News Release

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NEC

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***** For immediate use July 29, 2016

Consolidated Financial Results

for the First Quarter

of the Fiscal Year Ending

March 31, 2017

1. Consolidated Business Results

The NEC Group adopted International Financial Reporting Standards (IFRS) for its consolidated financial statements starting with the first quarter of the fiscal year ending March 31, 2017. Consolidated financial statements for the previous fiscal year's first quarter and for the previous fiscal year are also presented in accordance with IFRS.

(1) Overview of the first quarter of the fiscal year ending March 31, 2017 (three months ended June 30, 2016)

The worldwide economy during the three months ended June 30, 2016 was characterized overall by a very slow pace of growth, mainly owing to sluggish growth in emerging markets, particularly in Russia and Brazil, despite steady performance in the United States, Europe and other industrialized nations.

As for the Japanese economy, in addition to the deterioration of consumer sentiment due to such factors as the strong yen and falling stock prices, domestic and foreign demand was sluggish along with capital investment among enterprises, public investment and trade.

Under this business environment, the NEC Group recorded consolidated revenue of 518.7 billion yen for the three months ended June 30, 2016, a decrease of 68.6 billion yen (-11.7%) year-on-year. This decrease was mainly due to decreased sales in the Public business and the Telecom Carrier business.

Regarding profitability, operating profit (loss) worsened by 22.4 billion yen year-on-year, to an operating loss of 29.9 billion yen, mainly due to decreased revenue.

Income (loss) before income taxes was a loss of 33.7 billion yen, a year-on-year worsening of 29.3 billion yen. This was primarily due to the worsening of operating profit (loss) in addition to the worsening of foreign exchange gains (losses).

Net profit (loss) attributable to owners of the parent for the first quarter was a loss of 20.1 billion yen, worsening by 14.5 billion yen year-on-year. This was primarily due to the worsening of Income (loss) before income taxes despite decreased income taxes.

(2) Results by main business segment

Revenue by segment (revenue from customers):

Segments	Three months ended June 30, 2015	Three months ended June 30, 2016	Change
	In billions of yen	In billions of yen	%
Public	145.6	117.5	-19.3
Enterprise	68.6	66.5	-3.1
Telecom Carrier	143.1	121.1	-15.3
System Platform	160.2	150.2	-6.2
Others	69.8	63.3	-9.3
Total	587.3	518.7	-11.7

Operating profit (loss) by segment:

Segments	Three months ended June 30, 2015	Three months ended June 30, 2016	Change
	In billions of yen	In billions of yen	In billions of yen
Public	0.6	-2.6	-3.2
Enterprise	3.4	3.7	0.3
Telecom Carrier	-2.4	-6.9	-4.5
System Platform	4.3	-4.5	-8.9
Others	-6.2	-8.4	-2.2
Adjustment	-7.3	-11.2	-3.9
Total	-7.6	-29.9	-22.4

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 “Note 6: Business Segment” of this news release.

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

Public Business

Revenue:	117.5 billion yen	(-19.3%)
Operating Profit (Loss):	-2.6 billion yen	(-3.2 billion yen)

In the Public business, revenue was 117.5 billion yen, a decrease of 28.1 billion yen (-19.3%) year-on-year, mainly due to decreased sales for government offices and public services from the influence of large-scale projects from the same period of the previous fiscal year, and decreased demand for the digitalization of fire and emergency radio in the public sector.

Operating profit (loss) worsened by 3.2 billion yen year-on-year, to an operating loss of 2.6 billion yen, mainly owing to decreased sales.

Enterprise Business

Revenue:	66.5 billion yen	(-3.1%)
Operating Profit (Loss):	3.7 billion yen	(0.3 billion yen)

In the Enterprise business, revenue was 66.5 billion yen, a decrease of 2.1 billion yen (-3.1%) year-on-year, mainly due to decreased sales for the retail/service sector from the influence of large-scale projects from the same period of the previous fiscal year, despite strong sales from manufacturing industries.

Operating profit (loss) improved by 0.3 billion yen year-on-year, to an operating profit of 3.7 billion yen, mainly owing to the improved profitability of system construction services.

Telecom Carrier Business

Revenue:	121.1 billion yen	(-15.3%)
Operating Profit (Loss):	-6.9 billion yen	(-4.5 billion yen)

In the Telecom Carrier business, revenue was 121.1 billion yen, a decrease of 21.9 billion yen (-15.3%) year-on-year, mainly due to sluggish capital investment by domestic and international telecommunications carriers.

Operating profit (loss) worsened by 4.5 billion yen year-on-year, to an operating loss of 6.9 billion yen, mainly due to decreased sales.

System Platform Business

Revenue:	150.2 billion yen	(-6.2%)
Operating Profit (Loss):	-4.5 billion yen	(-8.9 billion yen)

In the System Platform business, revenue was 150.2 billion yen, a decrease of 9.9 billion yen (-6.2%) year-on-year, mainly due to decreased sales in hardware.

Operating profit (loss) decreased by 8.9 billion yen year-on-year, to an operating loss of 4.5 billion yen, mainly due to decreased sales.

Others

Revenue:	63.3 billion yen	(-9.3%)
Operating Profit (Loss):	-8.4 billion yen	(-2.2 billion yen)

In Others, revenue was 63.3 billion yen, a decrease of 6.5 billion yen (-9.3%) year-on-year, mainly due to decreased sales in the Smart Energy business.

Operating profit (loss) worsened by 2.2 billion yen year-on-year, to an operating loss of 8.4 billion yen, mainly owing to decreased sales.

2. Consolidated Financial Condition

Analysis of the condition of assets, liabilities, equity, and cash flows

Total assets were 2,332.4 billion yen as of June 30, 2016, a decrease of 196.5 billion yen as compared with the end of the previous fiscal year. Current assets as of June 30, 2016 decreased by 186.8 billion yen compared with the end of the previous fiscal year to 1,266.6 billion yen, mainly due to the collection of trade and other receivables. Non-current assets as of June 30, 2016 decreased by 9.7 billion yen compared with the end of the previous fiscal year to 1,065.9 billion yen.

Total liabilities as of June 30, 2016 decreased by 138.2 billion yen compared with the end of the previous fiscal year, to 1,553.5 billion yen. This was mainly due to a decrease in trade and other payables, as well as a decrease in accruals. The balance of interest-bearing debt amounted to 472.8 billion yen, a decrease of 6.7 billion yen as compared with the end of the previous fiscal year. The debt-equity ratio as of June 30, 2016 was 0.66 (a worsening of 0.04 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of June 30, 2016, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 241.8 billion yen, a decrease of 45.4 billion yen as compared with the end of the previous fiscal year. The net debt-equity ratio as of June 30, 2016 was 0.34 (an improvement of 0.03 points as compared with the end of the previous fiscal year).

Total equity was 779.0 billion yen as of June 30, 2016, a decrease of 58.3 billion yen as compared with the end of the previous fiscal year, mainly due to a decrease associated with the payment of dividends and the recording of net loss attributable to owners of the parent.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of June 30, 2016 was 713.4 billion yen, and ratio of equity attributable to owners of the parent was 30.6% (an improvement of 0.1 points as compared with the end of the previous fiscal year).

Net cash inflows from operating activities for the three months ended June 30, 2016 were 73.8 billion yen, a worsening of 18.8 billion yen as compared with the same period of the previous fiscal year, mainly due to a worsening of loss before income taxes for the first quarter.

Net cash outflows from investing activities for the three months ended June 30, 2016 were 10.1 billion yen, a decrease of 1.6 billion yen as compared with the same period of the previous fiscal year.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for the three months ended June 30, 2016 totaled a cash inflow of 63.7 billion yen, a worsening of 17.2 billion yen year-on-year.

Net cash flows from financing activities for the three months ended June 30, 2016 totaled a cash outflow of 18.7 billion yen, mainly due to the payment of dividends.

As a result, cash and cash equivalents as of June 30, 2016 amounted to 230.9 billion yen, an increase of 38.6 billion yen as compared with the end of the previous fiscal year.

3. Consolidated Financial Forecast

Regarding the consolidated financial forecasts for the fiscal year ending March 31, 2017, the influence of a number of factors, including the progress of business in the second quarter and beyond, the planned commencement of a tender offer bid for Japan Aviation Electronics Industry, Limited., and the transfer of a portion of shares in Lenovo NEC Holdings B.V., an affiliated company accounted for by the equity-method, are currently under review. At this time, there is no change to the consolidated financial forecasts for the full fiscal year ending March 31, 2017, as previously disclosed on April 28, 2016. If any changes are required, NEC will make an announcement as soon as they are determined.

Condensed Interim Consolidated Financial Statements

(1)Condensed Interim Consolidated Statements of Financial Position

(Millions of yen)

	Notes	As of April 1, 2015	As of March 31, 2016	As of June 30, 2016
Assets				
Current Assets				
Cash and cash equivalents		181,132	192,323	230,941
Trade and other receivables		999,032	933,914	652,848
Inventories		224,568	211,992	256,166
Other financial assets		8,949	7,651	9,619
Other current assets		103,524	107,456	116,984
Total current assets		1,517,205	1,453,336	1,266,558
Non-current assets				
Property, plant and equipment, net		350,587	343,323	337,329
Goodwill		66,985	56,141	54,122
Intangible assets		128,639	118,019	115,425
Investments accounted for using the equity method		88,035	90,346	91,157
Other financial assets		279,348	254,917	239,380
Deferred tax assets		144,745	196,019	212,173
Other non-current assets		80,655	16,803	16,280
Total non-current assets		1,138,994	1,075,568	1,065,866
Total assets		2,656,199	2,528,904	2,332,424

Condensed Interim Consolidated Statements of Financial Position (Continued)

(Millions of yen)

	Notes	As of April 1, 2015	As of March 31, 2016	As of June 30, 2016
Liabilities and equity				
Liabilities				
Current liabilities				
Trade and other payables		553,181	503,375	408,068
Bonds and borrowings		133,370	155,454	170,433
Accruals		170,783	157,403	119,534
Other financial liabilities		14,548	13,555	15,360
Accrued income taxes		15,914	13,445	9,965
Provisions		47,351	40,318	37,451
Other current liabilities		144,300	137,135	148,227
Total current liabilities		1,079,447	1,020,685	909,038
Non-current liabilities				
Bonds and borrowings		380,554	318,435	296,916
Other financial liabilities		10,608	9,365	8,330
Defined benefit liabilities		247,255	297,756	297,051
Provisions		17,053	15,336	12,828
Other non-current liabilities		33,643	30,107	29,295
Total non-current liabilities		689,113	670,999	644,420
Total liabilities		1,768,560	1,691,684	1,553,458
Equity				
Share capital		397,199	397,199	397,199
Share premium		147,415	147,755	147,754
Retained earnings		158,356	223,883	188,187
Treasury shares		-3,025	-3,077	-3,079
Other components of equity	7	121,160	4,067	-16,675
Total equity attributable to owners of the parent		821,105	769,827	713,386
Non-controlling interests		66,534	67,393	65,580
Total equity		887,639	837,220	778,966
Total liabilities and equity		2,656,199	2,528,904	2,332,424

(2)Condensed Interim Consolidated Statements of Profit or Loss and Condensed Interim Consolidated Statements of Other Comprehensive Income

Condensed Interim Consolidated Statements of Profit or Loss

(Millions of yen)

Three months ended June 30	Notes	2015	2016
Revenue		587,294	518,703
Cost of sales		410,764	377,795
Gross profit		176,530	140,908
Selling, general and administrative expenses		182,270	170,907
Other operating income (loss)		-1,835	55
Operating Profit (Loss)		-7,575	-29,944
Financial income	8	3,833	2,522
Financial costs	8	3,076	8,911
Share of profit (loss) of entities accounted for using the equity method		2,417	2,679
Income (loss) before income taxes		-4,401	-33,654
Income taxes		1,024	-13,264
Net profit (loss)		-5,425	-20,390
Net profit (loss) attributable to			
Owners of the parent		-5,612	-20,104
Non-controlling interests		187	-286
Total		-5,425	-20,390
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)		-2.16	-7.74
Diluted earnings per share (yen)		—	—

Condensed Interim Consolidated Statements of Other Comprehensive Income

(Millions of yen)

Three months ended June 30	Notes	2015	2016
Net profit (loss)		-5,425	-20,390
Other comprehensive income (loss), net of tax			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plan		―	―
Share of other comprehensive income of associates		―	―
Total items that will not be reclassified to profit or loss		―	―
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		1,380	-9,944
Cash flow hedges		55	160
Available-for-sale financial assets		8,315	-9,921
Share of other comprehensive income of associates		-142	-1,247
Total items that may be reclassified subsequently to profit or loss		9,608	-20,952
Total other comprehensive income (loss), net of tax		9,608	-20,952
Total comprehensive income		4,183	-41,342
Total comprehensive income attributable to			
Owners of the parent		4,050	-40,846
Non-controlling interests		133	-496
Total		4,183	-41,342

(3)Condensed Interim Consolidated Statements of Changes in Equity

(Three months ended June 30, 2015)

(Millions of yen)

