News Release

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NEC

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***** For immediate use July 31, 2018

Consolidated Financial Results

for the First Quarter

of the Fiscal Year Ending

March 31, 2019

1. Consolidated Business Results

As stated in the July 20, 2018 announcement, “NEC to Revise Operating Segments,” NEC has revised its operating segments from the first quarter of the fiscal year ending March 31, 2019. Figures for the corresponding period of the previous fiscal year have been restated to conform to the new segments.

(1) Overview of the first quarter of the fiscal year ending March 31, 2019 (three months ended June 30, 2018)

The worldwide economy during the three months ended June 30, 2018 continued to grow both in developed countries and emerging countries, although the growth was moderate compared to the fourth quarter in the previous fiscal year due to concerns over growing trade friction with the U.S.

As for the Japanese economy, steady performance was driven by an increase in exports and imports in response to growing domestic and international demand as well as expansion in capital investment against a backdrop of improved corporate performance, a severe shortage of human resources and promotion of change in the way of working.

Under this business environment, the NEC Group recorded consolidated revenue of 613.0 billion yen for the three months ended June 30, 2018, an increase of 30.5 billion yen (5.2%) year-on-year. This increase was mainly due to increased sales in the Public business and the Enterprise business.

Regarding profitability, operating profit (loss) improved by 3.7 billion yen year-on-year, to an operating loss of 10.7 billion yen, mainly due to increased revenue.

Income (loss) before income taxes was a loss of 4.8 billion yen, a year-on-year worsening of 11.9 billion yen, mainly due to the gain on sales of affiliates' stocks that was recorded in the same period of the previous fiscal year, despite improved operating profit (loss).

Net profit (loss) attributable to owners of the parent for the first quarter was a loss of 5.8 billion yen, a decrease of 13.6 billion yen year-on-year. This was primarily due to worsened income (loss) before income taxes.

(2) Results by main segment

Revenue by segment (revenue from customers):

Segments	Three months ended June 30, 2017	Three months ended June 30, 2018	Change
	Billions of yen	Billions of yen	%
Public	179.8	195.5	8.7
Enterprise	87.8	96.2	9.5
Network Services	78.2	77.6	-0.7
System Platform	108.3	108.4	0.1
Global	96.3	97.1	0.8
Others	32.1	38.2	19.1
Total	582.5	613.0	5.2

Operating profit (loss) by segment:

Segments	Three months ended June 30, 2017	Three months ended June 30, 2018	Change
	Billions of yen	Billions of yen	Billions of yen
Public	-0.8	2.5	3.3
Enterprise	5.0	3.6	-1.4
Network Services	-0.5	-2.2	-1.6
System Platform	-1.5	-3.6	-2.1
Global	-7.6	-8.2	-0.5
Others	-1.8	3.2	5.0
Adjustment	-7.2	-6.1	1.1
Total	-14.4	-10.7	3.7

Notes:

Amounts in this section "(2) Results by main segment" are rounded to 0.1 billion yen. Amounts in millions of yen are shown in Note 2 "Segment information" in Note (5) "Notes to the Condensed Interim Consolidated Financial Statements".

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

Public Business

Revenue:	195.5 billion yen	(+8.7%)
Operating Profit (Loss):	2.5 billion yen	(+3.3 billion yen)

In the Public business, revenue was 195.5 billion yen, an increase of 15.7 billion yen (+8.7%) year-on-year, mainly due to growth in the aerospace and defense sector.

Operating profit (loss) improved by 3.3 billion yen year-on-year, to an operating profit of 2.5 billion yen, mainly owing to increased sales.

Enterprise Business

Revenue:	96.2 billion yen	(+9.5%)
Operating Profit (Loss):	3.6 billion yen	(-1.4 billion yen)

In the Enterprise business, revenue was 96.2 billion yen, an increase of 8.4 billion yen (+9.5%) year-on-year, mainly due to increased sales for the retail / service sector.

Operating profit (loss) worsened by 1.4 billion yen year-on-year, to an operating profit of 3.6 billion yen, mainly owing to increased investment in AI (Artificial Intelligence) and the IoT (Internet of Things) area, despite increased profit in systems implementation services.

