,183	$ 1,138,242	$ 24,462,642
Property, plant and equipment, net of accumulated depreciation	2,644,850	95,275	68,417	9,083	2,817,625

* 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*	
	2014	2015	2015	Reportable Segment
Sales to:				
NTT Group *	¥ 375,372	¥ 315,548	$ 2,629,567	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						
	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

	Millions of Yen						
	2015						
	Public	Enterprise	Telecom Carrier	System Platform	Others	Corporate/ Eliminations	Total
Impairment losses of noncurrent assets	¥ 1,319	¥ 597	¥ 2,761	¥ 500	¥ 2,374	¥ 1,381	¥ 8,932

	Thousands of U.S. Dollars						
	2015						
	Public	Enterprise	Telecom Carrier	System Platform	Others	Corporate/ Eliminations	Total
Impairment losses of noncurrent assets	$ 10,992	$ 4,975	$ 23,008	$ 4,167	$ 19,783	$ 11,508	$ 74,433

* 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						
	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

	Millions of Yen						
	2015						
	Public	Enterprise	Telecom Carrier	System Platform	Others	Corporate/ Eliminations	Total
Amortization	¥ 224	¥ 2,389	¥ 7,220	¥ 680	¥ 6,301	¥ –	¥ 16,814
Ending balance	368	3,240	14,211	2,720	46,446	–	66,985

	Thousands of U.S. Dollars						
	2015						
	Public	Enterprise	Telecom Carrier	System Platform	Others	Corporate/ Eliminations	Total
Amortization	$ 1,867	$ 19,908	$ 60,167	$ 5,667	$ 52,508	$ –	$ 140,117
Ending balance	3,067	27,000	118,425	22,666	387,050	–	558,208

Information about gain on negative goodwill by reportable segment

(Fiscal years ended March 31, 2014 and 2015)

Not applicable.

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, 2015 and 2014, 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, 2015, 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, 2015 and 2014, and their financial performance and cash flows for each of the years in the three-year period ended March 31, 2015, 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, 2015 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 22, 2015
Tokyo, Japan

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