\Orchestrating a brighter world

NEC

Integrated Report 2018 (Financials)

Year ended March 31, 2018

Contents

Note: NEC has changed its reporting segments from the fiscal year ending March 31, 2019.
However, this report is stated based on results in previous segments as of March 31, 2018.

Management's Discussion and Analysis

Year Ended March 31, 2018 (Fiscal 2018)
Compared With the Year Ended March 31, 2017 (Fiscal 2017)

This section contains forward-looking statements concerning the NEC Group's analysis of financial condition, business results and cash flows. These statements are based on the judgment of the NEC Group as of March 31, 2018. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated.

1. Business Overview and Key Business Drivers

Guided by the NEC Group Vision, NEC aims "to be a leading global company leveraging the power of innovation to realize an information society friendly to humans and the earth." During the fiscal year ended March 31, 2018, (the fiscal year under review), NEC continued to focus on the "Solutions for Society" based on the management policies of "Earnings structure rebuilding plan" and "Returning to growth" outlined in the Mid-term Management Plan 2018 announced in April 2016.

In the following sections, NEC reports the business results in four main segments: Public, Enterprise, Telecom Carrier and System Platform. In fiscal 2018, Public generated 33.0% of net sales, Enterprise 14.4%, Telecom Carrier 20.4%, and System Platform 25.1%. (The NEC Group revenue also include revenue of the Others segment. The ratios of segment sales to total revenue were calculated based on segment revenue to external customers.)

Segment information is included in "Notes to Consolidated Financial Statements - Note 6. Segment Information".

2. Analysis of Fiscal 2018 Business Results

The overall growth for the worldwide economy for the fiscal year ended March 31, 2018 improved moderately due to such factors as reduced political risks in Europe and other regions, and the stable price of natural resources.

The Japanese economy achieved steady growth due to robust capital investment in an environment marked by equipment and labor shortages, in addition to growth in consumer spending under a favorable employment environment.

Under this business environment, the NEC Group continuously focused on Solutions for Society, based on the management policies of an "Earnings structure rebuilding plan" and "Returning to growth" outlined in the "Mid-term Management Plan 2018" announced in April 2016.

In terms of the "Earnings structure rebuilding plan," NEC carried out business structural reforms in the energy business. NEC decided to withdraw from the electrode business through the sale of all shares of NEC Energy Devices, Ltd. as well as those of Automotive Energy Supply Corporation. NEC also ceased development and production in the compact energy storage business.

Regarding "Returning to growth," NEC took measures for (1) Business growth in the domestic market, leveraging strengths in artificial intelligence (AI), biometric authentication, security and network services, and (2) Expansion in the safety business for international markets.

Specifically, NEC implemented measures for business growth that utilize the NEC Group's technologies in order to take advantage of a turning point in the domestic market.

The measures include;
-Collaboration with Sumitomo Electric Industries, Ltd. in the mobility business, including planning and development of automotive components, by capitalizing on AI and Internet of Things (IoT) technologies
-Test demonstrations with Japan Airlines Co., Ltd. in the use of AI to automate purchase prediction analysis of airline tickets
-Technical verification with National Cancer Center Japan in the use of AI systems to support real-time diagnosis of the early signs of colorectal cancer during endoscopies

Regarding international markets, NEC provided a facial recognition system in the United Kingdom (UK) for the South Wales Police, who deployed CCTV cameras mounted on police vehicles that were used for real-time verification in locating persons of interest on pre-determined watch lists, including criminals, suspects, and vulnerable individuals. The system's deployment for the final of the UEFA Champions League helped to ensure the safe operation of the sports event.

Also, NEC participated in pilots to test facial recognition at major airports in the United States, such as Dulles International Airport, identifying out-bound passengers at boarding gates, to ensure stronger security and efficient boarding procedures.

The NEC Group's facial recognition technology contributes further to promote the safety and security of society through its adoption as an advanced surveillance system for major cities across the country of Georgia.

In addition, NEC acquired UK-based IT services company Northgate Public Services Limited (NPS), aiming to accelerate the expansion of its international safety business. With NPS' strong customer base in the British police and government organizations, NEC expects to create synergies through its latest technologies, such as biometric authentication systems, AI and video analysis.

Condensed Consolidated Income Statements

	Billions of Yen		YoY Change
	2017	2018	2018/2017
Revenue	¥2,665.0	¥2,844.4	+6.7%
Operating profit	41.8	63.9	+52.9%
Income before income taxes	68.1	86.9	+27.6%
Net profit (loss) attributable to owners of the parent	27.3	45.9	+68.1%

The NEC Group recorded consolidated revenue of 2,844.4 billion yen for the year ended March 31, 2018, an increase of 179.4 billion yen (6.7%) year-on-year. This increase was mainly due to increased sales in the Public business.

Regarding profitability, operating profit (loss) improved by 22.0 billion yen year-on-year, to an operating profit of 63.9 billion yen, mainly due to an increase in consolidated revenue.

Income (loss) before income taxes was a profit of 86.9 billion yen, a year-on-year increase of 18.9 billion yen, mainly due to the improvement of operating profit (loss).

Net profit (loss) attributable to owners of the parent was a profit of 45.9 billion yen, an increase of 18.6 billion yen year-on-year, primarily due to the improvement of income (loss) before income taxes.

(1) Public Business

Revenue:	939.1 billion yen	(+22.6 %)
Operating profit (loss):	54.4 billion yen	(+21.3 billion yen)

In the Public Business, revenue was 939.1 billion yen, an increase of 172.9 billion yen (+22.6%) year-on-year, mainly due to Japan Aviation Electronics Industry, Limited becoming a consolidated subsidiary from the fourth quarter of the previous fiscal year, despite decreased sales from firefighting and disaster prevention systems.

Operating profit (loss) improved by 21.3 billion yen year-on-year, to an operating profit of 54.4 billion yen, mainly owing to increased sales.

(2) Enterprise Business

Revenue	408.7 billion yen	(+0.0%)
Operating profit (loss):	35.7 billion yen	(-4.0 billion yen)

In the Enterprise business, revenue was 408.7 billion yen, almost remaining flat year-on-year.

Operating profit (loss) worsened by 4.0 billion yen year-on-year, to an operating profit of 35.7 billion yen, mainly owing to increased investments in the IoT area.

(3) Telecom Carrier Business

Revenue	579.7 billion yen	(-3.4 %)
Operating profit (loss):	2.0 billion yen	(-16.0 billion yen)

In the Telecom Carrier Business, revenue was 579.7 billion yen, a decrease of 20.6 billion yen (-3.4%) year-on-year, mainly due to decreased international sales in mobile backhaul and the submarine systems area, as well as decreased sales due to sluggish capital investment by domestic telecommunications carriers, despite increased international sales in Telecom Operations and Management Solutions (TOMS).

Operating profit (loss) worsened by 16.0 billion yen year-on-year, to an operating profit of 2.0 billion yen, mainly due to decreased sales as well as recorded business structure improvement expenses internationally.

(4) System Platform Business

Revenue	714.3 billion yen	(-0.8 %)
Operating profit (loss):	31.4 billion yen	(+1.8 billion yen)

In the System Platform Business, revenue was 714.3 billion yen, a decrease of 5.5 billion yen (-0.8%) year-on-year, mainly due to decreased sales in maintenance services.

Operating profit (loss) improved by 1.8 billion yen year-on-year, to an operating profit of 31.4 billion yen, mainly owing to cost efficiency.

(5) Others

Revenue	202.6 billion yen	(+19.2 %)
Operating profit (loss):	-11.9 billion yen	(+8.1 billion yen)

In the Others, revenue was 202.6 billion yen, an increase of 32.6 billion yen (+19.2%) year-on-year, mainly due to increased sales in the international safety business.

Operating profit (loss) improved by 8.1 billion yen year-on-year, to an operating loss of 11.9 billion yen, mainly owing to increased sales and cost efficiency.

3. Liquidity and Capital Resources

(1) Assets, Liabilities and Net Assets

Condensed Consolidated Balance Sheets

	Billions of Yen		*YoY Change*
	2017	2018	2018/2017
Assets			
Current assets	¥ 1,508.7	¥ 1,640.3	¥+131.6
Property, plant and equipment	419.1	399.6	-19.5
Investments and other assets	756.2	781.5	+25.3
Total Assets	2,684.0	2,821.4	+137.4
Liabilities			
Current liabilities	1,002.5	1,063.1	+60.5
Noncurrent liabilities	665.4	704.0	+38.6
Total liabilities	1,667.9	1,767.1	+99.1
Equity			
Total equity attributable to owners of the parent	854.3	880.8	+26.6
Non-controlling interests	161.8	173.5	+11.7
Total equity	1,016.1	1,054.3	+38.2
Total liabilities and equity	2,684.0	2,821.4	+137.4
Interest-bearing debt	466.9	520.7	+53.8
Net interest-bearing debt	227.0	174.7	-52.3
Equity attributable to owners of the parent	854.3	880.8	+26.6
Ratio of equity attributable to owners of the parent	31.8%	31.2%	-0.6
Debt equity ratio	0.55 times	0.59 times	-0.04
Net debt equity ratio	0.27 times	0.20 times	+0.07

Total assets were 2,821.4 billion yen as of March 31, 2018, an increase of 137.4 billion yen as compared with the end of the previous fiscal year. Current assets as of March 31, 2018 increased by 131.6 billion yen compared with the end of the previous fiscal year to 1,640.3 billion yen, mainly due to an increase in inventories, as well as an increase of cash and cash equivalents from the collection of trade and other receivables. Non-current assets as of March 31, 2018 increased by 5.8 billion yen compared with the end of the previous fiscal year to 1,181.0 billion yen, mainly due to an increase in goodwill, despite a decrease in property, plant and equipment, net, as well as other financial assets.

Total liabilities as of March 31, 2018 increased by 99.1 billion yen compared with the end of the previous fiscal year, to 1,767.1 billion yen, mainly due to issuance of bonds.

The balance of interest-bearing debt amounted to 520.7 billion yen, an increase of 53.8 billion yen as compared with the end of the previous fiscal year. The debt-equity ratio as of March 31, 2018 was 0.59 (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 March 31, 2018, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 174.7 billion yen, a decrease of 52.3 billion yen as compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2018 was 0.20 (an improvement of 0.07 points as compared with the end of the previous fiscal year).

Total equity was 1,054.3 billion yen as of March 31, 2018, an increase of 38.2 billion yen as compared with the end of the previous fiscal year, mainly due to the recording of net-profit attributable to owners of the parent for the fiscal year ended March 31, 2018 as well as an increase in non-controlling interests.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of March 31, 2018 was 880.8 billion yen, and the ratio of equity attributable to owners of the parent to total assets was 31.2% (a worsening of 0.6 points as compared with the end of the previous fiscal year).

(2) Cash Flows

Condensed Consolidated Cash Flows

		Billions of Yen		*YoY Change*
		2017	2018	2018/2017
I	Cash flows from operating activities	¥ 92.5	¥ 130.0	¥ +37.5
II	Cash flows from investing activities	6.4	-14.2	-20.7
I+II	Free cash flows	99.0	115.8	+16.8
III	Cash flows from financing activities	-48.9	-7.2	+41.6
Cash and cash equivalents at end of period		240.0	346.0	+106.1

Net cash inflows from operating activities for the fiscal year ended March 31, 2018 were 130.0 billion yen, an increase of 37.5 billion yen as compared with the previous fiscal year. This was mainly due to an improvement of income before income taxes.

Net cash outflows from investing activities for the fiscal year ended March 31, 2018 were 14.2 billion yen, an increase of 20.7 billion yen as compared with the previous fiscal year. This was mainly due to an increase in the purchase of shares of newly consolidated subsidiaries, despite an increase in proceeds from sales of investments in affiliated companies.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for the fiscal year ended March 31, 2018 totaled a cash inflow of 115.8 billion yen, an improvement of 16.8 billion yen year-on-year.

Net cash flows from financing activities for the fiscal year ended March 31, 2018 totaled a cash outflow of 7.2 billion yen, mainly due to repayments of borrowings, despite issuance of bonds.

As a result, cash and cash equivalents as of March 31, 2018 amounted to 346.0 billion yen, an increase of 106.1 billion yen as compared with the end of the previous fiscal year.

(3) *Basic Liquidity Management Policy / Capital Resources*

The NEC Group's basic policy is to maintain sufficient liquidity in hand for conducting business activities. Liquidity in hand is the sum of cash and cash equivalents and the unused portion of committed credit facilities established with multiple financial institutions. As of March 31, 2018, NEC had a sufficient amount of liquidity. Total liquidity in hand as of March 31, 2018, was 675.0 billion yen, comprising cash and cash equivalents of 346.0 billion yen and unused committed credit facilities of 329.0 billion yen. Cash and cash equivalents are mainly denominated in yen as well as other denominations that include U.S. dollars and euros.

The NEC Group maintains credit facilities that it believes are sufficient to meet its short-term and long-term financing needs. With regard to short-term financing, the NEC Group relies primarily on commercial paper ("CP") in Japan to provide for short-term financing. It has a 500.0 billion yen CP program. To prepare for unexpected short-term funding needs or instability in fund procurement through the issue of CP, the NEC Group maintains committed short-term credit facilities of 331.0 billion yen to ensure that funds may be borrowed from financial institutions at all times. Of this amount, 80.0 billion yen represents a committed credit facility with a contract period effective through March 2021 that enables NEC to obtain short-term loans. For long-term financing, the NEC Group has a 300.0 billion yen straight bond issuance program in Japan.

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

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

As of March 31,	2017	2018
Long-term fund procurement*1	74.2%	72.8%
Use of capital market instruments*2	21.4%	28.7%

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

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

4. Capital Expenditures

Capital expenditures of NEC and its consolidated subsidiaries for fiscal 2017 and 2018 are broken down as follows (amounts do not include consumption taxes):

	Billions of Yen		*YoY Change*
	2017 *1	2018	2018/2017
Public Business	¥10.5	¥22.6	+116.2%
Enterprise Business	0.4	1.0	+144.7%
Telecom Carrier Business	5.8	6.5	+12.7%
System Platform Business	6.8	6.5	-5.5%
Others	8.0	8.8	+10.2%
Total	¥31.5	¥45.4	+44.2%

*1 From the fiscal year ended March 31, 2018, the Company's operating segments have been revised. In connection with this revision, capital expenditures for the fiscal year ended March 31, 2017 has been reclassified to conform to the presentation of the fiscal year ended March 31, 2018.

In the Public Business, capital expenditures included investments in production facilities for Japan Aviation Electronics Industry, Limited as well as R&D equipment and production facilities for defense, satellite and other systems.

In the Enterprise Business, capital expenditures included investments in equipment related to system development.

In the Telecom Carrier Business, capital expenditures included investment in R&D equipment and production facilities mainly for SDN/NFV as well as next-generation wireless communication systems.

In the System Platform Business, capital expenditures included investment in cloud service related facilities as well as R&D equipment and production facilities for computers, such as servers and storage.

In others, capital expenditures included investment in data center facilities.

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

5. Risk Factors

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

(1) Risks related to economic conditions and financial markets

a. Influence of economic conditions

The NEC Group's business is dependent, to a significant extent, on the Japanese market. The NEC Group's consolidated revenue to customers in Japan accounted for 74.0% of its total revenue in the fiscal year ended March 31, 2018. The deterioration of economic conditions in Japan in the future could have a material adverse effect on the results of operations and the financial position of the NEC Group.

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

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

b. Volatile nature of markets

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

c. Fluctuations in foreign currency exchange and interest rate

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

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

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

a. Finance and profit fluctuations

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

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

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

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

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

b. Acquisitions and other business combinations and reorganizations

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

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

- The transactions may result in other unanticipated adverse consequences.

