Consolidated Financial Statements for the Fiscal Year Ended March 31, 2022

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Management's Discussion and Analysis

Year Ended March 31, 2022 (Fiscal 2022)
Compared With the Year Ended March 31, 2021 (Fiscal 2021)

This section contains forward-looking statements concerning the NEC Group's analysis of financial condition, business results and cash flows. These statements are based on the judgment of the NEC Group as of March 31, 2022. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated.

1. Business Overview and Key Business Drivers

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

In the following sections, NEC reports the business results in five main segments: Public Solutions, Public Infrastructure, Enterprise, Network Services, and Global.

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

Segment information is included in "Notes to Consolidated Financial Statements - Note 6. Segment Information".

2. Analysis of Fiscal 2022 Business Results

Despite the impact on the supply side from soaring resource prices due to the worsening situation between Russia and Ukraine, as well as the restrictions on economic activities, restraint of capital investment, and an insufficient supply of materials worldwide due to disruption of logistics related to COVID-19, during the fiscal year ended March 31, 2022, the global economy generally improved moderately due to aggressive fiscal policies and stimulating demand such as easing restrictions on economic activities. Regarding the Japanese economy, improvement was very gradual due to repeated state of emergency declarations and semi-state of emergency COVID-19 measures.

Within this business environment, the NEC Group conducted business activities with the management policy of integrated efforts between purpose, strategy and culture based on the "Mid-term Management Plan 2025" announced in May 2021.

In terms of "Strategy," the NEC Group aims for growth through a "Focusing on our global business pillars including Japan", "Transforming our IT business in Japan" and "Creating future growth business".

Regarding the “Focusing on our global business pillars including Japan", in addition to receiving an order for large scale core banking system renewals for wealth management from an existing European customer in the areas of digital government and digital finance, the NEC Group has also decided to deliver the system to a new customer in Asia by taking advantage of global synergies between NEC Corporation (hereinafter, “the Company”) and its subsidiaries. In the global 5G domain, sales have steadily increased both in the current fiscal year as well as in the previous fiscal year, centered on base stations for domestic telecommunications carriers, and the NEC Group has acquired a succession of commercial projects from major telecommunications carriers internationally. In June 2021, the NEC Group was selected by Vodafone Group Plc of the United Kingdom as a partner to provide 5G base station equipment for the world's largest Open RAN being built in the United Kingdom. Furthermore, in September 2021, the Company reached an agreement with Telefonica S.A. of Spain to demonstrate Open RAN for commercial use in Spain, Germany, the United Kingdom and Brazil.

In the "Transforming our IT business in Japan," the NEC Group has utilized its strengths in the DX (digital transformation) area, defined as core DX, as part of further strengthening the “NEC Digital Platform,” which integrates biometric authentication, video analysis, AI and security technologies. In addition, the NEC Group has expanded the area of DX provision by making use of its own experience to contribute to the reform of customers' work styles. In addition, the Company has started to provide services that realize corporate transformation, and in collaboration with ABeam Consulting Ltd., the Company has also started a strategic partnership program that realizes management problem solving and social value co-creation together with advanced customers. Moreover, the Company has expanded its partnerships with global cloud operators. First, in July 2021, based on a collaboration spanning more than 40 years, Microsoft Corporation of the United States and the Company concluded a contract to expand their strategic partnership with the aim of introducing the cloud to customers and accelerating DX through mutual utilization of technology and knowledge. Furthermore, in September 2021, an agreement was reached with Amazon Web Services, Inc. of the United States to expand and strengthen collaboration in areas that include the digital government and 5G fields.

For "Creating future growth business", in June 2021, "WISE VISION Endoscopy," an AI diagnosis-support medical device software for colonoscopies, began to be sold in Europe as well as Japan. Furthermore, in March 2022, NEC OncoImmunity AS acquired a personalized neoantigen cancer vaccine business as part of strengthening the healthcare and life science business with the aim of overcoming speed and cost issues in vaccine production.

In terms of financial strategy for supporting the creation of growth businesses, the NEC Group’s financial base has been strengthened and the Company’s credit rating has been raised by rating agencies as a result of efforts to improve profitability and financial soundness.

Regarding “Culture,” with the aim of transforming culture and management foundations based on the “Mid-term Management Plan 2025,” in April 2021, the Company launched the "Transformation Office" as an organization for leading further transformation in support of the existing in-house transformation initiative, “Project RISE”. Under this organization, the Company is carrying out "Transformation with System, Business Process, Organization, IT, People and Data". In addition, based on experience gained from the COVID-19 pandemic, the Company launched “Smart Work 2.0,” which is a further strengthening of conventional smart work initiatives, and increases the choices employees have for work places, time and career paths as part of enabling autonomous work styles that can enhance overall motivation. In September 2021, the “Inclusion &Diversity Steering Committee,” chaired by the Company’s president, was established in order to create a system for taking concrete actions to promote inclusion and diversity. Through these efforts, and strengthening communication between executives and employees, the engagement score set as an indicator in the “Mid-term Management Plan 2025” has improved from 25% to 35%. Going forward, the NEC Group will continue initiatives to transform itself into an organization that is recognized as an “Employer of Choice.”

Condensed Consolidated Statements of Profit or Loss

	Billions of Yen		*YoY Change*
	2021	2022	2022/2021
Revenue	¥2,994.0	¥3,014.1	+0.7%
Operating profit	153.8	132.5	-13.8%
Profit before income taxes	157.8	144.4	-8.5%
Net profit (loss) attributable to owners of the parent	149.6	141.3	-5.6%

The NEC Group recorded consolidated revenue of 3,014.1 billion JPY for the fiscal year ended March 31, 2022, an increase of 20.1 billion JPY (0.7%) year-on-year. This increase was mainly due to increased revenue in the Enterprise business, despite decreased revenue in the Public Infrastructure business.

Regarding profitability, operating profit worsened by 21.2 billion JPY year-on-year, to an operating profit of 132.5 billion JPY, mainly due to investing strategic expenses, and improvement in other operating income from gain on sales of land and gain on sales of subsidiaries in the previous fiscal year, despite increased revenue. Adjusted operating profit worsened by 7.2 billion JPY year-on-year, to an adjusted operating profit of 171.0 billion JPY.

Profit before income taxes was a profit of 144.4 billion JPY, a year-on-year worsening of 13.4 billion JPY, mainly due to worsened operating profit.

Net profit attributable to owners of the parent was a profit of 141.3 billion JPY, a worsening of 8.3 billion JPY year-on-year. This was primarily due to worsened profit before income taxes. Adjusted net profit attributable to owners of the parent improved by 1.8 billion JPY year-on-year, to an adjusted net profit attributable to owners of the parent of 167.2 billion JPY.

(1) Public Solutions Business

Revenue:	400.2 billion yen	(-5.9 %)
Adjusted operating profit (loss):	29.7 billion yen	(-9.6 billion yen)

In the Public Solutions business, revenue was 400.2 billion JPY, a decrease of 24.9 billion JPY (-5.9%) year-on-year, mainly due to decreased sales in sectors that include firefighting/disaster preparedness and regional industries.

Adjusted operating profit (loss) worsened by 9.6 billion JPY year-on-year, to an adjusted operating profit of 29.7 billion JPY, mainly due to decreased revenue.

(2) Public Infrastructure Business

Revenue	650.9 billion yen	(-6.1 %)
Adjusted operating profit (loss):	65.4 billion yen	(+6.0 billion yen)

In the Public Infrastructure business, revenue was 650.9 billion JPY, a decrease of 42.0 billion JPY (-6.1%) year-on-year, mainly due to decreased sales in the media sector, as well as reduced demand for PCs for educational institutions on the back of the Japanese government's GIGA school initiative.

Adjusted operating profit (loss) improved by 6.0 billion JPY year-on-year, to an adjusted operating profit of 65.4 billion JPY, mainly due to increased profit at consolidated subsidiaries.

(3) Enterprise Business

Revenue	574.7 billion yen	(+14.2 %)
Adjusted operating profit (loss):	57.5 billion yen	(+9.3 billion yen)

In the Enterprise business, revenue was 574.7 billion JPY, an increase of 71.6 billion JPY (14.2%) year-on-year, mainly due to increased sales in the manufacturing, retail and service, and finance sectors.

Adjusted operating profit (loss) improved by 9.3 billion JPY year-on-year, to an adjusted operating profit of 57.5 billion JPY, mainly due to increased sales.

(4) Network Services Business

Revenue	511.5 billion yen	(-5.1 %)
Adjusted operating profit (loss):	35.5 billion yen	(-5.7 billion yen)

In the Network Services business, revenue was 511.5 billion JPY, a decrease of 27.3 billion JPY (-5.1%) year-on-year, mainly due to decreased sales at consolidated subsidiaries, despite increased sales in 5G business.

Adjusted operating profit (loss) worsened by 5.7 billion JPY year-on-year, to an adjusted operating profit of 35.5 billion JPY, mainly due to growing 5G investment.

(5) Global Business

Revenue	485.6 billion yen	(+7.9 %)
Adjusted operating profit (loss):	26.3 billion yen	(+18.8 billion yen)

In the Global business, revenue was 485.6 billion JPY, an increase of 35.6 billion JPY (7.9%) year-on-year, mainly due to increased sales in the business for service providers, as well as increased sales in the business for digital government and digital finance.

Adjusted operating profit (loss) improved by 18.8 billion JPY year-on-year, to an adjusted operating profit of 26.3 billion JPY, mainly due to the deconsolidation of subsidiaries in the display area.

(6) Others

Revenue	391.2 billion yen	(+1.8 %)
Adjusted operating profit (loss):	13.3 billion yen	(+5.6 billion yen)

In the Others, revenue was 391.2 billion JPY, an increase of 7.0 billion JPY (+1.8%) year-on-year.

Adjusted operating profit (loss) improved by 5.6 billion JPY year-on-year, to an adjusted operating profit of 13.3 billion JPY.

3. Liquidity and Capital Resources

(1) Assets, Liabilities and Net Assets

Condensed Consolidated Balance Sheets

	Billions of Yen		*YoY Change*
	2021	2022	2022/2021
Assets			
Current assets	¥ 1,860.8	¥ 1,836.7	¥-24.1
Property, plant and equipment	553.2	540.3	-12.9
Investments and other assets	1,254.6	1,384.8	+130.2
Total Assets	3,668.6	3,761.7	+93.2
Liabilities			
Current liabilities	1,197.5	1,334.0	+136.5
Noncurrent liabilities	909.2	641.1	-268.1
Total liabilities	2,106.7	1,975.1	-131.6
Equity			
Total equity attributable to owners of the parent	1,308.2	1,513.5	+205.4
Non-controlling interests	253.7	273.1	+19.5
Total equity	1,561.8	1,786.6	+224.8
Total liabilities and equity	3,668.6	3,761.7	+93.2
Interest-bearing debt	702.9	597.4	-105.5
Net interest-bearing debt	179.5	166.6	-12.9
Equity attributable to owners of the parent	1,308.2	1,513.5	+205.4
Ratio of equity attributable to owners of the parent	35.7%	40.2%	+4.6
Debt equity ratio	0.54 times	0.39 times	-0.15
Net debt equity ratio	0.14 times	0.11 times	-0.03

Total assets were 3,761.7 billion JPY as of March 31, 2022, an increase of 93.2 billion JPY as compared with the end of the previous fiscal year. Current assets as of March 31, 2022 decreased by 24.1 billion JPY compared with the end of the previous fiscal year to 1,836.7 billion JPY, mainly due to a decrease in cash and cash equivalents from repayment of debt, despite an increase in inventory. Non-current assets as of March 31, 2022 increased by 117.3 billion JPY compared with the end of the previous fiscal year to 1,925.0 billion JPY. This was mainly due to an increase in goodwill and intangible assets resulting from currency fluctuations, etc.

Total liabilities as of March 31, 2022 decreased by 131.6 billion JPY compared with the end of the previous fiscal year to 1,975.1 billion JPY. This was mainly due to a decrease in interest-bearing debt from repayment of debt, etc., and a decrease of debt related to retirement benefits. The balance of interest-bearing debt amounted to 597.4 billion JPY, a decrease of 105.5 billion JPY as compared with the end of the previous fiscal year. The debt-equity ratio as of March 31, 2022 was 0.39 (an improvement of 0.15 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of March 31, 2022, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 166.6 billion JPY, a decrease of 12.9 billion JPY as compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2022 was 0.11 (an improvement of 0.03 points as compared with the end of the previous fiscal year).

Total equity was 1,786.6 billion JPY as of March 31, 2022, an increase of 224.8 billion JPY as compared with the end of the previous fiscal year, mainly due to the recognition of net profit attributable to owners of the parent for the fiscal year ended March 31, 2022, an increase of currency translation effect of operating activities abroad caused by currency fluctuations, and the increase in other components of equity resulting from the rising market value of equity securities and remeasurements of defined benefit plans, despite payment of dividends.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of March 31, 2022 was 1,513.5 billion JPY, and the ratio of equity attributable to owners of the parent was 40.2% (an improvement of 4.6 points as compared with the end of the previous fiscal year).

(2) Cash Flows

Condensed Consolidated Cash Flows

		Billions of Yen		*YoY Change*
		2021	2022	2022/2021
I	Cash flows from operating activities	¥ 274.9	¥ 147.5	¥-127.4
II	Cash flows from investing activities	-122.5	-63.4	+59.1
I+II	Free cash flows	+152.4	+84.1	-68.3
III	Cash flows from financing activities	1.4	-189.6	-191.0
Cash and cash equivalents at end of period		523.3	430.8	-92.6

Net cash inflows from operating activities for the fiscal year ended March 31, 2022 were 147.5 billion JPY, a worsening of 127.4 billion JPY as compared with the previous fiscal year, mainly due to deterioration of working capital, an increase in corporate tax payment as well as decreased income before income taxes.

Net cash outflows from investing activities for the fiscal year ended March 31, 2022 were 63.4 billion JPY, an improvement of 59.1 billion JPY as compared with the previous fiscal year, mainly due to the purchase of shares of newly consolidated subsidiaries resulting from the acquisition of Avaloq Group AG recognized in the previous fiscal year.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for the fiscal year ended March 31, 2022 totaled a cash inflow of 84.1 billion JPY, a worsening of 68.3 billion JPY year-on-year.

Net cash flows from financing activities for the fiscal year ended March 31, 2022 totaled a cash outflow of 189.6 billion JPY, mainly due to repayments of long-term borrowings despite an increase in short-term borrowings.

As a result, cash and cash equivalents as of March 31, 2022 amounted to 430.8 billion JPY, a decrease of 92.6 billion JPY as compared with the end of the previous fiscal year.

(3) Basic Liquidity Management Policy / Capital Resources

The NEC Group's basic policy is to maintain sufficient liquidity in hand for conducting business activities. Liquidity in hand is the sum of cash and cash equivalents and the unused portion of committed credit facilities established with multiple financial institutions. As of March 31, 2022, NEC had a sufficient amount of liquidity. Total liquidity in hand as of March 31, 2022, was 756.8 billion JPY, comprising cash and cash equivalents of 430.8 billion JPY and unused committed credit facilities of 326.0 billion JPY. Cash and cash equivalents are mainly denominated in JPY as well as other denominations that include U.S. dollars and euros.

The NEC Group maintains credit facilities that it believes are sufficient to meet its short-term and long-term financing needs. With regard to short-term financing, the NEC Group relies primarily on commercial paper ("CP") in Japan to provide for short-term financing. It has a 500.0 billion JPY CP program. To prepare for unexpected short-term funding needs or instability in fund procurement through the issue of CP, the NEC Group maintains committed short-term credit facilities of 328.0 billion JPY to ensure that funds may be borrowed from financial institutions at all times. For long-term financing, the NEC Group has a 300.0 billion JPY straight bond issuance program in Japan.

The NEC Group's basic policy regarding the structure of liabilities on the balance sheets is to maintain a balanced mix of fund procurement from debt and capital market instruments, while securing adequate long-term funds, from the standpoint of satisfying funding requirements in a stable manner.

The NEC Group's fund procurement status was as follows:

As of March 31,	2021	2022
Long-term fund procurement*1	85.9%	60.5%
Use of capital market instruments*2	25.6%	35.1%

*1 Long-term fund procurement is calculated by dividing the sum of bonds and long-term borrowings and others (lease obligations with maturities of more than one year) by interest-bearing debt.

*2 Use of capital market instruments is calculated by dividing the sum of bonds (including the current portion) and CPs by interest-bearing debt.

4. Capital Expenditures

Capital expenditures of NEC and its consolidated subsidiaries for fiscal 2021 and 2022 are broken down as follows (amounts do not include consumption taxes):

	Billions of Yen		*YoY Change*
	2021	2022	2022/2021
Public Solutions Business	¥1.2	¥0.9	-25.1%
Public Infrastructure Business	21.6	24.2	+12.1%
Enterprise Business	0.3	0.9	+183.9%
Network Services Business	5.4	4.3	-20.2%
Global Business	7.4	8.5	+13.7%
Others	21.6	20.5	-5.1%
Total	¥57.6	¥59.3	+3.0%

In the Public Solutions Business, capital expenditures included investments in R&D equipment related to smart infrastructure and production facilities.

In the Public Infrastructure Business, capital expenditures included investments in production facilities for Japan Aviation Electronics Industry Limited, as well as R&D equipment and production facilities for defense, satellite and other systems.

In the Enterprise Business, capital expenditures included investments in R&D equipment related to services and systems.

In the Network Services Business, capital expenditures included investments in R&D equipment for next-generation wireless communication systems and production facilities.

In the Global Business, capital expenditures included investments in facilities for submarine cables and service related businesses.

In others, capital expenditures included investments in cloud services related facilities.

NEC primarily used its own capital and borrowings to fund these capital expenditures.

5. Risk Factors

The NEC Group has a comprehensive risk management system to accurately comprehend and to respond appropriately to both internal and external risks related to NEC Group's businesses.

Specifically, the Risk Control and Compliance Committee, chaired by the Chief Legal & Compliance Officer (CLCO) discusses a risk management policy, policies with regard to selection of and response to "Priority Risks" that requires countermeasures across the NEC Group, as well as measures to address risks that require Companywide management due to fluctuations in risk environment during the fiscal year, and other important matters related to companywide risk management, then reports them to Board of Directors on a regular basis.

