News Release

Orchestrating a brighter world

NEC

Press Release - Media Contacts: Joseph Jasper TEL: +81-3-3798-6511
***** For immediate use April 26, 2019

Consolidated Financial Results

for the Fiscal Year Ended

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 ended 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 fiscal year ended March 31, 2019

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

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

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

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

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

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

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

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

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

Income (loss) before income taxes was an income of 78.0 billion yen, a year-on-year worsening of 8.9 billion yen, mainly due to the gain on sales of available-for-sale financial assets that was recorded in the previous fiscal year, as well as worsened operating profit (loss).
.
Net profit (loss) attributable to owners of the parent for the fiscal year ended March 31, 2019 was a profit of 40.2 billion yen, a worsening of 5.7 billion yen year-on-year, primarily due to worsened income (loss) before income taxes.

(2) Results by main segment

Revenue by segment (revenue from customers):

Segments	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Change
	Billions of yen	Billions of yen	%
Public	933.1	949.6	1.8
Enterprise	408.7	435.0	6.4
Network Services	377.6	394.8	4.6
System Platform	531.7	546.7	2.8
Global	453.7	440.7	(2.9)
Others	139.7	146.6	5.0
Total	2,844.4	2,913.4	2.4

Operating profit (loss) by segment:

Segments	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Change
	Billions of yen	Billions of yen	Billions of yen
Public	53.2	52.2	(0.9)
Enterprise	35.7	35.1	(0.7)
Network Services	17.3	13.1	(4.1)
System Platform	30.0	22.3	(7.7)
Global	(28.0)	(29.4)	(1.4)
Others	(0.4)	20.9	21.3
Adjustments	(43.8)	(55.7)	(11.9)
Total	63.9	58.5	(5.4)

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 4 "Segment information” in Note (5) "Notes to the 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:	949.6 billion yen	(+1.8%)
Operating Profit (Loss):	52.2 billion yen	(-0.9 billion yen)

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

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

Enterprise Business

Revenue:	435.0 billion yen	(+6.4%)
Operating Profit (Loss):	35.1 billion yen	(-0.7 billion yen)

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

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

Network Services Business

Revenue:	394.8 billion yen	(+4.6%)
Operating Profit (Loss):	13.1 billion yen	(-4.1 billion yen)

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

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

System Platform Business

Revenue:	546.7 billion yen	(+2.8%)
Operating Profit (Loss):	22.3 billion yen	(-7.7 billion yen)

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

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

Global Business

Revenue:	440.7 billion yen	(-2.9%)
Operating Profit (Loss):	-29.4 billion yen	(-1.4 billion yen)

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

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

Others

Revenue:	146.6 billion yen	(+5.0%)
Operating Profit (Loss):	20.9 billion yen	(+21.3 billion yen)

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

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

2. Consolidated Financial Condition

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

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

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

Total equity was 1,060.3 billion yen as of March 31, 2019, an increase of 6.0 billion yen as compared with the end of the previous fiscal year, mainly due to the recording of net profit attributable to owners of the parent for the fiscal year ended March 31, 2019 and an increase in non-controlling interests, despite dividends paid and a decrease in other components of equity resulting from remeasurements of defined benefit plans.

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

(2) Analysis of cash flows

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

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

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

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

As a result, cash and cash equivalents as of March 31, 2019 amounted to 278.3 billion yen, a decrease of 67.7 billion yen as compared with the end of the previous fiscal year.

3. Outlook for the Fiscal Year Ending March 31, 2020

The NEC Group anticipates consolidated revenue of 2,950.0 billion yen for the fiscal year ending March 31, 2020, due to expansion in the global business through the consolidation of KMD, despite the sales decrease caused by deconsolidation of the electrode and lighting businesses. Moreover, the NEC Group anticipates consolidated operating profit of 110.0 billion yen for the fiscal year ending March 31, 2020. This takes into consideration decreasing fixed costs from implementing the "Reform of profit structure" in the previous fiscal year, as well as a decrease in one-time costs such as business structure improvement expenses. The NEC Group also expects 65.0 billion yen of net profit attributable to owners of the parent for the same period.

4. Fundamental Policy on Distribution of Earnings and Dividends for the Fiscal Year Ended March 31, 2019 and the Fiscal Year Ending March 31, 2020

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

Although the profit attributable to owners of the parent for the fiscal year ended March 31, 2019 was more than NEC's plan, considering that the operating profit went almost in line with the plan, NEC declared an annual dividend of 40 yen per share of common stock, the same value as announced at the beginning of the fiscal year.