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

c. Alliance with strategic partners

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

d. Expansion of global business

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

The NEC Group's overseas projects and investments could be adversely affected by:

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

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

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

a. Technological advances and response to customer needs

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

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

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

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

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

b. Production process

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

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

c. Defects in products and services

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

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

d. Material procurement

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

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

e. Intellectual property rights

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

f. Intellectual property licenses owned by third parties

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

g. Intense competition

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

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

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

h. Dependence on certain key customers

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

i. Risks related to customers' financial difficulties

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

j. Retention of personnel

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

k. Financing

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

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

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

a. Internal control

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

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

b. Legal proceedings

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

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

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

c. Laws and governmental policies

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

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

d. Environmental laws and reg lations

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

e. Tax practice

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

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

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

f. Information management

The NEC Group stores a voluminous amount of personal information, including “My Number” social security and tax number information, as well as confidential information in the regular course of its business. There have been many cases where such information and records in the possession of corporations and institutions were leaked, improperly accessed or exposed by a cyberattack. If personal or confidential information in the NEC Group’s possession about its customers or employees is leaked, improperly accessed or exposed by a cyberattack and subsequently misused, it may be subject to liability and regulatory action, and its reputation and brand value may be damaged.

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

g. Human rights and work environment

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

(5) *Other Risks*

a. Natural and fire disasters

Natural disasters, fires, abnormal weather (e.g. concentrated downpours, floods, water shortages) due to climate change, prevalence of highly virulent and fatal disease throughout the world (pandemic), armed hostilities, terrorism and other incidents, whether in Japan or any other country in which the NEC Group operates, could cause damage or disruption to the NEC Group, its suppliers or customers. These events could also create economic inactivity either in or outside Japan, fluctuation of foreign exchange or interest rates, political or economic instability, deterioration of public safety or public unrest, any of which could harm the NEC Group's business. In addition to various measures of disaster mitigation in place, the NEC Group has adopted a group-wide business continuity plan outlining countermeasures and recovery procedures to be taken in response to emergency, and has conducted training and learning programs. Despite the Company's efforts, natural disasters could disrupt social infrastructure such as electricity, gas and water supply, communication or transportation in affected areas, and could have a material adverse effect on NEC Group's business by causing human damages, disruptions of manufacturing, procurement and logistics, or occurrences of environmental and quality issues. Moreover, the spread of unknown infectious diseases to which human has no immunity, such as a new type of influenza virus, could affect adversely the NEC Group's operations by increasing risks for inability to secure human resources and deterioration of working environment, as well as by reducing customer demand or disrupting its suppliers' operations in the infected areas.

b. Accounting policies

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

c. Defined benefit pension plan obligations

Changes in actuarial assumptions such as discount rates on which the calculation of projected defined benefit pension plan obligations are based may have an adverse effect on the NEC Group's financial condition and its results of operations. For example, there is a possibility of defined benefit pension plan obligations and/or defined benefit pension plan expenses increasing in the event of a future reduction in discount rates or prior service costs resulting from a change in the system.

d. Sale of NEC's common stock in the USA

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

6. Management Strategy and Policy

(1) Fundamental Management Policy

The NEC Group has formulated the following Group Corporate Philosophy and Group Vision.

NEC Group Corporate Philosophy:
"NEC strives through "C&C" to help advance societies worldwide toward deepened mutual understanding and the fulfillment of human potential."

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

Based on this philosophy and vision, the NEC Group focuses on the "Solutions for Society" that aims to create a more advanced social infrastructure indispensable to society from the position of a company like no other as it has networking technologies and computing technologies.

Through these business activities, NEC creates social values such as safety, security, efficiency and equality to enable people to lead more prosperous lives and works in concert with all stakeholders to make "an information society friendly to humans and the earth."

To realize these goals, NEC has collated and puts into practice the NEC Group Core Values as a sense of values and principles of behavior for all NEC employees.

NEC Group Core Values:
"Better Products, Better Services", "Passion for Innovation", "Collaboration", "Self-help"

The NEC Group will strive to provide satisfaction and inspiration for our customers through the efforts of self-reliant individuals, motivated by a "passion for innovation," who work as part of a team to continuously pursue the provision of better products and services. The NEC Group aims to pursue its Corporate Philosophy and realize the Group Vision through actions based on the Values that have been passed down and fostered over the more than 100-year history of the NEC Group.

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

(2) Management Indicator Goals

The NEC Group sets operating targets of revenue, operating profit margin, net profit, free cash flows and ROE (Return On Equity) as management indicators. NEC attaches paramount importance to operating profit margin among other indicators.

(3) Middle and Long Term Management Strategy and Challenges to be Addressed by the NEC Group

Under the "Mid-term Management Plan 2018" announced in April 2016, the NEC Group worked on (1) Earnings structure rebuilding plan and (2) Returning to growth. In measures for the Earnings structure rebuilding plan, the Company made steady progress overall on reforming underperforming businesses and unprofitable projects, business process optimization projects, and optimization of development and manufacturing functions. However, with regard to measures for the Returning to growth, existing businesses underperformed significantly, making it difficult to realistically achieve the operating profit target of 150 billion yen for the fiscal year ending March 31, 2019.

Based on this situation, the NEC Group proceeded to formulate a new management plan. In January 2018, the NEC Group established the "Mid-term Management Plan 2020" consisting of (1) Reform of profit structure, (2) Achievement of growth, and (3) Restructuring of execution capabilities. The NEC Group is certain that major reforms need to be made now in order to build a foundation for the NEC Group's next 100 years.

With this in mind, executives and employees will strive as one to realize the "Mid-term Management Plan 2020."

a. Reform of profit structure

The NEC Group will implement fundamental profit structure reforms, including reduction of fixed costs, aiming to realize the investments needed to return to growth. Specifically, the NEC Group will reduce fixed costs, including personnel expenses, by conducting structural reforms domestically in back office function and the hardware business area, as well as improving efficiency of fixed property costs and other costs. The NEC Group will also restructure the telecom carrier business and the energy business. In the telecom carrier business, the NEC Group will strengthen software and services while improving its profitability in the network infrastructure domain. In the energy business, the NEC Group will continue to focus on the energy SI (service integration) business to improve the profitability. Factories in Japan will be streamlined by reorganizing and integrating the factories of NEC Platforms, Ltd.

b. Achievement of growth

The NEC Group will aim to grow by leveraging its biometric and AI technologies to realize "NEC Safer Cities." Through "NEC Safer Cities," the NEC Group works on in order to realize safety, security, efficiency, and equality for all people and an abundant society by providing solutions for Public Safety, Digital Government, Smart Transportation, and other services.

The NEC Group has set "NEC Safer Cities" as an engine for growth and will aim to become a category leader in Public Safety, Digital Government, and other services in Japan and overseas. The NEC Group will also continue to accelerate M&As to expand its business in these areas.

Furthermore, the NEC Group will also aim to grow in the fields of "The formation of a sustainable, smart supply chain," and "The realization of safe and comfortable connected cars," with a primary focus in Japan by using its strengths. At the same time, the NEC Group will transform into a business model that provides services by leveraging partnerships, including customers, in order to solve social challenges.

c. Restructuring of execution capabilities

The NEC Group considers restructuring of execution capabilities as a vital step to promote the reform of its profitability and achievement of growth. The NEC Group is working to reinforce business development capabilities and to realize an organization with the capacity to carry out actions to completion. In terms of reinforcement of business development capabilities, by breaking away from the self-sufficiency mindset, development of solutions via co-operation in collaborations with partners, and strengthening relations with various stakeholders such as government, international institutions and standardization bodies, the NEC Group will realize creation of new social value beyond existing frameworks. Next, to realize an organization with the capacity to carry out actions to completion, the NEC Group will define the management's responsibilities and authorities more clearly and introduce mechanism to strengthen management's commitment to results. At the same time, the NEC Group will introduce an evaluation and compensation system for NEC Group employees to encourage innovative actions and challenges. In these ways, the NEC Group will restructure to enable employees to maximize their capabilities. Furthermore, the NEC Group will actively hire and appoint human resources with diverse talents into executives and other positions in order to quickly respond to market changes and challenges.

Through these measures, the NEC Group aims to achieve revenue of 3,000 billion yen, an operating profit ratio of 5%, net profit of 90 billion yen, free cash flows of 100 billion yen, and ROE of 10% for the fiscal year ending March 31, 2021.

Moreover, the NEC Group recognizes that ensuring compliance in all of its operations is essential to continuing to exist as a good corporate citizen in society. The NEC Group will continue working to promote compliance.

The NEC Group will give consideration to ESG (Environmental, Social and Governance) issues, and leverage its strengths in technology to contribute to the achievement of the United Nations' Sustainable Development Goals (SDGs).

Consolidated Statements of Financial Position

(Millions of yen)

	Notes	As of March 31, 2017	As of March 31, 2018
Assets			
Current Assets			
Cash and cash equivalents	16	239,970	346,025
Trade and other receivables	15	952,258	931,231
Inventories	14	205,855	220,254
Other financial assets		4,485	6,350
Other current assets		106,169	112,543
Subtotal		1,508,737	1,616,403
Assets held for sale	17	—	23,932
Total current assets		1,508,737	1,640,355
Non-current assets			
Property, plant and equipment, net	8,10	419,078	399,590
Goodwill	9,10	63,220	103,967
Intangible assets	9,10	142,139	156,248
Investments accounted for using the equity method	12	68,132	67,747
Other financial assets		262,284	245,852
Deferred tax assets	13	156,622	142,402
Other non-current assets	10,21	63,784	65,210
Total non-current assets		1,175,259	1,181,016
Total assets		2,683,996	2,821,351

See notes to consolidated financial statements.

(Millions of yen)

	Notes	As of March 31, 2017	As of March 31, 2018
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	24	497,051	512,115
Bonds and borrowings	20	118,915	139,687
Accruals		155,161	171,434
Other financial liabilities		12,507	9,835
Accrued income taxes		21,014	13,844
Provisions	23	52,210	45,621
Other current liabilities	22	145,683	158,840
Subtotal		1,002,541	1,051,376
Liabilities directly associated with assets held for sale	17	-	11,689
Total current liabilities		1,002,541	1,063,065
Non-current liabilities			
Bonds and borrowings	20	342,854	376,383
Other financial liabilities		8,285	9,118
Defined benefit liabilities	21	264,272	275,326
Provisions	23	13,736	13,754
Other non-current liabilities	22	36,242	29,420
Total non-current liabilities		665,389	704,001
Total liabilities		1,667,930	1,767,066
Equity			
Share capital	18	397,199	397,199
Share premium	18	147,879	138,704
Retained earnings	18	235,601	265,879
Treasury shares	18	(3,101)	(3,364)
Other components of equity	18,21	76,686	82,415
Total equity attributable to owners of the parent		854,264	880,833
Non-controlling interests	11	161,802	173,452
Total equity		1,016,066	1,054,285
Total liabilities and equity		2,683,996	2,821,351

See notes to consolidated financial statements.

Consolidated Statements of Profit or Loss and Consolidated Statements of Comprehensive Income

Consolidated Statements of Profit or Loss

(Millions of yen)

	Notes	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Revenue	6,25	2,665,035	2,844,447
Cost of sales	14,28	1,909,414	2,046,853
Gross profit		755,621	797,594
Selling, general and administrative expenses	28	698,413	729,855
Other operating income (loss)	27	(15,370)	(3,889)
Operating profit	6	41,838	63,850
Financial income	6,29	38,420	29,553
Financial costs	6,29	20,817	11,568
Share of profit of entities accounted for using the equity method	6	8,617	5,106
Income before income taxes		68,058	86,941
Income taxes	13	32,834	26,784
Net profit		35,224	60,157
Net profit attributable to			
Owners of the parent		27,310	45,870
Non-controlling interests		7,914	14,287
		35,224	60,157
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)	31	105.10	176.54
Diluted earnings per share (yen)	31	105.10	176.54

See notes to consolidated financial statements.

Note: The Company implemented share consolidation with a ratio of 10 shares of common share to 1 share as of October 1, 2017. The basic earnings per share ("EPS") and diluted EPS on common share are calculated assuming that the share consolidation was carried out from the beginning of the fiscal year ended March 31, 2017 (April 1, 2016).

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Notes	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Net profit		35,224	60,157
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	18,21	56,276	3,368
Share of other comprehensive income of associates	18	534	10
Total items that will not be reclassified to profit or loss		56,810	3,378
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	18	(1,869)	(6,434)
Cash flow hedges	18	623	(92)
Available-for-sale financial assets	18	15,533	8,462
Share of other comprehensive income of associates	18	702	1,520
Total items that may be reclassified subsequently to profit or loss		14,989	3,456
Total other comprehensive income, net of tax		71,799	6,834
Total comprehensive income		107,023	66,991
Total comprehensive income attributable to			
Owners of the parent		99,929	51,599
Non-controlling interests		7,094	15,392
Total		107,023	66,991

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Fiscal year ended March 31, 2017

(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		–	–	27,310	–	–	27,310	7,914	35,224
Other comprehensive income	18	–	–	–	–	72,619	72,619	(820)	71,799
Comprehensive income		–	–	27,310	–	72,619	99,929	7,094	107,023
Purchase of treasury shares	18	–	–	–	(26)	–	(26)	–	(26)
Disposal of treasury shares	18	–	(2)	–	3	–	1	–	1
Cash dividends	19	–	–	(15,592)	–	–	(15,592)	(2,386)	(17,978)
Subscription rights to shares		–	5	–	–	–	5	–	5
Changes in interests in subsidiaries	11	–	121	–	–	–	121	89,701	89,822
Total transactions with owners		–	124	(15,592)	(23)	–	(15,491)	87,315	71,824
As of March 31, 2017		397,199	147,879	235,601	(3,101)	76,686	854,264	161,802	1,016,066

Fiscal year ended March 31, 2018

(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, 2017		397,199	147,879	235,601	(3,101)	76,686	854,264	161,802	1,016,066
Net profit		–	–	45,870	–	–	45,870	14,287	60,157
Other comprehensive income	18	–	–	–	–	5,729	5,729	1,105	6,834
Comprehensive income		–	–	45,870	–	5,729	51,599	15,392	66,991
Purchase of treasury shares	18	–	–	–	(271)	–	(271)	–	(271)
Disposal of treasury shares	18	–	(5)	–	8	–	3	–	3
Cash dividends	19	–	–	(15,592)	–	–	(15,592)	(4,258)	(19,850)
Put option, written over shares held by a non-controlling interest shareholder		–	(2,113)	–	–	–	(2,113)	–	(2,113)
Changes in interests in subsidiaries	11	–	(7,057)	–	–	–	(7,057)	516	(6,541)
Total transactions with owners		–	(9,175)	(15,592)	(263)	–	(25,030)	(3,742)	(28,772)
As of March 31, 2018		397,199	138,704	265,879	(3,364)	82,415	880,833	173,452	1,054,285

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Millions of yen)

	Notes	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Cash flows from operating activities			
Income before income taxes		68,058	86,941
Depreciation and amortization	6	80,376	96,037
Impairment loss	6,10	2,571	1,530
Increase (decrease) in provisions		12,302	(7,450)
Financial income		(38,420)	(29,553)
Financial costs		20,817	11,568
Share of (profit) loss of entities accounted for using the equity method		(8,617)	(5,106)
Decrease (increase) in trade and other receivables		22,201	12,244
Decrease (increase) in inventories		22,659	(16,115)
Increase (decrease) in trade and other payables		(31,666)	17,036
Others, net		(43,141)	(16,701)
Subtotal		107,140	150,431
Interest and dividends received		5,866	6,076
Interest paid		(8,646)	(5,764)
Income taxes paid		(11,835)	(20,762)
Net cash provided by operating activities		92,525	129,981
Cash flows from investing activities			
Purchases of property, plant and equipment		(37,201)	(43,253)
Proceeds from sales of property, plant and equipment		2,676	6,334
Acquisitions of intangible assets		(7,888)	(10,134)
Purchases of available-for-sale financial assets		(4,117)	(2,336)
Proceeds from sales of available-for-sale financial assets		4,359	12,442
Purchase of shares of newly consolidated subsidiaries		(984)	(23,110)
Acquisitions of subsidiaries, net of cash acquired		11,220	5
Proceeds from sales of shares of subsidiaries		339	228
Purchases of investments in affiliated companies		(162)	(471)
Proceeds from sales of investments in affiliated companies		23,698	21,997
Proceeds from collection of loans receivable		12,958	25,466
Others, net		1,527	(1,399)
Net cash provided by / (used in) investing activities		6,425	(14,231)

See notes to consolidated financial statements.

