News Release

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***** For immediate use July 31, 2019

Consolidated Financial Results

for the First Quarter

of the Fiscal Year Ending

March 31, 2020

1. Consolidated Business Results

As stated in the July 10, 2019 announcement, “NEC to Revise Operating Segments,” NEC has revised its operating segments from the first quarter of the fiscal year ending March 31, 2020. Figures for the corresponding period of the previous fiscal year have been restated to conform to the new segments.

"Adjusted operating profit (loss)” is an indicator for measuring underlying profitability in order to clarify the contribution of acquired companies to NEC’s overall earnings. It is calculated by deducting amortization of intangible assets recognized as a result of M&A and expenses for acquisition of companies (financial advisory fees, etc.) from operating profit (loss). Also, "Adjusted net profit (loss) attributable to owners of the parent" is an indicator for measuring underlying profitability attributable to owners of the parent. It is calculated by deducting adjustment items of operating profit (loss) and corresponding amount of tax and non-controlling interests from operating profit (loss).

(1) Overview of the first quarter of the fiscal year ending March 31, 2020 (three months ended June 30, 2019)

The worldwide economy during the three months ended June 30, 2019 showed a slow growth, particularly in developed countries and China, due to U.S.-China trade friction.

As for the Japanese economy, reflecting the economic slowdown abroad, exports and imports as well as capital investment remained sluggish overall.

Under this business environment, the NEC Group recorded consolidated revenue of 653.9 billion yen for the three months ended June 30, 2019, an increase of 40.9 billion yen (6.7%) year-on-year. This increase was mainly due to increased sales in the Global business and the Enterprise business.

Regarding profitability, operating profit (loss) improved by 16.1 billion yen year-on-year, to an operating profit of 5.4 billion yen, mainly due to increased revenue. Adjusted operating profit (loss) improved by 15.9 billion yen year-on-year, to an adjusted operating profit of 7.6 billion yen.

Income (loss) before income taxes was an income of 5.8 billion yen, a year-on-year improvement of 10.5 billion yen, mainly due to improved operating profit (loss), despite a deterioration in foreign exchange gains (losses).

Net profit (loss) attributable to owners of the parent for the first quarter was a profit of 4.6 billion yen, an increase of 10.3 billion yen year-on-year. This was primarily due to improved income (loss) before income taxes. Adjusted net profit (loss) attributable to owners of the parent improved by 10.2 billion yen year-on-year, to an adjusted operating profit of 5.8 billion yen.

(2) Results by main segment

Revenue by segment (revenue from customers):

Segments	Three months ended June 30, 2018	Three months ended June 30, 2019	Change
	Billions of yen	Billions of yen	%
Public	185.8	180.3	(2.9)
Enterprise	95.4	114.3	19.8
Network Services	89.7	100.1	11.6
System Platform	100.3	114.3	14.0
Global	89.8	114.2	27.2
Others	52.0	30.6	(41.1)
Total	613.0	653.9	6.7

Adjusted operating profit (loss) by segment:

Segments	Three months ended June 30, 2018	Three months ended June 30, 2019	Change
	Billions of yen	Billions of yen	Billions of yen
Public	3.0	5.2	2.2
Enterprise	3.8	6.7	2.9
Network Services	(2.4)	1.2	3.7
System Platform	(2.7)	4.7	7.4
Global	(6.8)	(0.7)	6.0
Others	3.0	2.7	(0.3)
Adjustment	(6.1)	(12.1)	(6.0)
Total	(8.3)	7.6	15.9

Notes:

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

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

Public Business

Revenue:	180.3 billion yen	(-2.9%)
Adjusted Operating Profit (Loss):	5.2 billion yen	(+2.2 billion yen)

In the Public business, revenue was 180.3 billion yen, a decrease of -5.5 billion yen (-2.9%) year-on-year, mainly due to decreased sales at consolidated subsidiaries, despite increased sales in sectors that include public, healthcare and government.

Adjusted operating profit (loss) improved by 2.2 billion yen year-on-year, to an adjusted operating profit of 5.2 billion yen, mainly owing to an improved project mix, despite decreased sales.