	Notes	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
As of April 1, 2015		397,199	147,415	158,356	-3,025	121,160	821,105	66,534	887,639
Net profit (loss)		—	—	-5,612	—	—	-5,612	187	-5,425
Other comprehensive income (loss)		—	—	—	—	9,662	9,662	-54	9,608
Comprehensive income		—	—	-5,612	—	9,662	4,050	133	4,183
Purchase of treasury shares		—	—	—	-18	—	-18	—	-18
Disposal of treasury shares		—	-0	—	0	—	0	—	0
Cash dividends		—	—	-10,396	—	—	-10,396	-1,145	-11,541
Changes in interests in subsidiaries		—	—	—	—	—	—	115	115
Total transactions with owners		—	-0	-10,396	-18	—	-10,414	-1,030	-11,444
As of June 30, 2015		397,199	147,415	142,348	-3,043	130,822	814,741	65,637	880,378

(Three months ended June 30, 2016)

(Millions of yen)

	Notes	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
As of April 1, 2016		397,199	147,755	223,883	-3,077	4,067	769,827	67,393	837,220
Net profit (loss)		—	—	-20,104	—	—	-20,104	-286	-20,390
Other comprehensive income (loss)		—	—	—	—	-20,742	-20,742	-210	-20,952
Comprehensive income		—	—	-20,104	—	-20,742	-40,846	-496	-41,342
Purchase of treasury shares		—	—	—	-3	—	-3	—	-3
Disposal of treasury shares		—	-1	—	1	—	0	—	0
Cash dividends		—	—	-15,592	—	—	-15,592	-1,287	-16,879
Changes in interests in subsidiaries		—	—	—	—	—	—	-30	-30
Total transactions with owners		—	-1	-15,592	-2	—	-15,595	-1,317	-16,912
As of June 30, 2016		397,199	147,754	188,187	-3,079	-16,675	713,386	65,580	778,966

(4)Condensed Interim Consolidated Statements of Cash Flows

(Millions of yen)

Three months ended June 30	Notes	2015	2016
Cash flows from operating activities			
Income (loss) before income taxes		-4,401	-33,654
Depreciation and amortization		22,338	18,804
Impairment loss		101	184
Increase (decrease) in provisions		-1,342	-3,391
Financial income	8	-3,833	-2,522
Financial costs	8	3,076	8,911
Share of (profit) loss of entities accounted for using the equity method		-2,417	-2,679
Decrease (increase) in trade and other receivables		285,699	261,475
Decrease (increase) in inventories		-52,795	-51,466
Increase (decrease) in trade and other payables		-80,525	-82,720
Others, net		-59,788	-29,732
Subtotal		106,113	83,210
Interest and dividends received		2,925	2,874
Interest paid		-3,593	-3,707
Income taxes paid		-12,901	-8,612
Net cash provided by operating activities		92,544	73,765
Cash flows from investing activities			
Purchases of property, plant and equipment		-7,574	-6,228
Proceeds from sales of property, plant and equipment		325	71
Acquisitions of intangible assets		-2,289	-2,558
Purchases of investment securities		-292	-3,755
Proceeds from sales of investment securities		703	1,027
Proceeds from acquisitions of shares of newly consolidated subsidiaries		36	59
Purchases of investments in affiliated companies		-3,659	-68
Others, net		1,138	1,395
Net cash used in investing activities		-11,612	-10,057
Cash flows from financing activities			
Increase (decrease) in short-term borrowings, net		10,914	8,938
Proceeds from long-term borrowings		63	2
Repayments of long-term borrowings		-1,530	-1,191
Redemption of bonds		-40,000	-10,000
Dividends paid		-9,997	-15,127
Dividends paid to non-controlling interests		-1,145	-1,287
Others, net		-18	-63
Net cash used in financing activities		-41,713	-18,728
Effect of exchange rate changes on cash and cash equivalents		807	-6,362
Net increase (decrease) in cash and cash equivalents		40,026	38,618
Cash and cash equivalents, at beginning of period		181,132	192,323
Cash and cash equivalents, at end of period		221,158	230,941

Notes to Condensed Interim Consolidated Financial Statements

1. Reporting Entity

NEC Corporation (“NEC” or “the Company”) is a company domiciled in Japan.

The NEC Group which comprises the Company and its subsidiaries and affiliates, has four main businesses which are “Public Business”, “Enterprise Business”, “Telecom Carrier Business” and “System Platform Business”.

Major business activities of the NEC Group are described in Note 6 “Business segment”.

2. Basis of Preparation

(a)Preparation of the Consolidated Financial Statements

The Company fulfills the requirements of a “specified company of designated IFRS” as provided in Article 1-2 of “Ordinance on Consolidated Quarterly Financial Statements”. Therefore, in accordance with the provision of Article 93 of the ordinance, the NEC Group’s condensed interim consolidated financial statements are prepared in conformity with IAS 34 "Interim Financial Reporting".

From the first quarter period ended June 30, 2016 (from April 1, 2016 to June 30, 2016), the Company prepares its condensed interim consolidated financial statements in accordance with IFRS (International Financial Reporting Standard).

NEC Group's transition date to IFRS is April 1, 2015. Accounting policies for the first time adoption and transitional impacts on financial position, operating results and cash flows are described in Note 10 “First-time Adoption”.

(b)Basis of Measurement

Condensed interim consolidated financial statements, except for the following significant items in the consolidated statement of financial position, are prepared based on acquisition cost:

・Derivative financial instruments are measured at fair value;
・Available-for-sale financial assets are measured at fair value; and
・Net defined benefit liability(asset) is measured by deducting the fair value of plan assets from the present value of the defined benefit obligation.

(c)Functional Currency and Presentation Currency

Condensed interim consolidated financial statements are presented in Japanese yen, which is the Company’s functional currency.

Financial information presented in Japanese yen is rounded to the nearest million yen.

3.Significant Accounting Policies

Accounting policies set out below have been applied consistently to all periods presented in the condensed interim consolidated financial statements (including the consolidated statement of financial position at the date of transition to IFRS).

(1)Basis of Consolidation

①Business Combinations

Business Combinations are accounted for using the acquisition method at the date that control has transferred to the NEC Group.
The NEC Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values at the acquisition date of the assets transferred from the NEC Group to the former owners of the acquiree, the liabilities incurred by the NEC Group and the equity interests issued by the NEC Group.

Consideration the NEC Group transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement.

The NEC Group measures the identifiable assets acquired and the liabilities assumed at their fair values at the acquisition date.
On an acquisition-by-acquisition basis, the NEC Group chooses a measurement basis of non-controlling interests at either fair value or by the proportionate share of the non-controlling interests in the recognized amounts of the acquiree’s identifiable net assets.

If the business combination is achieved in stages, the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. If the acquirer has recognized changes in the value of its equity interest in the acquiree in other comprehensive income in prior reporting periods, the amount is recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.
Any acquisition-related costs which are incurred to execute a business combination, such as agency, legal and other professional or consulting fees, are expensed as incurred.

The Company recognizes goodwill measured as the excess of the aggregate of the fair value at the acquisition date of the consideration transferred and the amount of any non-controlling interest, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed (normally fair value). If the net amounts of the identifiable assets acquired and the liabilities assumed exceeds the consideration, the NEC Group recognizes the resulting gain in profit or loss on the acquisition date.

②Subsidiaries

Subsidiaries are entities which the NEC Group controls.

Financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceases.

The NEC Group’s consolidated financial statements include financial statements of subsidiaries that have a different reporting date from that of the consolidated financial statements due to the local legal system. In such cases, for consolidation purposes, the subsidiary prepares additional financial information as of reporting date of the financial statements of the parent, and the effects of significant transactions or events that occur between those dates are adjusted in the consolidated financial statements.
Accounting policies of subsidiaries are adjusted to conform to the NEC Group’s accounting policies if necessary.
Comprehensive income of a subsidiary is attributed to the owners of the parent and non-controlling interest even if this results in the non-controlling interests having a deficit balance.

Changes in ownership interests in subsidiaries are accounted for as equity transactions if they do not result in a loss of control. Difference between non-controlling interest adjustment and fair value of the consideration is recognized in equity as the shareholders' interests.
On the other hand, when the NEC Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, any non-controlling interest, and other components of equity related to the subsidiary. Any gain or loss arising from loss of control is recognized in profit or loss. If the NEC Group retains any interest in the subsidiary, that interest is remeasured at fair value on the day that control ceases. Subsequently, it is accounted for as an equity method associate or as an available-for-sale financial asset depending on the level of influence retained.

③Investments in Associates and Joint Ventures (Equity-accounted Investees)
The Company's equity-accounted investments are composed of investments in associates and joint ventures.

Associates are those entities in which the NEC Group has significant influence, but no control nor joint control, over financial and operating policy decisions of the investee.
If the NEC Group directly or indirectly holds 20% or more of the voting power of the investee, it is presumed that the NEC Group has significant influence over the investee, unless it can be clearly demonstrated that it is not the case.

Joint ventures are those entities over whose activities the NEC Group has joint control and has rights to the net assets of the arrangement, no rights/obligations to the assets/liabilities of the arrangement.

Investments in associates and joint ventures are initially accounted for at cost and subsequently under the equity method.
Consolidated financial statements includes the NEC Group's share of profit or loss and other comprehensive income of equity-accounted investees, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Financial statements of associates and joint ventures are, in principle, prepared at the same reporting date as that of the NEC Group.
Accounting policies of associates and joint ventures are adjusted to conform to the NEC Group's accounting policies if necessary.

④Consolidation Adjustments
All inter-group balances and unrealized gains and losses resulting from inter-group transactions are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the NEC Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains only if there is no evidence of impairment.

(2)Foreign Currency Translation
①Foreign Currency Transactions
Each entity in the NEC Group measures foreign currency transactions, based on the respective functional currency, at the spot exchange rate prevailing at the dates of the transactions.

At the end of each reporting period, monetary assets and liabilities are translated using closing rate.
Non-monetary assets and liabilities that are measured at cost are translated using the exchange rate at the transaction date.
Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Foreign exchange differences arising on re-translation are recognized in profit or loss.

However, foreign exchange differences arising on equity securities classified as available-for-sale financial assets and qualifying cash flow hedges are recognized in other comprehensive income.

②Foreign Operation

Foreign operation is an entity that is a subsidiary, associate, joint venture or branch of the Company, the activities of which are based in a country or currency other than those of the Company.

The assets and liabilities of foreign operations are translated into Japanese yen using exchange rate prevailing at the reporting date and their revenue and expenses are translated using the average exchange rate for the period.

Goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of foreign operations are accounted as assets and liabilities of the foreign operations and are translated into Japanese yen at the exchange rate prevailing at the reporting date.

The foreign exchange differences arising on translation are recognized in other comprehensive income and included in exchange differences on translating foreign operations within other components of equity. Upon loss of control, significant influence or joint control due to disposal of a foreign operation, cumulative amount of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss as a part of gains and losses on the disposal.

(3)Financial Instruments

①Non-derivative Financial Assets

The NEC Group classifies non-derivative financial assets into the following categories: loans and receivables, and available-for-sale financial assets.

The NEC Group initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized in the consolidated statement of financial position initially on the date on which the NEC Group becomes a party to the contractual provisions.

The NEC Group derecognizes a financial asset when contractual rights to the cash flows from the asset expire or when the NEC Group transfers substantially all the risks and rewards of ownership of the financial asset. The NEC Group separately recognizes another asset or liability if the NEC Group derecognizes a financial asset but retains any interest in the transferred financial asset.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Such assets are initially measured at fair value, plus any directly attributable transaction costs and subsequently at amortized cost using the effective interest method. Impairment losses are recognized in profit or loss.

Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of financial assets at fair value through profit or loss and loans and receivables.

These assets are initially measured at fair value plus any directly attributable transaction costs and subsequently measured at fair value at the reporting date. The resulting gains and losses are recognized in other comprehensive income with the exception of impairment losses and foreign exchange differences on monetary financial assets. When a financial asset is derecognized or determined to be impaired, the gain or loss accumulated in other comprehensive income is reclassified to profit or loss.

Fair value of available-for-sale financial assets that are traded in an active market are measured at a quoted market price. Available-for-sale financial assets that are not traded in an active market are measured at fair value that is determined by applying valuation techniques.

②Non-derivative Financial Liabilities

The NEC Group classifies non-derivative financial liabilities into other financial liabilities.

The NEC Group recognizes debt securities on the day that they are issued. All other financial liabilities are initially recognized on the date on which the NEC Group becomes a party to contractual provisions.

The NEC Group derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

These financial liabilities are measured initially at fair value, less any directly attributable transaction costs and subsequently measured at amortized cost using the effective interest method. Amortization charge for each period is recognized as financial expense in profit or loss.

③Derivative Financial Instruments

The NEC Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are initially and subsequently measured at fair value. A derivative which is designated as hedging instrument is classified as either cash flow hedge, fair value hedge or hedge of a net investment at the inception of a hedge relationship. Changes in the fair value are accounted for as follows:

Derivatives to which Hedge Accounting is not Applied

When a derivative is not designated as a hedging instrument in accordance with the criteria for hedge accounting, any changes in the fair value of the derivative are recognized in profit or loss.

Derivatives to which Hedge Accounting is Applied

Upon initial designation of a derivative as a hedging instrument, the NEC Group formally documents the relationship between the hedging instrument and hedged item, including risk management objectives and strategy in undertaking the hedge transaction and the hedged risk. The NEC Group initially and continually make an assessment of whether the hedging instruments are expected to be highly effective in offsetting changes in the fair value or the cash flows of the respective hedged items.

Cash Flow Hedges

The effective portion of changes in the fair value of a derivative is recognized in other comprehensive income and any ineffective portion of changes in the fair value is directly recognized in profit or loss.

