

News

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NEC

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Consolidated Financial Results

for the Nine Months Ended

December 31, 2019

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 third quarter of the fiscal year ending March 31, 2020 (nine months ended December 31, 2019)

The worldwide economy during the nine months ended December 31, 2019 showed slow growth, particularly in Europe and China, largely due to U.S.-China trade friction.

The Japanese economy showed firm domestic demand, but following a rise in the consumption tax, domestic demand was somewhat weakened.

Under this business environment, the NEC Group recorded consolidated revenue of 2,175.6 billion yen for the nine months ended December 31, 2019, an increase of 141.0 billion yen (6.9%) year-on-year. This increase was mainly due to increased sales overall, particularly in the Global business.

Regarding profitability, operating profit (loss) improved by 61.2 billion yen year-on-year, to an operating profit of 77.9 billion yen, mainly due to increased revenue, in addition to the recording of business structure improvement expenses in the same period of the previous fiscal year. Adjusted operating profit (loss) improved by 66.6 billion yen year-on-year, to an adjusted operating profit of 90.6 billion yen.

Income (loss) before income taxes was an income of 78.8 billion yen, a year-on-year improvement of 52.4 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 nine months ended December 31, 2019 was a profit of 49.2 billion yen, an increase of 41.5 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 45.1 billion yen year-on-year, to an adjusted operating profit of 56.9 billion yen.

(2) Results by main segment

Revenue by segment (revenue from customers):

Segments	Nine months ended December 31, 2018	Nine months ended December 31, 2019	Change
	Billions of yen	Billions of yen	%
Public	619.3	644.2	4.0
Enterprise	315.4	339.5	7.7
Network Services	308.9	341.4	10.5
System Platform	346.8	389.2	12.2
Global	297.2	366.6	23.3
Others	147.0	94.6	(35.6)
Total	2,034.7	2,175.6	6.9

Adjusted operating profit (loss) by segment:

Segments	Nine months ended December 31, 2018	Nine months ended December 31, 2019	Change
	Billions of yen	Billions of yen	Billions of yen
Public	28.2	47.5	19.2
Enterprise	25.6	27.3	1.7
Network Services	9.7	18.1	8.4
System Platform	4.8	32.3	27.5
Global	(6.1)	1.2	7.3
Others	5.5	8.5	3.1
Adjustment	(43.7)	(44.3)	(0.6)
Total	24.0	90.6	66.6

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:	644.2 billion yen	(+4.0%)
Adjusted Operating Profit (Loss):	47.5 billion yen	(+19.2 billion yen)

In the Public business, revenue was 644.2 billion yen, an increase of 24.9 billion yen (+4.0%) year-on-year, mainly due to increased sales in sectors that include public, healthcare and aerospace and defense.

Adjusted operating profit (loss) improved by 19.2 billion yen year-on-year, to an adjusted operating profit of 47.5 billion yen, mainly owing to improved profitability and increased sales.

Enterprise Business

Revenue:	339.5 billion yen	(+7.7%)
Adjusted Operating Profit (Loss):	27.3 billion yen	(+1.7 billion yen)

In the Enterprise business, revenue was 339.5 billion yen, an increase of 24.2 billion yen (+7.7%) year-on-year, mainly due to increased sales for the finance sector.

Adjusted operating profit (loss) improved by 1.7 billion yen year-on-year, to an adjusted operating profit of 27.3 billion yen, mainly owing to increased sales.

Network Services Business

Revenue:	341.4 billion yen	(+10.5%)
Adjusted Operating Profit (Loss):	18.1 billion yen	(+8.4 billion yen)

In the Network Services business, revenue was 341.4 billion yen, an increase of 32.5 billion yen (+10.5%) year-on-year, mainly due to increased sales in the fixed network domain.

Adjusted operating profit (loss) improved by 8.4 billion yen year-on-year, to an adjusted operating profit of 18.1 billion yen, mainly owing to increased sales.

System Platform Business

Revenue:	389.2 billion yen	(+12.2%)
Adjusted Operating Profit (Loss):	32.3 billion yen	(+27.5 billion yen)

In the System Platform business, revenue was 389.2 billion yen, an increase of 42.4 billion yen (+12.2%) year-on-year, mainly due to increased sales in hardware, primarily business PCs.