For the fiscal year ending March 31, 2020, NEC plans for an annual dividend of 60 yen and interim dividend of 30 yen per share of common stock, considering that NEC increased its planned operating profit and profit attributable to owners of the parent respectively.

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

Consolidated Financial Statements

(1)Consolidated Statements of Financial Position

(Millions of yen)

	Notes	As of March 31, 2018	As of March 31, 2019
Assets			
Current Assets			
Cash and cash equivalents		346,025	278,314
Trade and other receivables		931,231	734,431
Contract assets		—	265,725
Inventories		220,254	234,621
Other financial assets		6,350	5,875
Other current assets		112,543	110,199
Subtotal		1,616,403	1,629,165
Assets held for sale	4	23,932	9,071
Total current assets		1,640,335	1,638,236
Non-current assets			
Property, plant and equipment, net	1, 2	399,590	408,821
Goodwill		103,967	222,721
Intangible assets		156,248	171,460
Investments accounted for using the equity method		67,747	72,421
Other financial assets		245,852	250,409
Deferred tax assets		142,402	150,511
Other non-current assets		65,210	36,060
Total non-current assets		1,181,016	1,312,403
Total assets		2,821,351	2,950,639

Consolidated Statements of Financial Position (Continued)

(Millions of yen)

	Notes	As of March 31, 2018	As of March 31, 2019
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		512,115	482,596
Contract liabilities		－	184,059
Bonds and borrowings	2	139,687	158,678
Accruals		171,434	178,911
Other financial liabilities		9,835	16,169
Accrued income taxes		13,844	8,296
Provisions		45,621	58,330
Other current liabilities		158,840	61,142
Subtotal		1,051,376	1,148,181
Liabilities directly associated with assets held for sale	4	11,689	9,071
Total current liabilities		1,063,065	1,157,252
Non-current liabilities			
Bonds and borrowings		376,383	388,128
Other financial liabilities		9,118	47,417
Defined benefit liabilities		275,326	241,759
Provisions		13,754	23,168
Other non-current liabilities		29,420	32,590
Total non-current liabilities		704,001	733,062
Total liabilities		1,767,066	1,890,314
Equity			
Share capital		397,199	397,199
Share premium		138,704	138,824
Retained earnings		265,879	355,102
Treasury shares		(3,364)	(3,547)
Other components of equity	3	82,415	(27,995)
Total equity attributable to owners of the parent		880,833	859,583
Non-controlling interests		173,452	200,742
Total equity		1,054,285	1,060,325
Total liabilities and equity		2,821,351	2,950,639

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

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

Consolidated Statements of Profit or Loss

(Millions of yen)

Fiscal year ended March 31	Notes	2018	2019
Revenue		2,844,447	2,913,446
Cost of sales		2,046,853	2,083,517
Gross profit		797,594	829,929
Selling, general and administrative expenses		729,855	742,336
Other operating income (loss)		(3,889)	(29,128)
Operating Profit (Loss)		63,850	58,465
Financial income	1	29,553	21,989
Financial costs	1	11,568	8,377
Share of profit (loss) of entities accounted for using the equity method		5,106	5,916
Income (loss) before income taxes		86,941	77,993
Income taxes		26,784	25,543
Net profit (loss)		60,157	52,450
Net profit (loss) attributable to			
Owners of the parent		45,870	40,195
Non-controlling interests		14,287	12,255
Total		60,157	52,450
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)		176.54	154.75
Diluted earnings per share (yen)		176.54	154.75

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).

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

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

Consolidated Statements of Other Comprehensive Income

(Millions of yen)

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

Notes:

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

(3)Consolidated Statements of Changes in Equity

(Fiscal year ended March 31, 2018)

(Millions of yen)

	Notes	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
As of April 1, 2017		397,199	147,879	235,601	(3,101)	76,686	854,264	161,802	1,016,066
Net profit (loss)		—	—	45,870	—	—	45,870	14,287	60,157
Other comprehensive income		—	—	—	—	5,729	5,729	1,105	6,834
Comprehensive income		—	—	45,870	—	5,729	51,599	15,392	66,991
Purchase of treasury shares		—	—	—	(271)	—	(271)	—	(271)
Disposal of treasury shares		—	(5)	—	8	—	3	—	3
Cash dividends	2	—	—	(15,592)	—	—	(15,592)	(4,258)	(19,850)
Put option, written over shares held by a non-controlling interest shareholder		—	(2,113)	—	—	—	(2,113)	—	(2,113)
Changes in interests in subsidiaries		—	(7,057)	—	—	—	(7,057)	516	(6,541)
Total transactions with owners		—	(9,175)	(15,592)	(263)	—	(25,030)	(3,742)	(28,772)
As of March 31, 2018		397,199	138,704	265,879	(3,364)	82,415	880,833	173,452	1,054,285