Network Services Business

Revenue:	77.6 billion yen	(-0.7%)
Operating Profit (Loss):	-2.2 billion yen	(-1.6 billion yen)

In the Network Services business, revenue was 77.6 billion yen, a decrease of 0.6 billion yen (-0.7%) year-on-year, mainly due to sluggish capital investment by telecommunications carriers.

Operating profit (loss) worsened by 1.6 billion yen year-on-year, to an operating loss of 2.2 billion yen, mainly owing to decreased profitability from a change in project mix as well as increased investment in 5G (5th generation mobile communication systems).

System Platform Business

Revenue:	108.4 billion yen	(+0.1%)
Operating Profit (Loss):	-3.6 billion yen	(-2.1 billion yen)

In the System Platform business, revenue was 108.4 billion yen, remaining mostly unchanged from the same quarter in the previous fiscal year.

Operating profit (loss) worsened by 2.1 billion yen year-on-year, to an operating loss of 3.6 billion yen, mainly owing to a temporary decline in hardware profitability.

Global Business

Revenue:	97.1 billion yen	(+0.8%)
Operating Profit (Loss):	-8.2 billion yen	(-0.5 billion yen)

In the Global business, revenue was 97.1 billion yen, an increase of 0.8 billion yen (+0.8%) year-on-year, mainly due to increased sales in the safety business despite decreased sales in the submarine systems business.

Operating profit (loss) worsened by 0.5 billion yen year-on-year, to an operating loss of 8.2 billion yen, mainly owing to decreased sales in the submarine systems business.

Others

Revenue:	38.2 billion yen	(+19.1%)
Operating Profit (Loss):	3.2 billion yen	(5.0 billion yen)

In the Others, revenue was 38.2 billion yen, an increase of 6.1 billion yen (+19.1%) year-on-year.

Operating profit (loss) improved by 5.0 billion yen year-on-year, to an operating profit of 3.2 billion yen.

2. Consolidated Financial Condition

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

Total assets were 2,741.4 billion yen as of June 30, 2018, a decrease of 79.9 billion yen as compared with the end of the previous fiscal year. Current assets as of June 30, 2018 decreased by 116.2 billion yen compared with the end of the previous fiscal year to 1,524.1 billion yen, mainly due to the collection of trade and other receivables. Non-current assets as of June 30, 2018 increased by 36.3 billion yen compared with the end of the previous fiscal year to 1,217.3 billion yen. This was mainly due to an increase in other non-current assets as well as an increase in other financial assets attributable to a rise in market prices of shares.

Total liabilities as of June 30, 2018 decreased by 69.3 billion yen compared with the end of the previous fiscal year to 1,697.7 billion yen, mainly due to a decrease in accruals from bonus payments. The balance of interest-bearing debt amounted to 528.8 billion yen, an increase of 8.1 billion yen as compared with the end of the previous fiscal year. The debt-equity ratio as of June 30, 2018 was 0.61 (a worsening of 0.02 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of June 30, 2018, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 159.1 billion yen, a decrease of 15.6 billion yen as compared with the end of the previous fiscal year. The net debt-equity ratio as of June 30, 2018 was 0.18 (an improvement of 0.02 points as compared with the end of the previous fiscal year).

Total equity was 1,043.7 billion yen as of June 30, 2018, a decrease of 10.6 billion yen as compared with the end of the previous fiscal year, mainly due to the payment of dividends.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of June 30, 2018 was 869.6 billion yen, and the ratio of equity attributable to owners of the parent was 31.7% (an improvement of 0.5 points as compared with the end of the previous fiscal year).

Net cash inflows from operating activities for the three months ended June 30, 2018 were 51.2 billion yen, a decrease of 24.2 billion yen as compared with the same period in the previous fiscal year, due to worsened income (loss) before income taxes.

Net cash outflows from investing activities for the three months ended June 30, 2018 were 15.4 billion yen, an increase of 54.4 billion yen as compared with the same period in the previous fiscal year, mainly as a result of proceeds from sales of investments in affiliated companies recorded in the same period in the previous fiscal year.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for the three months ended June 30, 2018 totaled a cash inflow of 35.8 billion yen, a decrease of 78.6 billion yen year-on-year.

Net cash flows from financing activities for the three months ended June 30, 2018 totaled a cash outflow of 10.3 billion yen, mainly due to the payment of dividends.