The amount accumulated in other comprehensive income is reclassified to profit or loss in the same period that the hedged item affects profit or loss.

Hedge accounting is discontinued prospectively when a derivative expires, or is sold, terminated, or exercised, or no longer meets the criteria for hedge accounting, or if a forecast transaction is no longer probable or the designation is revoked.

The NEC Group has no derivatives classified as fair value hedges nor hedges of a net investment.

④Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and presented at net in the consolidated statement of financial position only when the NEC Group has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(4)Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash on hand, demand deposits, and short-term investments that are readily convertible into cash, are exposed to insignificant risk of changes in value and redeemable in three months or less from each acquisition date.

(5)Property, Plant and Equipment

①Recognition and Measurement

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes the expenses directly attributable to acquisition of the assets, the costs of dismantling and removing the item and restoring the site on which it is located, and borrowing costs to be capitalized.

When different parts of an asset have different useful lives, they are accounted for as separate items (by major components).
Gains or losses on disposals of property, plant and equipment are recognized in profit or loss.

②Subsequent Expenditure
Subsequent expenditure is capitalized only when it is probable that the future economic benefits from the expenditure will flow to the NEC Group.

③Depreciation
Depreciation is recognized in profit or loss mainly on a straight-line basis over the estimated useful lives as described below. The residual value is generally estimated at zero (or one yen) at the end of the useful lives, except for the case where such amount is estimable.

Useful lives of major fixed assets are as below:

Buildings and structures	7-60 years
Machinery and equipment, tools and fixtures	2-22 years

Depreciation method, useful lives and residual value of an asset are reviewed at each reporting period-end and revised if necessary.

(6)Intangible Assets
①Recognition and Measurement of Intangible Assets
(a)Goodwill
Goodwill arising on acquisition of a subsidiary is recognized in intangible assets. For the measurement of goodwill at the acquisition date, see (1)① “Business combinations”.

(b)Research and Development Costs
Development expenditures are recognized as internally generated intangible assets if, and only if, the NEC Group can demonstrate all of the following:
・the technical feasibility of completing the intangible asset so that it will be available for use or sale.
・its intention to complete the intangible asset and use or sell it.
・its ability to use or sell the intangible asset.
・how the intangible asset will generate probable future economic benefits.
・the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
・its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Expenditures on development which do not meet the above criteria requirements and expenditures on research are recognized as expense when they are incurred.

(c)Software and Other Intangible Assets
Development expenditures on software held for sale and software for internal use are recognized as intangible assets, if the criteria of capitalization mentioned in ①(b) above are met.
Other intangible assets such as loyalties and licenses are initially accounted for at cost.

(d)Intangible assets acquired in business combinations
Intangible assets, such as patents and others, acquired in business combinations and recognized separately from goodwill are initially recognized at fair value at the acquisition date.

②Subsequent Expenditure

Subsequent expenditure is capitalized only when it is probable that the future economic benefits from the expenditure will flow to the NEC Group.

③Amortization

Intangible assets with definite useful lives which the NEC Group acquired are amortized using the straight-line basis over their estimated useful lives from the date when the assets are available for use.

(a)Goodwill

As being an asset with indefinite useful lives, goodwill is not amortized, but is tested for impairment at least annually or whenever there is any indication of impairment.

(b)Research and Development Costs

An intangible asset in development phase has a definite useful life and the amortization starts from the date in which the asset is available for use. It is amortized over the estimated useful life, using the method which reflects the pattern in which the asset’s future economic benefits are expected to be consumed by the entity.

(c)Software and Other Intangible Assets

Software is amortized as follows:

Software held for sale is amortized based on the expected sales volumes over the expected effective lives.

(mainly within 2 years of the expected effective lives)

If the amortization method does not reflect the pattern of consumption of the expected future benefits from the assets, it is amortized on a straight-line basis over the remaining useful life.

Software for internal use is amortized on a straight-line basis over the expected useful lives (mainly 3-5 years)

Other intangible assets such as patents and licenses are amortized from the date when the asset is available for use over the estimated useful lives, such as contract period, using the method which reflects the pattern in which the assets’ future economic benefits are expected to be consumed by the entity.

Amortization method, useful lives, and residual values are reviewed at the end of each year and adjusted if necessary.

(7)Leases

①Determining whether an Arrangement Contains a Lease

The NEC Group determines whether an arrangement is, or contains, a lease at the inception of the lease arrangement.

Payments and other consideration required by the arrangement are separated at the inception of the arrangement or upon a reassessment of the arrangement into those for the lease and those for other elements on the basis of their relative fair value.

②Leased Assets

Leases in terms of which the NEC Group assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at the lower of its fair value and the present value of minimum lease payments at inception of the lease term. Subsequently, the asset is depreciated over the shorter period of either the lease term or the economic useful life of the leased asset.

All other leases are assumed to be operating leases and are not recognized in the NEC Group’s consolidated statement of financial position.

③Lease Payments

Payments made under operating leases are charged to profit or loss on a straight-line basis over the lease term.
All lease incentives received, which are inseparable from lease payments, are recognized over lease terms.

Minimum lease payments made under finance leases are allocated between the finance costs and the reduction of the outstanding liability. The finance costs are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of liability.

(8)Inventories

Inventories are measured at the lower of cost and net realizable value.
The cost of inventories of items that are interchangeable is measured by the first-in first-out method or the periodic average method, whereas the cost of inventories of items that are not interchangeable is measured by the specific identification of cost.

Cost of inventories comprises all costs of purchase, costs of production, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Costs of finished goods and goods in process include a proper allocation of production overheads that are based on the normal capacity of the production facilities.

(9)Impairment

①Non-derivative Financial Assets

A financial asset not carried at fair value through profit or loss is assessed for objective evidence of impairment at the reporting date. A financial asset is impaired if there is an objective evidence of impairment, as a result of a loss event that occurred after the initial recognition of the asset and the loss event had a negative effect on the estimated future cash flows of the asset that can be reasonably estimated.
Objective evidence that financial assets are impaired includes default or delinquency by a debtor and indications that a debtor or issuer will enter bankruptcy. In addition, for equity investments such as securities, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Impairment of Financial Assets Measured at Amortized Cost

Impairment assessment is made at an individual level for assets considered to be individually significant, or at a collective level if not considered to be individually significant.
If there is objective evidence that a financial asset carried at amortized cost has been impaired, the amount of loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment loss is recognized in profit or loss and the carrying amount is reduced directly, except for receivables whose carrying amount is reduced through the use of an allowance account. If, in a subsequent period, there is any event occurred which indicates that an impairment loss recognized in prior periods for an asset have decreased, the previously recognized impairment loss is reversed directly through profit or loss. The carrying amounts of receivables are reduced directly when any recovery is not reasonably possible with every possible means to collect and they are assumed uncollectible.

Impairment of Available-for-sale Financial Assets

Impairment loss on available-for-sale financial assets is recognized by reclassifying the accumulated loss, which is already recognized in other comprehensive income as a difference with the change of the fair value of the asset, to profit or loss. The amount of cumulative loss that is reclassified from equity to profit or loss is the difference between acquisition cost and current fair value, less any impairment losses on the asset previously recognized in profit or loss.
For debt instruments that are classified as available-for-sale financial assets, reversal of impairment losses is recognized in profit or loss if its fair value increases and the increase is objectively related to an event occurred after initial impairment. The reversal of impairment losses of equity instruments is not recognized through profit or loss, but a subsequent increase in fair value is recognized directly in other comprehensive income.

Impairment of Equity-accounted Investments

Impairment of equity-accounted investments are measured by comparing the recoverable amount and the carrying amount. The impairment loss is recognized in profit or loss. If there has been a change in the estimates used to determine the recoverable amount and the recoverable amount increases, the impairment loss is reversed.

②Non-financial Assets

Non-financial assets other than inventories and deferred tax assets, are assessed for indications of impairment at the end of each reporting period. If there are any indications that an asset or cash generating unit (“CGU”) (or CGU group) may be impaired, the recoverable amount of such asset is estimated. An asset or CGU is the smallest identifiable group of assets that generates cash inflow that are largely independent of the cash inflows from other assets or groups of assets.

For goodwill and intangible assets for which the useful life is indefinite, the recoverable amount is estimated at the same time each year for the level of CGU (CGU group), and they are also tested for impairment when there is any indication of impairment.

An asset or CGU (CGU group) are assumed to be impaired when its carrying amount exceeds its recoverable amount, and if this is the case, the carrying amount of the asset or CGU (or CGU) is reduced to the recoverable amount.

Since the NEC Group applies the cost model as the valuation model of property, plant and equipment, the impairment loss is recognized in profit or loss.

Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

If it is impracticable to estimate the recoverable amount of an individual asset, the recoverable amount is determined for the CGU (CGU group) to which the asset belongs.

The NEC Group’s corporate assets do not generate independent cash inflows. If there is an indication that corporate assets may be impaired, the recoverable amount is estimated for the CGU (or CGU group) to which the corporate assets belong. Corporate assets are assets other than goodwill that contribute to the future cash flows of both the CGU under review and other CGUs, and includes land or buildings held by indirect departments.

The recoverable amount is the higher of its fair value of an asset or CGU (CGU group) less costs to sell and its value in use. Value in use is calculated as the present value of the estimated future cash flows associated with the asset or CGU (CGU group)

In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate which reflects current market assessments of the time value of money and any risks specific to the asset (or CGU).

The NEC Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.

An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there is an indication that an impairment loss recognized for an asset other than goodwill may no longer exist or may have decreased, and if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Impairment losses are only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Impairment losses on goodwill are not reversed.

(10)Non-current Assets Held for Sale

A non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through its continuing use.
To meet this condition, the asset is available for immediate sale in its present condition and its sale is highly probable.
If the NEC Group commits to a sale plan involving loss of control of a subsidiary, it classifies all the assets and liabilities of the subsidiary as held for sale when the criteria set out above are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets or disposal group classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

Property, plant and equipment and intangible assets classified as held for sale are no longer depreciated or amortized.

(11)Employee Benefits

①Defined Benefit Plans

Defined benefit plans of the NEC Group are the defined benefit pension plans and the lump-sum severance payment plans. Net amount of defined benefit plan assets and obligations are calculated by deducting fair value of planned assets from present value of obligations. The NEC Group’s obligation in respect of each defined benefit pension plan is calculated separately for each plan by estimating the amount of future benefits employees have earned in return for their services in the current and prior periods and discounting them to its present value. The discount rate used is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximate to the terms of the NEC Group’s obligations and that are denominated in the same currency in which the benefits are expected to be paid. The NEC Group applies the projected unit credit method calculated by an actuary every year.

Past service costs arising from the plan amendment are recognized in profit or loss as incurred.

Actuarial gains and losses arising from the plan are recognized in other comprehensive income and not reclassified to retained earnings and others in subsequent periods.

②Defined Contribution Pension Plans

Defined contribution pension plans are post-employment benefit plans under which the NEC Group pays fixed contributions to a separate entity (fund) and have no legal or constructive obligations to pay further amounts. Contributions to defined contribution pension plans are recognized as employee benefit costs in profit or loss in the period when the service is provided by employees.

③Termination Benefits

Termination benefits are recognized as expenses in profit or loss when the NEC Group is committed, without realistic possibility of withdrawal, to a formal detailed plan to provide termination benefits, to either terminate employment before the normal retirement date, or as a result of an offer made to encourage voluntary redundancy. Termination benefits which are paid for voluntary resignation are recognized as expenses when the NEC Group has made an offer of voluntary redundancy, it is probable that offer will be accepted, and the number of the employees who accept the offer can be estimated reliably. Obligations related to the benefit are discounted to its present value, when it is paid at least 12 months after the end of reporting period.

④Short-term Employee Benefits

Cost of short-term employee benefits are measured on an undiscounted basis and recognized in profit or loss as the service is provided by the employee.

(12)Provisions

A provision is recognized if, as a result of past event, the NEC Group has a present obligation (legal or constructive) that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligations.

Provisions, where the time of money is important, are discounted using a pre-tax rate reflecting the time value of money and the specific risks of the liability.

Interest cost associated with unwinding of the discount is recognized as financial costs.

①Product Warranty Liabilities

The NEC Group sells products which are repaired or exchanged within the warranty period after sales of products or delivery of developed software, based on contracts.

Product warranty liabilities are recognized for estimated future warranty costs using the historical ratio of warranty costs to net sales or other relevant factors, with the addition of incremental costs that are expected to be incurred which are individually considered. Most of these costs are expected to be incurred for the next year and the rest to be incurred within about two years after the end of reporting period.

②Provision for Business Structure Improvement

A provision is recognized for the amount of the estimated expenses and losses to be incurred in connection with business structure improvement. Most of these expenses are expected to be incurred for the next year and the rest to be incurred within about two years from the end of reporting period.

③Provision for Loss on Construction Contracts and Others

A provision is recognized for the estimated amount of future losses on customized software or construction contracts whose costs exceed total contract revenues.

④Asset Retirement Obligations

Provisions are recognized for the expenses to be incurred in connection with scrap, removal and retirement of assets and these expenses are added to costs of the assets. The estimated future expenses and applied discount rate are reviewed every year. They are accounted for as changes in accounting estimates if it is revised.

(13)Revenue

Revenue is recognized when it is probable that future economic benefits will flow to the NEC Group and these benefits can be measured reliably.

Revenue is measured at the fair value of the consideration received taking into account the amount of any sales discounts, volume rebates, and taxes such as consumption taxes.