Enterprise Business

Revenue:	114.3 billion yen	(+19.8%)
Adjusted Operating Profit (Loss):	6.7 billion yen	(+2.9 billion yen)

In the Enterprise business, revenue was 114.3 billion yen, an increase of 18.9 billion yen (+19.8%) year-on-year, mainly due to increased sales for the finance sector.

Adjusted operating profit (loss) improved by 2.9 billion yen year-on-year, to an adjusted operating profit of 6.7 billion yen, mainly owing to increased sales.

Network Services Business

Revenue:	100.1 billion yen	(+11.6%)
Adjusted Operating Profit (Loss):	1.2 billion yen	(+3.7 billion yen)

In the Network Services business, revenue was 100.1 billion yen, an increase of 10.4 billion yen (+11.6%) year-on-year, mainly due to increased sales in the fixed network domain.

Adjusted operating profit (loss) improved by 3.7 billion yen year-on-year, to an adjusted operating profit of 1.2 billion yen, mainly owing to increased sales.

System Platform Business

Revenue:	114.3 billion yen	(+14.0%)
Adjusted Operating Profit (Loss):	4.7 billion yen	(+7.4 billion yen)

In the System Platform business, revenue was 114.3 billion yen, an increase of 14.0 billion yen (+14.0%) year-on-year, mainly due to increased sales in hardware, primarily business PCs.

Adjusted operating profit (loss) improved by 7.4 billion yen year-on-year, to an adjusted operating profit of 4.7 billion yen, mainly owing to an improved product mix and increased sales.

Global Business

Revenue:	114.2 billion yen	(+27.2%)
Adjusted Operating Profit (Loss):	-0.7 billion yen	(+6.0 billion yen)

In the Global business, revenue was 114.2 billion yen, an increase of 24.4 billion yen (+27.2%) year-on-year, mainly due to increased sales in the Safer City domain.

Adjusted operating profit (loss) improved by 6.0 billion yen year-on-year, to an adjusted operating loss of 0.7 billion yen, mainly owing to increased profitability in the Safer City, service provider, wireless backhaul and submarine systems domains.

Others

Revenue:	30.6 billion yen	(-41.1%)
Adjusted Operating Profit (Loss):	2.7 billion yen	(-0.3 billion yen)

In the Others, revenue was 30.6 billion yen, a decrease of 21.3 billion yen (-41.1%) year-on-year.

Adjusted operating profit (loss) worsened by 0.3 billion yen year-on-year, to an adjusted operating profit of 2.7 billion yen.

2. Consolidated Financial Condition

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

Total assets were 2,968.0 billion yen as of June 30, 2019, an increase of 17.4 billion yen as compared with the end of the previous fiscal year. Current assets as of June 30, 2019 decreased by 138.2 billion yen compared with the end of the previous fiscal year to 1,500.1 billion yen, mainly due to the collection of trade and other receivables. Non-current assets as of June 30, 2019 increased by 155.6 billion yen compared with the end of the previous fiscal year to 1,468.0 billion yen. This was mainly due to an increase in property, plant and equipment, net, as a result of recording right-of-use assets in applying IFRS 16, "*Leases*" (hereafter "IFRS 16").

Total liabilities as of June 30, 2019 increased by 41.1 billion yen compared with the end of the previous fiscal year to 1,931.4 billion yen. This was mainly due to a recording of lease liabilities in applying IFRS 16, despite a decrease in accruals from bonus payments and a decrease in trade and other payables due to the payment of materials cost. The balance of interest-bearing debt amounted to 695.9 billion yen, an increase of 143.4 billion yen as compared with the end of the previous fiscal year. The debt-equity ratio as of June 30, 2019 was 0.83 (a worsening of 0.19 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of June 30, 2019, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 382.1 billion yen, an increase of 107.9 billion yen as compared with the end of the previous fiscal year. The net debt-equity ratio as of June 30, 2019 was 0.45 (a worsening of 0.13 points as compared with the end of the previous fiscal year).

