Integrated Report 2019 (Financials)

Year ended March 31, 2019

Contents

Note: NEC has changed its reporting segments from the fiscal year ending March 31, 2020.
However, this report is stated based on results in previous segments as of March 31, 2019.

Management's Discussion and Analysis

Year Ended March 31, 2019 (Fiscal 2019)
Compared With the Year Ended March 31, 2018 (Fiscal 2018)

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, 2019. 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." the NEC Group implemented a variety of innovative changes that included a "Reform of profit structure," an "Achievement of growth" and a "Restructuring of execution capabilities" as outlined in the "Mid-term Management Plan 2020" announced in January 2018.

In the following sections, NEC reports the business results in five main segments: Public, Enterprise, Network Services, System Platform, and Global. In fiscal 2019, Public generated 32.6% of net sales, Enterprise 14.9%, Network Services 13.6%, System Platform 18.8%, and Global 15.1%. (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 2019 Business Results

The worldwide economy during the fiscal year ended March 31, 2019 showed a moderate deceleration in growth overall compared to that of the previous fiscal year, due to slow growth in China and Europe, despite steady growth in the U.S.

As for the Japanese economy, the growth was moderate compared to that of the previous fiscal year, due to a series of natural disasters and slow growth in the global economy, despite solid capital investment in an environment marked by a shortage of equipment and labor.

Under these business conditions, the NEC Group implemented a variety of innovative changes that included a "Reform of profit structure," an "Achievement of growth" and a "Restructuring of execution capabilities" as outlined in the "Mid-term Management Plan 2020" announced in January 2018.

During this first year of the "Mid-term Management Plan 2020," the NEC Group implemented drastic profit structure reforms, including a reduction of fixed costs, in order to make the necessary investments to get back on a track to growth in line with the "Reform of profit structure." Specifically, the NEC Group streamlined its workforce by approximately 3,000 personnel by implementing the following measures: voluntary early retirement for employees belonging to back-office departments and particular departments under the hardware business segment, temporary and permanent transfers to companies outside the NEC Group and the transfer of the NEC Group's lighting business. In addition, profitability improvement measures have been taken in relation to the fiscal year ending March 31, 2020, including the promotion of reduced personnel expenses and other expenditures, such as the optimization of expenses on real estate, the end of operation of Tsukuba Research Laboratories, and the reorganization of production bases belonging to NEC Platforms, Ltd.

As for the "Achievement of growth," the NEC Group promoted businesses engaged in biometrics authentication and artificial intelligence (AI) technologies. In particular, the NEC Group's facial recognition systems have been adopted throughout a wide range of fields, including international sports events and the new "One ID" check-in to boarding process introduced by Narita International Airport. Measures utilizing AI include a collaboration with KNI, Kitahara Neurosurgical Institute, to verify changes in the condition of patients in an effort to realize a digital hospital, as well as providing the "Demand and Supply Optimization Platform," which aims to contribute to the resolution of social issues concerning food waste and disposal by optimizing the entire food value chain.

In addition, the NEC Group expanded its business in public safety and digital government. In Europe, the implementation of digital government measures is being promoted in many countries, including Denmark and the UK, which are considered as role models for the implementation of these measures. In February 2019, NEC obtained a business model that leverages platforms in the digital government domain through the acquisition of KMD Holding ApS, the holding company of KMD A/S (KMD), Denmark's largest IT company. Going forward, NEC aims to create synergies between UK-based Northgate Public Services Ltd., acquired in January 2018, KMD and the NEC Group in order to expand business from northern Europe to the whole of Europe and globally.

Regarding the "Restructuring of execution capabilities," the NEC Group reinforced business development capabilities and introduced an organization that operates with improved execution strength. In terms of reinforcing business development capabilities, the NEC Group established dotData, Inc. in the U.S. in order to utilize external funding to achieve prompt commercialization of new technologies and accelerate the monetization of the NEC Group's competitive technologies. The NEC Group also established NEC X, Inc. in the U.S. as an incubator to accelerate commercialization of its core technologies globally. Regarding improved execution strength, the NEC Group Culture Transformation Division was established and a company-wide project was launched in order to thoroughly reform corporate culture. Through this project, the NEC Group formulated a "Code of Values" to promote changes toward realization of goals, introduced a new evaluation system for executives and employees, and accelerated the delegation of authority by reviewing operations and processes. Additionally, in order to clarify the responsibilities and authority of management, the NEC Group terminated the employment contracts of executive officers at the end of March 2019, and entered into one-year mandate contracts. These measures were taken to maximize the potential of each and every executive and employee.

Condensed Consolidated Income Statements

	Billions of Yen		*YoY Change*
	2018	2019	2019/2018
Revenue	¥2,844.4	¥2,913.4	+2.4%
Operating profit	63.9	58.5	-8.5%
Income before income taxes	86.9	78.0	-10.2%
Net profit (loss) attributable to owners of the parent	45.9	40.2	-12.4%

The NEC Group recorded consolidated revenue of 2,913.4 billion yen for the fiscal year ended March 31, 2019, an increase of 69.0 billion yen (2.4%) year-on-year. This increase was mainly due to increased sales in the Enterprise Business and the Network Services Business.

Regarding profitability, operating profit (loss) worsened by 5.4 billion yen year-on-year, to an operating profit of 58.5 billion yen. This was mainly due to business structure improvement expenses recorded for the implementation of voluntary early retirement, despite increased revenue.

Income (loss) before income taxes was an income of 78.0 billion yen, a year-on-year worsening of 8.9 billion yen, mainly due to the gain on sales of available-for-sale financial assets that was recorded in the previous fiscal year, as well as worsened operating profit (loss).

Net profit (loss) attributable to owners of the parent for the fiscal year ended March 31, 2019 was a profit of 40.2 billion yen, a worsening of 5.7 billion yen year-on-year, primarily due to worsened income (loss) before income taxes.

(1) Public Business

Revenue: 949.6 billion yen (+1.8%)
Operating profit (loss): 52.2 billion yen (-0.9 billion yen)

In the Public business, revenue was 949.6 billion yen, an increase of 16.5 billion yen (+1.8%) year-on-year, mainly due to increased sales in the aerospace and defense sector as well as firefighting and disaster prevention systems.

Operating profit (loss) worsened by 0.9 billion yen year-on-year, to an operating profit of 52.2 billion yen, mainly owing to the recording of business structure improvement expenses despite increased sales.

(2) Enterprise Business

Revenue 435.0 billion yen (+6.4%)
Operating profit (loss): 35.1 billion yen (-0.7 billion yen)

In the Enterprise business, revenue was 435.0 billion yen, an increase of 26.3 billion yen (+6.4%) year-on-year, mainly due to increased sales in sectors that include manufacturing, retail/services and financial services.

Operating profit (loss) worsened by 0.7 billion yen year-on-year, to an operating profit of 35.1 billion yen, mainly due to increased investment in the AI and IoT (Internet of Things) areas as well as the recording of business structure improvement expenses, despite increased profit in system implementation services.

(3) Network Services Business

Revenue	394.8 billion yen	(+4.6 %)
Operating profit (loss):	13.1 billion yen	(-4.1 billion yen)

In the Network Services business, revenue was 394.8 billion yen, an increase of 17.3 billion yen (+4.6%) year-on-year, mainly due to increased sales in network infrastructure.

Operating profit (loss) worsened by 4.1 billion yen year-on-year, to an operating profit of 13.1 billion yen, mainly due to a loss from particular projects in IT services and the recording of business structure improvement expenses, despite the improved profitability in network infrastructure.

(4) System Platform Business

Revenue	546.7 billion yen	(+2.8 %)
Operating profit (loss):	22.3 billion yen	(-7.7 billion yen)

In the System Platform business, revenue was 546.7 billion yen, an increase of 15.0 billion yen (+2.8%) year-on-year, mainly due to increased sales in hardware, primarily business PCs.

Operating profit (loss) worsened by 7.7 billion yen year-on-year, to an operating profit of 22.3 billion yen, mainly due to the recording of business structure improvement expenses, despite increased sales.

(5) Global Business

Revenue	440.7 billion yen	(-2.9 %)
Operating profit (loss):	-29.4 billion yen	(-1.4 billion yen)

In the Global business, revenue was 440.7 billion yen, a decrease of 13.0 billion yen (-2.9%) year-on-year, mainly due to decreased sales in the display and service provider businesses, despite increased sales in the safety business.

Operating profit (loss) worsened by 1.4 billion yen year-on-year, to an operating loss of 29.4 billion yen, mainly owing to worsening display business as well as the recording of business structure improvement expenses and the impairment of fixed assets and goodwill, despite improved profitability in the mobile backhaul, service provider and safety businesses.

(6) Others

Revenue	146.6 billion yen	(+5.0 %)
Operating profit (loss):	20.9 billion yen	(+21.3 billion yen)

In others, revenue was 146.6 billion yen, an increase of 6.9 billion yen (+5.0%) year-on-year.

Operating profit (loss) improved by 21.3 billion yen year-on-year, to an operating profit of 20.9 billion yen.

3. Liquidity and Capital Resources

(1) Assets, Liabilities and Net Assets

Condensed Consolidated Balance Sheets

	Billions of Yen		*YoY Change*
	2018	2019	2019/2018
Assets			
Current assets	¥ 1,640.3	¥ 1,638.2	¥-2.1
Property, plant and equipment	399.6	408.8	+9.2
Investments and other assets	781.5	903.6	+122.1
Total Assets	2,821.4	2,950.6	+129.3
Liabilities			
Current liabilities	1,063.1	1,157.3	+94.2
Noncurrent liabilities	704.0	733.1	+29.1
Total liabilities	1,767.1	1,890.3	+123.2
Equity			
Total equity attributable to owners of the parent	880.8	859.6	-21.2
Non-controlling interests	173.5	200.7	+27.2
Total equity	1,054.3	1,060.3	+6.0
Total liabilities and equity	2,821.4	2,950.6	+129.2
Interest-bearing debt	520.7	552.5	+31.8
Net interest-bearing debt	174.7	274.2	+99.5
Equity attributable to owners of the parent	880.8	859.6	-21.2
Ratio of equity attributable to owners of the parent	31.2%	29.1%	-2.1
Debt equity ratio	0.59 times	0.64 times	-0.05
Net debt equity ratio	0.20 times	0.32 times	-0.12

Total assets were 2,950.6 billion yen as of March 31, 2019, an increase of 129.3 billion yen as compared with the end of the previous fiscal year. Current assets as of March 31, 2019 decreased by 2.1 billion yen compared with the end of the previous fiscal year to 1,638.2 billion yen, mainly due to a decrease in cash and cash equivalents resulting from the purchase of shares of newly consolidated subsidiaries, despite an increase in inventories and trade and other receivables. Non-current assets as of March 31, 2019 increased by 131.4 billion yen compared with the end of the previous fiscal year to 1,312.4 billion yen, mainly due to an increase in goodwill, despite a decrease in other non-current assets.

Total liabilities as of March 31, 2019 increased by 123.2 billion yen compared with the end of the previous fiscal year, to 1,890.3 billion yen, mainly due to issuance of bonds and an increase in other financial liabilities. The balance of interest-bearing debt amounted to 552.5 billion yen, an increase of 31.8 billion yen as compared with the end of the previous fiscal year. The debt-equity ratio as of March 31, 2019 was 0.64 (a worsening of 0.05 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of March 31, 2019, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 274.2 billion yen, an increase of 99.5 billion yen as compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2019 was 0.32 (a worsening of 0.12 points as compared with the end of the previous fiscal year).

Total equity was 1,060.3 billion yen as of March 31, 2019, an increase of 6.0 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, 2019 and an increase in non-controlling interests, despite dividends paid and a decrease in other components of equity resulting from remeasurements of defined benefit plans.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of March 31, 2019 was 859.6 billion yen, and the ratio of equity attributable to owners of the parent was 29.1% (a worsening of 2.1 points as compared with the end of the previous fiscal year).

(2) Cash Flows

Condensed Consolidated Cash Flows

		Billions of Yen		*YoY Change*
		2018	2019	2019/2018
I	Cash flows from operating activities	¥ 130.0	¥ 64.2	¥-65.7
II	Cash flows from investing activities	-14.2	-76.7	-62.4
I+II	Free cash flows	115.8	-12.4	-128.2
III	Cash flows from financing activities	-7.2	-50.5	-43.3
Cash and cash equivalents at end of period		346.0	278.3	-67.7

Net cash inflows from operating activities for the fiscal year ended Mach 31, 2019 were 64.2 billion yen, a worsening of 65.7 billion yen as compared with the same period of the previous fiscal year, mainly due to a worsening of income before income taxes as well as an increase in trade and other receivables from increased revenue.

Net cash outflows from investing activities for the fiscal year ended March 31, 2019 were 76.7 billion yen, an increase of 62.4 billion yen as compared with the same period of the previous fiscal year, mainly as a result of proceeds from collection of loans receivable that was recorded in the previous fiscal year as well as an increase in purchase of shares of newly consolidated subsidiaries in the fiscal year ended March 31, 2019.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for the fiscal year ended March 31, 2019 totaled a cash outflow of 12.4 billion yen, a worsening of 128.2 billion yen year-on-year.