As a result, cash and cash equivalents as of June 30, 2018 amounted to 369.7 billion yen, an increase of 23.7 billion yen as compared with the end of the previous fiscal year.

3. Consolidated Financial Forecast

There is no change to the consolidated financial forecasts for the full fiscal year ending March 31, 2019, as previously disclosed on April 27, 2018.

Condensed Interim Consolidated Financial Statements

(1)Condensed Interim Consolidated Statements of Financial Position

(Millions of yen)

	Notes	As of March 31, 2018	As of June 30, 2018
Assets			
Current Assets			
Cash and cash equivalents		346,025	369,676
Trade and other receivables		931,231	466,987
Contract assets		–	257,280
Inventories		220,254	270,471
Other financial assets		6,350	6,803
Other current assets		112,543	126,921
Subtotal		1,616,403	1,498,138
Assets held for sale		23,932	25,950
Total current assets		1,640,335	1,524,088
Non-current assets			
Property, plant and equipment, net		399,590	398,635
Goodwill		103,967	103,703
Intangible assets		156,248	153,213
Investments accounted for using the equity method		67,747	68,079
Other financial assets		245,852	269,620
Deferred tax assets		142,402	139,873
Other non-current assets		65,210	84,196
Total non-current assets		1,181,016	1,217,319
Total assets		2,821,351	2,741,407

Condensed Interim Consolidated Statements of Financial Position (Continued)

(Millions of yen)

	Notes	As of March 31, 2018	As of June 30, 2018
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		512,115	412,911
Contract liabilities		—	172,433
Bonds and borrowings		139,687	147,512
Accruals		171,434	125,492
Other financial liabilities		9,835	11,078
Accrued income taxes		13,844	11,275
Provisions		45,621	44,587
Other current liabilities		158,840	54,074
Subtotal		1,051,376	979,362
Liabilities directly associated with assets held for sale		11,689	11,551
Total current liabilities		1,063,065	990,913
Non-current liabilities			
Bonds and borrowings		376,383	376,571
Other financial liabilities		9,118	48,473
Defined benefit liabilities		275,326	240,595
Provisions		13,754	13,389
Other non-current liabilities		29,420	27,790
Total non-current liabilities		704,001	706,818
Total liabilities		1,767,066	1,697,731
Equity			
Share capital		397,199	397,199
Share premium		138,704	138,704
Retained earnings		265,879	309,147
Treasury shares		-3,364	-3,555
Other components of equity	3	82,415	28,111
Total equity attributable to owners of the parent		880,833	869,606
Non-controlling interests		173,452	174,070
Total equity		1,054,285	1,043,676
Total liabilities and equity		2,821,351	2,741,407

Notes:

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 first quarter of the fiscal year ending March 31, 2019. The cumulative effect of a change in accounting policies was recognized at the date of initial application, and the comparative information (disclosure for the fiscal year ended March 31, 2018) was not restated.

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

Condensed Interim Consolidated Statements of Profit or Loss

(Millions of yen)

Three months ended June 30	Notes	2017	2018
Revenue		582,456	612,962
Cost of sales		424,421	448,801
Gross profit		158,035	164,161
Selling, general and administrative expenses		173,056	176,344
Other operating income (loss)		580	1,483
Operating profit (loss)		-14,441	-10,700
Financial income	4	22,544	6,709
Financial costs	4	2,548	1,958
Share of profit (loss) of entities accounted for using the equity method		1,579	1,191
Income (loss) before income taxes		7,134	-4,758
Income taxes		-2,239	-960
Net profit (loss)		9,373	-3,798
Net profit (loss) attributable to			
Owners of the parent		7,831	-5,760
Non-controlling interests		1,542	1,962
Total		9,373	-3,798
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)		30.14	-22.17
Diluted earnings per share (yen)		30.14	-22.18

Notes:

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).

The Company applied IFRS 9 and IFRS 15 from the first quarter of the fiscal year ending March 31, 2019. The cumulative effect of a change in accounting policies was recognized at the date of initial application, and the comparative information was not restated.

