\Orchestrating a brighter world

NEC

Annual Report 2016 (Financials)

Year ended March 31, 2016

Contents

Note: U.S. dollar amounts are translated from yen,
for convenience only, at the rate of ¥112 = U.S.$1.

Management's Discussion and Analysis

Year Ended March 31, 2016 (Fiscal 2016)
Compared With the Year Ended March 31, 2015 (Fiscal 2015)

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, 2016. 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 2016, Public generated 27.2% of net sales, Enterprise 10.7%, Telecom Carrier 24.8%, and System Platform 25.8%. (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 2016 Business Results

In fiscal 2016, the overall pace of growth for the worldwide economy slowed, as stable economic performance in advanced countries, such as the United States and Europe, was offset by a significant slowdown in the growth of emerging countries due to influences from a global decline in demand for resources and unstable financial markets.

As for the Japanese economy, although the corporate sector performed well, a decline in consumer spending and public investment, as well as a downturn in exports, led to sluggish economic growth.

Under this business environment, the NEC Group accelerated efforts towards the establishment of a globally deployable Social Solutions business in the final year of its "Mid-term Management Plan 2015" for transforming the NEC Group 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."

Focus on Solutions for Society

In terms of the "Focus on Solutions for Society," NEC's efforts for expanding business included investment in core areas such as Software-Defined Networking (SDN) as a next generation networking technology, the cloud, big data, safety and security.

In terms of SDN, NEC promoted activities for its commercialization among domestic and foreign telecommunications carriers, including the delivery of communications software, such as virtualized Evolved Packet Core (vEPC) for the newly launched commercial networks from NTT DOCOMO, INC. that feature Network Functions Virtualization (NFV) technologies. Moreover, NEC has steadily increased the number of active systems utilizing its SDN, including systems for hospitals, transportation authorities, local governments and data centers, thereby contributing to the efficient construction and operations of customer networks.

Regarding cloud development, NEC strengthened its cloud platform business through the "NEC Cloud IaaS" service model and the "NEC Cloud System" ownership model, as well as its hybrid cloud linking these two models, thereby helping customers to operate their businesses safely and supporting the advancement of information and telecommunications infrastructure.

As for big data, NEC delivered a system for financial institutions that can gather and automatically analyze a massive amount of customer feedback received daily (the "customer testimonials") along with a system that provides a variety of operational support, and strengthened efforts related to the Internet of Things (IoT) and artificial intelligence (AI).

Regarding the safety and security sector, NEC expanded its support for the introduction, development and operation of systems related to the "My Number," social security and tax number system for governments, local public authorities and private businesses. NEC also received orders to provide face recognition systems for use by local governments throughout Japan in order to confirm the identity of citizens when their My Number cards are issued, thereby strengthening security and contributing to the safe operation of the My Number system.

Focus on Asia, Promotion of Locally-led Business

Regarding the "Focus on Asia, Promotion of Locally-led Business," NEC engaged in efforts to promote growing businesses and establish new business models focused on the safety sector. Specifically, NEC received orders for an automated fingerprint identification system for the Philippine National Police, a face recognition solution for the Northern Territory Police Force in Australia, a face recognition system for customs operation at 14 leading international airports in Brazil, and a security system for the Buenos Aires subway in Argentina.

Moreover, in order to protect the information assets of customers and strengthen the world's security surveillance networks, NEC established a new "Cyber Security Factory" in Singapore, following the one in Japan that supports the development and operation of measures against cyberattacks. Furthermore, NEC's latest efforts to contribute to the safety and security of society include joint demonstration tests with the Central Weather Bureau of Taiwan for the early detection of earthquakes.

Stabilize Our Financial Foundation

Lastly, regarding the goal to "Stabilize Our Financial Foundation," NEC secured net income and reduced interest-bearing debt as part of improving its debt-equity ratio and creating a sound balance sheet. Additionally, NEC worked on an operational reform promotion project centering on NEC Management Partner, Ltd. that carried out the transfer of staff functions and common IT assets from NEC to NEC Management Partner, Ltd.

Condensed Consolidated Income Statements

	Billions of Yen		YoY Change
	2015	2016	2016/2015
Net Sales	¥ 2,935.5	¥2,821.2	-3.9%
Operating income	128.1	107.3	-16.2%
Ordinary income	112.1	82.7	-26.2%
Profit attributable to owners of the parent	57.3	68.7	+20.0%

In fiscal 2016, the NEC Group recorded consolidated net sales of 2,821.2 billion yen, a decrease of 114.3 billion yen or 3.9% year-on-year. This decrease was mainly due to decreased sales in the Public business and Telecom Carrier business as well as decreased sales from logistics services in Others no longer being consolidated, despite increased sales from the Enterprise business.

Regarding profitability, consolidated operating income worsened by 20.8 billion yen year-on-year, to an operating income of 107.3 billion yen, mainly due to decreased sales and worsening gross profit, despite reduced selling, general and administrative expenses.

In terms of consolidated ordinary income, the NEC Group recorded a profit of 82.7 billion yen, worsening by 29.4 billion yen year-on-year, mainly due to the worsening of operating income in addition to the worsening of foreign exchange gain (loss).

Consolidated income before income taxes was a profit of 77.9 billion yen, a year-on-year worsening of 18.8 billion yen. This was primarily due to the worsening of ordinary income, despite decreased business structure improvement expenses.

Profit attributable to owners of the parent for the fiscal year ended March 31, 2016 was a profit of 68.7 billion yen, a year-on-year improvement of 11.4 billion yen, mainly due to a tax expense decrease from the debt waiver for NEC Mobile Communications, Ltd., despite worsening of income before income taxes and the acquisition of non-controlling interests from making NEC Fielding, Ltd. a wholly-owned subsidiary in the previous fiscal year.

The NEC Group made the decision to voluntarily adopt International Financial Reporting Standards (IFRS) starting with the fiscal year ending March 31, 2017. As a result, the NEC Group's financial forecasts for the fiscal year ending March 31, 2017 are calculated based on IFRS. The NEC Group anticipates consolidated net sales of 2,880.0 billion yen, 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 100.0 billion yen for the fiscal year ending March 31, 2017. The NEC Group also expects 50.0 billion yen of profit attributable to owner of the parent for the same period.

a. *Public business*

Sales:	766.8 billion yen	(-6.7 %)
Operating income:	57.5 billion yen	(-17.2 billion yen)

In the Public business, sales were 766.8 billion yen, a decrease of 55.1 billion yen or 6.7% year-on-year, mainly due to decreased sales from large-scale projects for government offices and public services during the same period of the previous fiscal year.

Operating income worsened by 17.2 billion yen year-on-year, to an operating income of 57.5 billion yen, mainly owing to decreased sales and an increase in loss-making projects.

b. *Enterprise business*

Sales:	300.7 billion yen	(+11.2%)
Operating income:	22.2 billion yen	(+13.9 billion yen)

In the Enterprise business, sales were 300.7 billion yen, an increase of 30.2 billion yen or 11.2% year-on-year, mainly due to increased sales from large-scale projects for the retail/services sector and manufacturing industries.

Operating income improved by 13.9 billion yen year-on-year, to an operating income of 22.2 billion yen, mainly owing to increased sales and the improved profitability of system construction services.

c. *Telecom Carrier business*

Sales:	698.9 billion yen	(-5.6 %)
Operating income:	45.6 billion yen	(-16.4 billion yen)

In the Telecom Carrier business, sales were 698.9 billion yen, a decrease of 41.2 billion yen or 5.6% year-on-year, mainly due to decreased domestic sales, despite increased international sales of submarine cable systems and Telecom Operations and Management Solutions (TOMS).

Operating income worsened by 16.4 billion yen year-on-year, to an operating income of 45.6 billion yen, mainly due to decreased sales and loss-making international projects.

d. *System Platform business*

Sales:	728.5 billion yen	(-0.0 %)
Operating income:	37.5billion yen	(+6.1 billion yen)

In the System Platform business, sales were 728.5 billion yen, almost remaining flat year-on-year, mainly due to decreased maintenance service sales, despite increased sales in hardware.

Operating income improved by 6.1 billion yen year-on-year, to an operating income of 37.5 billion yen, mainly due to improved profitability in hardware.

e. *Others*

In Others, sales were 326.2 billion yen, a decrease of 47.9 billion yen or 12.8% year-on-year, mainly due to decreased Smart Energy business, a decline in mobile phone shipments and the logistics services business no longer being consolidated.

Operating income (loss) worsened by 12.9 billion yen year-on-year, to an operating loss of 8.9 billion yen, mainly owing to decreased sales.

3. Liquidity and Capital Resources

a. Assets, Liabilities and Net Assets

Condensed Consolidated Balance Sheets

	Billions of Yen		*YoY Change*
	2015	2016	2016/2015
Assets			
Current assets	¥ 1,576.8	¥ 1,527.3	¥-49.5
Property, plant and equipment	338.1	331.8	-6.3
Investments and other assets	705.8	634.3	-71.5
Total Assets	2,620.7	2,493.4	-127.2
Liabilities			
Current liabilities	1,069.5	1,012.0	-57.5
Noncurrent liabilities	666.9	628.9	-38.0
Total liabilities	1,736.5	1,640.9	-95.5
Net assets			
Shareholders' equity	749.9	808.6	+58.7
Accumulated other comprehensive income	73.8	-16.5	-90.2
Minority interests	60.5	60.4	-0.1
Total net assets	884.2	852.5	-31.7
Total liabilities and net assets	2,620.7	2,493.4	-127.2
Interest-bearing debt	520.8	481.0	-39.8
Net interest-bearing debt	339.6	288.7	-51.0
Owner's equity	823.7	792.1	-31.6
Owner's equity ratio	31.4%	31.8%	+0.4
Debt equity ratio	0.63 times	0.61 times	-0.05
Net debt equity ratio	0.41 times	0.36 times	-0.05

Total assets were 2,493.4 billion yen as of March 31, 2016, a decrease of 127.2 billion yen as compared with the end of the previous fiscal year. Current assets as of March 31, 2016 decreased by 49.5 billion yen compared with the end of the previous fiscal year to 1,527.3 billion yen, mainly due to the collection of accounts receivable-trade. Noncurrent assets as of March 31, 2016 decreased by 77.7 billion yen compared with the end of the previous fiscal year to 966.2 billion yen, mainly due to decreased net defined benefit assets and goodwill.