Net cash flows from financing activities for the fiscal year ended March 31, 2019 totaled a cash outflow of 50.5 billion yen, mainly due to repayments of long-term borrowings, despite proceeds from the issuance of bonds as well as proceeds from sales of ownership interests of subsidiaries to non-controlling interests.

As a result, cash and cash equivalents as of March 31, 2019 amounted to 278.3 billion yen, a decrease of 67.7 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, 2019, NEC had a sufficient amount of liquidity. Total liquidity in hand as of March 31, 2019, was 607.3 billion yen, comprising cash and cash equivalents of 278.3 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 2022 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,	2018	2019
Long-term fund procurement*1	72.8%	71.0%
Use of capital market instruments*2	28.7%	41.5%

*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 2018 and 2019 are broken down as follows (amounts do not include consumption taxes):

	Billions of Yen		YoY Change
	2018 *1	2019	2019/2018
Public Business	¥22.4	¥28.3	+26.6%
Enterprise Business	1.0	1.3	+28.4%
Network Services Business	4.6	3.6	-21.0%
System Platform Business	6.0	5.8	-3.2%
Global Business	6.1	5.8	-4.2%
Others	5.3	17.9	+233.7%
Total	¥45.4	¥62.7	+38.1%

*1 From the fiscal year ended March 31, 2019, the Company's operating segments have been revised. In connection with this revision, capital expenditures for the fiscal year ended March 31, 2018 has been reclassified to conform to the presentation of the fiscal year ended March 31, 2019.

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 Network Services Business, capital expenditures included investment in R&D equipment and production facilities mainly for next-generation wireless communication systems.

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

In the Global Business, capital expenditures included investments in related facilities for biometric solutions as well as R&D equipment and production facilities for submarine cables.

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 76.3% of its total revenue in the fiscal year ended March 31, 2019. 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.

d. Environmental laws and regulations

The NEC Group's operations are subject to many environmental laws and regulations governing, among other things, air emissions, wastewater discharges, the use and handling of hazardous substances, waste disposal, chemical substances in products, product recycling, soil and ground water contamination and global warming. The NEC Group faces risks of environmental liability arising from its current, historical, and future manufacturing activities. The NEC Group endeavors to comply with laws and government policies, establishing self-management norms, formulated guidelines on climate change measures from a long-term perspective up to 2050 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, Group Vision, and Brand Statement.

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"

Brand Statement:

"Orchestrating a brighter world"

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, Brand Statement, 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) Business environment

The worldwide economy during the fiscal year ended March 31, 2019 showed a moderate deceleration in growth overall compared to that of the previous fiscal year, due to slow growth in China and Europe, despite steady growth in the U.S.

As for the Japanese economy, the growth was moderate compared to that of the previous fiscal year, due to a series of natural disasters and slow growth in the global economy, despite solid capital investment in an environment marked by a shortage of equipment and labor.

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

The NEC Group established the “Mid-term Management Plan 2020” in January 2018 consisting of (i) Reform of profit structure, (ii) Achievement of growth, and (iii) Restructuring of execution capabilities, and executives and employees are striving as one to realize the plan.

(i) Reform of profit structure

The NEC Group realized a substantial reduction of fixed costs by implementing a voluntary early retirement program and reorganization of production bases during the current fiscal year, and will promote further reduction of fixed costs through business reforms such as process optimization. In addition, the NEC Group continues to work on reform of business structure and will implement measures that lead to improved profits.

(ii) Achievement of growth

The NEC Group will aim to grow by promoting “NEC Safer Cities” and “NEC Value Chain Innovation” by leveraging its biometric authentication and AI technologies. “NEC Safer Cities” contributes to the realization of safe, secured, efficient and equal cities where people can use their own abilities to maximize performance, and more freely live an abundant life. “NEC Value Chain Innovation” creates new value by connecting people, things and process across the boundaries of enterprises and industries, aiming to live together with the earth, support sustainable growth of enterprises and a society where people can experience an enriched life, and create the future.

With the rapid global dissemination of digital technologies, a movement is underway corresponding to a paradigm shift caused by digitalization, and the structure of industries such as partnerships among enterprises or between the public and private sector is changing in a dynamic way. The NEC Group considers a society embedded with digital technologies a “digital inclusion society.” Through visualizing, analyzing, and addressing the real world with the strength in its biometric authentication and AI technologies, the NEC Group will aim to make all things in society become sophisticated in terms of total optimization. This “digital inclusion society” has the same worldview as Society 5.0, the future society, led by the Japanese government, and the NEC Group proactively promotes new business development through public-private sector partnership and cooperation among various industries with placing the cross-industry field at the core, such as Smart City, Mobility, Fast Travel, and Public Safety Networks, to achieve economic growth and solve social issues.

At the same time, upon implementing AI in society and utilizing data such as bio-data, further respect to human rights including privacy and further correspondence to application of principles and laws in consideration of ethics and social acceptance will be required. Given this, the NEC Group places top priority on considerations for privacy and respect for human rights according to the “NEC Group AI and Human Rights Principles” established in April 2019 to promote business activities.

(iii) Restructuring of execution capabilities

The NEC Group continuously works on challenges for creation of customer value leveraging advanced technology and reforms to maximize the abilities of employees in order to restructure execution capabilities. First, concerning challenges for creation of customer value leveraging advanced technology, the NEC Group utilizes external funds for earlier realization of businesses applying new technology, such as the case of dotData, Inc., and accelerates business creation through NEC X, Inc. The NEC Group sees the field of health care business with increasing applications of AI technology as a growing field, and works on new value creation through promoted incubation of drug discovery businesses in addition to medical system businesses utilizing the latest technologies. Next, the NEC Group takes steps for system reform and establishment of an environment to accelerate shifts in working styles including smart work and office innovation so that the abilities of employees will be maximized. The NEC Group also introduces a personnel system to strike a balance between employee initiatives and personnel needs of the organization for further enhancement of the flexibility of personnel within the NEC Group.

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 (Return On Equity) of 10% for the fiscal year ending March 31, 2021.

The NEC Group identified “materiality” comprising of the priority management themes from an ESG (environment, society and governance) perspective in July 2018. More specifically, the five themes, including governance and compliance, environmental action with a particular focus on climate change, and privacy policies and measures aligned with societal expectations, are each positioned as a key to achieve a sustainable growth to minimize risks in the NEC Group and in the society and maximize social value created by the NEC Group, while other themes such as dialogue and co-creation with stakeholders and innovation management are positioned as an engine for growth innovation. In view of ESG, the NEC Group places a priority on addressing the themes of “NEC Safer Cities” and “NEC Value Chain Innovation,” which are identified as growing fields under the “Mid-term Management Plan 2020,” and invests management resources intensively in these themes to maximize economic and social value as well as to contribute to achievement of the United Nations’ Sustainable Development Goals (SDGs).

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.

(5) Response to Climate Change

Building a sustainable society requires initiatives on climate change caused by global warming, not only mitigation efforts to reduce greenhouse gas (GHG) emissions and prevent further warming, but also adaptation efforts to prepare for the risks of climate change and prevent or minimize the damage it causes. The NEC Group aims to minimize climate change risks and connect this with its own business growth by providing value to climate change countermeasures undertaken by its customers and society. To this end, the NEC Group have strategically evaluated the risks and opportunities that climate change presents to its businesses from both the mitigation and adaptation perspectives and set a direction and long-term targets for the Group. Specifically, in July 2017, the NEC Group formulated guidelines on climate change measures from a long-term perspective up to 2050, in which the NEC Group demonstrated how it collaborates with customers in co-creating a sustainable society, and the NEC Group is strengthening its climate change countermeasures. The guidelines comprise four components: 1) Reducing the supply chain CO_2 emissions to zero, 2) Strict measures against climate change risks in supply chain, 3) Realizing the world-wide goal of a low carbon society, and 4) Achieving a safe and secure society that can withstand climate change risks. With a focus on component 1), the NEC Group has set a target of reducing CO_2 emissions from its own business operations (Scope 1 and 2*) to zero by 2050.

As the Group’s main initiative for the current fiscal year, the NEC Group started a supplier survey to help it evaluate the status of their progress on climate change countermeasures. Based on the survey results, the NEC Group awarded most excellent supplier which executed outstanding initiatives and introduced a system that enables suppliers to share information and ideas. By cooperating with the Group’s suppliers in these way, the NEC Group is promoting efforts to reduce emissions and to adapt for the climate changes, throughout the supply chain. The NEC Group has also set a target for reducing GHG emissions to be achieved by 2030. This target has been recognized by the international environmental organization “Science Based Targets (SBT) Initiative” as being a science-based level for achieving the “2˚C target” of the Paris Agreement. The NEC Group have also included environmental action with a particular focus on climate change as one of its priority management themes from an ESG perspective, or “materiality.”

The NEC Group actively promotes provision of low-energy products and services using ICT and wider introduction of renewable energy among other measures, and promotes the development and provision of solutions to prepare against climate change risks such as flooding and landslide disasters. In this way, the Group will help its customers and society to counter climate change through both mitigation and adaptation.

* Scope 1: Direct GHG emissions from sources that are owned or controlled by the Company
Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam

(6) Policy on the Control over the Company

The Company believes that the ultimate decision as to the person who should control the financial and business policy of the Company shall be made by the shareholders of the Company. However, in the event that a person or entity (the "Proposer") proposes to purchase the substantial number of the shares of the Company with an intent to control the Company or proposes the takeover of the Company, the Company believes it is the responsibilities of the Board of Directors (i) to request the Proposer to provide appropriate information on the reasonableness of the consideration and other conditions of the proposal and the influence such action may have on the management policy and business plan of the Company, (ii) to evaluate the information provided and consider whether such proposal has merit in promoting the corporate value of the Company and the common interest of the shareholders, and (iii) to express the opinion of the Company for purposes of assisting the shareholders to make decisions whether or not to accept the proposal. In addition, the Company believes that, in the particular circumstances, it may be required to negotiate with the Proposer or to present alternative proposals to the shareholders.

Currently, the Company has not adopted a policy of defensive measures that will become effective when a proposal is made by a Proposer. It is the Company's intention, however, that if (i) the sufficient information is not provided by the Proposer, (ii) the shareholders are not afforded the time sufficient to consider the proposal or (iii) the Company decides that the proposal would have an adverse effect on the corporate value of the Company or the common interest of the shareholders, the Company will decide and implement reasonable countermeasures that are practicable at the time of the proposal and acceptable to the shareholders.

Consolidated Statements of Financial Position

(Millions of yen)

	Notes	As of March 31, 2018	As of March 31, 2019
Assets			
Current Assets			
Cash and cash equivalents	16	346,025	278,314
Trade and other receivables	15	931,231	734,431
Contract assets	25	–	265,725
Inventories	14	220,254	234,621
Other financial assets		6,350	5,875
Other current assets		112,543	110,199
Subtotal		1,616,403	1,629,165
Assets held for sale	17	23,932	9,071
Total current assets		1,640,335	1,638,236
Non-current assets			
Property, plant and equipment, net	8,10	399,590	408,821
Goodwill	9,10	103,967	222,721
Intangible assets	9,10	156,248	171,460
Investments accounted for using the equity method	12	67,747	72,421
Other financial assets		245,852	250,409
Deferred tax assets	13	142,402	150,511
Other non-current assets	10,21	65,210	36,060
Total non-current assets		1,181,016	1,312,403
Total assets		2,821,351	2,950,639

See notes to consolidated financial statements.

(Millions of yen)

	Notes	As of March 31, 2018	As of March 31, 2019
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	24	512,115	482,596
Contract liabilities	25	–	184,059
Bonds and borrowings	16, 20	139,687	158,678
Accruals		171,434	178,911
Other financial liabilities		9,835	16,169
Accrued income taxes		13,844	8,296
Provisions	23	45,621	58,330
Other current liabilities	22	158,840	61,142
Subtotal		1,051,376	1,148,181
Liabilities directly associated with assets held for sale	17	11,689	9,071
Total current liabilities		1,063,065	1,157,252
Non-current liabilities			
Bonds and borrowings	16, 20	376,383	388,128
Other financial liabilities		9,118	47,417
Defined benefit liabilities	21	275,326	241,759
Provisions	23	13,754	23,168
Other non-current liabilities	22	29,420	32,590
Total non-current liabilities		704,001	733,062
Total liabilities		1,767,066	1,890,314
Equity			
Share capital	18	397,199	397,199
Share premium	18	138,704	138,824
Retained earnings	18	265,879	355,102
Treasury shares	18	(3,364)	(3,547)
Other components of equity	18,21	82,415	(27,995)
Total equity attributable to owners of the parent		880,833	859,583
Non-controlling interests	11	173,452	200,742
Total equity		1,054,285	1,060,325
Total liabilities and equity		2,821,351	2,950,639

See notes to consolidated financial statements.

Note: The Company applied International Financial Reporting Standards (hereafter "IFRS") 9, "Financial Instruments (2014)" (hereafter "IFRS 9") and IFRS 15, "Revenue from Contracts with Customers" (hereafter "IFRS 15") from the fiscal year ended March 31, 2019. The cumulative effect of a change in accounting policies was recognized at the date of initial application; as such, the comparative information (disclosure for the fiscal year ended March 31, 2018) was not restated.