Adjusted operating profit (loss) improved by 27.5 billion yen year-on-year, to an adjusted operating profit of 32.3 billion yen, mainly owing to the effect of restructuring as well as increased sales.

Global Business

Revenue:	366.6 billion yen	(+23.3%)
Adjusted Operating Profit (Loss):	1.2 billion yen	(+7.3 billion yen)

In the Global business, revenue was 366.6 billion yen, an increase of 69.4 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 7.3 billion yen year-on-year, to an adjusted operating profit of 1.2 billion yen, mainly owing to increased profitability in the Safer City, service provider, wireless backhaul and submarine systems domains.

Others

Revenue:	94.6 billion yen	(-35.6%)
Adjusted Operating Profit (Loss):	8.5 billion yen	(+3.1 billion yen)

In the Others, revenue was 94.6 billion yen, a decrease of 52.4 billion yen (-35.6%) year-on-year.

Adjusted operating profit (loss) improved by 3.1 billion yen year-on-year, to an adjusted operating profit of 8.5 billion yen.

2. Consolidated Financial Condition

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

Total assets were 3,041.9 billion yen as of December 31, 2019, an increase of 78.7 billion yen as compared with the end of the previous fiscal year. Current assets as of December 31, 2019 decreased by 58.5 billion yen compared with the end of the previous fiscal year to 1,579.7 billion yen, mainly due to the collection of trade and other receivables, despite an increase in inventories due to increased investment toward the end of the fiscal year. Non-current assets as of December 31, 2019 increased by 137.2 billion yen compared with the end of the previous fiscal year to 1,462.2 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 December 31, 2019 increased by 47.4 billion yen compared with the end of the previous fiscal year to 1,950.9 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 694.4 billion yen, an increase of 141.9 billion yen as compared with the end of the previous fiscal year. The debt-equity ratio as of December 31, 2019 was 0.78 (a worsening of 0.14 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of December 31, 2019, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 441.3 billion yen, an increase of 167.1 billion yen as compared with the end of the previous fiscal year. The net debt-equity ratio as of December 31, 2019 was 0.50 (a worsening of 0.18 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 33.2 billion yen and 8.0 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 0.07 point and 0.02 point respectively.

Total equity was 1,091.0 billion yen as of December 31, 2019, an increase of 31.3 billion yen as compared with the end of the previous fiscal year, mainly owing to net profit attributable to owners of the parent, despite the payment of dividends.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of December 31, 2019 was 889.8 billion yen, and the ratio of equity attributable to owners of the parent was 29.3% (an improvement of 0.3 points as compared with the end of the previous fiscal year).

Net cash inflows from operating activities for the nine months ended December 31, 2019 were 112.2 billion yen, an increase of 138.8 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 nine months ended December 31, 2019 were 63.0 billion yen, an increase of 26.6 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 nine months ended December 31, 2019 totaled a cash inflow of 49.2 billion yen, an increase of 112.2 billion yen year-on-year.

Net cash flows from financing activities for the nine months ended December 31, 2019 totaled a cash outflow of 74.8 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 December 31, 2019 amounted to 253.1 billion yen, a decrease of 25.2 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 October 29, 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 December 31, 2019
Assets			
Current Assets			
Cash and cash equivalents		278,314	253,098
Trade and other receivables		734,431	539,287
Contract assets		265,725	335,789
Inventories		234,621	308,266
Other financial assets		5,875	4,143
Other current assets		110,199	121,574
Subtotal		1,629,165	1,562,157
Assets held for sale		9,071	17,565
Total current assets		1,638,236	1,579,722
Non-current assets			
Property, plant and equipment, net		408,821	567,969
Goodwill		188,183	191,139
Intangible assets		218,581	207,939
Investments accounted for using the equity method		72,421	76,045
Other financial assets		250,409	248,210
Deferred tax assets		150,511	138,932
Other non-current assets		36,060	31,931
Total non-current assets		1,324,986	1,462,165
Total assets		2,963,222	3,041,887

Condensed Interim Consolidated Statements of Financial Position (Continued)

(Millions of yen)

