News

Release

Orchestrating a brighter world

NEC

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Consolidated Financial Results

for the Fiscal Year Ended

March 31, 2018

1. Consolidated Business Results

As stated in the July 21, 2017 announcement, “NEC to Revise Business Segments,” NEC has revised its operating segments from the first quarter of the fiscal year ended March 31, 2018. Figures for the corresponding period of the previous fiscal year have been restated to conform with the new segments.

(1) Overview of the fiscal year ended March 31, 2018

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(2) Results by main business segment

Revenue by segment (revenue from customers):

Segments	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Change
	In billions of yen	In billions of yen	%
Public	766.2	939.1	22.6
Enterprise	408.6	408.7	0.0
Telecom Carrier	600.4	579.7	(3.4)
System Platform	719.8	714.3	(0.8)
Others	170.0	202.6	19.2
Total	2,665.0	2,844.4	6.7

Operating profit (loss) by segment:

Segments	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Change
	In billions of yen	In billions of yen	In billions of yen
Public	33.2	54.4	21.3
Enterprise	39.7	35.7	(4.0)
Telecom Carrier	18.1	2.0	(16.0)
System Platform	29.6	31.4	1.8
Others	(20.0)	(11.9)	8.1
Adjustment	(58.7)	(47.8)	11.0
Total	41.8	63.9	22.0

Note:
Amounts in this section "(2) Results by main business segment" are rounded to 0.1 billion yen. Amounts in millions of yen are shown in "Note 4: Segment Information" of this news release.

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

Public Business

Revenue:	939.1 billion yen	(22.6%)
Operating Profit (Loss):	54.4 billion yen	(21.3 billion yen)

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

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

Enterprise Business

Revenue:	408.7 billion yen	(0.0%)
Operating Profit (Loss):	35.7 billion yen	(-4.0 billion yen)

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

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

Telecom Carrier Business

Revenue:	579.7 billion yen	(-3.4%)
Operating Profit (Loss):	2.0 billion yen	(-16.0 billion yen)

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

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

System Platform Business

Revenue:	714.3 billion yen	(-0.8 %)
Operating Profit (Loss):	31.4 billion yen	(1.8 billion yen)

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

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

Others

Revenue:	202.6 billion yen	(19.2%)
Operating Profit (Loss):	-11.9 billion yen	(8.1 billion yen)

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

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

2. Consolidated Financial Condition

(1) Analysis of the condition of assets, liabilities, equity

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

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

The balance of interest-bearing debt amounted to 520.7 billion yen, an increase of 53.8 billion yen as compared with the end of the previous fiscal year. The debt-equity ratio as of March 31, 2018 was 0.59 (a worsening of 0.04 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of March 31, 2018, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 174.7 billion yen, a decrease of 52.3 billion yen as compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2018 was 0.20 (an improvement of 0.07 points as compared with the end of the previous fiscal year).

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

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

(2) Analysis of cash flows

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

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

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

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

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

3. Outlook for the Fiscal Year Ending March 31, 2019

The NEC Group anticipates consolidated net sales of 2,830.0 billion yen for the fiscal year ending March 31, 2019, mainly due to growth from its focus on the Safety business, despite the sales decrease caused by deconsolidation of NEC Energy Devices, Ltd. Moreover, the NEC Group anticipates consolidated operating income of 50.0 billion yen for the fiscal year ending March 31, 2019. This takes into consideration decreasing fixed costs from profit structure improvement activities in the previous fiscal year, as well as an expected improvement in the Safety business and an expected profit from the share transfer of NEC Energy Devices, Ltd. This outlook also factors in the influence from the introduction of strategic costs to business structure improvement expenses for achieving "Mid-term Management Plan 2020." The NEC Group also expects 25.0 billion yen of net profit attributable to owners of the parent for the same period.

4. Fundamental Policy on Distribution of Earnings and Dividends for the Fiscal Year Ended March 31, 2018 and the Fiscal Year Ending March 31, 2019

NEC's commitment to shareholder returns includes comprehensive consideration for the profit status of each period in addition to future capital requirements and the execution of business operations with an emphasis on capital efficiency, while regarding investment in growth areas and the enhancement of its financial base as being tied to the creation of long-term corporate value.

Although the profit (loss) attributable to owners of the parent for the fiscal year ended March 31, 2018 was more than its plan, in consideration of capital requirements for achieving the "Mid-term Management Plan 2020," NEC declared an annual dividend of 60 yen per share of common stock, the same value as announced at the beginning of this fiscal year.

For the fiscal year ending March 31, 2019, NEC plans for an annual dividend of 40 yen per share of common stock, while no interim dividend will be paid in consideration of decreased its planned profit (loss) attributable to owners of the parent, mainly due to business structure improvement expenses.