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, 2018	Fiscal year ended March 31, 2019
Revenue	6,25	2,844,447	2,913,446
Cost of sales	14,27	2,046,853	2,083,517
Gross profit		797,594	829,929
Selling, general and administrative expenses	27	729,855	742,336
Other operating income (loss)	26	(3,889)	(29,128)
Operating profit	6	63,850	58,465
Financial income	6,28	29,553	21,989
Financial costs	6,28	11,568	8,377
Share of profit of entities accounted for using the equity method	6	5,106	5,916
Income before income taxes		86,941	77,993
Income taxes	13	26,784	25,543
Net profit		60,157	52,450
Net profit attributable to			
Owners of the parent		45,870	40,195
Non-controlling interests		14,287	12,255
		60,157	52,450
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)	30	176.54	154.75
Diluted earnings per share (yen)	30	176.54	154.75

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, 2018 (April 1, 2017).

Also, the Company applied IFRS 9, and IFRS 15 from the fiscal year ended March 31, 2019. The cumulative effect of a change in accounting policies was recognized at the date of initial application; as such, the comparative information (disclosure for the fiscal year ended March 31, 2018) was not restated.

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Notes	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net profit		60,157	52,450
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Equity instruments measured at fair value through other comprehensive income	18	–	(3,035)
Remeasurements of defined benefit plans	18,21	3,368	(40,348)
Share of other comprehensive income of associates	18	10	(371)
Total items that will not be reclassified to profit or loss		3,378	(43,754)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	18	(6,434)	(611)
Cash flow hedges	18	(92)	(61)
Available-for-sale financial assets	18	8,462	–
Share of other comprehensive income of associates	18	1,520	26
Total items that may be reclassified subsequently to profit or loss		3,456	(646)
Total other comprehensive income, net of tax		6,834	(44,400)
Total comprehensive income		66,991	8,050
Total comprehensive income attributable to			
Owners of the parent		51,599	(4,311)
Non-controlling interests		15,392	12,361
Total		66,991	8,050

See notes to consolidated financial statements.

Note: The Company applied IFRS 9, and IFRS 15 from the fiscal year ended March 31, 2019. The cumulative effect of a change in accounting policies was recognized at the date of initial application; as such, the comparative information (disclosure for the fiscal year ended March 31, 2018) was not restated.

Consolidated Statements of Changes in Equity

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

Fiscal year ended March 31, 2019

(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, 2018		397,199	138,704	265,879	(3,364)	82,415	880,833	173,452	1,054,285
Impact of changes in accounting policies		–	–	64,619	–	(65,904)	(1,285)	–	(1,285)
Recalculated beginning balance		397,199	138,704	330,498	(3,364)	16,511	879,548	173,452	1,053,000
Net profit (loss)		–	–	40,195	–	–	40,195	12,255	52,450
Other comprehensive income (loss)	18	–	–	–	–	(44,506)	(44,506)	106	(44,400)
Comprehensive income		–	–	40,195	–	(44,506)	(4,311)	12,361	8,050
Purchase of treasury shares	18	–	–	–	(215)	–	(215)	–	(215)
Disposal of treasury shares	18	–	2	–	32	–	34	–	34
Cash dividends	19	–	–	(15,591)	–	–	(15,591)	(4,302)	(19,893)
Put option, written over shares held by a non-controlling interest shareholder		–	836	–	–	–	836	–	836
Changes in interests in subsidiaries	11	–	(718)	–	–	–	(718)	19,231	(18,513)
Total transactions with owners		–	120	(15,591)	(183)	–	(15,654)	14,929	(725)
As of March 31, 2019		397,199	138,824	355,102	(3,547)	(27,995)	859,583	200,742	1,060,325

See notes to consolidated financial statements.

Note: The Company applied IFRS 9, and IFRS 15 from the fiscal year ended March 31, 2019. The cumulative effect of a change in accounting policies was recognized at the date of initial application; as such, the comparative information (disclosure for the fiscal year ended March 31, 2018) was not restated.

Consolidated Statements of Cash Flows

(Millions of yen)

	Notes	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Cash flows from operating activities			
Income before income taxes		86,941	77,993
Depreciation and amortization	6	96,037	99,082
Impairment loss	6,10	1,530	12,607
Increase (decrease) in provisions		(7,450)	15,101
Financial income		(29,553)	(21,989)
Financial costs		11,568	8,377
Share of (profit) loss of entities accounted for using the equity method		(5,106)	(5,916)
Decrease (increase) in trade and other receivables		12,244	(41,470)
Decrease (increase) in contract assets		–	(16,951)
Decrease (increase) in inventories		(16,115)	(16,716)
Increase (decrease) in trade and other payables		17,036	4,415
Increase (decrease) in contract liabilities		–	21,500
Others, net		(16,701)	(48,566)
Subtotal		150,431	87,467
Interest and dividends received		6,076	7,580
Interest paid		(5,764)	(6,350)
Income taxes paid		(20,762)	(24,462)
Net cash provided by operating activities		129,981	64,235
Cash flows from investing activities			
Purchases of property, plant and equipment		(43,253)	(48,929)
Proceeds from sales of property, plant and equipment		6,334	4,283
Acquisitions of intangible assets		(10,134)	(11,764)
Purchases of available-for-sale financial assets		(2,336)	–
Purchase of equity instruments measured at fair value through other comprehensive income		–	(7,375)
Proceeds from sales of available-for-sale financial assets		12,442	–
Proceeds from sales of equity instruments measured at fair value through other comprehensive income		–	2,293
Purchase of shares of newly consolidated subsidiaries		(23,110)	(47,930)
Acquisitions of subsidiaries, net of cash acquired		5	17
Proceeds from sales of shares of subsidiaries	17	228	20,230
Purchases of investments in affiliated companies		(471)	(1,148)
Proceeds from sales of investments in affiliated companies	17	21,997	13,816
Proceeds from collection of loans receivable		25,466	94
Others, net		(1,399)	(262)
Net cash used in investing activities		(14,231)	(76,675)

See notes to consolidated financial statements.

(Millions of yen)

	Notes	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Cash flows from financing activities			
Increase (decrease) in short-term borrowings, net	16, 20	8,214	48,234
Proceeds from long-term borrowings	16, 20	11,512	9,681
Repayments of long-term borrowings	16, 20	(65,864)	(157,778)
Proceeds from issuance of bonds	16, 20	100,000	50,011
Redemption of bonds	16, 20	(40,000)	–
Proceeds from sales of interests in subsidiaries to non-controlling interests		–	18,810
Dividends paid	19	(15,586)	(15,586)
Dividends paid to non-controlling interests		(4,258)	(4,261)
Others, net		(1,257)	386
Net cash used in financing activities		(7,239)	(50,503)
Effect of exchange rate changes on cash and cash equivalents		(2,447)	(1,275)
Net increase (decrease) in cash and cash equivalents		106,064	(64,218)
Cash and cash equivalents, at the beginning of the year		239,970	346,025
Increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sale	17	(9)	(3,493)
Cash and cash equivalents, at the end of the year	16	346,025	278,314

See notes to consolidated financial statements.

Note: The Company applied IFRS 9, and IFRS 15 from the fiscal year ended March 31, 2019. The cumulative effect of a change in accounting policies was recognized at the date of initial application; as such, the comparative information (disclosure for the fiscal year ended March 31, 2018) was not restated.

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 five main businesses, including the "Public Business," "Enterprise Business," "Network Services Business", "System Platform Business" and "Global 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 24, 2019.

(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, financial assets measured at fair value through profit or loss and equity instruments measured at fair value through other comprehensive income 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

Unless otherwise stated, accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

(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 each subsidiary 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, available-for-sale financial assets or as equity instruments measured at fair value through other comprehensive income 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 available-for-sale financial assets as well as equity securities classified as equity instruments measured at fair value through other comprehensive income 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

The NEC Group applied IFRS 9, "Financial Instruments" (2014), effective from the fiscal year ended March 31, 2019. Financial instruments for the previous fiscal year are not restated under the transition requirements of IFRS 9, and accounted for under International Accounting Standard (“IAS”) 39, "Financial Instruments: Recognition and Measurement".

The accounting policies of financial instruments for the previous fiscal year is as follows:

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 statements 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 statements 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.

The accounting policies of financial instruments for the current fiscal year is as follows:

a. Non-derivative Financial Assets

The NEC Group classifies non-derivative financial assets into financial assets measured at amortized cost, equity instruments measured at fair value through other comprehensive income, and financial assets measured at fair value through profit or loss.

The NEC Group initially recognizes financial assets measured at amortized cost on the date they originated. All other financial assets are recognized in the consolidated statements 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 the contractual rights to the cash flows from the asset as well as 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.

Financial assets measured at amortized cost

Financial assets held by the NEC Group are measured at amortized cost if both of the following conditions are met:

- The financial asset is held in a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially measured at fair value plus any directly attributable transaction costs. Also, trade receivables that do not contain a significant financing component are measured at their transaction price.

After initial recognition, the carrying amounts of financial assets measured at amortized cost are recognized using the effective interest method less impairment loss, if any. Amortization using the effective interest method and gains and losses on derecognition are recognized in profit or loss for the period.

Equity instruments measured at fair value through other comprehensive income

The NEC Group, except for equity instruments in the form of venture capital investment, has made an irrevocable election to present subsequent changes in fair value of certain equity instruments in other comprehensive income, and classifies them into equity instruments measured at fair value through other comprehensive income.

These financial instruments are initially measured at fair value plus any directly attributable transaction costs. These financial instruments are measured at fair value after initial recognition, and changes in fair value are included in other comprehensive income. Dividends from equity instruments measured at fair value through other comprehensive income are recognized as financial income in profit or loss.

Financial assets measured at fair value through profit or loss

Financial assets that are not classified as financial assets measured at amortized cost or equity instruments measured at fair value through other comprehensive income are classified as financial instruments measured at fair value through profit or loss.

These financial assets are measured at fair value after initial recognition, and changes in their fair value are recognized in profit or loss. Gains and losses on financial instruments measured at fair value through profit or loss are recognized in profit or loss.

Impairment of financial assets

An allowance for doubtful accounts is recognized for expected credit losses on financial assets measured at amortized cost.

At the end of each reporting period, the NEC Group evaluates whether there has been a significant increase in credit risk of a financial asset to be measured since initial recognition. Specifically, if the credit risk of a financial asset has not significantly increased since initial recognition, an allowance for doubtful accounts is measured at an amount equal to the 12-month expected credit losses. If the credit risk has significantly increased since initial recognition, it is measured at an amount equal to the lifetime expected credit losses.

Despite the general approach stated above, an allowance for doubtful accounts for trade receivables or contract assets is always measured at an amount equal to the lifetime expected credit losses.

Whether the credit risk has significantly increased or not depends on changes in default risk. The following factors are considered to determine if there has been a change in default risk:

- Serious financial difficulties of customers;
- Contractual breach, including default or delinquencies; and
- The increase in the possibility of bankruptcy or other financial restructuring of customers.

Changes in an allowance for doubtful accounts are recognized in profit or loss.

b. Non-derivative Financial Liabilities

The NEC Group classifies non-derivative financial liabilities into financial liabilities measured at amortized cost. 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.

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.

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

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.

Also, the NEC Group continues to apply the hedge accounting requirements in IAS 39, instead of those in IFRS 9.

d. Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and presented at net in the consolidated statements 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

The accounting policies of impairment for the previous fiscal year is as follows:

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.

The accounting policies of impairment for the current fiscal year is as follows:

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.

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

For accounting treatments of revenue, the NEC Group applies IFRS 15, "Revenue from Contracts with Customers", by recognizing the cumulative effect at the date of initial application according to the transition provisions stipulated in IFRS 15. Financial statements for the previous fiscal year are not restated under the transition requirements of IFRS 15, and revenue is accounted for under IAS 18, "Revenue" and IAS 11, "Construction Contracts".

The accounting policies of revenue for the previous fiscal year is as follows:

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.

The accounting policies of revenue for the current fiscal year is as follows:

In accordance with IFRS 15, the following five-step approach is applied to recognize revenue effective from the fiscal year ended March 31, 2019 (except for interest and dividend income within the scope of IFRS 9 and lease payments within the scope of IAS 17, "Leases").

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

Identifying distinct performance obligations in contracts with customers

The NEC Group recognizes revenue from contracts with customers for sale of goods, rendering services, and systems integration / construction work. The NEC Group identifies distinct promised goods or services from these contracts and allocates revenue in accordance with their performance obligations.

The NEC Group separately accounts for the good or service, if a promised good or service is distinct where the NEC Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contracts, and a customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer.

Determining the transaction price

The NEC Group considers the effects of variable consideration, constraining estimates of variable consideration, the existence of a significant financing component in the contract, non-cash consideration, and consideration payable to a customer when determining the transaction price.
The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
In assessing whether a contract contains a financing component and whether that financing component is significant to the contract, the NEC Group considers the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services. The NEC Group also considers the combined effect of the expected length of time between when it transfers the promised goods or services to the customer and when the customer pays for those goods or services and the prevailing interest rates in the relevant market.