(Fiscal year ended March 31, 2019)

(Millions of yen)

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

Notes:

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

(4)Consolidated Statements of Cash Flows

(Millions of yen)

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

(Millions of yen)

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

Notes:

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

(5)Notes to the Consolidated Financial Statements

1. Significant accounting policies

Significant accounting policies adopted for the fiscal year ended March 31, 2019 are consistent from those applied for the previous fiscal year, except for the following.

(1) IFRS 9, "*Financial Instruments*"

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

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 becomes a party to the contractual provisions.

The NEC Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when the NEC Group transfers the contractual rights to the cash flows from the asset as well as substantially all the risks and rewards of ownership of the financial asset. The NEC Group separately recognizes another asset or liability if the NEC Group derecognizes a financial asset, but retains any interest in the derecognized financial asset.

Financial assets measured at amortized cost

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

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

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

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

Equity instruments measured at fair value through other comprehensive income

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

These financial instruments are initially measured at fair value plus any directly attributable transaction costs.

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

Financial assets measured at fair value through profit or loss

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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 ended March 31, 2019 (except for interest and dividend income within the scope of IFRS 9 and lease payments within the scope of IAS 17, "*Leases*").

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

Identifying distinct performance obligations in contracts with customers

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

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

Determining the transaction price

The NEC Group considers the effects of variable consideration, constraining estimates of variable consideration, the existence of a significant financing component in the contract, non-cash consideration, and consideration payable to a customer when determining the transaction price. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

In assessing whether a contract contains a financing component and whether that financing component is significant to the contract, the NEC Group considers the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services. The NEC Group also considers the combined effect of the expected length of time between when it transfers the promised goods or services to the customer and when the customer pays for those goods or services and the prevailing interest rates in the relevant market.

Allocating the transaction price to performance obligation

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

Satisfaction of performance obligation

The NEC Group recognizes revenue when or as the NEC Group satisfies a performance obligation at a point in time or over time by transferring a promised good or service to a customer. The NEC Group recognizes revenue over time if one of the following criteria is met; (i) the customer simultaneously receives and consumes the benefits provided by the NEC Group's performance as the NEC Group performs, ii) the NEC Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or iii) the NEC Group's performance does not create an asset with an alternative use to the NEC Group and it has an enforceable right to payment for performance completed to date.

If none of the above is met, the NEC Group recognizes revenue at a point in time when it is determined that control of an asset is transferred to a customer.

Methods for measuring progress

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

Product warranty

The NEC Group repairs or exchanges products for free of charge to provide warranty within the warranty period after the sale of products or delivery of developed software based on contracts. Product warranty liabilities are recognized for individually estimated future warranty costs using the historical ratio of warranty costs to net sales or other relevant factors, considering the additional incremental costs that are expected to be incurred. If a product warranty is purchased separately or purchased in addition to the standard warranty by a customer, the product warranty is identified as a separate performance obligation. The transaction price is allocated to the performance obligation and revenue is recognized for the allocated amount.

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

(a)Sale of goods

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

Revenue from the above sale of goods is recognized when control of the goods is transferred to the customer.

Revenue is basically recognized at a point in time based on the inspection of the customer.

(b)Rendering services and systems integration / construction work

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

When the outcome of a transaction involving the rendering of services and systems integration / construction work can be estimated reliably, revenue associated with the transaction is recognized by reference to the stage of completion of the transaction. When substantially the same service is continuously rendered over a specified
period, revenue is recognized on a straight-line basis over the specified period. For rendering of services and systems integration / construction work in which the outcome cannot be reliably estimated, revenue is recognized only to the extent of contract costs incurred that are probable to be recoverable, and costs are recognized as expenses in the period they incurred.