Total liabilities as of March 31, 2016 decreased by 95.5 billion yen compared with the end of the previous fiscal year, to 1,640.9 billion yen. This was mainly due to a decrease in notes and accounts payable-trade and interest-bearing debt. The balance of interest-bearing debt amounted to 481.0 billion yen, a decrease of 39.8 billion yen as compared with the end of the previous fiscal year. The debt-equity ratio as of March 31, 2016 was 0.61 (an improvement of 0.02 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of March 31, 2016, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 288.7 billion yen, a decrease of 51.0 billion yen as compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2016 was 0.36 (an improvement of 0.05 points as compared with the end of the previous fiscal year).

Total net assets were 852.5 billion yen as of March 31, 2016, a decrease of 31.7 billion yen as compared with the end of the previous fiscal year, mainly due to decreased accumulated adjustment for employee retirement benefits and foreign currency translation adjustments, despite the recording of profit attributable to the owners of the parent.

As a result, the owner's equity as of March 31, 2016 was 792.1 billion yen and owner's equity ratio was 31.8% (an improvement of 0.4 points as compared with the end of the previous fiscal year).

b. Cash Flows

Condensed Consolidated Cash Flows

		Billions of Yen		YoY Change
		2015	2016	2016/2015
I	Cash flows from operating activities	¥ 87.9	¥ 97.8	¥ +9.9
II	Cash flows from investing activities	-47.5	-32.2	+15.3
I+II	Free cash flows	40.4	65.6	+25.2
III	Cash flows from financing activities	-72.0	-50.1	-21.9
Cash and cash equivalents at end of period		181.1	192.3	+11.2

Net cash inflows from operating activities for the fiscal year ended March 31, 2016 were 97.8 billion yen, an improvement of 9.9 billion yen as compared with the previous fiscal year, mainly due to improved working capital.

Net cash outflows from investing activities for the fiscal year ended March 31, 2016 were 32.2 billion yen, a decrease of 15.3 billion yen as compared with the previous fiscal year. This was mainly due to decreased outflows for business acquisitions.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for the fiscal year ended March 31, 2016 totaled a cash inflow of 65.6 billion yen, an improvement of 25.2 billion yen year-on-year.

Net cash flows from financing activities for the fiscal year ended March 31, 2016 totaled a cash outflow of 50.1 billion yen, mainly due to outflow for the redemption of bonds and payment of dividends, despite the procurement of capital from the issuance of bonds.

As a result, cash and cash equivalents as of March 31, 2016 amounted to 192.3 billion yen, an increase of 11.2 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, 2016, NEC had a sufficient amount of liquidity. Total liquidity in hand as of March 31, 2016, was 514.3 billion yen, comprising cash and cash equivalents of 192.3 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 2019 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,	2015	2016
Long-term fund procurement*1	74.0%	67.3%
Use of capital market instruments*2	26.9%	20.8%

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

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

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*
	2015	2016	2016/2015
Public business	¥16.1	¥7.1	-55.9%
Enterprise business	0.3	1.4	+387.9%
Telecom Carrier business	5.9	6.5	+9.8%
System Platform business	7.6	7.3	+5.0%
Others	7.5	14.2	+88.1%
Total	¥37.4	¥36.3	-2.9%

In the Public business, capital expenditures included 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 SDN/NFV as well as next-generation wireless communication systems. In the System Platform business, capital expenditures included investment in cloud service related facilities as well as R&D equipment and production facilities for computers, such as servers and storage. 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 78.6% of its total net sales in the fiscal year ended March 31, 2016. 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 United States 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.

b. 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.

c. 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 certain key customers

The NEC Group's business, results of operations and financial condition may be adversely affected if certain key customers such as the NTT group, reduce their level of capital expenditures or current procurement or shift their investment focus as a result of such factors as significant business or financial problems.

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.

d. 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, including "My Number" social security and tax number information, as well as 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, improperly accessed or exposed by a cyberattack. If personal or confidential information in the NEC Group's possession about its customers or employees is leaked, improperly accessed or exposed by a cyberattack 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 and other legal or regulatory requirements. 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.

7) Human rights and work environment

In the countries and regions where the NEC Group operates, there is growing interest in how corporations respond to issues related to human rights and occupational safety and health. In the event that the NEC Group's business offices and/or supply chain is unable to appropriately respond to these issues, the NEC Group may be faced with criticism from a range of stakeholders, including local residents, clients, consumers, shareholders, investors and human rights organizations, and it may cause the reputation and brand value of the NEC Group to be damaged.

e. 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, there is a possibility of retirement benefit obligations and/or retirement benefit expenses increasing in the event of a future reduction in discount rates or prior service costs resulting from a change in the system.

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 United States (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 cease and desist from the violations of the Exchange Act because the SEC found that certain actions violated 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 United States 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 United States, and this situation may continue in the future.

6. Management Strategy and Policy

a. 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," which represents the NEC Group's desired image of society and group business, 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:
"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 more than 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, communities and employees alike.

b. 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 8.5% under Japanese standards in the fiscal year ended March 31, 2016, but aims for an ROE of 10% (IFRS) in the fiscal year ending March 31, 2019 through its "Mid-term Management Plan 2018."

c. Middle and Long Term Management Strategy

In April 2016, the NEC Group established a "Mid-term Management Plan 2018," featuring midterm management policies that include (1) a profit structure rebuilding plan, and (2) a return to growth. The NEC Group aims to expand business and improve profitability by transitioning to a "social value innovator" and establishing a globally competitive growth base.

d. 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."

In the three year "Mid-term Management Plan 2015" announced in April 2013, the NEC Group put forth a mid-term management policy consisting of (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. However, in the fiscal year of 2015, with the exception of net income, the NEC Group was not able to achieve the performance targets of the Mid-term Management Plan. NEC recognizes that this is mainly due to challenges that include (1) insufficient ability to execute the start of new businesses, such as SDN and Smart Energy, (2) delays in business expansion and lack of revenues in relation to international business, and (3) falling behind in the structural improvement of earnings in response to a decline in existing business.

Based on this situation, in April 2016 the NEC Group formulated the "Mid-term Management Plan 2018" consisting of (1) an earnings structure rebuilding plan, and (2) a plan for returning to growth.

1) Earnings structure rebuilding plan

The NEC Group aims to establish an earnings structure for realizing a 5% operating income. First, in order to address struggling businesses and unprofitable projects, the NEC group will restructure the Smart Energy business and reinforce project management strength as part of suppressing losses from unprofitable projects. Moreover, the NEC Group will promote the acceleration of operational reform projects through streamlining staff operations/expenses and IT expenses, as well as the optimization of the development and production of hardware and software as part of creating a management base for supporting the group's competitive strength.

2) Returning to growth

The NEC Group aims to drive the globalization of its Social Solutions business. Specifically, in order to achieve business expansion, the NEC Group has defined safety business (surveillance, cyber security), global carrier network business (TOMS (Telecom Operations and Management Solutions), SDN/NFV) and the retail IT service business as its core business areas, and concentrates resources on these potentially growing areas.

The NEC Group regards compliance as one of the most important management issues and has been continuing its comprehensive observation of compliance. However, during the fiscal year of 2015 with respect to transactions for wireless digital emergency firefighting equipment, and during the fiscal year of 2016 with respect to transactions for telecommunications equipment for electric power systems with Tokyo Electric Power Company and Chubu Electric Power Co., Inc. respectively, the Japan Fair Trade Commission carried out on-site inspections on suspicions that NEC violated the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade and the commission's investigation is continuing.

NEC places great importance on these issues and is fully cooperating with the commission's investigation. 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."

e. Basic Rationale for Selection of Accounting Standards

The NEC Group made the decision of 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, 2015 and 2016

ASSETS	Millions of Yen 2015	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2016
CURRENT ASSETS:			
Cash and cash equivalents *(Note 19)*	¥ 181,132	¥ 192,323	$ 1,717,170
Short-term investments *(Note 19)*	1,972	1,818	16,232
Trade notes and accounts receivable *(Note 19)*	928,367	874,496	7,808,000
Inventories *(Note 7)*	241,146	228,059	2,036,241
Deferred tax assets *(Note 13)*	65,351	79,418	709,089
Other current assets *(Notes 19 and 20)*	163,968	157,982	1,410,554
Allowance for doubtful accounts	(5,151)	(6,837)	(61,045)
Total current assets	1,576,785	1,527,259	13,636,241
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION *(Notes 2f and 8)*:			
Land	57,787	57,189	510,616
Buildings and structures	172,177	168,001	1,500,009
Machinery and equipment	20,189	19,516	174,250
Furniture and fixtures	67,643	66,265	591,652
Construction in progress	20,319	20,823	185,919
Total property, plant and equipment	338,115	331,794	2,962,446
INVESTMENTS AND OTHER ASSETS:			
Investment securities *(Notes 6 and 19)*	157,078	143,116	1,277,821
Investments in affiliated companies *(Note 19)*	90,153	91,626	818,089
Goodwill	66,985	46,123	411,813
Software	94,194	89,358	797,839
Long-term loans receivable *(Note 19)*	39,424	37,271	332,777
Deferred tax assets *(Note13)*	85,114	114,316	1,020,679
Net defined benefit asset *(Note 9)*	74,622	23,634	211,018
Other assets *(Notes 19 and 20)*	102,682	93,020	830,536
Allowance for doubtful accounts	(4,500)	(4,076)	(36,393)
Total investments and other assets	705,752	634,388	5,664,179
TOTAL ASSETS	¥ 2,620,652	¥ 2,493,441	$ 22,262,866