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

5. Basic Rationale for Selection of Accounting Standards

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

Consolidated Financial Statements

(1) Consolidated Statements of Financial Position

(Millions of yen)

	Notes	As of March 31, 2017	As of March 31, 2018
Assets			
Current Assets			
Cash and cash equivalents		239,970	346,025
Trade and other receivables		952,258	931,231
Inventories		205,855	220,254
Other financial assets		4,485	6,350
Other current assets		106,169	112,543
Subtotal		1,508,737	1,616,403
Assets held for sale	4	—	23,932
Total current assets		1,508,737	1,640,335
Non-current assets			
Property, plant and equipment, net	1, 2	419,078	399,590
Goodwill		63,220	103,967
Intangible assets		142,139	156,248
Investments accounted for using the equity method		68,132	67,747
Other financial assets		262,284	245,852
Deferred tax assets		156,622	142,402
Other non-current assets		63,784	65,210
Total non-current assets		1,175,259	1,181,016
Total assets		2,683,996	2,821,351

Consolidated Statements of Financial Position (Continued)

(Millions of yen)

	Notes	As of March 31, 2017	As of March 31, 2018
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		497,051	512,115
Bonds and borrowings	2	118,915	139,687
Accruals		155,161	171,434
Other financial liabilities		12,507	9,835
Accrued income taxes		21,014	13,844
Provisions		52,210	45,621
Other current liabilities		145,683	158,840
Subtotal		1,002,541	1,051,376
Liabilities held for sale	4	－	11,689
Total current liabilities		1,002,541	1,063,065
Non-current liabilities			
Bonds and borrowings		342,854	376,383
Other financial liabilities		8,285	9,118
Defined benefit liabilities		264,272	275,326
Provisions		13,736	13,754
Other non-current liabilities		36,242	29,420
Total non-current liabilities		665,389	704,001
Total liabilities		1,667,930	1,767,066
Equity			
Share capital		397,199	397,199
Share premium		147,879	138,704
Retained earnings		235,601	265,879
Treasury shares		(3,101)	(3,364)
Other components of equity	3	76,686	82,415
Total equity attributable to owners of the parent		854,264	880,833
Non-controlling interests		161,802	173,452
Total equity		1,016,066	1,054,285
Total liabilities and equity		2,683,996	2,821,351

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

Consolidated Statements of Profit or Loss

(Millions of yen)

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

Note: The Company implemented share consolidation with a ratio of 10 shares of common share to 1 share as of October 1, 2017. The above Basic earnings per share ("EPS") and diluted EPS on common share are calculated assuming that the share consolidation was carried out at the beginning of FY 2016 (April 1, 2016).

Consolidated Statements of Other Comprehensive Income

(Millions of yen)

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

(3) Consolidated Statements of Changes in Equity

(Fiscal year ended March 31, 2017)

(Millions of yen)

	Notes	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
As of April 1, 2016		397,199	147,755	223,883	(3,077)	4,067	769,827	67,393	837,220
Net profit (loss)		—	—	27,310	—	—	27,310	7,914	35,224
Other comprehensive income		—	—	—	—	72,619	72,619	(820)	71,799
Comprehensive income		—	—	27,310	—	72,619	99,929	7,094	107,023
Purchase of treasury shares		—	—	—	(26)	—	(26)	—	(26)
Disposal of treasury shares		—	(2)	—	3	—	1	—	1
Cash dividends	2	—	—	(15,592)	—	—	(15,592)	(2,386)	(17,978)
Subscription rights to shares		—	5	—	—	—	5	—	5
Changes in interests in subsidiaries		—	121	—	—	—	121	89,701	89,822
Total transactions with owners		—	124	(15,592)	(23)	—	(15,491)	87,315	71,824
As of March 31, 2017		397,199	147,879	235,601	(3,101)	76,686	854,264	161,802	1,016,066

(Fiscal year ended March 31, 2018)

(Millions of yen)

	Notes	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
As of April 1, 2017		397,199	147,879	235,601	(3,101)	76,686	854,264	161,802	1,016,066
Net profit (loss)		—	—	45,870	—	—	45,870	14,287	60,157
Other comprehensive income		—	—	—	—	5,729	5,729	1,105	6,834
Comprehensive income		—	—	45,870	—	5,729	51,599	15,392	66,991
Purchase of treasury shares		—	—	—	(271)	—	(271)	—	(271)
Disposal of treasury shares		—	(5)	—	8	—	3	—	3
Cash dividends	2	—	—	(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		—	(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

(4) Consolidated Statements of Cash Flows

(Millions of yen)

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

(Millions of yen)

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

1. Notes to Consolidated Statements of Financial Position

*1. Accumulated depreciation of property, plant and equipment is as follows:

(Millions of yen)

Items	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Accumulated depreciation of property, plant and equipment	903,206	887,977

*2. Assets pledged as and debt secured by collateral

Balances - assets pledged as collateral consisted of the following:

(Millions of yen)

Items	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Buildings and structures, net	174	151
Land	3,417	3,417
Others	694	703
Total	4,285	4,271

Balances - debt secured by collateral consisted of the following:

(Millions of yen)

Items	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Short-term loans payable	317	487
Others	52	48
Total	369	535

*3. Details of other components of equity

(Millions of yen)

