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Press Release - Media Contacts: Seiichiro Toda/Joseph Jasper TEL: +81-3-3798-6511
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Consolidated Financial Results

for the Nine Months Ended

December 31, 2018

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 third quarter of the fiscal year ending March 31, 2019 (nine months ended December 31, 2018)

The worldwide economy during the nine months ended December 31, 2018 maintained steady growth in developed countries, mainly in the U.S. The economy in emerging countries also maintained steady growth overall. However, growing concerns over U.S. monetary and trade policies led to rather unstable financial markets.

As for the Japanese economy, moderate economic growth continued generally, although the growth for the second quarter underwent a temporary slowdown due to a series of natural disasters.

Under this business environment, the NEC Group recorded consolidated revenue of 2,034.7 billion yen for the nine months ended December 31, 2018, an increase of 63.4 billion yen (3.2%) year-on-year. This increase was mainly due to increased sales in the Enterprise business and the Public business.

Regarding profitability, operating profit (loss) improved by 2.4 billion yen year-on-year, to an operating profit of 16.7 billion yen. This was mainly due to increased revenue, despite business structure improvement expenses recorded for the implementation of voluntary early retirement.

Income (loss) before income taxes was an income of 26.5 billion yen, a year-on-year worsening of 13.8 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).

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Net profit (loss) attributable to owners of the parent for the nine months ended December 31, 2018 was a profit of 7.7 billion yen, a worsening of 9.9 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	Nine months ended December 31, 2017	Nine months ended December 31, 2018	Change
	Billions of yen	Billions of yen	%
Public	625.8	648.1	3.6
Enterprise	291.2	317.7	9.1
Network Services	263.0	265.1	0.8
System Platform	372.3	375.6	0.9
Global	319.1	320.4	0.4
Others	100.0	107.8	7.8
Total	1,971.3	2,034.7	3.2

Operating profit (loss) by segment:

Segments	Nine months ended December 31, 2017	Nine months ended December 31, 2018	Change
	Billions of yen	Billions of yen	Billions of yen
Public	20.1	27.8	7.7
Enterprise	25.1	25.2	0.1
Network Services	8.6	6.1	-2.6
System Platform	14.7	4.5	-10.1
Global	-16.6	-9.8	6.7
Others	-3.4	6.6	10.0
Adjustments	-34.3	-43.7	-9.4
Total	14.3	16.7	2.4

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".

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

Public Business

Revenue:	648.1 billion yen	(+3.6%)
Operating Profit (Loss):	27.8 billion yen	(+7.7 billion yen)

In the Public business, revenue was 648.1 billion yen, an increase of 22.4 billion yen (+3.6%) year-on-year, mainly due to growth in the aerospace and defense sector.

Operating profit (loss) improved by 7.7 billion yen year-on-year, to an operating profit of 27.8 billion yen, mainly owing to increased sales and a decrease in unprofitable projects, despite the recording of business structure improvement expenses.

Enterprise Business

Revenue:	317.7 billion yen	(+9.1%)
Operating Profit (Loss):	25.2 billion yen	(+0.1 billion yen)

In the Enterprise business, revenue was 317.7 billion yen, an increase of 26.5 billion yen (+9.1%) year-on-year, mainly due to increased sales in sectors that include manufacturing, retail/services and financial services.

Operating profit (loss) improved by 0.1 billion yen year-on-year, to an operating profit of 25.2 billion yen, mainly due to increased profit in systems implementation services, despite increased investment in the AI (Artificial Intelligence) and IoT (Internet of Things) areas as well as the recording of business structure improvement expenses.

Network Services Business

Revenue:	265.1 billion yen	(+0.8%)
Operating Profit (Loss):	6.1 billion yen	(-2.6 billion yen)

In the Network Services business, revenue was 265.1 billion yen, an increase of 2.1 billion yen (+0.8%) year-on-year, mainly due to increased sales in network infrastructure, despite decreased sales in IT services.

Operating profit (loss) worsened by 2.6 billion yen year-on-year, to an operating profit of 6.1 billion yen, mainly due to a loss from particular projects in IT services and the recording of business structure improvement expenses, despite the improved profitability in network infrastructure.