Condensed Interim Consolidated Statements of Other Comprehensive Income

(Millions of yen)

Three months ended June 30	Notes	2017	2018
Net profit (loss)		9,373	-3,798
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		—	14,060
Remeasurements of defined benefit plan		—	—
Share of other comprehensive income of associates		—	—
Total items that will not be reclassified to profit or loss		—	14,060
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		152	-2,054
Cash flow hedges		12	72
Available-for-sale financial assets		-3,452	—
Share of other comprehensive income of associates		1,722	-93
Total items that may be reclassified subsequently to profit or loss		-1,566	-2,075
Total other comprehensive income, net of tax		-1,566	11,985
Total comprehensive income		7,807	8,187
Total comprehensive income attributable to			
Owners of the parent		6,056	5,840
Non-controlling interests		1,751	2,347
Total		7,807	8,187

Notes:

The Company applied IFRS 9 and IFRS 15 from the first quarter of the fiscal year ending March 31, 2019. The cumulative effect of a change in accounting policies was recognized at the date of initial application, and the comparative information was not restated.

(3)Condensed Interim Consolidated Statements of Changes in Equity

(Three months ended June 30, 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, 2017		397,199	147,879	235,601	-3,101	76,686	854,264	161,802	1,016,066
Net profit (loss)		—	—	7,831	—	—	7,831	1,542	9,373
Other comprehensive income		—	—	—	—	-1,775	-1,775	209	-1,566
Comprehensive income		—	—	7,831	—	-1,775	6,056	1,751	7,807
Purchase of treasury shares		—	—	—	-6	—	-6	—	-6
Disposal of treasury shares		—	-1	—	1	—	1	—	1
Cash dividends		—	—	-15,592	—	—	-15,592	-2,247	-17,839
Changes in interests in subsidiaries		—	118	—	—	—	118	314	432
Total transactions with owners		—	117	-15,592	-4	—	-15,479	-1,933	-17,412
As of June 30, 2017		397,199	147,996	227,840	-3,105	74,911	844,841	161,620	1,006,461

(Three months ended June 30, 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, 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)		—	—	-5,760	—	—	-5,760	1,962	-3,798
Other comprehensive income		—	—	—	—	11,600	11,600	385	11,985
Comprehensive income		—	—	-5,760	—	11,600	5,840	2,347	8,187
Purchase of treasury shares		—	—	—	-192	—	-192	—	-192
Disposal of treasury shares		—	-0	—	1	—	1	—	1
Cash dividends		—	—	-15,591	—	—	-15,591	-2,251	-17,842
Changes in interests in subsidiaries		—	—	—	—	—	—	522	522
Total transactions with owners		—	-0	-15,591	-191	—	-15,782	-1,729	-17,511
As of June 30, 2018		397,199	138,704	309,147	-3,555	28,111	869,606	174,070	1,043,676

Notes:

The Company applied IFRS 9 and IFRS 15 from the first quarter of the fiscal year ending March 31, 2019. The cumulative effect of a change in accounting policies was recognized at the date of initial application, and the comparative information was not restated.

(4)Condensed Interim Consolidated Statements of Cash Flows

(Millions of yen)

Three months ended June 30	Notes	2017	2018
Cash flows from operating activities			
Income (loss) before income taxes		7,134	-4,758
Depreciation and amortization		22,513	24,662
Impairment loss		32	22
Increase (decrease) in provisions		-5,685	-892
Financial income	4	-22,544	-6,709
Financial costs	4	2,548	1,958
Share of (profit) loss of entities accounted for using the equity method		-1,579	-1,191
Decrease (increase) in trade and other receivables		240,523	223,272
Decrease (increase) in inventories		-49,541	-49,439
Increase (decrease) in trade and other payables		-59,300	-49,850
Others, net		-50,514	-76,184
Subtotal		83,587	60,891
Interest and dividends received		3,729	4,519
Interest paid		-1,764	-1,906
Income taxes paid		-10,114	-12,272
Net cash provided by operating activities		75,438	51,232
Cash flows from investing activities			
Purchases of property, plant and equipment		-11,589	-11,813
Proceeds from sales of property, plant and equipment		1,143	983
Acquisitions of intangible assets		-2,204	-2,462
Purchases of available-for-sale financial assets		-762	—
Purchase of equity instruments measured at fair value through other comprehensive income		—	-1,739
Proceeds from sales of available-for-sale financial assets		10,217	—
Proceeds from sales of equity instruments measured at fair value through other comprehensive income		—	247
Purchase of shares of newly consolidated subsidiaries		—	-446
Acquisition of subsidiaries, net of cash acquired		—	3
Proceeds from sales of investments in affiliated companies		16,364	—
Others, net		25,870	-170
Net cash provided by / (used in) investing activities		39,039	-15,397

