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Full Year Consolidated Financial Results for the Fiscal Year Ended March 31, 2015

Consolidated Financial Results

	Fiscal Year ended March 31, 2014	Fiscal Year ended March 31, 2015	Change
	In billions of yen	In billions of yen	%
Net Sales	3,043.1	2,935.5	-3.5
Operating income (loss)	106.2	128.1	20.6
Ordinary income (loss)	69.2	112.1	62.1
Net income (loss)	33.7	57.3	69.8
	Yen	Yen	Yen
Net income (loss) per share:			
Basic	12.99	22.05	9.06
Diluted	-	-	-
	In billions of yen	In billions of yen	%
Total assets	2,505.3	2,620.7	4.6
Number of employees	100,914	98,882	-

Notes:

Number of consolidated subsidiaries and affiliated companies accounted for by the equity method is as follows:

	As of March 31, 2014	As of March 31, 2015
Consolidated subsidiaries	258	232
Affiliated companies accounted for by the equity method	51	51

1. Consolidated Business Results

(1) Overview of the fiscal year ended March 31, 2015 and outlook for the fiscal year ending March 31, 2016

The worldwide economy during the fiscal year ended March 31, 2015 was characterized by stable economic performance in the United States, mainly due to continued high stock prices and low interest rates as a result of monetary easing policy, in addition to a stable corporate sector and the steady performance of consumer spending in response to the improving employment situation. In European markets, the United Kingdom's economy performed well and Germany experienced a modest recovery. However, growth slowed throughout France and Southern European countries. Moreover, growth slowed in some emerging countries due to a worldwide decline in demand for resources.

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

Under this business environment, the NEC Group moved forward to deliver results with efforts supporting the second year of its "Mid-term Management Plan 2015" for transforming NEC into a "Social Value Innovator" based on three management policies consisting of a "Focus on Solutions for Society," a "Focus on Asia, Promotion of Locally-led Business," and the goal to "Stabilize Our Financial Foundation" as part of focusing on performance to achieve growth in 2015, formulating a new brand message of "Orchestrating a brighter world" and seeking to accelerate the company's social solutions business.

In terms of the "Focus on Solutions for Society," NEC promoted activities for commercializing Software-Defined Networking (SDN), a next generation networking technology that ensures both efficiency and security, for domestic and foreign telecommunications carriers and was selected by NTT DOCOMO, INC. as a partner vendor for the development of network virtualization technologies. Moreover, NEC has worked towards carrying out a massive trial of Virtualized Customer Premises Equipment (vCPE) solutions on commercial networks with Telefônica Brasil. Furthermore, NEC has deployed approximately 250 systems that utilize SDN, including systems for hospitals, transportation authorities, local governments, telecommunications carriers and data centers, thereby contributing to the efficient construction and operations of customer networks. Regarding cloud development, NEC promoted sales of its cloud infrastructure service, "NEC Cloud IaaS," which capitalizes on the capabilities of the NEC Kanagawa Data Center to provide cost friendly, high performance, highly reliable services. As for Big Data, NEC delivered a system for monitoring signs of malfunction in large-scale plants for the Chugoku Electric Power Co., Inc. This system detects abnormalities more accurately and faster than existing systems, which enables users to implement maintenance measures prior to the occurrence of a malfunction. Moreover, NEC conducted Proof of Concept (POC) testing of water leakage monitoring services in Texas in the United States, which combine high-precision sensors with the cloud in order to provide low cost water resource management services. Regarding the safety sector, in June 2014, NEC began full operations of its "Cyber Security Factory" established as a base for protecting information assets against cyber attacks. Today, the Cyber Security Factory supports comprehensive information security measures for approximately 100 customers. NEC also provided core technical elements for the INTERPOL Digital Crime Centre established in Singapore in April 2015 by the International Criminal Police Organization (ICPO). As underlying technologies of those safety businesses, NEC's face recognition technology ranked first for the third consecutive time, while its fingerprint identification technology also ranked first in the U.S. National Institute of Standards and

Technology (NIST) benchmark test/evaluation. In terms of smart energy business, NEC provided a smart meter communications unit for Tokyo Electric Power Company, Incorporated, and established NEC Energy Solutions in the United States as a foundation for international energy storage solutions business.

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

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

The NEC Group recorded consolidated net sales of 2,935.5 billion yen for the fiscal year ended March 31, 2015, a decrease of 107.6 billion yen (-3.5%) year-on-year. This decrease was mainly due to decreased sales from Others due to the Internet service business and mobile phone sales business no longer being consolidated, as well as decreased sales from the System Platform business, in spite of increased sales from the Public business.

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

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

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

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

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

Consolidated	Forecast for fiscal year ending March 31, 2016	Comparison with fiscal year ended March 31, 2015
	In billions of yen	
Net Sales	3,100.0	5.6%
Operating income	135.0	6.9 billion yen
Ordinary income	120.0	7.9 billion yen
Net income attributable to Owner of the Parent	65.0	7.7 billion yen

(2) Results by main business segment

Sales by segment (sales to external customers):

Segments	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015	Change
	In billions of yen	In billions of yen	%
Public	738.4	821.9	11.3
Enterprise	272.3	270.5	-0.7
Telecom Carrier	725.8	740.2	2.0
System Platform	780.8	728.9	-6.6
Others	525.9	374.1	-28.9
Total	3,043.1	2,935.5	-3.5

Operating income (loss) by segment:

Segments	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015	Change
	In billions of yen	In billions of yen	In billions of yen
Public	58.6	74.8	16.2
Enterprise	6.5	8.3	1.8
Telecom Carrier	60.3	62.0	1.6
System Platform	30.7	31.4	0.7
Others	-1.4	4.0	5.4
Adjustment	-48.6	-52.4	-3.8
Total	106.2	128.1	21.9

Note:

Amounts in this section “(2) Results by main business segment” are rounded to 0.1 billion yen. Amounts in millions of yen are shown in section “Notes: Segment Information” of this news release.

(Business segment figures in brackets below denote increases or decreases as compared with the previous fiscal year.)

Public Business

Sales: 821.9 billion yen (11.3%)
Operating Income (Loss): 74.8 billion yen (16.2 billion yen)

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

Operating income (loss) improved by 16.2 billion yen year-on-year, to an operating income of 74.8 billion yen, mainly owing to increased sales.

Enterprise Business

Sales:	270.5 billion yen	(-0.7%)
Operating Income (Loss):	8.3 billion yen	(1.8 billion yen)

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

Operating income (loss) improved by 1.8 billion yen year-on-year, to an operating income of 8.3 billion yen, mainly owing to improved profitability of system integration services.

Telecom Carrier Business

Sales:	740.2 billion yen	(2.0%)
Operating Income (Loss):	62.0 billion yen	(1.6 billion yen)

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

Operating income (loss) improved by 1.6 billion yen year-on-year, to an operating income of 62.0 billion yen, mainly due to increased sales.

System Platform Business

Sales:	728.9 billion yen	(-6.6%)
Operating Income (Loss):	31.4 billion yen	(0.7 billion yen)

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

Operating income (loss) improved by 0.7 billion yen year-on-year, to an operating income of 31.4 billion yen, mainly due to cost efficiency.