System Platform Business

Revenue:	375.6 billion yen	(+0.9%)
Operating Profit (Loss):	4.5 billion yen	(-10.1 billion yen)

In the System Platform business, revenue was 375.6 billion yen, an increase of 3.3 billion yen (+0.9%) year-on-year, mainly due to increased sales in business PCs.

Operating profit (loss) worsened by 10.1 billion yen year-on-year, to an operating profit of 4.5 billion yen, mainly due to the recording of business structure improvement expenses, despite increased sales.

Global Business

Revenue:	320.4 billion yen	(+0.4%)
Operating Profit (Loss):	-9.8 billion yen	(+6.7 billion yen)

In the Global business, revenue was 320.4 billion yen, an increase of 1.3 billion yen (+0.4%) 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 6.7 billion yen year-on-year, to an operating loss of 9.8 billion yen, mainly owing to improved profitability in the safety and mobile backhaul businesses, despite the recording of business structure improvement expenses.

Others

Revenue:	107.8 billion yen	(+7.8%)
Operating Profit (Loss):	6.6 billion yen	(+10.0 billion yen)

In Others, revenue was 107.8 billion yen, an increase of 7.8 billion yen (+7.8%) year-on-year.

Operating profit (loss) improved by 10.0 billion yen year-on-year, to an operating profit of 6.6 billion yen.

2. Consolidated Financial Condition

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

Total assets were 2,760.8 billion yen as of December 31, 2018, a decrease of 60.5 billion yen as compared with the end of the previous fiscal year. Current assets as of December 31, 2018 decreased by 70.7 billion yen compared with the end of the previous fiscal year to 1,569.6 billion yen, mainly due to a decrease in trade and other receivables resulting from its collection as well as a decrease in cash and cash equivalents resulting from the payment of materials cost, despite an increase in inventories. Non-current assets as of December 31, 2018 increased by 10.2 billion yen compared with the end of the previous fiscal year to 1,191.2 billion yen, mainly due to an increase in other non-current assets, despite a decrease in other financial assets attributable to a decline in market prices of shares.

Total liabilities as of December 31, 2018 decreased by 41.9 billion yen compared with the end of the previous fiscal year, to 1,725.2 billion yen, mainly as a result of a decrease in accruals due to bonus payments. The balance of interest-bearing debt amounted to 532.4 billion yen, an increase of 11.7 billion yen as compared with the end of the previous fiscal year. The debt-equity ratio as of December 31, 2018 was 0.62 (a worsening of 0.03 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of December 31, 2018, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 264.4 billion yen, an increase of 89.7 billion yen as compared with the end of the previous fiscal year. The net debt-equity ratio as of December 31, 2018 was 0.31 (a worsening of 0.11 points as compared with the end of the previous fiscal year).

Total equity was 1,035.7 billion yen as of December 31, 2018, a decrease of 18.6 billion yen as compared with the end of the previous fiscal year, mainly due to dividends paid, despite the recording of net profit attributable to owners of the parent for the nine months ended December 31, 2018.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of December 31, 2018 was 856.5 billion yen, and the ratio of equity attributable to owners of the parent was 31.0% (a worsening of 0.2 points as compared with the end of the previous fiscal year).

Net cash outflows from operating activities for the nine months ended December 31, 2018 were 26.6 billion yen, a worsening of 46.7 billion yen as compared with the same period of the previous fiscal year, mainly due to a worsening of income before income taxes as well as an increase in trade receivables from increased revenue.

Net cash outflows from investing activities for the nine months ended December 31, 2018 were 36.4 billion yen, an increase of 54.4 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 of the previous fiscal year.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for the nine months ended December 31, 2018 totaled a cash outflow of 63.0 billion yen, a worsening of 101.1 billion yen year-on-year.

Net cash flows from financing activities for the nine months ended December 31, 2018 totaled a cash outflow of 9.5 billion yen, mainly due to repayments of long-term borrowings, despite proceeds from the issuance of bonds.