Notes:

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

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

Stand-alone selling price

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

Contract asset and contract liability

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

Incremental costs of obtaining a contract

An asset is recognized from the incremental costs of obtaining a contract with a customer if those costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that the NEC Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The costs are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

1. Notes to Consolidated Statements of Financial Position

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

(Millions of yen)

Items	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Accumulated depreciation of property, plant and equipment	887,977	885,325

*2. Assets pledged as and debt secured by collateral

Balances - assets pledged as collateral consisted of the following:

(Millions of yen)

Items	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Land	3,417	3,417
Others	854	828
Total	4,271	4,245

Balances - debt secured by collateral consisted of the following:

(Millions of yen)

Items	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Short-term loans payable	487	681
Others	48	42
Total	535	723

*3. Details of other components of equity

(Millions of yen)

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

*4. Disposal Group Held for Sale

(Fiscal year ended March 31, 2018)

NEC determined to transfer all shares of NEC Energy Devices, Ltd. (“NEC Energy Devices”), a wholly owned subsidiary of NEC, to GSR Capital (“GSR”), a private investment fund on December 4, 2017. This transfer of the NEC Energy Devices shares to GSR is scheduled to be executed on the same day as the transfer of Automotive Energy Supply Corporation (“AESC”) shares to GSR by Nissan Motor Co., Ltd. (“Nissan”).
With this determination to transfer shares, the assets and liabilities of NEC Energy Devices and AESC are classified into a disposal group held for sale. This disposal group is measured by the carrying amount because the fair value is greater than that of the carrying amount. The disposal group consists of the following assets and liabilities as of March 31, 2018.

(Millions of yen)

Items	Amount
Cash and cash equivalents	9
Trade and other receivables	11,416
Inventories	1,025
Property, plant and equipment, net	10,277
Other assets	1,205
Total assets	23,932

(Millions of yen)

Items	Amount
Trade and other payables	8,761
Other liabilities	2,928
Total liabilities	11,689

(Fiscal year ended March 31, 2019)

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

With this determination to transfer shares, the assets and liabilities of NEC Lighting are classified into a disposal group held for sale. This disposal group is measured by the carrying amount because the fair value is greater than that of the carrying amount. The disposal group consists of the following assets and liabilities as of March 31, 2019.

(Millions of yen)

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

(Millions of yen)

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

Regarding the assets and liabilities of NEC Energy Devices and AESC classified into a disposal group held for sale in the previous fiscal year, the transactions of transfer shares were scheduled to be executed on June 29, 2018 as all conditions precedent were fulfilled. However, those transactions were not executed as a purchaser of NEC Energy Devices failed to fulfill the purchaser's payment obligations under those transactions.

Later, on August 3, 2018, NEC has determined to transfer (i) all shares of NEC Energy Devices owned by NEC to Envision Electrodes Corporation Ltd., and (ii) all shares of AESC owned by NEC and NEC Energy Devices to Nissan, thereby enabling Nissan to transfer all shares of AESC to Envision. Those transactions were executed on March 29, 2019.

Upon execution of transfer, 9,077 million yen in gain on sales of subsidiaries' stocks and 10,000 million yen in gain on sales of affiliates' stocks are recorded in the consolidated financial statement for the fiscal year ended March 31, 2019.

2. Notes to Consolidated Statements of Profit or Loss

*1. Financial income and financial costs

(Millions of yen)

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

(Millions of yen)

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

Notes:

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

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

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

3. Notes to Consolidated Statements of Changes in Equity

(1)Total number of issued shares

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

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

(Overview of Change)
The Company implemented share consolidation with a ratio of 10 shares of common share to 1 share as of October 1, 2017 based on the approval at the ordinary general meeting of shareholders held on June 22, 2017. As a result, total number of issued shares was 260,473,263 shares as of October 1, 2017.

(2)Information relating to dividends
(a) Dividends paid
Fiscal year ended March 31, 2018

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

Note: The amount does not reflect the share consolidation.