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen 2015	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2016
CURRENT LIABILITIES:			
Short-term borrowings *(Notes 8 and 19)*	¥ 28,988	¥ 40,102	$ 358,054
Current portion of long-term debt *(Notes 8 and 19)*	106,267	117,174	1,046,196
Trade notes and accounts payable *(Note 19)*	466,677	415,427	3,709,170
Accrued expenses *(Note 19)*	169,070	155,240	1,386,071
Other current liabilities *(Notes 10, 13, 19 and 20)*	298,546	284,099	2,536,598
Total current liabilities	1,069,548	1,012,042	9,036,089
LONG-TERM LIABILITIES:			
Long-term debt *(Notes 8 and 19)*	385,523	323,711	2,890,277
Net defined benefit liability *(Notes 3 and 9)*	228,686	258,632	2,309,214
Deferred tax liabilities *(Note 13)*	2,410	1,891	16,884
Other long-term liabilities *(Notes 11, 19 and 20)*	50,293	44,672	398,857
Total long-term liabilities	666,912	628,906	5,615,232
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 2015 and 2016	397,199	397,199	3,546,420
Capital surplus	148,694	149,034	1,330,661
Retained earnings *(Note 3)*	207,021	265,404	2,369,678
Treasury stock—at cost: 5,916 thousand shares in 2015 and 6,059 thousand shares in 2016	(3,025)	(3,077)	(27,473)
Total shareholders' equity	749,889	808,560	7,219,286
ACCUMULATED OTHER COMPREHENSIVE INCOME:			
Valuation difference on available-for-sale securities	47,385	36,710	327,767
Deferred gains or losses on hedges	(271)	(1,525)	(13,616)
Foreign currency translation adjustments	12,795	(1,175)	(10,491)
Remeasurements of defined benefit plans	13,852	(50,478)	(450,696)
Total accumulated other comprehensive income	73,761	(16,468)	(147,036)
NON-CONTROLLING INTERESTS *(Note 3)*	60,542	60,401	539,295
Total net assets	884,192	852,493	7,611,545
TOTAL LIABILITIES AND NET ASSETS	¥ 2,620,652	¥ 2,493,441	$ 22,262,866

Consolidated Statements of Operations

NEC Corporation and Subsidiaries
Years Ended March 31, 2014, 2015 and 2016

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2014	2015	2016	2016
NET SALES	¥ 3,043,114	¥ 2,935,517	¥ 2,821,181	$ 25,189,116
COST OF SALES *(Note 9)*	2,128,457	2,039,499	1,978,757	17,667,473
Gross profit	914,657	896,018	842,424	7,521,643
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES *(Notes 9 and 14)*	808,464	767,934	735,118	6,563,554
Operating income	106,193	128,084	107,306	958,089
NON-OPERATING INCOME:				
Interest and dividends income	6,251	5,658	5,916	52,821
Equity in earnings of affiliated companies, net	2,719	8,126	4,562	40,732
Foreign exchange gain, net	593	4,468	—	—
Other non-operating income *(Note 5)*	8,672	8,240	7,498	66,947
Total non-operating income	18,235	26,492	17,976	160,500
NON-OPERATING EXPENSES:				
Interest expense	10,036	10,066	9,760	87,143
Foreign exchange loss, net	—	—	8,482	75,732
Settlement package and compensation for damage *(Note 5)*	3,836	2,554	7,220	64,464
Provision for contingent loss	11,452	5,872	4,745	42,366
Retirement benefit expenses *(Note 9)*	11,325	10,357	—	—
Other non-operating expenses *(Note 5)*	18,627	13,615	12,340	110,179
Total non-operating expenses	55,276	42,464	42,547	379,884
Ordinary income	69,152	112,112	82,735	738,705
SPECIAL GAINS *(Note 15)*	58,341	7,801	6,095	54,420
SPECIAL LOSSES *(Note 15)*	43,532	23,176	10,908	97,393
PROFIT BEFORE INCOME TAXES	83,961	96,737	77,922	695,732
INCOME TAXES *(Note 13)*:				
Current	33,558	31,868	20,085	179,330
Deferred	8,808	8,944	(16,202)	(144,661)
Total income taxes	42,366	40,812	3,883	34,669
PROFIT	41,595	55,925	74,039	661,063
PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	7,853	(1,377)	5,290	47,233
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 33,742	¥ 57,302	¥ 68,749	$ 613,830

	Yen			U.S. Dollars (Note 1)
	2014	2015	2016	2016
PER SHARE OF COMMON STOCK *(Note 23)*:				
Basic earnings per share	¥ 12.99	¥ 22.05	¥ 26.45	$ 0.24
Diluted earnings per share	—	—	—	—
Cash dividends applicable to the year	4.00	4.00	6.00	0.05

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

NEC Corporation and Subsidiaries
Years Ended March 31, 2014, 2015 and 2016

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2014	2015	2016	2016
PROFIT	¥ 41,595	¥ 55,925	¥ 74,039	$ 661,063
OTHER COMPREHENSIVE INCOME *(Note 16)*:				
Valuation difference on available-for-sale securities	15,858	12,028	(10,418)	(93,018)
Deferred gains or losses on hedges	(253)	674	(30)	(268)
Foreign currency translation adjustments	4,450	11,218	(11,798)	(105,339)
Remeasurements of defined benefit plans	—	78,611	(63,674)	(568,518)
Share of other comprehensive income of associates accounted for using equity method	1,239	4,150	(6,120)	(54,643)
Total other comprehensive income	21,294	106,681	(92,040)	(821,786)
COMPREHENSIVE INCOME	¥ 62,889	¥ 162,606	¥ (18,001)	$ (160,723)
Comprehensive income attributable to				
owners of the parent	¥ 54,917	¥ 160,309	¥ (21,480)	$ (191,786)
non-controlling interests	7,972	2,297	3,479	31,063

Consolidated Statements of Changes in Net Assets

NEC Corporation and Subsidiaries
Years Ended March 31, 2014, 2015 and 2016

	Thousands	Shareholders' equity				
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
BALANCE, MARCH 31, 2013	2,604,733	¥ 397,199	¥ 148,405	¥ 157,771	¥ (2,946)	¥ 700,429
Profit attributable to owners of the parent				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
Profit attributable to owners of the parent				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
Profit attributable to owners of the parent				68,749		68,749
Cash dividends paid, ¥4 per share				(10,396)		(10,396)
Purchases of treasury stock					(56)	(56)
Disposals of treasury stock			(2)		4	2
Change in treasury shares of parent arising from transactions with non-controlling shareholders			342			342
Change of scope of equity method				30		30
Net changes in items other than shareholders' equity during the year						—
BALANCE, MARCH 31, 2016	2,604,733	¥ 397,199	¥ 149,034	¥ 265,404	¥ (3,077)	¥ 808,560

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
BALANCE, MARCH 31, 2015	$ 3,546,420	$ 1,327,625	$ 1,848,401	$ (27,009)	$ 6,695,437
Profit attributable to owners of the parent			613,830		613,830
Cash dividends paid, $0.04 per share			(92,821)		(92,821)
Purchases of treasury stock				(500)	(500)
Disposals of treasury stock		(18)		36	18
Change in treasury shares of parent arising from transactions with non-controlling shareholders		3,054			3,054
Change of scope of equity method			268		268
Net changes in items other than shareholders' equity during the year					—
BALANCE, MARCH 31, 2016	$ 3,546,420	$ 1,330,661	$ 2,369,678	$ (27,473)	$ 7,219,286

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	Remeasure-ments of defined benefit plans	Total	Non-controlling interests	Total net assets
¥ 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
						68,749
						(10,396)
						(56)
						2
						342
						30
(10,675)	(1,254)	(13,970)	(64,330)	(90,229)	(141)	(90,370)
¥ 36,710	¥ (1,525)	¥ (1,175)	¥ (50,478)	¥ (16,468)	¥ 60,401	¥ 852,493

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	Remeasure-ments of defined benefit plans	Total	Non-controlling interests	Total net assets
$ 423,080	$ (2,420)	$ 114,241	$ 123,679	$ 658,580	$ 540,554	$ 7,894,571
						613,830
						(92,821)
						(500)
						18
						3,054
						268
(95,313)	(11,196)	(124,732)	(574,375)	(805,616)	(1,259)	(806,875)
$ 327,767	$ (13,616)	$ (10,491)	$ (450,696)	$ (147,036)	$ 539,295	$ 7,611,545