	Notes	As of March 31, 2019	As of December 31, 2019
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		482,596	442,236
Contract liabilities		184,059	172,766
Bonds and borrowings		158,678	163,078
Accruals		178,911	153,964
Lease liabilities		—	48,588
Other financial liabilities		16,169	18,719
Accrued income taxes		8,296	8,686
Provisions		58,448	52,516
Other current liabilities		61,985	56,468
Subtotal		1,149,142	1,117,021
Liabilities directly associated with assets held for sale		9,071	16,028
Total current liabilities		1,158,213	1,133,049
Non-current liabilities			
Bonds and borrowings		388,128	364,636
Lease liabilities		—	118,137
Other financial liabilities		47,417	43,738
Defined benefit liabilities		241,759	238,393
Provisions		24,803	16,563
Other non-current liabilities		43,221	36,388
Total non-current liabilities		745,328	817,855
Total liabilities		1,903,541	1,950,904
Equity			
Share capital		397,199	397,199
Share premium		138,824	139,429
Retained earnings		354,582	385,590
Treasury shares		(3,547)	(4,148)
Other components of equity	3	(28,119)	(28,263)
Total equity attributable to owners of the parent		858,939	889,807
Non-controlling interests		200,742	201,176
Total equity		1,059,681	1,090,983
Total liabilities and equity		2,963,222	3,041,887

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

(Millions of yen)

Nine months ended December 31	Notes	2018	2019
Revenue		2,034,653	2,175,614
Cost of sales		1,457,346	1,555,165
Gross profit		577,307	620,449
Selling, general and administrative expenses		537,697	541,009
Other operating income (loss)		(22,922)	(1,534)
Operating profit (loss)		16,688	77,906
Financial income	4	11,559	6,323
Financial costs	4	5,890	10,468
Share of profit (loss) of entities accounted for using the equity method		4,111	5,073
Income (loss) before income taxes		26,468	78,834
Income taxes		9,617	23,435
Net profit (loss)		16,851	55,399
Net profit (loss) attributable to			
Owners of the parent		7,652	49,196
Non-controlling interests		9,199	6,203
Total		16,851	55,399
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)		29.46	189.46
Diluted earnings per share (yen)		29.46	189.46

Condensed Interim Consolidated Statements of Other Comprehensive Income

(Millions of yen)

Nine months ended December 31	Notes	2018	2019
Net profit (loss)		16,851	55,399
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Equity instruments measured at fair value through other comprehensive income		(10,280)	1,884
Remeasurements of defined benefit plan		—	—
Share of other comprehensive income of associates		—	43
Total items that will not be reclassified to profit or loss		(10,280)	1,927
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(3,761)	(3,399)
Cash flow hedges		6	70
Share of other comprehensive income of associates		(186)	75
Total items that may be reclassified subsequently to profit or loss		(3,941)	(3,254)
Total other comprehensive income, net of tax		(14,221)	(1,327)
Total comprehensive income		2,630	54,072
Total comprehensive income attributable to			
Owners of the parent		(6,759)	49,052
Non-controlling interests		9,389	5,020
Total		2,630	54,072

[THREE MONTHS PERIOD INFORMATION]

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

(Millions of yen)

Three months ended December 31	Notes	2018	2019
Revenue		698,229	726,621
Cost of sales		490,986	512,897
Gross profit		207,243	213,724
Selling, general and administrative expenses		180,896	181,470
Other operating income (loss)		(23,484)	(1,204)
Operating profit (loss)		2,863	31,050
Financial income	4	4,305	2,962
Financial costs	4	3,873	2,759
Share of profit (loss) of entities accounted for using the equity method		1,397	1,466
Income (loss) before income taxes		4,692	32,719
Income taxes		2,527	10,140
Net profit (loss)		2,165	22,579
Net profit (loss) attributable to			
Owners of the parent		(1,507)	20,034
Non-controlling interests		3,672	2,545
Total		2,165	22,579
Earnings per share attributable to owners of the parent			
Basic earnings per share (yen)		(5.80)	77.18
Diluted earnings per share (yen)		(5.80)	77.17

Condensed Interim Consolidated Statements of Other Comprehensive Income

(Millions of yen)

Three months ended December 31	Notes	2018	2019
Net profit (loss)		2,165	22,579
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Equity instruments measured at fair value through other comprehensive income		(17,541)	7,354
Remeasurements of defined benefit plan		—	—
Share of other comprehensive income of associates		—	37
Total items that will not be reclassified to profit or loss		(17,541)	7,391
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(5,681)	12,867
Cash flow hedges		(79)	89
Share of other comprehensive income of associates		(219)	235
Total items that may be reclassified subsequently to profit or loss		(5,979)	13,191
Total other comprehensive income, net of tax		(23,520)	20,582
Total comprehensive income		(21,355)	43,161
Total comprehensive income attributable to			
Owners of the parent		(24,295)	38,920
Non-controlling interests		2,940	4,241
Total		(21,355)	43,161