As a result, cash and cash equivalents as of December 31, 2018 amounted to 268.0 billion yen, a decrease of 78.0 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 October 30, 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 December 31, 2018
Assets			
Current Assets			
Cash and cash equivalents		346,025	268,008
Trade and other receivables		931,231	515,864
Contract assets		—	329,756
Inventories		220,254	302,266
Other financial assets		6,350	5,991
Other current assets		112,543	111,271
Subtotal		1,616,403	1,533,156
Assets held for sale		23,932	36,448
Total current assets		1,640,335	1,569,604
Non-current assets			
Property, plant and equipment, net		399,590	400,216
Goodwill		103,967	104,179
Intangible assets		156,248	149,885
Investments accounted for using the equity method		67,747	70,684
Other financial assets		245,852	235,374
Deferred tax assets		142,402	149,523
Other non-current assets		65,210	81,384
Total non-current assets		1,181,016	1,191,245
Total assets		2,821,351	2,760,849

Condensed Interim Consolidated Statements of Financial Position (Continued)

(Millions of yen)

	Notes	As of March 31, 2018	As of December 31, 2018
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		512,115	434,807
Contract liabilities		—	169,224
Bonds and borrowings		139,687	138,472
Accruals		171,434	132,847
Other financial liabilities		9,835	10,604
Accrued income taxes		13,844	6,900
Provisions		45,621	46,682
Other current liabilities		158,840	55,150
Subtotal		1,051,376	994,686
Liabilities directly associated with assets held for sale		11,689	20,765
Total current liabilities		1,063,065	1,015,451
Non-current liabilities			
Bonds and borrowings		376,383	389,350
Other financial liabilities		9,118	47,139
Defined benefit liabilities		275,326	232,524
Provisions		13,754	16,079
Other non-current liabilities		29,420	24,645
Total non-current liabilities		704,001	709,737
Total liabilities		1,767,066	1,725,188
Equity			
Share capital		397,199	397,199
Share premium		138,704	138,165
Retained earnings		265,879	322,559
Treasury shares		-3,364	-3,550
Other components of equity	3	82,415	2,100
Total equity attributable to owners of the parent		880,833	856,473
Non-controlling interests		173,452	179,188
Total equity		1,054,285	1,035,661
Total liabilities and equity		2,821,351	2,760,849

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)

Nine months ended December 31	Notes	2017	2018
Revenue		1,971,282	2,034,653
Cost of sales		1,424,203	1,457,346
Gross profit		547,079	577,307
Selling, general and administrative expenses		531,370	537,697
Other operating income (loss)		-1,437	-22,922
Operating Profit (Loss)		14,272	16,688
Financial income	4	27,752	11,559
Financial costs	4	6,381	5,890
Share of profit (loss) of entities accounted for using the equity method		4,575	4,111
Income (loss) before income taxes		40,218	26,468
Income taxes		13,018	9,617
Net profit (loss)		27,200	16,851
Net profit (loss) attributable to			
Owners of the parent		17,582	7,652
Non-controlling interests		9,618	9,199
Total		27,200	16,851
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)		67.66	29.46
Diluted earnings per share (yen)		67.66	29.46

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.

In addition, other operating income (loss) for the nine months ended December 31, 2018 includes business structure improvement expenses of 20,059 million yen, incurred in the implementation of voluntary early retirement.

Condensed Interim Consolidated Statements of Other Comprehensive Income

(Millions of yen)

Nine months ended December 31	Notes	2017	2018
Net profit (loss)		27,200	16,851
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		—	-10,280
Remeasurements of defined benefit plan		—	—
Share of other comprehensive income of associates		—	—
Total items that will not be reclassified to profit or loss		—	-10,280
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		3,699	-3,761
Cash flow hedges		-118	6
Available-for-sale financial assets		13,967	—
Share of other comprehensive income of associates		1,793	-186
Total items that may be reclassified subsequently to profit or loss		19,341	-3,941
Total other comprehensive income, net of tax		19,341	-14,221
Total comprehensive income		46,541	2,630
Total comprehensive income attributable to			
Owners of the parent		36,045	-6,759
Non-controlling interests		10,496	9,389
Total		46,541	2,630

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 December 31	Notes	2017	2018
Revenue		683,271	698,229
Cost of sales		494,113	490,986
Gross profit		189,158	207,243
Selling, general and administrative expenses		181,207	180,896
Other operating income (loss)		-951	-23,484
Operating Profit (Loss)		7,000	2,863
Financial income	4	3,438	4,305
Financial costs	4	2,156	3,873
Share of profit (loss) of entities accounted for using the equity method		1,126	1,397
Income (loss) before income taxes		9,408	4,692
Income taxes		6,758	2,527
Net profit (loss)		2,650	2,165
Net profit (loss) attributable to			
Owners of the parent		-1,235	-1,507
Non-controlling interests		3,885	3,672
Total		2,650	2,165
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)		-4.75	-5.80
Diluted earnings per share (yen)		-4.76	-5.80

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.