①Sale of Goods

Revenue from the sale of goods shall be recognized when the significant risks and economic benefits of ownership of the goods are transferred to the buyer, which usually is based on the inspection of the buyer.

②Rendering of Services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction. When the same service is continuously rendered over a specified period, revenue is recognized on a straight-line basis over the specified period.

③Construction Contracts

Contract revenue shall comprise the initial amount of revenue agreed in the contract and variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and capable of being reliably measured.

For construction contracts and customized software, when the outcome of the construction contract can be reliably estimated, percentage-of-completion accounting method is applied and contract revenue is recognized based on the stage of completion. The stage of completion is primarily determined using the cost-to-cost method.

For construction contracts in which the outcome cannot be reliably estimated, contract revenue is recognized only to the extent of contract costs incurred that it is probable that they will be recoverable, and contract costs are recognized as an expense in the period they are incurred.

(14)Financial Income and Financial Costs

Financial income and financial costs include interest income, dividend income, interest expenses, gains or losses and impairment losses of available-for-sale financial assets, changes of fair value of derivative financial instruments, foreign exchange gains or losses and others.

Interest income and borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized as incurred, using the effective interest method.

Dividend income is recognized when the right to receive the dividends is established.

(15)Income Tax Expenses

Income tax expenses comprise current and deferred tax, both of which are recognized in profit or loss except to the extent that it relates to items recognized in equity or other comprehensive income.

Income tax expenses on the condensed interim consolidated statement of profit or loss is calculated based on the estimated weighted average annual income tax rate expected for the full financial year.

①Current Tax

Current tax is the expected tax payable or receivable on taxable income or loss for the year, based on tax rates and tax laws enacted or substantially enacted at the reporting date, with any tax adjustment to tax payable in respect of previous years.

②Deferred Tax

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amount of assets and liabilities and the amounts used for tax purposes.

Deferred tax is not recognized for the following situations:

- Temporary differences on the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that it is probable that the temporary difference will not reverse in the foreseeable future; and
- Taxable temporary differences arising on initial recognition of goodwill.

Deferred tax assets and liabilities are measured using the tax rates that are expected to be applied in the period when the assets are realized or the liabilities are settled, based on the tax laws enacted or substantially enacted by the reporting date.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset current tax assets against current tax liabilities and they relate to income taxes levied by the same taxation authority.

A deferred tax asset is recognized for the carryforward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are impaired if it is no longer probable that future taxable income would be sufficient to allow part or all of the benefit of the deferred tax asset to be realized.

(16)Discontinued Operations

A discontinued operation is a component of the NEC Group's business that either has been disposed of, or is classified as held for sale, and;

- represents a separate major line of business or geographical area of operations,
- is part of a single coordinated plan to dispose of a separate major line of business or geographical operations, or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs on the date of disposal or the date at which the operation meets the definition of being held for sale, whichever is earlier.

When an operation is classified as a discontinued operation, the comparative financial statements of profit or loss and other comprehensive income are re-presented as if the operation had been discontinued from the start of the comparative year.

(17)Share Capital

①Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are recognized as a deduction from equity.

②Treasury Shares

Treasury shares are measured at cost and deducted from equity. When treasury shares are sold subsequently, the difference between the carrying amount and the consideration received is recognized in capital surplus. Additional costs directly related to repurchase / sale of treasury shares are deducted from equity.

4.Use of Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and assumptions may be different from the actual results.

The estimates and assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The key estimates and judgments made in applying accounting policies that have significant effects on the amounts recognized in the consolidated financial statements are as follows.

(1)Fair Value of Financial Instruments

Fair value of financial instruments that are traded in an active market are measured at a quoted market price. Financial instruments that are not traded in an active market are measured at fair value that is determined by applying the following valuation techniques.

- the use of recent arm's-length transactions
- reference to other actively traded instruments that are substantially the same
- the use of comparable company valuation multiples and other reasonable valuation techniques

(2)Useful Lives and Residual Values of Property, Plant and Equipment

Useful lives of property, plant and equipment are estimated by taking into consideration facts such as the expected usage of the asset, the expected physical wear and tear, technological and commercial obsolescence, and legal or similar limit on the use of the asset. Residual value is zero (or one yen) at the end of the useful lives, except for the case where the amount that the NEC Group obtains from disposal of the asset (less estimated costs to disposal) can be estimated.

(3)Recoverable Amount in Impairment Test of Non-financial Assets

Impairment testing is performed for each asset or CGU (CGU group) and the recoverable amount is the greater of its fair value of asset or CGU (CGU group) less cost to sell and its value in use.

In measuring value in use, the estimated future cash flows reflects management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset.

The estimated future cash flows are discounted to present value using a pre-tax discount rate which reflects current market assessments of the time value of money and any risks specific to the asset (or CGU).

(4)Actuarial Assumptions of Post-retirement Benefits

In the defined benefit plans, various assumptions are used in calculating retirement benefit obligations and plan assets. The actuarial calculation is based on the assumptions of demographic morality, rates of employee turnover, selectivity of lump-sum severance plan, financial discount rate, rates of increases in salaries, revaluation rates of a cash balance plan, etc.

(5)Recognition and Measurement of Provisions

The NEC Group recognizes product warranty liabilities, provision for business structure improvement, provision for loss on construction contracts and others and asset retirement obligations in the consolidated statement of financial position. These provisions are measured based on the best estimates of expenditures required to settle the obligation or transfer the obligation to the third party at the end of the reporting period. These provisions are recognized, based on the best estimates of the expenditures required to settle the obligations, taking risks and uncertainty related to the obligations into consideration as of the end of the reporting period. However, such calculations may be affected by occurrence of unexpected events or changes in conditions. Accordingly, differences between the estimated and actual expenditures may have a material impact on the subsequent consolidated financial statements.

・Product Warranty Liabilities

Product warranty liabilities are recognized at the time of sales of the products at an amount that represents the estimated cost, based on past experience, to repair or exchange certain products within the warranty period.

・Provision for Business Structure Improvement

A provision is recognized for the estimated costs related to the business structure improvement plan notified to the related party.

・Provision for Loss on Construction Contracts and Others

A provision is recognized for losses on projects such as construction contracts including customized software development if it is probable that the total estimated project costs exceed the total estimated project revenues, and the amount can be estimated reliably.

・Asset Retirement Obligations

A provision is made mainly for the estimated cost of restoring the leased site in the agreement of the lease, based on past experience.

(6)Revenue Recognition

When the percentage-of-completion accounting method is applied to construction contracts (including customized software), the following three elements shall be estimated reliably.

- Contract revenue
- Contract costs
- the stage of completion at the end of the reporting period

When all three elements can be estimated reliably, contract revenue and contract costs of the period shall be recognized respectively by reference of the above elements. The stage of completion of a contract is measured from the proportion of the contract costs incurred for work performed to date to the estimated total contract costs (cost-to-cost method). In addition, as contract costs often fluctuate as circumstances change after the beginning of the construction, the NEC Group reassesses the estimated total contract costs by comparing the actual cost incurred and the previous estimate on a timely basis.

(7)Recoverability of Deferred Tax Assets

A deferred tax asset is recognized to the extent it is probable that future taxable profit will be available against which they can be utilized. Recoverability is assessed based on forecasts of the future taxable profit derived from the NEC Group’s business plan.

5.New Standards and Interpretations not yet Adopted

A number of new standards and amendments to existing standards are not yet effective for the fiscal year ending March 31, 2017. These standards and amendments have not been applied in preparing NEC's consolidated financial statements.

The NEC group is currently assessing the impact on the financial statements upon adoption of the new standards and amendments and it is difficult to make a rational estimate of the impact.

IFRSs	Title	Description of New standards/Amendments	Mandatory adoption (From the year beginning)	To be adopted by the NEC Group (From the year ending)
IFRS 9	Financial Instruments	Amendments on classification, measurement and recognition of financial instruments, and hedge accounting	January 1, 2018	March 31, 2019
IFRS 15	Revenue from Contracts with Customers	New accounting standard to replace IAS18 and IAS11 (the current standards related to revenue recognition) and the related interpretations	January 1, 2018	March 31, 2019
IFRS 16	Leases	New accounting standard to replace IAS17 (the current standards related to leases) and the related interpretations	January 1, 2019	March 31, 2020

6. Business Segment

(1)General information about reportable segments

The reportable segments of the Company are the businesses 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.

Therefore, the Company consists of segments that are identified in terms of similarity of products, services and markets based on business. The Company has four reportable segments, which are the Public, Enterprise, Telecom Carrier and System Platform businesses.

Descriptions of each reportable segment are as follows:

Public

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

Enterprise

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

Telecom Carrier

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

System Platform

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

(2)Basis of measurement for reportable segment sales and segment income or loss

Segment income (loss) is based on operating income (loss). Inter-segment sales and transfers are based on arm's-length price. The accounting policies applied to each reportable segment are almost the same described in Note 3. "Significant Accounting Policies".

(3)Information about reportable segment sales, segment income or loss

(Three months ended June 30, 2015)

(Millions of yen)

	Reportable Segments					Others	Adjustments	Consolidated Total
	Public	Enterprise	Telecom Carrier	System Platform	Total			
Revenue								
Revenue from customers	145,604	68,627	143,055	160,177	517,463	69,831	—	587,294
Intersegment revenue and transfers	7,874	1,482	5,485	16,903	31,744	3,582	-35,326	—
Total	153,478	70,109	148,540	177,080	549,207	73,413	-35,326	587,294
Segment income(loss) (Operating profit (loss))	603	3,405	-2,414	4,312	5,906	-6,194	-7,287	-7,575
Financial income								3,833
Financial costs								3,076
Share of profit (loss) of entities accounted for using the equity method								2,417
Income (loss) before income taxes								-4,401

(Three months ended June 30, 2016)

(Millions of yen)

	Reportable Segments					Others	Adjustments	Consolidated Total
	Public	Enterprise	Telecom Carrier	System Platform	Total			
Revenue								
Revenue from customers	117,501	66,524	121,136	150,236	455,397	63,306	—	518,703
Intersegment revenue and transfers	6,951	1,555	6,399	12,798	27,703	3,945	-31,648	—
Total	124,452	68,079	127,535	163,034	483,100	67,251	-31,648	518,703
Segment income(loss) (Operating profit (loss))	-2,560	3,702	-6,937	-4,548	-10,343	-8,379	-11,222	-29,944
Financial income								2,522
Financial costs								8,911
Share of profit (loss) of entities accounted for using the equity method								2,679
Income (loss) before income taxes								-33,654

Notes:

1. "Others" for the three months ended June 30, 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. "Others" for the three months ended June 30, 2016 represents businesses such as Smart Energy (Electrodes/Energy Storage System, Solutions for Utilities, etc.), which are not included in reportable segments.
2. "Adjustment" of segment income (loss) for the three months ended June 30, 2015 includes corporate expenses of -8,634 million yen and noncurrent assets related adjustment of 919 million yen, unallocated to each reportable segment. "Adjustment" of segment income (loss) for the three months ended June 30, 2016 includes corporate expenses of -12,709 million yen and noncurrent assets related adjustment of 1,139 million yen, 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.

[Related information]

Information about geographic areas

Revenue from customers

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Japan	451,409	400,534
The Americas	52,533	39,670
EMEA	26,315	26,949
Greater China, APAC	57,037	51,550
Total	587,294	518,703

Notes:

1. Revenue is 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)EMEA: Europe, Middle East and Africa
   (3)Greater China, APAC: Greater China and Asia Pacific (Asia, Oceania)

7. Equity

Details of other components of equity

(Millions of yen)

	As of April 1, 2015	As of March 31, 2016	As of June 30, 2016
Remeasurements of defined benefit plan	31,318	-56,298	-56,298
Exchange differences on translating foreign operations	—	-14,136	-25,073
Cash flow hedges	-313	-1,558	-1,445
Available-for-sale financial assets	90,155	76,059	66,141
Total	121,160	4,067	-16,675

8. Financial income and financial costs

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Financial income		
Interest income	459	460
Dividend income	1,740	1,705
Foreign exchange gains	1,307	—
Other	327	357
Total	3,833	2,522

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Financial costs		
Interest expenses	2,529	2,810
Foreign exchange losses	—	5,450
Other	547	651
Total	3,076	8,911

9.Subsequent Events

As a result of execution of a call option by Lenovo Group Limited ("Lenovo") dated on July 1, 2016 pursuant to the joint venture agreement with NEC, on July 28, 2016, NEC sold to Lenovo 44,100 ordinary shares ("Transferred Shares") of Lenovo NEC Holdings B.V. ("LNH"), a joint venture that operates in the personal computer business. By consummating a series of transactions comprising of NEC's sale of the Transferred Shares and subscription to LNH's newly issued subordinated shares, NEC will maintain 33.4% voting ratio in LNH with the right to veto material corporate actions, and LNH continues to be an NEC affiliated company accounted for using the equity method. This share transfer will result in approximately 20.0 billion yen in non-operating income in the consolidated financial statement for the fiscal year ending March 31, 2017.

Reference: NEC's shareholding in LNH

	Before Share Transfer	After Share Transfer
Ordinary Shares	49,000	4,900
Subordinated Shares	―	42,700
Number of Voting Rights （Voting Right %）	49,000 （49%）	47,600 （33.4%）

10. First-time Adoption

The NEC Group prepared the first condensed interim consolidated financial statements in accordance with IFRS from the fiscal year ending March 31, 2017. The NEC Group's latest financial statements prepared in accordance with the Generally Accepted Accounting Principles in Japan ("Japanese accounting standards" or "Japanese GAAP") are those for the year ended March 31, 2016. The date of transition to IFRS is April 1, 2015.