Total equity was 1,036.6 billion yen as of June 30, 2019, a decrease of 23.7 billion yen as compared with the end of the previous fiscal year, mainly due to the payment of dividends.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of June 30, 2019 was 840.1 billion yen, and the ratio of equity attributable to owners of the parent was 28.3% (a worsening of 0.8 points as compared with the end of the previous fiscal year).

Net cash inflows from operating activities for the three months ended June 30, 2019 were 99.7 billion yen, an increase of 48.5 billion yen as compared with the same period in the previous fiscal year, due to improved income (loss) before income taxes, the impact of applying IFRS 16 and improved working capital.

Net cash outflows from investing activities for the three months ended June 30, 2019 were 16.6 billion yen, remaining almost flat year-on-year.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for the three months ended June 30, 2019 totaled a cash inflow of 83.1 billion yen, an increase of 47.3 billion yen year-on-year.

Net cash flows from financing activities for the three months ended June 30, 2019 totaled a cash outflow of 49.0 billion yen, mainly due to redemption of commercial paper and payment of dividends.

As a result, cash and cash equivalents as of June 30, 2019 amounted to 313.8 billion yen, an increase of 35.5 billion yen as compared with the end of the previous fiscal year.

3. Consolidated Financial Forecast

Beginning from the first quarter of the fiscal year ending March 31, 2020, the NEC Group discloses business indices including adjusted operating profit (loss), in the consolidated financial forecasts for the full fiscal year ending March 31, 2020. There is no change to the consolidated financial forecasts for the full fiscal year ending March 31, 2020, as previously disclosed on April 26, 2019 as they apply to revenue, operating profit, net profit attributable to owners of the parent and earnings per share.

Condensed Interim Consolidated Financial Statements

(1)Condensed Interim Consolidated Statements of Financial Position

(Millions of yen)

	Notes	As of March 31, 2019	As of June 30, 2019
Assets			
Current Assets			
Cash and cash equivalents		278,314	313,811
Trade and other receivables		734,431	501,968
Contract assets		265,725	260,540
Inventories		234,621	291,012
Other financial assets		5,875	4,050
Other current assets		110,199	128,670
Subtotal		1,629,165	1,500,051
Assets held for sale		9,071	—
Total current assets		1,638,236	1,500,051
Non-current assets			
Property, plant and equipment, net		408,821	576,603
Goodwill		222,721	219,265
Intangible assets		171,460	169,253
Investments accounted for using the equity method		72,421	74,694
Other financial assets		250,409	237,129
Deferred tax assets		150,511	155,737
Other non-current assets		36,060	35,307
Total non-current assets		1,312,403	1,467,988
Total assets		2,950,639	2,968,039

Condensed Interim Consolidated Statements of Financial Position (Continued)

(Millions of yen)

	Notes	As of March 31, 2019	As of June 30, 2019
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		482,596	447,538
Contract liabilities		184,059	176,871
Bonds and borrowings		158,678	157,682
Accruals		178,911	140,228
Lease liabilities		–	48,851
Other financial liabilities		16,169	18,728
Accrued income taxes		8,296	8,065
Provisions		58,330	55,859
Other current liabilities		61,142	58,737
Subtotal		1,148,181	1,112,559
Liabilities directly associated with assets held for sale		9,071	–
Total current liabilities		1,157,252	1,112,559
Non-current liabilities			
Bonds and borrowings		388,128	363,317
Lease liabilities		–	126,056
Other financial liabilities		47,417	42,872
Defined benefit liabilities		241,759	235,988
Provisions		23,168	18,241
Other non-current liabilities		32,590	32,365
Total non-current liabilities		733,062	818,839
Total liabilities		1,890,314	1,931,398
Equity			
Share capital		397,199	397,199
Share premium		138,824	138,814
Retained earnings		355,102	349,287
Treasury shares		(3,547)	(3,555)
Other components of equity	3	(27,995)	(41,609)
Total equity attributable to owners of the parent		859,583	840,136
Non-controlling interests		200,742	196,505
Total equity		1,060,325	1,036,641
Total liabilities and equity		2,950,639	2,968,039

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

Condensed Interim Consolidated Statements of Profit or Loss

(Millions of yen)

