News Release

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Consolidated Financial Results

for the First Half

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.

In addition, as the provisional accounting treatment for KMD Holding ApS (hereafter KMD Holding) acquired in the previous fiscal year is settled in the second quarter of the fiscal year ending March 31, 2020, the corresponding figures as of the previous fiscal year are retrospectively adjusted.

"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 net profit (loss) attributable to owners of the parent.

(1) Overview of the first half of the fiscal year ending March 31, 2020 (six months ended September 30, 2019)

The worldwide economy during the six months ended September 30, 2019 showed slow growth, particularly in Europe and China, largely due to U.S.-China trade friction.

The Japanese economy showed steady growth supported by domestic demand, while international demand remained sluggish.

Under this business environment, the NEC Group recorded consolidated revenue of 1,449.0 billion yen for the six months ended September 30, 2019, an increase of 112.6 billion yen (8.4%) year-on-year. This increase was mainly due to increased sales overall, particularly in the Global business.

Regarding profitability, operating profit (loss) improved by 33.0 billion yen year-on-year, to an operating profit of 46.9 billion yen, mainly due to increased revenue. Adjusted operating profit (loss) improved by 36.7 billion yen year-on-year, to an adjusted operating profit of 55.4 billion yen.

Income (loss) before income taxes was an income of 46.1 billion yen, a year-on-year improvement of 24.3 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 half of the fiscal year ending March 31, 2020 was a profit of 29.2 billion yen, an increase of 20.0 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 22.4 billion yen year-on-year, to an adjusted operating profit of 34.3 billion yen.

(2) Results by main segment

Revenue by segment (revenue from customers):

Segments	Six months ended September 30, 2018	Six months ended September 30, 2019	Change
	Billions of yen	Billions of yen	%
Public	400.5	418.1	4.4
Enterprise	210.1	234.9	11.8
Network Services	203.2	225.6	11.0
System Platform	226.1	263.7	16.7
Global	197.5	243.6	23.3
Others	99.1	63.1	(36.3)
Total	1,336.4	1,449.0	8.4

Adjusted operating profit (loss) by segment:

Segments	Six months ended September 30, 2018	Six months ended September 30, 2019	Change
	Billions of yen	Billions of yen	Billions of yen
Public	12.8	26.3	13.4
Enterprise	16.0	17.5	1.5
Network Services	5.0	11.6	6.6
System Platform	5.0	20.8	15.8
Global	(2.7)	0.9	3.6
Others	5.0	6.5	1.4
Adjustment	(22.4)	(28.1)	(5.7)
Total	18.7	55.4	36.7

Notes:

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

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

Public Business

Revenue:	418.1 billion yen	(+4.4%)
Adjusted Operating Profit (Loss):	26.3 billion yen	(+13.4 billion yen)

In the Public business, revenue was 418.1 billion yen, an increase of 17.5 billion yen (+4.4%) year-on-year, mainly due to increased sales in sectors that include public, healthcare and aerospace and defense.

Adjusted operating profit (loss) improved by 13.4 billion yen year-on-year, to an adjusted operating profit of 26.3 billion yen, mainly owing to improved profitability and increased sales.

Enterprise Business

Revenue:	234.9 billion yen	(+11.8%)
Adjusted Operating Profit (Loss):	17.5 billion yen	(+1.5 billion yen)

In the Enterprise business, revenue was 234.9 billion yen, an increase of 24.7 billion yen (+11.8%) year-on-year, mainly due to increased sales for the finance sector.

Adjusted operating profit (loss) improved by 1.5 billion yen year-on-year, to an adjusted operating profit of 17.5 billion yen, mainly owing to increased sales.

Network Services Business

Revenue:	225.6 billion yen	(+11.0%)
Adjusted Operating Profit (Loss):	11.6 billion yen	(+6.6 billion yen)

In the Network Services business, revenue was 225.6 billion yen, an increase of 22.4 billion yen (+11.0%) year-on-year, mainly due to increased sales in the fixed network domain.

Adjusted operating profit (loss) improved by 6.6 billion yen year-on-year, to an adjusted operating profit of 11.6 billion yen, mainly owing to increased sales.

System Platform Business

Revenue:	263.7 billion yen	(+16.7%)
Adjusted Operating Profit (Loss):	20.8 billion yen	(+15.8 billion yen)

In the System Platform business, revenue was 263.7 billion yen, an increase of 37.7 billion yen (+16.7%) year-on-year, mainly due to increased sales in hardware, primarily business PCs.