(Millions of yen)

	Notes	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Cash flows from financing activities			
Increase (decrease) in short-term borrowings, net	16, 20	15,228	8,214
Proceeds from long-term borrowings	16, 20	204,082	11,512
Repayments of long-term borrowings	16, 20	(240,127)	(65,864)
Proceeds from issuance of bonds	16, 20	—	100,000
Redemption of bonds	16, 20	(10,000)	(40,000)
Dividends paid	19	(15,592)	(15,586)
Dividends paid to non-controlling interests		(2,386)	(4,258)
Others, net		(86)	(1,257)
Net cash used in financing activities		(48,881)	(7,239)
Effect of exchange rate changes on cash and cash equivalents		(2,422)	(2,447)
Net increase (decrease) in cash and cash equivalents		47,647	106,064
Cash and cash equivalents, at the beginning of the year		192,323	239,970
Decrease in cash and cash equivalents resulting from transfer to assets held for sale	17	—	(9)
Cash and cash equivalents, at the end of the year	16	239,970	346,025

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Reporting Entity

NEC Corporation ("the Company") is based in Japan. The NEC Group, which comprises the Company and its subsidiaries and affiliates, has four main businesses, including the "Public Business," "Enterprise Business," "Telecom Carrier Business," and "System Platform Business."
Major business activities of the NEC Group are described in Note 6 "Segment Information."

2. Basis of Preparation

(1) Preparation of the Consolidated Financial Statements

The Company fulfills the requirements of a "specified company of designated International Financial Reporting Standards (IFRS)" as provided in Article 1-2 of the "Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance No. 28 of 1976, the "Ordinance on Consolidated Financial Statements"). Therefore, in accordance with the provisions of Article 93 of the Ordinance on Consolidated Financial Statements, the NEC Group's consolidated financial statements are prepared in conformity with IFRS.

The consolidated financial statements were authorized for issue by Takashi Niino, President and CEO, and Takayuki Morita, Senior Executive Vice President, Member of the Board and CFO, on June 25, 2018.

(2) Basis of Measurement

Except for the following significant items, the consolidated statements 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.

(3) Functional Currency and Presentation Currency

The 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 consolidated financial statements (including the consolidated statement of financial position at the date of transition to IFRS).

(1) Basis of Consolidation

a. Business Combinations

Business combinations are accounted for using the acquisition method when control is 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.

The consideration transferred in the acquisition is measured at fair value and that comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the NEC Group
- fair value of any assets or liabilities resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The NEC Group recognizes non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis.

If the business combination is achieved in stages, the NEC Group's previously held equity interests in the acquiree are remeasured at fair value at the acquisition date through profit or loss. If the NEC Group has recognized changes in the value of its equity interests 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 NEC Group had disposed directly of the previously held equity interests.

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 NEC Group measures goodwill at the acquisition date as the excess of the aggregate of the following:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

less the net recognized amount of the identifiable assets acquired and liabilities assumed. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

b. Subsidiaries

Subsidiaries are entities controlled by the NEC Group.

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 because it is impracticable to have the same reporting date as that of the NEC Group due to the local legal systems where the subsidiaries are located. In such cases, for consolidation purposes, the subsidiaries prepare additional financial information as of the reporting date of the financial statements of the NEC Group, and the effects of significant transactions or events that occur between those dates are adjusted in the consolidated financial statements.

Accounting policies of the 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 its parent and non-controlling interests, 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. The difference between non-controlling interest adjustments and fair value of the consideration is recognized in equity as interests of the Company's shareholders.

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 investments in associates or as available-for-sale financial assets depending on the level of influence retained.

c. Investments in Associates and Joint Ventures (Entities Accounted for Using the Equity Method)
The NEC Group's investments in entities accounted for using the equity method are composed of investments in associates and joint ventures.

Associates are those entities in which the NEC Group has significant influence, but no control or joint control, over financial and operating policy. This is generally the case where the NEC Group directly or indirectly holds between 20% and 50% of the voting rights.

A joint venture is an arrangement in which the NEC Group has joint control, whereby the NEC Group has rights to the net assets of the arrangement, rather than rights to its assets or obligations for its liabilities.

Investments in associates and joint ventures are initially accounted for at cost, which includes transaction costs and are subsequently accounted for using the equity method.
The consolidated financial statements include the NEC Group's share of profit or loss and other comprehensive income of entities accounted for using the equity method, 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.

d. Transactions Eliminated on Consolidation
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 entities accounted for using the equity method 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, but only to the extent that there is no evidence of impairment.

(2) Foreign Currency Translation

a. Foreign Currency Transactions
Transactions in foreign currencies are translated into the respective functional currencies of the NEC Group companies at the exchange rate prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date.
Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost are translated into the functional currency at the exchange rate at the transaction date.
Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated into the functional currency at the exchange rates when the fair value was determined.

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

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

b. Foreign Operations

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

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

Goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of foreign operations are accounted for 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, the 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

a. Non-derivative Financial Assets

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

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

The NEC Group derecognizes a financial asset when the 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 derecognized 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 measured 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 financial assets or are not classified in any financial assets measured 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 values of available-for-sale financial assets that are traded in an active market are measured at quoted market prices. Available-for-sale financial assets that are not traded in an active market are measured at fair value that is determined by applying appropriate valuation techniques, such as comparable peer company analysis.

b. Non-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 charges for each period are recognized as financial costs in profit or loss.

c. Derivative Financial Instruments

The NEC Group holds derivative financial instruments, such as forward exchange contracts, interest rate swaps and currency options, 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 a hedging instrument is classified as a 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 assesses 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 immediately recognized in profit or loss.

The amount accumulated in other comprehensive income is reclassified to profit or loss in the same period during which the cash flows of the hedged item affect profit or loss.

Hedge accounting is discontinued prospectively when the hedging instrument expires, is sold, terminated, or exercised; no longer meets the criteria for hedge accounting; 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.

d. Offsetting 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 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, exposed to insignificant risk of changes in value, and redeemable in three months or less from each acquisition date.

(5) Property, Plant and Equipment

a. Recognition and Measurement

Items of 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 asset, the costs of dismantling and removing the item and restoring the site on which it is located, and borrowing costs to be capitalized.

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

b. Subsequent Expenditure

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

c. Depreciation

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 cases where the selling price, after deducting the costs of disposal, at the end of the useful lives is estimable.

Useful lives of major property, plant and equipment are as follows:

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

Depreciation methods, useful lives, and residual values of assets are reviewed at the end of each reporting period and revised, if necessary.

(6) Intangible Assets

a. Recognition and Measurement of Intangible Assets

(a) Goodwill

Goodwill arising from the acquisition of a subsidiary is recognized in intangible assets. For the measurement of goodwill at the acquisition date, see (1) a. "Business combinations."

(b) Research and Development Costs

Expenditures in the development phase are capitalized 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; and
- 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 and expenditures on research are recognized as expenses 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 a. (b) above are met.

Other intangible assets, such as royalties and licenses, are accounted for at cost when acquired.

(d) Intangible assets acquired in business combinations

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

b. Subsequent Expenditures

Subsequent expenditures on intangible assets are capitalized only when it is probable that the future economic benefits from the expenditures will flow to the NEC Group.

c. Amortization

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

Goodwill

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

Research and Development Costs

A capitalized intangible asset in the development phase has a definite useful life and is amortized 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 NEC Group.

Software and Other Intangible Assets

Software is amortized as follows:

Software held for sale is amortized based on the expected sales volume over the expected effective period. (mainly within two years)

If the amortization method does not reflect the pattern of consumption of the expected future benefits from the asset, 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 period (mainly three to five 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 a contract period, using the method which reflects the pattern in which the assets' future economic benefits are expected to be consumed by the NEC Group.

Amortization methods, useful lives, and residual values of intangible assets with definite useful lives are reviewed at the end of each reporting period and revised, if necessary.

(7) Leases

a. Determining 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.

b. Leased 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. Subsequently, the asset is depreciated over the shorter of the lease term or the economic useful life of the leased asset.

All other leases are classified as operating leases and are not recognized in the NEC Group's consolidated statements of financial position.

c. Lease 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 remaining balance of the 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 the 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

a. Non-derivative Financial Assets

Non-derivative financial assets are assessed for objective evidence of impairment at the reporting date. A financial asset is determined to be impaired if there is 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 negative effects on the estimated future cash flows of the asset that can be reasonably estimated.

Objective evidence that a financial asset is 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 the fair value below their cost is objective evidence of impairment.

Impairment of Financial Assets Measured at Amortized Cost

Impairment assessment is made at an individual level for financial 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 asset's 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 by that amount, except for receivables whose carrying amount is reduced through the use of an allowance account. If, in a subsequent period, any event occurs which indicates that an impairment loss recognized in prior periods for an asset has decreased, the previously recognized impairment loss is reversed directly through profit or loss. The carrying amounts of receivables are written off 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

An impairment loss on an available-for-sale financial asset is recognized by reclassifying the accumulated loss, which is already recognized in other comprehensive income as changes in 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 the acquisition cost and the current fair value, less any impairment losses on the asset previously recognized in profit or loss. For a debt instrument that is classified as an available-for-sale financial asset, reversal of an impairment loss is recognized in profit or loss if its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized. The reversal of an impairment loss of an equity instrument is not recognized through profit or loss, but a subsequent increase in fair value is recognized directly in other comprehensive income.

Impairment of Investments in Entities Accounted for Using the Equity Method

Impairment of an investment in an entity accounted for using the equity method is measured by comparing the recoverable amount and the carrying amount of the investment. 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.

b. Non-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 a group of CGUs) 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 inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

An asset or CGU (a group of CGUs) is 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 (a group of CGUs) 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 immediately recognized in profit or loss.

A 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 CGU (a group of CGUs).

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

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

The recoverable amount is the higher of the fair value of an asset or CGU (a group of CGUs) 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 (a group of CGUs).

In assessing value in use, the estimated future cash flows are discounted to the 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 (a group of CGUs).

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 NEC Group estimates 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 the asset 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 reversed only 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.

The condition above is met only when 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 it will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets or disposal groups 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

a. Defined Benefit Plans

Defined benefit plans of the NEC Group are defined benefit pension plans and lump-sum severance payment plans. The net amount of defined benefit plan assets and obligations is calculated by deducting fair value of the plan assets from the present value of defined benefit obligations. The NEC Group's defined benefit obligations are 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 that amount 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's defined benefit obligations are calculated by an actuary applying the projected unit credit method 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 plans are recognized in other comprehensive income and not reclassified to retained earnings and others in subsequent periods.

b. Defined 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 has 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.

c. Termination Benefits

Termination benefits are recognized in profit or loss when the NEC Group is committed, without realistic possibility of withdrawal, to a publicly announced 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 in profit or loss when the NEC Group has made an offer of voluntary redundancy; it is probable that the offer will be accepted; and the number of the employees who accept the offer can be estimated reliably. Obligations related to the termination benefits are discounted to their present value, when it is paid after at least 12 months have passed since the end of reporting period.

d. Short-term Employee Benefits

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

(12) Provisions

A provision is recognized if the NEC Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and a reliable estimate can be made of the amount of the obligation.
Provisions, where the time value of money is material, are discounted using a pre-tax rate reflecting current market assessments of the time value of money and those specific risks of the liability.
Interest cost arising from the passage of time is recognized as financial costs.

a. Product Warranty Liabilities

The NEC Group sells products which are repaired or exchanged for free of charge within the warranty period after the sale of products or delivery of developed software, based on contracts.
Product warranty liabilities are recognized for individually estimated future warranty costs using the historical ratio of warranty costs to net sales or other relevant factors, considering the additional incremental costs that are expected to be incurred. Most of these costs are expected to be incurred in the following fiscal year and the rest to be incurred within about two years after the end of the reporting period.

b. Provision 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 in the following fiscal year and the rest to be incurred within about two years from the end of the reporting period.

c. Provision for Loss on Construction Contracts and Others

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

d. Asset Retirement Obligations

Provisions recognized for the expenses to be incurred in connection with scrap, removal and retirement of assets, and restoring the site. These expenses are added to the 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 they are 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.

a. Sale of Goods

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

b. Rendering of Services

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

c. Construction Contracts

Contract revenue comprises the amount of revenue initially agreed in the contract plus any variations in contract work, claims, and incentive payments, to the extent that it is probable that they will result in revenue and are capable of being reliably measured.
For construction contracts and customized software, when the outcome of the construction contract can be reliably estimated, 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 are probable to be recoverable, and contract costs are recognized as expenses 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 in 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.

a. Current 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, and any tax adjustment to taxes payable or receivable in respect of previous years.

b. Deferred Tax

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

Deferred tax is not recognized for the following:
- Temporary differences on the initial recognition of an asset or liability in a transaction which is not a business combination and that 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 at 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 reduced 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 businesses 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 area of operations, or
- is a subsidiary acquired exclusively with a view to resell.

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

When an operation is classified as a discontinued operation, the comparative 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

a. Ordinary Shares

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

b. Treasury 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 share premium. Additional costs directly related to repurchase or sale of treasury shares are deducted from equity.

4. Use of Accounting Estimates and Judgments

Preparation of consolidated 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 differ 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.

Key estimates and judgments made by management 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 active markets are measured at quoted market prices. Financial instruments that are not traded in active markets 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

For the details, refer to Note 33 "Financial Instruments."

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

Useful lives of property, plant and equipment are estimated by taking into consideration all facts, such as the expected usage of the asset, the expected physical wear and tear, technological and commercial obsolescence, and legal or similar limits on the use of the asset. Residual value is zero (or one yen) at the end of the useful life, except for cases 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 (a group of CGUs) and the recoverable amount is determined as the greater of the fair value of the asset or CGU (a group of CGUs) less cost to sell and its value in use.

In measuring value in use, the estimated future cash flows reflect 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 the 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 (a group of CGUs).

For the details, refer to Note 10 "Impairment Losses."

(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 a lump-sum severance plan, financial discount rates, rates of increases in salaries, revaluation rates of a cash balance plan.

For the details, refer to Note 21 "Employee Benefits."

(5) Recognition and Measurement of Provisions

The NEC Group recognizes product warranty liabilities, a provision for business structure improvement, a 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 products at an amount that represents the estimated cost to repair or exchange certain products within the warranty period based on the past experience.

- Provision for Business Structure Improvement

A provision is recognized for the estimated costs related to the business structure improvement plans notified to the related parties.

- 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 loss amount can be estimated reliably.

- Asset Retirement Obligations

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

(6) Revenue Recognition

When the percentage-of-completion method is applied to construction contracts (including customized software), the following three elements can 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 are recognized respectively by reference to 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 due to a change in the circumstances after the construction work has commenced, the NEC Group reassesses the estimated total contract costs by comparing the actual cost incurred to date and the previous estimate on a timely basis.

(7) Recoverability of Deferred Tax Assets

A deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilized. Recoverability is assessed based on forecasts of the future taxable profit for each fiscal year derived from the NEC Group's business plan.

For the details, refer to Note 13 "Income Taxes."

5. New Standards and Interpretations Not Yet Adopted

New standards and interpretations and amendments to existing standards and interpretations have been issued before the approval date of the current consolidated financial statements; however, the NEC Group has not yet adopted the following new or amended standards:

The NEC Group adopts IFRS 9, "Financial Instruments", from the fiscal year ending March 31, 2019. In accordance with the transition requirements of IFRSs, comparative information for the fiscal year ended March 31, 2018 will not be restated. Accordingly, the NEC Group makes an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument (such as securities).

As a result of the adoption of IFRS 9, accumulated impairment losses on the financial instruments recognized in prior periods are reclassified, which leads retained earnings to increase by approximately 66 billion yen and other components of equity to decrease by the same amount as of April 1, 2018.

The NEC Group adopts IFRS 15, "Revenue from Contracts with Customers", from the fiscal year ending March 31, 2019. In accordance with the transition requirements of IFRS 15, the NEC Group applies IFRS 15 by reflecting the cumulative impact of IFRS 15 in equity on April 1, 2018. The NEC Group recognizes revenue based on the following five-step model:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The impact of adopting IFRS 15 on retained earnings is not significant.

The NEC Group is currently assessing the impact of adopting IFRS 16, thus it is difficult to make a reasonable estimate of the impact at this time.

