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Consolidated Financial Results

for the First Half

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 half of the fiscal year ending March 31, 2019 (six months ended September 30, 2018)

The worldwide economy during the six months ended September 30, 2018 has maintained steady growth, mainly in the U.S. and Europe. The economy in emerging countries also maintained steady growth overall, however, currency depreciation in some countries led to rather unstable financial markets. In addition, there were increasing concerns over trade issues between the U.S. and China.

As for the Japanese economy, stable economic growth continued, although the growth for the second quarter slowed due to a series of natural disasters.

Under this business environment, the NEC Group recorded consolidated revenue of 1,336.4 billion yen for the six months ended September 30, 2018, an increase of 48.4 billion yen (3.8%) year-on-year. This increase was mainly due to increased sales in the Enterprise and Public businesses.

Regarding profitability, operating profit (loss) improved by 6.6 billion yen year-on-year, to an operating profit of 13.8 billion yen, mainly due to increased revenue.

Income (loss) before income taxes was an income of 21.8 billion yen, a year-on-year worsening of 9.0 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 half was a profit of 9.2 billion yen, a worsening of 9.7 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	Six months ended September 30, 2017	Six months ended September 30, 2018	Change
	Billions of yen	Billions of yen	%
Public	404.2	419.7	3.8
Enterprise	191.8	211.7	10.3
Network Services	173.2	176.0	1.6
System Platform	241.5	242.6	0.5
Global	212.1	213.3	0.6
Others	65.2	73.0	12.0
Total	1,288.0	1,336.4	3.8

Operating profit (loss) by segment:

Segments	Six months ended September 30, 2017	Six months ended September 30, 2018	Change
	Billions of yen	Billions of yen	Billions of yen
Public	14.6	12.3	-2.3
Enterprise	15.8	15.7	-0.1
Network Services	5.5	3.4	-2.1
System Platform	5.3	4.0	-1.3
Global	-11.0	-5.0	6.0
Others	-0.4	6.0	6.3
Adjustment	-22.6	-22.4	0.1
Total	7.3	13.8	6.6

Note:
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:	419.7 billion yen	(+3.8%)
Operating Profit (Loss):	12.3 billion yen	(-2.3 billion yen)

In the Public business, revenue was 419.7 billion yen, an increase of 15.5 billion yen (+3.8%) year-on-year, mainly due to growth in the aerospace and defense sector.

Operating profit (loss) worsened by 2.3 billion yen year-on-year, to an operating profit of 12.3 billion yen, mainly owing to a temporary increase in profit recorded in the same period of the previous fiscal year.

Enterprise Business

Revenue:	211.7 billion yen	(+10.3%)
Operating Profit (Loss):	15.7 billion yen	(-0.1 billion yen)

In the Enterprise business, revenue was 211.7 billion yen, an increase of 19.8 billion yen (+10.3%) year-on-year, mainly due to increased sales in sectors that include manufacturing, retail/services and financial services.

Operating profit (loss) was an operating profit of 15.7 billion yen, remaining relatively flat from the same period of the previous fiscal year, mainly due to increased profit in systems implementation services, despite increased investment in AI (Artificial Intelligence) and IoT (Internet of Things) area.

Network Services Business

Revenue:	176.0 billion yen	(+1.6%)
Operating Profit (Loss):	3.4 billion yen	(-2.1 billion yen)

In the Network Services business, revenue was 176.0 billion yen, an increase of 2.8 billion yen (+1.6%) year-on-year, mainly due to increased sales in network infrastructure, despite decreased sales in IT services.

Operating profit (loss) worsened by 2.1 billion yen year-on-year, to an operating profit of 3.4 billion yen, mainly due to a loss from a particular project in IT services, despite the improved profitability of network infrastructure.

System Platform Business

Revenue:	242.6 billion yen	(+0.5%)
Operating Profit (Loss):	4.0 billion yen	(-1.3 billion yen)

In the System Platform business, revenue was 242.6 billion yen, an increase of 1.1 billion yen (+0.5%) year-on-year, mainly due to increased sales of business PCs.