Adjusted operating profit (loss) improved by 15.8 billion yen year-on-year, to an adjusted operating profit of 20.8 billion yen, mainly owing to the effect of restructuring as well as increased sales.

Global Business

Revenue:	243.6 billion yen	(+23.3%)
Adjusted Operating Profit (Loss):	0.9 billion yen	(+3.6 billion yen)

In the Global business, revenue was 243.6 billion yen, an increase of 46.1 billion yen (+23.3%) year-on-year, mainly due to increased sales in the Safer City and submarine systems domain.

Adjusted operating profit (loss) improved by 3.6 billion yen year-on-year, to an adjusted operating profit of 0.9 billion yen, mainly owing to increased profitability in the Safer City, service provider, wireless backhaul and submarine systems domains.

Others

Revenue:	63.1 billion yen	(-36.3%)
Adjusted Operating Profit (Loss):	6.5 billion yen	(+1.4 billion yen)

In the Others, revenue was 63.1 billion yen, a decrease of 35.9 billion yen (-36.3%) year-on-year.

Adjusted operating profit (loss) improved by 1.4 billion yen year-on-year, to an adjusted operating profit of 6.5 billion yen.

2. Consolidated Financial Condition

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

Total assets were 2,983.7 billion yen as of September 30, 2019, an increase of 20.5 billion yen as compared with the end of the previous fiscal year. Current assets as of September 30, 2019 decreased by 111.9 billion yen compared with the end of the previous fiscal year to 1,526.4 billion yen, mainly due to the collection of trade and other receivables. Non-current assets as of September 30, 2019 increased by 132.4 billion yen compared with the end of the previous fiscal year to 1,457.4 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 September 30, 2019 increased by 22.2 billion yen compared with the end of the previous fiscal year to 1,925.8 billion yen. This was mainly due to a recording of lease liabilities in applying IFRS 16, despite a decrease in trade and other payables due to the payment of materials cost. The balance of interest-bearing debt amounted to 681.9 billion yen, an increase of 129.4 billion yen as compared with the end of the previous fiscal year. The debt-equity ratio as of September 30, 2019 was 0.79 (a worsening of 0.15 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of September 30, 2019, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 411.9 billion yen, an increase of 137.7 billion yen as compared with the end of the previous fiscal year. The net debt-equity ratio as of September 30, 2019 was 0.48 (a worsening of 0.16 points as compared with the end of the previous fiscal year).

In addition, after reflecting the impact of applying IFRS 16, the changes in the balance of interest-bearing debt and that of net interest-bearing debt were a decrease of 45.7 billion yen and 37.4 billion yen respectively, at the beginning of the fiscal year ending March 31, 2020. As a result, the debt-equity ratio and the net debt-equity ratio improved by 0.06 point and 0.04 point respectively.

Total equity was 1,058.0 billion yen as of September 30, 2019, a decrease of 1.7 billion yen as compared with the end of the previous fiscal year, mainly owing to a decrease in exchange differences on translating foreign operations due to yen appreciation and the payment of dividends, despite net profit attributable to owners of the parent.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of September 30, 2019 was 858.7 billion yen, and the ratio of equity attributable to owners of the parent was 28.8% (a worsening of 0.2 points as compared with the end of the previous fiscal year).

Net cash inflows from operating activities for the six months ended September 30, 2019 were 105.3 billion yen, an increase of 91.0 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 six months ended September 30, 2019 were 49.7 billion yen, an increase of 18.2 billion yen as compared with the same period in the previous fiscal year, mainly due to an increase in purchases of property, plant and equipment.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for the six months ended September 30, 2019 totaled a cash inflow of 55.6 billion yen, an increase of 72.8 billion yen year-on-year.

Net cash flows from financing activities for the six months ended September 30, 2019 totaled a cash outflow of 61.8 billion yen, mainly due to repayments of lease liabilities, redemption of commercial paper and payment of dividends.

As a result, cash and cash equivalents as of September 30, 2019 amounted to 270.0 billion yen, a decrease of 8.3 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 business indices for the consolidated financial forecasts, as previously disclosed on July 31, 2019.