Allocating the transaction price to performance obligation

The NEC Group allocates the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to the customer. To allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract is determined and the transaction price is allocated in proportion to those stand-alone selling prices. A stand-alone selling price is estimated if it is not directly observable.

Satisfaction of performance obligation

The NEC Group recognizes revenue when or as the NEC Group satisfies a performance obligation at a point in time or over time by transferring a promised good or service to a customer.
The NEC Group recognizes revenue over time if one of the following criteria is met; (i) the customer simultaneously receives and consumes the benefits provided by the NEC Group's performance as the NEC Group performs, ii) the NEC Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or iii) the NEC Group's performance does not create an asset with an alternative use to the NEC Group and it has an enforceable right to payment for performance completed to date. If none of the above is met, the NEC Group recognizes revenue at a point in time when it is determined that control of an asset is transferred to a customer.

Methods for measuring progress

When revenue is recognized over time, the NEC Group measures the progress to depict the performance in transferring control of goods or services promised to a customer. Revenue is recognized for a performance obligation satisfied over time only if the progress towards complete satisfaction of the performance obligation can be reasonably measured. When the progress cannot be measured reasonably, revenue is recognized only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

Product warranty

The NEC Group repairs or exchanges products for free of charge to provide warranty 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. If a product warranty is purchased separately or purchased in addition to the standard warranty by a customer, the product warranty is identified as a separate performance obligation. The transaction price is allocated to the performance obligation and revenue is recognized for the allocated amount.

Performance obligations and revenue measurement methods by type of goods or service

(a)Sale of goods

The major transactions regarding sales of goods are Hardware (Servers, Mainframes, Supercomputers, Storage, Business PCs, POS, ATMs, Control Equipment, Wireless LAN Routers), Software (Integrated Operation Management, Application Servers, Security, Database Software), Enterprise Network Solutions (IP Telephony Systems, WAN / Wireless Access Equipment, LAN Products), Network Infrastructure (Core Network, Mobile Phone Base Stations, Optical Transmission Systems, Routers / Switches, Mobile Backhaul), System Devices (Displays, Projectors) and Lighting Equipment.

Revenue from the above sale of goods is recognized when control of the goods is transferred to the customer. Revenue is basically recognized at a point in time based on the inspection of the customer.

(b)Rendering services and systems integration / construction work

The major transactions regarding rendering of services and system integration / construction work are Systems Integration (Systems Implementation, Consulting), Safety (Biometric Solutions, Surveillance and others), Software & Services for service providers (OSS/BSS, SDN/NFV), Services & Management (OSS/BSS, Service Solutions), Network Infrastructure (Submarine Systems), Energy Storage System, Outsourcing / Cloud Services, Data Center Infrastructure Services and Maintenance and Support.

When the outcome of a transaction involving the rendering of services and systems integration / construction work 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. For rendering of services and systems integration / construction work in which the outcome cannot be reliably estimated, revenue is recognized only to the extent of contract costs incurred that are probable to be recoverable, and costs are recognized as expenses in the period they incurred.

Notes:

OSS: Operation Support System, BSS: Business Support System,

SDN: Software-Defined Networking, NFV: Network Functions Virtualization

Stand-alone selling price

For sale of goods, the NEC Group estimates stand-alone selling price mainly based on adjusted market assessment approach. For rendering of services and systems integration / construction work, the NEC Group estimates stand-alone selling price mainly based on expected cost plus a margin approach.

Contract asset and contract liability

Contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance) and contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

Incremental costs of obtaining a contract

An asset is recognized from the incremental costs of obtaining a contract with a customer if those costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that the NEC Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The costs are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

(14) Financial Income and Financial Costs

The accounting policies of revenue for the previous fiscal year is as follows:

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.

The accounting policies of revenue for the current fiscal year is as follows:

Financial income and financial costs include interest income, dividend income, interest expenses, gains or losses, impairment losses and changes in fair value of financial assets measured at fair value through profit or loss as well as financial liabilities measured at fair value through profit or loss, 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 nor 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 32. "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 statements 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

The use of accounting estimates and judgements of revenue for the previous fiscal year is as follows:

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.

The use of accounting estimates and judgements of revenue for the current fiscal year is as follows:

Where revenue is recognized over time, of which substantially the same service is continuously rendered over a specified period, 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:

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

The NEC Group adopts IFRS 16, "Leases", from the fiscal year ending March 31, 2020. In accordance with the transition requirements of IFRS 16, the NEC Group adopts IFRS 16 by reflecting the cumulative impact of IFRS 16 in equity on April 1, 2019.

As a result of this adoption, approximately 180 billion yen in right-of-use assets and lease liabilities is expected to increase on the NEC Group's consolidated statements of financial position at the beginning of the fiscal year ending 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 five reportable segments, which are the Public, Enterprise, Network Services, System Platform and Global 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.

Network Services

This segment mainly renders Network Infrastructure (Core Network, Mobile Phone Base Stations, Optical Transmission Systems, Routers / Switches), Systems Integration (Systems Implementation, Consulting) and Services & Management (OSS / BSS, Services / Solutions).

System Platform

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

Global

This segment mainly renders Safety (Biometric Solutions, Surveillance and others), Software & Services for Service Providers (OSS / BSS, SDN / NFV), Network Infrastructure (Submarine Systems, Mobile Backhaul), System Devices (Displays, Projectors), and Energy Storage System.

(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, 2018

(Millions of yen)

	Reportable Segments								
	Public	Enterprise	Network Services	System Platform	Global	Total	Others	Adjustment	Consolidated Total
Revenue									
1. Revenue from customers	939,106	408,673	377,574	531,733	453,651	2,704,737	139,710	—	2,844,447
2. Intersegment revenue and transfers	30,875	11,194	13,115	63,606	2,328	121,118	26,295	(147,413)	—
Total sales	963,981	419,867	390,689	595,339	455,979	2,825,855	166,005	(147,413)	2,844,447
Segment income(loss) (Operating income(loss))	53,151	35,712	17,251	30,002	(28,006)	108,109	(444)	(43,816)	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	36,045	4,900	7,115	15,736	11,198	74,994	15,610	5,433	96,037
Impairment loss	—	108	2	8	805	923	527	80	1,530
Reversal of impairment loss	(138)	—	—	—	—	(138)	—	—	(138)
Capital expenditures	35,440	7,989	9,076	22,699	9,382	84,586	17,043	6,302	107,931

Fiscal year ended March 31, 2019

(Millions of yen)

	Reportable Segments								
	Public	Enterprise	Network Services	System Platform	Global	Total	Others	Adjustment	Consolidated Total
Revenue									
1. Revenue from customers	949,617	434,965	394,834	546,704	440,700	2,766,820	146,626	—	2,913,446
2. Intersegment revenue and transfers	32,011	10,634	11,475	67,321	2,488	123,929	24,465	(148,394)	—
Total sales	981,628	445,599	406,309	614,025	443,188	2,890,749	171,091	(148,394)	2,913,446
Segment income(loss) (Operating income(loss))	52,203	35,062	13,113	22,290	(29,410)	93,258	20,877	(55,670)	58,465
Financial income									21,989
Financial costs									(8,377)
Share of profit of entities accounted for using the equity method									5,916
Income before income taxes									77,993
Other items									
Depreciation and amortization	37,641	4,558	7,031	14,920	13,585	77,735	15,425	5,922	99,082
Impairment loss	319	34	—	1,442	4,923	6,718	444	5,445	12,607
Capital expenditures	45,203	10,066	9,198	20,768	26,845	112,080	16,591	21,697	150,368

Note:

a. "Adjustment" of segment income (loss) for the fiscal year ended March 31, 2018 includes corporate expenses of (43,123) million yen and noncurrent assets related adjustment of 1,290 million yen, unallocated to each reportable segment.
"Adjustment" of segment income (loss) for the fiscal year ended March 31, 2019 includes corporate expenses of (55,105) million yen and noncurrent assets related adjustment of (671) 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.

b. For the previous fiscal year, revenue is accounted for under IAS 18, "Revenue" and IAS 11, "Construction Contracts".

c. For the current fiscal year, the impact of applying IFRS 15 on operating segments is not significant.

d. "Adjustment" of capital expenditures for the fiscal years ended March 31, 2018 and 2019, included the increase in capital expenditures by the Company, that are unallocated to each reportable segment.

(4) Information about revising segments

From the fiscal year ended March 31, 2019, the Company's operating segments have been revised based on a new organization structure effective as of April 1, 2018.

Major revisions are as follows:

"Global" segment has been newly established.

"Telecom Carrier" segment has been renamed to "Network Services" segment.

In connection with this revision, segment information for the fiscal year ended March 31, 2018 has been reclassified to conform to the presentation of the revised segments for the fiscal year ended March 31, 2019.

(5) Information about geographic areas

a. Revenue from customers

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Japan	2,104,268	2,224,345
The Americas	185,293	174,385
EMEA	154,798	161,094
China / East Asia and APAC	400,088	353,622
Total	2,844,447	2,913,446

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

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Japan	541,647	544,289
The Americas	39,920	39,836
EMEA	71,548	219,934
China / East Asia and APAC	19,988	15,110
Total	673,103	819,169

Note:

1. Revenue is classified into country or region based on the locations of customers.
2. Major regions in segments other than Japan:
   (1) The Americas: North America and Latin America
   (2) EMEA: Europe, Middle East and Africa
   (3) China / East Asia and APAC: China, East Asia and Asia Pacific (Asia, Oceania)
3. Revenue from customers outside of Japan is mainly from "Global" and "Public" segments.
4. For the fiscal year ended March 31, 2018, revenue is accounted for under IAS 18, "Revenue" and IAS 11, "Construction Contracts".

(6) Information about major customers

Information about major customers for the fiscal years ended March 31, 2018 and 2019, 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, 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 from a private equity firm, Cinven, for making NPS a consolidated subsidiary of NEC. 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 statements 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 consolidated statements 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 statements of profit or loss would be 2,863,042 million yen of revenue and 56,696 million yen of net profit (non-audited information).

Fiscal year ended March 31, 2019

Revision of the provisional amount

On January 31, 2018, NEC has acquired UK-based IT services company, NPS from a private equity firm, Cinven, for making NPS a consolidated subsidiary of NEC and accelerating the expansion of its international safety business. In the previous fiscal year, the Company applied provisional accounting treatment based on the allocation of acquisition cost, using fair value temporary estimated. In the current fiscal year, the allocation of the acquisition costs has been completed. The impact of the allocation is not significant.

The amount has been determined for fair value of assets acquired and liabilities assumed at the acquisition date as follows:

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	27,732
Others	3,119
Total assets	37,602
Current liabilities	
Trade payables	1,408
Others	6,603
Non-current liabilities	
Financial Liabilities	41,848
Others	8,860
Total liabilities	58,719
Equity	(21,117)

Goodwill arising on acquisition

(Millions of yen)

Item	Amount
Consideration for the acquisition	27,563
Non-controlling interests	(5,598)
Fair value of identifiable net assets acquired by the NEC Group	21,117
Goodwill arising on acquisition	43,082

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.

Business combination of a subsidiary

NEC has acquired KMD Holding ApS, the largest Danish IT company from Advent International, a private equity investor, making KMD a consolidated subsidiary of NEC.

Through the acquisition, NEC acquires a business model that leverages platforms in the digital government domain as it aims to expand business from northern Europe to the whole of Europe and globally. A summary of this transaction is as follows:

Summary of the business combination

Name of the acquired company and its business

(i) Name: KMD Holding ApS

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

Main reason for the business combination

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

Date of the business combination

February 21, 2019

Voting rights acquired

On the acquisition date: 100.00 %

Consideration for the acquisition

(Millions of yen)

Item	Amount
Cash and cash equivalents	48,377
Total	48,377

Acquisition-related costs

Outsourcing service expenses and other expenses related to the share acquisition of 1,128 million yen were recorded in "Selling, general and administrative expenses" in the consolidated statements of profit or loss as the acquisition-related costs for the business combination.

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

(Millions of yen)

Item	Amount
Current assets	
Cash and cash equivalents	3,104
Trade receivables	9,604
Others	6,933
Non-current assets	
Property, plant and equipment	2,181
Intangible assets	25,460
Others	911
Total assets	48,193
Current liabilities	
Trade payables	9,396
Others	21,573
Non-current liabilities	
Financial Liabilities	79,365
Others	12,198
Total liabilities	122,532
Equity	(74,339)

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

Goodwill arising on acquisition

(Millions of yen)

Item	Amount
Consideration for the acquisition	48,377
Fair value of identifiable net assets acquired by the NEC Group	74,339
Goodwill arising on acquisition	122,716

Goodwill mainly reflects excess earnings power and synergies with existing businesses. Entire goodwill is not expected to be deductible for tax purposes.