Operating profit (loss) worsened by 1.3 billion yen year-on-year, to an operating profit of 4.0 billion yen, mainly due to increased investment costs for launching new products.

Global Business

Revenue:	213.3 billion yen	(+0.6%)
Operating Profit (Loss):	-5.0 billion yen	(+6.0 billion yen)

In the Global business, revenue was 213.3 billion yen, an increase of 1.3 billion yen (+0.6%) year-on-year, mainly due to increased sales in the safety business, despite decreased sales in the submarine systems and display businesses.

Operating profit (loss) improved by 6.0 billion yen year-on-year, to an operating loss of 5.0 billion yen, mainly owing to improved profitability in safety and mobile backhaul.

Others

Revenue:	73.0 billion yen	(+12.0%)
Operating Profit (Loss):	6.0 billion yen	(+6.3 billion yen)

In Others, revenue was 73.0 billion yen, an increase of 7.8 billion yen (+12.0%) year-on-year.

Operating profit (loss) improved by 6.3 billion yen year-on-year, to an operating profit of 6.0 billion yen.

2. Consolidated Financial Condition

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

Total assets were 2,832.5 billion yen as of September 30, 2018, an increase of 11.1 billion yen as compared with the end of the previous fiscal year. Current assets as of September 30, 2018 decreased by 22.8 billion yen compared with the end of the previous fiscal year to 1,617.5 billion yen, mainly due to the collection of trade and other receivables. Non-current assets as of September 30, 2018 increased by 34.0 billion yen compared with the end of the previous fiscal year to 1,215.0 billion yen, mainly due to an increase in other financial assets attributable to a rise in market prices of shares.

Total liabilities as of September 30, 2018 increased by 5.8 billion yen compared with the end of the previous fiscal year to 1,772.9 billion yen. This was mainly due to issuance of bonds despite a decrease in trade and other payables due to the payment of materials cost. The balance of interest-bearing debt amounted to 583.7 billion yen, an increase of 62.9 billion yen as compared with the end of the previous fiscal year. The debt-equity ratio as of September 30, 2018 was 0.66 (a worsening of 0.07 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of September 30, 2018, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 213.0 billion yen, an increase of 38.2 billion yen as compared with the end of the previous fiscal year. The net debt-equity ratio as of September 30, 2018 was 0.24 (a worsening of 0.04 points as compared with the end of the previous fiscal year).

Total equity was 1,059.6 billion yen as of September 30, 2018, an increase of 5.4 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 first half.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of September 30, 2018 was 881.4 billion yen, and the ratio of equity attributable to owners of the parent was 31.1% (a worsening of 0.1 points as compared with the end of the previous fiscal year).

Net cash inflows from operating activities for the six months ended September 30, 2018 were 14.3 billion yen, a worsening of 35.8 billion yen as compared with the same period of the previous fiscal year, mainly due to an increase in the payment of trade and other payables.

Net cash outflows from investing activities for the six months ended September 30, 2018 were 31.5 billion yen, an increase of 56.7 billion yen as compared with the same period of 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 six months ended September 30, 2018 totaled a cash outflow of 17.1 billion yen, a worsening of 92.5 billion yen year-on-year.

Net cash flows from financing activities for the six months ended September 30, 2018 totaled a cash inflow of 42.7 billion yen, mainly due to proceeds from issuance of bonds.

As a result, cash and cash equivalents as of September 30, 2018 amounted to 370.7 billion yen, an increase of 24.7 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 July 31, 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 September 30, 2018
Assets			
Current Assets			
Cash and cash equivalents		346,025	370,710
Trade and other receivables		931,231	544,871
Contract assets		—	289,768
Inventories		220,254	266,902
Other financial assets		6,350	6,009
Other current assets		112,543	112,155
Subtotal		1,616,403	1,590,415
Assets held for sale		23,932	27,111
Total current assets		1,640,335	1,617,526
Non-current assets			
Property, plant and equipment, net		399,590	397,941
Goodwill		103,967	106,325
Intangible assets		156,248	153,789
Investments accounted for using the equity method		67,747	70,997
Other financial assets		245,852	261,838
Deferred tax assets		142,402	140,309
Other non-current assets		65,210	83,774
Total non-current assets		1,181,016	1,214,973
Total assets		2,821,351	2,832,499