In fiscal 2022, the NEC Group conducted risk assessment, evaluated each risk with common standards such as magnitude of impact and urgency, based upon the exhaustive list of risks that are deemed necessary for the NEC Group to recognize, and prepared a risk map that visualizes the priority of such risks. As a result of discussion at the Risk Control and Compliance Committee as well as the Executive Committee in accordance with this risk map, the NEC Group has selected 'Human Rights Violation Risk in the Value Chain' as a "Priority Risk" in fiscal 2023.

The NEC Group's business is subject to various risks. NEC's Group's management recognizes that the Group's financial condition, results of operations, and cash flow status could be materially affected by the primary risks described below, among matters related to the Group's business and management status. The forward-looking statements in this section are based on the judgement of the NEC Group as of the date of publication.

(1) Risks related to economic conditions and financial markets

a. Influence of economic conditions

The NEC Group's business is dependent, to a significant extent, on the Japanese market. The NEC Group's consolidated revenue to customers in Japan accounted for 75.0% of its total revenue in the fiscal year ended March 31, 2022. The future deterioration of economic conditions in Japan or the financial condition or performance of the Group's customer base in Japan could have a material adverse effect on the results of operations and the financial position of the NEC Group.

Moreover, the NEC Group's business is also influenced by the economic conditions of countries and regions including Asia, the United States and Europe, in which the NEC Group operates its business. Geopolitical issues and trade conflicts worldwide, including trade tensions between the United States and China, have recently contributed to increasing uncertainties in global markets, and increases in protectionist trade policies more generally may also contribute to slower global macroeconomic growth. Epidemics such as virus outbreaks, including the recent outbreak of COVID-19 infections described below in "d. Impact of the outbreak of novel coronavirus (COVID-19) infections" as well as perpetuation of current situation between Russia and Ukraine, may also negatively affect economic conditions in the global economy. When aforementioned geopolitical issues and trade conflicts become apparent in regions and countries in which NEC Group operates its business, they may also adversely affect the NEC Group's business, such as difficulties in sufficient semiconductor procurement from a certain countries or regions which may deprive NEC Group's sales capability of hardware equipment, etc.

In addition, shifts in the policy or budgetary focus of national or local governments in Japan or internationally for economic or other reasons may also adversely affect the NEC Group's business.

Uncertainties in the economy make it difficult to forecast future levels of economic activity. Because the components of the NEC Group's planning and forecasting depend upon estimates of economic activity in the markets that the NEC Group serves, the prevailing economic uncertainty in Japan and overseas makes it more difficult than usual to estimate its future income and required expenditures. If the NEC Group is mistaken in its planning and forecasting, there is a possibility that the NEC Group will not be able to appropriately respond to the changing market conditions.

b. Fluctuations in foreign currency exchange and interest rate

The NEC Group is exposed to risks of foreign currency exchange rate fluctuations particularly for the Japanese yen against the U.S. dollar and euro. The NEC Group's consolidated financial statements, which are presented in Japanese yen, are affected by fluctuations in foreign exchange rates. Changes in exchange rates affect the yen value of the NEC Group's equity investments and monetary assets and liabilities arising from business transactions in foreign currencies. They also affect the costs and revenue of products or services that are denominated in foreign currencies. As of March 31, 2022, the NEC Group's net exposure of operating receivables and payables and forward currency contracts amounts to 297 million USD, and had Japanese yen weakened by 1% toward U.S. Dollar on the same day, profit before income taxes would have been 364 million JPY more than the actual result. The NEC Group uses various measures to reduce, or hedge against, foreign currency exchange risks, such as offsetting of foreign currency-denominated operating receivables and payables, forward currency exchange contracts, and currency options. Despite these measures, however, foreign exchange rate fluctuations may hurt the NEC Group's business, results of operations and financial condition. Depending on the movements of particular foreign exchange rates, the NEC Group may be adversely affected at a time when the same currency movements are benefiting some of its competitors.

The NEC Group is also exposed to risks of interest rate fluctuations, which may affect its overall operational costs and the amount of its financial assets and liabilities, in particular, the burden of long-term debt. As of March 31, 2022, the NEC Group had 300 million JPY of long-term borrowings subject to floating interest rates. Despite measures undertaken by the NEC Group to hedge a portion of its exposure against interest rate fluctuations, such as interest rate swaps, such fluctuations may increase the NEC Group's operational costs, reduce the value of its financial assets, or increase the value of its liabilities.

c. Volatile nature of markets

The NEC Group is exposed to the risk that broader changes and trends in the ICT industry, both in Japan and overseas, may affect demand for the products and services that it provides. Demand for the NEC Group's products and services can be negatively affected by a slump in ICT market conditions, as well as obsolescence of existing products and services, excess inventories, and a decline in the NEC Group's cost competitiveness. The volatile nature of the relevant markets means that even if they recover, there may be future recurrences of downturns with similar or more adverse effects on the NEC Group's results of operations.

d. Impact of the outbreak of novel coronavirus (COVID-19) infections

The spread of coronavirus disease globally, including Japan, has led to the implementation of various countermeasures to prevent infection, including government-imposed travel restrictions in each country and request to people to refrain from going outside. The coronavirus and related government countermeasures may result in ongoing social, economic, financial and labor instability in the countries in which the NEC Group, its suppliers, and its customers operate. The extent to which the coronavirus will ultimately impact the NEC Group's operations and those of its suppliers and customers will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the pandemic. As the NEC Group's corporate customers as well as its Japanese national and local government customers focus on addressing the various difficulties such as outspread or continuation of the spread of the disease, they may become more constrained in their ability to engage the NEC Group's services and purchase its products at the levels that were anticipated prior to the crisis. In the fiscal year ended March 31, 2022, there were declines in IT related investments of certain customers as a result of the spread of COVID-19. In case such declines of IT related investments continued, NEC Group's operations and business results as well as financial conditions may be adversely impacted. Although NEC Group's operating profit decreased by 13.8% for the fiscal year ended March 31, 2022 as compared to the prior year mainly due to strategic expenses and reversal impact of proceeds from sales of property, plant and equipment recorded in the previous fiscal year, despite revenue increase, there can be no assurance that NEC Group will be able to implement countermeasures that bring the same degree of positive impact as in the fiscal year ended March 31, 2022, in the event of a prolonged pandemic. As for the current fiscal year ending March 31, 2023, although signs of economic recovery could be expected in Japan due to an easing of economic activities restrictions that were applied due to the pandemic, adverse impact could still remain with no guarantee the economy in Japan being recovered as expected, with circumstances and future developments which NEC Group is unable to control such as spread of new variant of coronavirus, effect of vaccines and immunization rate movements and state of medical care system in Japan.

To date, under the ‘Smart Work 2.0’ that enhances smart workstyle, the NEC Group has transitioned a significant subset of its employee population to a remote work environment partly in an effort to mitigate the spread of the coronavirus, which may exacerbate certain risks to its business, including increased risk of cybersecurity attacks and increased risk of unauthorized dissemination of personal information or confidential information about the NEC Group, its customers or other third-parties, in addition to which internal control systems may not function effectively at the same level as before the outbreak of COVID-19 infections. Although the NEC Group has not closed any of its production facilities and has not yet experienced significant disruptions in its supply chain, the ongoing pandemic and measures taken by various governments could result in facility closures by its customers or suppliers, general business shutdowns and financial difficulties. The pandemic could also result in increased prices, delays or difficulty in obtaining such components and raw materials. The NEC Group cannot presently predict the overall scope or duration of business disruptions as a result of the coronavirus.

Depending on the overall duration and severity of the impact of the coronavirus pandemic, the NEC Group may be required to recognize material impairments of its assets, including, but not limited to, goodwill, intangible assets and right-of-use assets. Additionally, declines in the value of the NEC Group’s equity holdings in various major companies could negatively impact its financial condition. The NEC Group’s equity instruments designated as measured at fair value through other comprehensive income was 171.1 billion JPY as of March 2022, and there is a possibility that this value will decrease due to the impact of the spread of the coronavirus pandemic.

The NEC Group is unable to estimate with certainty the overall impact to its business, results of operations and financial condition due to the coronavirus pandemic and any associated protective or preventative measures. Future events and circumstances may result in the coronavirus pandemic having a significantly negative impact on its operations. The coronavirus-related developments have adversely affected the global economy until June 22, 2021, the approval date of the consolidated financial statements and may have a material adverse effect on the NEC Group’s business, results of operations and financial condition.

(2) ***Risks related to the NEC Group's Management Policy***

a. Mid-term management plan

In May 2021, the NEC Group launched "Mid-term Management Plan 2025" with the fiscal year ending March 31, 2026 as its final year, with the principles of integrated promotion of 1) Purpose (Basis of NEC), 2) strategies and 3) culture, to maximize its corporate value.

The NEC Group is carrying out initiatives to realize its Mid-term Management Plan, as described in "6. Management Strategy and Policy (4) Middle and Long Term Management Strategy and Challenges to be Addressed by the NEC Group". However, whether NEC Group could carry out initiatives to realize its Mid-term Management Plan or not depends on various factors discussed in more details in "5.Risk Factors" such as sizes of markets where NEC Group aims to expand its businesses such as digital government, digital finance and 5G might not grow as expected, growth speed of aforementioned markets might be slower than expected, market share in the aforementioned markets could not be obtained as much as expected by NEC Group, or expected positive impact could not be realized even with strategic expenses incorporated in the "Mid-term Management Plan 2025" spent. Such aforementioned initiatives may not be carried out according to the plan, and NEC Group may be unable to achieve the goals stated in its mid-term management plan within the planned timeframe, or at all, due to various factors discussed in more details in "5.Risk Factors".

b. Finance and profit fluctuations

The NEC Group's results of operations for any quarter or year are not necessarily indicative of results to be expected in future periods. The NEC Group's results of operations have historically been, and will continue to be, subject to quarterly and yearly fluctuations as a result of a number of factors, including:

●the introduction and market acceptance of new technologies, products, and services;
●delay or failure in development or commercialization of technologies or infrastructures to support them;
●generational technology upgrades, expiration of support services contracts for widely used software products, and technology investment cycles;
●variations in product costs, and the mix of products sold;
●seasonality of purchasing cycles of customers;
●the size and timing of customer orders, which in turn will often depend upon the success of customers' businesses or specific products or services;
●the impact of acquired businesses and technologies;
●the ability to generate expected synergies by acquisition of companies; and
●fixed costs.

There are other trends and factors beyond the NEC Group's control that may affect its results of operations and make it difficult to predict results of operations for a particular period. These include:

●adverse changes in the market conditions for the products and services that the NEC Group offers;
●changes in conditions in the broader markets for ICT infrastructure and in the Japanese and global economies generally;
●Unexpected market environment changes caused by technological breakthrough by competitors;
●governmental decisions regarding the development and deployment of ICT and communications infrastructure, including the size and timing of governmental expenditures in these areas;
●the size and timing of capital expenditures and ICT spending by its customers;
●inventory management practices of its customers;
●changes in laws, governmental regulation or policy affecting the ICT industry;
●adverse changes in the public and private equity and debt markets, and the ability of its customers and suppliers to obtain financing or to fund capital expenditures; and
●adverse changes in the credit conditions of its customers and suppliers.

These trends and factors could have a material adverse effect on the NEC Group's business, results of operations and financial condition.

c. Acquisitions, other business combinations and reorganizations and business withdrawals

The NEC Group has completed acquisitions and other business combinations and reorganizations in order to expand its business and strengthen its competitiveness. For example, the NEC Group acquired Northgate Public Services Limited (currently NEC Software Solutions UK) in the United Kingdom in January 2018, KMD Holding ApS in Denmark in February 2019, and Avaloq Group AG in December 2020. NEC Group continues to seek appropriate opportunities for acquisitions and other business combinations and reorganizations as part of its growth strategy under "Mid-term Management Plan 2025". However, the NEC Group may be unable to find appropriate target companies with strengths that match the objectives of its inorganic growth strategy, and even if it is able to find such appropriate target companies, the NEC Group faces risks that could adversely affect its ability to achieve its strategic goals. For example,

- ●The NEC Group may be unable to realize the growth opportunities, improvement of its financial position, investment effect, synergy effect and other expected benefits by these acquisitions, business combinations and reorganizations in the expected time period or at all;
- ●The planned transactions may not be completed as scheduled or at all due to legal or regulatory requirements or contractual and other conditions to which such transactions are subject;
- ●Unanticipated problems could also arise in the integration process, including unanticipated restructuring or integration expenses and liabilities, as well as delays or other difficulties in coordinating, consolidating and integrating personnel, information and management systems, and customer products and services, particularly in markets outside Japan;
- ●Issues may arise for the entities to be acquired, such as in maintaining of its management which is necessary for continuing and growing of its business or in transformation of its operations in order to start operations as part of NEC Group in mid-to long-term perspective;
- ●The acquired, integrated, or reorganized entities may not be able to retain existing customers and strategic partners to the extent that they wish to diversify their suppliers for cost and risk management and other purposes;
- ●The acquired, integrated or reorganized entities may require additional financial support from the NEC Group;
- ●The diversion of management and key employees' attention may leave the NEC Group unable to focus on increasing revenues and minimizing costs in its existing businesses;
- ●The goodwill and other intangible assets arising from the acquisitions and business reorganizations are subject to impairment charges;
- ●NEC Group's investments in the acquired, integrated or reorganized entities are subject to valuation and other losses; and
- ●The transactions may result in other unanticipated adverse consequences.

Any of the foregoing and other risks may adversely affect the NEC Group's business, results of operations, financial condition and stock price.

NEC Group has also exited from or scaled down certain businesses that are, not compatible with its strategies, or generating only low profitability. However, there is no guarantee that NEC Group could exit or scale down with favorable conditions for NEC Group as they depend on market environment or intentions of possible buyers. In case exit or scaling down could not be executed in order to realize its business strategies with conditions in NEC Group's favor, it could adversely impact NEC Group's operations and business results.

d. Alliance with strategic partners

The NEC Group has entered into a number of long-term strategic alliances with leading industry participants, both to develop new technologies and products and to manufacture existing and new products. In June 2020, NEC agreed with Rakuten Mobile, Inc. to jointly develop a fully virtualized standalone 5G core network. NEC, in the same month, agreed with Nippon Telegraph and Telephone Corporation ("NTT Corporation") on a capital and business alliance aimed at joint research, development and global expansion of 5G and various ICT products. Furthermore, in July 2021, Microsoft Corporation of the United States and the NEC Group concluded a contract to expand their strategic partnership with the aim of introducing the cloud to customers and accelerating DX through mutual utilization of technology and knowledge. If the NEC Group's strategic partners encounter financial or other business difficulties, if their strategic objectives change or if they no longer perceive the NEC Group to be an attractive alliance partner, they may no longer desire or be able to participate in the NEC Group's alliances. The NEC Group's business could be hurt if the NEC Group is unable to continue one or more of its alliances. In addition, as a result of such strategic alliances, the NEC Group may become dependent on its alliance partners for product lines using co-developed technologies and an Open RAN which is jointly developed with NTT Group and Rakuten Mobile, Inc., leaving the NEC Group with less flexibility in expanding or diversifying its product and service offerings.

NEC Group's competitors may form strategic alliances with the aim of enhancing their competitiveness and developing new technologies in areas where NEC Group also operates. Competitive landscape changes caused by such successful alliances of competitors, such as their developed technologies gaining status as market standards and as a result, the standards promoted by NEC Group or by its strategic alliances are unable to be so, could result in a failure of NEC Group's strategic alliance.

The NEC Group participates in various projects where the NEC Group and various other companies provide services and products that are integrated into systems to meet customer requirements. If a strategic partner is unable to continue its role in the partnership due to bankruptcy or other reasons, or if any of the services or products that companies other than the NEC Group provide cause the integrated systems to malfunction, fail to meet customer requirements, or give rise to some other defect or problem, the NEC Group's reputation and business could be significantly harmed.

e. Expansion of global business

The NEC Group's strategies include expanding its business in markets outside Japan, including the promotion of "Digital Government/Digital Finance Business" and "Global 5G Business". Of these, effect of "Digital Government/Digital Finance Business" will be evaluated by how successfully and appropriately the integration of acquired companies outside of Japan including Northgate Public Services Limited in the United Kingdom purchased in January 2018, KMD Holding ApS in Denmark in February 2019, and Avaloq Group AG in Switzerland in December 2020 could be achieved. As the NEC Group expands business, it will be exposed to risks that are unique to particular regions or markets. The NEC Group's efforts to penetrate new markets or offer new products and services may not succeed if the profitability or market growth of planned products and services develops more slowly than expected, if its new products and services are not well accepted among customers, if the profitability of opportunities is undermined by competitive pressures or regulatory limitations, or if its planned acquisitions, investments or capital alliances are not approved by regulators. The NEC Group may also lack sufficient knowledge or understanding of local business practices or legal and regulatory requirements. Moreover, depending on the market, the NEC Group may encounter difficulties in finding suitable business, joint venture and alliance partners. Furthermore, in many of these markets, the NEC Group faces entry barriers such as the existence of long-standing relationships between its potential customers and their local suppliers, and regulations to protect domestic businesses. In addition, pursuing international growth opportunities may require the NEC Group to make significant investments long before it realizes returns on the investments, if any, even though there is no guarantee that such significant investment brings expected degree of profit growth. Increased investments may result in expenses growing at a faster rate than revenues.

The NEC Group’s overseas projects and investments could be adversely affected by:

- exchange controls;
- restrictions on foreign investment or the repatriation of income or invested capital;
- nationalization of local industries;
- changes in export or import restrictions including those on 5G related technologies;
- regulations in foreign markets, including with respect to licenses and permits that may be required from local authorities;
- changes in the tax system or rate of taxation in the countries where the NEC Group does business; and
- economic, social, political and geopolitical risks, currently seen as international affairs between Russia and Ukraine.

In addition, difficulties in foreign financial markets and economies could adversely affect demand from customers in the affected markets.

Because of these factors, the NEC Group may not succeed in expanding its business in international markets, and its business growth prospects, results of operations and financial condition could be materially and adversely affected.