(3)Condensed Interim Consolidated Statements of Changes in Equity

(Nine months ended December 31, 2018)

(Millions of yen)

Notes	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
As of April 1, 2018	397,199	138,704	265,879	(3,364)	82,415	880,833	173,452	1,054,285
Impact of changes in accounting policies	—	—	64,619	—	(65,904)	(1,285)	—	(1,285)
Recalculated beginning balance	397,199	138,704	330,498	(3,364)	16,511	879,548	173,452	1,053,000
Net profit (loss)	—	—	7,652	—	—	7,652	9,199	16,851
Other comprehensive income	—	—	—	—	(14,411)	(14,411)	190	(14,221)
Comprehensive income	—	—	7,652	—	(14,411)	(6,759)	9,389	2,630
Purchase of treasury shares	—	—	—	(208)	—	(208)	—	(208)
Disposal of treasury shares	—	(1)	—	22	—	21	—	21
Cash dividends	—	—	(15,591)	—	—	(15,591)	(4,298)	(19,889)
Put option, written over shares held by a non-controlling interest shareholder	—	103	—	—	—	103	—	103
Changes in interests in subsidiaries	—	(641)	—	—	—	(641)	645	4
Total transactions with owners	—	(539)	(15,591)	(186)	—	(16,316)	(3,653)	(19,969)
As of December 31, 2018	397,199	138,165	322,559	(3,550)	2,100	856,473	179,188	1,035,661

(Nine months ended December 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, 2019	397,199	138,824	354,582	(3,547)	(28,119)	858,939	200,742	1,059,681
Net profit (loss)	—	—	49,196	—	—	49,196	6,203	55,399
Other comprehensive income	—	—	—	—	(144)	(144)	(1,183)	(1,327)
Comprehensive income	—	—	49,196	—	(144)	49,052	5,020	54,072
Purchase of treasury shares	—	—	—	(663)	—	(663)	—	(663)
Disposal of treasury shares	—	(0)	—	63	—	63	—	63
Cash dividends	—	—	(18,188)	—	—	(18,188)	(4,941)	(23,129)
Put option, written over shares held by a non-controlling interest shareholder	—	630	—	—	—	630	—	630
Changes in interests in subsidiaries	—	(25)	—	—	—	(25)	355	330
Total transactions with owners	—	605	(18,188)	(600)	—	(18,183)	(4,586)	(22,769)
As of December 31, 2019	397,199	139,429	385,590	(4,148)	(28,263)	889,807	201,176	1,090,983

(4)Condensed Interim Consolidated Statements of Cash Flows

(Millions of yen)

Nine months ended December 31	Notes	2018	2019
Cash flows from operating activities			
Income (loss) before income taxes		26,468	78,834
Depreciation and amortization		74,134	124,403
Impairment loss		3,967	3,674
Increase (decrease) in provisions		2,883	(11,821)
Financial income	4	(11,559)	(6,323)
Financial costs	4	5,890	10,468
Share of (profit) loss of entities accounted for using the equity method		(4,111)	(5,073)
Decrease (increase) in trade and other receivables		170,032	190,324
Decrease (increase) in inventories		(84,557)	(78,545)
Increase (decrease) in trade and other payables		(54,282)	(26,116)
Others, net		(136,874)	(151,924)
Subtotal		(8,009)	127,901
Interest and dividends received		6,695	6,123
Interest paid		(4,969)	(6,912)
Income taxes paid		(20,290)	(14,934)
Net cash provided by (used in) operating activities		(26,573)	112,178
Cash flows from investing activities			
Purchases of property, plant and equipment		(27,394)	(55,232)
Proceeds from sales of property, plant and equipment		2,831	4,376
Acquisitions of intangible assets		(8,766)	(11,266)
Purchase of equity instruments measured at fair value through other comprehensive income		(1,786)	(1,538)
Proceeds from sales of equity instruments measured at fair value through other comprehensive income		293	10,494
Purchase of shares of newly consolidated subsidiaries		(3,371)	(6,371)
Acquisition of subsidiaries, net of cash acquired		16	52
Disbursements for sales of shares of subsidiaries		—	(68)
Purchases of investments in affiliated companies		(1,138)	(376)
Proceeds from sales of investments in affiliated companies		3,640	2,098
Others, net		(728)	(5,134)
Net cash used in investing activities		(36,403)	(62,965)