Condensed Interim Consolidated Statements of Financial Position (Continued)

(Millions of yen)

	Notes	As of March 31, 2018	As of September 30, 2018
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		512,115	408,656
Contract liabilities		—	163,243
Bonds and borrowings		139,687	193,127
Accruals		171,434	172,027
Other financial liabilities		9,835	9,980
Accrued income taxes		13,844	9,199
Provisions		45,621	44,589
Other current liabilities		158,840	43,331
Subtotal		1,051,376	1,044,152
Liabilities directly associated with assets held for sale		11,689	12,280
Total current liabilities		1,063,065	1,056,432
Non-current liabilities			
Bonds and borrowings		376,383	385,769
Other financial liabilities		9,118	48,396
Defined benefit liabilities		275,326	241,528
Provisions		13,754	14,165
Other non-current liabilities		29,420	26,566
Total non-current liabilities		704,001	716,424
Total liabilities		1,767,066	1,772,856
Equity			
Share capital		397,199	397,199
Share premium		138,704	138,807
Retained earnings		265,879	324,066
Treasury shares		-3,364	-3,542
Other components of equity	3	82,415	24,888
Total equity attributable to owners of the parent		880,833	881,418
Non-controlling interests		173,452	178,225
Total equity		1,054,285	1,059,643
Total liabilities and equity		2,821,351	2,832,499

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; as such, 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)

Six months ended September 30	Notes	2017	2018
Revenue		1,288,011	1,336,424
Cost of sales		930,090	966,360
Gross profit		357,921	370,064
Selling, general and administrative expenses		350,163	356,801
Other operating income (loss)		-486	562
Operating profit (loss)		7,272	13,825
Financial income	4	24,442	9,104
Financial costs	4	4,353	3,867
Share of profit (loss) of entities accounted for using the equity method		3,449	2,714
Income (loss) before income taxes		30,810	21,776
Income taxes		6,260	7,090
Net profit (loss)		24,550	14,686
Net profit (loss) attributable to			
Owners of the parent		18,817	9,159
Non-controlling interests		5,733	5,527
Total		24,550	14,686
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)		72.42	35.26
Diluted earnings per share (yen)		72.41	35.26

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; as such, the comparative information was not restated.

Condensed Interim Consolidated Statements of Other Comprehensive Income

(Millions of yen)

Six months ended September 30	Notes	2017	2018
Net profit (loss)		24,550	14,686
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		—	7,261
Remeasurements of defined benefit plan		—	—
Share of other comprehensive income of associates		—	—
Total items that will not be reclassified to profit or loss		—	7,261
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		2,018	1,920
Cash flow hedges		-118	85
Available-for-sale financial assets		-966	—
Share of other comprehensive income of associates		1,774	33
Total items that may be reclassified subsequently to profit or loss		2,708	2,038
Total other comprehensive income, net of tax		2,708	9,299
Total comprehensive income		27,258	23,985
Total comprehensive income attributable to			
Owners of the parent		20,959	17,536
Non-controlling interests		6,299	6,449
Total		27,258	23,985

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; as such, the comparative information was not restated.

[THREE MONTHS PERIOD INFORMATION]

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 September 30	Notes	2017	2018
Revenue		705,555	723,462
Cost of sales		505,669	517,559
Gross profit		199,886	205,903
Selling, general and administrative expenses		177,107	180,457
Other operating income (loss)		-1,066	-921
Operating profit (loss)		21,713	24,525
Financial income	4	1,898	2,395
Financial costs	4	1,805	1,909
Share of profit (loss) of entities accounted for using the equity method		1,870	1,523
Income (loss) before income taxes		23,676	26,534
Income taxes		8,499	8,050
Net profit (loss)		15,177	18,484
Net profit (loss) attributable to			
Owners of the parent		10,986	14,919
Non-controlling interests		4,191	3,565
Total		15,177	18,484
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)		42.28	57.43
Diluted earnings per share (yen)		42.28	57.43

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; as such, the comparative information was not restated.