Condensed Interim Consolidated Financial Statements

(1)Condensed Interim Consolidated Statements of Financial Position

(Millions of yen)

	Notes	As of March 31, 2019	As of September 30, 2019
Assets			
Current Assets			
Cash and cash equivalents		278,314	270,020
Trade and other receivables		734,431	565,846
Contract assets		265,725	289,918
Inventories		234,621	267,695
Other financial assets		5,875	4,428
Other current assets		110,199	111,898
Subtotal		1,629,165	1,509,805
Assets held for sale		9,071	16,549
Total current assets		1,638,236	1,526,354
Non-current assets			
Property, plant and equipment, net		408,821	571,884
Goodwill		188,183	185,434
Intangible assets		218,581	206,693
Investments accounted for using the equity method		72,421	74,475
Other financial assets		250,409	239,941
Deferred tax assets		150,511	145,984
Other non-current assets		36,060	32,970
Total non-current assets		1,324,986	1,457,381
Total assets		2,963,222	2,983,735

Condensed Interim Consolidated Statements of Financial Position (Continued)

(Millions of yen)

	Notes	As of March 31, 2019	As of September 30, 2019
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		482,596	429,753
Contract liabilities		184,059	167,421
Bonds and borrowings		158,678	149,362
Accruals		178,911	177,762
Lease liabilities		—	47,429
Other financial liabilities		16,169	17,005
Accrued income taxes		8,296	8,810
Provisions		58,448	53,240
Other current liabilities		61,985	41,435
Subtotal		1,149,142	1,092,217
Liabilities directly associated with assets held for sale		9,071	14,942
Total current liabilities		1,158,213	1,107,159
Non-current liabilities			
Bonds and borrowings		388,128	364,640
Lease liabilities		—	120,488
Other financial liabilities		47,417	44,037
Defined benefit liabilities		241,759	234,804
Provisions		24,803	16,988
Other non-current liabilities		43,221	37,656
Total non-current liabilities		745,328	818,613
Total liabilities		1,903,541	1,925,772
Equity			
Share capital		397,199	397,199
Share premium		138,824	139,444
Retained earnings		354,582	373,351
Treasury shares		(3,547)	(4,141)
Other components of equity	3	(28,119)	(47,149)
Total equity attributable to owners of the parent		858,939	858,704
Non-controlling interests		200,742	199,259
Total equity		1,059,681	1,057,963
Total liabilities and equity		2,963,222	2,983,735

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

Condensed Interim Consolidated Statements of Profit or Loss

(Millions of yen)

Six months ended September 30	Notes	2018	2019
Revenue		1,336,424	1,448,993
Cost of sales		966,360	1,042,268
Gross profit		370,064	406,725
Selling, general and administrative expenses		356,801	359,539
Other operating income (loss)		562	(330)
Operating profit (loss)		13,825	46,856
Financial income	4	9,104	4,385
Financial costs	4	3,867	8,733
Share of profit (loss) of entities accounted for using the equity method		2,714	3,607
Income (loss) before income taxes		21,776	46,115
Income taxes		7,090	13,295
Net profit (loss)		14,686	32,820
Net profit (loss) attributable to			
Owners of the parent		9,159	29,162
Non-controlling interests		5,527	3,658
Total		14,686	32,820
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)		35.26	112.30
Diluted earnings per share (yen)		35.26	112.30

Condensed Interim Consolidated Statements of Other Comprehensive Income

(Millions of yen)

Six months ended September 30	Notes	2018	2019
Net profit (loss)		14,686	32,820
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Equity instruments measured at fair value through other comprehensive income		7,261	(5,470)
Remeasurements of defined benefit plan		—	—
Share of other comprehensive income of associates		—	6
Total items that will not be reclassified to profit or loss		7,261	(5,464)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		1,920	(16,266)
Cash flow hedges		85	(19)
Share of other comprehensive income of associates		33	(160)
Total items that may be reclassified subsequently to profit or loss		2,038	(16,445)
Total other comprehensive income, net of tax		9,299	(21,909)
Total comprehensive income		23,985	10,911
Total comprehensive income attributable to			
Owners of the parent		17,536	10,132
Non-controlling interests		6,449	779
Total		23,985	10,911

[THREE MONTHS PERIOD INFORMATION]

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

Condensed Interim Consolidated Statements of Profit or Loss

(Millions of yen)