In addition, other operating income (loss) for the third quarter of the fiscal year ending March 31, 2019 includes business structure improvement expenses of 20,059 million yen, incurred in the implementation of voluntary early retirement.

Condensed Interim Consolidated Statements of Other Comprehensive Income

(Millions of yen)

Three months ended December 31	Notes	2017	2018
Net profit (loss)		2,650	2,165
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		—	-17,541
Remeasurements of defined benefit plan		—	—
Share of other comprehensive income of associates		—	—
Total items that will not be reclassified to profit or loss		—	-17,541
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		1,681	-5,681
Cash flow hedges		—	-79
Available-for-sale financial assets		14,933	—
Share of other comprehensive income of associates		19	-219
Total items that may be reclassified subsequently to profit or loss		16,633	-5,979
Total other comprehensive income, net of tax		16,633	-23,520
Total comprehensive income		19,283	-21,355
Total comprehensive income attributable to			
Owners of the parent		15,086	-24,295
Non-controlling interests		4,197	2,940
Total		19,283	-21,355

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

(Nine months ended December 31, 2017)

(Millions of yen)

	Notes	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
As of April 1, 2017		397,199	147,879	235,601	-3,101	76,686	854,264	161,802	1,016,066
Net profit (loss)		—	—	17,582	—	—	17,582	9,618	27,200
Other comprehensive income (loss)		—	—	—	—	18,463	18,463	878	19,341
Comprehensive income		—	—	17,582	—	18,463	36,045	10,496	46,541
Purchase of treasury shares		—	—	—	-263	—	-263	—	-263
Disposal of treasury shares		—	-4	—	7	—	3	—	3
Cash dividends		—	—	-15,592	—	—	-15,592	-4,250	-19,842
Changes in interests in subsidiaries		—	116	—	—	—	116	249	365
Total transactions with owners		—	112	-15,592	-256	—	-15,736	-4,001	-19,737
As of December 31, 2017		397,199	147,991	237,591	-3,357	95,149	874,573	168,297	1,042,870

(Nine months ended December 31, 2018)

(Millions of yen)

	Notes	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
As of April 1, 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)		—	—	7,652	—	—	7,652	9,199	16,851
Other comprehensive income (loss)		—	—	—	—	-14,411	-14,411	190	-14,221
Comprehensive income		—	—	7,652	—	-14,411	-6,759	9,389	2,630
Purchase of treasury shares		—	—	—	-208	—	-208	—	-208
Disposal of treasury shares		—	-1	—	22	—	21	—	21
Cash dividends		—	—	-15,591	—	—	-15,591	-4,298	-19,889
Put option, written over shares held by a non-controlling interest shareholder		—	103	—	—	—	103	—	103
Changes in interests in subsidiaries		—	-641	—	—	—	-641	645	4
Total transactions with owners		—	-539	-15,591	-186	—	-16,316	-3,653	-19,969
As of December 31, 2018		397,199	138,165	322,559	-3,550	2,100	856,473	179,188	1,035,661

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)