Condensed Interim Consolidated Statements of Other Comprehensive Income

(Millions of yen)

Three months ended September 30	Notes	2017	2018
Net profit (loss)		15,177	18,484
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		—	-6,799
Remeasurements of defined benefit plan		—	—
Share of other comprehensive income of associates		—	—
Total items that will not be reclassified to profit or loss		—	-6,799
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		1,866	3,974
Cash flow hedges		-130	13
Available-for-sale financial assets		2,486	—
Share of other comprehensive income of associates		52	126
Total items that may be reclassified subsequently to profit or loss		4,274	4,113
Total other comprehensive income, net of tax		4,274	-2,686
Total comprehensive income		19,451	15,798
Total comprehensive income attributable to			
Owners of the parent		14,903	11,696
Non-controlling interests		4,548	4,102
Total		19,451	15,798

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; as such, the comparative information was not restated.

(3)Condensed Interim Consolidated Statements of Changes in Equity

(Six months ended September 30, 2017)

(Millions of yen)

		Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Notes	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)		—	—	18,817	—	—	18,817	5,733	24,550
Other comprehensive income (loss)		—	—	—	—	2,142	2,142	566	2,708
Comprehensive income		—	—	18,817	—	2,142	20,959	6,299	27,258
Purchase of treasury shares		—	—	—	-14	—	-14	—	-14
Disposal of treasury shares		—	-1	—	2	—	1	—	1
Cash dividends		—	—	-15,592	—	—	-15,592	-2,248	-17,840
Changes in interests in subsidiaries		—	118	—	—	—	118	317	435
Total transactions with owners		—	117	-15,592	-12	—	-15,487	-1,931	-17,418
As of September 30, 2017		397,199	147,996	238,826	-3,113	78,828	859,736	166,170	1,025,906

(Six months ended September 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)		—	—	9,159	—	—	9,159	5,527	14,686
Other comprehensive income (loss)		—	—	—	—	8,377	8,377	922	9,299
Comprehensive income		—	—	9,159	—	8,377	17,536	6,449	23,985
Purchase of treasury shares		—	—	—	-180	—	-180	—	-180
Disposal of treasury shares		—	-1	—	2	—	1	—	1
Cash dividends		—	—	-15,591	—	—	-15,591	-2,265	-17,856
Put option, written over shares held by a non-controlling interest shareholder		—	103	—	—	—	103	—	103
Changes in interests in subsidiaries		—	1	—	—	—	1	589	590
Total transactions with owners		—	103	-15,591	-178	—	-15,666	-1,676	-17,342
As of September 30, 2018		397,199	138,807	324,066	-3,542	24,888	881,418	178,225	1,059,643

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; as such, the comparative information was not restated.

(4)Condensed Interim Consolidated Statements of Cash Flows

(Millions of yen)

Six months ended September 30	Notes	2017	2018
Cash flows from operating activities			
Income (loss) before income taxes		30,810	21,776
Depreciation and amortization		46,530	49,835
Impairment loss		77	381
Increase (decrease) in provisions		-10,236	-1,042
Financial income	4	-24,442	-9,104
Financial costs	4	4,353	3,867
Share of (profit) loss of entities accounted for using the equity method		-3,449	-2,714
Decrease (increase) in trade and other receivables		140,903	147,303
Decrease (increase) in inventories		-55,892	-45,325
Increase (decrease) in trade and other payables		-35,111	-53,654
Others, net		-34,725	-85,888
Subtotal		58,818	25,435
Interest and dividends received		4,064	5,163
Interest paid		-2,628	-2,905
Income taxes paid		-10,176	-13,370
Net cash provided by operating activities		50,078	14,323
Cash flows from investing activities			
Purchases of property, plant and equipment		-22,969	-23,067
Proceeds from sales of property, plant and equipment		1,399	2,124
Acquisitions of intangible assets		-4,376	-5,429
Purchases of available-for-sale financial assets		-1,569	—
Purchase of equity instruments measured at fair value through other comprehensive income		—	-1,707
Proceeds from sales of available-for-sale financial assets		10,761	—
Proceeds from sales of equity instruments measured at fair value through other comprehensive income		—	251
Purchase of shares of newly consolidated subsidiaries		—	-1,657
Acquisition of subsidiaries, net of cash acquired		—	3
Purchases of investments in affiliated companies		—	-1,138
Proceeds from sales of investments in affiliated companies		16,947	—
Others, net		25,054	-851
Net cash provided by /(used in) investing activities		25,247	-31,471