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 consolidated statements of profit or loss were 6,617 million yen of revenue and 120 million yen of net profit. Assuming that this business combination had taken place at the beginning of the fiscal year ended March 31, 2019, the NEC Group's revenue and net profit (loss) in the consolidated statements of profit or loss would be 2,995,268 million yen of revenue and 40,429 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, 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
Acquisitions	6,148	2,625	6,475	392	47,048	62,688
Acquisitions by business combinations	846	123	1,174	38	–	2,181
Reclassifications	8,646	10,438	38,618	(32)	(34,834)	22,836
Depreciation	(14,445)	(12,592)	(37,368)	–	–	(64,405)
Impairment losses	(3,953)	(256)	(1,856)	(1,509)	(128)	(7,702)
Disposals	(1,205)	(862)	(763)	(764)	(2,917)	(6,511)
Foreign currency translation adjustments	65	(31)	26	51	33	144
Balance at March 31, 2019	177,610	45,764	89,344	66,970	29,133	(408,821)

(Millions of yen)

Cost	Buildings and structures	Machinery and equipment	Furniture and fixtures	Land	Construction in progress	Total
Balance at April 1, 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
Balance at March 31, 2019	550,115	249,618	427,384	75,373	29,133	1,331,623

(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, 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
Balance at March 31, 2019	372,505	203,854	338,040	8,403	–	922,802

(2) Carrying amounts of leased assets

Carrying amounts recorded based on finance leases are as follows:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Buildings and structures	1,058	772
Machinery and equipment	147	126
Tools, furniture and fixtures	1,912	3,221
Total	3,117	4,119

(3) Pledged assets

Details and amounts of pledged assets are as follows:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Land	3,417	3,417
Other	854	828
Total	4,271	4,245

(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, 2018

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

Fiscal year ended March 31, 2019

(Millions of yen)

Operating segment	Cash generating unit	Account	Amount
Other	–	Buildings and structures	2,661
		Machinery and equipment	27
		Furniture and fixtures	23
		Construction in progress	873
Total			3,584

Note: Impairment losses recognized during the fiscal year ended March 31, 2019 were mainly incurred in the companywide research facilities. The recoverable amount of the assets is the higher of the fair value less disposal costs and value in use. As the assets are valued by significant unobservable inputs, the assets are classified as Level 3 in the fair value hierarchy.

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, 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
Acquisitions	–	15,545	2,564	18,109
Acquisitions by business combinations	124,157	17,997	7,463	149,617
Reclassifications	–	25,300	3,552	28,852
Amortization	–	(42,966)	(10,598)	(53,564)
Impairment losses	(2,941)	(709)	(971)	(4,621)
Disposals	–	(1,939)	(731)	(2,670)
Foreign currency translation adjustments	(2,462)	(239)	(1,053)	(3,754)
Other	–	1,686	311	1,997
Balance at March 31, 2019	222,721	96,464	74,996	394,181

(Millions of yen)

Cost	Goodwill	Software	Other	Total
Balance at April 1, 2017	70,817	277,645	78,223	426,685
Balance at March 31, 2018	112,287	248,055	106,298	466,640
Balance at March 31, 2019	233,982	258,489	116,027	608,498

(Millions of yen)

Accumulated amortization and accumulated impairment losses	Goodwill	Software	Other	Total
Balance at April 1, 2017	7,597	190,282	23,447	221,326
Balance at March 31, 2018	8,320	166,266	31,839	206,425
Balance at March 31, 2019	11,261	162,025	41,031	214,317

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 24,176 million yen and 43,107 million yen for the fiscal years ended March 31, 2018 and 2019, respectively. The carrying amount of software for internal use is 55,532 million yen and 51,323 million yen for the fiscal years ended March 31, 2018 and 2019, respectively.

Research and development costs recognized as expenses are 108,093 million yen and 108,141 million yen for the fiscal years ended March 31, 2018 and 2019, 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, 2018	As of March 31, 2019
Software for internal use	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, 2018	As of March 31, 2019
Public	6,171	6,171
Enterprise	3,181	3,516
Network Services	551	551
System Platform	2,720	2,720
Global	63,545	181,964
Others	27,799	27,799
Total	103,967	222,721

From the fiscal year ended March 31, 2019, the Company's operating segments have been revised base on a new organization structure effective as of April 1, 2018. Goodwill as of March 31, 2018 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, 2018

There are no significant impairment losses on goodwill.

Fiscal year ended March 31, 2019

(Millions of yen)

Operating segment	CGU	Amount
Global	IT services business	2,941

Note: Of the global business segment, the impairment is mainly from IT services business subsidiaries.
The recoverable amount of the assets is calculated based on the value in use. The discount rate used is 16.0 %.

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, 2019, 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, 2018

There are no significant impairment losses on intangible assets.

Fiscal year ended March 31, 2019

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, 2019, 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, 2018		Fiscal year ended March 31, 2019	
	Impairment loss	Reversal	Impairment loss	Reversal
Property, plant and equipment				
Buildings and structures	125	—	3,953	—
Machinery and equipment	161	—	256	—
Furniture and fixtures	141	—	1,856	—
Land	72	(138)	1,509	—
Construction in progress	12	—	128	—
Goodwill	756	—	2,941	—
Intangible asset				
Software	146	—	709	—
Rights	92	—	971	—
Other non-current assets				
Other	25	—	284	—
Total	1,530	(138)	12,607	—

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 327 subsidiaries. Changes in subsidiaries for the fiscal year ended March 31, 2019, are as follows:

The number of companies which became subsidiaries due to acquisition or establishment: 35 companies
The number of companies which became outside the scope of consolidation due to liquidation or sale: 8 companies
The number of companies decreased due to mergers within the NEC Group: 3 companies

The NEC Group's principal subsidiaries at March 31, 2019 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	50.9	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, 2018	Fiscal year ended March 31, 2019
Effects of equity transaction with non-controlling interests	(7,057)	(718)

(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, 2018	Fiscal year ended March 31, 2019
Profit or loss allocated to non-controlling interests	4,506	4,513

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

	As of March 31, 2018	As of March 31, 2019
Proportion of ownership interests held by non-controlling interests (%)	61.43	61.43
Accumulated non-controlling interests (Millions of yen)	60,684	62,303

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, 2018	Fiscal year ended March 31, 2019
Payment of dividends to non-controlling interests	2,226	2,287

d. Summarized financial information

(a) Condensed consolidated statements of financial position

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Current assets	175,726	181,377
Non-current assets	33,182	36,150
Total assets	208,908	217,527
Current liabilities	73,297	72,723
Non-current liabilities	38,568	42,005
Total liabilities	111,865	114,728
Total equity	97,043	102,799
Total liabilities and equity	208,908	217,527

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

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Revenue	267,833	278,102
Net profit	8,093	9,458
Other comprehensive income	1,861	(366)
Comprehensive income	9,954	9,092

(c) Condensed consolidated statements of cash flows

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Cash flows from operating activities	4,779	8,396
Cash flows from investing activities	(2,802)	(5,604)
Cash flows from financing activities	(4,366)	(5,615)
Effect of exchange rate changes on cash and cash equivalents	22	(104)
Net increase (decrease) in cash and cash equivalents	(2,367)	(2,927)
Cash and cash equivalents, at end of period	57,281	54,354

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, 2018	Fiscal year ended March 31, 2019
Profit or loss allocated to non-controlling interests	8,270	7,396

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

	As of March 31, 2018	As of March 31, 2019
Proportion of ownership interests held by non-controlling interests (%)	64.10	64.25
Accumulated non-controlling interests (Millions of yen)	98,307	104,368

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, 2018	Fiscal year ended March 31, 2019
Payment of dividends to non-controlling interests	1,772	1,752

d. Summarized financial information

(a) Condensed consolidated statements of financial position

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Current assets	114,004	108,657
Non-current assets	121,880	120,491
Total assets	235,884	229,148
Current liabilities	60,506	48,483
Non-current liabilities	22,183	18,800
Total liabilities	82,689	67,283
Total equity	153,195	161,865
Total liabilities and equity	235,884	229,148

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

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Revenue	254,412	222,358
Net profit	12,516	12,824
Other comprehensive income	2,114	41
Comprehensive income	14,630	12,865

(c) Condensed consolidated statements of cash flows

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Cash flows from operating activities	32,343	37,627
Cash flows from investing activities	(19,787)	(23,042)
Cash flows from financing activities	(8,828)	(6,891)
Effect of exchange rate changes on cash and cash equivalents	(1,087)	134
Net increase (decrease) in cash and cash equivalents	2,641	7,828
Net increase in cash and cash equivalents resulting from new consolidation	180	—
Cash and cash equivalents, at end of period	39,780	47,608

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.

12. Associates

Investments in associates are accounted for using the equity method, and the associates consist of 55 companies. The number of associates accounted for using the equity method for the fiscal year ended March 31, 2019, increased by two companies and decreased by one company.

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, 2019 which are, in the opinion of the directors, 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, 2018	Fiscal year ended March 31, 2019
Dividends received from associates	357	430

b. Condensed financial statements

(a) Condensed consolidated statements of financial position

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Current assets	783,397	768,549
Non-current assets	117,967	121,777
Total assets	901,364	890,326
Current liabilities	417,654	414,038
Non-current liabilities	367,705	365,715
Total liabilities	785,359	779,753
Total equity	116,005	110,573
Total liabilities and equity	901,364	890,326

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

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Revenue	468,867	517,983
Net profit	6,921	10,852
Other comprehensive income	(72)	(409)
Comprehensive income	6,849	10,443

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, 2018	As of March 31, 2019
Equity attributable to owners of the parent	87,670	93,523
Proportion of ownership interest (%)	37.7	37.7
Equity attributable to the NEC Group	33,025	35,230
Unrealized gains or losses	(9)	(21)
Carrying amount of investments accounted for using the equity method	33,016	35,209
Fair value of investments accounted for using the equity method	16,634	13,803

(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, 2018	Fiscal year ended March 31, 2019
Carrying amount of investments accounted for using the equity method	34,282	36,838
Net profit	2,379	3,178
Other comprehensive income	1,706	19
Comprehensive income	4,085	3,197

b. Joint ventures

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Carrying amount of investments accounted for using the equity method	449	374
Net profit	(92)	(251)
Other comprehensive income	—	—
Comprehensive income	(92)	(251)

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, 2018	Fiscal year ended March 31, 2019
Unrecognized share of losses of associates for the period	751	199
Accumulated unrecognized share of losses of associates	3,991	837

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, 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"

Fiscal year ended March 31, 2019

(Millions of yen)

	Beginning balance	Changes in accounting policies	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	31,455	—	2,329	—	—	33,784
Write-off of inventories	24,626	—	(2,068)	—	—	22,558
Depreciation	16,688	—	(3,006)	—	—	13,682
Elimination of unrealized profit from intercompany transactions among consolidated companies	7,077	—	(298)	—	—	6,779
Investments in affiliated companies	3,826	—	(1,987)	85	—	1,924
Provision for retirement benefits	74,057	—	(12,315)	12,302	—	74,044
Tax losses carried forward	31,846	—	3,140	—	—	34,986
Others	16,718	205	8,118	(45)	110	25,106
Total deferred tax assets	206,293	205	(6,087)	12,342	110	212,863
Offset with deferred tax liabilities	(63,891)					(62,352)
Total deferred tax assets, net	142,402					150,511
Deferred tax liabilities:						
Valuation differences due to equity instruments measured at fair value through other comprehensive income	(33,428)	—	—	1,410	—	(32,018)
Undistributed earnings of affiliated companies	(14,790)	—	(2,095)	228	—	(16,657)
Gain on contribution of securities to the retirement benefit trust	(12,072)	—	127	—	—	(11,945)
Valuation differences due to business combination	(17,040)	—	2,137	—	—	(14,903)
Others	(1,480)	—	782	—	(2,467)	(3,165)
Total deferred tax liabilities	(78,810)	—	951	1,638	(2,467)	(78,688)
Offset with deferred tax asset	63,891					62,352
Total deferred tax liabilities, net	(14,919)					(16,336)
Net deferred tax asset	127,483					134,175

Note: Foreign currency translation adjustments are included in "Recognized through profit or loss".
Changes in accounting policies are due to application of IFRS 15.

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, 2019, 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, 2018	As of March 31, 2019
Deductible temporary differences *(Note)*	205,512	225,825
Tax losses carried forward *(Note)*	87,391	85,946
Total	292,903	311,771

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

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
The 1st year	6,116	3,553
The 2nd year	3,864	1,548
The 3rd year	1,916	1,420
The 4th year	1,703	578
The 5th year and thereafter	73,792	78,847
Total	87,391	85,946

(3) Unrecognized deferred tax liabilities

Taxable temporary differences related to investments in subsidiaries, for which no deferred tax liability was recognized, are 144,315 million yen and 143,969 million yen for the fiscal years ended March 31, 2018 and 2019, 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, 2018	Fiscal year ended March 31, 2019
Current tax expense		
Current year	20,752	18,145
Changes in estimates related to prior years	262	605
Subtotal	21,014	18,750
Deferred tax expense		
Origination and reversal of temporary differences	4,138	9,259
Recognition of previously unrecognized tax losses	(618)	(1,131)
Recognition of previously unrecognized (derecognition of previously recognized) deductible temporary differences	2,250	(1,335)
Subtotal	5,770	6,793
Income taxes	26,784	25,543

Income taxes recognized in other comprehensive income are described in Note 18. "Equity (7) Other comprehensive income". Also, the impact of a change in tax rate on deferred tax expenses is not significant.