Accounting policies described in Note 3."Significant Accounting Policies" are applied to the consolidated financial statements for the fiscal year ended March 31, 2017, the consolidated financial statements for the fiscal year ended March 31, 2016 disclosed as comparative information, and the consolidated statement of financial position as of April 1, 2015 (date of transition to IFRS for the NEC Group).

(1) IFRS 1 Exemption from Retrospective Application

IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), requires that companies adopting IFRS for the first time apply IFRS retrospectively. However, companies may elect to use one or more of the exemptions contained in the standard, and the NEC Group has adopted the following exceptions.

・Business combinations

Under IFRS 1, the first-time adopters may elect not to apply IFRS 3 "Business Combinations" retrospectively to business combinations that occurred before the date of transition to IFRS. The NEC Group elected to apply IFRS 3 only to business combinations that occurred after the date of transition to IFRS and not to those that occurred prior to the date of transition. Goodwill recognized at the date of transition to IFRS have been tested for impairment at the date of transition regardless of whether there is any indications that the goodwill may be impaired.

・Cumulative exchange differences on translating foreign operations

Under IFRS 1, the first-time adopters may elect to deem the cumulative translation differences for all foreign operations as of the date of transition to IFRS to be zero. The NEC Group has reclassified the cumulative translation differences at the date of transition to IFRS from other components of equity to retained earnings.

(2) IFRS 1 Exceptions to Retrospective Application

IFRS1 prohibits retrospective application of some items such as "accounting estimates" and "non-controlling interests". The NEC Group applies these items prospectively from the date of transition to IFRS.

(3) Reconciliation from Japanese Accounting Standards to IFRS

Charts of reconciliations which needs to be disclosed upon the first adoption of IFRS are as follows.
In the charts of reconciliations, items which do not have impact on retained earnings nor comprehensive income are included in "Presentation Reclassification", whereas items which have impact on retained earnings or comprehensive income are included in "Recognition and Measurement Differences".

Equity Reconciliations as of April 1, 2015 (IFRS transition date)

(Millions of Yen)

Japanese GAAP		Presentation Reclassification	Recognition and Measurement Differences	IFRS		
Assets	Amount			Amount	Notes	Assets
Cash and deposits	159,764	21,368	—	181,132	A	Cash and cash equivalents
Notes and accounts receivable-trade	928,367	54,553	16,112	999,032	A	Trade and other receivables
Securities	23,340	-23,340	—	—	A	
Inventories	241,146	—	-16,578	224,568	A	Inventories
	—	8,949	—	8,949	A	Other financial assets
Deferred tax assets	65,351	-65,351	—	—	C	
Other	163,968	-60,444	—	103,524	A,B	Other current assets
Allowance for doubtful accounts	-5,151	5,151	—	—		
Current Assets	1,576,785	-59,114	-466	1,517,205		**Total current assets**
Property, plant and equipment, net	338,115	11,914	558	350,587	B	Property, plant and equipment, net
Goodwill	66,985	—	—	66,985		Goodwill
Software	94,194	-94,194	—	—	B	
Other intangible assets	27,230	101,462	-53	128,639	B	Intangible assets
Stocks of subsidiaries and associates	90,153	—	-2,118	88,035		Investments accounted for using the equity method
Investment securities	157,078	78,373	43,897	279,348	B	Other financial assets
Long-term loans receivable	39,424	-39,424	—	—	B	
Deferred tax assets	85,114	65,351	-5,720	144,745	C	Deferred tax assets
Net defined benefit asset	74,622	-74,622	—	—	D	
Other	75,452	11,329	-6,126	80,655	B,D	Other non-current assets
Allowance for doubtful accounts	-4,500	4,500	—	—		
Non-current Assets	1,043,867	64,689	30,438	1,138,994		**Total non-current assets**
Total Assets	2,620,652	5,575	29,972	2,656,199		**Total assets**

(Millions of Yen)

Japanese GAAP		Presentation Reclassification	Recognition and Measurement Differences	IFRS		
Liabilities and equity	Amount			Amount	Notes	Liabilities and equity
Notes and accounts payable-trade	466,677	86,312	192	553,181	E	Trade and other payables
Short-term loans payable	28,988	104,407	-25	133,370	E	Bonds and borrowings
Current portion of long-term loans and current portion of bonds payable	104,407	-104,407	—	—	E	
Accrued expenses	169,070	-3,155	4,868	170,783	E	Accruals
Advances received	122,714	-122,714	—	—	E	
	—	13,900	648	14,548	E	Other financial liabilities
	—	15,966	-52	15,914	E	Accrued income taxes
Provisions	45,111	3,489	-1,249	47,351		Provisions
Other	132,581	10,597	1,122	144,300	E	Other current liabilities
Current liabilities	1,069,548	4,395	5,504	1,079,447		**Total current liabilities**
Bonds and long-term loans payable	382,404	—	-1,850	380,554		Bonds and borrowings
	—	10,608	—	10,608	F	Other financial liabilities
Deferred tax liabilities	2,410	-2,410	—	—		
Net defined benefit liability	228,686	—	18,569	247,255	D	Defined benefit liability
Provisions	20,735	2,763	-6,445	17,053	F	Provisions
Other	32,677	-9,781	10,747	33,643	F	Other non-current liabilities
Non-current liabilities	666,912	1,180	21,021	689,113		**Total non-current liabilities**
Total liabilities	1,736,460	5,575	26,525	1,768,560		**Total liabilities**
Capital stock	397,199	—	—	397,199		Share capital
Capital surplus	148,694	—	-1,279	147,415		Share premium
Retained earnings	207,021	—	-48,665	158,356	G	Retained earnings
Treasury stock	-3,025	—	—	-3,025		Treasury shares
Accumulated other comprehensive income	73,761	—	47,399	121,160	G	Other components of equity
	—	—	-2,545	821,105		**Total equity attributable to owners of the parent**
Non-controlling interests	60,542	—	5,992	66,534	G	Non-controlling interests
Total net assets	884,192	—	3,447	887,639		**Total equity**
Total liabilities and net assets	2,620,652	5,575	29,972	2,656,199		**Total liabilities and equity**

[Notes to Equity Reconciliations as of April 1, 2015 (IFRS transition date)]

A) Cash and cash equivalents, trade and other receivables, inventories and other financial assets (current)

Presentation Reclassification:

Short-term investments redeemable in three months or less from each acquisition date which were included in securities under Japanese accounting standards, have been reclassified as cash and cash equivalents. Deposits which contractual maturity dates are in excess of three months included in cash and deposits under Japanese accounting standards, have been reclassified as other financial assets (current).

Other receivables and others included in other (current assets) under Japanese accounting standards have been reclassified as trade and other receivables.

Recognition and measurement:

[Trade and other receivables/ inventories]

If outcomes from service delivery or construction contract cannot be estimated reliably, contract revenue is recognized based on cost recovery method. Under this method, contract revenue shall be recognized only to the extent that contract costs incurred are expected to be recoverable and contract costs shall be expensed as incurred. As a result, trade and other receivables increased by 14,960 million yen and inventories decreased by 14,960 million yen.

In addition, under Japanese accounting standard, the NEC Group as a lessor elects to recognize the revenue and cost of sales from finance leases upon receipt of lease payment from the lessee, whereas under IFRS, a lessor shall recognize the revenue and cost of sales associated with the leased asset at the commencement date of the lease. As a result, trade and other receivables increased by 2,313 million yen.

B) Property, plant and equipment, net, intangible assets and other financial assets (non-current)

Presentation Reclassification:

Software under Japanese accounting standards have been reclassified as intangible assets.

In addition, lease deposits included in other (investments and other assets) under Japanese accounting standards and long-term loans receivable under Japanese accounting standards have been reclassified as other financial assets (non-current).

Furthermore, partial amount of long-term prepaid expenses included in other (investments and other assets) and partial amount of prepaid expenses included in other (current assets) under Japanese accounting standards have been reclassified as property, plant and equipment, net.

Recognition and measurement:

[Other financial assets (non-current)]

Under Japanese accounting standards, financial instruments whose fair value cannot be reliably measured, such as unquoted equity instruments, are measured at cost, whereas under IFRS, they are estimated by using applicable valuation techniques. As a result, other financial assets (non-current) increased by 43,897 million yen.

C) Deferred tax assets

Presentation Reclassification:

Deferred tax assets which were classified as current under Japanese accounting standards have been reclassified as non-current.

Recognition and measurement:

Under Japanese accounting standards, financial instruments whose fair value cannot be reliably measured, such as unquoted equity instruments, are measured at cost, whereas under IFRS, they are estimated by using applicable valuation techniques. As a result, deferred tax assets decreased by 15,651 million yen.

In addition, as a result of actuarial calculation based on IAS 19 "Employee Benefits" ("IAS 19") for NEC and its consolidated domestic subsidiaries which apply defined benefit plans, due to different assumptions used in actuarial calculation such as discount rate, deferred tax assets increased by 4,887 million yen.

Furthermore, with respect to the tax effects arising from the elimination of intercompany unrealized gains, income tax expenses are deferred based on the sellers' tax amounts under Japanese accounting standards, whereas under IFRS, the tax effects are recognized as deferred tax assets using the purchasers' tax rates. As a result, deferred tax assets increased by 1,923 million yen.

D) Other non-current assets and defined benefit liability
Presentation Reclassification:
Net defined benefit asset under Japanese accounting standards has been reclassified as other non-current assets.

Recognition and measurement:
As a result of actuarial calculation based on IAS 19 for NEC and its consolidated domestic subsidiaries which apply defined benefit plans, due to different assumptions used in actuarial calculation such as discount rate, defined benefit asset included in other non-current assets decreased and defined benefit liability increased. Thus, other non-current assets decreased by 6,126 million yen and defined benefit liability increased by 18,569 million yen.

E) Trade and other payables, bonds and borrowings (current), accruals, other financial liabilities (current), accrued income taxes and other current liabilities
Presentation Reclassification:
Current portion of long-term loans payable and current portion of bonds under Japanese accounting standards have been reclassified as bonds and borrowings (current).
In addition, advance received under Japanese accounting standard has been reclassified as trade and other payables, and other current liabilities, respectively.
Furthermore, accounts payable and others included in other (current liabilities) ,current tax payable included in other (current liabilities) and deposits received included in other (current liabilities) under Japanese accounting standards have been reclassified as trade and other payables, accrued income taxes and other financial liabilities (current), respectively.

Recognition and measurement:
[Accruals]
Under Japanese accounting standards, levies such as property taxes are recorded as expense upon payment; however under IFRS, they are recorded as expense on the date of imposition and corresponding liability shall be recognized. As a result, accruals increased by 3,295 million yen.

[Other current liabilities]
With respect to sales of computers with repurchase agreements, under Japanese accounting standards, all revenue is recorded at the time of transfer, and at the same time, a provision for loss on repurchase is recorded to provide for the potential future losses at the time of repurchase. Under IFRS, revenue is not recognized for the portion in which significant risk of ownership and economic benefit is retained, and the recognition of revenue has been adjusted so that it is recognized upon transfer of the risk and the economic benefit. As a result, other current liabilities increased by 3,232 million yen.
Due to difference in revenue recognition of contracts with multiple elements in overseas consolidated subsidiaries between the previous accounting standard and IFRS, other current liabilities decreased by 1,465 million yen.

F) Provisions (non-current), other financial liabilities (non-current) and other non-current liabilities
Presentation Reclassification:
Lease liabilities and others included in other (non-current liabilities) under Japanese accounting standards have been reclassified as other financial liabilities (non-current).

Recognition and measurement:
[Provisions (non-current)/Other non-current liabilities]
As described in E) other current liabilities section above, with respect to sales of computers with repurchase agreements, under Japanese accounting standards, all revenue is recorded at the time of transfer, and at the same time, a provision for loss on repurchase is recorded to provide for the potential future losses at the time of repurchase. Under IFRS, revenue is not recognized for the portion in which significant risk of ownership and economic benefit is retained, and the recognition of revenue has been adjusted so that it is recognized upon transfer of the risk and the economic benefit. As a result, provisions (non-current) decreased by 6,445 million yen and other non-current liabilities increased by 8,016 million yen.
In addition, government grants related to assets have been recognized as gains immediately under Japanese accounting standards, whereas under IFRS that have been recognized as deferred revenue, resulting in an increase of other non-current liabilities by 3,051 million yen.

G) Retained earnings, other components of equity and non-controlling interests
Recognition and measurement:
[Retained earnings]
The main reconciliation items related to retained earnings are as follows;

(Millions of Yen)

	Notes	Retained Earnings
Available-for-sale financial assets	B,C,G	-14,501
Remeasurements of defined benefit plan	C,D,G	-46,680
Exchange differences on translating foreign operations	G	12,795
Other		-279
Total		-48,665

[Other components of equity]
・Remeasurements of defined benefit plan
Under Japanese accounting standards, actuarial gains and losses were amortized on a straight-line basis over a certain period within the employee's estimated average remaining service periods, starting from the following fiscal year, whereas under IFRS, they are immediately recognized in other comprehensive income. In addition, there are differences in the assumption used in actuarial calculation such as discount rate of actuarial calculation for NEC and its consolidated domestic subsidiaries which apply defined benefit plans. As a result, other components of equity increased by 17,466 million yen.