Others

Sales:	374.1 billion yen	(-28.9%)
Operating Income (Loss):	4.0 billion yen	(5.4 billion yen)

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

Operating income (loss) improved by 5.4 billion yen year-on-year, to an operating income of 4.0 billion yen, mainly owing to improved mobile phone terminal business.

2. Consolidated Financial Condition

(1) Analysis of the condition of assets, liabilities, net assets, and cash flows

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

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

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

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

Net cash inflows from operating activities for the fiscal year ended March 31, 2015 were 87.9 billion yen, a worsening of 6.2 billion yen as compared with the previous fiscal year, mainly due to worsened working capital.

Net cash outflows from investing activities for the fiscal year ended March 31, 2015 were 47.5 billion yen, an increase of 8.6 billion yen as compared with the previous fiscal year. This was mainly due to increased outflows for business acquisitions, despite the acquisition of trust beneficiary rights set to land and buildings of the NEC Group's Tamagawa business facilities recorded in the same period of the previous fiscal year, offset by cash inflows from gain on sales of subsidiaries and affiliates' stocks.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for the fiscal year ended March 31, 2015 totaled a cash inflow of 40.4 billion yen, a worsening of 14.8 billion yen year-on-year.

Net cash flows from financing activities for the fiscal year ended March 31, 2015 totaled a cash outflow of 72.0 billion yen, mainly due to outflow from the payment of long-term debt and the redemption of bonds.

As a result, cash and cash equivalents as of March 31, 2015 amounted to 181.1 billion yen, a decrease of 25.5 billion yen as compared with the end of the previous fiscal year.

(2) Changes in cash flows related indices

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Owner's equity ratio	27.5%	27.8%	31.4%
Owner's equity ratio on market value basis	24.7%	32.9%	35.0%
Interest-bearing debt to cash flows ratio	4.5 times	6.3 times	6.2 times
Interest coverage ratio	24.0 times	9.4 times	8.7 times

Calculation methods for the above indices:

Owner's equity ratio:

Owner's equity at the end of each fiscal year / total assets at the end of each fiscal year

Owner's equity ratio on market value basis:

Aggregated market value of owner's equity at the end of each fiscal year / total assets at the end of each fiscal year

Interest-bearing debt to cash flows ratio:

Average balance of interest-bearing debt / cash flows from operating activities

* Average balance of interest-bearing debt = (balance of interest-bearing debt at the beginning of the fiscal year + balance of interest-bearing debt at the end of the fiscal year) / 2

Interest coverage ratio:

Cash flows from operating activities / interest expenses

Notes:

1. The above indices are calculated using consolidated financial figures.
2. Aggregated market value of owner's equity is calculated using the outstanding number of shares excluding treasury stock.

3. Fundamental Policy on Distribution of Earnings and Dividends for the Fiscal Year Ended March 31, 2015 and the Fiscal Year Ending March 31, 2016

As NEC needs to adopt a flexible policy in order to respond better to the rapidly changing business environment, NEC considers, among other factors, the following factors in determining its cash dividends: the profits earned in the relevant fiscal period; the financial outlook for the following fiscal periods, the dividend payout ratio, and the internal demand for funds such as capital expenditures.

For the fiscal year ended March 31, 2015, NEC declared an annual dividend of 4 yen per share of common stock.

For the fiscal year ending March 31, 2016, NEC plans for an annual dividend of 6 yen per share of common stock while no interim dividend will be paid.

In addition, NEC stipulates in its Articles of Incorporation that it may determine distribution of surplus dividends flexibly through resolutions of the Board of Directors, and that record dates of distribution of surplus dividends shall be March 31 and September 30.

4. 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.

(1) Risks related to economic conditions and financial markets

<1> Influence of economic conditions

The NEC Group's business is dependent, to a significant extent, on the Japanese market. The NEC Group's consolidated net sales to customers in Japan accounted for 80.0% of its total net sales in the fiscal year ended March 31, 2015. The deterioration of economic conditions in Japan in the future could have a material adverse effect on the results of operations and the financial position of the NEC Group.

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

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

<1> Finance and profit fluctuations

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

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

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

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

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

<2> Acquisitions and other business combinations and reorganizations

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

- The NEC Group may be unable to realize the growth opportunities, improvement of its financial position, investment effect and other expected benefits by these acquisitions, business combinations and reorganizations in the expected time period or at all;
- The planned transactions may not be completed as scheduled or at all due to legal or regulatory requirements or contractual and other conditions to which such transactions are subject;
- Unanticipated problems could also arise in the integration process, including unanticipated restructuring or integration expenses and liabilities, as well as delays or other difficulties in coordinating, consolidating and integrating personnel, information and management systems, and customer products and services;

- The combined or reorganized entities may not be able to retain existing customers and strategic partners to the extent that they wish to diversify their suppliers for cost and risk management and other purposes;
- The combined or reorganized entities may require additional financial support from the NEC Group;
- The diversion of management and key employees' attention may detract from the NEC Group's ability to increase revenues and minimize costs;
- The goodwill and other intangible assets arising from the acquisitions and business reorganizations are subject to amortization and impairment charges;
- NEC Group's investments in the combined or reorganized entities are subject to valuation and other losses; and
- The transactions may result in other unanticipated adverse consequences.

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

<3> Alliance with strategic partners

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

<4> Expansion of global business

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

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

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

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

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

<1> Technological advances and response to customer needs

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

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

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

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

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

<2> Production process

The markets in which the NEC Group operates are characterized by the introduction of products with short life cycles in a rapidly changing technological environment. Production processes of electronics products are highly complex, require advanced and costly manufacturing facilities, and must continuously be modified to improve efficiency and performance. Production difficulties or inefficiencies might affect profitability or interrupt production, and the NEC Group may not be able to deliver products on time in a cost-effective

and competitive manner. If production is interrupted, the NEC Group may not be able to shift production to other facilities quickly, and customers may purchase products from other suppliers. The resulting shortage of manufacturing capacity for some products could adversely affect the NEC Group's ability to compete. The resulting reductions in revenues could be significant.

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

<3> Defects in products and services

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

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

<4> Material procurement

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

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

<5> Intellectual property rights

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

<6> Intellectual property licenses owned by third parties

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

<7> Intense competition

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

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

The NEC Group sells products and services to some of its current and potential competitors. For example, the NEC Group receives orders from, and provides solutions to, competitors that

further integrate or otherwise use its solutions for large projects for which such competitors are engaged as the primary solutions provider. If these competitors cease to use the NEC Group's solutions for such large projects for competitive or other reasons, the NEC Group's business could be harmed.

<8> Dependence on the NTT Group

The NEC Group derived approximately 10.7% of its net sales in the fiscal year ended March 31, 2015 from the NTT group (Nippon Telegraph and Telephone Corporation and its affiliates including NTT DOCOMO, INC.). If the NTT group reduces its level of capital expenditures or current procurement or shifts its investment focus as a result of such factors as significant business or financial problems, the NEC Group's business, results of operations and financial condition may be adversely affected. In addition, the NEC Group's business may be adversely affected if the NTT group begins to manufacture products that the NEC Group supplies or acquires its competitors.