(3) *Risks related to the NEC Group's business and operations*

a. Technological advances and response to customer needs

The markets for the products and services that the NEC Group offers are characterized by rapidly changing technology, evolving technical standards, changes in customer preferences, and the frequent introduction of new products and services. The development and commercialization of new technologies and the introduction of new products and services will often make existing products and services obsolete or unmarketable. The NEC Group's competitiveness in the future will depend at least in part on its ability to:

- keep pace with rapid technological developments and maintain technological leadership, primarily in the fields of AI, IoT, biometrics and cybersecurity technology;
- enhance existing products and services;
- develop and manufacture innovative products that meet customers' needs in a timely and cost-effective manner;
- utilize or adjust to new products, services, and technologies;
- attract and retain highly capable technical and engineering personnel;
- accurately assess the demand for, and perceived market acceptance of, new products and services that the NEC Group develops;
- Commercialize NEC Group's own developed technologies;
- avoid delays in developing or shipping new products;
- address increasingly sophisticated customer requirements; and
- have the NEC Group's products integrated into its customers' products and systems.

The aforementioned NEC Group's ability is based on maintenance of appropriate R&D structure that could cope with technological developments and accumulated knowledge of its results from the past. Lack of necessary resources such as fund, personnel or others could result in failure of such maintenance, and could result in inability to cope with technological developments. This could lead to NEC Group's losing its competitiveness in the future.

The NEC Group may not be successful in identifying and marketing product and service enhancements, or offering and supporting new products and services, in response to rapid changes in technologies and customer preferences. Additionally, future technological changes may not advance in accordance with historical trends or predicted courses or timetables, and may differ from current forecasts. If the NEC Group fails to adequately monitor and address these technological changes and changes in customer preferences or accurately anticipate the direction of such changes, its business, results of operations and financial condition will be significantly harmed. In addition, the NEC Group may encounter difficulties in incorporating its technologies into its products in accordance with its customers' expectations, which may adversely affect its relationships with its customers, its reputation and revenues.

The NEC Group seeks to form and enhance alliances and partnerships with other companies to develop and commercialize technologies that will become industry standards for the products and services that it currently provides and plans to provide in the future. The NEC Group spends significant financial, human and other resources on developing and commercializing such technologies. For example, NEC Group's capital and business alliance with Nippon Telegraph and Telephone Corporation ("NTT Corporation") aimed at joint research and development of Open architecture such as O-RAN, however, competition is fierce among other players in this O-RAN system. The NEC Group may not, however, succeed in developing or commercializing such standard-setting technologies if its competitors' technologies are accepted as industry standards. In such a case, the NEC Group's competitive position, reputation, results of operations and financial condition could be adversely affected.

b. Intense competition

To intense competition in many of the markets in which it operates. Competition places significant pressure on the NEC Group's ability to maintain gross margins and is particularly acute during market slowdowns. The entry of additional competitors into the markets in which the NEC Group operates increases the risk that its products and services will become subject to intense price competition. Some of the NEC Group's competitors mainly in Asian countries may have an advantage of lower production cost than the NEC Group does and may be able to compete for customers more effectively than it can in terms of price. There is also the risk that the NEC Group's competitors in the future may include multinational corporations with extensive financial resources. Multinational corporations such as these may invest significant resources into strategic pricing and research and development, and may undertake large-scale hiring of personnel. In recent years, the time between the introduction of a new product developed by the NEC Group and the production of the same or a comparable product by its competitors has become shorter. This has increased the risk that the products the NEC Group offers will become subject to intense price competition sooner than in the past.

The NEC Group has many competitors in Japan and other countries, ranging from large multinational corporations to a number of relatively small, rapidly growing, and highly specialized companies. Unlike many of the NEC Group's competitors, however, it operates in many businesses and competes with companies that specialize in one or more of its product or service lines. As a result, even if the NEC Group has more combined resources than its specialized competitors, it may not be able to fund or invest in some of its businesses as much as its competitors can and it may not be able to respond to change or take advantage of market opportunities as quickly or as well as they can.

In addition, even though NEC Group may have spent enormous amount of cash on certain area of R&D, personnel or other resources, there is no guarantee that profitability nor competitiveness will achieve growth for NEC Group. As a result, the spent cash and so forth could adversely impact NEC Group's operations and business performance. Sizes of competitors and factors that differentiate from others in terms of competitiveness depends on each industry and market. In 5G related technological field, for example, NEC Group's competitiveness toward competitors depends on whether the platform, of which technologies and standards are developed, designed and promoted by NEC Group only or jointly with strategical partners, could obtain dominant position in the market or not, since aforementioned competitors in this field contains large-sized multinational corporations that could afford considerable amount of resources. For Digital Government and Digital Finance, on the other hand, NEC Group's market share and its competitors differ in each country or region in which NEC Group operates, therefore, appropriate measures are necessary to be taken to address situations in each country or region accordingly in order to maintain NEC Group's competitiveness. Since NEC Group conducts its business in various fields, in case NEC Group cannot effectively execute its strategies in a manner that is appropriate for each business field, NEC Group's operations and business performance could be adversely impacted.

The NEC Group's participation in competitive bidding or proposal processes for government and other large projects with demanding price and other requirements can place further downward pressure on its profitability. In order to maintain or improve profitability while meeting such demanding requirements, the NEC Group continuously strives to increase its revenue by offering and delivering innovative and unique value to customers and to reduce its costs and expenses through optimization of development and manufacturing operations, business process improvements and other measures. However, these measures may be insufficient to enable the NEC Group to maintain or improve its operating profit margin on such projects.

The NEC Group sells products and services to some of its current and potential competitors. For example, the NEC Group receives orders from, and provides solutions to, competitors that further integrate or otherwise use its solutions for large projects for which such competitors are engaged as the primary solutions provider. If these competitors cease to use the NEC Group's solutions for such large projects for competitive or other reasons, the NEC Group’s business could be harmed.

c. Dependence on certain key customers

A substantial portion of the NEC Group’s business portfolio consists of projects for government entities and certain large network and other infrastructure companies, such as the NTT group. Fluctuations in demand for such projects, particularly large-scale projects, or the NEC Group’s potential inability to secure such projects through the applicable bidding processes, may have a significant impact on its revenue. Furthermore, government entities may reduce contract amounts or terminate contracts for funding, policy or other reasons. Similarly, corporate customers may reduce their level of capital expenditures, shift their investment focus or otherwise reduce their business with the NEC Group for business, financial or other reasons.

The NEC Group is also subject to the risk that regulatory restrictions may prevent it from participating in the bidding or proposal processes that are required for obtaining contracts with government entities. For example, in 2016 and 2017, the NEC Group was subject to a nomination stop from a significant number of Japanese government agencies and local governments after receiving notification from the Japanese Fair Trade Commission that it had violated the Japanese Act on Prohibition of Private Monopolization and Maintenance of Fair Trade, and thereby became temporarily ineligible to participate in the bidding process for projects. The NEC Group has worked to strengthen its internal control systems with a view to preventing regulatory violations; however, even if these measures are thoroughly implemented, the NEC Group is unable to completely eliminate the possibility of regulatory violations. Furthermore, if the number of projects for government entities decreases due to changes in demand, government policy, and regulations, the NEC Group’s business, results of operations, and financial condition could be adversely affected.

d. Development of new business

The process of developing new products and services entails many risks. The development and manufacturing processes can be lengthy and costly and require the NEC Group to commit significant resources well in advance of actually selling or providing the product or service. For example, in 2019, the NEC Group acquired OncoImmunity AS (currently, NEC OncoImmunity AS) with a view to making a full-scale entry to the AI-driven drug discovery business. Because the NEC Group has limited experience with drug development, it anticipates that this initiative may not become profitable for an extended period and is still subject to the risk of failure. Additionally, new technologies may be launched and standards may change while new products or services are in the development stage, rendering them obsolete or uncompetitive before their introduction. Newly developed products or services may also contain undetected defects or errors that may be discovered after their introduction and distribution, resulting in liability for losses incurred by customers due to such errors and reputational harm to the NEC Group or the product or service. These could significantly and adversely affect the NEC Group’s business, results of operations and financial condition.

e. Defects in products and services

The NEC Group faces risks arising from defects in its products and services. Defects in products and services provided by the NEC Group could cause serious losses to its customers, including public institutions, as well as to a large population of end users. Many of its products and services are used in customers' "mission critical" operations requiring high degree of reliability, where the NEC Group could be liable for damages incurred by its customers due to defects in product or service, or delays in their provision. Negative publicity concerning these problems could also make it more difficult to convince customers to buy the NEC Group's products and services, and the NEC Group could also be liable for recall costs. In particular, although products and services generally related to ICT solutions are exposed to customary risks of technology failure or computer viruses, many of the NEC Group's products and services are used in infrastructure that is directly related to the protection of human life, such as systems for fire rescue services, and it may be exposed to more serious liability. Products and services that use innovative technologies such as biometrics authentication technology may also be exposed to risks that are difficult to foresee. Any reputational harm and regulatory sanctions that arise from these could harm the NEC Group's ability to sell its products and services. Furthermore, such factors may result in unprofitable projects.

In order to prevent the defects of products and services or unprofitable projects, the NEC Group takes thorough measures to control risks in projects such as system development projects from the beginning of business negotiation, through understanding of customer's confirmed system requirements or technical difficulties, and quality control measures on hardware and software of which systems consist. However, it is difficult to prevent them completely. The defects of its products or services or unprofitable projects could hurt the NEC Group's business, results of operations and financial condition.

f. Material Procurement of components, etc.

The NEC Group's business operations depend on obtaining deliveries of components, equipment, and other supplies in a timely manner. In some cases, the NEC Group purchases on a just-in-time basis. Because the components that the NEC Group purchases are often complex or specialized, it may be difficult for the NEC Group to substitute one supplier for another or one product for another. Some products are available only from a limited number of suppliers or a single supplier. Many industries, some of which NEC's main clients belong to, have been adversely impacted by worldwide supply deficiency of semiconductors, economic disputes among nations including trade conflicts between the U.S. and China, and geopolitical risks, etc. Accordingly, NEC Group's operations may also be adversely impacted by aforementioned short supply of semiconductors, etc., possibly resulting in NEC Group's delay of products and service deliveries. Although the NEC Group believes that supplies of the components, equipment, and other supplies that the NEC Group uses are currently adequate, shortages in critical components could occur and the procurement cost of replacement parts increase, due to a delay or an interruption in supply, a change in regulatory trends, an increase in industry demand, or tariffs and other trade restrictions, which could adversely affect the NEC Group's production capacity and efficiency. In addition, a financial market disruption could pose liquidity or solvency risks for the NEC Group's suppliers, which could reduce its sources of supply or disrupt its supply chain. In addition, if the NEC Group procures components, equipment or other supplies include defects that could adversely affect the reliability and reputation of the NEC Group's products, or if it could not obtain adequate delivery of these supplies in a timely manner and at an acceptable price, the NEC Group's business, results of operations, and financial condition could be adversely affected.

g. Intellectual property rights

The NEC Group depends on its proprietary technology, and its ability to obtain patents and other intellectual property rights covering its products, services, business models, and design and manufacturing processes. The applications for patents and the maintenance of registered patents can be a time and cost consuming process. The NEC Group’s patents could be challenged, invalidated, or circumvented. The fact that the NEC Group holds many patents or other intellectual property rights does not ensure that the rights granted under them will provide competitive advantages to the NEC Group. For example, the protection afforded by the NEC Group’s intellectual property rights may be undermined by rapid changes in technologies in the industries in which the NEC Group operates. Similarly, there can be no assurance that claims allowed on any future patents will be broad enough to protect the NEC Group’s technology. Effective patent, copyright, and trade secret protection may be unavailable or limited in some countries, and the NEC Group’s trade secrets may be vulnerable to disclosure or misappropriation by employees, former employees, contractors, and other persons. Further, pirated products of inferior quality infringing the NEC Group’s intellectual property rights may damage its brand and adversely affect sales of its products. Litigation, which could consume financial and management resources, may be necessary to enforce the NEC Group’s patents or other intellectual property rights.

h. Intellectual property licenses owned by third parties

Many of the NEC Group’s products are designed to include software or other intellectual property licenses from third parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of the NEC Group’s products, the NEC Group believes that, based upon experience and industry’s standard practices, these licenses can be obtained on commercially reasonable terms in principle. There can be no assurance that the NEC Group will be able to obtain, on commercially reasonable terms or at all, from third parties the licenses that the NEC Group will need. In such a case, the NEC Group may be required to limit or cease operations that make use of such licenses, which could adversely affect its business, results of operations and financial condition.

i. Risks related to customers’ financial difficulties

The NEC Group sometimes provides vendor financing to its customers or offer customers extended payment terms or other forms of financing to assist their purchase of the NEC Group’s products and services. If the NEC Group is unable to provide or facilitate such payment arrangements or other forms of financing to its customers on terms acceptable to them or at all, due to financial difficulties or otherwise, the NEC Group’s results of operations could be adversely affected. In addition, many of the NEC Group’s customers purchase products and services from the NEC Group on payment terms that provide for deferred payment. If the NEC Group’s customers for whom it has extended payment terms or provided other financing terms, or from whom it has substantial accounts receivable, encounter financial difficulties or inability to access credit from others, and are unable to make payments on time, the NEC Group's business, results of operations and financial condition could be adversely affected.

j. Retention of personnel

The NEC Group must compete for talented employees to develop its products, services and solutions that are acceptable to society, and its competition for these potential employees includes multinational technology companies with considerable resources. Accordingly, the NEC Group’s human resources organization focuses significant efforts on attracting and retaining individuals needed in divisions that are driving the NEC Group’s business, such as growth fields of the mid-term management plan. For this reason, recruitment and personnel costs may increase in the future. Changes in technology and industry trends may increase the need to recruit diverse human resources who are highly socially literate and have various values, abilities and backgrounds, as well as skills that differ from the conventional skillset. Specifically, recent trends in digitization and automation have resulted in increased demand for talent with skills in AI, machine learning, data science, and statistical analysis, and the NEC Group foresees fiercer competition from such talent. Furthermore, the recruitment of talent with these kinds of skills may require a different approach from the conventional recruitment method.

If the NEC Group experiences a substantial loss of, or an inability to attract and retain, talented personnel, or if it is unable to ensure the diversity of talent, it may experience difficulty in meeting its business objectives. This could leave the NEC Group unable to provide products, services, and solutions acceptable to society as a Social Value Innovator.

k. Financing

The NEC Group's primary sources of funds are cash flows from operations, borrowings from banks and other institutional lenders, and funding from the capital markets, such as offerings of commercial paper and other debt securities. A decline in the NEC Group’s credit profile could result in a downgrade in its credit ratings and result in increases in its interest expenses, having an adverse impact on its ability to access the commercial paper market or other debt markets. This could have an adverse effect on the NEC Group's liquidity, business, and financial condition. Because the NEC Group maintains a relatively high level of leverage, its operations may be particularly affected in the event that it encounters difficulties in raising funds through debt.

A failure of one or more of the NEC Group’s major lenders, a decision by one or more of them to stop lending to the NEC Group or instability in the capital markets could have an adverse impact on the NEC Group’s access to funding and funding cost. If the NEC Group fails to obtain external financing on terms acceptable to it, or at all, or to generate sufficient cash flows from its operations or sales of its assets, when necessary, the NEC Group will be unable to fulfill its obligations, and its business, results of operations, and financial condition will be materially adversely affected. In addition, to the extent the NEC Group finances its activities with additional debt, the NEC Group may become subject to financial and other covenants that may restrict its ability to pursue its growth strategy. NEC Group’s basic policy is not to hold listed shares for purpose other than investment, however, for shares of which NEC Group considers necessary to hold in terms of business collaborations as well as maintaining amicable business relationships to achieve healthy state of business, NEC Group decides to hold for purpose other than investment, as an exception. Even though such shares are decided to be held by NEC Group, necessity and the cost of capital such as return of investments to be obtained of each shares will be comprehensively assessed, and the rationale of holding of such shares is verified by the board of directors’ meeting. In case holding of the share is considered irrational, NEC Group sells such shares accordingly. NEC Group has sold its strategically-held shares for the fiscal year ended March 2022. The sale of such shares has contributed 18.4 billion JPY to NEC Group’s free cash flow. NEC Group still owns approximately 171.1 billion JPY worth of strategically-held shares (including unlisted shares). Of this, listed shares which has share prices in the market consists 35%. No specific goal is set in terms of sales timeline of such strategically-held shares, however, given economic environment changes both in Japan and abroad, as well as stock market’s supply and demand fluctuations and the companies of those shares’ business performance deteriorations, share prices of those shares may drop. In case this happens, NEC Group may not be able to sell those shares at desirable times, therefore could result in failing to gain free cash flow by selling those strategically-held shares.

(4) Risks related to internal control, legal proceedings, laws and governmental policies

a. Internal control

The NEC Group is taking action to guarantee the accuracy of its financial reporting by strengthening its internal controls with expanding documentation of the business process and implementing stronger internal auditing. However, even effective internal control systems can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. For example, the inherent limitations of internal control systems include fraud, human error, or circumvention of controls, such as through collusion among multiple employees. In addition, the systems may not be able to effectively deal with changes in the business environment unforeseen at the time that the systems were implemented or with non-routine transactions. The NEC Group's established business processes may not function effectively, and fraudulent acts, such as false financial reporting or embezzlement, or inadvertent mistakes may occur. Such events may require restatement of financial information and could adversely affect the NEC Group's financial condition or results of operations. The NEC Group's reputation in the financial markets may also be damaged as a result of these events and occur much of additional costs in order to correct these events. In addition, if any administrative or judicial sanction is issued against the NEC Group as a result of these events, it may lose business opportunities.

If the NEC Group identifies a material weakness in its internal control systems, the NEC Group may incur significant additional costs for remedying such weakness. Despite the efforts by the NEC Group to continually improve and standardize its business processes from the perspective of ensuring effective operations and enhancing efficiency, it is difficult to design and establish common business processes since the NEC Group operates in a diverse range of countries and regions, using varying business processes, particularly when it acquires and integrates into the NEC Group a company that is engaged in an unfamiliar business or that operates in an unfamiliar market to the NEC Group. Consequently, the efforts by the NEC Group to further improve and standardize its business processes may continue to occupy significant management and human resources and the NEC Group may incur considerable financial costs.

b. Legal proceedings

From time to time, the NEC Group companies are involved in various lawsuits and legal proceedings, including intellectual property infringement claims. Due to the existence of a large number of intellectual property rights in the fields in which the NEC Group operates and the rapid rate of issuance of new intellectual property rights, it is difficult to completely judge in advance whether a product or any of its services may infringe upon the intellectual property rights of others. Whether or not intellectual property infringement claims against the NEC Group companies have merit, significant financial and management resources may be required to defend the NEC Group from such claims. If an intellectual property infringement claim by a third party is successful and the NEC Group could not obtain a license of technology which is subject of the infringement claim or any substitution thereof, it could have an adverse effect on the NEC Group's business, results of operations and financial condition.