Condensed Interim Consolidated Statements of Cash Flows (Continued)

(Millions of yen)

Nine months ended December 31	Notes	2018	2019
Cash flows from financing activities			
Increase (decrease) in short-term borrowings, net		24,549	(5,427)
Proceeds from long-term borrowings		3,648	35,844
Repayments of long-term borrowings		(67,517)	(41,781)
Proceeds from issuance of bonds		50,011	—
Repayments of lease liabilities		—	(40,374)
Dividends paid		(15,576)	(18,124)
Dividends paid to non-controlling interests		(4,294)	(4,936)
Others, net		(353)	24
Net cash provided by (used in) financing activities		<u>(9,532)</u>	<u>(74,774)</u>
Effect of exchange rate changes on cash and cash equivalents		<u>(1,551)</u>	<u>(1,365)</u>
Net increase (decrease) in cash and cash equivalents		<u>(74,059)</u>	<u>(26,926)</u>
Cash and cash equivalents, at beginning of period		<u>346,025</u>	<u>278,314</u>
Increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sale		<u>(3,958)</u>	<u>1,710</u>
Cash and cash equivalents, at end of period		<u><u>268,008</u></u>	<u><u>253,098</u></u>

(5)Notes to the Condensed Interim Consolidated Financial Statements

1. Significant accounting policies

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

Income taxes for the third 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 third 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

(Nine months ended December 31, 2018)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	619,304	315,368	308,934	346,790	297,238	1,887,634	147,019	—	2,034,653
Intersegment revenue and transfers	9,584	8,215	8,549	27,702	1,848	55,898	70,332	(126,230)	—
Total	628,888	323,583	317,483	374,492	299,086	1,943,532	217,351	(126,230)	2,034,653
Segment income (loss) (Adjusted operating profit (loss))	28,244	25,589	9,735	4,838	(6,103)	62,303	5,452	(43,712)	24,043
Acquisition-related amortization of intangible assets									(7,297)
Expenses for M&A									(58)
Operating profit (loss)									16,688
Financial income									11,559
Financial costs									(5,890)
Share of profit (loss) of entities accounted for using the equity method									4,111
Income (loss) before income taxes									26,468

(Nine months ended December 31, 2019)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	644,165	339,547	341,445	389,216	366,617	2,080,990	94,624	—	2,175,614
Intersegment revenue and transfers	9,348	6,722	12,409	40,419	558	69,456	65,294	(134,750)	—
Total	653,513	346,269	353,854	429,635	367,175	2,150,446	159,918	(134,750)	2,175,614
Segment income (loss) (Adjusted operating profit (loss))	47,476	27,303	18,127	32,343	1,204	126,453	8,537	(44,342)	90,648
Acquisition -related amortization of intangible assets									(12,493)
Expenses for M&A									(249)
Operating profit (loss)									77,906
Financial income									6,323
Financial costs									(10,468)
Share of profit (loss) of entities accounted for using the equity method									5,073
Income (loss) before income taxes									78,834

Notes:

1. "Others" for the nine months ended December 31, 2018 represents businesses, such as Data Center Infrastructure Services, and Lighting Equipment. "Others" for the nine months ended December 31, 2019 represents businesses, such as Data Center Infrastructure Services, and Security.
2. "Adjustment" of segment income (loss) for the nine months ended December 31, 2018 includes corporate expenses of -41,020 million yen and noncurrent assets related adjustment of 129 million yen, unallocated to each reportable segment. "Adjustment" of segment income (loss) for the nine months ended December 31, 2019 includes corporate expenses of -40,471 million yen and noncurrent assets related adjustment of -545 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 December 31, 2018)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	218,759	105,225	105,781	120,738	99,781	650,284	47,945	—	698,229
Intersegment revenue and transfers	3,746	2,350	2,838	9,551	600	19,085	27,046	(46,131)	—
Total	222,505	107,575	108,619	130,289	100,381	669,369	74,991	(46,131)	698,229
Segment income (loss) (Adjusted operating profit (loss))	15,396	9,621	4,785	(203)	(3,377)	26,222	414	(21,269)	5,367
Acquisition -related amortization of intangible assets									(2,498)
Expenses for M&A									(6)
Operating profit (loss)									2,863
Financial income									4,305
Financial costs									(3,873)
Share of profit (loss) of entities accounted for using the equity method									1,397
Income (loss) before income taxes									4,692