Consolidated Statements of Cash Flows

NEC Corporation and Subsidiaries
Years Ended March 31, 2014, 2015 and 2016

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2014	2015	2016	2016
Cash flows from operating activities				
Profit before income taxes	¥ 83,961	¥ 96,737	¥ 77,922	$ 695,732
Depreciation	76,977	78,717	73,026	652,018
Amortization of long-term prepaid expenses	4,972	5,126	4,947	44,170
Impairment losses on property, plant and equipment, and other assets	15,934	8,932	10,645	95,045
Amortization of goodwill	17,085	16,814	11,839	105,705
Increase (decrease) in allowance for doubtful accounts	(4,163)	(11,030)	2,038	18,196
Decrease in product warranty liabilities	(1,220)	(979)	(3,288)	(29,357)
Increase (decrease) in provision for loss on construction contracts and others	(6,634)	(5,763)	1,971	17,598
Increase (decrease) in provision for business structure improvement	9,086	392	(7,518)	(67,125)
Increase in provision for contingent loss	10,476	787	672	6,000
Increase (decrease) in provision for loss on repurchase of computers	1,583	(464)	(1,687)	(15,063)
Interest and dividends income	(6,251)	(5,658)	(5,916)	(52,821)
Interest expense	10,036	10,066	9,760	87,143
Equity in earnings of affiliated companies	(2,719)	(8,126)	(4,562)	(40,732)
Gain on change in equity	(365)	—	—	—
Gain on sales of property, plant and equipment	(368)	(3,276)	(445)	(3,973)
Gain on sales of investment securities	(2,698)	(2,216)	(4,977)	(44,438)
Loss on sales of investment securities	23	10	21	188
Write-off of investment securities	1,738	1,044	104	929
Gain on sales of investments in affiliated companies	(53,923)	(1,706)	(673)	(6,009)
Loss on sales of investments in affiliated companies	64	—	138	1,232
(Increase) decrease in trade notes and accounts receivable	(22,680)	(74,822)	43,771	390,812
(Increase) decrease in inventories	24,327	(21,830)	7,693	68,688
Decrease in accounts receivable, other	3,380	5,665	5,245	46,830
Increase (decrease) in trade notes and accounts payable	(4,034)	16,668	(44,723)	(399,313)
Others—net *(Note 5)*	(26,937)	21,635	(48,621)	(434,116)
Subtotal	127,650	126,723	127,382	1,137,339
Interest and dividends received	6,216	5,721	5,845	52,187
Interest paid	(8,914)	(10,132)	(10,007)	(89,348)
Income taxes paid	(30,828)	(34,395)	(25,391)	(226,705)
Net cash provided by operating activities	¥ 94,124	¥ 87,917	¥ 97,829	$ 873,473

See notes to consolidated financial statements.

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2014	2015	2016	2016
Cash flows from investing activities				
Purchases of property, plant and equipment	¥ (89,458)	¥ (42,461)	¥ (32,522)	$ (290,375)
Proceeds from sales of property, plant and equipment	5,440	13,790	2,746	24,518
Acquisitions of intangible assets	(12,327)	(8,974)	(8,316)	(74,250)
Purchases of investment securities	(995)	(1,367)	(892)	(7,964)
Proceeds from sales of investment securities	14,907	8,729	7,616	68,000
Disbursements for acquisitions of shares of newly consolidated subsidiaries	(806)	(10,518)	—	—
Proceeds from acquisitions of shares of newly consolidated subsidiaries	116	—	36	321
Proceeds from sales of shares of subsidiaries being excluded from the consolidation	42,504	33	556	4,964
Disbursements for sales of shares of subsidiaries being excluded from the consolidation	—	(3,378)	(385)	(3,437)
Purchases of investments in affiliated companies	(27,693)	(7,127)	(4,380)	(39,107)
Proceeds from sales of investments in affiliated companies	26,515	—	204	1,821
(Increase) decrease in short-term loans receivable, net	(50)	63	498	4,447
Disbursements for loans receivable	(169)	(155)	(142)	(1,268)
Collection of loans receivable	247	907	584	5,214
Others—net	2,876	2,948	2,195	19,598
Net cash used in investing activities	(38,893)	(47,510)	(32,202)	(287,518)
Cash flows from financing activities				
Increase (decrease) in short-term borrowings, net	(26,745)	(2,275)	14,790	132,054
Proceeds from long-term borrowings	138,630	9,875	4,059	36,241
Repayments of long-term borrowings	(76,239)	(46,933)	(15,827)	(141,313)
Proceeds from issuance of bonds	—	—	50,000	446,429
Redemption of bonds	(70,000)	(20,000)	(90,000)	(803,571)
Dividends paid	(10,378)	(10,358)	(10,368)	(92,571)
Dividends paid to non-controlling interests	(5,218)	(2,579)	(2,214)	(19,768)
Others—net	(33)	243	(522)	(4,661)
Net cash used in financing activities	(49,983)	(72,027)	(50,082)	(447,160)
Effect of exchange rate changes on cash and cash equivalents	4,257	6,115	(4,354)	(38,875)
Net increase (decrease) in cash and cash equivalents	9,505	(25,505)	11,191	99,920
Cash and cash equivalents, at beginning of year	197,132	206,637	181,132	1,617,250
Cash and cash equivalents, at end of year	¥ 206,637	¥ 181,132	¥ 192,323	$ 1,717,170
Non-cash investing and financing activities				
Finance leases	¥ 1,326	¥ 781	¥ 471	$ 4,205

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.

Also, certain reclassifications have been made to the prior year consolidated financial statements to conform to the presentation used for the year ended March 31, 2016.

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 ¥112 to $1, the approximate rate of exchange at March 31, 2016. 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, 2016 include the accounts of the Company and its 217 subsidiaries (collectively, the "NEC Group"). Investments in 52 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 profit attributable to owners of the parent 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; and 4) Cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting.

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, 2014, 2015 and 2016 were ¥728,969 million, ¥724,049 million and ¥723,135 million ($6,456,563 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.

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 2014, 2015 and 2016 were ¥142,723 million, ¥134,205 million and ¥123,995 million ($1,107,098 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 percentage of completion can be reasonably measured. The completed-contract accounting method has been applied to other construction projects for which the percentage of completion cannot be reasonably measured.

t. ***Income Taxes*** — The provision for income taxes is computed based on the profit before income taxes 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 recoverable amount 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 "Non-controlling 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 earnings per share is computed by dividing profit available to common shareholders by the weighted-average number of shares of common stock outstanding for the fiscal year.

Diluted earnings per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted earnings 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 attributable 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 and retained earnings decreased by ¥22,458 million in the beginning balance of the fiscal year ended March 31, 2015.

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

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

Accounting Standard for Business Combinations and other — Effective from the beginning of the fiscal year ended March 31, 2016, the NEC Group has applied the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 of September 13, 2013), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 of September 13, 2013), and other applicable standards. As a result, the method of recording the amount of difference caused by changes in the Company's ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to record as capital surplus, and the method of recording acquisition-related costs has been changed to recognize as period expenses for the fiscal year in which they are incurred. Furthermore, for business combinations that are carried out on or after the beginning of the fiscal year ended March 31, 2016, the accounting method has been changed to an adjusted acquisition cost allocation updated from the tentative accounting treatment and is reflected in the consolidated financial statements for the fiscal year in which the business combination occurs.

In addition, some changes were made to presentation method of profit (loss) for the fiscal year, and the account title of "minority interests" was changed to "non-controlling interests". These changes in presentation method have been applied from the fiscal year ended March 31, 2016. To reflect these changes, the consolidated financial statements for the previous fiscal year have been reclassified.

Application of the Accounting Standard for Business Combinations and other applicable standards is in line with the transitional measures that are provided in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures, and is effective from the beginning of the fiscal year ended March 31, 2016.

As a result, there is no significant impact on operating income (loss) and profit before income taxes for the fiscal year ended March 31, 2016, and there is no significant impact on capital surplus for the fiscal year ended March 31, 2016.

Also from this fiscal year, disbursements for acquisitions or proceeds from sales of shares of subsidiaries without change of scope of consolidation have been presented in cash flows from financing activities, and cash out flows from acquisition related costs for acquisitions of shares of subsidiaries with change of scope of consolidation and cash out flows from acquisition or sale related costs for shares of subsidiaries without change of scope of consolidation have been presented in cash flows from operating activities on consolidated statements of cash flows.

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

4. Accounting Standards issued but not yet adopted

Revised Implementation Guidance on Recoverability of Deferred Tax Assets— The ASBJ issued the "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 of March 28, 2016, hereinafter, the "Revised Guidance on Recoverability of Deferred Tax Assets"):

(1) Overview

The Revised Guidance on Recoverability of Deferred Tax Assets was set forth by ASBJ upon transfer of the "Implementation Guidance on Tax Effect Accounting and the Audit Implementation Guidance on Tax Effect Accounting (sections on accounting treatment)" from the Japanese Institute of Certified Public Accountants ("JICPA") to ASBJ.

The Revised Guidance on Recoverability of Deferred Tax Assets provides guidance on the recoverability of deferred tax assets when implementing the "Accounting Standard for Tax Effect Accounting" (the Business Accounting Council), in conformity with the guidance on recoverability as set forth in "The Auditing Treatment on Determining the Recoverability of Deferred Tax Assets" (JICPA Audit Committee Report No. 66), which provides a framework for dividing companies into five categories and the accounting treatment when determining the amount to record for deferred tax assets by each category.

To conform to this framework, the ASBJ guideline was revised to provide the criteria for categorizing the companies and update part of the accounting treatment for determining the amount to record for tax deferred assets as necessary.

(Revised categorization criteria and accounting treatment of the amount to record for tax deferred assets)

- Treatment for an entity that does not meet any of the criteria in types 1 to 5;
- Criteria for types 2 and 3;
- Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
- Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
- Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Scheduled effective date and impact of applying the revised implementation Guidance

The effect of the Revised Guidance on Recoverability of Deferred Tax Assets on the consolidated financial statements is not evaluated as the Group made the decision of the voluntary adoption of International Financial Reporting Standards ("IFRSs") from the fiscal year ending March 31, 2017.

5. Changes in Presentation Method

(Consolidated Statements of Operations)

"Subsidy income", which was presented separately in prior periods (¥2,165 million and ¥2,361 million for the years ended March 31, 2014 and 2015, respectively) has been reclassified into "Other non-operating income" to conform with the current year's presentation.