IFRSs	Title	Description of New standards/Amendments	Mandatory adoption (Effective from the year beginning)	To be adopted by the NEC Group (Effective from the year ending)
IFRS 16	Leases	New accounting standard to replace IAS 17 (the current standard related to leases) and the related interpretations	January 1, 2019	March 31, 2020

6. Segment Information

(1) General information about reportable segments

The reportable segments of NEC Corporation ("the Company" or "NEC") are determined from operating segments that are identified in terms of similarity of products, services and markets based on business, and are the businesses for which the Company is able to obtain respective financial information separately, and the businesses are investigated periodically in order for the Board of Directors to conduct periodic investigation to determine distribution of management resources and evaluate their business results. The Company aggregates two businesses, "Public Solutions Business" which handles business involving regional sales functions and regional public entities in Japan and "Public Infrastructure Business" which handles business involving government agencies and companies supporting national and social infrastructures as one reportable segment which is "Public" in terms of similarity of products, services and economic characteristics based on business. Therefore 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 Public, Healthcare, Government and Media.

Enterprise

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

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), 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 revenue and transfers are based on an arm's-length price.

The accounting treatments of reportable operating segments are basically the same as those described in Note 3 “Significant Accounting Policies”.

(3) Information about revenue, income or loss and other material items by reportable segment

Fiscal year ended March 31, 2017

Millions of yen

	Reportable Segments							
	Public	Enterprise	Telecom Carrier	System Platform	Total	Others	Adjustment	Consolidated Total
Revenue								
1. Revenue from customers	766,216	408,620	600,370	719,807	2,495,013	170,022	—	2,665,035
2. Intersegment revenue and transfers	38,940	8,056	17,450	59,144	123,590	21,931	(145,521)	—
Total	805,156	416,676	617,820	778,951	2,618,603	191,953	(145,521)	2,665,035
Segment income (loss) (Operating income (loss))	33,154	39,741	18,090	29,605	120,590	(20,011)	(58,741)	41,838
Financial income								38,420
Financial costs								(20,817)
Share of profit of entities accounted for using the equity method								8,617
Income before income taxes								68,058
Other items								
Depreciation and amortization	21,867	5,501	14,496	19,380	61,244	14,144	4,988	80,376
Impairment loss	387	36	—	532	955	1,585	31	2,571
Capital expenditures	29,195	6,451	11,989	24,480	72,115	16,852	7,438	96,405

Fiscal year ended March 31, 2018

Millions of yen

	Reportable Segments							
	Public	Enterprise	Telecom Carrier	System Platform	Total	Others	Adjustment	Consolidated Total
Revenue								
1. Revenue from customers	939,147	408,673	579,722	714,280	2,641,822	202,625	—	2,844,447
2. Intersegment revenue and transfers	34,498	11,194	14,858	62,736	123,286	21,075	(144,361)	—
Total sales	973,645	419,867	594,580	777,016	2,765,108	223,700	(144,361)	2,844,447
Segment income(loss) (Operating income(loss))	54,436	35,712	2,045	31,361	123,554	(11,937)	(47,767)	63,850
Financial income								29,553
Financial costs								(11,568)
Share of profit of entities accounted for using the equity method								5,106
Income before income taxes								86,941
Other items								
Depreciation and amortization	36,549	4,900	13,990	19,243	74,682	16,164	5,191	96,037
Impairment loss	—	108	2	83	193	1,257	80	1,530
Reversal of impairment loss	(138)	—	—	—	(138)	—	—	(138)
Capital expenditures	36,155	7,989	11,628	27,739	83,511	18,392	6,028	107,931

Notes:

a. "Others" for the fiscal year ended March 31, 2017 and 2018 represents businesses such as Electrodes/Energy Storage System.

b. "Adjustment" of segment income (loss) for the fiscal year ended March 31, 2017 includes corporate expenses of (58,362) million yen and noncurrent assets related adjustment of (130) million yen, unallocated to each reportable segment. "

"Adjustment" of segment income (loss) for the fiscal year ended March 31, 2018 includes corporate expenses of (47,073) million yen and noncurrent assets related adjustment of 1,290 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.

c. “Adjustment” of capital expenditures for the fiscal years ended March 31, 2017 and 2018, included the increase in capital expenditures by the Company, that are unallocated to each reportable segment.

(4) Information about revising segments

From the first quarter of the fiscal year ended March 31, 2018, the Company's operating segments have been revised based on a new organization structure effective as of April 1, 2017.

Major revisions are as follows:

Regional sales functions within Japan previously included under Others have been transferred to the "Public" segment.

Business involving financial institutions previously included under the "Public" segment has been transferred to the "Enterprise" segment.

In connection with this revision, segment information for the fiscal year ended March 31, 2017 has been reclassified to conform to the presentation of the fiscal year ended March 31, 2018.

(5) Information about geographic areas

a. Revenue from customers

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Japan	2,094,068	2,104,268
The Americas	174,097	185,293
EMEA	122,125	154,798
China / East Asia and APAC	274,745	400,088
Total	2,665,035	2,844,447

Notes:

1. Revenue is grouped by 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) China / East Asia and APAC: China, East Asia and Asia Pacific (Asia, Oceania)

b. Non-current assets (Property, plant and equipment, goodwill and intangible assets)

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Japan	569,400	541,647
The Americas	44,508	39,920
EMEA	1,113	71,548
China / East Asia and APAC	20,584	19,988
Total	635,605	673,103

(6) Information about major customers

Information about major customers for the fiscal years ended March 31, 2017 and 2018, is not disclosed because the NEC Group does not have any unaffiliated customers to whom sales exceed 10% of revenue in the consolidated statements of profit or loss.

7. Business Combinations

Fiscal year ended March 31, 2017

Business combination of a subsidiary

The Company commenced a tender offer for a share of Japan Aviation Electronics Industry, Limited. ("Japan Aviation Electronics") on November 29, 2016, based on the resolution at the meeting of the Board of Directors held on November 28, 2016. This tender offer was completed on January 17, 2017, and the Company made a cash purchase of 10,000,000 shares of Japan Aviation Electronics' common stock for ¥19,200 million. As a result, ownership of voting rights which the Company holds in Japan Aviation Electronics increased to 51.17%, and therefore, Japan Aviation Electronics became a subsidiary of the Company. A summary of this transaction is as follows:

(1) Summary of the business combination

a. Name of the acquired company and its business

Name:	Japan Aviation Electronics Industry, Limited.
Business:	(a) Manufacturing and marketing of connectors, user interface solution devices and electronics and electronic components for aviation and aerospace, and (b) Purchase and sale of devices, components, etc., in connection therewith

b. Main reason for the business combination

To reinforce the company's business foundation by integrating its management resources with those of Japan Aviation Electronics.

c. Date of the business combination

January 23, 2017

d. Voting rights acquired

Before the tender offer	40.12%
At the tender offer	11.05%
After the tender offer	51.17%

(2) Consideration for the acquisition

(Millions of yen)

Item	Amount
Cash and cash equivalents	19,200
Fair value of equity interests held immediately before the acquisition date	36,437
Total	55,637

(3) Acquisition-related costs

Outsourcing service expenses and other expenses related to the share acquisition of 242 million yen were recorded in "Selling, general and administrative expenses" in the consolidated statement of profit or loss as the acquisition-related costs for the business combination.

(4) Gain on step acquisitions

As a result of the remeasurement of the acquired company's equity interests held by the Company immediately before the acquisition date at the fair value as of the acquisition date, the Company recorded a gain on step acquisitions of 9,944 million yen in "Financial income" in the consolidated statement of profit or loss.

(5) Fair value of assets acquired and liabilities assumed at the acquisition date

(Millions of yen)

Item	Amount
Current assets	
Cash and cash equivalents	30,361
Inventories	19,168
Others	56,904
Non-current assets	
Property, plant and equipment	85,656
Intangible assets	31,514
Others	9,354
Total assets	232,957
Current liabilities	
Trade payables	41,027
Borrowings	12,206
Others	8,978
Non-current liabilities	
Financial liabilities	10,953
Others	20,937
Total liabilities	94,101
Equity	138,856

Some of the amounts above are provisional fair value calculated based on reasonable information available at the time of issuance of this annual report because the allocation of the acquisition costs has not been completed.

(6) Goodwill arising on acquisition

(Millions of yen)

Item	Amount
Consideration for the acquisition	55,637
Non-controlling interests	88,901
Subscription rights to shares	121
Fair value of identifiable net assets acquired by the NEC Group	(138,856)
Goodwill arising on acquisition	5,803

Non-controlling interests are measured by the percentage of interests owned by non-controlling shareholders to the fair value of identifiable net assets of the acquired company. Goodwill mainly reflects excess earnings power and synergies with existing businesses. There is no goodwill recognized that is expected to be deductible for tax purposes.

(7) Impact on the NEC Group's performance

a. Revenue and net profit (loss) of the acquired company that was incurred after the acquisition date recorded in the consolidated statement of profit or loss were 47,537 million yen and 2,842 million yen, respectively.

b. Assuming that this business combination had taken place at the beginning of the fiscal year ended March 31, 2017, the NEC Group's revenue and net profit (loss) in the consolidated statement of profit or loss would be 2,827,168 million yen and 39,046 million yen, respectively (non-audited information).

Fiscal year ended March 31, 2018

Business combination of a subsidiary

NEC has acquired UK-based IT services company Northgate Public Services Limited ("NPS"), accelerating the expansion of its international safety business. NEC has bought NPS, for making NPS a consolidated subsidiary of NEC, from private equity firm Cinven. A summary of this transaction is as follows:

(1) Summary of the business combination

a. Name of the acquired company and its business

(i) Name: Northgate Public Services, Limited

(ii) Type of Business: Development and sales of software

b. Main reason for the business combination

To accelerate the expansion of NEC group's international safety business

c. Date of the business combination

January 31, 2018

d. Voting rights acquired

On the acquisition date:	90.00%
After the acquisition date through the fiscal year ended March 31, 2018	10.00%

(2) Consideration for the acquisition

(Millions of yen)

Item	Amount
Cash and cash equivalents	23,252
Contingent consideration	4,311
Total	27,563

Contingent consideration in a business combination is measured based on specific performance indicators of an acquiree. Accordingly, NEC recognized unpaid acquisition cost of 4,311 million yen, estimating acquiree's potentials for achieving the indicators. NEC may be charged for the related future payment up to 40 million pounds as ceiling.

Consideration for the acquisition includes 25,430 million yen as the purchase price of acquiree's receivables, in addition to acquiree's stock price.

(3) Acquisition-related costs

Outsourcing service expenses and other expenses related to the share acquisition of 1,006 million yen were recorded in “Selling, general and administrative expenses” in the consolidated statement of profit or loss as the acquisition-related costs for the business combination.

(4) Fair value of assets acquired and liabilities assumed at the acquisition date

(Millions of yen)

Item	Amount
Current assets	
Cash and cash equivalents	1,047
Trade receivables	4,899
Others	76
Non-current assets	
Property, plant and equipment	729
Intangible assets	28,330
Others	3,119
Total assets	38,200
Current liabilities	
Trade payables	1,408
Others	6,603
Non-current liabilities	
Financial liabilities	41,848
Others	9,500
Total liabilities	59,359
Equity	(21,159)

Some of the amounts above are provisional fair value calculated based on reasonable information available at the time of issuance of this annual report because the allocation of the acquisition costs has not been completed.

(5) Goodwill arising on acquisition

(Millions of yen)

Item	Amount
Consideration for the acquisition	27,563
Non-controlling interests	(5,604)
Fair value of identifiable net assets acquired by the NEC Group	21,159
Goodwill arising on acquisition	43,118

Non-controlling interests are measured by the percentage of interests owned by non-controlling shareholders to the fair value of identifiable net assets of the acquired company. Goodwill mainly reflects excess earnings power and synergies with existing businesses. Entire goodwill is not expected to be deductible for tax purposes.

(6) Impact on the NEC Group's performance

Revenue and net profit (loss) of the acquired company that incurred after the acquisition date recorded in the Company's consolidated statement of profit or loss were 2,734 million yen of revenue and 810 million yen of net loss.

Assuming that this business combination had taken place at the beginning of the fiscal year ended March 31, 2018, the NEC Group's total revenue and its net profit (loss) in the consolidated statement of profit or loss would be 2,863,042 million yen of revenue and 56,696 million yen of net profit (non-audited information).

8. Property, Plant and Equipment

(1) Reconciliation of property, plant and equipment

Reconciliation of carrying amounts, cost, accumulated depreciation, and accumulated impairment losses of property, plant and equipment are as follows:

(Millions of yen)

Carrying amounts	Buildings and structures	Machinery and equipment	Furniture and fixtures	Land	Construction in progress	Total
Balance at April 1, 2016	168,149	19,517	77,500	57,338	20,819	343,323
Acquisitions	956	1,664	5,439	—	23,413	31,472
Acquisitions by business combinations	23,379	33,099	10,672	13,333	5,224	85,707
Reclassifications	11,833	3,404	26,149	1,282	(25,437)	17,231
Depreciation	(12,843)	(6,090)	(30,920)	—	—	(49,853)
Impairment losses	(602)	(816)	(168)	(362)	(18)	(1,966)
Disposals	(1,592)	(743)	(1,201)	(1,567)	(1,652)	(6,755)
Foreign currency translation adjustments	(34)	(103)	(41)	6	91	(81)
Balance at March 31, 2017	189,246	49,932	87,430	70,030	22,440	419,078
Acquisitions	1,298	4,179	7,180	156	32,578	45,391
Acquisitions by business combinations	187	625	73	—	—	885
Reclassifications	9,146	10,348	26,400	342	(27,437)	18,799
Depreciation	(14,787)	(12,189)	(36,855)	—	—	(63,831)
Impairment losses	(125)	(161)	(141)	(72)	(12)	(511)
Reversal of impairment loss	—	—	—	138	—	138
Disposals	(1,435)	(1,973)	(546)	(1,770)	(3,740)	(9,464)
Transfer to assets held for sale	(2,074)	(4,336)	(94)	—	(3,773)	(10,277)
Foreign currency translation adjustments	52	(106)	(409)	(30)	(125)	(618)
Balance at March 31, 2018	181,508	46,319	83,038	68,794	19,931	399,590

(Millions of yen)

Cost	Buildings and structures	Machinery and equipment	Furniture and fixtures	Land	Construction in progress	Total
Balance at April 1, 2016	504,498	188,998	334,748	64,192	20,852	1,113,288
Balance at March 31, 2017	555,048	282,573	420,291	76,557	22,452	1,356,921
Balance at March 31, 2018	545,067	258,411	419,497	75,255	19,943	1,318,173

(Millions of yen)

Accumulated depreciation and accumulated impairment losses	Buildings and structures	Machinery and equipment	Furniture and fixtures	Land	Construction in progress	Total
Balance at April 1, 2016	336,349	169,481	257,248	6,854	33	769,965
Balance at March 31, 2017	365,802	232,641	332,861	6,527	12	937,843
Balance at March 31, 2018	363,559	212,092	336,459	6,461	12	918,583

(2) Carrying amounts of leased assets

Carrying amounts recorded based on finance leases are as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Buildings and structures	1,060	1,058
Machinery and equipment	248	147
Tools, furniture and fixtures	1,869	1,912
Total	3,177	3,117

(3) Pledged assets

Details and amounts of pledged assets are as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Buildings and structures	174	151
Land	3,417	3,417
Other	694	703
Total	4,285	4,271

(4) Impairment losses

Impairment losses are included in “Other operating income (loss)” in the consolidated statements of profit or loss, and the following table summarizes a breakdown of impairment losses by account. The aggregate amount of impairment losses is disclosed in Note 10. “Impairment losses”.

Fiscal year ended March 31, 2017

(Millions of yen)

Operating segment	Cash generating unit	Account	Amount
Other	The subsidiary in the electrodes and energy storage system Business	Buildings and structures	553
		Machinery and equipment	422
		Furniture and fixtures	28
		Construction in progress	12
Total			1,015

Note: Impairment losses recognized during the fiscal year ended March 31, 2017, (from April 1, 2016 to March 31, 2017) were mainly incurred in the subsidiary working in the electrodes and energy storage system Business. It is presented in the “Other” segment. The recoverable amount of the assets in the subsidiary is calculated based on the value in use. The value in use is considered to be zero as their future cash flows are expected to be negative.