The NEC Group may also from time to time be involved in various lawsuits and legal proceedings concerning such laws as business laws, antitrust laws, anticorruption laws, product liability laws, and environmental laws.

It is difficult to foresee the results of legal actions and proceedings currently involving the NEC Group or of those which may arise in the future, and an adverse result in these matters could have a significant negative effect on the NEC Group’s business, results of operations and financial condition. In addition, any legal or administrative proceedings which the NEC Group is subject to could require management resources such as financial and human resources, including senior management, and the extend of such requirements is similarly difficult to predict. Such resources may be difficult for the NEC Group to acquire in a timely manner, and depending on the level of requirement, it could have a severe impact on the NEC Group’s ability to conduct operations. Furthermore, if the NEC Group violates legal or regulatory requirements, it may be required to pay fines or penalties, and government agencies, local governments, and intergovernmental organizations could suspend or debar the NEC Group as a contractor or prevent it from participating in bidding or proposal processes, which could have a material adverse impact on the NEG Group’s business, results of operation, financial condition, and reputation.

c. Laws and governmental policies

In many of the countries in which the NEC Group operates, its business is subject to various risks associated with unexpected regulatory changes, uncertainty in the application of laws and governmental policies and uncertainty relating to legal liabilities. Substantial changes in the regulatory or legal environments, including the economic, trade, tax, defense, labor, spending, privacy and other policies of the governments of Japan and other jurisdictions in which the NEC Group operates could oblige it to change its businesses or otherwise adversely affect its business, results of operations and financial condition.

For example, European Data Protection Supervisor announced implementation of new regulations concerning biometrics and AI technologies in April 2021. In case countries or regions in the EU implemented this regulation or related changes to their existing regulations, NEC Group’s business operations may be adversely impacted. The regulatory authorities of each country may restrict or prohibit transactions with countries subject to economic sanctions, certain persons or entities, and such regulations may change dramatically within a short period. The NEC Group’s existing compliance program may not be effective at preventing violations of such regulations, and the occurrence of such violations could have an adverse effect on the NEC Group’s social credibility, business, results of operations and financial condition.

d. Environmental laws and regulations

The NEC Group's operations are subject to many environmental laws and regulations governing, among other things, air emissions, wastewater discharges, the use and handling of hazardous substances, waste disposal, chemical substances in products, product recycling, soil and ground water contamination and global warming. The NEC Group faces risks of environmental liability arising from its current, historical, and future manufacturing activities. The NEC Group’s failure to comply with current and future environmental laws and regulations, or the identification of contamination for which it is liable, could subject the NEC Group to substantial costs, including fines, clean-up costs, third-party property damage or personal injury claims and require significant investments to upgrade its facilities and equipment. Moreover, the future occurrence of new environmental issues, enactment of more stringent regulatory requirements such as implementation of carbon pricing which requires a company financial obligations in accordance with its amount of greenhouse gas emissions or other unanticipated events could give rise to adverse publicity, restrict the NEC Group’s operations, affect the design or marketability of its products or otherwise cause it to incur material environmental costs, adversely affecting its results of operations and financial condition.

The NEC Group endeavors to comply with laws and government policies. It has established self-management norms, formulated guidelines on climate change mitigation measures from a long-term perspective up to 2050 and conducts business operations in an appropriate manner and environmental auditing in accordance with its internal environmental policies, but these measures may not be effective at avoiding potential liabilities arising from its current, historical and future business activities. Moreover, costs associated with future additional and stricter environmental compliance or remediation obligations could adversely affect the NEC Group's business, results of operations and financial condition. Details on the NEC Group's climate change response are provided in "6.Management Strategy and Policy (5) Response to Climate Change".

e. Tax practice

The NEC Group's effective tax rate could be adversely affected by: earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates; changes in the valuation of the NEC Group's deferred tax assets and liabilities; transfer pricing adjustments; tax effects of nondeductible compensation; or changes in tax laws, regulations, accounting principles or interpretation thereof in the various jurisdictions in which the NEC Group operates. Any significant increase in the NEC Group's future effective tax rates could reduce net income for future periods.

The NEC Group currently carries deferred tax assets resulting from tax loss carry forwards and deductible temporary differences, both of which will reduce its taxable income in the future. However, the deferred tax assets may only be realized against taxable income. The amount of the NEC Group's deferred tax assets that is considered realizable could be reduced from time to time if estimates of future taxable income from its operations and tax planning strategies during the carry forward period are lower than forecasted, due to deterioration in market conditions or other circumstances. In addition, the amount of the NEC Group's deferred tax assets could be reduced due to changes in tax laws, regulations or accounting principles related to future deductions of income tax rates. Any such reduction will adversely affect the NEC Group's income for the period of the adjustment.

Furthermore, the NEC Group is subject to continuous audits and examination of its income tax returns by tax authorities of various jurisdictions. The NEC Group regularly assesses the likelihood of adverse outcomes resulting from these audits and examinations to determine the adequacy of its accrued income taxes. There can be no assurance that the outcomes of these audits and examinations will not have an adverse effect on the NEC Group's business, results of operations and financial condition.

f. Information management

The NEC Group collects, stores, uses, transfers, and performs other processes with a voluminous amount of personal information, including “My Number” social security and tax number information, as well as confidential information in the regular course of its business. There have been many cases where such information and records in the possession of corporations and institutions were leaked, improperly accessed or exposed by a cyberattack. If personal or confidential information in the NEC Group’s possession about its customers or employees is leaked, improperly accessed or exposed by a cyberattack and subsequently misused, it may be subject to liability and regulatory action, and its reputation and brand value may be damaged. In particular, the increasingly sophisticated nature of cyberattacks, as well as the increasing scale and complexity of the business and infrastructure that can be targeted, make it possible that certain threats and vulnerabilities in systems related to information management will not be detected or mitigated in a timely manner. In addition, unauthorized access and cyberattack risk depends on the products, services and systems not only of the NEC Group, but also of its customers, contractors, suppliers, business partners and other third parties. These products, services and systems are also used by customers in highly regulated industries, such as financial and healthcare services, as well as government agencies that engage in the area of fundamental social infrastructure which incorporates national defense. The NEC Group’s products, services and systems may be used in customers’ critical operations, and may involve the handling of sensitive data.

The NEC Group is required to handle personal information in compliance with Japan’s Act on the Protection of Personal Information, the European Union’s General Data Protection Regulation (GDPR) and other legal or regulatory requirements. The NEC Group may have to provide compensation for economic loss and emotional distress arising out of a failure to protect such information, or may be subject to large penalties imposed by regulatory authorities. The cost and operational consequences of implementing further data protection measures could be significant. In addition, if customers using the NEC Group’s products, services and systems have been unable to protect their information, it could adversely affect the NEC Group’s reputation and business.

Furthermore, the NEC Group aims to grow by promoting “Digital Government/Digital Finance Business”, using biometrics and AI technologies, among others. Various human rights issues that need to be addressed along with development of such technologies have recently been discussed. Given the increasing pace of development of these advanced technologies and the rising interest in related human rights issues, the scope of regulation around data projection and privacy protection is expanding and growing increasingly complex in individual countries and regions. Regulations for the use of biometrics and AI technologies will likely be more stringent on a continual basis. There are increasing risks for NEC Group or its customers to whom NEC Group provides its services to be subject to governmental investigations or sanctions by regulatory authorities as well as litigations from third parties, and the use of such advanced technologies could be ceased or considerably restricted in certain countries or regions, which could lead to the NEC Group’s losing business opportunities that could be brought by utilization of aforementioned advanced technology.

g. Human rights

In the countries and regions where the NEC Group operates, there is growing interest in how corporations respond to issues related to human rights and occupational safety and health, and the relevant laws and regulations are changing. Human rights issues caused by racial discrimination and political uncertainty remain in certain regions and it has been deemed necessary to address such issues by working together with business partners. The NEC Group has identified “New Technology such as AI and Human Rights”, “Human Right Violation Risks Arising from Geopolitical Situation and Impact of Conflicts”, “Occupational Conditions in the Supply Chain” and “Safety and Health of Employees” as prominent human rights issues and has taken measures to address such issues. However, in the event that the NEC Group’s business offices and/or supply chain is unable to appropriately respond to these issues, the NEC Group may not only receive administrative punishment or suspension of business from clients, but may also be faced with criticism from a range of stakeholders, including local residents, clients, consumers, shareholders, investors and human rights organizations, and it may cause the reputation and brand value of the NEC Group to be damaged, which could have an adverse impact on the NEG Group’s business and financial condition.

(5) *Other Risks*

a. Natural and fire disasters

Natural disasters such as earthquakes and typhoons, abnormal weather (e.g. concentrated downpours, floods, droughts, water shortages) due to climate change, fire, prevalence of highly virulent and fatal disease throughout the world (pandemic), armed hostilities, terrorism and other incidents, whether in Japan or any other country in which the NEC Group operates, could cause damage or disruption to the NEC Group, its suppliers or customers. NEC Group Headquarters building, in particular, may be damaged significantly by earthquake directly under the metropolitan area, and accordingly, NEC Group’s business operations may suffer tremendously from adverse impact. These events could also create economic inactivity either in or outside Japan, fluctuation of foreign exchange or interest rates, political or economic instability, deterioration of public safety or public unrest, any of which could harm the NEC Group’s business. In addition to various measures of disaster mitigation in place, the NEC Group has adopted a group-wide business continuity plan outlining countermeasures and recovery procedures to be taken in response to emergency, and has conducted training and learning programs. Despite the NEC Group’s efforts, natural disasters could disrupt social infrastructure such as electricity, gas and water supply, communication or transportation in affected areas, and could have a material adverse effect on NEC Group’s business by causing human damages, disruptions of manufacturing, procurement and logistics, or occurrences of environmental and quality issues. Moreover, the spread of unknown infectious diseases to which human has no immunity, such as the further worsening of the outbreak of coronavirus described above in “(1) risks related to economic conditions and financial markets d. Impact of the outbreak of novel coronavirus (COVID-19) infections,” could affect adversely the NEC Group’s operations by increasing risks for inability to secure human resources and deterioration of working environment, as well as by reducing customer demand or disrupting its suppliers' operations in the infected areas.

b. Impairment of goodwill

The NEC Group has recorded significant goodwill as a result of its acquisitions of Northgate Public Services Limited in the United Kingdom in 2018, KMD Holding ApS in Denmark in 2019, and Avaloq Group AG in Switzerland in 2020, amount of which are 300.5 billion JPY in the fiscal year ended March 31, 2021 and 336.0 billion JPY in the fiscal year ended March 31, 2022, respectively, and it may also record additional goodwill as a result of further acquisitions in the future.

The NEC Group’s consolidated financial statements are prepared in accordance with IFRS, which requires testing cash generating units, or CGUs, to which goodwill has been allocated for impairment at least once annually, regardless of any indication of impairment. In addition, whenever it is recognized that there is a sign of impairment, it is necessary to perform an impairment test to determine whether the carrying amount of a CGU exceeds the recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs of disposal and its value in use. In determining the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the carrying amount of a CGU with goodwill is found to exceed its recoverable amount as a result of testing, an impairment loss is recognized. Any impairment loss is processed by reducing the carrying amount of goodwill allocated to the CGU, which could adversely affect the NEC Group’s results of operations and financial condition.

c. Defined benefit pension plan obligations

The NEC Group, except some subsidiaries, have shifted from defined benefit pension plans (DB) to defined contribution pension plans (DC) for the portion funded after October 1, 2020. However, for the portion funded until September 30, 2020, the NEC Group may still face adverse effects on its financial condition and results of operations due to increases in defined benefit pension plan obligations arising from changes in the market value of equity securities and other pension assets and a decline in returns on pension assets. Changes in actuarial assumptions such as discount rates on which the calculation of projected defined benefit pension plan obligations are based may have an adverse effect on the NEC Group’s financial condition and its results of operations. For example, there is a possibility of defined benefit pension plan obligations and/or defined benefit pension plan expenses increasing in the event of a future reduction in discount rates or prior service costs resulting from a change in the system.

6. Management Strategy and Policy

(1) Fundamental Management Policy

NEC Corporation revised the NEC Group's corporate philosophy, “the NEC Way," on April 1st, 2020, which summarizes the management practices and operations that the NEC Group adheres to, including its values and the driving principles behind its actions.

The NEC Way articulates NEC’s "Purpose" and "Principles" as a company as well as the expected behaviors, “Code of Values” and “Code of Conduct”, that all of the members comprising the NEC Group are expected to demonstrate.

Purpose

The "Purpose" is a declaration based on the statement of "Orchestrating a brighter world" to contribute to a prosperous society.

“NEC creates the social values of safety, security, fairness and efficiency to promote a more sustainable world where everyone has the chance to reach their full potential.”

“NEC 2030VISION”, which explains what the NEC Group will strive to achieve by 2030.

Principles

"Principles" are the basis for the NEC Group's actions and are comprised of three important positions.

The Founding Spirits of “Better Products, Better Services”

Uncompromising Integrity and Respect for Human Rights

Relentless Pursuit of Innovation

Code of Values

The “Code of Values” should be embodied by each and every one of the NEC Group, regardless of their position or level in the company.

“Look Outward. See the Future.”
“Think Simply. Display Clear Strategy.”
“Be Passionate. Follow through to the End.”
“Move Fast. Never Miss an Opportunity.”
“Encourage Openness. Stimulate the Growth of All.”

Code of Conduct

To ensure NEC's ability to maintain society's trust and its commitment as a Social Value Innovator, the “Code of Conduct” details what is expected of each and every one of the NEC Group from today's society with respect to integrity and standards of conduct.

1. Basic Position
2. Respect for Human Rights
3. Environmental Preservation
4. Business Activities with Integrity
5. Management of the Company’s Assets and Information

Consultation and Report on Doubts and Concerns about Compliance

To fulfill the Company’s Purpose, the NEC Group aims to create social values continuously and to maximize its corporate value by implementing its middle and long term management strategy including its "Mid-term Management Plan" based on the Company’s Principles.

Each and every one of the NEC Group, must compare our work style and organization structures to the Code of Values and identify where we need to strengthen and improve, and must conform to this Code of Conduct and conduct ourselves with high ethical standards and integrity.

The value that customers and society expect from us is constantly changing. To remain an essential company in the eyes of society in the years to come, we must create new value by constantly keeping our finger on the pulse of what it consists of. The NEC Group combines ICT technologies with diverse knowledge and ideas in collaboration with people around the world. We realize bright, hope-filled societies and ways of life, this is our aim.

(2) Management Indicator Goals

To realize its corporate value, the NEC Group will strive as one to achieve “Purpose”, “Strategies” and “Culture” as its management policies. In order to realize Purpose, the Company positions its EBITDA growth rate*1 for Strategies and its engagement score for Culture as core indicators. In addition, the Company sets targets of revenue, adjusted operating profit*2, adjusted net profit*3, EBITDA*4 and ROIC*5 as management indicators.

*1 “EBITDA growth rate” is compound annual growth rate of EBITDA from fiscal 2021 to fiscal 2026.

*2 "Adjusted operating profit (loss)” is an indicator for measuring underlying profitability in order to clarify the contribution of acquired companies to the NEC Group’s overall earnings. It is measured by deducting amortization of intangible assets recognized as a result of M&A and expenses for acquisition of companies (financial advisory fees and other fees) from operating profit (loss).

*3 "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 measured by deducting adjustment items of operating profit (loss) and corresponding amounts of tax and non-controlling interests from net profit (loss) attributable to owners of the parent.

*4 “EBITDA”: Gross profit - SG&A + Depreciation and amortization

*5 “ROIC”: (Adjusted operating profit - Deemed corporate tax <30.5%>)/(Interest bearing debt at end of period + Net assets end of period)

(3) Business environment

Despite the impact on the supply side from soaring resource prices due to the worsening situation between Russia and Ukraine, as well as the restrictions on economic activities, restraint of capital investment, and an insufficient supply of materials worldwide due to disruption of logistics related to COVID-19, during the fiscal year ended March 31, 2022, the global economy generally improved moderately due to aggressive fiscal policies and stimulating demand such as easing restrictions on economic activities. Regarding the Japanese economy, improvement was very gradual due to repeated state of emergency declarations and semi-state of emergency COVID-19 measures.

In the meanwhile, digitalization in the whole society in addition to cloud shift in conventional IT market has been accelerating during the changes to the new life style. As initiatives to advanced digital government are expanded in Europe, as the Digital Agency was established in Japan and the Japanese government announced “the Vision for a Digital Garden City Nation”, Going forward, Digital Transformation (DX) in central and local government is expected to be further promoted. Moreover, as environmental issues become further serious, companies’ contributions are required to realize sustainable society and the role of technologies are increasing.

Under such business environment, NEC Group formulated the “Mid-term Management Plan 2025” that sets forth management’s policy to address challenges ahead with the integrity of purpose, strategy and culture. Highly motivated, NEC Group aims to achieve growth, focusing on its global business pillars including Japan, transforming its IT business in Japan, and to reinforce sustainability management infrastructure, under this “Mid-term Management Plan 2025”.

(4) Middle and Long Term Management Strategy and Challenges to be Addressed by the NEC Group

To realize its Purpose, the NEC Group formulated in May 2021 the “Mid-term Management Plan 2025” with the fiscal year ending March 31, 2026 as its final year. Under the Mid-term Management Plan, Directors, corporate officers and employees will strive as one to achieve “(i) Purpose”, “(ii) Strategies” and “(iii) Culture” as its management policies.

(i) Purpose

In the “NEC Way” the NEC Group defines its Purpose as creating the social value of safety, security, fairness and efficiency to promote a more sustainable world where everyone has the chance to reach their full potential. As a corporate group seeking to create social value, the NEC Group will aim to realize it by “Seize the Future Together” with society and customers. To that end, the NEC Group formulated the “NEC 2030VISION”, which explains what the NEC Group wants to achieve by 2030.