Three months ended September 30	Notes	2018	2019
Revenue		723,462	795,138
Cost of sales		517,559	569,185
Gross profit		205,903	225,953
Selling, general and administrative expenses		180,457	183,927
Other operating income (loss)		(921)	1,448
Operating profit (loss)		24,525	43,474
Financial income	4	2,395	1,105
Financial costs	4	1,909	4,542
Share of profit (loss) of entities accounted for using the equity method		1,523	2,333
Income (loss) before income taxes		26,534	42,370
Income taxes		8,050	12,142
Net profit (loss)		18,484	30,228
Net profit (loss) attributable to			
Owners of the parent		14,919	25,897
Non-controlling interests		3,565	4,331
Total		18,484	30,228
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)		57.43	99.73
Diluted earnings per share (yen)		57.43	99.73

Condensed Interim Consolidated Statements of Other Comprehensive Income

(Millions of yen)

Three months ended September 30	Notes	2018	2019
Net profit (loss)		18,484	30,228
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Equity instruments measured at fair value through other comprehensive income		(6,799)	1,357
Remeasurements of defined benefit plan		—	—
Share of other comprehensive income of associates		—	28
Total items that will not be reclassified to profit or loss		(6,799)	1,385
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		3,974	(7,916)
Cash flow hedges		13	(11)
Share of other comprehensive income of associates		126	(64)
Total items that may be reclassified subsequently to profit or loss		4,113	(7,991)
Total other comprehensive income, net of tax		(2,686)	(6,606)
Total comprehensive income		15,798	23,622
Total comprehensive income attributable to			
Owners of the parent		11,696	20,685
Non-controlling interests		4,102	2,937
Total		15,798	23,622

(3)Condensed Interim Consolidated Statements of Changes in Equity

(Six months ended September 30, 2018)

(Millions of yen)

	Notes	Equity attributable to owners of the parent						Non-controlling interests	Total equity
		Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
As of April 1, 2018		397,199	138,704	265,879	(3,364)	82,415	880,833	173,452	1,054,285
Impact of changes in accounting policies		—	—	64,619	—	(65,904)	(1,285)	—	(1,285)
Recalculated beginning balance		397,199	138,704	330,498	(3,364)	16,511	879,548	173,452	1,053,000
Net profit (loss)		—	—	9,159	—	—	9,159	5,527	14,686
Other comprehensive income		—	—	—	—	8,377	8,377	922	9,299
Comprehensive income		—	—	9,159	—	8,377	17,536	6,449	23,985
Purchase of treasury shares		—	—	—	(180)	—	(180)	—	(180)
Disposal of treasury shares		—	(1)	—	2	—	1	—	1
Cash dividends		—	—	(15,591)	—	—	(15,591)	(2,265)	(17,856)
Put option, written over shares held by a non-controlling interest shareholder		—	103	—	—	—	103	—	103
Changes in interests in subsidiaries		—	1	—	—	—	1	589	590
Total transactions with owners		—	103	(15,591)	(178)	—	(15,666)	(1,676)	(17,342)
As of September 30, 2018		397,199	138,807	324,066	(3,542)	24,888	881,418	178,225	1,059,643

(Six months ended September 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	354,582	(3,547)	(28,119)	858,939	200,742	1,059,681
Net profit (loss)		—	—	29,162	—	—	29,162	3,658	32,820
Other comprehensive income		—	—	—	—	(19,030)	(19,030)	(2,879)	(21,909)
Comprehensive income		—	—	29,162	—	(19,030)	10,132	779	10,911
Purchase of treasury shares		—	—	—	(654)	—	(654)	—	(654)
Disposal of treasury shares		—	(0)	—	60	—	60	—	60
Cash dividends		—	—	(10,393)	—	—	(10,393)	(2,553)	(12,946)
Put option, written over shares held by a non-controlling interest shareholder		—	630	—	—	—	630	—	630
Changes in interests in subsidiaries		—	(10)	—	—	—	(10)	291	281
Total transactions with owners		—	620	(10,393)	(594)	—	(10,367)	(2,262)	(12,629)
As of September 30, 2019		397,199	139,444	373,351	(4,141)	(47,149)	858,704	199,259	1,057,963

(4)Condensed Interim Consolidated Statements of Cash Flows

(Millions of yen)