Fiscal year ended March 31, 2018

There are no significant impairment losses on property, plant and equipment.

Property, plant and equipment are grouped together into the smallest CGU that generates cash inflows that are largely independent of the cash inflows of other assets, and in principle, assets for business use are grouped based on business units and managerial accounting segments. Impairment losses are recognized for a part of the CGU due to lower profitability.

When there is an indication of impairment of the CGU, such as each company records operating loss for consecutive periods or the market value of an asset has declined significantly below its carrying amount, such CGU is tested for impairment. Impairment losses are recognized when the recoverable amount of an asset is below its carrying amount. The recoverable amount of the CGU is calculated based on the value in use, which is the present value of the estimated future cash flows of an asset developed based on the mid-term management plan approved by management.

9. Goodwill and Intangible Assets

(1) Reconciliation of goodwill and intangible assets

Reconciliation of carrying amounts, cost, accumulated amortization and accumulated impairment losses of goodwill and intangible assets are as follows:

(Millions of yen)

Carrying amounts	Goodwill	Software	Other	Total
Balance at April 1, 2016	56,141	89,891	28,128	174,160
Acquisitions	—	10,806	1,088	11,894
Acquisitions by business combinations	7,033	3,137	28,494	38,664
Reclassifications	—	28,012	3,647	31,659
Amortization	—	(44,154)	(5,943)	(50,097)
Impairment losses	—	(373)	(3)	(376)
Disposals	—	(2,022)	(105)	(2,127)
Foreign currency translation adjustments	46	(34)	(211)	(199)
Other	—	2,100	(319)	1,781
Balance at March 31, 2017	63,220	87,363	54,776	205,359
Acquisitions	—	11,745	1,613	13,358
Acquisitions by business combinations	44,239	184	28,146	72,569
Reclassifications	—	26,366	1,210	27,576
Amortization	—	(42,779)	(7,664)	(50,443)
Impairment losses	(756)	(146)	(92)	(994)
Disposals	—	(1,882)	(499)	(2,381)
Transfer to assets held for sale	—	(81)	—	(81)
Foreign currency translation adjustments	(2,736)	(209)	(1,852)	(4,797)
Other	—	1,228	(1,179)	49
Balance at March 31, 2018	103,967	81,789	74,459	260,215

(Millions of yen)

Cost	Goodwill	Software	Other	Total
Balance at April 1, 2016	63,738	289,299	51,501	404,538
Balance at March 31, 2017	70,817	277,645	78,223	426,685
Balance at March 31, 2018	112,287	248,055	106,298	466,640

(Millions of yen)

Accumulated amortization and accumulated impairment losses	Goodwill	Software	Other	Total
Balance at April 1, 2016	7,597	199,408	23,373	230,378
Balance at March 31, 2017	7,597	190,282	23,447	221,326
Balance at March 31, 2018	8,320	166,266	31,839	206,425

Internally generated intangible assets mainly consist of software.
Amortization is allocated to cost of inventories, and recognized as cost of sale or selling, general and administrative expenses when inventories are sold.

Impairment losses are recognized as expenses for the fiscal year in which they are incurred in the consolidated statements of other comprehensive income.

The carrying amount of software for sale in the market is 25,929 million yen and 24,176 million yen for the fiscal years ended March 31, 2017 and 2018, respectively. The carrying amount of software for internal use is 58,904 million yen and 55,532 million yen for the fiscal years ended March 31, 2017 and 2018, respectively.

Research and development costs recognized as expenses are 109,319 million yen and 108,093 million yen for the fiscal years ended March 31, 2017 and 2018, respectively.

(2) Carrying amount of leased assets

The carrying amount of leased assets recognized based on finance lease agreements is as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Software for internal use	15	5

(3) Impairment of goodwill

The carrying amounts of goodwill allocated to each operating segment are as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Public	6,171	6,171
Enterprise	3,181	3,181
Telecom Carrier	13,168	12,523
System Platform	2,720	2,720
Others	37,980	79,372
Total	63,220	103,967

From the fiscal year ended March 31, 2018, the Company's operating segments have been revised base on a new organization structure effective as of April 1, 2017. Goodwill as of March 31, 2017 has been prepared pursuant to the reporting segment classification subsequent to the revision.

The NEC Group recognized impairment losses due to lower profitability than that of initially expected. Impairment losses are included in "Other operating income (loss)" in the consolidated statements of profit or loss, and there is no material breakdown of impairment losses to be disclosed. The aggregate amount of impairment losses is disclosed in Note 10. "Impairment losses."

Fiscal year ended March 31, 2017
Not applicable.

Fiscal year ended March 31, 2018
There are no significant impairment losses on goodwill.

For impairment testing of goodwill in the NEC Group, goodwill is allocated by grouping together into the smallest CGU that generates cash inflows that are largely independent of the cash inflows of other assets, and in principle, assets for business use are grouped based on business units and managerial accounting segments. The CGU including goodwill is tested for impairment annually, irrespective of whether there is any indication that it may be impaired, and the timing of impairment testing is individually determined based on the timing of developing related business plans. The NEC Group assesses whether there is an indication of possible impairment on a quarterly basis. When there is an indication of impairment, the goodwill is tested for impairment.

The recoverable amount of the CGU to which goodwill has been allocated is calculated primarily based on its value in use.

Value in use is calculated by discounting estimated cash flows based on a five-year business plan and the growth rate to the present value. A business plan is prepared by using external and internal information based on management's evaluation of the projections and past performance of the business. The growth rate used for estimating cash flows beyond the period covered by the business plan of each CGU is determined by considering the status of the country and industry that the CGU belongs to, and it does not exceed the long-term average growth rate of the industry of the CGU.

The discount rate is determined by taking into account market rates and the size of a subsidiary as a CGU, based on similar companies of each CGU.

Fair value less costs to sell is categorized as level 3 in a fair value hierarchy based on the inputs used in the valuation technique.

The NEC Group considers, except for CGUs of which impairment losses are recognized for the fiscal year ended March 31, 2018, that it is less likely that a significant impairment occurs even when the discount rate and growth rate, which are key assumptions used for impairment testing of goodwill, have changed to a reasonable extent.

(4) Impairment of intangible assets (excluding goodwill)

Impairment losses are included in "Other operating income (loss)" in the consolidated statements of profit or loss, and there is no material breakdown of impairment losses to be disclosed.

The aggregate amount of impairment losses is disclosed in Note 10. "Impairment losses."

Fiscal year ended March 31, 2017

There are no significant impairment losses on intangible assets.

Fiscal year ended March 31, 2018

There are no significant impairment losses on intangible assets.

Intangible assets excluding goodwill are grouped together into the smallest CGU that generates cash inflows that are largely independent of the cash inflows of other assets, and in principle, assets for business use are grouped based on business units and managerial accounting segments. Impairment losses are recognized for a part of CGUs due to lower profitability.

When there is an indication of impairment of a CGU, such as a company which the CGU belongs to records an operating loss for consecutive periods or the market value of an asset has declined significantly below its carrying amount, such CGU is tested for impairment. Impairment losses are recognized when the recoverable amount of an asset is below its carrying amount.

The recoverable amount of the CGU to which goodwill has been allocated is calculated primarily based on its value in use.

Value in use is calculated by discounting estimated cash flows based on a business plan within five years and the growth rate to the present value. A business plan is prepared by using external and internal information based on management's evaluation on the projections and past performance of the business. The growth rate used for estimating cash flows beyond the period covered by the business plan of each CGU is determined by considering the status of the country and industry that the CGU belongs to, and it does not exceed the long-term average growth rate of the industry of the CGU.

The discount rate is determined by taking into account market rates and the size of a subsidiary as a CGU, based on similar companies of each CGU.

Fair value less costs to sell is categorized as level 3 in a fair value hierarchy based on the inputs used in the valuation technique.

The NEC Group considers, except for CGUs of which impairment losses are recognized for the fiscal year ended March 31, 2018, that it is less likely that a significant impairment occurs even when the discount rate and growth rate, which are key assumptions used for impairment testing, have changed to a reasonable extent.

10. Impairment Losses

(1) The following table summarizes a breakdown of impairment losses and subsequent reversals by asset type.

(Millions of yen)

	Fiscal year ended March 31, 2017		Fiscal year ended March 31, 2018	
	Impairment loss	Reversal	Impairment loss	Reversal
Property, plant and equipment				
Buildings and structures	602	—	125	—
Machinery and equipment	816	—	161	—
Furniture and fixtures	168	—	141	—
Land	362	—	72	(138)
Construction in progress	18	—	12	—
Goodwill	—	—	756	—
Intangible asset				
Software	373	—	146	—
Rights	3	—	92	—
Other non-current assets				
Other	229	—	25	—
Total	2,571	—	1,530	(138)

Impairment losses and reversal of impairment loss are included in "Other operating income (loss)" in the consolidated statements of profit or loss.
Impairment losses are recognized when investment amounts are not expected to be recovered due to lower profitability and a decline in the market value of assets for business use and goodwill.
Details of impairment losses are described in Note 8 "Property, plant and equipment" for property, plant and equipment, and Note 9 "Goodwill and intangible assets" for goodwill and intangible assets.

11. Subsidiaries

(1) Material subsidiaries

The consolidated financial statements include the accounts of the Company and its 303 subsidiaries. Changes in subsidiaries for the fiscal year ended March 31, 2018, are as follows:

The number of companies which became subsidiaries due to acquisition or establishment: 76 companies
The number of companies which became outside the scope of consolidation due to liquidation or sale: 4 companies
The number of companies decreased due to mergers within the NEC Group: 7 companies

The NEC Group's principal subsidiaries at March 31, 2018 are set out below. The country of incorporation or registration is also their principal place of business.

Subsidiaries in Japan / Overseas

Name of entity	Place of business / country of incorporation	Ownership of voting rights (%)	Principal activities
Nippon Avionics Co., Ltd.	Japan	50.3	Development, manufacture and sale of information systems, electronic devices and electronic components
Japan Aviation Electronics Industry, Limited	Japan	51.1	Manufacture and sale of connectors and electronic devices for avionics and aerospace, etc.
ABeam Consulting Ltd.	Japan	100.0	Management consulting, business process consulting, IT consulting and outsourcing
NEC Networks & System Integration Corporation	Japan	51.5	Design, construction and maintenance of information and communications systems, installation of telecommunications systems, and sale of information and communications equipment, etc.
NEC Platforms, Ltd.	Japan	100.0	Development, manufacture, sale and maintenance of information and communications systems equipment, etc. and provision of systems integration services etc.
NEC Corporation of America	U.S.	100.0	Regional representative and supervising operation in North America, sale of computers-related equipment and communications equipment, and provision of systems integration services, etc.
NEC Europe Ltd.	U.K.	100.0	Regional representative and supervising operation in Europe, the Middle East and Africa, sale of computers-related equipment and communications equipment, and provision of systems integration services, etc.
NEC Asia Pacific Pte. Ltd.	Singapore	100.0	Regional representative and supervising operation in Asia Pacific, sale of computers-related equipment and communications equipment, and provision of systems integration services, etc.
NEC (China) Co., Ltd.	China	100.0	Regional representative and supervising operation in Greater China
NEC Latin America S.A.	Brazil	100.0	Regional representative and supervising operation in Latin America, sale of communications equipment and provision of systems integration services, etc.

(2) Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control

The effects on the equity attributable to owners of the Company of any changes in its ownership interest in a subsidiary that do not result in a loss of control are set out below:

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Effects of equity transaction with non-controlling interests	121	(7,057)

(3) Non-controlling interests (NCI)

Set out below is summarized financial information for each subsidiary that has non-controlling interest that are material to the NEC Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

NEC Networks & System Integration Corporation

a. Profit or loss allocated to non-controlling interests of subsidiaries during the reporting period

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Profit or loss allocated to non-controlling interests	3,485	4,506

b. Proportion of ownership interests held by non-controlling interests and accumulated non-controlling interests

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Proportion of ownership interests held by non-controlling interests (%)	61.43	61.43
Accumulated non-controlling interests	58,152	60,684

Note: Proportion of ownership interests held by non-controlling interests (%) includes shares contributed to Retirement benefit trust.

c. Payment of dividends to non-controlling interests

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Payment of dividends to non-controlling interests	2,165	2,226

d. Summarized financial information

(a) Condensed consolidated statements of financial position

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Current assets	165,379	175,726
Non-current assets	32,826	33,182
Total assets	198,205	208,908
Current liabilities	63,914	73,297
Non-current liabilities	43,428	38,568
Total liabilities	107,342	111,865
Total equity	90,863	97,043
Total liabilities and equity	198,205	208,908

(b) Condensed consolidated statements of profit or loss and condensed consolidated statements of other comprehensive income

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Revenue	257,912	267,833
Net profit	6,779	8,093
Other comprehensive income	(2,002)	1,861
Comprehensive income	4,777	9,954

(c) Condensed consolidated statements of cash flows

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Cash flows from operating activities	22,634	4,779
Cash flows from investing activities	(2,697)	(2,802)
Cash flows from financing activities	(4,144)	(4,366)
Effect of exchange rate changes on cash and cash equivalents	(33)	22
Net increase (decrease) in cash and cash equivalents	15,758	(2,367)
Cash and cash equivalents, at end of period	59,648	57,281

Note: The summarized financial information above is based on the consolidated financial statements prepared by NEC Networks & System Integration Corporation in accordance with generally accepted accounting principles in Japan ("Japanese accounting standards" or "Japanese GAAP"), reflecting adjustments required under IFRS.

Japan Aviation Electronics Industry, Limited

a. Profit or loss allocated to non-controlling interests of subsidiaries during the reporting period

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Profit or loss allocated to non-controlling interests	1,819	8,270

b. Proportion of ownership interests held by non-controlling interests and accumulated non-controlling interests

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Proportion of ownership interests held by non-controlling interests (%)	64.08	64.10
Accumulated non-controlling interests	91,169	98,307

Note: Proportion of ownership interests held by non-controlling interests (%) includes shares contributed to Retirement benefit trust.

c. Payment of dividends to non-controlling interests

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Payment of dividends to non-controlling interests	–	1,772

d. Summarized financial information

(a) Condensed consolidated statements of financial position

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Current assets	103,989	114,004
Non-current assets	128,308	121,880
Total assets	232,297	235,884
Current liabilities	59,696	60,506
Non-current liabilities	29,707	22,183
Total liabilities	89,403	82,689
Total equity	142,894	153,195
Total liabilities and equity	232,297	235,884

(b) Condensed consolidated statements of profit or loss and condensed consolidated statements of other comprehensive income

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Revenue	47,823	254,412
Net profit	2,866	12,516
Other comprehensive income	32,169	2,114
Comprehensive income	35,035	14,630

(c) Condensed consolidated statements of cash flows

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Cash flows from operating activities	11,517	32,343
Cash flows from investing activities	(5,229)	(19,787)
Cash flows from financing activities	680	(8,828)
Effect of exchange rate changes on cash and cash equivalents	(370)	(1,087)
Net increase (decrease) in cash and cash equivalents	6,598	2,641
Net increase in cash and cash equivalents resulting from new consolidation	—	180
Cash and cash equivalents, at end of period	36,959	39,780

Note: The summarized financial information above is based on the consolidated financial statements prepared by Japan Aviation Electronics Industry, Limited in accordance with the Japanese GAAP, reflecting adjustments required under IFRS.

Additionally, the figures in (b) Condensed consolidated statements of profit or loss and condensed consolidated statements of other comprehensive income and (c) Condensed consolidated statements of cash flows are for the period after the acquisition date. (From January 23, 2017 to March 31, 2017)

12. Associates

Investments in associates are accounted for using the equity method, and the associates consist of 54 companies. The number of associates accounted for using the equity method for the fiscal year ended March 31, 2018, increased by five companies and decreased by six companies.

The Company owns more than 20% of the total number of issued shares in JECC Corporation. However, JECC Corporation is excluded from associates as it is a special company managed under the joint investment of six Japanese computer manufacturing companies for the purpose of promoting the information processing industry.

(1) Material associates

Set out below is the associate of the NEC Group as at March 31, 2018 which, in the opinion of the directors, are material to the NEC Group. The country of incorporation or registration is also their principal place of business.

Set out below is summarized financial information for the associate that is material to the NEC Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associate and not the Company's share of those amounts.