NEC 2030VISION

[Environment]

・ Bringing people together and filling each day with inspiration

[Society]

・ Nurturing prosperous cities with inclusive and harmonious societies

・ Creating sustainable societies by shaping new industries and workstyles

・ Sharing hopes that transcend time, space, and generational boundaries

[Life]

・ Living harmoniously with the earth to secure the future.

(ii) Strategy

By converting NEC Group’s advantage of capabilities in technology into customer value, the NEC Group will achieve growth by “Focusing on our global business pillars including Japan”, “Transforming our IT business in Japan” and “Creating future growth businesses”.

With regard to “Focusing on our global business pillars including Japan”, business growth will be sought by “Digital Government/Digital Finance Business” and “Global 5G Business” as focus areas. First, in the “Digital Government/Digital Finance Business”, the NEC Group aims to achieve business growth and increase profitability by steadily enhancing the business foundations of NEC Software Solutions UK Limited, KMD Holding ApS as well as Avaloq Group AG and deriving business synergies among NEC Corporation and its subsidiaries. Next, as for the “Global 5G Business”, the NEC Group aims to grow its business by pursuing global opportunities for the commercial projects on base stations and expanding its targeted countries as well as business domains.

As for the “Transforming our IT business in Japan”, the NEC Group will further enhance NEC Digital Platform as a common platform for DX businesses by developing its cross industry solutions and furthering collaborations with cloud business providers. In addition, the NEC Group will create new business opportunities through promoting strategic partnership programs to resolve management issues and realizing “the Vision for a Digital Garden City Nation” by Japanese government.

As for the “Creation of future growth”, the NEC Group will accelerate collaborations with external bodies including academia and research institutes to advance its activities for development in Artificial Intelligence (AI) and medical/Healthcare areas.

As for the base businesses, the NEC Group aims at the stable growth and profitability to outperform its competitors in each business by making the improvement plans on its low profit businesses, with management decisions including withdrawal in case these plans are not achieved.

With regard to financial strength as the prerequisite for implementing and supporting these growth strategies, the NEC Group will generate cash flows by continuously increasing EBITDA and optimizing its assets. The Company continues to emphasize growth investment in its capital allocation and will build robust financial foundation to support future growth investment.

The NEC Group identified “materiality” as priority management themes from an ESG perspective with seven themes, “climate changes”, “security”, “AI and human rights”, “diverse human resources”, “corporate governance”, “supply chain sustainability” and “compliance” to reinforce non-financial measurement methodologies for the sustainable growth of the Company and society. Towards continuous growth, the NEC Group aims to be continuously included in ESG indices by putting “materiality” into practice.

(iii) Culture

In order to realize its Purpose, as highly-motivated employees are indispensable, the NEC Group will aim to transform itself into an “Employer of Choice”. The Company will implement “Transformation of organization” and “Transformation of people” to realize “Mid-term Management Plan 2025”, especially in the fiscal year ending March 31, 2023.

In terms of the “Transformation of organization”, the NEC Group will further promote quicker decision makings and empowerment by organizational changes such as the integration of departments and flattening hierarchy. As for “Transformation of people”, the Company will work on the introduction of Job-based Management in the fiscal year ending March 31, 2024 and seek to raise an engagement score by implementing initiatives such as work style reforms, promotion of diversity and health management.

Moreover, the NEC Group will promote thought leadership activities under the enhanced structure including Institute for International Socio-Economic Studies, Ltd., that is its think tank and contribute to accelerate creating a shared vision for a brighter future and realize future visions to be aimed.

Through these measures, the NEC Group aims to achieve revenue of 3.5 trillion yen, adjusted operating profit of 300 billion yen (ratio to revenue: 8.6 %), adjusted net profit of 185 billion yen (ratio to revenue: 5.3%), EBITDA of 450 billion (ratio to revenue: 12.9%), ROIC of 6.5% in the fiscal year ending March 31, 2026.

In order to realize its purpose, the NEC Group will contribute to the achievement of the Sustainable Development Goals (SDGs) set by the United Nations through the achievement of its “Mid-term Management Plan 2025” and the co-creation of future vision described in “NEC 2030VISION”.

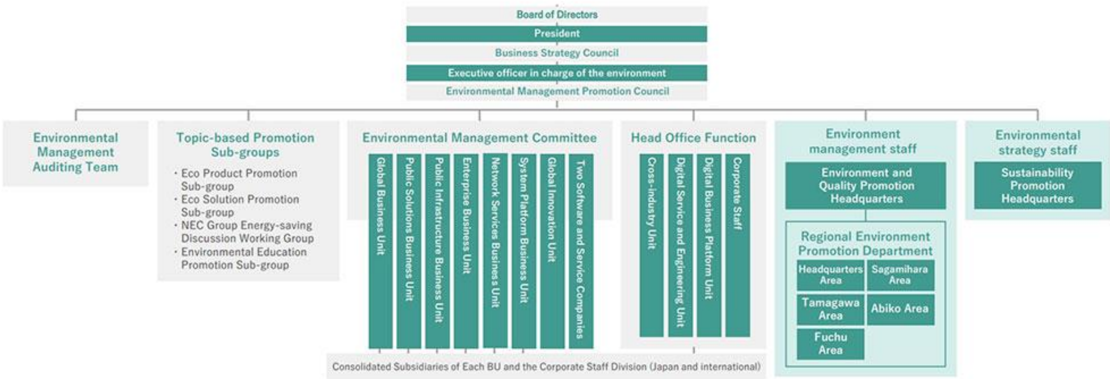
(5) Response to Climate Change

The NEC Group declared in 2017 its approval of the TCFD principles for disclosing climate-related financial information, and set long-term targets along with goals that the NEC Group should strive to achieve for the sake of a sustainable society. To address the problem of climate change caused by global warming, in addition to measures to reduce emissions of greenhouse gases to help prevent global warming, the Company is also taking strategic steps to prepare for the risk of climate change, prevent any damage from arising and minimize it when damage does happen.

1. Governance

The NEC Group has put into place a structure for advancing environmental management with the aim of contributing to the creation of a sustainable society through its environmentally friendly business activities. In practice, the Company has formulated and implemented environmental management rules that specify the roles, responsibilities and authorities of each organization.

The NEC Group's environmental management promotion structure is outlined below.



Consisting of corporate officers, the Business Strategy Council discusses management issues of the NEC Group, including strategies to mitigate the impact on business execution from priority issues related to the environment, including climate change. Before being reported to the Business Strategy Council, issues are deliberated by environment-oriented management committees created in each business unit and by special committees, and depending on their importance, issues are also debated by the Environmental Management Promotion Council, which comprises managers responsible for promoting environmental measures in each business unit. Issues that could have a significant impact on the operations of the NEC Group are reported to the Board of Directors. In addition to the environment-oriented management committees each business unit has put into place a system for advancing specific initiatives in each division and at affiliated companies in Japan and abroad. Based on environmental strategies drawn up by the Business Strategy Council and Board of Directors, specific action plans are proposed and implemented to advance integrated environmental management across the NEC Group.

2. Strategy

As an environmental strategy, the NEC Group examines countermeasures for a variety of potential scenarios in society in order to enhance its responsiveness to unpredictable future events. The Company has identified the following business risks and opportunities from an analysis of medium- and long-term scenarios in its entire supply chain, based on information disclosed by Intergovernmental Panel on Climate Change (IPCC), trends in ICT and social movements.

Risk	Description	Countermeasures
Migration risk	Higher costs from carbon pricing	Thoroughly increase efficiency and expand use of renewable energy to achieve SBT 1.5°C *1
Physical risk	Supply chain disruptions caused by weather-related disasters (floods, landslides, water shortages, etc.), long-term outages of lifelines such as electricity, gas and water	Evaluate risks across the supply chain, business continuity planning (BCP) that includes weather-related disasters, reinforce power generation facilities at data centers

Opportunities	Description	Opportunity creation and expansion
Value toward migration risk countermeasures (mitigation)	Development of low-emission transport infrastructure	Logistics visualization and route optimization driven by AI and IoT; EV/PHV charging cloud, etc.
	Support for expanding renewable energy use	Virtual power plants, management of power supply and demand, commercialized resource aggregation (RA) for the supply and adjustment market, xEMS (energy management system), etc.
	Support for reducing energy waste	Process reforms using DX initiatives (work automation, smart factories, supply and demand optimization), products and technologies that help data center save energy (phase change cooling, new refrigerants, etc.)
Value toward physical risk countermeasures (adaptation)	Preparation for increase in weather-related disasters	Pre-disaster detection using AI, IoT, image analysis, flood simulation, evacuation support, etc.
	Preparation for increase in forest fires	Forest fire monitoring and quick response systems, disaster monitoring by satellite, etc.
	Preparation for changes in areas for agricultural production	Simulations that forecast effects and changes in agricultural ICT solutions, etc.
	Prepare for the spread of infectious diseases	Infectious disease countermeasure solutions, logistics information management platform for global pandemics, work-style reforms with remote work, telemedicine support, education clouds, etc.

3. Risk Management

In addition to the NEC Group's comprehensive risk management structure described in "5. Risk Factors", in risk management activities based on the environmental management promotion structure, the Company evaluates risks, advance measures to mitigate potential and materialized risks, evaluate outcomes and issues, and examine future plans in order to reduce risks and prevent risks from materializing in the future.

4. Indicators and Results

In 2017, the NEC Group formulated the Course of Action for Climate Change Toward 2050 to express its commitment to the co-creation of a sustainable society along with its customers. Based on this policy, to reduce CO_2 emissions from its own business activities (Scope 1 and 2 *[2]), the NEC Group has strengthened its approach to countering climate change, aiming for net zero emissions by 2050 through the expansion of renewable energy and reductions in energy use by deploying the newest cutting-edge energy conservation technologies. In 2021, the NEC Group sets the goal of achieving net zero CO_2 emissions by 2050 from the entire supply chain (Scope 3 *[2]), in addition to its target for net zero CO_2 emissions (Scope 1 and 2). Management also set targets for reducing Scope 1 and 2 emissions by 55% by 2030 (compared with the fiscal 2017 level) and Scope 3 Category 1 (purchased products and services), Category 3 (fuel and energy excluded from Scope 1 and 2), and Category 11 (use of sold products) emissions by 33% (compared with fiscal 2017 levels). The NEC Group participates in the RE100 *[3] international initiative that aims for 100% renewable energy use for electricity consumed in business activities. For this objective, the NEC Group received certification from the SBT Initiative *[4] for SBT 1.5°C in May 2021. Moreover, to expand the use of renewable energy, next fiscal year, the NEC Group will convert to 100% renewable energy for the electricity used at its head office and NEC Cloud IaaS data centers.

More details about the NEC Group's climate change initiatives can be found on its website below.
https://www.nec.com/en/global/csr/eco/risk.html

*1 SBT1.5°C

Science Based Targets (SBT): Corporate CO_2 emissions reduction targets for 5-15 years out that are in scientific agreement with the global target of the Paris Agreement.

*2 Scope 1: Direct emissions of greenhouse gases generated from emission sources owned or controlled by businesses

Scope 2: Indirect emissions of greenhouse gases from the use of electricity, steam, and heat

Scope 3: Except for Scope 1 and Scope 2, emissions of greenhouse gases at other companies related to the business

*3 RE100

RE100 is an international initiative where companies aim to use 100% renewable energy for their own electricity needs.

*4 SBT Initiative

The SBT Initiatives seeks to get companies to set targets for reducing emissions of CO_2 based on scientific evidence. It was established by four groups: the Carbon Disclosure Project (CDP), United Nations Global Compact (UNGC), World Resource Institute (WRI) and World Wide Fund for Nature (WWF).

Consolidated Statements of Financial Position as of March 31, 2021 and 2022

JPY (millions)

	Notes	2021	2022
Assets			
Current assets			
Cash and cash equivalents	16	523,345	430,778
Trade and other receivables	15	740,448	722,334
Contract assets	25	270,322	285,890
Inventories	14	185,548	246,244
Other financial assets	30	9,573	17,554
Other current assets	17	131,596	133,890
Total current assets		1,860,832	1,836,690
Non-current assets			
Property, plant and equipment, net	8, 10	553,171	540,257
Goodwill	9, 10	300,530	335,978
Intangible assets, net	9, 10	368,858	374,703
Investments accounted for using the equity method	12	73,316	76,470
Other financial assets	30	210,427	236,544
Deferred tax assets	13	133,881	153,313
Other non-current assets	10, 17	167,549	207,778
Total non-current assets		1,807,732	1,925,043
Total assets		3,668,564	3,761,733

	Notes	2021	2022
			JPY (millions)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	23	467,638	446,788
Contract liabilities	25	250,011	266,158
Bonds and borrowings	20	51,510	186,774
Accruals		215,965	232,257
Lease liabilities	30	47,480	49,462
Other financial liabilities	30	19,670	21,397
Accrued income taxes		28,147	17,403
Provisions	22	55,381	62,077
Other current liabilities	24	61,721	51,667
Total current liabilities		1,197,523	1,333,983
Non-current liabilities			
Bonds and borrowings	20	488,739	257,899
Lease liabilities	30	115,127	103,241
Other financial liabilities	30	34,974	26,937
Net defined benefit liabilities	21	191,907	179,599
Provisions	22	20,421	18,910
Other non-current liabilities	24	58,047	54,522
Total non-current liabilities		909,215	641,108
Total liabilities		2,106,738	1,975,091
Equity			
Share capital	18	427,831	427,831
Share premium	18	168,965	169,090
Retained earnings	18	564,660	678,653
Treasury shares	18	(1,578)	(1,906)
Other components of equity	18	148,273	239,835
Total equity attributable to owners of the parent		1,308,151	1,513,503
Non-controlling interests	11	253,675	273,139
Total equity		1,561,826	1,786,642
Total liabilities and equity		3,668,564	3,761,733

See accompanying notes to consolidated financial statements.

Consolidated Statements of Profit or Loss for the Fiscal Years Ended March 31, 2021 and 2022

JPY (millions)

	Notes	2021	2022
Revenue	6, 25	2,994,023	3,014,095
Cost of sales	14, 27	2,132,840	2,127,682
Gross profit		861,183	886,413
Selling, general and administrative expenses	27	732,989	762,970
Other operating income	26	25,565	9,082
Operating profit	6	153,759	132,525
Finance income	6, 28	9,691	17,894
Finance costs	6, 28	10,613	11,367
Share of profit of entities accounted for using the equity method	6, 12	4,994	5,384
Profit before income taxes		157,831	144,436
Income taxes	13	(4,035)	(12,267)
Net profit		161,866	156,703
Net profit attributable to:			
Owners of the parent		149,606	141,277
Non-controlling interests		12,260	15,426
Total		161,866	156,703
Earnings per share attributable to owners of the parent:			
Basic earnings per share (JPY)	29	557.18	518.54
Diluted earnings per share (JPY)	29	557.18	518.54

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income for the Fiscal Years Ended March 31, 2021 and 2022

JPY (millions)

	Notes	2021	2022
Net profit		161,866	156,703
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Equity instruments designated as measured at fair value through other comprehensive income	18	56,645	15,607
Remeasurements of defined benefit plans	18, 21	127,347	27,193
Share of other comprehensive income of entities accounted for using the equity method	18	280	31
Total items that will not be reclassified to profit or loss		184,272	42,831
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	18	30,522	59,081
Cash flow hedges	18	(1,305)	(1,660)
Share of other comprehensive income of entities accounted for using the equity method	18	638	1,161
Total items that may be reclassified subsequently to profit or loss		29,855	58,582
Total other comprehensive income, net of tax		214,127	101,413
Total comprehensive income		375,993	258,116
Total comprehensive income attributable to:			
Owners of the parent		356,343	232,839
Non-controlling interests		19,650	25,277
Total		375,993	258,116

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity for the Fiscal Years Ended March 31, 2021 and 2022

JPY (millions)

	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, 2020		397,199	139,735	436,361	(4,157)	(58,464)	910,674	203,849	1,114,523
Net profit		—	—	149,606	—	—	149,606	12,260	161,866
Other comprehensive income	18	—	—	—	—	206,737	206,737	7,390	214,127
Comprehensive income		—	—	149,606	—	206,737	356,343	19,650	375,993
Issuance of common shares	18	30,632	30,374	—	—	—	61,006	—	61,006
Purchase of treasury shares	18	—	—	—	(640)	—	(640)	—	(640)
Sale of treasury shares	18	—	20	—	3,219	—	3,239	—	3,239
Cash dividends	19	—	—	(21,307)	—	—	(21,307)	(5,400)	(26,707)
Changes in interests in subsidiaries	11	—	(1,164)	—	—	—	(1,164)	35,576	34,412
Total transactions with owners		30,632	29,230	(21,307)	2,579	—	41,134	30,176	71,310
As of March 31, 2021		427,831	168,965	564,660	(1,578)	148,273	1,308,151	253,675	1,561,826

JPY (millions)

	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, 2021		427,831	168,965	564,660	(1,578)	148,273	1,308,151	253,675	1,561,826
Net profit		—	—	141,277	—	—	141,277	15,426	156,703
Other comprehensive income	18	—	—	—	—	91,562	91,562	9,851	101,413
Comprehensive income		—	—	141,277	—	91,562	232,839	25,277	258,116
Purchase of treasury shares	18	—	—	—	(570)	—	(570)	—	(570)
Sale of treasury shares	18	—	1	—	242	—	243	—	243
Cash dividends	19	—	—	(27,284)	—	—	(27,284)	(6,097)	(33,381)
Changes in interests in subsidiaries	11	—	124	—	—	—	124	284	408
Total transactions with owners		—	125	(27,284)	(328)	—	(27,487)	(5,813)	(33,300)
As of March 31, 2022		427,831	169,090	678,653	(1,906)	239,835	1,513,503	273,139	1,786,642

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows for the Fiscal Years Ended March 31, 2021 and 2022

JPY (millions)