<9> Risks related to customers' financial difficulties

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

<10> Retention of personnel

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

<11> Financing

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

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

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

<1> Internal control

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

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

<2> Legal proceedings

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

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

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

is subject to could require the significant involvement of senior management of the NEC Group, and may divert management attention from the NEC Group's business and operations.

<3> Laws and governmental policies

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

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

<4> Environmental laws and regulations

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

<5> Tax practice

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

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

Furthermore, the NEC Group is subject to continuous audits and examination of its income tax returns by tax authorities of various jurisdictions. The NEC Group regularly assesses the likelihood of adverse outcomes resulting from these audits and examinations to determine the adequacy of its provisions for income taxes. There can be no assurance that the outcomes of

these audits and examinations will not have an adverse effect on the NEC Group's results of operations and financial condition.

<6> Information management

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

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

(5) Other Risks

<1> Natural and fire disasters

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

<2> Accounting policies

The methods, estimates and judgments that the NEC Group uses in applying in its accounting policies could have a significant impact on its results of operations. Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that lead the NEC Group to change its methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect the

NEC Group's results of operations. Due to the volatility in the financial markets and overall economic uncertainty, the actual amounts realized in the future on the NEC Group's debt and equity investments may differ significantly from the fair values currently assigned to them. The application of new or revised accounting standards may significantly affect the NEC Group's financial condition and its results of operations.

<3> Retirement benefit obligations

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

<4> Sale of NEC's common stock in the United States

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 ceases and desists from the violations of certain provisions of the Exchange Act because the SEC found that certain of its actions violated certain provisions of the Exchange Act, and (b) the registration under the Exchange Act of its common stock and American depositary shares be revoked. NEC did not admit or deny the findings by the SEC set forth in the order. No fine or other monetary payment was required under the order. As a result of the revocation, no broker or dealer worldwide and no member of a U.S. securities exchange may make use of the mails or any means or instrumentality of interstate commerce in the 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.

Management Policy

1. Fundamental Management Policy

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

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

NEC Group Vision 2017:

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

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

NEC Group Core Values:

“Passion for Innovation,” “Self-help,” “Collaboration,” “Better Products, Better Services”

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

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

2. Management Indicator Goals

The NEC Group aims to realize certain operating results as a leading global corporate group, and attaches paramount importance on ROE as a management indicator for improving profitability. The NEC Group recorded an ROE of 7.5% in the fiscal year ended March 31, 2015, but aims for an ROE of 8% in the fiscal year ending March 31, 2016.

3. Middle and Long Term Management Strategy

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

4. Challenges to be Addressed by the NEC Group

The NEC Group aims “to be a leading global company leveraging the power of innovation to realize an information society friendly to humans and the earth” as part of the “NEC Group Vision 2017.”

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

1) Focus on Solutions for Society

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

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

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

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

Specifically, the NEC Group aims to promote the expansion of business by focusing on growth areas such as safety and the creation of new business models.

3) Stabilize Our Financial Foundation

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

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

The NEC Group regards compliance as one of the most important management issues and continues its comprehensive observation of compliance. However, in November 2014, the Japan Fair Trade Commission carried out an on-site inspection on suspicions that NEC violated the Act

on Prohibition of Private Monopolization and Maintenance of Fair Trade in regard to business dealings for wireless digital emergency firefighting equipment. The NEC Group places great importance on this issue and is fully cooperating with the commission's investigation. As reported in the preceding fiscal year's business report, NETCOMSEC Co. Ltd., a consolidated subsidiary of NEC, recorded and billed an excessive amount to Japan's Ministry of Defense. On 25 June 2014, NETCOMSEC Co. Ltd. returned approximately 7.4 billion yen to the National Treasury and reported measures to prevent a recurrence to the Ministry of Defense. Consequently, the suspension of NETCOMSEC Co. Ltd. from participating in requests for proposals for future contracts with the Ministry of Defense was lifted the same day. The NEC Group makes every effort to closely observe compliance and to continuously establish and implement its internal control system.

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

Basic Rationale for Selection of Accounting Standards

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

Consolidated Balance Sheets

(In millions of yen, millions of U.S.dollars)

	March 31, 2014		March 31, 2015		March 31, 2015
Current assets	JPY 1,502,909		JPY 1,576,785		\$13,140
Cash and deposits	192,668		159,764		1,331
Notes and accounts receivable-trade	842,308		928,367		7,736
Short-term investment securities	16,291		23,340		195
Merchandise and finished goods	*6 76,235	*6	88,301		736
Work in process	*6 83,922	*6	101,989		850
Raw materials and supplies	54,238	*6	50,856		424
Deferred tax assets	74,431		65,351		545
Other	167,626		163,968		1,366
Allowance for doubtful accounts	(4,810)		(5,151)		(43)
Noncurrent assets	1,002,420		1,043,867		8,699
Property, plant and equipment	346,186		338,115		2,818
Buildings and structures, net	*1,2 175,570	*1,2	172,177		1,435
Machinery and equipment, net	*1 17,878	*1	20,189		168
Tools, furniture and fixtures, net	*1 63,075	*1	67,643		564
Land	*2 63,585	*2	57,787		482
Construction in progress	26,078		20,319		169
Intangible assets	198,781		188,409		1,570
Goodwill	76,203		66,985		558
Software	98,285		94,194		785
Other	24,293		27,230		227
Investments and other assets	457,453		517,343		4,311
Investment securities	147,170		157,078		1,309
Stocks of subsidiaries and affiliates	*3 78,293	*3	90,153		751
Long-term loans receivable	40,123		39,424		329
Deferred tax assets	108,398		85,114		709
Net defined benefit asset	10,404		74,622		622
Other	88,604		75,452		629
Allowance for doubtful accounts	(15,539)		(4,500)		(38)
Total assets	JPY 2,505,329		JPY 2,620,652		\$21,839

Note:

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

Consolidated Balance Sheets (Continued)

(In millions of yen, millions of U.S.dollars)

	March 31, 2014		March 31, 2015		March 31, 2015
Current liabilities	JPY 985,585		JPY 1,069,548		\$8,913
Notes and accounts payable-trade	446,494		466,677		3,889
Short-term loans payable	*2 32,415	*2	28,988		242
Current portion of long-term loans payable	*2 44,284	*2	14,407		120
Current portion of bonds payable	20,000		90,000		750
Accrued expenses	152,792		169,070		1,409
Advances received	128,601		122,714		1,023
Provision for product warranties	16,687		17,031		142
Provision for directors' bonuses	318		331		3
Provision for loss on construction contracts and others	11,342		5,596		47
Provision for business structure improvement	7,359		8,627		72
Provision for contingent loss	12,506		13,526		113
Other	112,787		132,581		1,103
Noncurrent liabilities	752,081		666,912		5,558
Bonds payable	140,000		50,000		417
Long-term loans payable	*2 333,534	*2	332,404		2,770
Deferred tax liabilities	2,213		2,410		20
Provision for product warranties	4,197		2,943		25
Provision for loss on repurchase of computers	6,909		6,445		54
Provision for business structure improvement	6,859		5,867		49
Provision for contingent loss	5,915		5,480		46
Net defined benefit liability	220,457		228,686		1,906
Other	31,997		32,677		271
Total liabilities	1,737,666		1,736,460		14,471
Shareholders' equity	725,195		749,889		6,249
Capital stock	397,199		397,199		3,310
Capital surplus	148,402		148,694		1,239
Retained earnings	182,570		207,021		1,725
Treasury stock	(2,976)		(3,025)		(25)
Accumulated other comprehensive income	(29,246)		73,761		614
Valuation difference on available-for-sale securities	34,292		47,385		395
Deferred gains or losses on hedges	(1,359)		(271)		(2)
Foreign currency translation adjustments	(1,521)		12,795		106
Remeasurements of defined benefit plans	(60,658)		13,852		115
Minority interests	71,714		60,542		505
Total net assets	767,663		884,192		7,368
Total liabilities and net assets	JPY 2,505,329		JPY 2,620,652		\$21,839

Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

Consolidated Statements of Operations

(In millions of yen, millions of U.S. dollars)

Fiscal year ended March 31	2014	2015	2015
Net sales	JPY 3,043,114	JPY 2,935,517	\$24,463
Cost of sales	2,128,457	2,039,499	16,996
Gross profit	914,657	896,018	7,467
Selling, general and administrative expenses	808,464	767,934	6,400
Operating income	106,193	128,084	1,067
Non-operating income	18,235	26,492	221
Interest income	1,707	1,960	16
Dividends income	4,544	3,698	31
Equity in earnings of affiliates	2,719	8,126	68
Foreign exchange gains	593	4,468	37
Subsidy income	2,165	2,361	20
Other	6,507	5,879	49
Non-operating expenses	55,276	42,464	354
Interest expenses	10,036	10,066	84
Retirement benefit expenses	11,325	10,357	86
Provision for contingent loss	11,452	5,872	49
Other	22,463	16,169	135
Ordinary income	69,152	112,112	934
Extraordinary income	58,341	7,801	65
Gain on sales of noncurrent assets	*1 368	*1 3,276	27
Gain on sales of investment securities	2,698	2,216	19
Gain on sales of subsidiaries and affiliates' stocks	*2 53,923	*2 1,706	14
Gain on transfer of business	291	603	5
Gain on change in equity	607	-	-
Gain on step acquisitions	454	-	-
Extraordinary loss	43,532	23,176	193
Business structure improvement expenses	*3 25,304	*3 11,849	99
Impairment loss	*4 15,934	*4 8,932	74
Loss on valuation of investment securities	1,738	1,044	9
Loss on sales of noncurrent assets	12	672	6
Loss on exchange from business combination	-	669	5
Loss on sales of investment securities	23	10	0
Loss on change in equity	242	-	-
Relocation expenses	215	-	-
Loss on sales of stocks of subsidiaries and affiliates	64	-	-
Income before income taxes and minority interests	83,961	96,737	806
Income taxes	42,366	40,812	340
Income taxes - current	33,558	31,868	266
Income taxes - deferred	8,808	8,944	74
Income before minority interests	41,595	55,925	466
Minority interests in income(loss)	7,853	(1,377)	(12)
Net Income	JPY 33,742	JPY 57,302	\$478

Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income (Continued)**Consolidated Statements of Comprehensive Income**

(In millions of yen, millions of U.S. dollars)

Fiscal year ended March 31	2014	2015	2015
Income before minority interests	JPY 41,595	JPY 55,925	\$466
Other comprehensive income	21,294	106,681	889
Valuation difference on available-for-sale securities	15,858	12,028	100
Deferred gains or losses on hedges	(253)	674	6
Foreign currency translation adjustments	4,450	11,218	93
Remeasurements of defined benefit plans	-	78,611	655
Share of other comprehensive income of associates accounted for using equity method	1,239	4,150	35
Comprehensive income	JPY 62,889	JPY 162,606	\$1,355

Breakdown:

Comprehensive income attributable to owners of the parent	JPY 54,917	JPY 160,309	\$1,336
Comprehensive income attributable to minority interests	7,972	2,297	19

Consolidated Statements of Changes in Net Assets

Fiscal year ended March 31, 2014

(In millions of yen)

	Shareholders' equity					Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock		
Balance at the beginning of current period	397,199	148,405	157,771	(2,946)		700,429
Cumulative effects of changes in accounting policies						-
Restated balance	397,199	148,405	157,771	(2,946)		700,429
Changes of items during the period						
Dividends from surplus			(10,394)			(10,394)
Net income			33,742			33,742
Purchase of treasury stock				(35)		(35)
Disposal of treasury stock		(2)		5		3
Change of scope of equity method			1,451			1,451
Net changes of items other than shareholders' equity						
Total changes of items during the period	-	(2)	24,799	(30)		24,766
Balance at the end of current period	397,199	148,402	182,570	(2,976)		725,195

	Accumulated other comprehensive income					Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	18,333	(1,076)	(7,020)	-	10,237	125,481	836,147
Cumulative effects of changes in accounting policies							-
Restated balance	18,333	(1,076)	(7,020)	-	10,237	125,481	836,147
Changes of items during the period							
Dividends from surplus							(10,394)
Net income							33,742
Purchase of treasury stock							(35)
Disposal of treasury stock							3
Change of scope of equity method							1,451
Net changes of items other than shareholders' equity	15,959	(283)	5,499	(60,658)	(39,483)	(53,767)	(93,250)
Total changes of items during the period	15,959	(283)	5,499	(60,658)	(39,483)	(53,767)	(68,483)
Balance at the end of current period	34,292	(1,359)	(1,521)	(60,658)	(29,246)	71,714	767,663

Consolidated Statements of Changes in Net Assets (Continued)

Fiscal year ended March 31, 2015

(In millions of yen)

	Shareholders' equity					Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock		
Balance at the beginning of current period	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
Changes of items during the period						
Dividends from surplus			(10,393)			(10,393)
Net income			57,302			57,302
Purchase of treasury stock				(54)		(54)
Disposal of treasury stock		(2)		5		3
Other		294				294
Net changes of items other than shareholders' equity						
Total changes of items during the period	-	292	46,909	(49)		47,152
Balance at the end of current period	397,199	148,694	207,021	(3,025)		749,889

	Accumulated other comprehensive income					Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	34,292	(1,359)	(1,521)	(60,658)	(29,246)	71,714	767,663
Cumulative effects of changes in accounting policies						(1,608)	(24,066)
Restated balance	34,292	(1,359)	(1,521)	(60,658)	(29,246)	70,106	743,597
Changes of items during the period							
Dividends from surplus							(10,393)
Net income							57,302
Purchase of treasury stock							(54)
Disposal of treasury stock							3
Other							294
Net changes of items other than shareholders' equity	13,093	1,088	14,316	74,510	103,007	(9,564)	93,443
Total changes of items during the period	13,093	1,088	14,316	74,510	103,007	(9,564)	140,595
Balance at the end of current period	47,385	(271)	12,795	13,852	73,761	60,542	884,192