Condensed Interim Consolidated Statements of Cash Flows (Continued)

(Millions of yen)

Three months ended June 30	Notes	2017	2018
Cash flows from financing activities			
Increase (decrease) in short-term borrowings, net		-2,246	7,478
Proceeds from long-term borrowings		200	—
Repayments of long-term borrowings		-971	-532
Proceeds from issuance of bonds		100,000	11
Redemption of bonds		-20,000	—
Dividends paid		-15,107	-15,188
Dividends paid to non-controlling interests		-2,237	-2,239
Others, net		383	201
Net cash provided by / (used in) financing activities		60,022	-10,269
Effect of exchange rate changes on cash and cash equivalents		424	-148
Net increase (decrease) in cash and cash equivalents		174,923	25,418
Cash and cash equivalents, at beginning of period		239,970	346,025
Decrease in cash and cash equivalents resulting from transfer to assets held for sale		—	-1,767
Cash and cash equivalents, at end of period		414,893	369,676

Notes:

The Company applied IFRS 9 and IFRS 15 from the first quarter of the fiscal year ending March 31, 2019. The cumulative effect of a change in accounting policies was recognized at the date of initial application, and comparative information was not restated.

(5)Notes to the Condensed Interim Consolidated Financial Statements

1. Significant accounting policies

Significant accounting policies adopted for the first quarter of the fiscal year ending March 31, 2019 are consistent from those applied for the previous fiscal year, except for the following.
Income taxes for the first quarter is calculated using reasonably estimated annual effective tax rate.

(1) IFRS 9 "*Financial Instruments*"

The NEC Group applied International Financial Reporting Standards ("IFRS") 9, "*Financial Instruments"* (2014), effective from the first quarter of the fiscal year ending 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*".

1) 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 statement of financial position initially only at the trade date on which the NEC Group became a party to the contractual provisions.

The NEC Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when the NEC Group transfers 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.
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 instruments 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 in respect of financial assets measured at amortized cost is recognized for expected credit losses.

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 account 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 expected credit losses over the remaining term of the financial asset.

An allowance for doubtful account for trade receivables 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.

Provision of allowance for doubtful accounts is recognized in profit or loss. When an objective event to reduce an allowance for doubtful accounts occurs in a subsequent period, a reversal of the allowance for doubtful accounts is recognized in profit or loss.

2) 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.

3) 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 that 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.

4) Offsetting Financial Assets and Financial Liabilities

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

(2) IFRS 15 “*Revenue from Contracts with Customers*”

The NEC Group applies IFRS 15 “*Revenue from Contracts with Customers*”, retrospectively to accounting treatments of revenue 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*".

In accordance with IFRS 15, the following five-step approach is applied to recognize revenue effective from the first quarter of the fiscal year ending 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) a performance obligation is satisfied by transference of a promised good or service to a customer. Situations that control of a good or service is transferred over time refer to cases when the customer simultaneously receives and consumes the benefits provided by the NEC Group’s performance as the NEC Group performs; the NEC Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or 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. Under any other circumstances, except for listed above, control of an asset is considered to be transferred to a customer and revenue is recognized at a point in time.

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 o r 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), Domestic 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.

2. 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 and System Platform and Global businesses.

Descriptions of each reportable segment are as follows:

Public

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

Enterprise

This segment mainly renders Systems 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 revenue and segment income or loss

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

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

(Three months ended June 30, 2017)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	179,768	87,813	78,186	108,286	96,330	550,383	32,073	—	582,456
Intersegment revenue and transfers	5,539	3,358	3,000	13,105	556	25,558	6,231	-31,789	—
Total	185,307	91,171	81,186	121,391	96,886	575,941	38,304	-31,789	582,456
Segment income(loss) (Operating profit (loss))	-779	5,014	-545	-1,508	-7,648	-5,466	-1,765	-7,210	-14,441
Financial income									22,544
Financial costs									-2,548
Share of profit (loss) of entities accounted for using the equity method									1,579
Income (loss) before income taxes									7,134