Name of entity	Place of business / country of incorporation	Ownership of voting rights (%)	Description of business	Business transactions
NEC Capital Solutions Limited	Japan	37.7	Leasing various types of equipment, facilities, and products	Leasing products of the Company

a. Dividends received from associates

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Dividends received from associates	357	357

b. Condensed financial statements

(a) Condensed consolidated statements of financial position

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Current assets	750,274	783,397
Non-current assets	105,709	117,967
Total assets	855,983	901,364
Current liabilities	350,738	417,654
Non-current liabilities	388,137	367,705
Total liabilities	738,875	785,359
Total equity	117,108	116,005
Total liabilities and equity	855,983	901,364

(b) Condensed consolidated statements of profit or loss and condensed consolidated statements of other comprehensive income

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Revenue	82,052	468,867
Net profit	11,468	6,921
Other comprehensive income	2,249	(72)
Comprehensive income	13,717	6,849

Note: The summarized financial information above is based on the consolidated financial statements prepared by NEC Capital Solutions Limited in accordance with Japanese GAAP, reflecting adjustments required under IFRS.

c. Reconciliation between the summarized financial information and the carrying amount of interests in associates

Reconciliation between the summarized financial information presented above and the carrying amount of interests in associates is as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Equity attributable to owners of the parent	82,428	87,670
Proportion of ownership interest (%)	37.7	37.7
Equity attributable to the NEC Group	31,051	33,025
Unrealized gains or losses	(22)	(9)
Carrying amount of investments accounted for using the equity method	31,029	33,016
Fair value of investments accounted for using the equity method	13,860	16,634

(2) Individually immaterial associates

Set out below is summarized financial information for those individually immaterial associates that are accounted for using the equity method. The information disclosed is the Company's share of those amounts that are presented in the financial statements of the relevant associates.

a. Associates

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Carrying amount of investments accounted for using the equity method	36,562	34,282
Net profit	5,763	2,379
Other comprehensive income	725	1,706
Comprehensive income	6,488	4,085

b. Joint ventures

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Carrying amount of investments accounted for using the equity method	541	449
Net profit	56	(92)
Other comprehensive income	—	—
Comprehensive income	56	(92)

In applying the equity method, unrecognized share of losses of associates that the Company has stopped recognizing its share of losses is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Unrecognized share of losses of associates for the period	1,233	751
Accumulated unrecognized share of losses of associates	3,396	3,991

13. Income Taxes

(1) Movement in deferred tax balances

Major components of deferred tax assets and liabilities are as follows:

Fiscal year ended March 31, 2017

(Millions of yen)

	Beginning balance	Recognized through profit or loss	Recognized in other comprehensive income	Acquisitions by business combinations	Ending balance
Deferred tax assets:					
Accrued expenses and product warranty liabilities	31,427	(1,980)	—	1,014	30,461
Write-off of inventories	20,559	(247)	—	417	20,729
Depreciation	17,501	(2,514)	—	2,058	17,045
Elimination of unrealized profit from intercompany transactions among consolidated companies	7,032	(22)	—	—	7,010
Investments in affiliated companies	7,118	(4,224)	160	—	3,054
Provision for retirement benefits	139,217	(18,426)	(21,404)	1,677	101,064
Tax losses carried forward	10,233	(1,727)	—	—	8,506
Others	23,466	620	(219)	1,316	25,183
Total deferred tax assets	256,553	(28,520)	(21,463)	6,482	213,052
Offset with deferred tax liabilities	(60,534)				(56,430)
Total deferred tax assets, net	196,019				156,622
Deferred tax liabilities:					
Changes in fair value of available-for-sale financial assets	(24,650)	(189)	(2,000)	(343)	(27,182)
Undistributed earnings of affiliated companies	(22,272)	8,452	45	—	(13,775)
Gain on contribution of securities to the retirement benefit trust	(12,072)	—	—	—	(12,072)
Valuation differences due to business combination	—	776	—	(14,440)	(13,664)
Others	(4,246)	2,817	—	(33)	(1,462)
Total deferred tax liabilities	(63,240)	11,856	(1,955)	(14,816)	(68,155)
Offset with deferred tax asset	60,534				56,430
Total deferred tax liabilities, net	(2,706)				(11,725)
Net deferred tax asset	193,313				144,897

Note: Foreign currency translation adjustments are included in "Recognized through profit or loss"

Fiscal year ended March 31, 2018

(Millions of yen)

	Beginning balance	Recognized through profit or loss	Recognized in other comprehensive income	Acquisitions by business combinations	Transfer to assets held for sale	Ending balance
Deferred tax assets:						
Accrued expenses and product warranty liabilities	30,461	1,080	—	—	(86)	31,455
Write-off of inventories	20,729	3,922	—	—	(25)	24,626
Depreciation	17,045	(872)	—	480	35	16,688
Elimination of unrealized profit from intercompany transactions among consolidated companies	7,010	80	—	—	(13)	7,077
Investments in affiliated companies	3,054	767	5	—	—	3,826
Provision for retirement benefits	101,064	(26,783)	(402)	636	(458)	74,057
Tax losses carried forward	8,506	23,215	—	125	—	31,846
Others	25,183	(8,123)	19	53	(414)	16,718
Total deferred tax assets	213,052	(6,714)	(378)	1,294	(961)	206,293
Offset with deferred tax liabilities	(56,430)					(63,891)
Total deferred tax assets, net	156,622					142,402
Deferred tax liabilities:						
Changes in fair value of available-for-sale financial assets	(27,182)	(85)	(6,161)	—	—	(33,428)
Undistributed earnings of affiliated companies	(13,775)	(1,120)	105	—	—	(14,790)
Gain on contribution of securities to the retirement benefit trust	(12,072)	—	—	—	—	(12,072)
Valuation differences due to business combination	(13,664)	1,726	—	(5,102)	—	(17,040)
Others	(1,462)	15	—	—	(33)	(1,480)
Total deferred tax liabilities	(68,155)	536	(6,056)	(5,102)	(33)	(78,810)
Offset with deferred tax asset	56,430					63,891
Total deferred tax liabilities, net	(11,725)					(14,919)
Net deferred tax asset	144,897					127,483

Note: Foreign currency translation adjustments are included in "Recognized through profit or loss"

The NEC Group takes into consideration whether it is highly probable that deductible temporary differences or part or all of tax losses carried forward can be utilized against future taxable profits for the recognition of deferred tax assets. Deferred tax assets are realized ultimately depending on future taxable profits generated for the periods in which those temporary differences are deductible and tax losses carried forward can be utilized. The NEC Group assesses the realizability of deferred tax assets by considering the scheduled timing for realization of deferred tax liabilities, expected future taxable profits, and other factors. The Company believes that it is highly probable that recognized deferred tax assets as of March 31, 2018, will be realized based on the taxable profit levels in the past and expected future taxable profits for the periods in which deferred tax assets are deductible. Deferred tax assets, which are currently expected to be realized, will decrease when the expected future taxable profits fall during the deferral period.

(2) Unrecognized deferred tax assets

The amounts obtained by multiplying deductible temporary differences and tax losses carried forward by applicable tax rates for which no deferred tax asset was recognized are as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Deductible temporary differences *(Note)*	223,774	205,512
Tax losses carried forward *(Note)*	91,473	87,391
Total	315,247	292,903

Expiration periods of unused tax losses for which no deferred tax asset was recognized are as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
The 1st year	4,438	6,116
The 2nd year	6,116	3,864
The 3rd year	3,971	1,916
The 4th year	1,721	1,703
The 5th year and thereafter	75,227	73,792
Total	91,473	87,391

(3) Unrecognized deferred tax liabilities

Taxable temporary differences related to investments in subsidiaries, for which no deferred tax liability was recognized, are 142,743 million yen and 144,315 million yen for the fiscal years ended March 31, 2017 and 2018, respectively. When the NEC Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future, deferred tax liabilities on such temporary differences are not recognized.

(4) Income taxes

Components of income taxes are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Current tax expense		
Current year	14,995	20,752
Changes in estimates related to prior years	409	262
Subtotal	15,404	21,014
Deferred tax expense		
Origination and reversal of temporary differences	(4,442)	4,344
Reduction in tax rate	883	(206)
Recognition of previously unrecognized tax losses	(1,257)	(618)
Recognition of previously unrecognized (derecognition of previously recognized) deductible temporary differences	22,246	2,250
Subtotal	17,430	5,770
Income taxes	32,834	26,784

Income taxes recognized in other comprehensive income are described in Note 18 "Equity (7) Other comprehensive income."

(5) Reconciliation of effective tax rate

Reconciliations between the statutory tax rate and the effective tax rate of the Company are as follows:

(Unit: %)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Statutory tax rate	31.0	31.0
Movement in tax rate		
Movement due to changes in tax rate	1.3	(0.2)
Tax effect on investments in subsidiaries and associates	(11.0)	(0.6)
Share of profit (loss) of entities accounted for using the equity method	(3.9)	(1.7)
Non-deductible expenses	0.2	1.2
Differences in tax rates applied to foreign subsidiaries	(1.1)	0.6
Recognition of tax effects resulting from previously unrecognized tax losses	(1.8)	(0.7)
Recognition of previously unrecognized (derecognition of previously recognized) deductible temporary differences	32.7	2.6
Others	0.8	(1.4)
Effective tax rate	48.2	30.8

The Company and its subsidiaries in Japan are mainly subject to Japanese national and local income taxes, inhabitant tax, and enterprise tax. In March 2015 and 2016, laws for tax reform in Japan were promulgated, and consequently, the tax rates applied based on the calculation in accordance with the revised laws are 31.0% for the fiscal years ended March 31, 2017 and 2018.

The Company's foreign subsidiaries are subject to income taxes applicable in the countries where they are located.

14. Inventories

Inventories consisted of the following:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Merchandise and finished goods	73,689	71,944
Goods in process	81,113	90,827
Raw materials and supplies	51,053	57,483
Total	205,855	220,254

The balance of inventories as of the end of the fiscal year is based on the carrying amount written down due to lowered profitability. The amounts of write-downs recognized as expenses for the fiscal years ended March 31, 2017 and 2018, are 20,948 million yen and 15,517 million yen, respectively.

15. Trade and Other Receivables

Trade and other receivables consisted of the following:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Notes receivable	20,866	18,392
Accounts receivable	674,333	629,216
Other receivables	44,331	51,265
Receivables from contractees for construction work	220,805	240,129
Allowance for doubtful accounts	(8,077)	(7,771)
Total	952,258	931,231

The amounts of trade and other receivables to be collected in over 12 months as of March 31, 2017 and March 31, 2018 are 42,529 million yen and 38,330 million yen, respectively.

16. Cash and Cash Equivalents and Reconciliation of Liabilities Arising from Financing Activities

(1) Cash and cash equivalents

Cash and cash equivalents consisted of the following:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Cash and deposits	203,135	206,683
Securities	38,901	141,408
Deposits and securities with contractual maturity of more than three months	(2,066)	(2,066)
Cash and cash equivalents in the consolidated statements of financial position	239,970	346,025

The balance of cash and cash equivalents as of March 31, 2017 and as of March 31, 2018 are matched between consolidated statements of financial position and consolidated statements of cash flows.

The balance of cash and cash equivalents does not include any significant items with restrictions on usage.

(2) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities is as follows:

Fiscal year ended March 31, 2018

(Millions of yen)

	Beginning balance	Changes arising from cash flows	Changes not arising from cash flows			Ending balance
			Business combinations	Foreign currency translation differences	Others	
Short-term borrowings	56,421	8,214	139	(2,481)	—	62,993
Long-term borrowings	320,687	(54,352)	42,044	(656)	1,127	308,850
Bonds	89,838	60,000	—	—	(238)	149,600
Total	466,946	13,862	42,183	(3,137)	889	520,743

Note: Short-term borrowings includes commercial papers, and long-term borrowings includes lease liabilities.

17. Non-current Assets Held for Sale

Fiscal year ended March 31, 2017

Not applicable.

Fiscal year ended March 31, 2018

NEC determined to transfer all shares of NEC Energy Devices, Ltd. ("NEC Energy Devices"), a wholly owned subsidiary of NEC, to GSR Capital ("GSR"), a private investment fund on December 4, 2017. This transfer of the NEC Energy Devices shares to GSR is scheduled to be executed on the same day as the transfer of Automotive Energy Supply Corporation ("AESC") shares to GSR by Nissan Motor Co., Ltd.
With this determination of the transfer shares, the assets and liabilities of NEC Energy Devices and AESC are classified into a disposal group held for sale. This disposal group is measured by the carrying amount because the fair value is greater than that of the carrying amount. The disposal group consists of the following assets and liabilities as of March 31, 2018.

(Millions of yen)

Items	Amount
Cash and cash equivalents	9
Trade and other receivables	11,416
Inventories	1,025
Property, plant and equipment, net	10,277
Other assets	1,205
Total assets	23,932

(Millions of yen)

Items	Amount
Trade and other payables	8,761
Other liabilities	2,928
Total liabilities	11,689

18. Equity

(1) Total number of authorized shares

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Ordinary shares (Thousand shares)	7,500,000	750,000
Total	7,500,000	750,000

Note: The Company implemented share consolidation with a ratio of 10 shares of common share to 1 share as of October 1, 2017 based on the approval at the ordinary general meeting of shareholders held on June 22, 2017.

(2) Total number of issued shares

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Total number of issued shares (Thousand shares):		
Beginning of the year	2,604,733	2,604,733
Changes during the year	−	(2,344,260)
End of the year	2,604,733	260,473

Note: The number of shares is rounded down to the nearest thousand.

(Overview of Change)
Change in this fiscal year is due to share consolidation with a ratio of 10 shares of common share to 1 share as of October 1, 2017 based on the approval at the ordinary general meeting of shareholders held on June 22, 2017.

Share capital is comprised of 260,473 thousand shares of no-par ordinary shares as of March 31, 2018.

(3) Treasury shares

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Ordinary shares (Thousand shares):		
Beginning of the year	6,059	6,149
Changes during the year	91	(5,447)
End of the year	6,149	702

Note: The number of shares is rounded down to the nearest thousand.

(Overview of Change)
Change in this fiscal year is mainly due to share consolidation with a ratio of 10 shares of common share to 1 share as of October 1, 2017 based on the approval at the ordinary general meeting of shareholders held on June 22, 2017.

(4) Surplus

a. Share premium

The Companies Act of Japan (the "Companies Act") provides that an amount of 50% or more of contribution at the share issuance may be incorporated into share capital and the remaining into capital reserve. The capital reserve may be incorporated into share capital upon the resolution of the shareholders' meeting.

b. Retained earnings

The Companies Act requires that an amount equivalent to 10% of dividends of surplus must be appropriated as capital reserve or retained earnings reserve. No further appropriations are required when the total amount of capital reserve and retained earnings reserve equals 25% of share capital. The appropriated retained earnings reserve may be used to offset losses carried forward. The Companies Act also provides that retained earnings serve may be reduced upon the resolution of the shareholders' meeting.

Share premium in the consolidated financial statements includes capital reserve and other capital surplus in the non-consolidated financial statements of the Company. In addition, retained earnings include retained earnings reserve and other retained earnings. The amount that may be distributed is calculated based on the Company's non-consolidated financial statements prepared in accordance with the Companies Act and Japanese accounting standards.