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	3,310	1,237	1,521	(25)	6,043
Cumulative effects of changes in accounting policies			(187)		(187)
Restated balance	3,310	1,237	1,334	(25)	5,856
Changes of items during the period					
Dividends from surplus			(87)		(87)
Net income			478		478
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock		(0)		0	0
Other		2			2
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	2	391	(0)	393
Balance at the end of current period	3,310	1,239	1,725	(25)	6,249

	Accumulated other comprehensive income					Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	286	(11)	(13)	(506)	(244)	598	6,397
Cumulative effects of changes in accounting policies					-	(13)	(200)
Restated balance	286	(11)	(13)	(506)	(244)	585	6,197
Changes of items during the period							
Dividends from surplus							(87)
Net income							478
Purchase of treasury stock							(0)
Disposal of treasury stock							0
Other							2
Net changes of items other than shareholders' equity	109	9	119	621	858	(80)	778
Total changes of items during the period	109	9	119	621	858	(80)	1,171
Balance at the end of current period	395	(2)	106	115	614	505	7,368

Condensed Consolidated Statements of Cash Flows

(In millions of yen, millions of U.S. dollars)

Fiscal year ended March 31	2014	2015	2015
I. Cash flows from operating activities:			
Income before income taxes and minority interests	JPY 83,961	JPY 96,737	\$806
Depreciation and amortization	76,977	78,717	656
Equity in earnings of affiliates	(2,719)	(8,126)	(68)
Loss (gain) on change in equity	(365)	-	-
Increase in notes and accounts receivable-trade	(22,680)	(74,822)	(624)
Decrease (increase) in inventories	24,327	(21,830)	(182)
Increase (decrease) in notes and accounts payable-trade	(4,034)	16,668	139
Income taxes paid	(30,828)	(34,395)	(287)
Others, net	(30,515)	34,968	293
Net cash provided by operating activities	94,124	87,917	733
II. Cash flows from investing activities:			
Net proceeds from (payments of) acquisitions and sales of property, plant and equipment	(84,018)	(28,671)	(239)
Purchase of intangible assets	(12,327)	(8,974)	(75)
Net proceeds from (payments of) purchases and sales of securities	54,548	(13,628)	(114)
Others, net	2,904	3,763	32
Net cash used in investing activities	(38,893)	(47,510)	(396)
III. Cash flows from financing activities:			
Net proceeds from (payments of) bonds and borrowings	(34,354)	(59,333)	(494)
Cash dividends paid	(10,378)	(10,358)	(86)
Others, net	(5,251)	(2,336)	(20)
Net cash used in financing activities	(49,983)	(72,027)	(600)
IV. Effect of exchange rate changes on cash and cash equivalents	4,257	6,115	50
V. Net increase (decrease) in cash and cash equivalents	9,505	(25,505)	(213)
VI. Cash and cash equivalents at beginning of period	197,132	206,637	1,722
VII. Cash and cash equivalents at end of period	*1 JPY 206,637	*1 JPY 181,132	\$1,509

Notes to Consolidated Financial Statements

Changes in Accounting Policy

Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)

From the beginning of the fiscal year ended March 31, 2015, the NEC Group has applied paragraph 35 of "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May 17, 2012, hereinafter "Retirement Benefits Standard") and paragraph 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of March 26, 2015), and changed its calculation methods of retirement benefit obligations and service costs. The attribution method for projected retirement benefits 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 paragraph 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 yen and retained earnings decreased by 22,458 million yen in the beginning balance of the fiscal year ended March 31, 2015. The impact on operating income, ordinary income, and income before income taxes and minority interests for the fiscal year ended March 31, 2015 was not material. The impact on per share information is shown in the corresponding section.

Notes to Consolidated Balance Sheets

*1. Accumulated depreciation of property, plant and equipment

(In millions of yen)

Items	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Accumulated depreciation of property, plant and equipment	728,969	724,049

*2. Assets pledged as and debt secured by collateral

Balances - assets pledged as collateral

(In millions of yen)

Items	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Buildings and structures	238	212
Land	3,579	3,579
Others	300	436
Total	4,117	4,227

Balances - debt secured by collateral

(In millions of yen)

Items	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Short-term loans payable	2,297	281
Long-term loans payable	200	200
Others	49	46
Total	2,546	527

*3. Notes with relate to non-consolidated subsidiaries and affiliates

The investment amount for the jointly-controlled company included in stocks of subsidiaries and affiliates

(In millions of yen)

Items	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Stocks of subsidiaries and affiliates	388	634

4. Contingent liabilities

Guarantees for bank loans and others

(In millions of yen)

Items	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Automotive Energy Supply Corporation	3,355	1,597
Employees	1,619	1,020
Others	1,597	2,071
Total	6,571	4,688

5. Other Contingent liabilities

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

*6. Net presentation of inventories and provision for loss on construction contracts and others

Inventories related to construction contracts and others which are expected to result in a loss are presented at net of provision for loss on construction contracts and others. The amounts of provision for loss on construction contracts and others which are presented at net amount of correspondent inventories are as follows:

(In millions of yen)

Items	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Merchandise and finished goods	773	929
Work in process	7,696	4,532
Raw materials and supplies	-	7
Total	8,469	5,468

Notes to Consolidated Statements of Operations

*1. Gain on sales of noncurrent assets

Due to sales of buildings, land and others.

*2. Gain on sales of subsidiaries and affiliates' stocks

For the fiscal year ended March 31, 2014, mainly due to sales of stocks of NEC BIGLOBE, Ltd. (currently BIGLOBE, Inc.) and NEC Mobiling, Ltd. (currently MX Mobiling Co., Ltd.).

For the fiscal year ended March 31, 2015, mainly due to sales of stocks of Nittsu NEC Logistics, Ltd.

*3. Business structure improvement expenses

For the fiscal year ended March 31, 2014, mainly due to the reviewing of the mobile phone handset business.

For the fiscal year ended March 31, 2015, mainly for early retirement of employees due to business restructuring.

*4. Impairment loss

(1) Summary of assets or asset groups for which impairment losses were recognized

Fiscal year ended March 31, 2014 (From April 1, 2013 to March 31, 2014)

Use	Type	Location
Assets for business use	<ul style="list-style-type: none"> ▪ Tools, furniture and fixtures ▪ Software ▪ Investments and other assets, and others 	Kawasaki City, Kanagawa Prefecture, and others
Assets for business use	<ul style="list-style-type: none"> ▪ Buildings and structures ▪ Machinery and equipment ▪ Tools, furniture and fixtures ▪ Land ▪ Software, and others 	Kodama Country, Saitama Prefecture
Idle assets	<ul style="list-style-type: none"> ▪ Buildings and structures ▪ Land 	Ikoma City, Nara Prefecture, and others
Others	<ul style="list-style-type: none"> ▪ Goodwill 	—

Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)

Use	Type	Location
Assets for business use	<ul style="list-style-type: none"> ▪ Tools, furniture and fixtures ▪ Software ▪ Investments and other assets, and others 	Minato-ku, Tokyo, and others
Assets for business use	<ul style="list-style-type: none"> ▪ Buildings and structures ▪ Machinery and equipment ▪ Intangible assets, and others 	China
Idle assets	<ul style="list-style-type: none"> ▪ Buildings and structures ▪ Land and others 	Abiko City, Chiba Prefecture, and others
Others	<ul style="list-style-type: none"> ▪ Goodwill 	—

(2) Background to the recognition of impairment loss

Investments in certain fixed assets for business use and goodwill were not expected to be recoverable due to lower profitability of assets for business use and market value declines of idle assets.