Nine months ended December 31	Notes	2017	2018
Cash flows from operating activities			
Income (loss) before income taxes		40,218	26,468
Depreciation and amortization		70,925	74,134
Impairment loss		146	3,967
Increase (decrease) in provisions		-5,898	2,883
Financial income	4	-27,752	-11,559
Financial costs	4	6,381	5,890
Share of (profit) loss of entities accounted for using the equity method		-4,575	-4,111
Decrease (increase) in trade and other receivables		124,310	170,032
Decrease (increase) in inventories		-86,148	-84,557
Increase (decrease) in trade and other payables		-36,916	-54,282
Others, net		-41,772	-136,874
Subtotal		38,919	-8,009
Interest and dividends received		5,614	6,695
Interest paid		-4,575	-4,969
Income taxes paid		-19,792	-20,290
Net cash provided by (used in) operating activities		20,166	-26,573
Cash flows from investing activities			
Purchases of property, plant and equipment		-32,652	-27,394
Proceeds from sales of property, plant and equipment		2,569	2,831
Acquisitions of intangible assets		-6,777	-8,766
Purchases of available-for-sale financial assets		-1,756	—
Purchase of equity instruments measured at fair value through other comprehensive income		—	-1,786
Proceeds from sales of available-for-sale financial assets		10,986	—
Proceeds from sales of equity instruments measured at fair value through other comprehensive income		—	293
Purchase of shares of newly consolidated subsidiaries		—	-3,371
Acquisition of subsidiaries, net of cash acquired		—	16
Proceeds from sales of shares of subsidiaries		75	—
Disbursements for sales of shares of subsidiaries		-184	—
Purchases of investments in affiliated companies		-21	-1,138
Proceeds from sales of investments in affiliated companies		21,997	3,640
Others, net		23,753	-728
Net cash provided by (used in) investing activities		17,990	-36,403

(Millions of yen)

Nine months ended December 31	Notes	2017	2018
Cash flows from financing activities			
Increase (decrease) in short-term borrowings, net		7,226	24,549
Proceeds from long-term borrowings		173	3,648
Repayments of long-term borrowings		-9,106	-67,517
Proceeds from issuance of bonds		100,000	50,011
Redemption of bonds		-40,000	—
Dividends paid		-15,576	-15,576
Dividends paid to non-controlling interests		-4,247	-4,294
Others, net		126	-353
Net cash provided by (used in) financing activities		38,596	-9,532
Effect of exchange rate changes on cash and cash equivalents		2,055	-1,551
Net increase (decrease) in cash and cash equivalents		78,807	-74,059
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		-10	-3,958
Cash and cash equivalents, at end of period		318,767	268,008

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 third 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 third 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

(Nine months ended December 31, 2017)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	625,778	291,162	262,985	372,289	319,089	1,871,303	99,979	—	1,971,282
Intersegment revenue and transfers	20,639	8,382	9,649	45,688	1,705	86,063	19,735	-105,798	—
Total	646,417	299,544	272,634	417,977	320,794	1,957,366	119,714	-105,798	1,971,282
Segment income (loss) (Operating profit (loss))	20,115	25,148	8,619	14,660	-16,579	51,963	-3,379	-34,312	14,272
Financial income									27,752
Financial costs									-6,381
Share of profit (loss) of entities accounted for using the equity method									4,575
Income (loss) before income taxes									40,218

(Nine months ended December 31, 2018)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	648,146	317,677	265,119	375,580	320,357	1,926,879	107,774	—	2,034,653
Intersegment revenue and transfers	21,789	8,215	8,549	41,003	1,848	81,404	17,817	-99,221	—
Total	669,935	325,892	273,668	416,583	322,205	2,008,283	125,591	-99,221	2,034,653
Segment income(loss) (Operating profit (loss))	27,838	25,247	6,052	4,517	-9,839	53,815	6,586	-43,713	16,688
Financial income									11,559
Financial costs									-5,890
Share of profit (loss) of entities accounted for using the equity method									4,111
Income (loss) before income taxes									26,468

Notes:

1. "Others" for the nine months ended December 31, 2017 and 2018 represents businesses, such as Data Center Infrastructure Services, and Lighting Equipment
2. "Adjustments" of segment income (loss) for the nine months ended December 31, 2017 include corporate expenses of -31,252 million yen and noncurrent assets related adjustment of 919 million yen, unallocated to each reportable segment. "Adjustments" of segment income (loss) for the nine months ended December 31, 2018 include corporate expenses of -41,020 million yen and noncurrent assets related adjustment of 129 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 nine months 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 nine months of the fiscal year ending March 31, 2019, the impact of applying IFRS 15 on operating segments is not significant.