・Exchange differences on translating foreign operations
Under IFRS 1, the first-time adopters may elect to deem the cumulative translation differences for all foreign operations as of the date of transition to IFRS to be zero. The NEC Group has reclassified the cumulative translation differences at the date of transition to IFRS from accumulated other comprehensive income to retained earnings. As a result, other components of equity decreased by 12,795 million yen.

・Available-for-sale financial assets
Under Japanese accounting standards, financial instruments whose fair value cannot be reliably measured, such as unquoted equity instruments, are measured at cost, whereas under IFRS, they are estimated by using applicable valuation techniques. As a result, other components of equity increased by 42,770 million yen.

[Non-controlling interests]
As a result of calculating the impact on non-controlling interests arising from recognition and measurement differences, the amount attributable to non-controlling interests increased by 5,992 million yen.

Equity Reconciliations as of June 30, 2015 (Prior Quarter-End)

(Millions of Yen)

Japanese GAAP		Presentation Reclassification	Recognition and Measurement Differences	IFRS		
Assets	Amount			Amount	Notes	Assets
Cash and deposits	182,008	39,150	—	221,158	A	Cash and cash equivalents
Notes and accounts receivable-trade	657,449	45,482	11,970	714,901	A	Trade and other receivables
Securities	41,113	-41,113	—	—	A	
Inventories	290,832	—	-11,853	278,979	A	Inventories
	—	5,930	—	5,930	A	Other financial assets
Deferred tax assets	66,845	-66,845	—	—	C	
Other	169,548	-51,885	—	117,663	A,B	Other current assets
Allowance for doubtful accounts	-6,996	6,996	—	—		
Current Assets	1,400,799	-62,285	117	1,338,631		**Total current assets**
Property, plant and equipment, net	331,756	11,913	826	344,495	B	Property, plant and equipment, net
Goodwill	64,449	—	3,009	67,458	B	Goodwill
Software	94,249	-94,249	—	—	B	
Other intangible assets	27,027	102,195	-110	129,112	B	Intangible assets
Stocks of subsidiaries and associates	95,697	—	-2,333	93,364		Investments accounted for using the equity method
Investment securities	170,106	77,882	42,280	290,268	B	Other financial assets
Long-term loans receivable	39,400	-39,400	—	—	B	
Deferred tax assets	78,561	66,845	-3,390	142,016	C	Deferred tax assets
Net defined benefit asset	76,730	-76,730	—	—	D	
Other	74,165	14,475	-5,844	82,796	B,D	Other non-current assets
Allowance for doubtful accounts	-4,496	4,496	—	—		
Non-current Assets	1,047,644	67,427	34,438	1,149,509		**Total non-current assets**
Total Assets	2,448,443	5,142	34,555	2,488,140		**Total assets**

(Millions of Yen)

Japanese GAAP		Presentation Reclassification	Recognition and Measurement Differences	IFRS		
Liabilities and equity	Amount			Amount	Notes	Liabilities and equity
Notes and accounts payable-trade	390,119	84,777	149	475,045	E	Trade and other payables
Short-term loans payable	40,759	74,320	-22	115,057	E	Bonds and borrowings
Current portion of long-term loans and current portion of bonds payable	74,320	-74,320	—	—	E	
Accrued expenses	122,959	-3,300	3,744	123,403	E	Accruals
Advances received	139,784	-139,784	—	—	E	
	—	13,232	648	13,880	E	Other financial liabilities
	—	7,539	-47	7,492	E	Accrued income taxes
Provisions	41,895	3,573	-502	44,966		Provisions
Other	108,422	38,050	542	147,014	E	Other current liabilities
Current liabilities	918,258	4,087	4,512	926,857		**Total current liabilities**
Bonds and long-term loans payable	372,165	—	-1,702	370,463		Bonds and borrowings
	—	9,705	—	9,705	F	Other financial liabilities
Deferred tax liabilities	2,558	-2,558	—	—		
Net defined benefit liability	230,083	—	20,115	250,198	D	Defined benefit liability
Provisions	19,470	2,783	-5,542	16,711	F	Provisions
Other	32,291	-8,875	10,412	33,828	F	Other non-current liabilities
Non-current liabilities	656,567	1,055	23,283	680,905		**Total non-current liabilities**
Total liabilities	1,574,825	5,142	27,795	1,607,762		**Total liabilities**
Capital stock	397,199	—	—	397,199		Share capital
Capital surplus	148,694	—	-1,279	147,415		Share premium
Retained earnings	186,609	—	-44,261	142,348	G	Retained earnings
Treasury stock	-3,043	—	—	-3,043		Treasury shares
Accumulated other comprehensive income	84,716	—	46,106	130,822	G	Other components of equity
	—	—	566	814,741		**Total equity attributable to owners of the parent**
Non-controlling interests	59,443	—	6,194	65,637	G	Non-controlling interests
Total net assets	873,618	—	6,760	880,378		**Total equity**
Total liabilities and net assets	2,448,443	5,142	34,555	2,488,140		**Total liabilities and equity**

[Notes to Equity Reconciliations as of June 30, 2015 (Prior Quarter-End)]

A) Cash and cash equivalents, trade and other receivables, inventories and other financial assets (current)

Presentation Reclassification:

Short-term investments redeemable in three months or less from each acquisition date which were included in securities under Japanese accounting standards, have been reclassified as cash and cash equivalents. Deposits which contractual maturity dates are in excess of three months included in cash and deposits under Japanese accounting standards, have been reclassified as other financial assets (current).

Other receivables and others included in other (current assets) under Japanese accounting standards have been reclassified as trade and other receivables.

Recognition and measurement:

[Trade and other receivables/ inventories]

If outcomes from service delivery or construction contract cannot be estimated reliably, contract revenue is recognized based on cost recovery method. Under this method, contract revenue shall be recognized only to the extent that contract costs incurred are expected to be recoverable and contract costs shall be expensed as incurred. As a result, trade and other receivables increased by 10,277 million yen and inventories decreased by 10,277 million yen.

In addition, under Japanese accounting standard, the NEC Group as a lessor elects to recognize the revenue and cost of sales from finance leases upon receipt of lease payment from the lessee, whereas under IFRS, a lessor shall recognize the revenue and cost of sales associated with the leased asset at the commencement date of the lease. As a result, trade and other receivables increased by 3,132 million yen.

B) Property, plant and equipment, net, goodwill, intangible assets and other financial assets (non-current)

Presentation Reclassification:

Software under Japanese accounting standards have been reclassified as intangible assets.

In addition, lease deposits included in other (investments and other assets) under Japanese accounting standards and long-term loans receivable under Japanese accounting standards have been reclassified as other financial assets (non-current).

Furthermore, partial amount of long-term prepaid expenses included in other (investments and other assets) and partial amount of prepaid expenses included in other (current assets) under Japanese accounting standards have been reclassified as property, plant and equipment, net.

Recognition and measurement:

[Goodwill]

Under Japanese accounting standards, goodwill is amortized on a straight-line basis over the effective period not exceeding 20 years, whereas under IFRS, it is not subject to amortization. As a result, goodwill increased by 3,007 million yen.

[Other financial assets (non-current)]

Under Japanese accounting standards, financial instruments whose fair value cannot be reliably measured, such as unquoted equity instruments, are measured at cost, whereas under IFRS, they are estimated by using applicable valuation techniques. As a result, other financial assets (non-current) increased by 42,280 million yen.

C) Deferred tax assets

Presentation Reclassification:

Deferred tax assets which were classified as current under Japanese accounting standards have been reclassified as non-current.

Recognition and measurement:

Under Japanese accounting standards, financial instruments whose fair value cannot be reliably measured, such as unquoted equity instruments, are measured at cost, whereas under IFRS, they are estimated by using applicable valuation techniques. As a result, deferred tax assets decreased by 14,689 million yen.

In addition, as a result of actuarial calculation based on IAS 19 for NEC and its consolidated domestic subsidiaries which apply defined benefit plans, due to different assumptions used in actuarial calculation such as discount rate, deferred tax assets increased by 6,937 million yen.

Furthermore, with respect to the tax effects arising from the elimination of intercompany unrealized gains, income tax expenses are deferred based on the sellers' tax amounts under Japanese accounting standards, whereas under IFRS, the tax effects are recognized as deferred tax assets using the purchasers' tax rates. As a result, deferred tax assets increased by 3,118 million yen.

D) Other non-current assets and defined benefit liability
Presentation Reclassification:
Net defined benefit asset under Japanese accounting standards has been reclassified as other non-current assets.

Recognition and measurement:
As a result of actuarial calculation based on IAS 19 for NEC and its consolidated domestic subsidiaries which apply defined benefit plans, due to different assumptions used in actuarial calculation such as discount rate, defined benefit asset included in other non-current assets decreased and defined benefit liability increased. Thus, other non-current assets decreased by 5,844 million yen and defined benefit liability increased by 20,155 million yen.

E) Trade and other payables, bonds and borrowings (current), accruals, other financial liabilities (current), accrued income taxes and other current liabilities
Presentation Reclassification:
Current portion of long-term loans payable and current portion of bonds under Japanese accounting standards have been reclassified as bonds and borrowings (current).
In addition, advance received under Japanese accounting standard has been reclassified as trade and other payables, and other current liabilities, respectively.
Furthermore, accounts payable and others included in other (current liabilities) ,current tax payable included in other (current liabilities) and deposits received included in other (current liabilities) under Japanese accounting standards have been reclassified as trade and other payables, accrued income taxes and other financial liabilities (current), respectively.

Recognition and measurement:
[Accruals]
Under Japanese accounting standards, levies such as property taxes are recorded as expense upon payment; however under IFRS, they are recorded as expense on the date of imposition and corresponding liability shall be recognized. As a result, accruals increased by 2,188 million yen.

[Other current liabilities]
With respect to sales of computers with repurchase agreements, under Japanese accounting standards, all revenue is recorded at the time of transfer, and at the same time, a provision for loss on repurchase is recorded to provide for the potential future losses at the time of repurchase. Under IFRS, revenue is not recognized for the portion in which significant risk of ownership and economic benefit is retained, and the recognition of revenue has been adjusted so that it is recognized upon transfer of the risk and the economic benefit. As a result, other current liabilities increased by 2,749 million yen.
Due to difference in revenue recognition of contracts with multiple elements in overseas consolidated subsidiaries between the previous accounting standard and IFRS, other current liabilities decreased by 1,562 million yen.

F) Provisions (non-current), other financial liabilities (non-current) and other non-current liabilities
Presentation Reclassification:
Lease liabilities and others included in other (non-current liabilities) under Japanese accounting standards have been reclassified as other financial liabilities (non-current).

Recognition and measurement
[Provisions (non-current)/Other non-current liabilities]
As described in E) other current liabilities section above, with respect to sales of computers with repurchase agreements, under Japanese accounting standards, all revenue is recorded at the time of transfer, and at the same time, a provision for loss on repurchase is recorded to provide for the potential future losses at the time of repurchase. Under IFRS, revenue is not recognized for the portion in which significant risk of ownership and economic benefit is retained, and the recognition of revenue has been adjusted so that it is recognized upon transfer of the risk and the economic benefit. As a result, provisions (non-current) decreased by 5,542 million yen and other non-current liabilities increased by 7,744 million yen.
In addition, government grants related to assets have been recognized as gains immediately under Japanese accounting standards, whereas under IFRS that have been recognized as deferred revenue, resulting in an increase of other non-current liabilities by 2,939 million yen.

G) Retained earnings, other components of equity and non-controlling interests
Recognition and measurement:
[Retained earnings]
The main reconciliation items related to retained earnings are as follows;

(Millions of Yen)

	Notes	Retained Earnings
Goodwill, Negative goodwill	B	3,007
Available-for-sale financial assets	B,C,G	-14,501
Remeasurements of defined benefit plan	C,D,G	-45,700
Exchange differences on translating foreign operations	G	12,795
Other		138
Total		-44,261

[Other components of equity]
・Remeasurements of defined benefit plan
Under Japanese accounting standards, actuarial gains and losses were amortized on a straight-line basis over a certain period within the employee’s estimated average remaining service periods, starting from the following fiscal year, whereas under IFRS, they are immediately recognized in other comprehensive income. In addition, there are differences in the assumption used in actuarial calculation such as discount rate of actuarial calculation for NEC and its consolidated domestic subsidiaries which apply defined benefit plans. As a result, other components of equity increased by 16,980 million yen.

・Exchange differences on translating foreign operations
Under IFRS 1, the first-time adopters may elect to deem the cumulative translation differences for all foreign operations as of the date of transition to IFRS to be zero. The NEC Group has reclassified the cumulative translation differences at the date of transition to IFRS from accumulated other comprehensive income to retained earnings. As a result, other components of equity decreased by 12,795 million yen.

・Available-for-sale financial assets
Under Japanese accounting standards, financial instruments whose fair value cannot be reliably measured, such as unquoted equity instruments, are measured at cost, whereas under IFRS, they are estimated by using applicable valuation techniques. As a result, other components of equity increased by 42,114 million yen.

[Non-controlling interests]
As a result of calculating the impact on non-controlling interests arising from recognition and measurement differences, the amount attributable to non-controlling interests increased by 6,194 million yen.