	Notes	2021	2022
Cash flows from operating activities			
Profit before income taxes		157,831	144,436
Depreciation and amortization	6	167,613	180,539
Impairment loss	6,10	4,035	985
(Decrease) increase in provisions		(5,749)	3,420
Finance income	28	(9,691)	(17,894)
Finance costs	28	10,613	11,367
Share of profit of entities accounted for using the equity method		(4,994)	(5,384)
Decrease in trade and other receivables		4,120	25,469
(Increase) in contract assets		(20,139)	(5,946)
Decrease (increase) in inventories		19,249	(58,848)
Increase (Decrease) in trade and other payables		4,926	(27,434)
Increase (Decrease) in contract liabilities		24,652	(1,775)
Others, net		(50,443)	(58,824)
Subtotal		302,023	190,111
Interest and dividends received		5,161	5,876
Interest paid		(7,813)	(8,508)
Income taxes paid		(24,464)	(39,962)
Net cash provided by operating activities		274,907	147,517
Cash flows from investing activities			
Purchases of property, plant and equipment		(59,307)	(56,949)
Proceeds from sales of property, plant and equipment		41,761	15,373
Acquisitions of intangible assets		(11,629)	(14,157)
Purchase of equity instruments designated as measured at fair value through other comprehensive income		(2,620)	(11,679)
Proceeds from sales of equity instruments designated as measured at fair value through other comprehensive income		97,107	18,443
Purchase of shares of newly consolidated subsidiaries	7	(202,588)	(12,214)
Increase in cash flows resulting in change in scope of consolidation, net of consideration transferred	7	100	—
Proceeds from sales of shares of subsidiaries		8,444	5,078
Disbursements for sales of shares of subsidiaries		(2,969)	(92)
Purchases of investments in associates or joint ventures		(230)	(137)
Proceeds from sales of investments in associates or joint ventures		8,448	2,197
Others, net		992	(9,240)
Net cash used in investing activities		(122,491)	(63,377)

JPY (millions)

	Notes	2021	2022
Cash flows from financing activities			
(Decrease) Increase in short-term borrowings, net	20	(47,333)	38,696
Proceeds from long-term borrowings	20	99,181	382
Repayments of long-term borrowings	20	(44,009)	(137,650)
Proceeds from issuance of bonds	20	35,000	—
Redemption of bonds	20	(55,000)	—
Payments of lease liabilities	31	(57,530)	(57,283)
Proceeds from issuance of common shares	18	60,893	—
Proceeds from sales of interests in subsidiaries to non-controlling interests		35,000	—
Dividends paid	19	(21,296)	(27,259)
Dividends paid to non-controlling interests		(5,396)	(6,093)
Proceeds from sale of treasury shares		3,239	243
Others, net		(1,355)	(652)
Net cash provided by (used in) by financing activities		1,394	(189,616)
Effect of exchange rate changes on cash and cash equivalents		6,122	12,909
Net increase (decrease) in cash and cash equivalents		159,932	(92,567)
Cash and cash equivalents, at the beginning of the year		359,252	523,345
Increase in cash and cash equivalents resulting from transfer to assets held for sale		4,161	—
Cash and cash equivalents, at the end of the year	16	523,345	430,778

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Reporting Entity

NEC Corporation (the “Company” or “NEC”) is a public company incorporated in Japan. NEC and its subsidiaries (collectively, the “NEC Group”) has five segments: Public Solutions business, Public Infrastructure business, Enterprise business, Network Services business and Global business, all of which are operating segments. For further information regarding these businesses, see Note 6. “Segment Information.” The NEC Group’s principal operating bases are located mainly in Japan and other countries as disclosed in Note 11. “Subsidiaries.”

2. Basis of Preparation

Compliance with International Financial Reporting Standards

The Company fulfills the requirements of a “specified company of designated International Financial Reporting Standards” as provided in Article 1-2 of the “Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (Ordinance of the Ministry of Finance No. 28 of 1976, the “Ordinance on Consolidated Financial Statements”). Therefore, in accordance with the provisions of Article 93 of the Ordinance on Consolidated Financial Statements, the Company’s consolidated financial statements are prepared in conformity with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board. The term “IFRS” also includes International Accounting Standards (“IAS”) and the related interpretations of the Standard Interpretations Committee and IFRS Interpretations Committee.

Approval of Financial Statements

The consolidated financial statements were approved by Takayuki Morita, President and CEO, and Osamu Fujikawa, Executive Vice president, Member of the Board (Representative Director), and CFO, on June 22, 2022.

Basis of Measurement

The consolidated financial statements have been prepared on historical cost, except for certain assets and liabilities separately stated in Note 3. “Significant Accounting Policies.”

Functional and Presentation Currency

The consolidated financial statements are presented in Japanese yen (“JPY”), which is the functional currency of the Company. All financial information presented in JPY has been rounded to the nearest million JPY, except when otherwise indicated.

3. Significant Accounting Policies

Unless otherwise stated, accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

Basis of Consolidation

Subsidiaries

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Subsidiaries are entities that are directly or indirectly controlled by the Company. The NEC Group controls an entity when the NEC Group is exposed or has rights to variable returns from involvement with the entity and has the ability to affect those returns by using its power, which is the current ability to direct the relevant activities, over the entity. To determine whether or not the NEC Group controls an entity, status of voting rights or similar rights, contractual agreements, and other relevant factors are considered.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the control is obtained until the date when the control is lost. The financial statements of subsidiaries have been adjusted in order to conform to the accounting policies adopted by the Company as necessary.

Changes in the Company's ownership interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. Any differences between the adjustment to non-controlling interest and fair value of consideration transferred or received are recognized directly in equity attributable to owners of the Company.

When control over a subsidiary is lost, the investment retained after the loss of control is re-measured at fair value as of the date when control is lost, and any gain or loss on such re-measurement and disposal of the interest sold is recognized in profit or loss.

Investments in Associates and Joint Arrangements
Associates are entities over which the NEC Group has significant influence over the decisions on financial and operating policies, but does not have control or joint control.

Joint arrangements are arrangements of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The NEC Group classifies joint arrangements into either joint ventures or joint operations. The classification of a joint arrangement as a joint venture or a joint operation depends upon the rights and obligations of the parties to the arrangement. Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. There are no joint operations that are considered material to the NEC Group.

Investment in associates and joint ventures are accounted for using the equity method and recognized at cost on the acquisition date. The carrying amount is subsequently increased or decreased to recognize the NEC Group's share of profit or loss and other comprehensive income of the associates and joint ventures after the date of initial recognition. The financial statements of associates and joint ventures have been adjusted in order to conform to the accounting policies adopted by the Company in applying the equity method, as necessary.

Impairment of an investment in associates and joint ventures is measured by comparing the recoverable amount and the carrying amount of the investment. The impairment loss is recognized in profit or loss. If there has been a change in the estimates used to determine the recoverable amount and the recoverable amount increases, the impairment loss is reversed.

Business Combinations
Business combinations are accounted for using the acquisition method.
The consideration transferred for the acquisition of a subsidiary is measured at fair value of the assets transferred, the liabilities incurred to former owners of the acquiree, and the equity interests issued by the NEC Group.
The consideration for certain acquisitions includes payments that are contingent upon future events, such as the achievement of milestones and sales targets.

Identifiable assets acquired and liabilities and certain contingent liabilities assumed are measured at the fair values at the acquisition date. Non-controlling interests are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amount of the acquiree's identifiable net assets on a transaction-by-transaction basis.
Goodwill is measured as the excess of the sum of the fair value of consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest less the fair value of identifiable assets acquired, net of liabilities assumed at the acquisition date.

Acquisition related costs, such as agency, legal, and other professional, or consulting fees are recognized as expenses in the period they are incurred.

Foreign Currency Translation

Foreign Currency Transactions

Transactions in foreign currencies are translated into the respective functional currencies of the NEC Group companies using the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate at the end of each reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated into the functional currency using the exchange rate at the transaction date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency using the historical exchange rates at the date when the fair value was determined. Exchange differences arising from the settlement or translation of monetary items are recognized in profit or loss except for exchange differences arising from financial assets measured at fair value through other comprehensive income and qualifying hedging instruments in cash flow hedges to the extent that the hedges are effective, which are recognized in other comprehensive income.

Foreign Operations

The assets and liabilities of foreign operations are translated into Japanese yen using the exchange rate prevailing at the reporting date and their income and expenses are translated into Japanese yen using the average exchange rate for the period, unless the exchange rate fluctuates significantly. The foreign exchange differences arising on translation are recognized in other comprehensive income. In cases foreign operations are disposed of, the cumulative amount of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss as part of gains and losses on the disposal.

Financial Instruments

Non-derivative Financial Assets

The NEC Group classifies non-derivative financial assets into financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, or financial assets measured at fair value through profit or loss. The NEC Group has irrevocably elected to designate all equity instruments, except for those in the form of venture capital investments, in principle as financial assets measured at fair value through other comprehensive income.
The NEC Group initially recognizes financial assets measured at amortized cost on the date they originated. All other financial assets are initially recognized in the consolidated statements of financial position when the NEC Group becomes a party to the contractual provisions of the financial instruments.
The NEC Group derecognizes financial assets when the contractual rights to the cash flows from the asset expire, or when the NEC Group transfers the contractual rights to the cash flows from the asset, as well as substantially all the risks and rewards of ownership of the financial asset. Separate assets or liabilities are recognized when the NEC Group derecognizes financial assets, but still retains an interest that does not result in the retention of control over the financial asset.

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

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

Financial assets measured at amortized cost are initially measured at fair value, plus any directly attributable transaction costs. Trade receivables that do not contain a significant financing component are measured at their transaction price. After initial recognition, the carrying amounts of financial assets measured at amortized cost are recognized using the effective interest method, less impairment loss. Amortization using the effective interest method and gains and losses on derecognition are recognized in profit or loss for the period.

The NEC Group has in principle elected to present subsequent changes in fair value of certain equity instruments in other comprehensive income except for those in the form of venture capital investments. These equity instruments are initially measured at fair value, plus any directly attributable transaction costs and measured at fair value in subsequent periods. Changes in fair value are included in other comprehensive income and never reclassified to profit or loss and the NEC Group never reclassifies accumulated other comprehensive income to retained earnings subsequently. Dividends from equity instruments designated as measured at fair value through other comprehensive income are recognized as finance income in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets other than financial assets measured at amortized cost or equity instruments designated as measured at fair value through other comprehensive income are classified as financial instruments measured at fair value through profit or loss. These financial assets are measured at fair value after initial recognition, and changes in their fair value are recognized in profit or loss. Gains and losses on financial instruments measured at fair value through profit or loss are recognized in profit or loss.

Impairment of Financial Assets
As for impairments on financial assets measured at amortized costs, the NEC Group recognizes allowances for expected credit losses by assessing whether the credit risk on the financial assets has increased significantly at each reporting date since initial recognition. Allowances are measured based on the estimated credit loss arising from the possible defaults during the 12 months after the reporting date (12-month expected credit loss) when the credit risk associated with the financial assets has not significantly increased since initial recognition. When the credit risk associated with the financial assets has significantly increased since initial recognition or the financial assets are credit-impaired, an allowance for expected credit loss is calculated based on the estimated credit loss arising from all possible defaults over the estimated remaining period of the financial instruments (life-time expected credit loss). Notwithstanding the above, an allowance for expected credit loss on trade receivables and contract assets is always calculated based on the estimated credit loss over the entire period. Significant increase in credit risk is determined based on changes in risks of a default occurring and the changes in such risks are determined considering significant financial difficulty, breach of contract, or increase in probability where the borrower will enter bankruptcy or other financial reorganization. Changes in allowances are recognized in profit and loss.

Non-derivative Financial Liabilities
The NEC Group classifies non-derivative financial liabilities into financial liabilities measured at amortized cost. The NEC Group recognizes debt securities on the date of issuance. All other financial liabilities are initially recognized on the date when the NEC Group becomes a party to contractual provisions. The NEC Group derecognizes a financial liability when its contractual obligations are discharged, canceled, or expired. These financial liabilities are measured initially at fair value less any directly attributable transaction costs and subsequently measured at amortized cost using the effective interest method. Amortization amounts are recognized as finance costs in profit or loss.

Derivative Financial Instruments
The NEC Group holds derivative financial instruments, such as forward exchange contracts, interest rate swaps, and currency options, to hedge foreign currency exposure and interest rate exposures. Derivatives are measured at fair value at the inception and subsequent periods. At the inception of a hedge relationship, derivatives designated as hedging instruments are classified as either cash flow hedge, fair value hedge, or hedge of a net investment. For derivatives that are not designated as hedging instruments, any changes in the fair value of the derivative are recognized in profit or loss. For derivatives that are designated as hedging instruments, the NEC Group documents the relationship between the hedging instrument and hedged item, risk management objectives and strategy in undertaking the hedge transaction and the hedged risk at the inception of the hedges. The NEC Group initially and continually assesses whether the hedging instruments are highly effective in offsetting changes in the fair value or the cash flows of the respective hedged items. The NEC Group does not currently have derivatives that are designated as hedging instruments in a fair value hedge nor net investment hedge relationship.

Cash Flow Hedges
The effective portion of changes in the fair value of derivatives is recognized in other comprehensive income and any ineffective portion of changes in the fair value is immediately recognized in profit or loss. The amount accumulated in other components of equity is reclassified to profit or loss in the same period during which the cash flows of the hedged item affect profit or loss. Hedge accounting is discontinued prospectively when the hedging instrument expires, is sold, terminated, exercised, when no longer meets the criteria for hedge accounting, a forecast transaction is no longer highly probable, or the designation is revoked. In addition, the NEC Group has selected the option to continue to apply hedge accounting of IAS 39.

Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand, demand deposits, and short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value, and redeemable in three months or less from each acquisition date.

Property, Plant and Equipment
Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenses directly attributable to acquisition of the asset, costs of dismantling and removing the assets, costs of restoring the site, and borrowing costs to be capitalized. When significant components of property, plant and equipment have different useful lives, they are accounted for as separate items (by major components) of property, plant and equipment. Gains or losses on disposals of property, plant and equipment are recognized in profit or loss.
Except for assets that are not subject to depreciation, such as land and construction in progress, assets are depreciated mainly using the straight-line method over the estimated useful lives of assets. The residual value is generally estimated at zero, except for the cases where the selling price, after deducting the costs of disposal, at the end of the useful lives is estimable.

The estimated useful lives of major property, plant and equipment are as follows:

Buildings and structures	7–60 years
Machinery and equipment	2–22 years
Tools, furniture and fixtures	2–20 years

Depreciation methods, useful lives, and residual values of assets are reviewed at the end of each reporting period and revised, as necessary.

Goodwill
An asset representing the future economic benefits arising together with other assets through the acquisition of a subsidiary that are not individually identifiable is recognized as Goodwill. Goodwill is not amortized, but is tested for impairment at least annually or more frequently whenever there is any indication of impairment for a cash-generating unit ("CGU") to which goodwill is allocated. The NEC Group initially measures goodwill at the acquisition date as the excess of the aggregate of consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity, less the net recognized amount of the identifiable assets acquired and liabilities assumed. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase gain.

Intangible Assets
Development expenditures on software for sale and software for internal use are recognized as intangible assets, if all of the following criteria of capitalization are met:
- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other intangible assets, such as patents and licenses, are recognized at cost when acquired. Intangible assets acquired in business combinations and recognized separately from goodwill, including acquired capitalized development costs, are recognized at fair value at the acquisition date.

Intangible assets with definite useful lives are amortized mainly on a straight-line basis over their estimated useful lives from the date when the assets are available for use. Amortization of intangible assets is included in cost of sales and selling, general and administrative expenses. Customer related intangible assets are amortized on a straight-line basis over the estimated useful lives. Software for sale is amortized based on the expected sales volume over the expected effective period unless such amortization method does not reflect the pattern of consumption of the expected future benefits from the asset. In such cases, software for sale is amortized on a straight-line basis over the remaining useful life. Software for internal use is amortized on a straight-line basis over the estimated useful lives. Other intangible assets, such as patents and licenses, are amortized from the date when the asset is available for use over the estimated useful lives, such as a contract period, using the method that reflects the pattern of consumption of the future economic benefits by the NEC Group.
The estimated useful lives of major intangible assets are as follows:

Software for sale	1–9 years
Software for internal use	3–5 years
Customer related intangible assets	3–19 years
Acquired capitalized development costs	3–17 years
Others	2–10 years

Amortization methods, useful lives, and residual values of intangible assets with definite useful lives are reviewed at the end of each reporting period and revised as necessary.

Leases
At inception of a contract, the NEC Group assesses whether the contract is, or contains, a lease. The NEC Group determines a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In addition, the NEC Group elected not to recognize right-of-use assets and lease liabilities for either short-term leases with a lease term of 12 months or less or leases for which the underlying assets are of low value. The NEC Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over their lease term.

As a lessee
At the commencement date of a lease, the NEC Group recognizes right-of-use assets that represent the right to use an underlying asset and a lease liability that represents its obligation to make lease payments. The lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if it is readily determinable, or otherwise, the lessee's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the NEC Group is reasonably certain to exercise; and
- penalties for early termination of a lease unless the NEC Group is reasonably certain not to terminate the lease early.

The lease liability is subsequently measured at amortized cost using the effective interest method, and is remeasured under certain circumstances, such as when there is a change in future lease payments arising from a change in an index or a rate, if there is a change in the NEC Group's estimate of the amount expected to be payable under a residual value guarantee, or if the NEC Group changes its assessment of whether it will exercise a purchase, extension or termination option.

The right-of-use assets are initially measured at the initial measurement amount of the lease liabilities adjusted for any prepaid lease payments before the commencement date and certain other items and are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term. The estimated useful lives of the underlying assets are determined on the same basis as those of property, plant and equipment. In addition, after the commencement date, the right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment losses, and is adjusted for remeasurements of the lease liability. The right-of-use assets are presented as part of property, plant, and equipment, net.

Inventories
Inventories are measured at the lower of cost and net realizable value. The cost of inventories that are interchangeable is determined by using the first-in first-out method or the periodic average method, whereas the cost of inventories that are not interchangeable is determined by using the specific identification of their individual cost. Cost of inventories comprises all costs of purchase, costs of production, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Costs of finished goods and work in process include an allocation of production overheads that are based on the normal capacity of the production facilities. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of Non-Financial Assets
Non-financial assets other than inventories, deferred tax assets, assets held for sale, assets arising from employee benefits and contract assets and assets recognized from costs to obtain a contract with a customer are assessed for indications of impairment at the end of each reporting period. This assessment is performed for an asset or a CGU, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. An impairment loss is recognized in profit or loss and the carrying amount is reduced to the recoverable amount. The recoverable amount is determined for an individual asset, or a CGU when the individual asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. The NEC Group's corporate assets do not generate independent cash inflows. If there is any indication that corporate assets may be impaired, the recoverable amount is estimated for the CGU to which the corporate assets belong. Corporate assets are assets other than goodwill that contribute to the future cash flows of both the CGU to which the corporate assets belong and other CGUs, and include land or buildings held by administrative departments.