(5) Reconciliation of effective tax rate

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

(%)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Statutory tax rate	31.0	30.5
Movement in tax rate		
Tax effect on investments in subsidiaries and associates	(0.6)	7.1
Share of profit (loss) of entities accounted for using the equity method	(1.7)	(1.9)
Non-deductible expenses	1.2	1.1
Differences in tax rates applied to foreign subsidiaries	0.6	0.2
Recognition of tax effects resulting from previously unrecognized tax losses	(0.7)	(1.5)
Recognition of previously unrecognized (derecognition of previously recognized) deductible temporary differences	2.6	(1.7)
Others	(1.6)	(1.0)
Effective tax rate	30.8	32.8

The Company and its subsidiaries in Japan are mainly subject to Japanese national and local income taxes, inhabitant tax, and enterprise tax. The tax rates applied are 31.0% and 30.5% for the fiscal years ended March 31, 2018 and 2019, respectively. Also, the impact of a change in tax rate is not significant for the fiscal year ended March 31, 2019.

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, 2018	As of March 31, 2019
Merchandise and finished goods	71,944	79,209
Goods in process	90,827	98,373
Raw materials and supplies	57,483	57,039
Total	220,254	234,621

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, 2018 and 2019, are 15,517 million yen and 15,723 million yen, respectively.

15. Trade and Other Receivables

Trade and other receivables consisted of the following:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Notes receivable	18,392	21,237
Accounts receivable	629,216	665,556
Other receivables	51,265	47,638
Receivables from contractees for construction work	240,129	–
Allowance for doubtful accounts	(7,771)	–
Total	931,231	734,431

Note: For the fiscal year ended March 31, 2018, revenue is accounted for under IAS 18, "Revenue" and IAS 11, "Construction Contracts".

The amounts of trade and other receivables to be collected in over 12 months as of March 31, 2018 and March 31, 2019 are 38,330 million yen and 1,978 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, 2018	As of March 31, 2019
Cash and deposits	206,683	218,888
Securities	141,408	61,352
Deposits and securities with contractual maturity of more than three months	(2,066)	(1,926)
Cash and cash equivalents in the consolidated statements of financial position	346,025	278,314

The balance of cash and cash equivalents as of March 31, 2018 and as of March 31, 2019 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)	–	62,293
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.

Fiscal year ended March 31, 2019

(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	62,993	48,234	—	107	—	110,634
Long-term borrowings	308,850	(148,097)	79,368	362	1,961	242,444
Bonds	149,600	50,011	—	0	(170)	199,441
Total	520,743	(49,852)	79,368	469	1,791	552,519

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, 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. ("Nissan").
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

Fiscal year ended March 31, 2019

On November 29, 2018, NEC determined to transfer all businesses of NEC Lighting, Ltd., ("NEC Lighting"), through a company split to a newly formed company under the investment fund that receives advice from Nippon Mirai Capital Co.,Ltd.
With this determination to transfer shares, the assets and liabilities of NEC Lighting 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, 2019.

(Millions of yen)

Items	Amount
Cash and cash equivalents	3,502
Trade and other receivables	2,686
Inventories	2,568
Other assets	315
Total assets	9,071

(Millions of yen)

Items	Amount
Trade and other payables	3,637
Other liabilities	5,434
Total liabilities	9,071

Regarding the assets and liabilities of NEC Energy Devices and AESC classified into a disposal group held for sale in the previous fiscal year, the transactions of transfer shares were scheduled to be executed on June 29, 2018 as all conditions precedent were fulfilled. However, those transactions were not executed as a purchaser of NEC Energy Devices failed to fulfill the purchaser's payment obligations under those transactions. Later, on August 3, 2018, NEC has determined to transfer (i) all shares of NEC Energy Devices owned by NEC to Envision Electrodes Corporation Ltd. ("Envision"), and (ii) all shares of AESC owned by NEC and NEC Energy Devices to Nissan, thereby enabling Nissan to transfer all shares of AESC to Envision. Those transactions were executed on March 29, 2019.
Upon execution of transfer, 9,077 million yen in gain on sales of subsidiaries' stocks and 10,000 million yen in gain on sales of affiliates' stocks are recorded in the consolidated financial statements for the fiscal year ended March 31, 2019.

The breakdown of assets and liabilities as of the date of the sale as well as revenue from the sale is as follows:

(1) Assets and liabilities

(Millions of yen)

Items	Amount
Cash and cash equivalents	6,337
Trade and other receivables	14,274
Inventories	1,442
Property, plant and equipment, net	11,383
Other assets	1,578
Total assets	35,014

(Millions of yen)

Items	Amount
Trade and other payables	13,557
Other liabilities	3,745
Total liabilities	17,302

(2) Revenue from the sale

(Millions of yen)

Items	Amount
Acquisition price in exchange for cash	26,567
Cash and cash equivalents as the date of the sale	(6,337)
Proceeds from sales of shares of subsidiaries	20,230

(Millions of yen)

Items	Amount
Proceeds from sales of investments in affiliated companies	10,000

18. Equity

(1) Total number of authorized shares

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Ordinary shares (Thousand shares)	750,000	750,000
Total	750,000	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, 2018	Fiscal year ended March 31, 2019
Total number of issued shares (Thousand shares):		
Beginning of the year	2,604,733	260,473
Changes during the year	(2,344,260)	–
End of the year	260,473	260,473

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

(Overview of Change)
Change in the previous 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, 2019.

(3) Treasury shares

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Ordinary shares (Thousand shares):		
Beginning of the year	6,149	702
Changes during the year	(5,447)	61
End of the year	702	763

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

(Overview of Change)
Change in the previous 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, 2018	As of March 31, 2019
Remeasurements of defined benefit plans	2,572	(37,575)
Exchange differences on translating foreign operations	(18,754)	(19,677)
Cash flow hedges	(475)	(650)
Equity instruments measured at fair value through other comprehensive income	–	29,907
Available-for-sale financial assets	99,072	–
Total	82,415	(27,995)

Note: The Company applied IFRS 9, from the fiscal year ended March 31, 2019. The cumulative effect of a change in accounting policies was recognized at the date of initial application; as such, the comparative information (disclosure for the fiscal year ended March 31, 2018) was not restated.

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

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Remeasurements of defined benefit plans	1,447	(286)
Exchange differences on translating foreign operations	(662)	452
Cash flow hedges	–	–
Equity instruments measured at fair value through other comprehensive income	–	(60)
Available-for-sale financial assets	320	–
Total	1,105	106

Note: The Company applied IFRS 9, from the fiscal year ended March 31, 2019. The cumulative effect of a change in accounting policies was recognized at the date of initial application; as such, the comparative information (disclosure for the fiscal year ended March 31, 2018) was not restated.

(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, 2018	Fiscal year ended March 31, 2019
Items that will not be reclassified to profit or loss		
Equity instruments measured at fair value through other comprehensive income		
Increase (decrease) during the year	–	(4,021)
Sub-total, before tax	–	(4,021)
Tax (expense) benefit	–	986
Sub-total, net of tax	–	(3,035)
Remeasurements of defined benefit plans		
Increase (decrease) during the year	3,770	(52,650)
Sub-total, before tax	3,770	(52,650)
Tax (expense) benefit	(402)	12,302
Sub-total, net of tax	3,368	(40,348)
Share of other comprehensive income of associates		
Increase (decrease) during the year	10	(371)
Sub-total, net of tax	10	(371)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations		
Increase (decrease) during the year	(7,124)	(722)
Reclassification adjustments	652	(28)
Sub-total, before tax	(6,472)	(750)
Tax (expense) benefit	38	139
Sub-total, net of tax	(6,434)	(611)
Cash flow hedges		
Increase (decrease) during the year	(76)	(125)
Reclassification adjustments	(11)	(1)
Sub-total, before tax	(87)	(126)
Tax (expense) benefit	(5)	65
Sub-total, net of tax	(92)	(61)
Available-for-sale financial assets		
Increase (decrease) during the year	20,007	–
Reclassification adjustments	(5,480)	–
Sub-total, before tax	14,527	–
Tax (expense) benefit	(6,065)	–
Sub-total, net of tax	8,462	–
Share of other comprehensive income of associates		
Increase (decrease) during the year	(275)	(2)
Reclassification adjustments	1,795	28
Sub-total, net of tax	1,520	26
Total other comprehensive income, net of tax	6,834	(44,400)

Note: The Company applied IFRS 9 from the fiscal year ended March 31, 2019. The cumulative effect of a change in accounting policies was recognized at the date of initial application; as such, the comparative information (disclosure for the fiscal year ended March 31, 2018) was not restated.

19. Dividends

(1) Dividends paid

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.

Fiscal year ended March 31, 2019

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

(2) Dividends for which the record date is in the fiscal year ended March 31, 2019, 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 26, 2019 Board of Directors	Ordinary shares	10,393	Retained earnings	40	March 31, 2019	June 3, 2019

20. Bonds and Borrowings

(1) Details of bonds and borrowings and interest rates

(Millions of yen)

	Ending balance		Average interest rate (%)	Maturity
	As of March 31, 2018	As of March 31, 2019		
Short-term borrowings	62,293	80,634	2.44	–
Current portion of long-term borrowings	77,394	48,044	0.54	–
Current portion of bonds	–		–	–
Commercial papers (short-term)	–	30,000	0.00	–
Long-term borrowings (excluding the current portion)	226,783	188,687	1.09	March 20, 2021 to October 5, 2076
Bonds (excluding the current portion)	149,600	199,441	–	–
Total	516,070	546,806	–	–
Current	139,687	158,678	–	–
Non-current	376,383	388,128	–	–
Total	516,070	546,806	–	–

Details of the balance of bonds are as follows:

(Millions of yen)

Company name	Series	Issued date	Ending balance		Interest rate (%)	Maturity
			As of March 31, 2018	As of March 31, 2019		
NEC	The 47th	July 17, 2015	29,952	29,965	0.412	July 17, 2020
NEC	The 48th	July 17, 2015	19,960	19,957	0.658	July 15, 2022
NEC	The 49th	June 15, 2017	24,933	24,962	0.110	June 15, 2020
NEC	The 50th	June 15, 2017	34,892	34,903	0.290	June 15, 2022
NEC	The 51th	June 15, 2017	24,920	24,918	0.360	June 14, 2024
NEC	The 52th	June 15, 2017	14,943	14,937	0.455	June 15, 2027
NEC	The 53rd	September 21, 2018	–	29,883	0.260	September 21, 2023
NEC	The 54th	September 21, 2018	–	9,956	0.360	September 19, 2025
NEC	The 55th	September 21, 2018	–	9,949	0.500	September 21, 2028
dot Data, Inc.	Convertible bond-type bonds with subscription rights to shares	May 21, 2018	–	11	1.750	May 24, 2022
Total			149,600	199,441	–	–

Details of lease liabilities and interest rates

(Millions of yen)

	Ending balance		Average interest rate (%)	Maturity
	As of March 31, 2018	As of March 31, 2019		
Current portion of lease liabilities	1,760	1,662	1.53	April 20, 2019 to March 24, 2020
Lease liabilities (excluding current portion)	2,913	4,051	1.15	April 13, 2020 to March 31, 2029
Total	4,673	5,713	–	–

Note: The average interest rate is based on the weighted-average interest rate on the balance of borrowings as of March 31, 2019.

(2) Maturity analysis of borrowings excluding current portion

The repayment amount of borrowings as of March 31, 2019, 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	1,804	1,021	774	368	84
Long-term borrowings	3,404	5,306	8,273	41,704	130,000
Bonds	54,927	–	54,871	29,883	59,760

(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, 2018 and 2019, is as follows:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Aggregate amount of commitment line contracts	331,000	331,000
Amount used	2,000	2,000
Unused balance	329,000	329,000

(4) Total future minimum lease payments under finance leases

(Millions of yen)

	As of March 31, 2018		As of March 31, 2019	
	Total payment	Present value	Total payment	Present value
Within one year	1,821	1,760	1,715	1,662
Due after one year through five years	2,821	2,774	4,028	3,967
Due after five years	143	139	84	84
Total	4,785	4,673	5,827	5,713
Deduction – future financial expenses	(112)		(114)	
Present value of lease liabilities	4,673		5,713	

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, 2018	As of March 31, 2019
Short-term borrowings	487	681
Other	48	42
Total	535	723

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, 2018 and 2019 are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Changes in the present value of the defined benefit obligations		
Balance at April 1	1,119,206	1,113,774
Current service cost	34,759	33,513
Interest cost	7,344	6,868
Remeasurements		
Actuarial gains and losses arising from changes in demographic assumptions	3,318	11,348
Actuarial gains and losses arising from changes in financial assumptions	(1,433)	(623)
Past service cost and gains and losses arising from settlements	(1,416)	(1,476)
Benefits paid	(58,613)	(68,275)
Effects of business combinations and disposals	19,322	(2,525)
Settlements of defined benefit pension plans	(7,445)	(54,070)
Foreign currency translation differences	1,097	(1,049)
Transfer to liabilities directly associated with assets held for sale	(2,484)	(1,090)
Others	119	373
Balance at March 31	1,113,774	1,036,768
Changes in the fair value of plan assets		
Balance at April 1	903,938	890,360
Interest income	6,536	6,162
Remeasurements		
Interest income on plan assets	5,655	(41,925)
Employer contributions	11,750	13,252
Benefits paid	(47,384)	(50,903)
Effects of business combinations and disposals	15,676	(920)
Settlements of defined benefit pension plans	(6,335)	(538)
Foreign currency translation differences	2,291	(1,616)
Transfer to liabilities directly associated with assets held for sale	(818)	458
Others	(949)	572
Balance at March 31	890,360	814,902
Net defined benefit liability (asset) recognized in the consolidated statements of financial position	223,414	221,866
Defined benefit liabilities	275,326	241,759
Defined benefit assets	(51,912)	(19,893)
Net defined benefit liability (asset) recognized in the consolidated statements of financial position	223,414	221,866

b. Components of defined benefit cost

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Current service cost	34,759	33,513
Net interest	808	706
Past service cost and gains and losses arising from settlements	(1,416)	(1,476)
Total	34,151	32,743

c. Fair value of plan assets

(Millions of yen)

	As of March 31, 2018 Quoted market price in an active market		As of March 31, 2019 Quoted market price in an active market	
	Available	Unavailable	Available	Unavailable
Equity instruments				
Japan	290,237	–	204,643	–
Overseas	102,598	–	104,856	–
Debt instruments				
Japan	58,333	–	58,443	–
Overseas	348,284	–	356,290	–
Others	79,764	11,144	79,285	11,385
Total	879,216	11,144	803,517	11,385

Note: Consolidated subsidiaries' share that are contributed to retirement benefit trust are included in Equity instruments – Japan. The amount of those shares are 38,516 million yen and 38,386 million yen as of March 31, 2018 and 2019, respectively.