"Settlement package and compensation for damage" (¥3,836 million and ¥2,554 million for the years ended March 31, 2014 and 2015, respectively), which was included in "Other non-operating expenses" in prior periods has been presented separately to conform with the current year's presentation.

(Consolidated Statements of Cash Flows)

"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, 2015 and 2016 were as follows:

	Millions of Yen			
Mar 31, 2015	Cost	Unrealized Gains	Unrealized Losses	Fair Value
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
Mar 31, 2016				
Securities classified as available-for-sale:				
Equity securities	¥ 69,046	¥ 53,154	¥ 8,220	¥ 113,980
Debt securities	—	—	—	—
Others	91	53	25	119
Total	¥ 69,137	¥ 53,207	¥ 8,245	¥ 114,099

	Thousands of U.S. Dollars			
Mar 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 616,482	$ 474,589	$ 73,393	$ 1,017,678
Debt securities	—	—	—	—
Others	813	473	223	1,063
Total	$ 617,295	$ 475,062	$ 73,616	$ 1,018,741

Non-marketable investment securities whose fair value was not readily determinable as of March 31, 2015 and 2016 were as follows:

	Carrying amount		
	Millions of Yen		*Thousands of U.S. Dollars*
	2015	2016	2016
Available-for-sale:			
Equity securities	¥ 24,852	¥ 24,053	$ 214,759
Investments in limited partnerships	5,146	4,698	41,946
Others	266	266	2,375
Total	¥ 30,264	¥ 29,017	$ 259,080

7. Inventories

Inventories as of March 31, 2015 and 2016 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2015	2016	2016
Merchandise and finished products	¥ 88,301	¥ 72,937	$ 651,223
Work in process	101,989	102,443	914,670
Raw materials and supplies	50,856	52,679	470,348
Total	¥ 241,146	¥ 228,059	$ 2,036,241

8. Short-term Borrowings and Long-term Debt

Short-term borrowings

Short-term borrowings as of March 31, 2015 and 2016 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2015	2016	2016
Loans (weighted-average interest rate of 4.21% as of March 31, 2016)	¥ 28,988	¥ 40,102	$ 358,054

As of March 31, 2016, the NEC Group had unused line-of-credit agreements for short-term borrowings with financial institutions totaling ¥322,000 million ($2,875,000 thousand), of which, ¥322,000 million ($2,875,000 thousand), was unused.

Long-term borrowings

Long-term borrowings as of March 31, 2015 and 2016 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2015	2016	2016
Loans from financial institutions, due in 2016 through 2073 (weighted-average interest rate of 1.84% as of March 31, 2016)	¥ 346,811	¥ 335,251	$ 2,993,313
Less current portion	(14,407)	(105,354)	(940,661)
Total	¥ 332,404	¥ 229,897	$ 2,052,652

Bonds

	Millions of Yen		*Thousands of U.S. Dollars*
	2015	2016	2016
NEC 39th unsecured 1.68% bonds due in 2015	¥ 20,000	¥ —	$ —
NEC 41st unsecured 0.73% bonds due in 2015	40,000	—	—
NEC 42nd unsecured 1.02% bonds due in 2017	20,000	20,000	178,571
NEC 43rd unsecured 0.65% bonds due in 2015	30,000	—	—
NEC 44th unsecured 1.00% bonds due in 2017	20,000	20,000	178,571
NEC 46th unsecured 0.79% bonds due in 2016	10,000	10,000	89,285
NEC 47th unsecured 0.41% bonds due in 2020	—	30,000	267,858
NEC 48th unsecured 0.66% bonds due in 2022	—	20,000	178,571
Less current portion of bonds	(90,000)	(10,000)	(89,285)
Total	¥ 50,000	¥ 90,000	$ 803,571

Lease obligations

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Lease obligations, due in 2016 through 2024 (weighted-average interest rate of 1.77% as of March 31, 2016)	¥ 4,979	¥ 5,634	$ 50,304
Less current portion	(1,860)	(1,820)	(16,250)
Total	¥ 3,119	¥ 3,814	$ 34,054

Annual maturities for the fiscal years ending March 31, 2017 through 2073 of long-term debt as of March 31, 2016 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 117,174	$ 1,046,196
2018	56,883	507,884
2019	74,368	664,000
2020	10,009	89,366
2021	31,621	282,330
2022 and thereafter	150,830	1,346,697
Total	¥ 440,885	$ 3,936,473

The carrying amounts of assets, net of accumulated depreciation, pledged as collateral for short-term borrowings of ¥1,081 million ($9,652 thousand) and other debt of ¥58 million ($518 thousand) as of March 31, 2016 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 3,417	$ 30,509
Buildings and structures	198	1,768
Others	550	4,911
Total, net of accumulated depreciation	¥ 4,165	$ 37,188

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.

Defined benefit plans

(1) Reconciliation of changes in Defined benefit obligations during the year ended March 31, 2015 and 2016 was as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2015	2016	2016
Defined benefit obligations at the beginning of the year	¥ 959,420	¥ 1,026,973	$ 9,169,402
Cumulative effects of changes in accounting policies	34,907	–	–
Restated balance	994,327	1,026,973	9,169,402
Service cost	31,818	32,276	288,178
Interest cost	13,549	13,656	121,929
Actuarial gains and losses	43,143	14,603	130,384
Benefits paid	(53,534)	(55,317)	(493,902)
Other	(2,330)	(7,075)	(63,170)
Defined benefit obligations at the end of the year	¥ 1,026,973	¥ 1,025,116	$ 9,152,821

(*) 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, 2015 and 2016 was as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2015	2016	2016
Plan assets at the beginning of the year	¥ 749,367	¥ 872,909	$ 7,793,830
Expected return on plan assets	14,214	15,940	142,321
Actuarial gains and losses	125,468	(78,181)	(698,044)
Employer contributions	27,239	26,364	235,393
Benefits paid	(45,195)	(43,134)	(385,125)
Other	1,816	(3,780)	(33,750)
Plan assets at the end of the year	¥ 872,909	¥ 790,118	$ 7,054,625

(*) 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*
	2015	2016	2016
Defined benefit obligations [funded]	¥ 835,110	¥ 830,983	$ 7,419,491
Plan assets	(872,909)	(790,118)	(7,054,625)
	(37,799)	40,865	364,866
Defined benefit obligations [unfunded]	191,863	194,133	1,733,330
Net liability (asset) recognized in the consolidated balance sheet	¥ 154,064	¥ 234,998	$ 2,098,196
Net defined benefit liability	¥ 228,686	¥ 258,632	$ 2,309,214
Net defined benefit asset	(74,622)	(23,634)	(211,018)
Net liability (asset) recognized in the consolidated balance sheet	¥ 154,064	¥ 234,998	$ 2,098,196

(4) Retirement benefit expenses

The components of retirement benefit expenses for the fiscal year ended March 31, 2014, 2015 and 2016 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2014	2015	2016	2016
Service cost	¥ 32,235	¥ 31,818	¥ 32,276	$ 288,178
Interest cost	16,419	13,549	13,656	121,929
Expected return on plan assets	(13,219)	(14,214)	(15,940)	(142,321)
Amortization of actuarial gains and losses	33,558	22,766	11,827	105,598
Amortization of prior service costs	(9,195)	(8,939)	(8,645)	(77,188)
Amortization of transitional obligation	11,325	10,357	—	—
Retirement benefit expenses	¥ 71,123	¥ 55,337	¥ 33,174	$ 296,196

(*) 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, 2015 and 2016 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2014	2015	2016	2016
Prior service costs	¥ —	¥ (10,194)	¥ (7,810)	$ (69,732)
Actuarial gains and losses	—	106,319	(77,816)	(694,786)
Transitional obligation	—	10,357	—	—
Total	¥ —	¥ 106,482	¥ (85,626)	$ (764,518)

(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, 2015 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2016	2016
Unrecognized prior service costs	¥ (35,204)	¥ (27,394)	$ (244,589)
Unrecognized actuarial gains and losses	17,565	95,381	851,616
Total	¥ (17,639)	¥ 67,987	$ 607,027

(7) Plan assets

(a) Percentage by major category of plan assets as of March 31, 2015 and 2016 was as follows:

	2015	2016
Equity securities	47%	38%
Debt securities	41%	46%
Other	12%	16%
Total	100%	100%

(*) Total plan assets include 15% for the fiscal year ended March 31, 2015 and 12% for the fiscal year ended March 31, 2016 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, 2015 and 2016 are as follows:

	2015	2016
Discount rate	Mainly, 1.3%	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 ¥7,566 million and ¥8,064 million ($72,000 thousand) for the fiscal year ended March 31, 2015 and 2016, respectively.

10. Other Current Liabilities

Other current liabilities consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2015	2016	2016
Advances received	¥ 122,714	¥ 119,675	$ 1,068,527
Provision for product warranties	17,031	14,016	125,143
Provision for directors' bonuses	331	251	2,241
Provision for loss on construction contracts and others	5,596	7,429	66,330
Provision for business structure improvement	8,627	3,921	35,009
Provision for contingent loss	13,526	12,018	107,303
Others	130,721	126,789	1,132,045
Total	¥ 298,546	¥ 284,099	$ 2,536,598

11. Other Long-term Liabilities

Other long-term liabilities consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2015	2016	2016
Provision for product warranties	¥ 2,943	¥ 2,348	$ 20,964
Provision for loss on repurchase of computers	6,445	4,758	42,482
Provision for business structure improvement	5,867	2,944	26,286
Provision for contingent loss	5,480	7,179	64,098
Others	29,558	27,443	245,027
Total	¥ 50,293	¥ 44,672	$ 398,857

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%, 35.5% and 33.0% for the fiscal years ended March 31, 2014, 2015 and 2016, respectively. Income taxes of foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

Following the enactment of the law "Partial Amendment of the Corporation Tax Act, etc." (Act No.15 of 2016) and "Partial Amendment of Local Tax Act, etc." (Act No.13 of 2016) by the Diet on March 29, 2016, revised corporation tax rate will be imposed from the consolidated fiscal years beginning on or after April 1, 2016.