The recoverable amount is the higher of the fair value of an asset or a CGU, less costs of disposal and its value in use. Value in use is calculated as the present value of the estimated future cash flows associated with the asset or CGU. In assessing value in use, the future cash flows are estimated by using the growth rate which is determined based on the conditions of the respective countries and industries to which the CGU belongs, and are discounted to the present value using a pre-tax discount rate, which reflects current market assessments of the time value of money and any risks specific to the asset or the CGU.

For goodwill and intangible assets with indefinite useful lives, the recoverable amount is estimated at the same time each year for the level of a CGU to which goodwill and intangible assets with indefinite lives have been allocated, and they are also tested for impairment whenever there is any indication of impairment.

An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there is any indications that the loss recognized for the asset may no longer exist or may have decreased, and if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized. Impairment losses on goodwill are not reversed.

Assets Held for Sale

A non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered through a sale transaction rather than through its continuing use. The condition above is met only when the asset is available for immediate sale in its present condition and its sale is highly probable. If the NEC Group commits to a sale plan involving loss of control of a subsidiary, it classifies all the assets and liabilities of the subsidiary as held for sale when the criteria set out above are met, regardless of whether it will retain a non-controlling interest in its former subsidiary after the sale. Non-current assets or disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortized.

Employee Benefits

Defined Benefit Plans

The NEC Group's defined benefit plans consist of defined benefit pension plans and lump-sum severance payment plans. For defined benefit plans, the present value of defined benefit obligations, less the fair value of plan assets is recognized as either liability or asset. Defined benefit obligations are measured separately for each plan by discounting estimated amount of future benefits employees have earned in return for their services in the current and prior periods to its present value. The discount rate is the yield at the reporting date on high-quality corporate bonds that is consistent with the currency and estimated terms of the NEC Group's post-employment benefit obligations. The NEC Group uses the projected unit credit method to determine the present value of defined benefit obligations, service cost, and the past service cost for each defined benefit obligation. Past service costs arising from a plan amendment or curtailment are recognized in profit or loss upon occurrence of the plan amendment or curtailment. Remeasurement of net defined benefit plans is recognized in full as other comprehensive income and not reclassified to retained earnings in subsequent periods.

Defined Contribution Pension Plans

Defined contribution pension plans are post-employment benefit plans under which the NEC Group pays fixed contributions to a separate entity (fund) and has no legal or constructive obligations to pay further amounts. Contributions to defined contribution pension plans are recognized as expense in profit or loss when the employees render related services.

Provisions

Provisions are recognized when the NEC Group has present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations and reliable estimates can be made of the amount of the obligations.

Revenue

In accordance with IFRS 15, the following five-step approach is applied to recognize revenue, except for interest and dividend income within the scope of IFRS 9 and lease payments within the scope of IFRS 16.

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

Identifying Distinct Performance Obligations in Contracts with Customers

The NEC Group recognizes revenue from contracts with customers for contracts for hardware and packaged software deployments, for services to customers and for system integrations and equipment constructions. The NEC Group identifies distinct promised goods or services (i.e., performance obligations) within these contracts and accounts for revenue in accordance with their performance obligations. The NEC Group separately accounts for the good or service, if a promised good or service is distinct where the NEC Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contracts, and a customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer.

Determining the Transaction Price

The NEC Group considers the effects of variable consideration, constraining estimates of variable consideration, the existence of a significant financing component in the contract, non-cash consideration, and consideration payable to a customer when determining the transaction price. The NEC Group recognizes a variable consideration, which consists primarily of sales incentives that are offered to wholesalers and retailers as part of the NEC Group's sales promotion activities. When there is a possibility of subsequent variability in the consideration receivable from these customers, the variable consideration is estimated and included in revenue to the extent that it is highly probable that its inclusion will not result in a significant reversal in the amount of cumulative revenue recognized when the uncertainty has been subsequently resolved. When estimating the sales incentives, NEC Group uses the expected value method considering the historical experience of sales by customers and products. In assessing whether a contract contains a financing component and whether that financing component is significant to the contract, the NEC Group considers the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services. The NEC Group also considers the combined effect of the expected length of time between when it transfers the promised goods or services to the customer and when the customer pays for those goods or services and the prevailing interest rates in the relevant market.

Allocating the Transaction Price to Performance Obligation

The NEC Group allocates the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to the customer. To allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract is determined and the transaction price is allocated in proportion to those stand-alone selling prices. A stand-alone selling price is estimated if it is not directly observable. For contracts for hardware and packaged software deployments, the NEC Group estimates stand-alone selling prices mainly based on adjusted market assessment approach. For contracts for services to customers and for system integrations and equipment constructions, the NEC Group estimates stand-alone selling price mainly based on expected cost plus a margin approach.

Satisfaction of Performance Obligation

The NEC Group recognizes revenue when or as the NEC Group satisfies a performance obligation at a point in time or over time by transferring promised goods or services to a customer.

The NEC Group recognizes revenue over time if one of the following criteria is met; i) the customer simultaneously receives and consumes the benefits provided by the NEC Group's performance as the NEC Group performs, ii) the NEC Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or iii) the NEC Group's performance does not create an asset with an alternative use to the NEC Group and it has an enforceable right to payment for performance completed to date. If none of the above is met, the NEC Group recognizes revenue at a point in time when it is determined that control of an asset is transferred to a customer.

Performance Obligations and Revenue Measurement Methods by Type of Goods or Services

Contracts for Hardware and Packaged Software Deployments

The major transactions regarding revenue from contracts for hardware and packaged software deployments are hardware (servers, mainframes, supercomputers, storage, business PCs, POS, ATMs, control equipment, wireless LAN routers), software (integrated operation management, application servers, security, database software), enterprise network solutions (IP telephony systems, WAN/wireless access equipment, LAN products), and network infrastructure (core network, mobile phone base stations, optical transmission systems, routers / switches, wireless backhaul).

The NEC Group recognizes revenue when control over goods is transferred to customers. To determine the point in time at which the control is transferred to the customer, the NEC Group considers whether or not a) the NEC Group has a present right to payment for the asset; b) the customer has legal title to the asset; c) the NEC Group has transferred physical possession of the asset; d) the customer has the significant risks and rewards related to the ownership of the asset; and e) the customer has accepted the asset. This transfer generally corresponds to the date of the inspection by the customer.
Revenue on Hardware requiring significant services, including installation, such as servers and network products, is in principle recognized upon the customer's acceptance. Revenue on standard Hardware, such as personal computers and electronic devices, is recognized in principle upon delivery, where the control of the Hardware is transferred to the customer.

Contracts for Services to Customers (Including Maintenance and Outsourcing)/Contracts for System Integrations and Equipment Constructions
The major transactions regarding revenue from contracts for services to customers/system integrations and equipment constructions are systems integration (systems implementation, consulting), digital government and digital finance, software & services for service providers (Operation Support System (OSS)/ Business Support System (BSS)), services & management (OSS/BSS, and service solutions), network infrastructure (submarine systems), outsourcing/cloud services and maintenance and support.
Supply of the above services usually corresponds to any of the following criteria: a) the customer simultaneously receives and consumes all of the benefits provided by the NEC Group as the NEC Group performs; b) the NEC Group's performance creates or enhances an asset that the customer controls as the asset is created; or c) the NEC Group's performance does not create an asset with an alternative use to the NEC Group and the NEC Group has an enforceable right to payment for performance completed to date and, therefore, is a performance obligation that is satisfied over time.
If the progress toward complete satisfaction of the performance obligation can be reasonably measured, revenue from a service is recognized by measuring the progress. If the progress cannot be reasonably measured, revenue from a service is recognized only to the extent of the costs incurred if the NEC Group expects to recover the costs until such time that the outcome of the performance obligation can be reasonably measured.
Revenue for fixed price service contracts, including construction contracts is in principle recognized by the method of measuring the progress based on the costs incurred to date as a percentage of the total estimated project costs. When milestones for the obligations to be performed by the NEC Group are defined at contract inception, revenue is recognized based on completion of the contractual milestones.
Revenue on ongoing service contracts is recognized by measuring the progress based on the period of services already provided over the entire service period. Where outsourcing services are charged on a per unit basis, such as data usage, revenue is recognized when the service is provided. Where services are charged on a time period basis, revenue is recognized evenly over the period of the service contract. For maintenance, in principle revenue is recognized over the period in which the services are provided; however, where the contracts are charged on a time basis, revenue is recognized on a time and materials basis.

Where changes occur in the initial estimates of revenues, measure of progress, and costs incurred for a contract, the cumulative impact arising from a change of estimates is recognized in profit or loss in the period in which the changes become certain and possible to be estimated.

Contracts with Multiple Performance Obligations
Contracts with multiple performance obligations represent one contract that consists of several types of goods or services, such as supply of Hardware and related services or supply of software sales and support services. Goods or services promised to a customer are identified as a distinct performance obligation if the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct); and the NEC Group's promise to transfer the goods or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract). The transaction price is allocated to each performance obligation on a relative stand-alone selling price basis, as mentioned above.

Methods for Measuring Progress
When revenue is recognized over time, the NEC Group measures the progress to depict the performance in transferring control of goods or services promised to a customer. Revenue is recognized for a performance obligation satisfied over time only if the progress can be reasonably measured. When the progress cannot be measured reasonably, revenue is recognized only to the extent of the costs incurred.

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

Contract Asset and Contract Liability
Contract asset is an entity’s right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (i.e., the entity’s future performance) and contract liability is an entity’s obligation to transfer goods or services to a customer for which the entity has received consideration or the amount is due from the customer. Advances received from construction contracts are recorded as “contract liabilities” in the consolidated statements of financial position.

Contract Costs
An asset is recognized for the incremental costs of obtaining a contract with a customer and costs to fulfill a contract if those costs are expected to be recovered. The costs are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

Income Taxes
Income tax expenses comprise current and deferred taxes, both of which are recognized in profit or loss, except for the tax arising from transactions which are recognized either directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on taxable income or tax losses for the reporting period, using tax rates and tax laws enacted or substantively enacted at the end of the reporting period.

Deferred taxes are calculated based on the temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and unused tax losses carryforward at the end of the reporting period.

Deferred tax assets and liabilities are not recognized for the following temporary differences:
- Temporary differences on the initial recognition of an asset or liability in a transaction which is not a business combination and that affects neither accounting nor taxable income nor loss;
- Temporary differences arising from investments in subsidiaries, associates, and joint arrangements to the extent that it is probable that the temporary difference will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the period in which the temporary differences are expected to reverse based on the tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities are for those related to income taxes levied by the same taxation authority on the same taxable entity.

A deferred tax asset is recognized for the carryforward of unused tax losses, and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized.
The amount of deferred tax assets is reduced to the extent that it is no longer probable that future taxable income would be sufficient to allow the benefit of part or all of the deferred tax asset to be utilized.

Share Capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are recognized as a deduction from equity.

Treasury shares are measured at cost and deducted from equity. When NEC Group sells the treasury shares subsequently, the difference between the carrying amount and the consideration received is recognized in share premium. Additional costs directly related to repurchase or sale of treasury shares are deducted from equity.

4. Use of Accounting Estimates and Judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make certain judgments, estimates, and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues, and expenses. These estimates and assumptions may differ from the actual results.

These estimates and underlying assumptions are reviewed by management on a continuous basis. Changes in these accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The NEC Group has assessed the impact of significant uncertainty on its accounting estimates and judgments based upon the information currently available. The area which the accounting estimates and judgements was of particular importance as of March 31, 2022, is the recoverability of deferred tax assets. The underlying future earnings projections were based on management's estimates that are highly uncertain due to significant management judgments on certain assumptions related to external factors, such as its future profitability considering demand forecasts for the domestic markets that reflected, among others, growing investments in IT infrastructures including those for DX (digital transformation) and the impact of shortages in the supply of components. There is no material impact to the consolidated financial statements as of fiscal year ended March 31, 2022, however, actual results and outcomes in future reporting periods may differ materially from the estimates of the NEC Group's managements as the additional information becomes available.

Information about judgments and estimates that have been made in the process of applying accounting policies and that have significant effects on the amounts reported in the consolidated financial statements, and information about accounting estimates and assumptions that have significant effects on the amounts reported in the consolidated financial statements, are as follows:

- Fair Value of Financial Instruments (Note 30)
- Recoverable Amount in Impairment Test of Non-financial Assets (Note 10)
- Actuarial Assumptions of Post-retirement Benefits (Note 21)
- Recognition and Measurement of Provisions (Note 22)
- Revenue Recognition (Note 3, "Revenue")
- Recoverability of Deferred Tax Assets (Note 13)
- Identification of Lease and Determination of Lease Term (Note 31)
- Measurement of Fair Value in Business Combinations (Note 7)

5. New Accounting Standards and Interpretations Issued and Not Yet Adopted

Of the new or amendments to IFRS standards that have been issued before the approval date of the consolidated financial statements, the NEC Group has not yet adopted the following.

IFRSs	Title	Description of Amendments	Mandatory adoption (Effective from the year beginning)	To be adopted by the NEC Group (Effective from the year ending)
IAS 12	Income taxes	Amendments to clarify the accounting for deferred tax related to assets and liabilities arising from a single transaction	January 1, 2023	March 31, 2024

The NEC Group is currently assessing the impact of adopting IAS 12 amendments and cannot be estimated at this time.

6. Segment Information

The NEC Group has five reportable segments: Public Solutions business, Public Infrastructure business, Enterprise business, Network Services business and Global business, all of which are operating segments. Operating segments are defined as the components of the NEC Group for which separate financial information is available that is evaluated regularly by the board of directors of the Company, which is the NEC Group’s chief operating decision maker in deciding how to allocate resource and in assessing performance. The NEC Group’s various operations are classified into the following five operating segments and other business activities based primarily on the characteristics of the customers served.

Public Solutions business provides Systems Integration including Systems Implementation and Consulting, Maintenance and Support, Outsourcing / Cloud Services, and System Equipment, mainly to Public, Healthcare, and Regional industries.

Public Infrastructure business provides Systems Integration including Systems Implementation and Consulting, Maintenance and Support, Outsourcing / Cloud Services, and System Equipment, mainly to Government and Media industry.

Enterprise business provides Systems Integration including Systems Implementation and Consulting, Maintenance and Support, Outsourcing / Cloud Services, and System Equipment, mainly to Manufacturing, Retail and Services, and Finance industries.

Network Services business provides Network Infrastructure including Core Network, Mobile Phone Base Stations, Optical Transmission Systems and Routers / Switches, Systems Integration including Systems Implementation and Consulting, and Services & Management including Operation Support System (“OSS”) / Business Support System (“BSS”), and Service Solutions mainly to telecom market in Japan.

Global business provides Digital Government and Digital Finance, Software Services for Service Providers including OSS/BSS, Network Infrastructure including Submarine Systems and Wireless Backhaul.

Basis of measurement for reportable segment sales and segment income or loss

Segment profit (loss) is measured by deducting amortization of intangible assets recognized as a result of M&A and expenses for acquisition of companies (financial advisory fees and other fees) from operating profit (loss).
This segment profit (loss) is an indicator for measuring underlying profitability in order to clarify the contribution of acquired companies to the NEC Group's overall earnings. Intersegment revenues are made at amount that approximates arm’s-length prices.

Segment information on revenue, profit or loss and other metrics by reportable segment for the fiscal years ended March 31, 2021 and 2022, are as follows:

Fiscal year ended March 31, 2021

JPY (millions)

	Reportable segments						Others	Reconciling Items	Consolidated total
	Public Solutions	Public Infrastructure	Enterprise	Network Services	Global	Total			
Revenue:									
External customers	425,060	692,876	503,074	538,810	449,988	2,609,808	384,215	―	2,994,023
Intersegment	13,472	3,829	38,431	8,543	674	64,949	6,709	(71,658)	―
Total	438,532	696,705	541,505	547,353	450,662	2,674,757	390,924	(71,658)	2,994,023
Segment profit (loss)	39,361	59,399	48,210	41,204	7,495	195,669	7,695	(25,128)	178,236
Amortization of acquisition-related intangible assets									(22,769)
M&A related expenses									(1,708)
Operating profit (loss)									153,759
Finance income									9,691
Finance costs									(10,613)
Share of profit of entities accounted for using the equity method									4,994
Profit (loss) before income taxes									157,831
Other items:									
Depreciation and amortization	3,741	37,251	31,048	10,293	33,437	115,770	32,209	19,634	167,613
Impairment loss	155	13	28	―	3,345	3,541	494	―	4,035
Reversal of impairment loss	―	―	―	―	―	―	―	(873)	(873)
Capital expenditures	6,980	31,348	35,334	14,287	15,518	103,467	36,164	21,626	161,257

Fiscal year ended March 31, 2022

JPY (millions)

	Reportable segments						Others	Reconciling Items	Consolidated total
	Public Solutions	Public Infrastructure	Enterprise	Network Services	Global	Total			
Revenue:									
External customers	400,177	650,873	574,680	511,547	485,578	2,622,855	391,240	―	3,014,095
Intersegment	12,675	3,364	34,221	10,200	319	60,779	5,814	(66,593)	―
Total412,852	412,852	654,237	608,901	521,747	485,897	2,683,634	397,054	(66,593)	3,014,095
Segment profit (loss)	29,748	65,406	57,475	35,479	26,290	214,398	13,264	(56,663)	170,999
Amortization of acquisition-related intangible assets									(37,838)
M&A related expenses									(636)
Operating profit (loss)									132,525
Finance income									17,894
Finance costs									(11,367)
Share of profit of entities accounted for using the equity method									5,384
Profit (loss) before income taxes									144,436
Other items:									
Depreciation and amortization	3,904	36,381	31,169	10,202	47,716	129,372	31,611	19,556	180,539
Impairment loss	149	―	34	―	491	674	244	67	985

Reversal of impairment loss	–	–	–	–	–	–	(12)	–	(12)
Capital expenditures	6,723	34,924	30,383	12,400	21,198	105,628	32,617	25,157	163,402

"Others" mainly includes businesses such as business consulting and development, manufacturing and sales of system equipment for the fiscal years ended March 31, 2021 and 2022.