(5) Details of other components of equity

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Remeasurements of defined benefit plans	641	2,572
Exchange differences on translating foreign operations	(14,785)	(18,754)
Cash flow hedges	(476)	(475)
Available-for-sale financial assets	91,306	99,072
Total	76,686	82,415

(6) Details of other comprehensive income included in non-controlling interests

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Remeasurements of defined benefit plans	(129)	1,447
Exchange differences on translating foreign operations	(622)	(662)
Cash flow hedges	—	—
Available-for-sale financial assets	(69)	320
Total	(820)	1,105

(7) Other comprehensive income

The components of other comprehensive income and related tax (expense) benefit consisted of the following:

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans		
Increase (decrease) during the year	77,680	3,770
Sub-total, before tax	77,680	3,770
Tax (expense) benefit	(21,404)	(402)
Sub-total, net of tax	56,276	3,368
Share of other comprehensive income of associates		
Increase (decrease) during the year	534	10
Sub-total, net of tax	534	10
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations		
Increase (decrease) during the year	(2,770)	(7,124)
Reclassification adjustments	622	652
Sub-total, before tax	(2,148)	(6,472)
Tax (expense) benefit	279	38
Sub-total, net of tax	(1,869)	(6,434)
Cash flow hedges		
Increase (decrease) during the year	955	(76)
Reclassification adjustments	(75)	(11)
Sub-total, before tax	880	(87)
Tax (expense) benefit	(257)	(5)
Sub-total, net of tax	623	(92)
Available-for-sale financial assets		
Increase (decrease) during the year	18,876	20,007
Reclassification adjustments	(1,307)	(5,480)
Sub-total, before tax	17,569	14,527
Tax (expense) benefit	(2,036)	(6,065)
Sub-total, net of tax	15,533	8,462
Share of other comprehensive income of associates		
Increase (decrease) during the year	265	(275)
Reclassification adjustments	437	1,795
Sub-total, net of tax	702	1,520
Total other comprehensive income, net of tax	71,799	6,834

19. Dividends

(1) Dividends paid

Fiscal year ended March 31, 2017

Resolution	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
April 28, 2016 Board of Directors	Ordinary shares	15,592	Retained earnings	6	March 31, 2016	June 1, 2016

Fiscal year ended March 31, 2018

Resolution	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
April 27, 2017 Board of Directors	Ordinary shares	15,592	Retained earnings	6	March 31, 2017	June 1, 2017

Note: Dividends per share for the fiscal year ended March 31, 2018 does not reflect the share consolidation implemented on October 1, 2017, since the record date is March 31, 2017.

(2) Dividends for which the record date is in the fiscal year ended March 31, 2018, and the effective date is in the following fiscal year

Resolution	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
April 27, 2018 Board of Directors	Ordinary shares	15,591	Retained earnings	60	March 31, 2018	June 1, 2018

20. Bonds and Borrowings

(1) Details of bonds and borrowings and interest rates

(Millions of yen)

	Ending balance As of March 31, 2017	Ending balance As of March 31, 2018	Average interest rate (%)	Maturity
Short-term borrowings	46,421	62,293	1.90	–
Current portion of long-term borrowings	22,503	77,394	0.58	–
Current portion of bonds	39,991	–	–	–
Commercial papers (short-term)	10,000	–	–	–
Long-term borrowings (excluding the current portion)	293,007	226,783	1.12	September 20, 2019 to October 5, 2076
Bonds (excluding the current portion)	49,847	149,600	–	–
Total	461,769	516,070	–	–
Current	118,915	139,687	–	–
Non-current	342,854	376,383	–	–
Total	461,769	516,070	–	–

Details of the balance of bonds are as follows:

(Millions of yen)

Company name	Series	Issued date	Ending balance As of March 31, 2017	Ending balance As of March 31, 2018	Interest rate (%)	Maturity
NEC	The 42nd	June 3, 2010	19,998	–	1.022	June 2, 2017
NEC	The 44th	December 2, 2010	19,993	–	0.996	December 1, 2017
NEC	The 47th	July 17, 2015	29,914	29,952	0.412	July 17, 2020
NEC	The 48th	July 17, 2015	19,933	19,960	0.658	July 15, 2022
NEC	The 49th	June 15, 2017	–	24,933	0.110	June 15, 2020
NEC	The 50th	June 15, 2017	–	34,892	0.290	June 15, 2022
NEC	The 51th	June 15, 2017	–	24,920	0.360	June 14, 2024
NEC	The 52th	June 15, 2017	–	14,943	0.455	June 15, 2027
Total			89,838	149,600	–	–

Note: Bonds are all unsecured.

Details of lease liabilities and interest rates

(Millions of yen)

	Ending balance		Average interest rate (%)	Maturity
	As of March 31, 2017	As of March 31, 2018		
Current portion of lease liabilities	1,551	1,760	1.93	April 1, 2018 to March 27, 2019
Lease liabilities (excluding current portion)	3,626	2,913	1.40	April 15, 2019 to March 31, 2029
Total	5,177	4,673	–	–

Note: The average interest rate is based on the weighted-average interest rate on the balance of borrowings as of March 31, 2018.

(2) Maturity analysis of borrowings excluding current portion

The repayment amount of borrowings as of March 31, 2018, excluding current portion, is as follows:

(Millions of yen)

	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Lease liabilities	1,284	867	422	201	139
Long-term borrowings	47,284	3,377	2,247	8,213	165,662
Bonds	–	54,885	–	54,852	39,863

(3) Commitment line agreements

The Company and its subsidiaries have entered into commitment line agreements for short-term borrowings with 20 financial institutions for the purpose of securing stable and flexible short-term funding. The unused commitment line of credit based on such agreements for short-term borrowings as of March 31, 2017 and 2018, is as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Aggregate amount of commitment line contracts	330,000	331,000
Amount used	2,000	2,000
Unused balance	328,000	329,000

(4) Total future minimum lease payments under finance leases

(Millions of yen)

	As of March 31, 2017		As of March 31, 2018	
	Total payment	Present value	Total payment	Present value
Within one year	1,612	1,551	1,821	1,760
Due after one year through five years	3,519	3,429	2,821	2,774
Due after five years	198	197	143	139
Total	5,329	5,177	4,785	4,673
Deduction – future financial expenses	(152)		(112)	
Present value of lease liabilities	5,177		4,673	

Note: The difference between the total payment and the present value represents the amount equivalent to interest on finance leases.

(5) Collateralized debts

Details of collateralized debts are as follows.

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Short-term borrowings	317	487
Other	52	48
Total	369	535

21. Employee Benefits

(1) Employee benefit plans

The Company and its domestic consolidated subsidiaries have the defined benefit type of corporate pension plans, lump-sum severance payment plans, and the defined contribution pension plans. Additional retirement benefits are paid in certain circumstances. The Company and certain domestic consolidated subsidiaries have implemented defined benefit plans with a point system. Under a cash-balance plan in the defined benefit corporate pension plans, benefits are calculated for each participant based on points awarded depending on rank of an employee and interest points determined by reference to revaluation rates derived from the prevailing market interest rates. Under the lump-sum severance payment plans, payment amounts are calculated by the cumulative number of points awarded based on rank and performance of an employee.

Most of overseas consolidated subsidiaries have various types of defined benefit plans and defined contribution plans, covering substantially all employees.

The defined benefit plans of the NEC Group are exposed to the following risks:

a. Investment risks

The present value of defined benefit obligations are calculated using a discount rate by reference to market yields at the end of the reporting period on high quality corporate bonds. When the yield on plan assets falls below the discount rate, there is a risk of reduction in equity due to deterioration of the funding status. In short-term, plan assets may be exposed to fluctuations in the investment performance of the fund. The portfolio of plan assets is reviewed on a regular basis in order to secure sufficient income streams over the long term for pension and severance payments in the future.

b. Interest rate risks

When a discount rate is adjusted downwards in line with the fallen market yields on high quality corporate bonds, the present value of defined benefit obligations may increase and cause deterioration of the funding status, exposing the NEC Group to a risk of reduction in equity.

(2) Disclosures in the financial statements

a. Reconciliation between defined benefit obligations (plan assets) to the net defined benefit liability (asset) recognized in the consolidated statements of financial position, as well as reconciliation of changes in defined benefit obligations and plan assets during the fiscal years ended March 31, 2017 and 2018 are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Changes in the present value of the defined benefit obligations		
Balance at April 1	1,093,697	1,119,206
Current service cost	35,002	34,759
Interest cost	6,303	7,344
Remeasurements		
Actuarial gains and losses arising from changes in demographic assumptions	17,624	3,318
Actuarial gains and losses arising from changes in financial assumptions	(8,229)	(1,433)
Past service cost and gains and losses arising from settlements	35	(1,416)
Benefits paid	(55,875)	(58,613)
Effects of business combinations and disposals	32,769	19,322
Settlements of defined benefit pension plans	—	(7,445)
Foreign currency translation differences	(2,476)	1,097
Transfer to liabilities directly associated with assets held for sale	—	(2,484)
Others	356	119
Balance at March 31	1,119,206	1,113,774
Changes in the fair value of plan assets		
Balance at April 1	800,704	903,938
Interest income	4,849	6,536
Remeasurements		
Interest income on plan assets	87,075	5,655
Employer contributions	25,877	11,750
Benefits paid	(39,145)	(47,384)
Effects of business combinations and disposals	27,199	15,676
Settlements of defined benefit pension plans	—	(6,335)
Foreign currency translation differences	(3,006)	2,291
Transfer to liabilities directly associated with assets held for sale	—	(818)
Others	385	(949)
Balance at March 31	903,938	890,360
Net defined benefit liability (asset) recognized in the consolidated statements of financial position	215,268	223,414
Defined benefit liabilities	264,272	275,326
Defined benefit assets	(49,004)	(51,912)
Net defined benefit liability (asset) recognized in the consolidated statements of financial position	215,268	223,414

b. Components of defined benefit cost

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Current service cost	35,002	34,759
Net interest	1,454	808
Past service cost and gains and losses arising from settlements	35	(1,416)
Total	36,491	34,151

c. Fair value of plan assets

(Millions of yen)

	As of March 31, 2017 Quoted market price in an active market		As of March 31, 2018 Quoted market price in an active market	
	Available	Unavailable	Available	Unavailable
Equity instruments				
Japan	312,090	–	290,237	–
Overseas	114,117	–	102,598	–
Debt instruments				
Japan	52,545	–	58,333	–
Overseas	320,770	–	348,284	–
Others	94,172	10,244	79,764	11,144
Total	893,694	10,244	879,216	11,144

Note: Consolidated subsidiaries' share that are contributed to retirement benefit trust are included in Equity instruments – Japan. The amount of those shares are 33,499 million yen and 38,516 million yen as of March 31, 2017 and 2018, respectively.

d. Significant actuarial assumptions used to determine the present value of the defined benefit obligation

	As of March 31, 2017	As of March 31, 2018
Discount rate	0.6%	0.6%

(3) Amount, timing and uncertainty of future cash flows

a. Sensitivity analysis for significant actuarial assumptions

The effects on the defined benefit obligation is as follows, based on changes in the relevant actuarial assumptions that were reasonably possible as of the end of the year. In this analysis, all other assumptions are held constant, but in reality, the defined benefit obligation could be affected by changes in those actuarial assumptions.

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Discount rate		
Increased by 0.1%	(12,173)	(11,837)
Decreased by 0.1%	12,417	12,071

b. Policies for funding and asset management

The NEC Group makes contributions to its defined benefit plans considering various factors, including the financial condition of the Company and its subsidiaries, funding status of the plans, and actuarial assumptions. Regarding the NEC corporate pension fund, the contribution amount is reviewed on a regular basis, including financial recalculations conducted once every five years in accordance with the Defined-Benefit Corporation Pension Law.

The plan assets held by the NEC Group are managed to enhance the value within acceptable risks in order to ensure that sufficient funds are available for payments to current and future beneficiaries.

The plan assets held by the NEC corporate pension fund are managed through board meetings held on a regular basis, which are attended by members appointed by the fund's trustee and representatives as well as heads of the Company's Finance Department and Human Resource Department. Basic asset allocations and rebalance rules (optimal parameters) for each asset type are determined by considering expected returns on investing assets and their risks. Plan assets are managed within those set parameters to minimize risk. Basic asset allocations and rebalance rules are reviewed on a regular basis amid changes in market environment and funding status to make sure they are held under their best conditions.

c. Expected contribution to the defined benefit plans

The NEC Group plans to contribute 20,519 million yen to its defined benefit pension plans during the fiscal year ending March 31, 2019.

d. Maturity analysis of the defined benefit obligations

	As of March 31, 2017	As of March 31, 2018
Weighted-average duration of the defined benefit obligation	10.7 years	10.5 years

(4) Contribution to the defined contribution plans

The total amount of contributions paid by the NEC Group, recognized as an expense, was 54,541 million yen and 55,955 million yen for the fiscal years ended March 31, 2017 and 2018, respectively.

The amount includes the payment of premiums by employer in welfare pension insurance premiums.

22. Government Grants

The balances of government grants are as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Government grants	2,682	1,997

"Government grants" are mainly derived from the space-related business and are related to advanced technology experiments and research facilities. Government grants are recognized evenly throughout the period of grants in the consolidated statements of profit or loss.

23. Provisions

Provisions consist of the following:

(Millions of yen)

	Product warranty liabilities	Provision for business structure improvement	Asset retirement obligations	Provision for loss on construction contracts and others	Other	Total
Balance as of April 1, 2017	15,639	6,550	3,183	17,590	22,984	65,946
Increase	14,236	1,571	519	10,370	3,045	29,741
Decrease (used during the year)	(13,140)	(3,283)	(490)	(7,912)	(5,747)	(30,572)
Decrease (reversed during the year)	(23)	–	–	(554)	(5,027)	(5,604)
Increase due to passage of time	–	–	20	–	–	20
Other	64	(248)	236	(250)	42	(156)
Balance as of March 31, 2018	16,776	4,590	3,468	19.244	15,297	59,375
Balance as of April 1, 2017	15,639	6,550	3,183	17,590	22,984	65,946
Balance as of April 1, 2017 – Current	12,776	3,823	227	17,590	17,794	52,210
Balance as of April 1, 2017 – Non-current	2,863	2,727	2,956	–	5,190	13,736
Balance as of March 31, 2018	16,776	4,590	3,468	19,244	15,297	59,375
Balance as of March 31, 2018 – Current	12,439	3,296	239	19,244	10,403	45,621
Balance as of March 31, 2018 – Non-current	4,337	1,294	3,229	–	4,894	13,754

“Other” in the above table mainly represents a reasonably estimated amount of expected losses and expenses in relation to matters that may occur in the future, such as legal proceedings and litigation.

24. Trade and Other Payables

Trade and Other Payables consists of the following:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Notes payable	6,471	5,087
Accounts payable-trade	412,354	405,375
Accounts payable-other	41,546	53,224
Payables to contractees for construction work	36,680	48,429
Total	497,051	512,115

25. Revenue

Revenue consists of the following:

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Sale of goods	1,056,544	1,220,078
Rendering of services	914,234	974,195
Construction contracts	694,257	650,174
Total	2,665,035	2,844,447

26. Construction Contracts

Total amount of construction costs incurred and recognized profits (less recognized losses) for construction contracts in progress, as well as their advances received and retention are as below.

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Total amount of construction costs incurred and recognized profits (less recognized losses)	695,346	760,929

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Advances received	555	973

Total amount of receivables from and payables to contractees of construction work based on contracts are as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Total amount of receivables from contractees for construction work	220,805	240,129
Total amount of payables to contractees for construction work	36,680	48,429

27. Other Operating Income (loss)

Other operating income (expenses) consists of the following:

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Other operating income		
Insurance income	1,412	3,432
Gain on reversal of contingent loss	594	3,341
Other	8,704	9,579
Subtotal	10,710	16,352
Other operating loss		
Loss on disposal of property, plant and equipment	(1,274)	(4,387)
Business structure improvement expenses	(4,874)	(2,733)
Impairment loss	(2,571)	(1,530)
Other	(17,361)	(11,591)
Subtotal	(26,080)	(20,241)
Total	(15,370)	(3,889)

"Other" in "Other operating income" represents a sum of minor profits, including compensation received and those related to disposals of property, plant and equipment.

For "Other operating loss", please refer to "10. Impairment Losses" for discussion on "Impairment loss." "Other" represents a sum of minor losses, including settlement package and compensation for damage and those related to provision for contingent loss.

28. Personnel Expenses

Personnel expenses comprise the following:

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Salaries and bonuses	681,652	715,215
Retirement benefit expenses	93,759	100,909
Legal welfare expense	56,729	59,983
Other	23,868	25,504
Total	856,008	901,611

29. Financial Income and Financial Costs

Financial income and financial costs consist of the following:

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Financial income		
Interest income	1,770	2,022
Dividend income	4,179	4,708
Gain on sales of affiliates' stocks	20,065	16,769
Gain on sales of investment securities	2,183	5,743
Other	10,223	311
Total	38,420	29,553

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Financial costs		
Interest expenses	9,677	6,350
Foreign exchange losses	4,374	3,098
Other	6,766	2,120
Total	20,817	11,568

Note: "Gain on sales of affiliates' stocks" in previous fiscal year is mainly from transferring shares of Lenovo NEC Holdings B.V. and "Gain on sales of affiliates' stocks" in this fiscal year is mainly from transferring shares of TOKIN Corporation.