Equity Reconciliations as of March 31, 2016 (Prior Year-End)

(Millions of Yen)

Japanese GAAP		Presentation Reclassification	Recognition and Measurement Differences	IFRS		
Assets	Amount			Amount	Notes	Assets
Cash and deposits	168,636	23,687	—	192,323	A	Cash and cash equivalents
Notes and accounts receivable-trade	874,496	41,969	17,449	933,914	A	Trade and other receivables
Securities	25,505	-25,505	—	—	A	
Inventories	228,059	—	-16,067	211,992	A	Inventories
	—	7,651	—	7,651	A	Other financial assets
Deferred tax assets	79,418	-79,418	—	—	C	
Other	157,982	-50,526	—	107,456	A,B	Other current assets
Allowance for doubtful accounts	-6,837	6,837	—	—		
Current Assets	1,527,259	-75,305	1,382	1,453,336		**Total current assets**
Property, plant and equipment, net	331,794	11,159	370	343,323	B	Property, plant and equipment, net
Goodwill	46,123	—	10,018	56,141	B	Goodwill
Software	89,358	-89,358	—	—	B	
Other intangible assets	22,190	97,200	-1,371	118,019	B	Intangible assets
Stocks of subsidiaries and associates	91,626	—	-1,280	90,346		Investments accounted for using the equity method
Investment securities	143,116	73,047	38,754	254,917	B	Other financial assets
Long-term loans receivable	37,271	-37,271	—	—	B	
Deferred tax assets	114,316	79,418	2,285	196,019	C	Deferred tax assets
Net defined benefit asset	23,634	-23,634	—	—	D	
Other	70,830	-35,156	-18,871	16,803	B,D	Other non-current assets
Allowance for doubtful accounts	-4,076	4,076	—	—		
Non-current Assets	966,182	79,481	29,905	1,075,568		**Total non-current assets**
Total Assets	2,493,441	4,176	31,287	2,528,904		**Total assets**

(Millions of Yen)

Japanese GAAP		Presentation Reclassification	Recognition and Measurement Differences	IFRS		
Liabilities and equity	Amount			Amount	Notes	Liabilities and equity
Notes and accounts payable-trade	415,427	87,948	—	503,375	E	Trade and other payables
Short-term loans payable	40,102	115,354	-2	155,454	E	Bonds and borrowings
Current portion of long-term loans and current portion of bonds payable	115,354	-115,354	—	—	E	
Accrued expenses	155,240	-2,247	4,410	157,403	E	Accruals
Advances received	119,675	-119,675	—	—	E	
	—	12,907	648	13,555	E	Other financial liabilities
	—	13,497	-52	13,445	E	Accrued income taxes
Provisions	37,635	2,590	93	40,318		Provisions
Other	128,609	8,031	495	137,135	E	Other current liabilities
Current liabilities	1,012,042	3,051	5,592	1,020,685		**Total current liabilities**
Bonds and long-term loans payable	319,897	—	-1,462	318,435		Bonds and borrowings
	—	9,365	—	9,365	F	Other financial liabilities
Deferred tax liabilities	1,891	-1,891	—	—		
Net defined benefit liability	258,632	—	39,124	297,756	D	Defined benefit liability
Provisions	17,229	2,865	-4,758	15,336	F	Provisions
Other	31,257	-9,214	8,064	30,107	F	Other non-current liabilities
Non-current liabilities	628,906	1,125	40,968	670,999		**Total non-current liabilities**
Total liabilities	1,640,948	4,176	46,560	1,691,684		**Total liabilities**
Capital stock	397,199	—	—	397,199		Share capital
Capital surplus	149,034	—	-1,279	147,755		Share premium
Retained earnings	265,404	—	-41,521	223,883	G	Retained earnings
Treasury stock	-3,077	—	—	-3,077		Treasury shares
Accumulated other comprehensive income	-16,468	—	20,535	4,067	G	Other components of equity
	—	—	-22,265	769,827		**Total equity attributable to owners of the parent**
Non-controlling interests	60,401	—	6,992	67,393	G	Non-controlling interests
Total net assets	852,493	—	-15,273	837,220		**Total equity**
Total liabilities and net assets	2,493,441	4,176	31,287	2,528,904		**Total liabilities and equity**

[Notes to Equity Reconciliations as of March 31, 2016 (Prior Year-End)]

A) Cash and cash equivalents, trade and other receivables, inventories and other financial assets (current)

Presentation Reclassification:

Short-term investments redeemable in three months or less from each acquisition date which were included in securities under Japanese accounting standards, have been reclassified as cash and cash equivalents. Deposits which contractual maturity dates are in excess of three months included in cash and deposits under Japanese accounting standards, have been reclassified as other financial assets (current).

Other receivables and others included in other (current assets) under Japanese accounting standards have been reclassified as trade and other receivables.

Recognition and measurement:

[Trade and other receivables/ inventories]

If outcomes from service delivery or construction contract cannot be estimated reliably, contract revenue is recognized based on cost recovery method. Under this method, contract revenue shall be recognized only to the extent that contract costs incurred are expected to be recoverable and contract costs shall be expensed as incurred. As a result, trade and other receivables increased by 15,000 million yen and inventories decreased by 15,000 million yen.

In addition, under Japanese accounting standard, the NEC Group as a lessor elects to recognize the revenue and cost of sales from finance leases upon receipt of lease payment from the lessee, whereas under IFRS, a lessor shall recognize the revenue and cost of sales associated with the leased asset at the commencement date of the lease. As a result, trade and other receivables increased by 2,351 million yen.

B) Property, plant and equipment, net, goodwill, intangible assets and other financial assets (non-current)

Presentation Reclassification:

Software under Japanese accounting standards have been reclassified as intangible assets.

In addition, lease deposits included in other (investments and other assets) under Japanese accounting standards and long-term loans receivable under Japanese accounting standards have been reclassified as other financial assets (non-current).

Furthermore, partial amount of long-term prepaid expenses included in other (investments and other assets) and partial amount of prepaid expenses included in other (current assets) under Japanese accounting standards have been reclassified as property, plant and equipment, net.

Recognition and measurement:

[Goodwill]

Under Japanese accounting standards, goodwill is amortized on a straight-line basis over the effective period not exceeding 20 years, whereas under IFRS, it is not subject to amortization. As a result, goodwill increased by 11,839 million yen.

[Other financial assets (non-current)]

Under Japanese accounting standards, financial instruments whose fair value cannot be reliably measured, such as unquoted equity instruments, are measured at cost, whereas under IFRS, they are estimated by using applicable valuation techniques. As a result, other financial assets (non-current) increased by 38,754 million yen.

C) Deferred tax assets

Presentation Reclassification:

Deferred tax assets which were classified as current under Japanese accounting standards have been reclassified as non-current.

Recognition and measurement:

Under Japanese accounting standards, financial instruments whose fair value cannot be reliably measured, such as unquoted equity instruments, are measured at cost, whereas under IFRS, they are estimated by using applicable valuation techniques. As a result, deferred tax assets decreased by 14,571 million yen.

In addition, as a result of actuarial calculation based on IAS 19 for NEC and its consolidated domestic subsidiaries which apply defined benefit plans, due to different assumptions used in actuarial calculation such as discount rate, deferred tax assets increased by 13,763 million yen.

Furthermore, with respect to the tax effects arising from the elimination of intercompany unrealized gains, income tax expenses are deferred based on the sellers' tax amounts under Japanese accounting standards, whereas under IFRS, the tax effects are recognized as deferred tax assets using the purchasers' tax rates. As a result, deferred tax assets increased by 1,931 million yen.

D) Other non-current assets and defined benefit liability
Presentation Reclassification:
Net defined benefit asset under Japanese accounting standards has been reclassified as other non-current assets.

Recognition and measurement:
As a result of actuarial calculation based on IAS 19 for NEC and its consolidated domestic subsidiaries which apply defined benefit plans, due to different assumptions used in actuarial calculation such as discount rate, defined benefit asset included in other non-current assets decreased and defined benefit liability increased. Thus, other non-current assets decreased by18,871 million yen and defined benefit liability increased by 39,124 million yen.

E) Trade and other payables, bonds and borrowings (current), accruals, other financial liabilities (current), accrued income taxes and other current liabilities
Presentation Reclassification:
Current portion of long-term loans payable and current portion of bonds under Japanese accounting standards have been reclassified as bonds and borrowings (current).
In addition, advance received under Japanese accounting standard has been reclassified as trade and other payables, and other current liabilities, respectively.
Furthermore, accounts payable and others included in other (current liabilities) ,current tax payable included in other (current liabilities) and deposits received included in other (current liabilities) under Japanese accounting standards have been reclassified as trade and other payables, accrued income taxes and other financial liabilities (current), respectively.

Recognition and measurement:
[Accruals]
Under Japanese accounting standards, levies such as property taxes are recorded as expense upon payment; however under IFRS, they are recorded as expense on the date of imposition and corresponding liability shall be recognized. As a result, accruals increased by 3,292 million yen.

[Other current liabilities]
With respect to sales of computers with repurchase agreements, under Japanese accounting standards, all revenue is recorded at the time of transfer, and at the same time, a provision for loss on repurchase is recorded to provide for the potential future losses at the time of repurchase. Under IFRS, revenue is not recognized for the portion in which significant risk of ownership and economic benefit is retained, and the recognition of revenue has been adjusted so that it is recognized upon transfer of the risk and the economic benefit. As a result, other current liabilities increased by 2,401 million yen.
Due to difference in revenue recognition of contracts with multiple elements in overseas consolidated subsidiaries between the previous accounting standard and IFRS, other current liabilities decreased by 1,261 million yen.

F) Provisions (non-current), other financial liabilities (non-current), other non-current liabilities
Presentation Reclassification:
Lease liabilities and others included in other (non-current liabilities) under Japanese accounting standards have been reclassified as other financial liabilities (non-current).

Recognition and measurement
[Provisions (non-current)/Other non-current liabilities]
As described in E) other current liabilities section above, with respect to sales of computers with repurchase agreements, under Japanese accounting standards, all revenue is recorded at the time of transfer, and at the same time, a provision for loss on repurchase is recorded to provide for the potential future losses at the time of repurchase. Under IFRS, revenue is not recognized for the portion in which significant risk of ownership and economic benefit is retained, and the recognition of revenue has been adjusted so that it is recognized upon transfer of the risk and the economic benefit. As a result, provisions (non-current) decreased by 4,758 million yen and other non-current liabilities increased by 5,366 million yen. In addition, government grants related to assets have been recognized as gains immediately under Japanese accounting standards, whereas under IFRS that have been recognized as deferred revenue, resulting in an increase of other non-current liabilities by 3,078 million yen.

G) Retained earnings, other components of equity and non-controlling interests
Recognition and measurement:
[Retained earnings]
The main reconciliation items related to retained earnings are as follows;

(Millions of Yen)

	Notes	Retained Earnings
Goodwill, Negative goodwill	B	10,503
Available-for-sale financial assets	B,C,G	-15,141
Remeasurements of defined benefit plan	C,D,G	-47,697
Exchange differences on translating foreign operations	G	12,795
Other		-1,981
Total		-41,521

[Other components of equity]
・Remeasurements of defined benefit plan
Under Japanese accounting standards, actuarial gains and losses were amortized on a straight-line basis over a certain period within the employee's estimated average remaining service periods, starting from the following fiscal year, whereas under IFRS, they are immediately recognized in other comprehensive income. In addition, there are differences in the assumption used in actuarial calculation such as discount rate of actuarial calculation for NEC and its consolidated domestic subsidiaries which apply defined benefit plans. As a result, other components of equity decreased by 5,820 million yen.

・Exchange differences on translating foreign operations
Under IFRS 1, the first-time adopters may elect to deem the cumulative translation differences for all foreign operations as of the date of transition to IFRS to be zero. The NEC Group has reclassified the cumulative translation differences at the date of transition to IFRS from accumulated other comprehensive income to retained earnings. As a result, other components of equity decreased by 12,795 million yen.

・Available-for-sale financial assets
Under Japanese accounting standards, financial instruments whose fair value cannot be reliably measured, such as unquoted equity instruments, are measured at cost, whereas under IFRS, they are estimated by using applicable valuation techniques. As a result, other components of equity increased by 39,349 million yen.

[Non-controlling interests]
As a result of calculating the impact on non-controlling interests arising from recognition and measurement differences, the amount attributable to non-controlling interests increased by 6,992 million yen.