Three months ended June 30	Notes	2018	2019
Revenue		612,962	653,855
Cost of sales		448,801	472,989
Gross profit		164,161	180,866
Selling, general and administrative expenses		176,344	173,671
Other operating income (loss)		1,483	(1,778)
Operating profit (loss)		(10,700)	5,417
Financial income	4	6,709	3,280
Financial costs	4	1,958	4,191
Share of profit (loss) of entities accounted for using the equity method		1,191	1,274
Income (loss) before income taxes		(4,758)	5,780
Income taxes		(960)	1,646
Net profit (loss)		(3,798)	4,134
Net profit (loss) attributable to			
Owners of the parent		(5,760)	4,578
Non-controlling interests		1,962	(444)
Total		(3,798)	4,134
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)		(22.17)	17.63
Diluted earnings per share (yen)		(22.18)	17.63

Condensed Interim Consolidated Statements of Other Comprehensive Income

(Millions of yen)

Three months ended June 30	Notes	2018	2019
Net profit (loss)		(3,798)	4,134
Other comprehensive income (loss), net of tax			
Items that will not be reclassified to profit or loss			
Equity instruments measured at fair value through other comprehensive income		14,060	(6,827)
Remeasurements of defined benefit plan		—	—
Share of other comprehensive income of associates		—	(22)
Total items that will not be reclassified to profit or loss		14,060	(6,849)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(2,054)	(8,183)
Cash flow hedges		72	(8)
Share of other comprehensive income of associates		(93)	(96)
Total items that may be reclassified subsequently to profit or loss		(2,075)	(8,287)
Total other comprehensive income (loss), net of tax		11,985	(15,136)
Total comprehensive income (loss)		8,187	(11,002)
Total comprehensive income (loss) attributable to			
Owners of the parent		5,840	(9,036)
Non-controlling interests		2,347	(1,966)
Total		8,187	(11,002)

(3)Condensed Interim Consolidated Statements of Changes in Equity

(Three months ended June 30, 2018)

(Millions of yen)

	Notes	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
As of April 1, 2018		397,199	138,704	265,879	(3,364)	82,415	880,833	173,452	1,054,285
Impact of changes in accounting policies		–	–	64,619	–	(65,904)	(1,285)	–	(1,285)
Recalculated beginning balance		397,199	138,704	330,498	(3,364)	16,511	879,548	173,452	1,053,000
Net profit (loss)		–	–	(5,760)	–	–	(5,760)	1,962	(3,798)
Other comprehensive income (loss)		–	–	–	–	11,600	11,600	385	11,985
Comprehensive income (loss)		–	–	(5,760)	–	11,600	5,840	2,347	8,187
Purchase of treasury shares		–	–	–	(192)	–	(192)	–	(192)
Disposal of treasury shares		–	(0)	–	1	–	1	–	1
Cash dividends		–	–	(15,591)	–	–	(15,591)	(2,251)	(17,842)
Changes in interests in subsidiaries		–	–	–	–	–	–	522	522
Total transactions with owners		–	(0)	(15,591)	(191)	–	(15,782)	(1,729)	(17,511)
As of June 30, 2018		397,199	138,704	309,147	(3,555)	28,111	869,606	174,070	1,043,676

(Three months ended June 30, 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, 2019		397,199	138,824	355,102	(3,547)	(27,995)	859,583	200,742	1,060,325
Net profit (loss)		–	–	4,578	–	–	4,578	(444)	4,134
Other comprehensive income (loss)		–	–	–	–	(13,614)	(13,614)	(1,522)	(15,136)
Comprehensive income (loss)		–	–	4,578	–	(13,614)	(9,036)	(1,966)	(11,002)
Purchase of treasury shares		–	–	–	(8)	–	(8)	–	(8)
Disposal of treasury shares		–	–	–	–	–	–	–	–
Cash dividends		–	–	(10,393)	–	–	(10,393)	(2,552)	(12,945)
Changes in interests in subsidiaries		–	(10)	–	–	–	(10)	281	271
Total transactions with owners		–	(10)	(10,393)	(8)	–	(10,411)	(2,271)	(12,682)
As of June 30, 2019		397,199	138,814	349,287	(3,555)	(41,609)	840,136	196,505	1,036,641