Fiscal year ended March 31, 2019

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

(b) Dividend for which the record date is in the fiscal year ended March 31, 2019, and the effective date is in the following fiscal year

Resolution	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
April 26, 2019 Board of Directors	Ordinary shares	10,393	Retained earnings	40	March 31, 2019	June 3, 2019

4. Segment Information

(1)General information about reportable segments

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

(Fiscal Year ended March 31, 2018)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	933,106	408,673	377,574	531,733	453,651	2,704,737	139,710	―	2,844,447
Intersegment revenue and transfers	30,875	11,194	13,115	63,606	2,328	121,118	26,295	(147,413)	―
Total	963,981	419,867	390,689	595,339	455,979	2,825,855	166,005	(147,413)	2,844,447
Segment income(loss) (Operating profit (loss))	53,151	35,712	17,251	30,002	(28,006)	108,109	(444)	(43,816)	63,850
Financial income									29,553
Financial costs									(11,568)
Share of profit (loss) of entities accounted for using the equity method									5,106
Income (loss) before income taxes									86,941

(Fiscal Year ended March 31, 2019)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	949,617	434,965	394,834	546,704	440,700	2,766,820	146,626	―	2,913,446
Intersegment revenue and transfers	32,011	10,634	11,475	67,321	2,488	123,929	24,465	(148,394)	―
Total	981,628	445,599	406,309	614,025	443,188	2,890,749	171,091	(148,394)	2,913,446
Segment income(loss) (Operating profit (loss))	52,203	35,062	13,113	22,290	(29,410)	93,258	20,877	(55,670)	58,465
Financial income									21,989
Financial costs									(8,377)
Share of profit (loss) of entities accounted for using the equity method									5,916
Income (loss) before income taxes									77,993

Notes:

1. "Others" for the fiscal year ended March 31, 2018 and 2019 represents businesses, such as Data Center Infrastructure Services and Lighting Equipment.
2. "Adjustments" of segment income (loss) for the fiscal year ended March 31, 2018 include corporate expenses of -43,123 million yen and noncurrent assets related adjustment of 1,290 million yen, unallocated to each reportable segment. "Adjustments" of segment income (loss) for the fiscal year ended March 31, 2019 include corporate expenses of -55,105 million yen and noncurrent assets related adjustment of -671 million yen, unallocated to each reportable segment. The corporate expenses, unallocated to each reportable segment, are mainly general and administrative expenses incurred at headquarters of NEC, and research and development expenses.
3. For the fiscal year ended March 31, 2018, revenue is accounted for under IAS 18, "*Revenue*" and IAS 11, "*Construction Contracts*".
4. For the fiscal year ended 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 ended March 31, 2019, the Company's operating segments have been revised based on a new organization structure effective as of April 1, 2018.

Major revisions are as follows:

"Global" segment has been newly established.

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

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

(5)Information about geographic areas

Revenue from customers

(Millions of yen)

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

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

5. Earnings Per Share

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

(Millions of yen)

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

Notes: The Company implemented share consolidation with a ratio of 10 shares of common share to 1 share as of October 1, 2017. The above Basic earnings per share ("EPS") and diluted EPS on common share are calculated assuming that the share consolidation was carried out at the beginning of the fiscal year ended March 31, 2018 (April 1, 2017).

6. Business Combinations

(Fiscal year ended March 31, 2018)

Business combination of a subsidiary

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

Summary of the business combination

Name of the acquired company and its business

(i) Name: Northgate Public Services, Limited

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

Main reason for the business combination

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

Date of the business combination

January 31, 2018

Voting rights acquired

On the acquisition date: 90.00 %

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

Consideration for the acquisition

(Millions of yen)

Item	Amount
Cash and cash equivalents	23,252
Contingent consideration	4,311
Total	27,563

Contingent consideration in a business combination is measured based on specific performance indicators of an acquiree. Accordingly, NEC recognized unpaid acquisition cost of 4,311 million yen, estimating acquiree's potentials for achieving the indicators. NEC may be charged for the related future payment up to 40 million pounds as ceiling.

Consideration for the acquisition includes 25,430 million yen as the purchase price of acquiree's receivables, in addition to acquiree's stock price.

Acquisition-related costs

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

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

(Millions of yen)

Item	Amount
Current assets	
Cash and cash equivalents	1,047
Trade receivables	4,899
Others	76
Non-current assets	
Property, plant and equipment	729
Intangible assets	28,330
Others	3,119
Total assets	38,200
Current liabilities	
Trade payables	1,408
Others	6,603
Non-current liabilities	
Financial Liabilities	41,848
Others	9,500
Total liabilities	59,359
Equity	(21,159)

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

Goodwill arising on acquisition

(Millions of yen)

Item	Amount
Consideration for the acquisition	27,563
Non-controlling interests	(5,604)
Fair value of identifiable net assets acquired by the NEC Group	21,159
Goodwill arising on acquisition	43,118

Non-controlling interests are measured by the percentage of interests owned by non-controlling shareholders to the fair value of identifiable net assets of the acquired company. Goodwill mainly reflects excess earnings power and synergies with existing businesses. Entire goodwill is not expected to be deductible for tax purposes.