(Millions of yen)

Six months ended September 30	Notes	2017	2018
Cash flows from financing activities			
Increase (decrease) in short-term borrowings, net		1,172	16,740
Proceeds from long-term borrowings		270	—
Repayments of long-term borrowings		-8,058	-6,773
Proceeds from issuance of bonds		100,000	50,011
Redemption of bonds		-20,000	—
Dividends paid		-15,562	-15,564
Dividends paid to non-controlling interests		-2,248	-2,264
Others, net		375	561
Net cash provided by financing activities		55,949	42,711
Effect of exchange rate changes on cash and cash equivalents		1,242	600
Net increase (decrease) in cash and cash equivalents		132,516	26,163
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		—	-1,478
Cash and cash equivalents, at end of period		372,486	370,710

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; as such, the comparative information was not restated.

(5)Notes to the Condensed Interim Consolidated Financial Statements

1. Significant accounting policies

Significant accounting policies adopted for the second 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 second 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 or other relevant factors, considering the additional incremental costs that are expected to be incurred. If a product warranty is purchased separately or purchased in addition to the standard warranty by a customer, the product warranty is identified as a separate performance obligation. The transaction price is allocated to the performance obligation and revenue is recognized for the allocated amount.

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

(a)Sale of goods

The major transactions regarding sales of goods are Hardware (Servers, Mainframes, Supercomputers, Storage, Business PCs, POS, ATMs, Control Equipment, Wireless LAN Routers), Software (Integrated Operation Management, Application Servers, Security, Database Software), 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, 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

(Six months ended September 30, 2017)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	404,177	191,833	173,211	241,476	212,066	1,222,763	65,248	—	1,288,011
Intersegment revenue and transfers	13,186	6,025	6,438	29,041	1,107	55,797	13,204	-69,001	—
Total	417,363	197,858	179,649	270,517	213,173	1,278,560	78,452	-69,001	1,288,011
Segment income (loss) (Operating profit (loss))	14,594	15,830	5,482	5,287	-10,978	30,215	-361	-22,582	7,272
Financial income									24,442
Financial costs									-4,353
Share of profit (loss) of entities accounted for using the equity method									3,449
Income (loss) before income taxes									30,810

(Six months ended September 30, 2018)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	419,716	211,670	176,041	242,612	213,339	1,263,378	73,046	—	1,336,424
Intersegment revenue and transfers	14,029	5,865	5,711	27,204	1,248	54,057	10,984	-65,041	—
Total	433,745	217,535	181,752	269,816	214,587	1,317,435	84,030	-65,041	1,336,424
Segment income (loss) (Operating profit (loss))	12,281	15,682	3,382	3,970	-5,023	30,292	5,976	-22,443	13,825
Financial income									9,104
Financial costs									-3,867
Share of profit (loss) of entities accounted for using the equity method									2,714
Income (loss) before income taxes									21,776

Notes:

1. "Others" for the six months ended September 30, 2017 and 2018 represents businesses, such as Data Center Infrastructure Services, and Lighting Equipment
2. "Adjustment" of segment income (loss) for the six months ended September 30, 2017 includes corporate expenses of -20,154 million yen and noncurrent assets related adjustment of 740 million yen, unallocated to each reportable segment. "Adjustment" of segment income (loss) for the six months ended September 30, 2018 includes corporate expenses of -22,856 million yen and noncurrent assets related adjustment of 546 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 half of the fiscal year ended March 31, 2018, revenue is accounted for under IAS 18 "*Revenue*" and IAS 11 "*Construction Contracts*".
4. For the first half of the fiscal year ending March 31, 2019, the impact of applying IFRS 15 on operating segments is not significant.