(4)Condensed Interim Consolidated Statements of Cash Flows

(Millions of yen)

Three months ended June 30	Notes	2018	2019
Cash flows from operating activities			
Income (loss) before income taxes		(4,758)	5,780
Depreciation and amortization		24,662	38,345
Impairment loss		22	1,979
Increase (decrease) in provisions		(892)	(7,760)
Financial income	4	(6,709)	(3,280)
Financial costs	4	1,958	4,191
Share of (profit) loss of entities accounted for using the equity method		(1,191)	(1,274)
Decrease (increase) in trade and other receivables		223,272	229,431
Decrease (increase) in inventories		(49,439)	(57,567)
Increase (decrease) in trade and other payables		(49,850)	(34,828)
Others, net		(76,184)	(71,889)
Subtotal		60,891	103,128
Interest and dividends received		4,519	3,804
Interest paid		(1,906)	(2,442)
Income taxes paid		(12,272)	(4,774)
Net cash provided by operating activities		51,232	99,716
Cash flows from investing activities			
Purchases of property, plant and equipment		(11,813)	(12,608)
Proceeds from sales of property, plant and equipment		983	545
Acquisitions of intangible assets		(2,462)	(4,575)
Purchase of equity instruments measured at fair value through other comprehensive income		(1,739)	(41)
Proceeds from sales of equity instruments measured at fair value through other comprehensive income		247	6,586
Purchase of shares of newly consolidated subsidiaries		(446)	(1,279)
Acquisition of subsidiaries, net of cash acquired		3	49
Proceeds from sales of investments in affiliated companies		—	3
Others, net		(170)	(5,256)
Net cash used in investing activities		(15,397)	(16,576)

Condensed Interim Consolidated Statements of Cash Flows (Continued)

(Millions of yen)

Three months ended June 30	Notes	2018	2019
Cash flows from financing activities			
Increase (decrease) in short-term borrowings, net		7,478	(22,746)
Proceeds from long-term borrowings		—	145
Repayments of long-term borrowings		(532)	(238)
Proceeds from issuance of bonds		11	—
Repayments of lease liabilities		—	(13,443)
Dividends paid		(15,188)	(10,174)
Dividends paid to non-controlling interests		(2,239)	(2,552)
Others, net		201	2
Net cash used in financing activities		(10,269)	(49,006)
Effect of exchange rate changes on cash and cash equivalents		(148)	(2,139)
Net increase (decrease) in cash and cash equivalents		25,418	31,995
Cash and cash equivalents, at beginning of period		346,025	278,314
Increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sale		(1,767)	3,502
Cash and cash equivalents, at end of period		369,676	313,811

(5)Notes to the Condensed Interim Consolidated Financial Statements

1. Significant accounting policies

Significant accounting policies adopted for the first quarter of the fiscal year ending March 31, 2020 are consistent from those applied for the previous fiscal year, except for the following.
Income taxes for the first quarter is calculated using reasonably estimated annual effective tax rate.

IFRS 16, "*Leases*"

The NEC Group has applied IFRS 16, "*Leases"*, effective from the first quarter of the fiscal year ending March 31, 2020. Leases for the previous fiscal year are not restated under the transition requirements of IFRS 16, and the cumulative effect of a change in accounting policies is recognized at the date of initial application as of April 1, 2019.
In applying IFRS 16, for the first quarter of the fiscal year ending March 31, 2020, the "right-of-use assets" are presented in "Property, plant and equipment, net".

Accounting policies for leases are as follows:

1) Determining whether an arrangement contains a lease

At inception of a contract, the NEC Group assesses whether the contract is, or contains, a lease.
In transitioning to IFRS 16, the NEC Group has chosen the practical expedient of IFRS 16 and used its assessment of whether a contract contains leases based on IAS 17, "*Leases*" (hereafter "IAS 17") and IFRIC 4, "*Determining whether an Arrangement Contains a Lease*" (hereafter "IFRIC 4"). From the date of initial application, the assessment is based on the provision of IFRS 16.

2) Lessee

At the commencement date, the NEC Group recognizes a right-of-use assets and lease liabilities.