Accordingly, the statutory effective tax rate to be used in calculating deferred tax assets and liabilities in the current consolidated fiscal year, will be changed from 33.0% in the previous fiscal year to 31.0% for temporary differences expected to be eliminated from the consolidated fiscal year that begins on April 1, 2016 until the consolidated fiscal year that begins on April 1, 2017, and to 30.5% for temporary differences expected to be eliminated from the consolidated fiscal year that begins on April 1, 2018.

The changes in corporate tax rates has no significant impact on deferred tax assets and income taxes-deferred for the fiscal year ended March 31, 2016.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2015 and 2016 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2015	2016	2016
Deferred tax assets :			
Net defined benefit liability	¥ 117,948	¥ 139,558	$ 1,246,054
Tax loss carryforwards	78,809	85,791	765,991
Write-off of investment securities	67,477	62,006	553,625
Accrued expenses and product warranty liabilities	40,336	35,769	319,366
Write-off of inventories	30,019	27,908	249,178
Depreciation	25,311	22,292	199,036
Provision for contingent loss	6,154	5,619	50,169
Elimination of unrealized profit by intercompany transactions among consolidated companies	6,174	5,101	45,545
Provision for loss on construction contracts and others	1,816	2,155	19,241
Provision for business structure improvement	4,460	2,080	18,571
Research and development expenses	1,858	1,585	14,152
Others	88,925	46,058	411,232
Sub-total	469,287	435,922	3,892,160
Less valuation allowance	(276,050)	(202,045)	(1,803,973)
Total	193,237	233,877	2,088,187
Deferred tax liabilities:			
Undistributed earnings of affiliated companies	(21,843)	(22,353)	(199,580)
Unrealized gains on available-for-sale securities	(14,318)	(10,079)	(89,991)
Gain on contribution of securities to the retirement benefit trust	(8,400)	(7,883)	(70,384)
Others	(1,801)	(2,844)	(25,393)
Total	(46,362)	(43,159)	(385,348)
Net deferred tax assets	¥ 146,875	¥ 190,718	$ 1,702,839

Net deferred tax assets were included in the consolidated balance sheets as of March 31, 2015 and 2016 as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2015	2016	2016
Current assets - deferred tax assets	¥ 65,351	¥ 79,418	$ 709,089
Investments and other assets - deferred tax assets	85,114	114,316	1,020,679
Current liabilities - other current liabilities	(1,180)	(1,125)	(10,045)
Long-term liabilities - deferred tax liabilities	(2,410)	(1,891)	(16,884)
Net deferred tax assets	¥ 146,875	¥ 190,718	$ 1,702,839

Reconciliations between the statutory tax rates and the effective tax rates for the fiscal years ended March 31, 2014, 2015 and 2016 were as follows:

	2014	2015	2016
Statutory tax rates	38.0 %	35.5 %	33.0 %
Amortization of goodwill	10.4	7.0	7.8
Equity in losses (earnings) of affiliated companies	(1.2)	(3.1)	(2.1)
Temporary difference associated with investment in affiliated companies	16.3	4.0	(2.8)
Changes in valuation allowance	(13.6)	(4.0)	(33.7)
Others	0.6	2.8	2.8
Effective tax rates	50.5 %	42.2 %	5.0 %

14. Significant Components of Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the fiscal years ended March 31, 2014, 2015 and 2016 consisted of the following:

	Millions of Yen			*Thousands of U.S. Dollars*
	2014	2015	2016	2016
Salaries for employees	¥ 290,963	¥ 293,344	¥ 294,915	$ 2,633,170
Research and development expenses	137,662	128,742	117,965	1,053,259
Retirement benefit expenses	26,018	18,887	13,312	118,857
Provision for product warranty liabilities	12,578	15,694	10,017	89,438
Provision for loss on repurchase of computers	4,372	733	25	223

15. Special Gains and Losses

(1) Special gains

Special gains for the fiscal years ended March 31, 2014, 2015 and 2016 consisted of the following:

	Millions of Yen			*Thousands of U.S. Dollars*
	2014	2015	2016	2016
Gain on sales of investment securities	¥ 2,698	¥ 2,216	¥ 4,977	$ 44,438
Gain on sales of investments in affiliated companies	53,923	1,706	673	6,009
Gain on sales of noncurrent assets	368	3,276	445	3,973
Gain on business transfers	291	603	—	—
Gain on change in equity	607	—	—	—
Gain on step acquisitions	454	—	—	—
Total	¥ 58,341	¥ 7,801	¥ 6,095	$ 54,420

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.

(2) Special losses

Special losses for the fiscal years ended March 31, 2014, 2015 and 2016 consisted of the following:

	Millions of Yen			*Thousands of U.S. Dollars*
	2014	2015	2016	2016
Impairment losses on property, plant and equipment, and other assets	¥ 15,934	¥ 8,932	¥ 10,645	$ 95,045
Loss on sales of investments in affiliated companies	64	—	138	1,232
Write-off of investment securities	1,738	1,044	104	929
Loss on sales of investment securities	23	10	21	187
Restructuring charges	25,304	11,849	—	—
Loss on sales of noncurrent assets	12	672	—	—
Loss on exchange from business combination	—	669	—	—
Loss on change in equity	242	—	—	—
Relocation expenses	215	—	—	—
Total	¥ 43,532	¥ 23,176	¥ 10,908	$ 97,393

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*
	2014	2015	2016	2016
Land	¥ 3,185	¥ 198	¥ 76	$ 679
Buildings and structures	1,699	1,994	244	2,179
Machinery and equipment	1,163	1,005	385	3,437
Furniture and fixtures	913	306	845	7,545
Construction in progress	12	5	49	437
Goodwill	5,784	3,031	6,703	59,848
Software	2,799	1,896	1,430	12,768
Other assets	379	497	913	8,152
Total	¥ 15,934	¥ 8,932	¥ 10,645	$ 95,045

Restructuring charges

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.

16. Components of Other Comprehensive Income

The components of other comprehensive income for the fiscal years ended March 31, 2014, 2015 and 2016 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2014	2015	2016	2016
Valuation difference on available-for-sale securities :				
Increase(decrease) during the year	¥ 22,176	¥ 17,626	¥ (10,244)	$ (91,464)
Reclassification adjustments	(1,924)	(2,119)	(4,466)	(39,875)
Sub-total, before tax	20,252	15,507	(14,710)	(131,339)
Tax (expense) or benefit	(4,394)	(3,479)	4,292	38,321
Sub-total, net of tax	¥ 15,858	¥ 12,028	¥ (10,418)	$ (93,018)
Deffered gains or losses on hedges :				
Increase(decrease) during the year	¥ (1,179)	¥ (236)	¥ (359)	$ (3,205)
Reclassification adjustments	876	1,102	279	2,491
Sub-total, before tax	(303)	866	(80)	(714)
Tax (expense) or benefit	50	(192)	50	446
Sub-total, net of tax	¥ (253)	¥ 674	¥ (30)	$ (268)
Foreign currency translation adjustments :				
Increase(decrease) during the year	¥ 3,912	¥ 11,693	¥ (12,044)	$ (107,536)
Reclassification adjustments	673	(85)	(56)	(500)
Sub-total, before tax	4,585	11,608	(12,100)	(108,036)
Tax (expense) or benefit	(135)	(390)	302	2,697
Sub-total, net of tax	¥ 4,450	¥ 11,218	¥ (11,798)	$ (105,339)
Remeasurements of defined benefit plans :				
Increase(decrease) during the year	¥ –	¥ 82,298	¥ (88,808)	$ (792,929)
Reclassification adjustments	–	24,184	3,182	28,411
Sub-total, before tax	–	106,482	(85,626)	(764,518)
Tax (expense) or benefit	–	(27,871)	21,952	196,000
Sub-total, net of tax	¥ –	¥ 78,611	¥ (63,674)	$ (568,518)
Share of other comprehensive income of associates accounted for using equity method :				
Increase(decrease) during the year	¥ 976	¥ 2,603	¥ (6,571)	$ (58,670)
Reclassification adjustments	263	1,547	451	4,027
Sub-total, net of tax	¥ 1,239	¥ 4,150	¥ (6,120)	$ (54,643)
Total other comprehensive income	¥ 21,294	¥ 106,681	¥ (92,040)	$ (821,786)

17. Additional Cash Flow Information

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)
Non-controlling 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
Current assets	¥ 728
Fixed assets	3,614
Goodwill	7,092
Current liabilities	(662)
Long-term liabilities	(278)
Non-controlling interests	24
Acquisition cost of shares	10,518
Disbursements for acquisitions of shares of newly consolidated subsidiaries	¥ 10,518

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
Current assets	¥ 11,736
Fixed assets	11,322
Current liabilities	(7,383)
Long-term liabilities	(10,642)
Non-controlling interests	(2,367)
Foreign currency translation adjustments	(653)
Remeasurements of defined benefit plans	(65)
Acquisition of shares	(2,555)
Gain on sales of investments in affiliated companies	1,357
Sale amount of shares	750
Cash and cash equivalents	(4,128)
Disbursements for sales of shares of subsidiaries being excluded from the consolidation	¥ (3,378)