Six months ended September 30	Notes	2018	2019
Cash flows from operating activities			
Income (loss) before income taxes		21,776	46,115
Depreciation and amortization		49,835	79,473
Impairment loss		381	3,047
Increase (decrease) in provisions		(1,042)	(10,902)
Financial income	4	(9,104)	(4,385)
Financial costs	4	3,867	8,733
Share of (profit) loss of entities accounted for using the equity method		(2,714)	(3,607)
Decrease (increase) in trade and other receivables		147,303	156,043
Decrease (increase) in inventories		(45,325)	(39,316)
Increase (decrease) in trade and other payables		(53,654)	(35,458)
Others, net		(85,888)	(86,775)
Subtotal		25,435	112,968
Interest and dividends received		5,163	4,683
Interest paid		(2,905)	(4,267)
Income taxes paid		(13,370)	(8,042)
Net cash provided by operating activities		14,323	105,342
Cash flows from investing activities			
Purchases of property, plant and equipment		(23,067)	(40,793)
Proceeds from sales of property, plant and equipment		2,124	2,355
Acquisitions of intangible assets		(5,429)	(8,091)
Purchase of equity instruments measured at fair value through other comprehensive income		(1,707)	(757)
Proceeds from sales of equity instruments measured at fair value through other comprehensive income		251	7,434
Purchase of shares of newly consolidated subsidiaries		(1,657)	(5,751)
Acquisition of subsidiaries, net of cash acquired		3	52
Purchases of investments in affiliated companies		(1,138)	(266)
Proceeds from sales of investments in affiliated companies		—	1,610
Others, net		(851)	(5,500)
Net cash used in investing activities		(31,471)	(49,707)

Condensed Interim Consolidated Statements of Cash Flows (Continued)

(Millions of yen)

Six months ended September 30	Notes	2018	2019
Cash flows from financing activities			
Increase (decrease) in short-term borrowings, net		16,740	(16,636)
Proceeds from long-term borrowings		—	35,774
Repayments of long-term borrowings		(6,773)	(41,561)
Proceeds from issuance of bonds		50,011	—
Repayments of lease liabilities		—	(26,482)
Dividends paid		(15,564)	(10,398)
Dividends paid to non-controlling interests		(2,264)	(2,553)
Others, net		561	46
Net cash provided by /(used in) financing activities		42,711	(61,810)
Effect of exchange rate changes on cash and cash equivalents		600	(3,660)
Net increase (decrease) in cash and cash equivalents		26,163	(9,835)
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		(1,478)	1,541
Cash and cash equivalents, at end of period		370,710	270,020

(5)Notes to the Condensed Interim Consolidated Financial Statements

1. Significant accounting policies

Significant accounting policies adopted for the second quarter of the fiscal year ending March 31, 2020 are consistent from those applied for the previous fiscal year, except for IFRS 16 described below.
Income taxes for the second 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 second 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

(Six months ended September 30, 2018)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	400,545	210,143	203,153	226,052	197,457	1,237,350	99,074	—	1,336,424
Intersegment revenue and transfers	5,838	5,865	5,711	18,151	1,248	36,813	43,286	(80,099)	—
Total	406,383	216,008	208,864	244,203	198,705	1,274,163	142,360	(80,099)	1,336,424
Segment income (loss) (Adjusted operating profit (loss))	12,848	15,968	4,950	5,041	(2,726)	36,081	5,038	(22,443)	18,676
Acquisition-related amortization of intangible assets									(4,799)
Expenses for M&A									(52)
Operating profit (loss)									13,825
Financial income									9,104
Financial costs									(3,867)
Share of profit (loss) of entities accounted for using the equity method									2,714
Income (loss) before income taxes									21,776

(Six months ended September 30, 2019)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	418,079	234,889	225,591	263,744	243,552	1,385,855	63,138	—	1,448,993
Intersegment revenue and transfers	5,974	5,153	8,042	26,888	313	46,370	44,234	(90,604)	—
Total	424,053	240,042	233,633	290,632	243,865	1,432,225	107,372	(90,604)	1,448,993
Segment income (loss) (Adjusted operating profit (loss))	26,290	17,489	11,575	20,799	879	77,032	6,450	(28,098)	55,384
Acquisition -related amortization of intangible assets									(8,325)
Expenses for M&A									(203)
Operating profit (loss)									46,856
Financial income									4,385
Financial costs									(8,733)
Share of profit (loss) of entities accounted for using the equity method									3,607
Income (loss) before income taxes									46,115

Notes:

1. "Others" for the six months ended September 30, 2018 represents businesses, such as Data Center Infrastructure Services, and Lighting Equipment. "Others" for the six months ended September 30, 2019 represents businesses, such as Data Center Infrastructure Services, and Security.
2. "Adjustment" of segment income (loss) for the six months ended September 30, 2018 includes corporate expenses of -22,856 million yen and noncurrent assets related adjustment of 546 million yen, unallocated to each reportable segment. "Adjustment" of segment income (loss) for the six months ended September 30, 2019 includes corporate expenses of -26,558 million yen and noncurrent assets related adjustment of 181 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.