(Three months ended December 31, 2017)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	221,601	99,329	89,774	130,813	107,023	648,540	34,731	—	683,271
Intersegment revenue and transfers	7,453	2,357	3,211	16,647	598	30,266	6,531	-36,797	—
Total	229,054	101,686	92,985	147,460	107,621	678,806	41,262	-36,797	683,271
Segment income (loss) (Operating profit (loss))	5,521	9,318	3,137	9,373	-5,601	21,747	-3,017	-11,730	7,000
Financial income									3,438
Financial costs									-2,156
Share of profit (loss) of entities accounted for using the equity method									1,126
Income (loss) before income taxes									9,408

(Three months ended December 31, 2018)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	228,430	106,007	89,078	132,968	107,018	663,501	34,728	—	698,229
Intersegment revenue and transfers	7,760	2,350	2,838	13,799	600	27,347	6,833	-34,180	—
Total	236,190	108,357	91,916	146,767	107,618	690,848	41,561	-34,180	698,229
Segment income(loss) (Operating profit (loss))	15,557	9,565	2,670	547	-4,816	23,523	610	-21,270	2,863
Financial income									4,305
Financial costs									-3,873
Share of profit (loss) of entities accounted for using the equity method									1,397
Income (loss) before income taxes									4,692

Notes:

1. "Others" for the three months ended December 31, 2017 and 2018 represents businesses, such as Data Center Infrastructure Services, and Lighting Equipment
2. "Adjustments" of segment income (loss) for the three months ended December 31, 2017 include corporate expenses of -11,098 million yen and noncurrent assets related adjustment of 179 million yen, unallocated to each reportable segment. "Adjustments" of segment income (loss) for the three months ended December 31, 2018 include corporate expenses of -18,164 million yen and noncurrent assets related adjustment of -417 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 third 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 third 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 nine months and third quarter ended December 31, 2017 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)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Japan	1,435,651	1,517,564
The Americas	134,078	129,090
EMEA	107,198	114,808
China / East Asia and APAC	294,355	273,191
Total	1,971,282	2,034,653

(Millions of yen)

	Three months ended December 31, 2017	Three months ended December 31, 2018
Japan	499,501	524,916
The Americas	44,723	43,054
EMEA	36,746	37,664
China / East Asia and APAC	102,301	92,595
Total	683,271	698,229

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 nine months and third quarter ended December 31, 2017, 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 December 31, 2018
Remeasurements of defined benefit plan	2,572	2,572
Exchange differences on translating foreign operations	-18,754	-22,671
Cash flow hedges	-475	-558
Equity instruments measured at fair value through other comprehensive income	—	22,757
Available-for-sale financial assets	99,072	—
Total	82,415	2,100

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)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Financial income		
Interest income	1,303	1,474
Dividend income	3,812	4,592
Gain on sales of affiliates' stocks	16,770	2,489
Foreign exchange gains	872	1,652
Other	4,995	1,352
Total	27,752	11,559

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Financial costs		
Interest expenses	4,587	5,090
Other	1,794	800
Total	6,381	5,890

Notes:

"Gain on sales of affiliates' stocks" in previous fiscal year is mainly from transferring shares of TOKIN Corporation.

For the nine months ended December 31, 2017, financial instruments are accounted for under IAS 39, "*Financial Instruments: Recognition and Measurement*".

(Millions of yen)

	Three months ended December 31, 2017	Three months ended December 31, 2018
Financial income		
Interest income	470	482
Dividend income	1,119	1,224
Gain on sales of affiliates' stocks	1,636	2,489
Other	213	110
Total	3,438	4,305

(Millions of yen)

	Three months ended December 31, 2017	Three months ended December 31, 2018
Financial costs		
Interest expenses	1,615	1,801
Foreign exchange losses	128	1,850
Other	413	222
Total	2,156	3,873

Notes:

For the third quarter ended December 31, 2017, financial instruments are accounted for under IAS 39, "*Financial Instruments: Recognition and Measurement*".

5. Subsequent Events

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 nine months 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 320.6 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 836.5 billion yen.
Also, the amount of 28.5 billion yen formerly recorded as "payables to contractees for construction work " in "trade and other payables" as well as that of 126.3 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 463.3 billion yen and 181.5 billion yen respectively.
In addition, identifying performance obligations and allocating the transaction price by the five-step approach resulted in retained earnings to decrease by 3.2 billion yen for the third 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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