18. Leases

The minimum obligations under noncancelable operating leases as of March 31, 2015 and 2016 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2015	2016	2016
Due within one year	¥ 14,437	¥ 14,931	$ 133,313
Due after one year	33,906	30,785	274,866
Total	¥ 48,343	¥ 45,716	$ 408,179

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 seven 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, 2015 and 2016 were as follows:

	Millions of Yen					
	2015			2016		
	Carrying Amount	Fair Value	Difference	Carrying Amount	Fair Value	Difference
Assets:						
Cash and cash equivalents	¥ 181,132	¥ 181,132	¥ —	¥ 192,323	¥ 192,323	¥ —
Short-term investments	1,972	1,972	—	1,818	1,818	—
Trade notes and accounts receivable	928,367	927,860	(507)	874,496	874,329	(167)
Investment securities	126,814	126,814	—	114,099	114,099	—
Investments in affiliated companies	54,696	82,872	28,176	56,772	43,863	(12,909)
Long-term loans receivable	39,424	39,424	—	37,271	37,271	—
Total	¥ 1,332,405	¥ 1,360,074	¥ 27,669	¥ 1,276,779	¥ 1,263,703	¥ (13,076)
Liabilities:						
Short-term borrowings(*1)	¥ 28,988	¥ 28,988	¥ —	¥ 40,102	¥ 40,102	¥ —
Current portion of long-term debt(*1)	104,407	104,407	—	115,354	115,354	—
Trade notes and accounts payable	466,677	466,677	—	415,427	415,427	—
Accrued expenses	169,070	169,070	—	155,240	155,240	—
Long-term debt(*1)	382,404	384,995	2,591	319,897	322,193	2,296
Total	¥ 1,151,546	¥ 1,154,137	¥ 2,591	¥ 1,046,020	¥ 1,048,316	¥ 2,296
Derivatives (*2)	¥ (2,620)	¥ (2,620)	¥ —	¥ (2,602)	¥ (2,602)	¥ —

	Thousands of U.S. Dollars		
2016	Carrying Amount	Fair Value	Difference
Assets:			
Cash and cash equivalents	$ 1,717,170	$ 1,717,170	$ —
Short-term investments	16,232	16,232	—
Trade notes and accounts receivable	7,808,000	7,806,509	(1,491)
Investment securities	1,018,741	1,018,741	—
Investments in affiliated companies	506,893	391,634	(115,259)
Long-term loans receivable	332,777	332,777	—
Total	$ 11,399,813	$ 11,283,063	$ (116,750)
Liabilities:			
Short-term borrowings(*1)	$ 358,054	$ 358,054	$ —
Current portion of long-term debt(*1)	1,029,946	1,029,946	—
Trade notes and accounts payable	3,709,170	3,709,170	—
Accrued expenses	1,386,071	1,386,071	—
Long-term debt(*1)	2,856,223	2,876,723	20,500
Total	$ 9,339,464	$ 9,359,964	$ 20,500
Derivatives (*2)	$ (23,232)	$ (23,232)	$ —

(*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*
	2015	2016	2016
Investment securities:			
unlisted stocks	¥ 24,852	¥24,053	$ 214,759
Investments in affiliated companies:			
unlisted stocks	35,457	34,854	311,196
Investments in limited partnerships and similar partnerships under foreign laws	5,146	4,698	41,946
Others	266	266	2,375
Total	¥65,721	¥63,871	$ 570,276

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

March 31, 2016	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	¥ 192,323	¥ —	¥ —	¥ —
Short-term investments	1,818	—	—	—
Trade notes and accounts receivable	833,781	39,978	737	—
Investment securities				
Available-for-sale securities with contractual maturities (bonds)	—	—	—	—
Long-term loans receivable	—	36,826	33	412
Total	¥ 1,027,922	¥ 76,804	¥ 770	¥ 412

March 31, 2016	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	$ 1,717,170	$ —	$ —	$ —
Short-term investments	16,232	—	—	—
Trade notes and accounts receivable	7,444,473	356,947	6,580	—
Investment securities				
Available-for-sale securities with contractual maturities (bonds)	—	—	—	—
Long-term loans receivable	—	328,803	295	3,679
Total	$ 9,177,875	$ 685,750	$ 6,875	$ 3,679

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

20. Derivatives

Derivative transactions as of March 31, 2015 and 2016 were as follows:

	Millions of Yen					
	2015			2016		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Currency related						
Foreign exchange forward contracts:						
Buying						
U.S.$	¥ 86,820	¥ 3,344	¥ 3,344	¥ 76,149	¥ (2,174)	¥ (2,174)
Euro	260	(21)	(21)	12	0	0
Others	1,989	11	11	1,099	10	10
Selling						
U.S.$	46,654	(5,221)	(5,221)	39,374	535	535
Euro	4,592	264	264	7,967	(6)	(6)
Others	3,365	(158)	(158)	5,858	(18)	(18)
Total			¥ (1,781)			¥ (1,653)
Interest rate related						
Interest rate swaps:						
Pay fixed/ Receiving floating rates	¥ 65,000	¥ (839)	¥ (839)	¥ 65,000	¥ (949)	¥ (949)
Total			¥ (839)			¥ (949)

	Thousands of U.S. Dollars		
2016	Contract Amount	Fair Value	Unrealized Gain (Loss)
Currency related			
Foreign exchange forward contracts:			
Buying			
U.S.$	$ 679,902	$ (19,411)	$ (19,411)
Euro	107	0	0
Others	9,813	89	89
Selling			
U.S.$	351,554	4,777	4,777
Euro	71,134	(53)	(53)
Others	52,304	(161)	(161)
Total			$ (14,759)
Interest rate related			
Interest rate swaps:			
Pay fixed/ Receiving floating rates	$ 580,357	$ (8,473)	$ (8,473)
Total			$ (8,473)

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, 2015 and 2016, included in the above table, were as follows:

	Millions of Yen					
	2015			2016		
	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.$		¥ 1,132	¥ (33)		¥ 859	¥ 72
Others		2,330	(52)		—	—
Interest rate related						
Interest rate swaps:	Long-term debt			Long-term debt		
Pay fixed/ Receiving floating rates		¥ 65,000	¥ (839)		¥ 65,000	¥ (949)

	Thousands of U.S. Dollars		
2016	Hedged Item	Contract Amount	Fair Value
Currency related			
Foreign exchange forward contracts:			
Selling	Accounts receivable		
U.S.$		$ 7,670	$ 643
Others		—	—
Interest rate related			
Interest rate swaps:	Long-term debt		
Pay fixed/ Receiving floating rates		$ 580,357	$ (8,473)

The fair value of derivatives which are shown in the above table represent the amounts recognized in the consolidated balance sheet (excluding contract amount).

21. Contingent Liabilities

As of March 31, 2015 and 2016, the NEC Group had the following contingent liabilities:

	Millions of Yen		*Thousands of U.S. Dollars*
	2015	2016	2016
Guarantees for bank loans and others	¥ 4,688	¥ 1,871	$ 16,705

22. Related Party Disclosures

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

Transactions of the Company with affiliated companies for the year ended March 31, 2016 was as follows:

2016	*Millions of Yen*	*Thousands of U.S. Dollars*
Loans (*1),(*2)		
Balances:		
Long-term loans receivable	¥ 25,418	$ 226,946

(*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.

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, 2015 and 2016 were as follows:

2015	*Millions of Yen*
Borrowings (*)	
Balances:	
Current portion of long-term debt	¥ 2,453
Long-term debt	85,794
Guarantee of obligation (*)	
Advances from customers	57,019

(*)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.

2016	*Millions of Yen*	*Thousands of U.S. Dollars*
Borrowings (*)		
Balances:		
Current portion of long-term debt	¥ 27,337	$ 244,080
Long-term debt	57,996	517,821
Guarantee of obligation (*)		
Advances from customers	42,301	377,688

(*)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, 2015 and 2016 was NEC Capital Solutions Limited, and the condensed financial information was as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2015	2016	2016
Current assets total	¥ 731,642	¥ 740,452	$ 6,611,179
Noncurrent assets total	77,089	88,490	790,089
Current liabilities total	321,318	342,353	3,056,723
Long-term liabilities total	381,486	385,562	3,442,518
Net assets total	105,927	101,026	902,018
Sales	213,853	202,637	1,809,259
Profit before income taxes	4,425	6,031	53,848
Profit attributable to owners of the parent	2,816	3,334	29,768

23. Earnings Per Share

Reconciliations of the difference between basic and diluted earnings per share ("EPS") for the fiscal years ended March 31, 2014, 2015 and 2016 were as follows:

	Millions of Yen	*Thousands of shares*	*Yen*
	Profit (loss)	Weighted average shares	EPS
For the year ended March 31, 2014:			
Basic EPS			
Profit (loss) attributable to owners of the parent	¥ 33,742		
Amounts not attributable to common shareholders	—		
Profit (loss) available to common shareholders	¥ 33,742	2,598,290	¥ 12.99
Effect of Dilutive Securities	—	—	
Diluted EPS			
Profit for computation	—	—	—
For the year ended March 31, 2015:			
Basic EPS			
Profit (loss) attributable to owners of the parent	¥ 57,302		
Amounts not attributable to common shareholders	—		
Profit (loss) available to common shareholders	¥ 57,302	2,598,601	¥ 22.05
Effect of Dilutive Securities	—	—	
Diluted EPS			
Profit for computation	—	—	—
For the year ended March 31, 2016:			
Basic EPS			
Profit (loss) attributable to owners of the parent	¥ 68,749		
Amounts not attributable to common shareholders	—		
Profit (loss) available to common shareholders	¥ 68,749	2,598,737	¥ 26.45
Effect of Dilutive Securities	—	—	
Diluted EPS			
Profit for computation	—	—	—

	Thousands of U.S. Dollars	*Thousands of shares*	*U.S. Dollars*
	Profit (loss)	Weighted average shares	EPS
For the year ended March 31, 2016:			
Basic EPS			
Profit (loss) attributable to owners of the parent	$ 613,830		
Amounts not attributable to common shareholders	—		
Profit (loss) available to common shareholders	$ 613,830	2,598,737	$ 0.24
Effect of Dilutive Securities	—	—	
Diluted EPS			
Profit for computation	—	—	—

Diluted earnings per share for the fiscal 2014, 2015 and 2016 is not disclosed because it is anti-dilutive.