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

	As of March 31, 2018	As of March 31, 2019
Discount rate	0.6%	0.5%

(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, 2018	As of March 31, 2019
Discount rate		
Increased by 0.1%	(11,837)	(11,994)
Decreased by 0.1%	12,071	12,240

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 19,927 million yen to its defined benefit pension plans during the fiscal year ending March 31, 2020.

d. Maturity analysis of the defined benefit obligations

	As of March 31, 2018	As of March 31, 2019
Weighted-average duration of the defined benefit obligation	10.5 years	11.5 years

(4) Contribution to the defined contribution plans

The total amount of contributions paid by the NEC Group, recognized as an expense, was 55,955 million yen and 57,950 million yen for the fiscal years ended March 31, 2018 and 2019, 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, 2018	As of March 31, 2019
Government grants	1,997	1,844

"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, 2018	16,776	4,590	3,468	19.244	15,297	59,375
Increase	18,627	3,598	844	14,029	10,697	47,795
Decrease (used during the year)	(12,856)	(2,428)	(352)	(11,081)	(2,725)	(29,442)
Decrease (reversed during the year)	(86)	(126)	–	(774)	(286)	(1,272)
Increase due to passage of time	–	–	18	–	–	18
Increase due to business combination	–	–	–	–	6,525	6,525
Other	(112)	(308)	(4)	(753)	(324)	(1,501)
Balance as of March 31, 2019	22,349	5,326	3,974	20,665	29,184	81,498
Balance as of April 1, 2018	16,776	4,590	3,468	19,244	15,297	59,375
Balance as of April 1, 2018 – Current	12,439	3,296	239	19,244	10,403	45,621
Balance as of April 1, 2018 – Non-current	4,337	1,294	3,229	–	4,894	13,754
Balance as of March 31, 2019	22,349	5,326	3,974	20,665	29,184	81,498
Balance as of March 31, 2019 – Current	15,501	3,388	209	20,665	18,567	58,330
Balance as of March 31, 2019 – Non-current	6,848	1,938	3,765	–	10,617	23,168

"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, 2018	As of March 31, 2019
Notes payable	5,087	6,001
Accounts payable-trade	405,375	405,798
Accounts payable-other	53,224	70,797
Payables to contractees for construction work	48,429	－
Total	512,115	482,596

Note: For the fiscal year ended March 31, 2018, revenue is accounted for under IAS 18, "Revenue" and IAS 11, "Construction Contracts".

25. Revenue

(1) Disaggregation of revenue

The Company recognizes revenue from contracts with customers in five reportable segments, the Public, Enterprise, Network Services, System Platform and Global.

Revenue consists of the following three categories; sale of goods, rendering of services and system integration / construction contracts. Revenue in three categories for each reportable segment is as follows:

Fiscal year ended March 31, 2019

(Millions of yen)

	Reportable Segments						Others	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total		
Sale of goods	350,606	41,769	103,230	390,416	196,548	1,082,569	85,039	1,167,608
Rendering of services	209,131	243,719	172,313	133,978	133,021	892,163	56,159	948,322
System integration / construction contracts	389,880	149,477	119,291	22,310	111,130	792,088	5,428	797,516
Total	949,617	434,965	394,834	546,704	440,700	2,766,820	146,626	2,913,446

Note: "Others" represents businesses such as Data Center Infrastructure Services and Lighting Equipment.

(2) Performance obligations

There are no significant changes to contract assets during the fiscal year ended March 31, 2019.

Contract assets and contract liabilities in accordance with IFRS 15 are 245,250 million yen and 162,084 million yen respectively, as of April 1, 2018.

Of the revenue recognized during the current fiscal year, 98,509 million yen was included in contract liabilities as of April 1, 2018.

(3) Remaining performance obligations

The transaction price allocated to unsatisfied (or partially unsatisfied) performance obligation as well as timing of recognition in revenue are as follows:

Also, as a practical expedient, the NEC Group exclude the promised amount of consideration in the following calculation of remaining performance obligation, where the performance obligation is part of a contract that has an original expected duration of one year or less.

(Millions of yen)

Remaining performance obligations	Timing of recognition in revenue	
As of March 31, 2019	One year or less	More than one year
1,285,176	580,129	705,047

(4) Contract costs

The NEC Group expects to recover the incremental costs of obtaining a contract. The amount of incremental costs of obtaining a contract that was recognized as an asset is not significant.

Contract costs recognized as an asset are amortized on a systematic basis that is consistent with the recognition of related revenue. The amount of amortization in the current fiscal year is not significant. Also, no impairment loss of contract costs recognized as an asset occurred.

As a practical expedient, the NEC Group recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that it otherwise would have recognized is one year or less.

26. Other Operating Income (loss)

Other operating income (expenses) consists of the following:

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Other operating income		
Gain on sales of subsidiaries' stocks	146	9,148
Compensation received	1,978	2,712
Other	14,228	9,855
Subtotal	16,352	21,715
Other operating loss		
Business structure improvement expenses	(2,733)	(26,921)
Impairment loss	(1,530)	(12,607)
Other	(15,978)	(11,315)
Subtotal	(20,241)	(50,843)
Total	(3,889)	(29,128)

"Gain on sales of subsidiaries' stocks" is mainly from the transfer of shares of NEC Energy Devices. "Other" in "Other operating income" represents a sum of minor profits, including insurance income and those related to disposals of property, plant and equipment.

Other operating loss includes "Business structure improvement expenses" of 20,059 million yen, incurred in the implementation of voluntary early retirement. For "Impairment loss", please refer to Note 10. "Impairment Losses". "Other" in "Other operating Loss" represents a sum of minor losses, including loss on disposal of property, plant and equipment.

27. Personnel Expenses

Personnel expenses comprise the following:

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Salaries and bonuses	715,215	709,987
Retirement benefit expenses	100,909	96,248
Legal welfare expense	59,983	58,987
Other	25,504	25,493
Total	901,611	890,715

28. Financial Income and Financial Costs

Financial income and financial costs consist of the following:

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Financial income		
Interest income	2,022	1,995
Dividend income	4,708	5,444
Gain on sales of affiliates' stocks	16,769	12,603
Foreign exchange gains	—	265
Other	6,054	1,682
Total	29,553	21,989

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Financial costs		
Interest expenses	6,350	6,870
Foreign exchange losses	3,098	—
Other	2,120	1,507
Total	11,568	8,377

Note: "Gain on sales of affiliates' stocks" in previous fiscal year is mainly from transferring shares of TOKIN Corporation and "Gain on sales of affiliates' stocks" in this fiscal year is mainly from transferring shares of Automotive Energy Supply Corporation.

Interest income incurres from financial assets measured at amortised cost, cash and cash equivalents and loans and receivables. Dividend income incurres from equity instruments measured at fair value through other comprehensive income and available-for-sale financial assets. In addition, interest expenses incurres from financial liabilities measured at amortized cost.

Financial instruments are accounted for under IAS 39, "Financial Instruments: Recognition and Measurement" for the fiscal year ended March 31, 2018.

29. Discontinued Operations

Not applicable.

30. 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, 2018	Fiscal year ended March 31, 2019
Profit attributable to owners of the parent	45,870	40,195
Profit not attributable to ordinary shareholders of the parent	–	–
Profit attributable to ordinary shareholders of the parent to calculate basic EPS	45,870	40,195
Profit (loss) attributable to ordinary shareholders of the parent after adjustment for the effects of dilutive potential ordinary shares	45,868	40,194
Weighted-average number of ordinary shares to calculate basic EPS (in thousands of shares)	259,824	259,,738
Effects of dilutive potential ordinary shares	–	–
Weighted-average number of ordinary shares (diluted) (in thousands of shares)	259,824	259,738
Basic EPS (Yen)	176.54	154.75
Diluted EPS (Yen)	176.54	154.75

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 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, 2018 (April 1, 2017).

31. Non-cash Transactions

Significant non-cash transactions are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Acquisition of assets under finance lease transactions	629	974

32. 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.

Guarantee of obligations

The amount of guarantee obligations

The NEC Group guarantees its group companies' borrowing from financial institutions.

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
	Carrying amount	Carrying amount
Employees	205	104
Others	711	541
Total	916	645

Fiscal year ended March 31, 2018

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

(Millions of yen)

	As of March 31, 2018
	Carrying amount
Past due 1 to 30 days	11,489
Past due 31 to180 days	7,643
Past due 181 to 365 days	1,727
Past due over one year	3,155
Total	24,014

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, 2018
Beginning balance	12,379
Impairment loss recognized (or reversed)	1,105
Amounts written off	(1,707)
Foreign currency translation adjustments	17
Ending balance	11,794

Fiscal year ended March 31, 2019

Credit risk exposure relating to trade and other receivables
The NEC Group's credit risk exposure relating to trade and other receivables is as follows:

An allowance for doubtful account for trade receivables and contract assets is always measured at an amount equal to the lifetime expected credit losses.
The assets are grouped by each asset with similar characteristics of credit risks, and expected credit losses are calculated based on historical default rates, concerning the current conditions and future economic environment. Expected credit losses for credit-impaired financial assets are calculated by each asset. Whether an asset falls under the category of credit-impaired financial asset, such objective evidence of debtor as follows is considered

- Serious financial difficulties of customers;
- Contractual breach, including default or delinquencies; and
- The increase in the possibility of bankruptcy or other financial restructuring of customers.

In determining whether the financial assets are impaired, the NEC Group uses reasonable and substantiated information which is available without undue cost or effort. The NEC Group considers that the financial assets are not impaired if the information provides counter-evidence. Expected credit losses from other receivables, contract assets and other financial assets are not significant.

The assets are accounts receivable and notes receivable as described in Note 15. "Trade and other receivables".

Fluctuation analysis of an allowance for doubtful account
The fluctuation is as follows: A simplified approach is adopted in calculating an allowance for doubtful account for trade receivables.

	(Millions of yen) Fiscal year ended March 31, 2019
Beginning balance	11,794
Increase	2,028
Decrease (use on purpose)	(1,785)
Decrease (reversal)	(35)
Others	120
Ending balance	12,122

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, 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

As of March 31, 2019

(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	80,634	82,602	82,602	–	–	–	–	–
Commercial Papers	30,000	30,000	30,000	–	–	–	–	–
Long-term borrowings	236,731	347,092	50,206	6,234	7,539	10,306	43,618	229,189
Bonds	199,441	203,186	706	55,631	555	55,449	30,283	60,562
Lease liabilities	5,713	5,827	1,715	1,839	1,038	781	370	84
Derivative financial liabilities								
Forward exchange contracts	1,064	1,064	511	445	60	18	20	10
Total	553,583	669,771	165,740	64,149	9,192	66,554	74,291	289,845

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, 2018	As of March 31, 2019
	Carrying amount	Carrying amount
Long-term borrowings (floating rates)	101,442	67,407

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, 2018	As of March 31, 2019
Income before income taxes	(1,014)	(674)

(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, 2018		As of March 31, 2019	
	U.S. dollars	Euro	U.S. dollars	Euro
Trade receivables	525,554	49,607	389,194	38,970
Trade payables	(418,013)	(43,630)	(333,677)	(34,602)
Forward exchange contracts, etc.	299,141	(93,205)	37,768	(72,337)
Net exposure	406,682	(87,228)	93,285	(67,969)

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, 2018	As of March 31, 2019
	Income before income taxes	Income before income taxes
U.S. dollars (1% strengthening of the yen)	(432)	(104)
Euro (1% strengthening of the yen)	114	85

(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, 2018	As of March 31, 2019
Increase or decrease of 1% in equity prices	1,339	1,290

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

Fiscal year ended March 31, 2018
(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

Fiscal year ended March 31, 2019

(Financial assets measured at amortized cost)

Trade and other receivables and part of other financial assets

(Debt instruments measured at fair value through other comprehensive income)

Part of other financial assets

(Equity instruments measured at fair value through other comprehensive income)

Part of other financial assets

The NEC Group designates long-term stock holdings for the purpose of maintaining and strengthening relationship with its business partners and expanding its revenue base as equity instruments measured at fair value through other comprehensive income,.