Therefore the Company and its consolidated subsidiaries recognized impairment loss as extraordinary loss.

(3) Amounts of impairment loss

Items	Fiscal year ended March 31, 2014 (From April 1, 2013 to March 31, 2014)	Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)
Buildings and structures	1,699	1,994
Machinery and equipment	1,163	1,005
Tools, furniture and fixtures	913	306
Land	3,185	198
Construction in progress	12	5
Goodwill	5,784	3,031
Software	2,799	1,896
Intangible assets-other	8	251
Investments and other assets-other	371	246
Total	15,934	8,932

(4) Method for grouping assets

In principle, assets for business use are grouped based on business units and managerial accounting segments. Idle assets are grouped into a single asset group.

(5) Measurement of recoverable amounts

The higher of the net realizable value and value in use is used for the recoverable amounts of fixed assets for business use and goodwill. Net realizable value is used for the recoverable amounts of idle assets.

Net realizable value is estimated based on the assessed value for list of land prices, etc. The value in use is assessed at 1 yen in case the total of future cash flow is a negative amount.

Notes to Consolidated Statements of Changes in Net Assets

Fiscal year ended March 31, 2014 (From April 1, 2013 to March 31, 2014)

1 Stocks, issued

(In thousands of shares)

Class of stock	Number of shares as of April 1, 2013	Increase	Decrease	Number of shares as of March 31, 2014
Common stock	2,604,733	-	-	2,604,733

Reasons for the change

Not applicable

2 Dividends

(1) Payment of dividends

Resolution	Class of stock	Total dividends (In millions of yen)	Dividends per share (In yen)	Record date	Effective date
Meeting of Board of Directors held on April 26, 2013	Common stock	10,397	4	March 31, 2013	June 3, 2013

(2) Dividends with recorded date within this fiscal year and effective date within the following fiscal year

Resolution	Class of stock	Total dividends (In millions of yen)	Resource of dividends	Dividends per share (In yen)	Record date	Effective date
Meeting of Board of Directors held on April 28, 2014	Common stock	10,396	Retained earnings	4	March 31, 2014	June 2, 2014

Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)

1 Stocks, issued

(In thousands of shares)

Class of stock	Number of shares as of April 1, 2014	Increase	Decrease	Number of shares as of March 31, 2015
Common stock	2,604,733	-	-	2,604,733

Reasons for the change

Not applicable

2 Dividends

(1) Payment of dividends

Resolution	Class of stock	Total dividends (In millions of yen)	Dividends per share (In yen)	Record date	Effective date
Meeting of Board of Directors held on April 28, 2014	Common stock	10,396	4	March 31, 2014	June 2, 2014

(2) Dividends with recorded date within this fiscal year and effective date within the following fiscal year

Resolution	Class of stock	Total dividends (In millions of yen)	Resource of dividends	Dividends per share (In yen)	Record date	Effective date
Meeting of Board of Directors held on April 28, 2015	Common stock	10,396	Retained earnings	4	March 31, 2015	June 1, 2015

Notes to Consolidated Statements of Cash Flows

*1. Reconciliation of cash and cash equivalents from the accounts recorded in consolidated balance sheets

(In millions of yen)

Items	Fiscal year ended March 31, 2014 (From April 1, 2013 to March 31, 2014)	Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)
Cash and deposits	192,668	159,764
Short-term investment securities	16,291	23,340
Time deposits and Short-term investment securities with maturities of more than three months	(2,322)	(1,972)
Cash and cash equivalents	206,637	181,132

Segment Information

[Segment information]

1. Outline of 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 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.

The contents of the reportable segments are as follows:

Public business

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 business

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

Telecom Carrier

This segment mainly renders Network Infrastructure (Optical Transmission Systems, Submarine Cable Systems, Routers / Switches, Mobile Phone Base Stations, 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 Networks 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 and segment income (loss)

Segment income (loss) is based on operating income (loss). Intersegment sales and transfers are based on arm's length price.

As we described in "Change in Accounting Policy", the NEC group has changed calculation methods of retirement benefit obligations and service costs.

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

The impact of this change is immaterial.

Segment Information(Continued)

3. Information about sales and segment income (loss) by reportable segment

Fiscal year ended March 31, 2014 (From April 1, 2013 to March 31, 2014)

(In millions of yen)

	Reportable Segments					Others	Adjustment	Consolidated total
	Public	Enterprise	Telecom Carrier	System Platform	Total			
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

Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)

(In millions of yen)

	Reportable Segments					Others	Adjustment	Consolidated total
	Public	Enterprise	Telecom Carrier	System Platform	Total			
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

Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)

(In millions of U.S. dollars)

	Reportable Segments					Others	Adjustment	Consolidated total
	Public	Enterprise	Telecom Carrier	System Platform	Total			
Sales								
1. Sales to customers	6,849	2,254	6,168	6,074	21,345	3,118	-	24,463
2. Intersegment Sales and transfers	435	43	169	544	1,191	270	(1,461)	-
Total sales	7,284	2,297	6,337	6,618	22,536	3,388	(1,461)	24,463
Segment income (loss) (Operating income (loss))	623	69	516	262	1,470	34	(437)	1,067

Notes:

- "Others" for the fiscal year ended March 31, 2014 represents businesses such as Smart Energy (Electrodes/Energy Storage System, Solutions for Utilities, etc.), Mobile Phones and "BIGLOBE" Internet Services, which are not included in reportable segments. "Others" for the fiscal year ended March 31, 2015 represents businesses such as Smart Energy (Electrodes/Energy Storage System, Solutions for Utilities, etc.) and Mobile Phones, which are not included in reportable segments.
- "Adjustment" of segment income (loss) for the fiscal year ended March 31, 2014 includes corporate expenses of (49,837) million yen and noncurrent assets related adjustment of 1,008 million yen, unallocated to each reportable segment. "Adjustment" of segment income (loss) for the fiscal year ended March 31, 2015 includes corporate expenses of (51,533) million yen ((429) million U.S. dollars) and noncurrent assets related adjustment of (959) million yen ((8) million U.S. dollars), unallocated to each reportable segment. The corporate expenses, unallocated to each reportable segment, are mainly general and administrative expenses incurred at headquarters of NEC, and research and development expenses.

Segment Information(Continued)

[Related information]

Information about geographic areas

Sales

Fiscal year ended March 31, 2014 (From April 1, 2013 to March 31, 2014)

(In millions of yen)

Japan	The Americas	Greater China, APAC	EMEA	Total
2,473,942	202,343	239,450	127,379	3,043,114

Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)

(In millions of yen)

Japan	The Americas	Greater China, APAC	EMEA	Total
2,348,673	203,873	246,382	136,589	2,935,517

Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)

(In millions of U.S. dollars)

Japan	The Americas	Greater China, APAC	EMEA	Total
19,573	1,699	2,053	1,138	24,463

Notes:

1. Sales are classified into country or region based on the locations of customers.
2. Major regions in segments other than Japan:
 - (1)The Americas: North America and Latin America
 - (2)Greater China, APAC: Greater China and Asia Pacific (Asia, Oceania)
 - (3)EMEA: Europe, Middle East and Africa

Notes: Lease Transactions

1. Finance Leases (lessee)

Except those in which the title of leased property will be transferred to the lessee

i) Type of lease asset

Primarily related to outsourcing-related equipment (tools, furniture and fixtures).

ii) Method of depreciation

The straight-line method based on the lease period.