As described in Note 3, effective from the beginning of the fiscal year ended March 31, 2015, 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 earnings per share is immaterial.

As described in Note 3, effective from the beginning of the fiscal year ended March 31, 2016, the NEC Group has applied the "Accounting Standard for Business Combination" and other applicable standards.
The impact on earnings per share is immaterial.

24. Net Assets Per Share

Net assets per share as of March 31, 2015 and 2016 were as follows:

	Yen		*U.S. Dollars*
	2015	2016	2016
Net assets per share	¥ 316.93	¥ 304.81	$ 2.72

The basis for calculation of net assets per share for the fiscal years ended March 31, 2015 and 2016 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, 2015:			
Total net assets	¥ 884,192		
Amounts deducted from total net assets			
Non-controlling interests	(60,542)		
Net assets as of the year end attributable to common shareholders	¥ 823,650	2,598,817	¥ 316.93
For the year ended March 31, 2016:			
Total net assets	¥ 852,493		
Amounts deducted from total net assets			
Non-controlling interests	(60,401)		
Net assets as of the year end attributable to common shareholders	¥ 792,092	2,598,674	¥ 304.81

	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, 2016:			
Total net assets	$ 7,611,545		
Amounts deducted from total net assets			
Non-controlling interests	(539,295)		
Net assets as of the year end attributable to common shareholders	$ 7,072,250	2,598,674	$ 2.72

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 at the end of the fiscal year ended March 31, 2015.

25. Segment Information

(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 (Systems Implementation, Consulting), Maintenance and Support, Outsourcing / Cloud Services, and System Equipment for Government, Public, Healthcare, Finance and Media.

Enterprise

This segment mainly renders System Integration (Systems Implementation, Consulting), Maintenance and Support, and Outsourcing / Cloud Services for Manufacturing, Retail and Services.

Telecom Carrier

This segment mainly renders Network Infrastructure (Core Network, Mobile Phone Base Stations, Submarine Systems (Submarine Cable Systems, Ocean Observation Systems), Optical Transmission Systems, Routers / Switches, Mobile Backhaul ("PASOLINK")), and Services & Management (Telecom Operations and Management Solutions (TOMS), Services / Solutions) for Telecom Carriers.

System Platform

This segment mainly renders Hardware (Servers, Mainframes, Supercomputers, Storage, Business PCs, Tablet Devices, POS, ATMs, Control Equipment, Wireless LAN Routers, Displays, Projectors), Software (Integrated Operation Management, Application Servers, Security, Database Software), Enterprise Network Solutions (IP Telephony Systems, WAN / Wireless Access Equipment, LAN Products), and Services (Data Center Infrastructure, Maintenance and Support).

(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

(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

(Fiscal year ended March 31, 2016)

	Millions of Yen							
	2016							
	Reportable Segments							
	Public	Enterprise	Telecom Carrier	System Platform	Total	Others	Adjustment	Consolidated Total
Net Sales								
1. Sales to customers	¥ 766,775	¥ 300,737	¥ 698,913	¥ 728,522	¥ 2,494,947	¥ 326,234	¥ —	¥ 2,821,181
2. Intersegment sales and transfers	38,051	6,845	19,625	71,023	135,544	17,865	(153,409)	—
Total sales	¥ 804,826	¥ 307,582	¥ 718,538	¥ 799,545	¥ 2,630,491	¥ 344,099	¥ (153,409)	¥ 2,821,181
Segment income(loss) (Operating income(loss))	¥ 57,529	¥ 22,220	¥ 45,568	¥ 37,522	¥ 162,839	¥ (8,867)	¥ (46,666)	¥ 107,306
Segment assets	¥ 658,981	¥ 159,032	¥ 516,949	¥ 442,797	¥ 1,777,759	¥ 323,840	¥ 391,842	¥ 2,493,441
Other items								
Depreciation	¥ 18,243	¥ 3,553	¥ 12,619	¥ 14,972	¥ 49,387	¥ 16,702	¥ 6,937	¥ 73,026
Amortization of goodwill	128	1,172	3,300	695	5,295	6,544	—	11,839
Investments in affiliated companies	5,280	4,560	2,192	3,213	15,245	76,917	(536)	91,626
Increase in property, plant and equipment and intangible assets	26,072	6,791	11,160	18,066	62,089	14,487	14,372	90,948

	Thousands of U.S. Dollars							
	2016							
	Reportable Segments							
	Public	Enterprise	Telecom Carrier	System Platform	Total	Others	Adjustment	Consolidated Total
Net Sales								
1. Sales to customers	$ 6,846,205	$ 2,685,152	$ 6,240,295	$ 6,504,661	$ 22,276,313	$ 2,912,803	$ —	$ 25,189,116
2. Intersegment sales and transfers	339,741	61,116	175,223	634,134	1,210,214	159,509	(1,369,723)	—
Total sales	$ 7,185,946	$ 2,746,268	$ 6,415,518	$ 7,138,795	$ 23,486,527	$ 3,072,312	$ (1,369,723)	$ 25,189,116
Segment income(loss) (Operating income(loss))	$ 513,652	$ 198,393	$ 406,857	$ 335,018	$ 1,453,920	$ (79,170)	$ (416,661)	$ 958,089
Segment assets	$ 5,883,759	$ 1,419,929	$ 4,615,616	$ 3,953,545	$ 15,872,849	$ 2,891,429	$ 3,498,588	$ 22,262,866
Other items								
Depreciation	$ 162,884	$ 31,723	$ 112,670	$ 133,678	$ 440,955	$ 149,125	$ 61,938	$ 652,018
Amortization of goodwill	1,143	10,464	29,464	6,205	47,276	58,429	—	105,705
Investments in affiliated companies	47,143	40,714	19,571	28,688	136,116	686,759	(4,786)	818,089
Increase in property, plant and equipment and intangible assets	232,786	60,634	99,643	161,304	554,367	129,348	128,321	812,036

(a) "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 years ended March 31, 2015 and 2016 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, 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 unallocated to each reportable segment and noncurrent assets related adjustment of ¥(959) million, respectively.

"Adjustment" of segment income (loss) for the fiscal year ended March 31, 2016 included corporate expenses of ¥(48,282) million ($(431,089) thousand) unallocated to each reportable segment and noncurrent assets related adjustment of ¥(573) million ($(5,116) 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, 2015 and 2016 included corporate assets of ¥467,421 million and ¥429,584 million ($3,835,571 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, 2015 and 2016 included increase in the Company of ¥10,391 million and ¥19,728 million ($176,143 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

	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

	Millions of Yen				
	2016				
	Japan	The Americas	Greater China, APAC	EMEA	Total
Net Sales	¥ 2,218,012	¥ 200,549	¥ 264,196	¥ 138,424	¥ 2,821,181
Property, plant and equipment, net of accumulated depreciation	313,821	10,047	7,103	823	331,794

	Thousands of U.S. Dollars				
	2016				
	Japan	The Americas	Greater China, APAC	EMEA	Total
Net Sales	$ 19,803,679	$ 1,790,616	$ 2,358,893	$ 1,235,928	$ 25,189,116
Property, plant and equipment, net of accumulated depreciation	2,801,973	89,705	63,420	7,348	2,962,446

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

3. Information about major customers

	Millions of Yen		
	2014	2015	Reportable Segment
Sales to:			
NTT Group *	¥ 375,372	¥ 315,548	Mainly, Telecom Carrier

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

Information about major customers for the year ended March 31, 2016 is not disclosed because the Group does not have any unaffiliated customers to whom sales exceed 10% of net sales in the consolidated statements of operations.

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

	Millions of Yen						
	2016						
	Public	Enterprise	Telecom Carrier	System Platform	Others	Corporate/ Eliminations	Total
Impairment losses of noncurrent assets	¥ 160	¥ —	¥ 474	¥ 546	¥ 9,389	¥ 76	¥ 10,645

	Thousands of U.S. Dollars						
	2016						
	Public	Enterprise	Telecom Carrier	System Platform	Others	Corporate/ Eliminations	Total
Impairment losses of noncurrent assets	$ 1,429	$ —	$ 4,232	$ 4,875	$ 83,830	$ 679	$ 95,045

* 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

	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

	Millions of Yen						
	2016						
	Public	Enterprise	Telecom Carrier	System Platform	Others	Corporate/ Eliminations	Total
Amortization	¥ 128	¥ 1,172	¥ 3,300	¥ 695	¥ 6,544	¥ —	¥ 11,839
Ending balance	240	2,069	9,862	2,025	31,927	—	46,123

	Thousands of U.S. Dollars						
	2016						
	Public	Enterprise	Telecom Carrier	System Platform	Others	Corporate/ Eliminations	Total
Amortization	$ 1,143	$ 10,464	$ 29,464	$ 6,205	$ 58,429	$ —	$ 105,705
Ending balance	2,143	18,473	88,054	18,080	285,063	—	411,813

Information about gain on negative goodwill by reportable segment

(Fiscal years ended March 31, 2015 and 2016)

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, 2016 and 2015, 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, 2016, 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 misstatement, 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, 2016 and 2015, and their financial performance and cash flows for each of the years in the three-year period ended March 31, 2016, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 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, 2016
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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