Reconciliations to Profit or Loss for the quarter ended June 30, 2015 (Prior Quarter-End)

(Millions of Yen)

Japanese GAAP		Presentation Reclassification	Recognition and Measurement Differences	IFRS		
	Amount			Amount	Notes	
Net sales	586,591	—	703	587,294	a	**Revenue**
Cost of sales	412,258	65	-1,559	410,764	a	Cost of sales
Gross profit	174,333	-65	2,262	176,530		Gross profit
Selling, general and administrative expenses	184,407	—	-2,137	182,270	a	Selling, general and administrative expenses
	—	-1,098	-737	-1,835	b	Other operating income (loss)
Operating income	-10,074	-1,163	3,662	-7,575		**Operating profit**
Non-operating income	7,668	-7,668	—	—	c	
	—	3,819	14	3,833	c	Financial income
Non-operating expenses	5,314	-5,314	—	—	b,c	
	—	2,868	208	3,076	c	Financial costs
	—	2,707	-290	2,417		Share of profit of entities accounted for using the equity method
Ordinary income	-7,720	7,720	—	—		
Extraordinary gains	268	-268	—	—		
Extraordinary losses	127	-127	—	—		
Income before income taxes	-7,579	—	3,178	-4,401		**Income before income taxes**
Income taxes	2,507	—	-1,483	1,024		Income taxes
Profit	-10,086	—	4,661	-5,425		**Net profit**
						Net profit attributable to:
Profit attributable to owners of the parent	-10,016	—	4,404	-5,612		Owners of the parent
Profit attributable to non-controlling interests	-70	—	257	187		Non-controlling interests

Reconciliations to Comprehensive Income for the quarter ended June 30, 2015 (Prior Quarter-End)

(Millions of Yen)

Japanese GAAP		Presentation Reclassification	Recognition and Measurement Differences	IFRS		
	Amount			Amount	Notes	
Profit	-10,086	—	4,661	-5,425		**Net profit**
Other comprehensive income						**Other comprehensive income, net of tax**
						Items that will not be reclassified to profit or loss
Remeasurements of defined benefit plans	330	—	-330	—		Remeasurements of defined benefit plan
	—	224	-224	—		Share of other comprehensive income of associates
						Items that may be reclassified subsequently to profit or loss
Foreign currency translation adjustments	1,545	—	-165	1,380		Exchange differences on translating foreign operations
Deferred gains or losses on hedges	55	—	—	55		Cash flow hedges
Valuation differences on available-for-sale securities	8,970	—	-655	8,315		Available-for-sale financial assets
Share of other comprehensive income of associates accounted for using equity method	73	-224	9	-142		Share of other comprehensive income of associates
Total other comprehensive income	10,973	—	-1,365	9,608		**Total other comprehensive income, net of tax**
Comprehensive income	887	—	3,296	4,183		**Total comprehensive income**
(Breakdown)						**Total comprehensive income attributable to:**
Comprehensive income attributable to owners of the parent	939	—	3,111	4,050		Owners of the parent
Comprehensive income attributable to non-controlling interests	-52	—	185	133		Non-controlling interests

[Notes to Reconciliations to Profit or Loss and Comprehensive Income for the Quarter ended June 30, 2015]

a) Revenue, cost of sales and selling, general and administrative expense

Recognition and measurement:

[Finance lease - Lessor]

Under Japanese accounting standard, the NEC Group as a lessor of a finance lease elects to recognize the revenue and cost of sales upon receipt of lease payment from the lessee, whereas under IFRS, a lessor shall recognize the revenue and cost of sales associated with the leased asset at the commencement date of the lease. As a result, revenue increased by 4,449 million yen and cost of sales increased by 3,648 million yen.

[Cost recovery method]

If outcomes from service delivery and construction contract cannot be estimated reliably, contract revenue is recognized based on cost recovery method. Under this method, contract revenue shall be recognized only to the extent that contract costs incurred are expected to be recoverable and contract costs shall be expensed as incurred. As a result, revenue decreased by 4,677 million yen and cost of sales decreased by 4,677 million yen.

[Amortization of goodwill]

Under Japanese accounting standards, goodwill is amortized on a straight-line basis over the effective period not exceeding 20 years, whereas under IFRS, it is not subject to amortization. As a result, selling, general and administrative expense, decreased by 3,007 million yen.

b) Other operating income (loss)

Presentation Reclassification:

Loss on disposal of non-current assets and others included in non-operating expenses under Japanese accounting standards have been reclassified as Other operating income (loss).

c) Financial income, and financial costs

Presentation Reclassification:

Dividend income and others included in non-operating income under Japanese accounting standard have been reclassified as financial income.

In addition, Interest expenses and others included in non-operating expenses under Japanese accounting standards have been reclassified as financial costs.

Reconciliations to Profit or Loss for the year ended March 31, 2016 (Prior Fiscal Year)

(Millions of Yen)

Japanese GAAP		Presentation Reclassification	Recognition and Measurement Differences	IFRS		
	Amount			Amount	Notes	
Net sales	2,821,181	—	3,652	2,824,833	a	**Revenue**
Cost of sales	1,978,757	5,401	590	1,984,748	a	Cost of sales
Gross profit	842,424	-5,401	3,062	840,085		Gross profit
Selling, general and administrative expenses	735,118	—	-9,158	725,960	a	Selling, general and administrative expenses
	—	-20,145	-2,562	-22,707	b	Other operating income (loss)
Operating income	107,306	-25,546	9,658	91,418		**Operating profit**
Non-operating income	17,976	-17,976	—	—	c	
	—	11,825	-122	11,703	c	Financial income
Non-operating expenses	42,547	-42,547	—	—	b,c	
	—	20,225	1,521	21,746	c	Financial costs
	—	4,562	616	5,178		Share of profit of entities accounted for using the equity method
Ordinary income	82,735	-82,735	—	—		
Extraordinary gains	6,095	-6,095	—	—	c	
Extraordinary losses	10,908	-10,908	—	—	b	
Income before income taxes	77,922	—	8,631	86,553		**Income before income taxes**
Income taxes	3,883	—	-524	3,359		Income taxes
Profit	74,039	—	9,155	83,194		**Net profit**
						Net profit attributable to:
Profit attributable to owners of the parent	68,749	—	7,174	75,923		Owners of the parent
Profit attributable to non-controlling interests	5,290	—	1,981	7,271		Non-controlling interests

Reconciliations to Comprehensive Income for the year ended March 31, 2016 (Prior Fiscal Year)

(Millions of Yen)

Japanese GAAP	Amount	Presentation Reclassification	Recognition and Measurement Differences	Amount	Notes	IFRS
Profit	74,039	—	9,155	83,194		**Net profit**
Other comprehensive income						**Other comprehensive income, net of tax**
						Items that will not be reclassified to profit or loss
Remeasurements of defined benefit plans	-63,674	—	-24,528	-88,202	d	Remeasurements of defined benefit plan
	—	-2,079	257	-1,822		Share of other comprehensive income of associates
						Items that may be reclassified subsequently to profit or loss
Foreign currency translation adjustments	-11,798	—	-65	-11,863		Exchange differences on translating foreign operations
Deferred gains or losses on hedges	-30	—	—	-30		Cash flow hedges
Valuation differences on available-for-sale securities	-10,418	—	-3,423	-13,841	d	Available-for-sale financial assets
Share of other comprehensive income of associates accounted for using equity method	-6,120	2,079	-84	-4,125		Share of other comprehensive income of associates
Total other comprehensive income	-92,040	—	-27,843	-119,883		**Total other comprehensive income, net of tax**
Comprehensive income	-18,001	—	-18,688	-36,689		**Total comprehensive income**
(Breakdown)						**Total comprehensive income attributable to:**
Comprehensive income attributable to owners of the parent	-21,480	—	-19,690	-41,170		Owners of the parent
Comprehensive income attributable to non-controlling interests	3,479	—	1,002	4,481		Non-controlling interests

[Notes to Reconciliations to Profit or Loss and Comprehensive Income for the Year ended March 31, 2016 (Prior Fiscal Year)]

a) Revenue, cost of sales and selling, general and administrative expense

Recognition and measurement:

[Adjustments for sales with repurchase agreements]

With respect to sales of computers with repurchase agreements, under Japanese accounting standards, all revenue is recorded at the time of transfer and at the same time, a provision for loss on repurchase is recorded to provide for potential future losses at the time of repurchase. Under IFRS, revenue is not recognized for the portion in which significant risk of ownership and economic benefit is retained, and the recognition of revenue has been adjusted so that it is recognized upon transfer of the risk and the economic benefit. As a result, revenue increased by 2,642 million yen.

[Finance lease - Lessor]

Under Japanese accounting standard, the NEC Group as a lessor of a finance lease elects to recognize the revenue and cost of sales upon receipt of lease payment from the lessee, whereas under IFRS, a lessor shall recognize the revenue and cost of sales associated with the leased asset at the commencement date of the lease. As a result, revenue increased by 2,378 million yen and cost of sales increased by 2,407 million yen.

[Retirement benefit expenses]

Under Japanese accounting standards, actuarial gains and losses on defined benefit plans were amortized on a straight-line basis over a certain period within the employee's estimated average remaining service periods, starting from the following fiscal year, whereas under IFRS, they are immediately recognized in other comprehensive income.

In addition, under Japanese accounting standards, past service costs were amortized on a straight-line basis over a certain period within the employee's estimated average remaining service periods, starting from the fiscal year when the past service costs recognized, whereas under IFRS, the related costs shall be immediately recognized as expenses.

In addition, under IFRS, the net interest on the net defined benefit liability (asset) is recognized instead of the interest cost and the expected return on plan assets.

As a result of these adjustments, selling, general and administrative expenses increased by 2,566 million yen.

[Amortization of goodwill]

Under Japanese accounting standards, goodwill is amortized on a straight-line basis over the effective period not exceeding 20 years, whereas under IFRS, it is not subject to amortization. As a result, selling, general and administrative expense, decreased by 11,839 million yen.

b) Other operating income (loss)

Presentation Reclassification:

Loss on disposal of non-current assets and others included in non-operating expenses and impairment loss and others included in extraordinary losses under Japanese accounting standard have been reclassified as Other operating income (loss).

Recognition and measurement:

[Impairment of goodwill]

As described in a), under IFRS, it is not subject to amortization and there are differences of book value of goodwill between Japanese accounting standard and IFRS. As a result of impairment of goodwill, other operating income has decreased by 1,336 million yen.

[Recognition of provisions]

Under Japanese accounting standard, provisions are recognized based on Notes 18 of Corporate Accounting Principles. Under IFRS, to recognize a provision, an obligation needs to be a present one, and otherwise they are prohibited to record as provisions. As a result of this adjustment, other operating income decreased by 1,391 million yen.

c) Financial income and financial costs

Presentation Reclassification:

Dividend income and others included in non-operating income, and gain on sales of investment securities and others included in extraordinary gains under Japanese accounting standard have been reclassified as financial income.

In addition, Interest expenses and others included in non-operating expenses under Japanese accounting standards have been reclassified as financial costs.

d) Other comprehensive income

Recognition and measurement:

[Remeasurements of defined benefit plan]

Under Japanese accounting standards, actuarial gains and losses were amortized on a straight-line basis over a certain period within the employee’s estimated average remaining service periods, starting from the following fiscal year, whereas under IFRS, they are immediately recognized in other comprehensive income. As a result, other comprehensive income decreased by 24,528 million yen.

[Available-for-sale financial assets]

Under Japanese accounting standards, financial instruments whose fair value cannot be reliably measured, such as unquoted equity instruments, are measured at cost, whereas under IFRS, they are estimated by using applicable valuation techniques. As a result, change in fair value of available-for-sale financial assets decreased by 3,423 million yen.

Reconciliations to consolidated statement of cash flows for the three months ended June 30, 2015 and for the year ended March 31, 2016.

Impact on statement of cash flows due to the transition from Japanese accounting standard to IFRS are immaterial.

Cautionary Statement with Respect to Forward-Looking Statements

This material contains forward-looking statements regarding estimations, forecasts, targets and plans in relation to the results of operations, financial conditions and other overall management of the NEC Group (the "forward-looking statements"). The forward-looking statements are made based on information currently available to NEC and certain assumptions considered reasonable as of the date of this material. These determinations and assumptions are inherently subjective and uncertain. These forward-looking statements are not guarantees of future performance, and actual operating results may differ substantially due to a number of factors.

The factors that may influence the operating results include, but are not limited to, the following:

- Effects of economic conditions, volatility in the markets generally, and fluctuations in foreign currency exchange and interest rate
- Trends and factors beyond the NEC Group's control and fluctuations in financial conditions and profits of the NEC Group that are caused by external factors
- Risks arising from acquisitions, business combinations and reorganizations, including the possibility that the expected benefits cannot be realized or that the transactions may result in unanticipated adverse consequences
- Developments in the NEC Group's alliances with strategic partners
- Effects of expanding the NEC Group's global business
- Risk that the NEC Group may fail to keep pace with rapid technological developments and changes in customer preferences
- Risk that the NEC Group may lose sales due to problems with the production process or due to its failure to adapt to demand fluctuations
- Defects in products and services
- Shortcomings in material procurement and increases in delivery cost
- Acquisition and protection of intellectual property rights necessary for the operation of business
- Risk that intellectual property licenses owned by third parties cannot be obtained and/or are discontinued
- Risk that the NEC Group may be exposed to unfavorable pricing environment due to intensified competition
- Risk that a major customer changes investment targets, reduces capital investment and/or reduces the value of transactions with the NEC Group
- Risk that the NEC Group may be unable to provide or facilitate payment arrangements (such as vendor financing) to its customers on terms acceptable to them or at all, or risk that the NEC Group's customers are unable to make payments on time, due to the customers' financial difficulties or otherwise
- Risk that the NEC Group may experience a substantial loss of, or an inability to attract, talented personnel
- Risk that the NEC Group's ability to access the commercial paper market or other debt markets are adversely affected due to a downgrade in its credit rating
- Risk that the NEC Group may incur large costs and/or liabilities in relation to internal control, legal proceedings, laws and governmental policies, environmental laws and regulations, tax practice, information management, and human rights and working environment
- Consequences of natural and fire disasters
- Changes in methods, estimates and judgments that the NEC Group uses in applying its accounting policies
- Risk that the NEC Group may incur liabilities and losses in relation to its retirement benefit obligations

The forward-looking statements contained in this material are based on information that NEC possesses as of the date hereof. New risks and uncertainties come up from time to time, and it is impossible for NEC to predict these events or how they may affect the NEC Group. NEC does not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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