2. Operating leases (lessee)

Future minimum lease obligations under non-cancellable operating leases

(In millions of yen)

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Due within one year	17,037	14,437
Due over one year	29,719	33,906
Total	46,756	48,343

Notes: Income Taxes

1. Breakdown of major factors of deferred tax assets and liabilities

(In millions of yen)

Items	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
(Deferred tax assets)		
Net defined benefit liability	158,678	117,948
Tax loss carry forwards	124,235	78,809
Loss on devaluation of investment securities	73,922	67,477
Accrued expenses and provision for product warranties	44,000	40,336
Loss on devaluation of inventories	41,526	30,019
Depreciation	30,908	25,311
Elimination of unrealized profit through intercompany transactions among consolidated companies	4,729	6,174
Provision for contingent loss	6,529	6,154
Investments in affiliated companies	15,083	6,141
Provision for business structure improvement	4,717	4,460
Research and development expenses	1,473	1,858
Provision for loss on construction contracts and others	4,029	1,816
Others	85,016	82,784
Sub-total	594,845	469,287
Less: valuation allowance	(372,463)	(276,050)
Total	222,382	193,237
(Deferred tax liabilities)		
Undistributed earnings of affiliated companies	(18,981)	(21,843)
Valuation difference on available-for-sale securities	(11,987)	(14,318)
Gain on transfer of securities to the pension trust	(9,016)	(8,400)
Others	(2,374)	(1,801)
Total	(42,358)	(46,362)
Net deferred tax assets	180,024	146,875

Note:

Net deferred tax assets are included in the consolidated balance sheets as follows.

(In millions of yen)

Items	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Current assets-deferred tax assets	74,431	65,351
Noncurrent assets-deferred tax assets	108,398	85,114
Current liabilities-others	(592)	(1,180)
Noncurrent liabilities-deferred tax liabilities	(2,213)	(2,410)

2. The reconciliation between the effective tax rate reflected in the consolidated financial statements and the statutory tax rate

(%)

Items	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Statutory tax rate	38.0	35.5
(Reconciliation)		
Decrease of deferred tax assets due to tax rate changes	3.4	11.0
Amortization of goodwill	10.4	7.0
Undistributed earnings of affiliated companies	16.3	4.0
Equity in losses (earnings) of affiliates	(1.2)	(3.1)
Changes in valuation allowance	(13.6)	(4.0)
Others	(2.8)	(8.2)
Effective tax rate	50.5	42.2

3. Impact of revisions to the corporate tax rate

Following the promulgation of the law "Partial Amendment of the Corporation Tax Act, etc." (Act No.9 of 2015) and "Partial Amendment of Local Tax Act, etc." (Act No.2 of 2015) in Japan on March 31, 2015, revised corporation tax rate will be imposed from the consolidated fiscal years beginning on or after April 1, 2015.

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

As a result, the amount of deferred tax assets (the amount remaining after deducting deferred tax liabilities) decreased by 9,722 million yen, while income taxes-deferred recognized in costs increased by 10,660 million yen for the current consolidated fiscal year.

Notes: Marketable and Investment Securities

1. Available-for-sale securities

Fiscal year ended March 31, 2014

(In millions of yen)

Description	Balance sheet value	Acquisition cost	Unrealized gains (losses)
Securities with balance sheet value exceeding acquisition cost			
(1)Stocks	92,689	45,098	47,591
(2)Bonds			
(a)Governmental and municipal bonds	-	-	-
(b)Corporate bonds	-	-	-
(3)Others	96	44	52
Sub-total	92,785	45,142	47,643
Securities with balance sheet value not exceeding acquisition cost			
(1)Stocks	2,420	2,979	(559)
(2)Bonds			
(a)Governmental and municipal bonds	-	-	-
(b)Corporate bonds	935	1,000	(65)
(3)Others	16,315	16,340	(25)
Sub-total	19,670	20,319	(649)
Total	112,455	65,461	46,994

Note:

The followings are not included in "1. Available-for-sale securities" table above - because of lack of their available market price and not being able to estimate reasonably for their future cash flows: Unlisted stocks (balance sheet value of 46,206 million yen), Investments in limited partnerships and similar partnerships under foreign laws (balance sheet value of 4,519 million yen), and Others (balance sheet value of 281 million yen).

Fiscal year ended March 31, 2015

(In millions of yen)

Description	Balance sheet value	Acquisition cost	Unrealized gains (losses)
Securities with balance sheet value exceeding acquisition cost			
(1)Stocks	110,324	46,767	63,557
(2)Bonds			
(a)Governmental and municipal bonds	-	-	-
(b)Corporate bonds	603	600	3
(3)Others	107	45	62
Sub-total	111,034	47,412	63,622
Securities with balance sheet value not exceeding acquisition cost			
(1)Stocks	15,354	19,226	(3,872)
(2)Bonds			
(a)Governmental and municipal bonds	-	-	-
(b)Corporate bonds	398	400	(2)
(3)Others	23,368	23,394	(26)
Sub-total	39,120	43,020	(3,900)
Total	150,154	90,432	59,722

Note:

The followings are not included in "1. Available-for-sale securities" table above - because of lack of their available market price and not being able to estimate reasonably for their future cash flows: Unlisted stocks (balance sheet value of 24,852 million yen), Investments in limited partnerships and similar partnerships under foreign laws (balance sheet value of 5,146 million yen), and Others (balance sheet value of 266 million yen).

2. Available-for-sale securities sold

Fiscal year ended March 31, 2014 (From April 1, 2013 to March 31, 2014)

(In millions of yen)

Description	Proceeds from sales	Gross realized gains	Gross realized losses
(1)Stocks	14,906	2,697	23
(2)Bonds			
(a)Governmental and municipal bonds	-	-	-
(b)Corporate bonds	-	-	-
(3)Others	1	1	-
Total	14,907	2,698	23

Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)

(In millions of yen)

Description	Proceeds from sales	Gross realized gains	Gross realized losses
(1)Stocks	8,728	2,216	10
(2)Bonds			
(a)Governmental and municipal bonds	-	-	-
(b)Corporate bonds	-	-	-
(3)Others	1	-	-
Total	8,729	2,216	10

3. Impairment of available-for-sale securities

With regard to stocks included in available-for-sale securities, impairment losses of 1,738 million yen and 1,044 million yen were recorded for the fiscal years ended March 31, 2014 and 2015, respectively.

Notes: Accounting for Retirement Benefits

1. Overview of the retirement benefit plans

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 benefit plans and defined contribution plans.