Lease liabilities are measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application.

Right-of-use assets are initially measured at the initial measurement amount of the lease liabilities adjusted for the prepaid lease payments and other factors.

The NEC Group elects not to recognize right-of-use assets and lease liabilities to either short-term leases with a lease term of 12 months or less or leases for which the underlying assets is of low value. The NEC Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

(Leases previously classified as operating leases applying IAS 17)
In transitioning to IFRS 16, the NEC Group applies the practical expedient for leases previously classified as operating leases applying IAS 17.

- As an alternative to performing an impairment review, the NEC Group relies on its assessment of whether leases are onerous applying IAS 37,"*Provisions, Contingent Liabilities and Contingent Assets*", immediately before the date of initial application.
- The NEC Group elects not to recognize right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The NEC Group excludes initial direct costs from the measurement of the right-of-use asset at the date of initial application.

(Leases previously classified as finance leases applying IAS 17)
For leases that the NEC Group as lessee previously classified as finance leases applying IAS 17, the carrying amount of right-of-use assets and lease liabilities at the date of initial application are the carrying amount of the lease asset and lease liabilities immediately before that date measured applying IAS 17.

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), Enterprise Network Solutions (IP Telephony Systems, WAN / Wireless Access Equipment, LAN Products).

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, Database Software), and Maintenance and Support.

Global

This segment mainly renders Safer City (Public Safety, Digital Government), Software & Services for Service Providers (OSS / BSS, SDN / NFV), Network Infrastructure (Submarine Systems, Wireless Backhaul), System Devices (Displays, Projectors), and Energy Storage System.

Notes:
OSS: Operation Support System, BSS: Business Support System,
SDN: Software-Defined Networking, NFV: Network Functions Virtualization

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

From the first quarter of the fiscal year ending March 31, 2020, segment income (loss) is calculated by deducting amortization of intangible assets recognized as a result of M&A and expenses for acquisition of companies (financial advisory fees, etc.) from operating profit (loss). The comparative information for the previous fiscal year is calculated on the same basis.

Inter-segment revenue and transfers are based on arm's-length price.

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

(Three months ended June 30, 2018)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	185,795	95,429	89,718	100,270	89,764	560,976	51,986	—	612,962
Intersegment revenue and transfers	1,843	2,885	2,606	8,285	570	16,189	20,750	(36,939)	—
Total	187,638	98,314	92,324	108,555	90,334	577,165	72,736	(36,939)	612,962
Segment income (loss) (Adjusted operating profit (loss))	3,003	3,763	(2,429)	(2,673)	(6,752)	(5,088)	2,965	(6,127)	(8,250)
Acquisition-related amortization of intangible assets									(2,430)
Expenses for M&A									(20)
Operating profit (loss)									(10,700)
Financial income									6,709
Financial costs									(1,958)
Share of profit (loss) of entities accounted for using the equity method									1,191
Income (loss) before income taxes									(4,758)

(Three months ended June 30, 2019)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	180,319	114,285	100,132	114,264	114,212	623,212	30,643	—	653,855
Intersegment revenue and transfers	2,123	2,501	3,543	12,773	154	21,094	21,540	(42,634)	—
Total	182,442	116,786	103,675	127,037	114,366	644,306	52,183	(42,634)	653,855
Segment income (loss) (Adjusted operating profit (loss))	5,155	6,656	1,237	4,701	(740)	17,009	2,688	(12,092)	7,605
Acquisition -related amortization of intangible assets									(2,196)
Expenses for M&A									8
Operating profit (loss)									5,417
Financial income									3,280
Financial costs									(4,191)
Share of profit (loss) of entities accounted for using the equity method									1,274
Income (loss) before income taxes									5,780

Notes:

1. "Others" for the three months ended June 30, 2018 represents businesses, such as Data Center Infrastructure Services, and Lighting Equipment. "Others" for the three months ended June 30, 2019 represents businesses, such as Data Center Infrastructure Services, and Security.