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

*4. Disposal Group Held for Sale

NEC determined to transfer all shares of NEC Energy Devices, Ltd. ("NEC Energy Devices"), a wholly owned subsidiary of NEC, to GSR Capital ("GSR"), a private investment fund on December 4, 2017. This transfer of the NEC Energy Devices shares to GSR is scheduled to be executed on the same day as the transfer of Automotive Energy Supply Corporation ("AESC") shares to GSR by Nissan Motor Co., Ltd.
With this determination to 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

2. Notes to Consolidated Statements of Profit or Loss

*1. Financial income and financial costs

(Millions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Financial income		
Interest income	1,770	2,022
Dividend income	4,179	4,708
Gain on sales of affiliates' stocks (Note 1)	20,065	16,769
Gain on sales of available-for-sale financial assets	2,183	5,743
Other	10,223	311
Total	38,420	29,553

(Millions of yen)

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

Note 1 :"Gain on sales of affiliates' stocks" in previous fiscal year is mainly from transferring shares of Lenovo NEC Holdings B.V. and "Gain on sales of affiliates' stocks" in this fiscal year is mainly from transferring shares of TOKIN Corporation.

3. Notes to Consolidated Statements of Changes in Equity

(1)Total number of issued shares

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

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

(Overview of Change)
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. As a result, total number of issued shares was 260,473,263 shares as of October 1, 2017.

(2)Information relating to dividends

(a) Dividends paid

Fiscal year ended March 31, 2017

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

Fiscal year ended March 31, 2018

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

Note: The amount does not reflect the share consolidation.

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

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

4. Segment Information

(1)General information about reportable segments

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

Descriptions of each reportable segment are as follows:

Public

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

Enterprise

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

Telecom Carrier

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

System Platform

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

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

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

(3)Information about revenue, income or loss by reportable segment

(Fiscal Year ended March 31, 2017)

(Millions of yen)

	Reportable Segments					Others	Adjustments	Consolidated Total
	Public	Enterprise	Telecom Carrier	System Platform	Total			
Revenue								
Revenue from customers	766,216	408,620	600,370	719,807	2,495,013	170,022	–	2,665,035
Intersegment revenue and transfers	38,940	8,056	17,450	59,144	123,590	21,931	(145,521)	–
Total	805,156	416,676	617,820	778,951	2,618,603	191,953	(145,521)	2,665,035
Segment income(loss) (Operating profit (loss))	33,154	39,741	18,090	29,605	120,590	(20,011)	(58,741)	41,838
Financial income								38,420
Financial costs								(20,817)
Share of profit (loss) of entities accounted for using the equity method								8,617
Income (loss) before income taxes								68,058

(Fiscal Year ended March 31, 2018)

(Millions of yen)

	Reportable Segments					Others	Adjustments	Consolidated Total
	Public	Enterprise	Telecom Carrier	System Platform	Total			
Revenue								
Revenue from customers	939,147	408,673	579,722	714,280	2,641,822	202,625	–	2,844,447
Intersegment revenue and transfers	34,498	11,194	14,858	62,736	123,286	21,075	(144,361)	–
Total	973,645	419,867	594,580	777,016	2,765,108	223,700	(144,361)	2,844,447
Segment income(loss) (Operating profit (loss))	54,436	35,712	2,045	31,361	123,554	(11,937)	(47,767)	63,850
Financial income								29,553
Financial costs								(11,568)
Share of profit (loss) of entities accounted for using the equity method								5,106
Income (loss) before income taxes								86,941

Notes:

1. "Others" for the fiscal year ended March 31, 2017 and 2018 represents businesses such as Electrodes/Energy Storage System.
2. "Adjustment" of segment income (loss) for the fiscal year ended March 31, 2017 includes corporate expenses of -58,362 million yen and noncurrent assets related adjustment of -130 million yen, unallocated to each reportable segment. "Adjustment" of segment income (loss) for the fiscal year ended March 31, 2018 includes corporate expenses of -47,073 million yen and noncurrent assets related adjustment of 1,290 million yen, unallocated to each reportable segment. The corporate expenses, unallocated to each reportable segment, are mainly general and administrative expenses incurred at headquarters of NEC, and research and development expenses.

(4)Information about revising segments

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

Major revisions are as follows:

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

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

In connection with this revision, segment information for the previous fiscal year has been reclassified to conform to the presentation.

(5)Information about geographic areas

Revenue from customers

(Millions of yen)

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

Notes:

1. Revenue is 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)

5. Earnings Per Share

The calculation of basic earnings per share (“EPS”) and diluted EPS have been based on the followings:

(Millions of yen)

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

Note: The Company implemented share consolidation with a ratio of 10 shares of common share to 1 share as of October 1, 2017. The above Basic earnings per share ("EPS") and diluted EPS on common share are calculated assuming that the share consolidation was carried out at the beginning of FY 2016 (April 1, 2016).

6. Business Combinations

Business combination of a subsidiary

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

Summary of the business combination

Name of the acquired company and its business

(i) Name: Northgate Public Services, Limited
(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

January 31, 2018

Voting rights acquired

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

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.

Acquisition-related costs

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

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 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	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.

Impact on the NEC Group's performance

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

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

Cautionary Statement with Respect to Forward-Looking Statements

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

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

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

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

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