(Three months ended September 30, 2018)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	214,750	114,714	113,435	125,782	107,693	676,374	47,088	—	723,462
Intersegment revenue and transfers	3,995	2,980	3,105	9,866	678	20,624	22,536	(43,160)	—
Total	218,745	117,694	116,540	135,648	108,371	696,998	69,624	(43,160)	723,462
Segment income (loss) (Adjusted operating profit (loss))	9,845	12,205	7,379	7,714	4,026	41,169	2,073	(16,316)	26,926
Acquisition -related amortization of intangible assets									(2,369)
Expenses for M&A									(32)
Operating profit (loss)									24,525
Financial income									2,395
Financial costs									(1,909)
Share of profit (loss) of entities accounted for using the equity method									1,523
Income (loss) before income taxes									26,534

(Three months ended September 30, 2019)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	237,760	120,604	125,459	149,480	129,340	762,643	32,495	—	795,138
Intersegment revenue and transfers	3,851	2,652	4,499	14,115	159	25,276	22,694	(47,970)	—
Total	241,611	123,256	129,958	163,595	129,499	787,919	55,189	(47,970)	795,138
Segment income (loss) (Adjusted operating profit (loss))	21,135	10,833	10,338	16,098	1,619	60,023	3,762	(16,006)	47,779
Acquisition -related amortization of intangible assets									(4,094)
Expenses for M&A									(211)
Operating profit (loss)									43,474
Financial income									1,105
Financial costs									(4,542)
Share of profit (loss) of entities accounted for using the equity method									2,333
Income (loss) before income taxes									42,370

Notes:

1. "Others" for the three months ended September 30, 2018 represents businesses, such as Data Center Infrastructure Services, and Lighting Equipment. "Others" for the three months ended September 30, 2019 represents businesses, such as Data Center Infrastructure Services, and Security.
2. "Adjustment" of segment income (loss) for the three months ended September 30, 2018 includes corporate expenses of -14,529 million yen and noncurrent assets related adjustment of -74 million yen, unallocated to each reportable segment. "Adjustment" of segment income (loss) for the three months ended September 30, 2019 includes corporate expenses of -18,248 million yen and noncurrent assets related adjustment of 522 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 six months ended September 30, 2018 and for three months ended September 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)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Japan	992,648	1,082,644
The Americas	86,036	86,358
EMEA	77,144	110,957
China / East Asia and APAC	180,596	169,034
Total	1,336,424	1,448,993

(Millions of yen)

	Three months ended September 30, 2018	Three months ended September 30, 2019
Japan	536,774	598,362
The Americas	47,533	46,210
EMEA	41,190	55,047
China / East Asia and APAC	97,965	95,519
Total	723,462	795,138

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 September 30, 2019
Remeasurements of defined benefit plan	(37,575)	(37,575)
Exchange differences on translating foreign operations	(19,801)	(33,392)
Cash flow hedges	(650)	(725)
Equity instruments measured at fair value through other comprehensive income	29,907	24,543
Total	(28,119)	(47,149)

4. Financial income and financial costs

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Financial income		
Interest income	992	825
Dividend income	3,368	3,186
Foreign exchange gains	3,502	—
Other	1,242	374
Total	9,104	4,385

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Financial costs		
Interest expenses	3,289	4,768
Foreign exchange losses	—	2,511
Other	578	1,454
Total	3,867	8,733

(Millions of yen)

	Three months ended September 30, 2018	Three months ended September 30, 2019
Financial income		
Interest income	482	426
Dividend income	241	491
Foreign exchange gains	1,555	–
Other	117	188
Total	2,395	1,105

(Millions of yen)

	Three months ended September 30, 2018	Three months ended September 30, 2019
Financial costs		
Interest expenses	1,658	2,391
Foreign exchange losses	–	1,154
Other	251	997
Total	1,909	4,542

"Interest income" incurs from financial assets measured at amortized cost. "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

There are no significant subsequent events.

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 175,716 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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