Impact on the NEC Group's performance

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

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

(Fiscal year ended March 31, 2019)

Revision of the provisional amount

NEC has acquired UK-based IT services company, NPS, accelerating the expansion of its international safety business. In the previous fiscal year, the Company applied provisional accounting treatment based on the allocation of acquisition cost, using fair value temporary estimated. In the current fiscal year, the allocation of the acquisition costs has been completed. The impact of the allocation is not significant.

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

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

(Millions of yen)

Item	Amount
Current assets	
Cash and cash equivalents	1,047
Trade receivables	4,899
Others	76
Non-current assets	
Property, plant and equipment	729
Intangible assets	27,732
Others	3,119
Total assets	37,602
Current liabilities	
Trade payables	1,408
Others	6,603
Non-current liabilities	
Financial Liabilities	41,848
Others	8,860
Total liabilities	58,719
Equity	(21,117)

Goodwill arising on acquisition

(Millions of yen)

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

Non-controlling interests are measured by the percentage of interests owned by non-controlling shareholders to the fair value of identifiable net assets of the acquired company. Goodwill mainly reflects excess earnings power and synergies with existing businesses. Entire goodwill is not expected to be deductible for tax purposes.

Business combination of a subsidiary

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

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

Summary of the business combination

Name of the acquired company and its business

(i) Name: KMD Holding ApS

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

Main reason for the business combination

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

Date of the business combination

February 21, 2019

Voting rights acquired

On the acquisition date: 100.00 %

Consideration for the acquisition

(Millions of yen)

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

Acquisition-related costs

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

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

(Millions of yen)

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

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

Goodwill arising on acquisition

(Millions of yen)

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

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

Impact on the NEC Group’s performance

Revenue and net profit (loss) of the acquired company that was incurred after the acquisition date recorded in the consolidated statement of profit or loss were 6,617 million yen and 120 million yen, respectively.

Assuming that this business combination had taken place at the beginning of the fiscal year ended March 31, 2019, the NEC Group’s revenue and net profit (loss) in the consolidated statement of profit or loss would be 2,995,268 million yen and 40,429 million yen, respectively (non-audited information).

7. Subsequent Events

The transfer of business

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

8. Impact of Changes in Accounting Policies

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

The NEC Group has applied IFRS 9, "*Financial Instruments*", effective from the fiscal year ended March 31, 2019, with the date of initial application as of April 1, 2018.
IFRS 9 introduces new requirements on 1) classification and measurement of financial assets and financial liabilities and 2) impairment of financial assets. Details of these new requirements and the effects on the NEC Group's consolidated financial statements are presented below.
The NEC Group has applied IFRS 9 according to the transition provisions stipulated in IFRS 9.

In accordance with the application of IFRS 9, the NEC Group adopted the adjustments associated with the application of IFRS 9 provided in IAS 1, "*Presentation of Financial Statements*".
The NEC Group also adopted the adjustments associated with the application of IFRS 9 provided in IFRS 7, "*Financial Instruments: Disclosures*". These adjustments have been reflected to the disclosure for the fiscal year ended March 31, 2019, but not to the comparative information (disclosure for the fiscal year ended March 31, 2018).

1) Classification of financial assets and financial liabilities

Financial assets

IFRS 9 classifies financial assets into three major categories: those measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.
Financial assets are classified into the categories above on the basis of the business model for managing financial assets and the contractual cash flow characteristics of financial assets, in principle. The previous categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets under IAS 39, "*Financial Instruments: Recognition and Measurement*" have been superseded. The classification and measurement of financial assets, and treatment for related gains and losses applied by the NEC Group based on IFRS 9 are presented in Note 1 “Significant accounting policies” in (5) "Notes to the 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 ended March 31, 2019.

(b) The following assessments are made on the basis of the facts and circumstances at the date of initial application of IFRS 9:
- To determine a business model in which financial assets are held;
- To designate investments in equity instruments not held for trading (except those in the form of venture capital investment) as financial assets measured at fair value through other comprehensive income.

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

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

The impact of changes in accounting policies is as follows:

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

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

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

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

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

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

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

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

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

Details of major adjustments

Consolidated Statements of Financial Position

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

Consolidated Statements of Profit or Loss

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

Consolidated Statements of Cash Flows

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

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.

***