The NEC Group, in principle, makes an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in equity instruments except those in the form of venture capital investment.

The fair value and dividend income of equity instruments measured at fair value through other comprehensive income recognized in “other financial assets” are 204,776 million yen and 4,732 million yen, respectively for the fiscal year ended March 31, 2019.

Of equity instruments measured at fair value through other comprehensive income, derecognized amount of the fair value is not significant for the fiscal year ended March 31, 2019. Also, of equity instruments measured at fair value through other comprehensive income, accumulated gains and losses for derecognized amount is not significant for the fiscal year ended March 31, 2019.

(Financial assets measured at fair value through profit or loss)

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

(4) Fair value of financial assets and liabilities

(Millions of yen)

	As of March 31, 2018		As of March 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at fair value				
Financial assets measured at fair value through profit or loss	1,032	1,032	–	–
Available-for-sale financial assets	208,282	208,282	–	–
Financial assets measured at amortized cost				
Cash and Cash equivalents	346,025	346,025	278,314	278,314
Loans and receivables	733,990	733,990	–	–
Trade and other receivables	–	–	734,431	734,431
Other assets	–	–	46,907	46,907
Financial liabilities measured at fair value				
Financial liabilities measured at fair value through profit or loss	2,746	2,746	–	–
Financial assets measured at fair value through profit or loss				
Other financial assets	–	–	4,601	4,601
Equity instruments measured at fair value through other comprehensive income				
Other financial assets	–	–	204,776	204,776
Other financial liabilities				
Current portion of bonds	–	–	–	–
Short-term borrowings	62,293	62,293	80,634	80,634
Commercial papers	–	–	30,000	30,000
Current portion of long-term borrowings	77,394	77,394	48,044	48,044
Bonds	149,600	150,560	199,441	201,107
Long-term borrowings	226,783	228,081	188,687	189,637
Trade and other payables	463,686	463,686	482,596	482,596
Accruals	50,902	50,902	52,775	52,775
Financial liabilities measured at fair value through profit or loss	–	–	1,064	1,064
Other financial liabilities	16,207	16,207	17,987	17,987

Regarding the fair value hierarchy of assets and liabilities presented in the table above, available-for-sale financial assets and equity instruments measured at fair value through other comprehensive income 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.

Of available-for-sale financial assets, equity instruments measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss, 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, 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

As of March 31, 2019 (Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	–	344	4,257	4,601
Available-for-sale financial assets	129,024	–	75,752	204,776
Financial liabilities measured at fair value through profit or loss	–	1,064	–	1,064

There are no significant financial assets or liabilities that were transferred between levels during the fiscal years ended March 31, 2018 and 2019.

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, 2018 and 2019.

Among equity instruments measured at fair value through other comprehensive income, level 1 listings mainly consist of Hua Hong Semiconductor Ltd. with its fair value of 25,768 million yen and Sumitomo Electric Industries, Ltd., with 10,153 million yen. Also, level 3 listings mainly consist of JECC Corporation with its fair value of 35,680 million yen.

33. 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, 2018	As of March 31, 2019
Due within one year	15,141	17,139
Due after one year through five years	36,339	35,464
Due after five years	2,448	10,892
Total	53,928	63,495

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

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Minimum lease payments under operating leases	35,109	36,933

(2) Leases as a lessor

There are no significant transactions.

34. Related Parties

(1) Transactions with related parties

Transactions between the NEC Group and its related parties are as follows:

Fiscal year ended March 31, 2018

There are no significant transactions with related parties.

Fiscal year ended March 31, 2019

	Company name	Ownership of voting rights	Relationship	Details of transaction	Transaction price	Account	Amount at the end of the fiscal year
Others	Boston Gene Corporation (U.S.)	Directly 9.57 %	A company where directors and their close relatives hold the majority of the voting rights	Subscription for preferred stocks	5,530 Millions of yen	Other financial assets	5,550 Millions of yen

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, 2018	Fiscal year ended March 31, 2019
Trade and other receivables	29,033	14,331
Trade and other payables	39,022	42,442

Note: For the fiscal year ended March 31, 2018, revenue is accounted for under IAS 18, "Revenue" and IAS 11, "Construction Contracts".

Major transactions for the balances above are as follows:

Fiscal year ended March 31, 2018

There are no significant transactions with related parties.

Fiscal year ended March 31, 2019

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, 2018	Fiscal year ended March 31, 2019
Short-term compensation	454	513

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

35. Commitments

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

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Property, plant and equipment	1,460	2,006
Intangible assets	666	636
Total	2,126	2,642

36. Contingencies

There are no significant contingencies.

37. Subsequent Events

The transfer of business

On April 1, 2019, NEC has transferred all businesses of NEC Lighting, Ltd., through a company split to a newly formed company, HotaluX, Ltd. under the investment fund that receives advice from Nippon Mirai Capital Co.,Ltd. The impact of the business transfer on consolidated financial statements for the fiscal year ending March 31, 2020 is expected to be insignificant.

38. Impact of Changes in Accounting Policies

(1)Application of IFRS 9, "Financial Instruments"

The NEC Group has applied IFRS 9, "Financial Instruments", effective from the fiscal year ended March 31, 2019, with the date of initial application as of April 1, 2018.

IFRS 9 introduces new requirements on 1) classification and measurement of financial assets and financial liabilities and 2) impairment of financial assets. Details of these new requirements and the effects on the NEC Group's consolidated financial statements are presented below.

The NEC Group has applied IFRS 9 according to the transition provisions stipulated in IFRS 9.

In accordance with the application of IFRS 9, the NEC Group adopted the adjustments associated with the application of IFRS 9 provided in IAS 1, "Presentation of Financial Statements".

The NEC Group also adopted the adjustments associated with the application of IFRS 9 provided in IFRS 7, "Financial Instruments: Disclosures". These adjustments have been reflected to the disclosure for the fiscal year ended March 31, 2019, but not to the comparative information (disclosure for the fiscal year ended March 31, 2018).

1) Classification of financial assets and financial liabilities

Financial assets

IFRS 9 classifies financial assets into three major categories: those measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

Financial assets are classified into the categories above on the basis of the business model for managing financial assets and the contractual cash flow characteristics of financial assets, in principle. The previous categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets under IAS 39, "Financial Instruments: Recognition and Measurement" have been superseded. The classification and measurement of financial assets, and treatment for related gains and losses applied by the NEC Group based on IFRS 9 are presented in Note 3. "Significant accounting policies".

Financial liabilities

There is no significant effect of the application of IFRS 9 on the NEC Group's accounting policies for financial liabilities.

2) Impairment of financial instruments

The "incurred loss model" under IAS 39 has been changed to the "expected credit loss model" under IFRS 9. The "expected credit loss model" is applied to financial assets measured at amortized cost and contract assets, but not to investments in equity instruments.

3) Transition

Changes in accounting policies due to the application of IFRS 9 are applied retrospectively with the following exceptions:

(a) Differences in carrying amounts of financial assets and liabilities arising from the application of IFRS 9 are recognized in other components of equity and retained earnings as of April 1, 2018, the date of initial application. Accordingly, the information presented for the fiscal year ended March 31, 2018, does not reflect provisions in IFRS 9 and cannot be compared with the information based on IFRS 9 presented for the fiscal year ended March 31, 2019.

(b) The following assessments are made on the basis of the facts and circumstances at the date of initial application of IFRS 9:

- To determine a business model in which financial assets are held;
- To designate investments in equity instruments not held for trading (except those in the form of venture capital investment) as financial assets measured at fair value through other comprehensive income.

(c) The NEC Group regards that the credit risk on an investment in debt securities has not increased significantly since initial recognition if the asset has low credit risk as of the date of initial application of IFRS 9.

(d) The NEC Group continues to apply the hedge accounting requirements in IAS 39, instead of those in IFRS 9.

The impact of changes in accounting policies is as follows:

The effects (net of tax) of the transition to IFRS 9 on other components of equity and retained earnings as of the date of initial application are as follows:

	Effects of the application of IFRS 9 as of April 1, 2018
	Millions of yen
Other components of equity	
Balance as of April 1, 2018, under IAS 39	82,415
Cumulative changes in the fair value of equity instruments measured at fair value through other comprehensive income	(65,904)
Balance as of April 1, 2018, under IFRS 9	16,511
Retained earnings	
Balance as of April 1, 2018, under IAS 39	265,879
Cumulative changes in the fair value of equity instruments measured at fair value through other comprehensive income	65,963
Balance as of April 1, 2018, under IFRS 9	331,842

Classification of financial assets and financial liabilities at the date of initial application of IFRS 9

The NEC Group's financial assets and financial liabilities at the date of initial application are classified in accordance with IAS 39 and IFRS 9 as follows:

	IAS 39		IFRS 9	
	Classification	Carrying amount	Classification	Carrying amount
		Millions of yen		Millions of yen
Financial assets				
Current assets				
Cash and cash equivalents	Loans and receivables	346,025	Measured at amortized cost	346,025
Trade and other receivable	Loans and receivables	691,102	Measured at amortized cost	691,102
Other financial assets	Measured at fair value through profit or loss	1,026	Measured at fair value through profit or loss	1,026
	Loans and receivables	5,324	Measured at amortized cost	5,324
Non-current assets				
Other financial assets	Available-for-sale financial assets	208,282	Measured at fair value through other comprehensive income	204,348
			Measured at fair value through profit or loss	3,934
	Measured at fair value through profit or loss	6	Measured at fair value through profit or loss	6
	Loans and receivables	37,564	Measured at amortized cost	37,564
		1,289,329		1,289,329
Financial liabilities				
Current liabilities				
Trade and other payables	Measured at amortized cost	463,686	Measured at amortized cost	463,686
Bonds and borrowings	Measured at amortized cost	139,687	Measured at amortized cost	139,687
Accruals	Measured at amortized cost	50,902	Measured at amortized cost	50,902
Other financial liabilities	Measured at amortized cost	7,805	Measured at amortized cost	7,805
	Measured at fair value through profit or loss	2,030	Measured at fair value through profit or loss	2,030
Non-current liabilities				
Bonds and borrowings	Measured at amortized cost	376,383	Measured at amortized cost	376,383
Other financial liabilities	Measured at amortized cost	8,402	Measured at amortized cost	8,402
	Measured at fair value through profit or loss	716	Measured at fair value through profit or loss	716
		1,049,611		1,049,611

There are no financial assets or liabilities that were previously designated as those measured at fair value through profit or loss under IAS 39 but were subject to the change of the measurement category; or for which the NEC Group selected the change of the measurement category at the date of initial application of IFRS 9. There are no financial liabilities designated as those measured at fair value through profit or loss by the NEC Group at the date of initial application of IFRS 9.

(2)Application of IFRS 15, "Revenue from Contracts with Customers"

The NEC Group has applied IFRS 15, "Revenue from Contracts with Customers", effective from the fiscal year ended March 31, 2019, with the date of initial application as of April 1, 2018.
IFRS 15 supersedes current revenue recognition requirements including IAS 18, "Revenue "and IAS 11, "Construction Contracts", providing a single comprehensive model of accounting for revenue.
The NEC Group recognized the cumulative effect at the date of initial application according to the transition provision stipulated in IFRS 15. Accordingly retained earnings at the beginning of the fiscal year ended March 31, 2019 decreased by 1.3 billion yen.

Impact of changes is as follows, in applying IFRS 15 to the consolidated financial statements for the fiscal year ended March 31, 2019.

Details of major adjustments

Consolidated Statements of Financial Position

In applying IFRS 15, the amount of 235.2 billion yen formerly recorded as "receivables from contractees for construction work" in "trade and other receivables" is reclassified to contract assets. "Trade and other receivables" in accordance with the previous accounting standards, is 969.7 billion yen.
Also, the amount of 33.3 billion yen formerly recorded as "payables to contractees for construction work “in "trade and other payables" as well as that of 111.4 billion yen formerly recorded as "advances received" in "other current liabilities" are reclassified to contract liabilities.
"Trade and other payables" and "other current liabilities" in accordance with the previous accounting standards, is 515.9 billion yen and 172.5 billion yen respectively.
In addition, identifying performance obligations and allocating the transaction price by the five-step approach resulted in retained earnings to decrease by 2.1 billion yen for the fiscal year ended March 31, 2019.

Consolidated Statements of Profit or Loss

The impact of applying IFRS 15 on the consolidated statements of profit or loss is not significant.

Consolidated Statements of Cash Flows

The impact of applying IFRS 15 on the consolidated statements of cash flows is not significant.

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, 2019, 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 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, 2019, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG AZSA LLC

June 24, 2019
Tokyo, Japan

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

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