The Company and certain domestic consolidated subsidiaries apply point-based plans, under which benefits are calculated based on accumulated points allocated to employees according to their class of positions and evaluations. The Company and certain domestic consolidated subsidiaries implement cash-balance plans in the defined benefit pension plans. Under these plans, benefits are calculated based on both accumulated points allocated to employees according to their class of positions and accumulated interest points recalculated based on the market interest rates.

2. Defined benefit plans

(1) Reconciliation of changes in Defined benefit obligations

(In millions of yen)

Items	Fiscal year ended March31,2014 (From April 1,2013 to March 31,2014)	Fiscal year ended March31,2015 (From April 1,2014 to March 31,2015)
Defined benefit obligations at beginning of year	968,387	959,420
Cumulative effects of changes in accounting policies	-	34,907
Restated balance	968,387	994,327
Service cost	32,235	31,818
Interest cost	16,419	13,549
Actuarial gains and losses	(2,757)	43,143
Benefits paid	(54,828)	(53,534)
Other	(36)	(2,330)
Defined benefit obligations at end of year	959,420	1,026,973

Note:

Certain consolidated subsidiaries adopted the simplified method.

(2) Reconciliation of changes in Plan assets

(In millions of yen)

Items	Fiscal year ended March31,2014 (From April 1,2013 to March 31,2014)	Fiscal year ended March31,2015 (From April 1,2014 to March 31,2015)
Plan assets at beginning of year	626,582	749,367
Expected return on plan assets	13,219	14,214
Actuarial gains and losses	127,397	125,468
Employer contributions	27,140	27,239
Benefits paid	(45,745)	(45,195)
Other	774	1,816
Plan assets at end of year	749,367	872,909

Note:

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

(In millions of yen)

Items	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Defined benefit obligations [funded]	782,067	835,110
Plan assets	(749,367)	(872,909)
Defined benefit obligations [unfunded]	32,700	(37,799)
	177,353	191,863
Net liability (asset) recognized in the consolidated balance sheet	210,053	154,064
Net defined benefit liability	220,457	228,686
Net defined benefit asset	(10,404)	(74,622)
Net liability (asset) recognized in the consolidated balance sheet	210,053	154,064

(4) Retirement benefit expenses

(In millions of yen)

Items	Fiscal year ended March 31, 2014 (From April 1, 2013 to March 31, 2014)	Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)
Service cost	32,235	31,818
Interest cost	16,419	13,549
Expected return on plan assets	(13,219)	(14,214)
Amortization of actuarial gains and losses	33,558	22,766
Amortization of prior service costs	(9,195)	(8,939)
Amortization of transitional obligation	11,325	10,357
Retirement benefit expenses	71,123	55,337

Note:

Certain consolidated subsidiaries adopted the simplified method.

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

The breakdown of remeasurements of defined benefit plans in other comprehensive income (before adjusting for tax effects) is as follows:

(In millions of yen)

Items	Fiscal year ended March 31, 2014 (From April 1, 2013 to March 31, 2014)	Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)
Prior service costs	-	(10,194)
Actuarial gains and losses	-	106,319
Transitional obligation	-	10,357
Total	-	106,482

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

The breakdown of amounts recognized in remeasurements of defined benefit plans in accumulated other comprehensive income (before adjusting for tax effects) is as follows:

(In millions of yen)

Items	Fiscal year ended March31,2014	Fiscal year ended March31,2015
Unrecognized prior service costs	(45,398)	(35,204)
Unrecognized actuarial gains and losses	123,884	17,565
Unrecognized transitional obligation	10,357	-
Total	88,843	(17,639)

(7) Plan assets

(a) Percentage by major category of plan assets

Items	Fiscal year ended March31,2014	Fiscal year ended March31,2015
Equity securities	46%	47%
Debt securities	44%	41%
Other	10%	12%
Total	100%	100%

Note:

Total plan assets include 14% for the fiscal year ended March 31, 2014 and 15% for the fiscal year ended March 31, 2015 of contribution of securities to retirement benefit trust in the corporate pension plan.

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

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

(8) Basis for calculation of actuarial assumptions

Items	Fiscal year ended March31,2014 (From April 1,2013 to March 31,2014)	Fiscal year ended March31,2015 (From April 1,2014 to March 31,2015)
Discount rate	Mainly, 1.4%	Mainly, 1.3%
Long-term expected rate of return on plan assets	Mainly, 2.5%	Mainly, 2.5%

Note:

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

3. Defined contribution plans

Total defined contribution expense of the Company and its consolidated subsidiaries was 7,267 million yen for the fiscal year ended March 31, 2014 and 7,566 million yen for the fiscal year ended March 31, 2015.

Notes: Per Share Information

(In yen)

Items	Fiscal year ended March 31, 2014 (From April 1, 2013 to March 31, 2014)	Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)
Net assets per share	267.86	316.93
Basic net income per share	12.99	22.05

Notes:

1. Diluted net income per share is not disclosed as dilutive share does not exist.
2. As described in “Changes in Accounting Policy”, the NEC Group has applied “Accounting Standard for Retirement Benefits” and the current consolidated financial statements conform to the transitional treatment as defined in the paragraph 37 of “Accounting Standard for Retirement Benefits”.

As a result, Net assets per share decreased by 7.88 yen at the end of the current consolidated fiscal year.

The impact on Net income per share is immaterial.

3. The basis for calculating net income per share is as follows:

Items	Fiscal year ended March 31, 2014 (From April 1, 2013 to March 31, 2014)	Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)
Net income per share		
Net income (In millions of yen)	33,742	57,302
Amounts not attributable to common shareholders (In millions of yen)	-	-
Net income attributable to common stock (In millions of yen)	33,742	57,302
The average number of common stocks outstanding during the fiscal year (In thousands of shares)	2,598,290	2,598,601

4. The basis for calculating net assets per share is as follows:

Items	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Net assets per share		
Total net assets (In millions of yen)	767,663	884,192
Amounts deducted from total net assets (In millions of yen)	71,714	60,542
(Minority interests included in the above) (In millions of yen)	(71,714)	(60,542)
Net assets at the year end attributable to common stock (In millions of yen)	695,949	823,650
Number of common stocks at the year end to calculate net assets per share (In thousands of shares)	2,598,218	2,598,817

Notes: Subsequent Events

Not applicable

CAUTIONARY STATEMENTS:

This material contains forward-looking statements pertaining to strategies, financial targets, technology, products and services, and business performance of NEC Corporation and its consolidated subsidiaries (collectively “NEC”). Written forward-looking statements may appear in other documents that NEC files with stock exchanges or regulatory authorities, such as the Director of the Kanto Finance Bureau, and in reports to shareholders and other communications. NEC is relying on certain safe-harbors for forward-looking statements in making these disclosures. Some of the forward-looking statements can be identified by the use of forward-looking words such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “intends,” “plans,” “estimates,” “targets,” “aims,” or “anticipates,” or the negative of those words, or other comparable words or phrases. You can also identify forward-looking statements by discussions of strategy, beliefs, plans, targets, or intentions. Forward-looking statements necessarily depend on currently available assumptions, data, or methods that may be incorrect or imprecise and NEC may not be able to realize the results expected by them.

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