(Three months ended December 31, 2019)

(Millions of yen)

	Reportable Segments						Others	Adjustments	Consolidated Total
	Public	Enterprise	Network Services	System Platform	Global	Total			
Revenue									
Revenue from customers	226,086	104,658	115,854	125,472	123,065	695,135	31,486	—	726,621
Intersegment revenue and transfers	3,374	1,569	4,367	13,531	245	23,086	21,060	(44,146)	—
Total	229,460	106,227	120,221	139,003	123,310	718,221	52,546	(44,146)	726,621
Segment income (loss) (Adjusted operating profit (loss))	21,186	9,814	6,552	11,544	325	49,421	2,087	(16,244)	35,264
Acquisition -related amortization of intangible assets									(4,168)
Expenses for M&A									(46)
Operating profit (loss)									31,050
Financial income									2,962
Financial costs									(2,759)
Share of profit (loss) of entities accounted for using the equity method									1,466
Income (loss) before income taxes									32,719

Notes:

1. "Others" for the three months ended December 31, 2018 represents businesses, such as Data Center Infrastructure Services, and Lighting Equipment. "Others" for the three months ended December 31, 2019 represents businesses, such as Data Center Infrastructure Services, and Security.
2. "Adjustment" of segment income (loss) for the three months ended December 31, 2018 includes corporate expenses of -18,164 million yen and noncurrent assets related adjustment of -417 million yen, unallocated to each reportable segment. "Adjustment" of segment income (loss) for the three months ended December 31, 2019 includes corporate expenses of -13,913 million yen and noncurrent assets related adjustment of -726 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 nine months ended December 31, 2018 and for three months ended December 31, 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)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Japan	1,517,564	1,618,842
The Americas	129,090	124,059
EMEA	114,808	169,788
China / East Asia and APAC	273,191	262,925
Total	2,034,653	2,175,614

(Millions of yen)

	Three months ended December 31, 2018	Three months ended December 31, 2019
Japan	524,916	536,198
The Americas	43,054	37,701
EMEA	37,664	58,831
China / East Asia and APAC	92,595	93,891
Total	698,229	726,621

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 December 31, 2019
Remeasurements of defined benefit plan	(37,575)	(37,575)
Exchange differences on translating foreign operations	(19,801)	(22,098)
Cash flow hedges	(650)	(504)
Equity instruments measured at fair value through other comprehensive income	29,907	31,914
Total	(28,119)	(28,263)

4. Financial income and financial costs

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Financial income		
Interest income	1,474	1,126
Dividend income	4,592	4,332
Foreign exchange gains	1,652	—
Other	3,841	865
Total	11,559	6,323

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Financial costs		
Interest expenses	5,090	7,206
Foreign exchange losses	—	1,487
Other	800	1,775
Total	5,890	10,468

(Millions of yen)

	Three months ended December 31, 2018	Three months ended December 31, 2019
Financial income		
Interest income	482	301
Dividend income	1,224	1,146
Foreign exchange gains	—	1,024
Other	2,599	491
Total	4,305	2,962

(Millions of yen)

	Three months ended December 31, 2018	Three months ended December 31, 2019
Financial costs		
Interest expenses	1,801	2,438
Foreign exchange losses	1,850	—
Other	222	321
Total	3,873	2,759

"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

NEC accepted a tender offer to purchase common stocks of Nippon Avionics Co., Ltd. ("Nippon Avionics") attempted by NAJ Holdings K.K. ("NAJ"), based on related tender offer terms, and completed the sale of all common stocks of Nippon Avionics to NAJ on January 24, 2020.

As a result, Nippon Avionics will no longer be the subsidiary of NEC as of January 31, 2020. The impact from this sale of stocks on the Company's consolidated financial statements as of and for the fiscal year ending March 31, 2020 is expected to be insignificant.

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.