2. "Adjustment" of segment income (loss) for the three months ended June 30, 2018 includes corporate expenses of -8,327 million yen and noncurrent assets related adjustment of 620 million yen, unallocated to each reportable segment. "Adjustment" of segment income (loss) for the three months ended June 30, 2019 includes corporate expenses of -8,310 million yen and noncurrent assets related adjustment of -341 million yen, unallocated to each reportable segment. The corporate expenses, unallocated to each reportable segment, are mainly general and administrative expenses incurred at headquarters of NEC, and research and development expenses.

(4)Information about revising segments

From the first quarter of the fiscal year ending March 31, 2020, the Company's descriptions of the reportable segments have been revised based on a new organization structure effective as of April 1, 2019. A major revision is the transfer of Enterprise Network Solutions from "System Platform" segment to "Network Services" segment. In connection with this revision, segment information for the three months ended June 30, 2018 has been reclassified to conform to the presentation of the revised segments for the fiscal year ending March 31, 2020.

(5)Information about geographic areas

Revenue from customers

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Japan	455,874	484,282
The Americas	38,503	40,148
EMEA	35,954	55,910
China / East Asia and APAC	82,631	73,515
Total	612,962	653,855

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.

3. Equity

Details of other components of equity

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Remeasurements of defined benefit plan	(37,575)	(37,575)
Exchange differences on translating foreign operations	(19,677)	(26,495)
Cash flow hedges	(650)	(720)
Equity instruments measured at fair value through other comprehensive income	29,907	23,181
Total	(27,995)	(41,609)

4. Financial income and financial costs

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Financial income		
Interest income	510	399
Dividend income	3,127	2,695
Foreign exchange gains	1,947	—
Other	1,125	186
Total	6,709	3,280

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Financial costs		
Interest expenses	1,631	2,377
Foreign exchange losses	—	1,357
Other	327	457
Total	1,958	4,191

"Interest income" incurs from financial assets measured at amortized cost and cash and cash equivalents. "Dividend income" incurs from equity instruments measured at fair value through other comprehensive income. In addition, "interest expenses" incurs from financial liabilities measured at amortized cost and lease liabilities.

5. Subsequent Event

On July 31, 2019, NEC concluded the contract to apply for all shares of common stock of Nippon Avionics Co., Ltd. (hereinafter “Nippon Avionics”) owned by NEC in response to the tender offer (hereinafter “the Tender Offer”) for Nippon Avionics shares, and Shareholders’ agreement for handling the shares of Nippon Avionics which are owned by NEC and NAJ Holdings K.K. (hereinafter “NAJ”), with NAJ, a wholly-owned by Japan Industrial Partners V Investment Limited Partnership which is controlled and operated by Japan Industrial Partners V GP K.K., a wholly-owned subsidiary of Japan Industrial Partners, Inc.

The shares is subject to the Tender Offer:

Common stocks of Nippon Avionics 1,415,100 shares

Nippon Avionics will no longer be the subsidiary of NEC, once the Tender Offer is finalized.

The NEC Group anticipates its impacts on financial forecasts for the fiscal year ending March 31, 2020 is immaterial.

6. Impact of Changes in Accounting Policies
(1)Application of IFRS 16, "Leases"

The NEC Group has applied IFRS 16, "Leases", effective from the fiscal year ending March 31, 2020, with the date of initial application as of April 1, 2019.
Leases for the previous fiscal year are not restated under the transition requirements of IFRS 16, and the cumulative effect of a change in accounting policies is recognized at the date of initial application as of April 1, 2019.

Lease liabilities are measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application. The weighted average of the lessee's incremental borrowing rates is 1.3%.

The following is a reconciliation of non-cancellable operating lease contracts applying IAS 17 as of March 31, 2019 and lease liabilities recognized in the condensed consolidated statement of financial position at the date of initial application.

(Millions of yen)

Non-cancellable operating lease commitments discounted using the incremental borrowing rate as of March 31, 2019	59,469
Finance lease liabilities as of March 31, 2019	5,713
Cancellable operating lease contracts, etc.	115,649
Lease liabilities as of April 1, 2019	180,831

Right-of-use assets additionally recognized at the date of initial application in the condensed consolidated statement of financial position were 177,469 million yen.

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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