(Three months ended June 30, 2018)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	195,480	96,175	77,631	108,354	97,110	574,750	38,212	—	612,962
Intersegment revenue and transfers	5,804	2,885	2,606	11,803	570	23,668	5,991	-29,659	—
Total	201,284	99,060	80,237	120,157	97,680	598,418	44,203	-29,659	612,962
Segment income(loss) (Operating profit (loss))	2,545	3,619	-2,176	-3,590	-8,162	-7,764	3,191	-6,127	-10,700
Financial income									6,709
Financial costs									-1,958
Share of profit (loss) of entities accounted for using the equity method									1,191
Income (loss) before income taxes									-4,758

Notes:

1. "Others" for the three months ended June 30, 2017 represents businesses, such as Data Center Infrastructure Services, and Lighting Equipment
2. "Adjustment" of segment income (loss) for the three months ended June 30, 2017 includes corporate expenses of -7,285 million yen and noncurrent assets related adjustment of 863 million yen, unallocated to each reportable segment. "Adjustment" of segment income (loss) for the three months ended June 30, 2018 includes corporate expenses of -8,327 million yen and noncurrent assets related adjustment of 620 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.
3. For the first quarter of the fiscal year ending March 31, 2019, the impact of applying IFRS 15 on operating segments is not significant.

(4)Information about revising segments

From the first quarter of the fiscal year ending 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 previous fiscal year's first quarter has been reclassified to conform to the presentation of the first quarter of the fiscal year ending March 31, 2019.

(5)Information about geographic areas

Revenue from customers

(Millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Japan	419,311	455,874
The Americas	40,867	38,503
EMEA	33,150	35,954
China / East Asia and APAC	89,128	82,631
Total	582,456	612,962

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)
3. Revenue from customers outside of Japan is mainly from "Global" and "Public" segments.
4. For the first quarter of the previous fiscal year, revenue is accounted for under IAS 18, "*Revenue*" and IAS 11 "*Construction Contracts*".

3. Equity

Details of other components of equity

(Millions of yen)

	As of March 31, 2018	As of June 30, 2018
Remeasurements of defined benefit plan	2,572	2,572
Exchange differences on translating foreign operations	-18,754	-21,098
Cash flow hedges	-475	-359
Equity instruments measured at fair value through other comprehensive income	-	46,996
Available-for-sale financial assets	99,072	-
Total	82,415	28,111

Notes:

The Company applied IFRS 9 from the first quarter of the fiscal year ending March 31, 2019. The cumulative effect of a change in accounting policies was recognized at the date of initial application, and the comparative information was not restated.

4. Financial income and financial costs

(Millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Financial income		
Interest income	415	510
Dividend income	2,627	3,127
Foreign exchange gains	326	1,947
Gain on sales of affiliates' stocks	14,791	-
Other	4,385	1,125
Total	22,544	6,709

(Millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Financial costs		
Interest expenses	1,466	1,631
Other	1,082	327
Total	2,548	1,958

Notes:

"Gain on sales of affiliates' stocks" included in financial income for the first quarter of the previous fiscal year is mainly from transferring shares of TOKIN Corporation.

For the first quarter of the previous fiscal year, financial instruments are accounted for under IAS 39, "*Financial Instruments: Recognition and Measurement*".

5. Subsequent Event

There are no significant subsequent events.

6. 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 ending 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*". Consequently, impairment losses for trade and other receivables, which were previously included in selling, general and administrative expenses, are now separately presented in the consolidated statements of profit or loss.
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 ending 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 1 “Significant accounting policies” in (5) "Notes to the Condensed Interim Consolidated Financial Statements".

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 ending 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 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 ending 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 ending March 31, 2019 decreased by 1.3 billion yen.

Impact of changes is as follows, in applying IFRS 15 to the condensed interim consolidated financial statements for the first quarter of the fiscal year ending March 31, 2019.

Details of major adjustments

Condensed Interim Consolidated Statements of Financial Position

In applying IFRS 15, the amount of 247.3 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 714.3 billion yen.
Also, the amount of 36.0 billion yen formerly recorded as "payables to contractees for construction work " in "trade and other payables" as well as that of 123.6 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 449.0 billion yen and 177.7 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 2.9 billion yen for the first quarter of the fiscal year ending March 31, 2019.

Condensed Interim Consolidated Statements of Profit or Loss

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

Condensed interim Consolidated Statements of Cash Flows

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

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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