(Three months ended September 30, 2017)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	224,409	104,020	95,025	133,190	115,736	672,380	33,175	—	705,555
Intersegment revenue and transfers	7,647	2,667	3,438	15,936	551	30,239	6,973	-37,212	—
Total	232,056	106,687	98,463	149,126	116,287	702,619	40,148	-37,212	705,555
Segment income (loss) (Operating profit (loss))	15,373	10,816	6,027	6,795	-3,330	35,681	1,404	-15,372	21,713
Financial income									1,898
Financial costs									-1,805
Share of profit (loss) of entities accounted for using the equity method									1,870
Income (loss) before income taxes									23,676

(Three months ended September 30, 2018)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	224,236	115,495	98,410	134,258	116,229	688,628	34,834	—	723,462
Intersegment revenue and transfers	8,225	2,980	3,105	15,401	678	30,389	4,993	-35,382	—
Total	232,461	118,475	101,515	149,659	116,907	719,017	39,827	-35,382	723,462
Segment income (loss) (Operating profit (loss))	9,736	12,063	5,558	7,560	3,139	38,056	2,785	-16,316	24,525
Financial income									2,395
Financial costs									-1,909
Share of profit (loss) of entities accounted for using the equity method									1,523
Income (loss) before income taxes									26,534

Notes:

1. "Others" for the three months ended September 30, 2017 and 2018 represents businesses, such as Data Center Infrastructure Services, and Lighting Equipment
2. "Adjustment" of segment income (loss) for the three months ended September 30, 2017 includes corporate expense of -12,869 million yen and noncurrent assets related adjustment of -123 million yen, unallocated to each reportable segment. "Adjustment" of segment income (loss) for the three months ended September 30, 2018 includes corporate expenses of -14,529 million yen and noncurrent assets related adjustment of -74 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 second quarter of the fiscal year ended March 31, 2018, revenue is accounted for under IAS 18 "*Revenue*" and IAS 11 "*Construction Contracts*".
4. For the second 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 half and second quarter has been reclassified to conform to the presentation of the revised segments for the fiscal year ending March 31, 2019.

(5)Information about geographic areas

Revenue from customers

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Japan	936,150	992,648
The Americas	89,355	86,036
EMEA	70,452	77,144
China / East Asia and APAC	192,054	180,596
Total	1,288,011	1,336,424

(Millions of yen)

	Three months ended September 30, 2017	Three months ended September 30, 2018
Japan	516,839	536,774
The Americas	48,488	47,533
EMEA	37,302	41,190
China / East Asia and APAC	102,926	97,965
Total	705,555	723,462

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 previous fiscal year's first half and second quarter, 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 September 30, 2018
Remeasurements of defined benefit plan	2,572	2,572
Exchange differences on translating foreign operations	-18,754	-17,551
Cash flow hedges	-475	-371
Equity instruments measured at fair value through other comprehensive income	—	40,238
Available-for-sale financial assets	99,072	—
Total	82,415	24,888

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; as such, the comparative information was not restated.

4. Financial income and financial costs

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Financial income		
Interest income	833	992
Dividend income	2,693	3,368
Foreign exchange gains	1,000	3,502
Gain on sales of affiliates' stocks	15,134	—
Other	4,782	1,242
Total	24,442	9,104

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Financial costs		
Interest expenses	2,972	3,289
Other	1,381	578
Total	4,353	3,867

Notes:

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

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

(Millions of yen)

	Three months ended September 30, 2017	Three months ended September 30, 2018
Financial income		
Interest income	418	482
Dividend income	66	241
Foreign exchange gains	674	1,555
Other	740	117
Total	1,898	2,395

(Millions of yen)

	Three months ended September 30, 2017	Three months ended September 30, 2018
Financial costs		
Interest expenses	1,506	1,658
Other	299	251
Total	1,805	1,909

Note: For the second 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*".
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 half 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 284.1 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 828.9 billion yen.
Also, the amount of 32.8 billion yen formerly recorded as "payables to contractees for construction work " in "trade and other payables" as well as that of 118.1 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 441.4 billion yen and 161.4 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 4.7 billion yen for the second 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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