30. Discontinued Operations

Not applicable.

31. Earnings Per Share

The calculation of basic earnings per share ("EPS") and diluted EPS have been based on the following profit attributable to ordinary shareholders of the parent company.

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Profit attributable to owners of the parent	27,310	45,870
Profit not attributable to ordinary shareholders of the parent	—	—
Profit attributable to ordinary shareholders of the parent to calculate basic EPS	27,310	45,870
Profit (loss) attributable to ordinary shareholders of the parent after adjustment for the effects of dilutive potential ordinary shares	27,310	45,868
Weighted-average number of ordinary shares to calculate basic EPS (in thousands of shares)	259,856	259,824
Effects of dilutive potential ordinary shares	—	—
Weighted-average number of ordinary shares (diluted) (in thousands of shares)	259,856	259,824
Basic EPS (Yen)	105.10	176.54
Diluted EPS (Yen)	105.10	176.54

Note: The Company implemented share consolidation with a ratio of 10 shares of common share to 1 share as of October 1, 2017. The basic earnings per share ("EPS") and diluted EPS on common share are calculated assuming that the share consolidation was carried out from the beginning of the fiscal year ended March 31, 2017 (April 1, 2016).

32. Non-cash Transactions

Significant non-cash transactions are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Acquisition of assets under finance lease transactions	855	629

33. Financial Instruments

(1) Capital management

The NEC Group focuses on the business operation for emphasizing capital efficiency and the NEC Group invests to growth sectors and enhance capital base so as to create long-term corporate value of the NEC Group. The NEC Group manages net D/E ratio for enhancing capital base.

The D/E ratio is presented in "Management's Discussion and Analysis - 3. Liquidity and Capital Resources."

(2) Financial risk management

The NEC Group operates its business in various countries and jurisdictions, and as such, it has exposure to credit risk, liquidity risk, and market risk (mainly represented by interest rate risk and currency risk). The NEC Group conducts risk management to minimize the effect of these financial risks on its financial position and performance.

a. Credit risk

Credit risk is a risk of financial loss to the NEC Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the NEC Group's receivables from customers and investments in debt securities.

The carrying amounts of financial assets represent the maximum credit exposure.

The NEC Group is monitoring the financial position and past due balances of customers in order to minimize the risk of default resulting from deterioration of customers' financial position. Further, if necessary, preventative measures are taken by holding collateral or by other means. Financial institutions with higher credit capabilities are selected as counterparties while dealing in derivative transactions, deposit transactions, and the purchase of financial assets for short-term investments in order to reduce the counterparty risk.

The following amount of guarantee of obligation and the carrying amount of financial assets presented in the consolidated statements of financial position represent the maximum credit exposure without considering collateral held and other credit enhancements.

The aging of loans and receivables that are past due but are not impaired is as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
	Carrying amount	Carrying amount
Past due 1 to 30 days	10,087	11,489
Past due 31 to180 days	5,156	7,643
Past due 181 to 365 days	1,761	1,727
Past due over one year	4,640	3,155
Total	21,644	24,014

The NEC Group regularly monitors customers' financial condition, on which assessment of their collectability is based. Allowance for doubtful accounts and impairment loss are recognized for part of trade receivables, as necessary. At this time, the NEC Group believes that no impairment is necessary for the loans and receivables listed above.

The movement in the allowance for doubtful accounts in respect of loans and receivables during the years is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Beginning balance	10,913	12,379
Impairment loss recognized (or reversed)	2,297	1,105
Amounts written off	(585)	(1,707)
Foreign currency translation adjustments	(246)	17
Ending balance	12,379	11,794

b. Liquidity risk

Liquidity risk is the risk that the NEC Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The NEC Group's approach of managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when they are due. The NEC Group periodically updates forecasts of its future cash-flows aiming to maintain the level of its cash and cash equivalents and the unused balance of commitment line-of-credit at an amount in excess of expected cash outflows on financial liabilities required conducting its business.

The following are the remaining contractual maturities of financial liabilities. The amounts below include contractual interest payments and exclude the impact of netting agreements.

As of March 31, 2017

(Millions of yen)

	Carrying amount	Contractual cash flows	One year or less	One to two years	Two to three years	Three to four years	Four to five years	More than five years
Non-derivative financial liabilities								
Short-term borrowings	46,421	47,274	47,274	—	—	—	—	—
Commercial Papers	10,000	10,000	10,000	—	—	—	—	—
Long-term borrowings	315,510	430,928	25,299	79,831	49,241	4,811	3,495	268,251
Bonds	89,838	91,456	40,556	255	255	30,193	132	20,065
Lease liabilities	5,177	5,329	1,612	1,429	1,128	718	244	198
Derivative financial liabilities								
Forward exchange contracts	4,057	4,057	2,972	553	292	240	—	—
Total	471,003	589,044	127,713	82,068	50,916	35,962	3,871	288,514

As of March 31, 2018

(Millions of yen)

	Carrying amount	Contractual cash flows	One year or less	One to two years	Two to three years	Three to four years	Four to five years	More than five years
Non-derivative financial liabilities								
Short-term borrowings	62,293	63,459	63,459	—	—	—	—	—
Commercial Papers	—	—	—	—	—	—	—	—
Long-term borrowings	304,177	415,954	80,017	49,930	5,737	4,416	10,195	265,659
Bonds	149,600	152,659	542	542	55,467	391	55,274	40,443
Lease liabilities	4,673	4,785	1,821	1,312	880	427	202	143
Derivative financial liabilities								
Forward exchange contracts	2,746	2,746	2,036	308	280	42	32	48
Total	523,489	639,603	147,875	52,092	62,364	5,276	65,703	306,293

It is not expected that the contractual cash flows included in the maturity analysis disclosed above could occur significantly earlier, or at significantly different amounts.
However, certain long-term borrowings contain a covenant for early repayment, under which the NEC Group is able to make an early repayment of all (or part) of the principal during or after 2021, provided that certain conditions are met.

c. Market risk
(a) Interest rate risk
Interest bearing debts with floating interest rates, including long-term borrowings, are exposed to interest rate risk. The NEC Group may use interest rate swaps as hedges of the variability in cash flows attributable to interest-rate risk.

The following table shows the floating-rate financial liabilities of the NEC Group. Interest bearing debts with floating rates that are fixed rates in substance under interest rate swap contracts are excluded from the amounts.

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
	Carrying amount	Carrying amount
Long-term borrowings (floating rates)	168,176	101,442

Sensitivity analysis for financial instruments with floating rates
An increase of 1% in interest rates on the financial instruments with floating rates at the end of the reporting period would have decreased income before income taxes by the amounts shown below. The amounts are calculated by multiplying the balance of financial liabilities with the floating-rate held by the NEC Group at the end of the reporting period (except for those with floating rates that are fixed rates in substance under interest rate swap contracts) by 1%, and assumes that all other variables, in particular foreign current exchange rates, remain constant. The analysis applies the same assumptions in each fiscal year.

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Income before income taxes	(1,682)	(1,014)

(b) Foreign currency risk

The NEC Group operates its business globally, and is exposed to the risk of fluctuation in foreign exchange rates. The NEC Group mitigates foreign currency risk by offsetting trade receivables and payables denominated in foreign currencies and conducting hedge transactions using forward exchange contracts or foreign currency option contracts.

The NEC Group's exposure to foreign currency risk is as follows:

(Thousands of U.S. dollars and euros)

	As of March 31, 2017		As of March 31, 2018	
	U.S. dollars	Euro	U.S. dollars	Euro
Trade receivables	608,839	39,783	525,554	49,607
Trade payables	(512,107)	(39,840)	(418,013)	(43,630)
Forward exchange contracts, etc.	83,130	11,775	299,141	(93,205)
Net exposure	179,862	11,718	406,682	(87,228)

Sensitivity analysis for foreign exchange rates

Strengthening of the yen by 1% against the U.S. dollar and euro at the end of the reporting period would have increased (decreased) income before income taxes by the amounts shown below.

This analysis assumes that all other variables, such as interest rates, remain constant.

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
	Income before income taxes	Income before income taxes
U.S. dollars (1% strengthening of the yen)	(202)	(432)
Euro (1% strengthening of the yen)	(14)	114

(c) Equity price risk

The NEC Group holds listed equity instruments of parties with which the NEC Group has a business relationship, and therefore, is exposed to the risk of fluctuation in prices of equity instruments. The equity instruments are held for if the NEC Group determines that it will contribute to the increase of the mid- to long-term corporate value of the NEC Group after comprehensive consideration of its management strategy, the relationships with business partners and other circumstances. For equity instruments, the NEC Group examines the rationale of the major cross-shareholdings, taking into consideration the returns from such cross-shareholdings.

Sensitivity analysis for fluctuation in equity prices

An increase or decrease of 1% in equity prices based on the price risk of equity instruments at the end of the reporting period would have increased other components of equity (before tax) by the amounts shown below.

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Increase or decrease of 1% in equity prices	1,337	1,339

(3) Classification of financial instruments

Details of financial instruments, except for cash and cash equivalents, by classification are as follows:

(Loans and receivables)
Trade and other receivables and part of other financial assets

(Financial assets measured at fair value through profit or loss)
Part of other financial assets

(Available-for-sale financial assets)
Part of other financial assets

(Financial liabilities measured at amortized cost)
Trade and other payables, accruals, bonds and borrowings, and part of other financial liabilities

(Financial liabilities measured at fair value through profit or loss)
Part of other financial liabilities

There are no financial assets that changed their classification during the fiscal years ended March 31, 2017 and 2018.

(4) Fair value of financial assets and liabilities

(Millions of yen)

	As of March 31, 2017		As of March 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at fair value				
Financial assets measured at fair value through profit or loss	533	533	1,032	1,032
Available-for-sale financial assets	199,629	199,629	208,282	208,282
Financial assets measured at amortized cost				
Cash and Cash equivalents	239,970	239,970	346,025	346,025
Loans and receivables	798,060	798,060	733,990	733,990
Financial liabilities measured at fair value				
Financial liabilities measured at fair value through profit or loss	4,057	4,057	2,746	2,746
Financial liabilities measured at amortized cost				
Current portion of bonds	39,991	40,000	—	—
Short-term borrowings	46,421	46,421	62,293	62,293
Commercial papers	10,000	10,000	—	—
Current portion of long-term borrowings	22,503	22,503	77,394	77,394
Bonds	49,847	50,469	149,600	150,560
Long-term borrowings	293,007	295,183	226,783	228,081
Trade and other payables	460,371	460,371	463,686	463,686
Accruals	41,742	41,742	50,902	50,902
Other financial liabilities	16,735	16,735	16,207	16,207

Regarding the fair value hierarchy of assets and liabilities presented in the table above, available-for-sale financial assets as Level 1 and Level 3, bonds, financial assets and liabilities measured at fair value through profit or loss as Level 2, and others (except for those whose fair value is determined as equal or close to the carrying amount) as Level 3.

Additionally, accruals that is categorized as financial instruments do not include accruals for employee benefit and accruals by statutory requirements.

Basis of the fair value measurement for financial instruments
(Cash and cash equivalents, trade and other receivables, trade and other payables, and accruals)
The fair value is determined as equal or close to the carrying amount since they are to be settled in a short term.

(Other financial assets and other financial liabilities)
The fair value of loans is calculated by discounting estimated future cash flows to the present value based on an interest rate that takes into account the remaining period to the maturity date and credit risk.

Available-for-sale financial assets are categorized as financial assets whose fair value is measured through other comprehensive income. The fair value of listed equity instruments is determined using a quoted market price at an exchange. The fair value of unquoted equity instruments is determined by using comparable company valuation multiples and other appropriate valuation techniques.

Among the fair value of derivative assets and liabilities, forward exchange contracts is determined using quoted forward exchange rates at the end of the fiscal year, while interest rate swaps is calculated as the present value of the estimated future cash flows based on the interest rate at the end of the reporting period.

The fair value of lease liabilities is calculated as the present value of the estimated future cash flows based on the expected interest rate of which a similar new lease agreement were entered into.

(Bonds and borrowings)
The fair value of short-term borrowings is determined as the carrying amount as the two are effectively the same since they are to be settled in a short term.

The fair value of long-term borrowings is calculated as the present value of the estimated future cash flows, based on the expected interest rate of which a similar new borrowing were made.
The fair value of the current portion of bonds is determined as the face value since they are to be settled in a short term. For the non-current portion of bonds, the fair value is determined as the quoted market price.

Fair value hierarchy
Hierarchy and classification used for the fair value measurement for financial assets and liabilities measured at fair value are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities
Level 2: Inputs other than quoted prices classified into Level 1 that are observable for the financial asset or liability, either directly or indirectly
Level 3: Unobservable inputs that are not based on observable market data

The NEC Group recognizes transfers between levels of the fair value hierarchy when a triggering event of the change has occurred.

Financial assets classified into Level 3 mainly consist of unquoted equity instruments. The fair value of significant unquoted equity instruments is measured by using comparable company valuation multiples and other appropriate valuation techniques.

For the financial assets classified into Level 3, changes of unobservable inputs to reasonably possible alternative assumptions are not expected to cause any significant changes in the fair value of those financial assets.

Further, fair value measurements of financial assets and liabilities classified into Level 3, are reviewed and approved by appropriate approver based on relating internal regulations.

As of March 31, 2017 (Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	–	533	–	533
Available-for-sale financial assets	133,747	–	65,882	199,629
Financial liabilities measured at fair value through profit or loss	–	4,057	–	4,057

As of March 31, 2018 (Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	–	1,032	–	1,032
Available-for-sale financial assets	133,943	–	74,339	208,282
Financial liabilities measured at fair value through profit or loss	–	2,746	–	2,746

There are no significant financial assets or liabilities that were transferred between levels during the fiscal years ended March 31, 2017 and 2018.

Reconciliation between the beginning balance and ending balance of financial instruments classified into Level 3

There are no significant changes during the fiscal years ended March 31, 2017 and 2018.

34. Operating Leases

(1) Leases as a lessee

The NEC Group has operating lease agreements for some buildings and vehicles. Some of the lease agreements provide options to renew the contracts.

Total future minimum lease payments under noncancelable operating leases are as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Due within one year	12,530	15,141
Due after one year through five years	17,113	36,339
Due after five years	3,509	2,448
Total	33,152	53,928

Minimum lease payments under operating leases recognized as expenses are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Minimum lease payments under operating leases	34,301	35,109

(2) Leases as a lessor

There are no significant transactions.

35. Related Parties

(1) Transactions with related parties

Transactions and balances of receivables and payables between the NEC Group and its related parties are as follows. Subsidiaries of the NEC Group companies are related parties of the Company; however, they are outside the scope of disclosure as the transactions with those subsidiaries are eliminated in the consolidated financial statements.

(Millions of yen)

Balance from / to associates	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Trade and other receivables	27,556	29,033
Trade and other payables	35,462	39,022

Major transactions for the balances above are as follows:

Fiscal year ended March 31, 2017
There are no significant transactions with related parties.

Fiscal year ended March 31, 2018
There are no significant transactions with related parties.

(2) Key management personnel compensation

Key management personnel compensation comprised the following. The compensation is for the NEC Group's directors and corporate auditors.

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Short-term compensation	337	454

A summary of the NEC Group's post-employment benefit plans is described in Note 21 "Employee Benefits."

36. Commitments

Contract prices for the purchase of property, plant and equipment, and intangible assets are as follows.

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Property, plant and equipment	1,408	1,460
Intangible assets	613	666
Total	2,021	2,126

37. Contingencies

There are no significant contingencies.

38. Subsequent Events

There are no significant subsequent events.

KPMG

Independent Auditor's Report

To the Board of Directors of NEC Corporation (Nippon Denki Kabushiki Kaisha):

We have audited the accompanying consolidated financial statements of NEC Corporation and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of NEC Corporation and its consolidated subsidiaries as at March 31, 2018, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG AZSA LLC

June 25, 2018
Tokyo, Japan

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