"Reconciling Items" in segment profit (loss) includes amounts not allocated to each reportable segment that consist principally of corporate expenses of 26,400 million JPY, and 52,824 million JPY for the fiscal years ended March 31, 2021 and 2022, respectively. Corporate expenses are mainly general and administrative expenses and research and development expenses incurred at the headquarters of the Company. Also, these reconciling items for the fiscal year ended March 31, 2021 include the gain on sale of the land of Sagamihara Plant recorded during the fiscal year ended March 31, 2021.

Geographical information

Revenues from contract with customers by country or region for the fiscal years ended March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Japan	2,290,784	2,259,551
North America and Latin America	132,455	121,332
Europe, Middle East, and Africa	228,396	294,610
China, East Asia, and Asia Pacific	342,388	338,602
Total	2,994,023	3,014,095

Non-current assets other than financial instruments, deferred tax assets, and net defined benefit assets by country/region as of March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Japan	654,773	648,247
North America and Latin America	39,600	40,404
Europe, Middle East, and Africa	538,539	583,516
China, East Asia, and Asia Pacific	20,422	22,161
Total	1,253,334	1,294,328

Non-current assets in Europe, Middle East, and Africa include goodwill recognized for KMD Holding ApS ("KMD"), which is in Denmark, of 93,295 million JPY and 98,403 million JPY as of March 31, 2021 and 2022, respectively, and goodwill and intangible assets of Avaloq Group AG, which is in Switzerland, 99,031 million JPY and 175,731 million JPY,111,755 million JPY and 181,836 million JPY as of March 31, 2021 and 2022.

Major customers

The NEC Group does not have any external customers that comprise more than 10% of revenue in the consolidated statements of profit or loss.

7. Business Combinations

Acquisitions during the fiscal year ended March 31, 2021

On December 22, 2020, NEC completed an acquisition of 100% of the outstanding shares of WP/AV CH Holding I B.V. which owns 100% of Avaloq Group AG ("Avaloq Group") in cash of 216,886 million JPY. The Avaloq Group is a Swiss IT company, which provides financial software solution mainly to financial institutions. The acquisition enables the NEC Group to acquire the knowledge of software and domain in the digital finance field, to globally promote business participation in such field, and to strengthen businesses in the digital government field. NEC incurred acquisition-related costs of 1,298 million JPY related to the share acquisition. These costs were incurred in selling, general and administrative expenses in the consolidated statement of profit or loss.

The fair value of assets acquired and liabilities assumed at the acquisition date is as follows.

	JPY (millions)
	Amount
Cash and cash equivalents	15,444
Trade and other receivables	13,504
Other current assets	1,104
Property, plant and equipment	10,743
Intangible assets	178,024
Other non-current assets	20,788
Trade and other payables	(2,871)
Contract liabilities	(23,764)
Other current liabilities	(13,414)
Other financial liabilities-non-current	(47,712)
Other non-current liabilities	(33,160)
Total identifiable net assets assumed	118,686

The fair value is determined using generally accepted valuation techniques based on assumptions such as future cash flows and discount rate based on future earnings forecasts. Total contractual balance of trade receivables amounted to 13,875 million JPY of which expected uncollectible balance of 371 million JPY at the date of business combination has been deducted.

Goodwill arising from the acquisition is as follows.

	JPY (millions)
	Amount
Consideration for the acquisition	216,886
Non-controlling interests	149
Fair value of identifiable net liabilities assumed by the NEC Group	(118,686)
Goodwill arising from acquisition	98,349

Non-controlling interests are measured by the percentage of interests owned by non-controlling shareholders to the fair value of identifiable net assets of the acquired company group. The goodwill is attributable mainly to excess earnings power and synergies expected to be achieved from integrating the acquiree into the NEC Group's existing "Safer Cities" business. There is no goodwill recognized that is expected to be deductible for tax purposes.
Since the acquisition date, Avaloq contributed revenue of 16,415 million JPY and net profit of 662 million JPY to the NEC Group's results for the year ended March 31, 2021. Had the acquisition occurred on April 1, 2020, consolidated revenue would have been 3,042,864 million JPY, and consolidated net profit would have been 163,915 million JPY (information outside the scope of the audit).

Acquisitions during the fiscal year ended March 31, 2022
There are no business combinations that are considered material to the NEC Group.

8. Property, Plant and Equipment

Reconciliation of the carrying amounts of property, plant and equipment for the fiscal years ended March 31, 2021 and 2022, is as follows:

JPY (millions)

Carrying amounts	Buildings and structures	Machinery and equipment	Tools, furniture and fixtures	Land	Construction in progress	Right-of-use assets	Total
As of April 1, 2020	187,686	44,717	88,127	64,364	22,501	150,682	558,077
Acquisitions	3,300	3,819	7,544	3	42,955	42,074	99,695
Acquisitions through business combinations	—	—	3,224	—	—	8,649	11,873
Reclassifications	15,637	10,440	32,792	24	(43,901)	—	14,992
Depreciation	(15,002)	(13,349)	(38,148)	—	—	(56,341)	(122,840)
Impairment losses	(59)	(11)	(192)	(1)	(177)	—	(440)
Reversal of impairment loss	—	—	—	873	—	—	873
Disposals	(1,048)	(621)	(1,171)	(1,885)	(3,150)	(4,339)	(12,214)
Foreign currency translation adjustments	329	335	449	31	149	1,862	3,155
As of March 31, 2021	190,843	45,330	92,625	63,409	18,377	142,587	553,171
Acquisitions	2,687	3,195	8,911	57	45,148	44,814	104,812
Reclassifications	15,136	6,846	28,356	(215)	(40,475)	1,434	11,082
Depreciation	(15,446)	(13,604)	(38,731)	—	—	(56,867)	(124,648)
Impairment losses	(398)	—	(119)	(66)	(2)	—	(585)
Reversal of impairment loss	10	—	2	—	—	—	12
Disposals	(3,009)	(439)	(736)	(2)	(2,121)	(2,274)	(8,581)
Foreign currency translation adjustments	246	298	1,166	88	251	2,945	4,994
As of March 31, 2022	190,069	41,626	91,474	63,271	21,178	132,639	540,257

JPY (millions)

Cost	Buildings and structures	Machinery and equipment	Tools, furniture and fixtures	Land	Construction in progress	Right-of-use assets	Total
As of April 1, 2020	558,814	241,499	420,597	72,768	22,608	206,338	1,522,624
As of March 31, 2021	540,798	249,579	428,405	70,925	18,402	245,721	1,553,830
As of March 31, 2022	539,366	251,057	446,326	70,853	21,178	282,636	1,611,416

JPY (millions)

Accumulated Depreciation and Accumulated impairment losses	Buildings and structures	Machinery and equipment	Tools, furniture and fixtures	Land	Construction in progress	Right-of-use assets	Total
As of April 1, 2020	371,128	196,782	332,470	8,404	107	55,656	964,547
As of March 31, 2021	349,955	204,249	335,780	7,516	25	103,134	1,000,659
As of March 31, 2022	349,297	209,431	354,852	7,582	—	149,997	1,071,159

The “Reclassifications” in the table above for the fiscal years ended March 31, 2021 and 2022, includes the transfer from inventories under current assets.

Pledged assets as of March 31, 2021 and 2022, were as follows:

JPY (millions)

	2021	2022
Land	128	128
Others	701	669
Total	829	797

Impairment losses

Impairment losses are included in other operating expenses in the consolidated statements of profit or loss. The aggregate amount of impairment losses is disclosed in Note 10 “Impairment Losses of Non-Financial Assets.”

9. Intangible Assets including Goodwill

Reconciliation of the carrying amounts of intangible assets including goodwill for the fiscal years ended March 31, 2021 and 2022, is as follows:

JPY (millions)

Carrying amount	Goodwill	Software for sale	Software for internal use	Customer related intangible assets	Acquired capitalized development costs	Other	Total
As of April 1, 2020	182,334	48,176	54,975	54,437	21,109	20,396	381,427
Acquisitions	—	11,636	10,824	—	—	807	23,267
Acquisitions through business combinations	101,595	42,211	4,010	133,549	—	—	281,365
Reclassifications	—	19,401	14,067	—	—	720	34,188
Amortization	—	(25,253)	(21,533)	(15,274)	(4,092)	(2,235)	(68,387)
Impairment losses	—	(3,027)	(499)	—	—	—	(3,526)
Disposals	—	(544)	(1,879)	—	—	(306)	(2,729)
Foreign currency translation adjustments	16,601	2,904	208	4,778	1,369	(785)	25,075
Other	—	196	1,605	—	—	(3,093)	(1,292)
As of March 31, 2021	300,530	95,700	61,778	177,490	18,386	15,504	669,388
Acquisitions	—	14,750	13,664	—	—	680	29,094
Acquisitions through business combinations	12,410	1,241	17	—	—	2,160	15,828
Reclassifications	—	13,582	12,399	—	—	3,266	29,247
Amortization	—	(28,194)	(23,173)	(24,944)	(4,323)	(2,306)	(82,940)
Impairment losses	—	—	(215)	—	—	(34)	(249)
Disposals	—	(162)	(391)	—	—	(184)	(737)
Foreign currency translation adjustments	23,038	7,534	707	17,516	495	317	49,607
Other	—	212	1,609	—	—	(378)	1,443
As of March 31, 2022	335,978	104,663	66,395	170,062	14,558	19,025	710,681

JPY (millions)

Cost	Goodwill	Software for sale	Software for internal use	Customer related intangible assets	Acquired capitalized development costs	Other	Total
As of April 1, 2020	194,206	136,813	134,887	81,701	34,205	35,792	617,604
As of March 31, 2021	312,402	200,711	139,320	221,736	36,433	27,241	937,843
As of March 31, 2022	347,850	225,773	145,868	244,082	37,980	26,713	1,028,266

JPY (millions)

Accumulated amortization and accumulated impairment losses	Goodwill	Software for sale	Software for internal use	Customer related intangible assets	Acquired capitalized development costs	Other	Total
As of April 1, 2020	11,872	88,637	79,912	27,264	13,096	15,396	236,177
As of March 31, 2021	11,872	105,011	77,542	44,246	18,047	11,737	268,455
As of March 31, 2022	11,872	121,110	79,473	74,020	23,422	7,688	317,585

The “Reclassifications” in the table above for the fiscal years ended March 31, 2021 and 2022, includes the transfer from inventories under current assets.

Internally generated intangible assets mainly consist of software for sale and software for internal use. Amortization is recognized either as selling, general and administrative expenses or as cost of sales when the amortization expenses have been allocated to the cost of inventories and those inventories are sold. The NEC Group recognizes research and developments costs as expenses except items that meet criteria for capitalization. Research and development costs recognized as expenses during the fiscal years ended March 31, 2021 and 2022, are 114,625 million JPY and 126,266 million JPY, respectively.

During the fiscal year ended March 31, 2021, the NEC Group recorded impairment losses of 3,027 million JPY over Software for sale, mainly in foreign IT subsidiaries. The losses are allocated mainly to Global segment. The recoverable amount of the assets was calculated based on the value in use. Value in use is calculated by discounting the estimated future cash flows expected to be derived from the assets to the present value. The discount rate used to calculate the recoverable amount was 7.1%.

The carrying amounts of goodwill allocated to each operating segment as of March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Public Infrastructure	6,150	6,150
Network Services	551	551
Global	254,606	289,550
Others	39,223	39,727
Total	300,530	335,978

The CGUs to which significant amounts of goodwill are allocated as of March 31, 2021 and 2022, are as follows:

JPY (millions)

CGUs	2021	2022
Avaloq Group	99,031	111,755
KMD	93,295	98,403
NEC Software Solutions UK	44,657	60,076
Others	63,547	65,744
Total	300,530	335,978

The NEC Group recognized impairment losses due to the lower profitability than initially expected for certain goodwill and intangible assets. Impairment losses are included in other operating expenses in the consolidated statements of profit or loss. The aggregate amount of impairment losses is disclosed in Note 10. “Impairment Losses of Non-Financial Assets.” Avaloq Group, KMD and NEC Software Solutions UK were newly acquired in recent years, and based on its assessment of their profitability compared with the initially developed business plans, management considers there is no significant impairment risk associated with goodwill allocated to Avaloq Group, KMD and NEC Software Solutions UK.

For goodwill and intangible assets with indefinite useful lives, the recoverable amount was calculated mainly based on the value in use. Value in use is calculated by discounting the estimated future cash flows based on future business plan and the terminal value to the present value. The growth rate used for estimating the terminal value of each CGU is determined by considering the status of the respective country and industry that the CGU belongs to, and it does not exceed the long-term average growth rate of the industry of the CGU.

The significant assumptions used to calculate the recoverable amount (value in use) for the fiscal years ended March 31, 2021 and 2022, are as follows:

	2021	2022
Growth Rate	0.0 to 2.6 %	0.0 to 3.7%
Discount Rate (Pre-tax)	6.2 to 13.1 %	5.9 to 15.0%

The NEC Group considers, except for CGUs of which impairment losses are recognized for the fiscal years ended March 31, 2021 and 2022, that it is less likely that a significant impairment occurs even when the discount rate and growth rate, which are significant assumptions used for impairment testing of goodwill, have changed to a reasonable extent.

10. Impairment Losses of Non-Financial Assets

A breakdown of impairment losses and subsequent reversals by asset class for the fiscal years ended March 31, 2021 and 2022, is as follows:

JPY (millions)

	2021		2022	
	Impairment loss	Reversal	Impairment loss	Reversal
Property, plant and equipment				
Buildings and structures	59	–	398	(10)
Machinery and equipment	11	–	–	–
Tools, furniture and fixtures	192	–	119	(2)
Land	1	(873)	66	–
Construction in progress	177	–	2	–
Right-of-use assets	–	–	–	–
Goodwill	–	–	–	–
Intangible asset				
Software for internal use	499	–	215	–
Software for sale	3,027	–	–	–
Others	–	–	34	–
Other non-financial assets				
Others	69	–	151	–
Total	4,035	(873)	985	(12)

Impairment losses and reversal of impairment loss are included in other operating expenses in the consolidated statements of profit or loss. Details of impairment losses are described in Note 8. “Property, Plant and Equipment” for property, plant and equipment, and Note 9. “Intangible Assets including Goodwill” for goodwill and intangible assets.

11. Subsidiaries

Material subsidiaries

The number of consolidated subsidiaries increased by 6 primarily due to establishments and acquisitions and decreased by 18 primarily due to divestitures, in the fiscal year ended March 31, 2022.

Major consolidated subsidiaries as of March 31, 2022, are as follows:

Name of entity	Country of incorporation	Ownership of voting rights (%)	Principal activities
NEC Platforms, Ltd.	Japan	100.0	Development, manufacturing, sale and maintenance of information and communications systems, equipment etc., and provision of systems integration services etc.
NEC Fielding, Ltd.	Japan	100.0	Installation and maintenance of computers and network systems
NEC Solution Innovators, Ltd.	Japan	100.0	Provision of systems integration services etc., and development of software
ABeam Consulting Ltd.	Japan	100.0	Business consulting
NEC Networks & System Integration Corporation	Japan	51.4	Design, construction and maintenance of information and communications systems, and sale of related equipment
Japan Aviation Electronics Industry, Limited	Japan	50.9	Manufacture and sale of connectors and electronic devices for avionics and aerospace
NEC Corporation of America	U.S.A.	100.0	Regional representative and supervising operations in North America, sale of computer-related equipment and communications equipment, and provision of systems integration services etc.
NEC Europe Ltd.	U.K.	100.0	Regional representative and supervising operation in Europe
NEC Asia Pacific Pte. Ltd.	Singapore	100.0	Regional representative and supervising operation in Asia, sale of computers-related equipment and communications equipment, and provision of systems integration services etc.
NEC (China) Co., Ltd.	China	100.0	Regional representative and supervising operation in Greater China
NEC Latin America S.A.	Brazil	100.0	Regional representative and supervising operation in Latin America, sale of communications equipment, and provision of systems integration services etc.
NetCracker Technology Corporation	U.S.A.	100.0	Development and sale of software
Comet Holding B.V.	Netherlands	100.0	Pure holding company Its principal subsidiary is Avaloq Group AG, which owns under its umbrella subsidiaries for which the principal business is development of software and provision of IT services
Garden Private Holdings Limited	U.K.	100.0	Pure holding company Its principal subsidiary is NEC Software Solutions UK Limited, for which its principal business is development of software and provision of IT services

Name of entity	Country of incorporation	Ownership of voting rights (%)	Principal activities
Soleil ApS	Denmark	100.0	Pure holding company Its principal subsidiary is KMD A/S, for which its principal business is development of software and provision of IT services

Subsidiaries that have non-controlling interests material to the NEC Group

NEC Networks & System Integration Corporation

NEC Networks & System Integration Corporation is a subsidiary that has non-controlling interests material to the NEC Group. Proportion of ownership interests held by non-controlling interests as of March 31, 2021 and 2022 were 61.5%, which is inclusive of the interest in the subsidiary held in the retirement benefit trust acting as an agent of the Company. Proportion of voting rights held by non-controlling interests as of March 31, 2021 and 2022 were 48.6%.

Summarized financial information before eliminating inter-company transactions as of March 31, 2021 and 2022, is as follows:

	JPY (millions)	
	2021	2022
Current assets	212,519	214,173
Non-current assets	48,732	48,834
Current liabilities	94,430	85,993
Non-current liabilities	41,716	39,097
Net assets	125,105	137,917
Carrying amount of non-controlling interests	76,345	84,704

Summarized financial information before eliminating inter-company transactions for the fiscal years ended March 31, 2021 and 2022, is as follows:

	JPY (millions)	
	2021	2022
Revenue	338,053	309,740
Net profit	17,780	15,678
Other comprehensive income	3,151	3,677
Comprehensive income	20,931	19,355
Net profit allocated to non-controlling interests	11,351	10,305
Dividends paid to non-controlling interests	2,565	3,689
Cash flows from operating activities	20,388	25,486
Cash flows from investing activities	(4,821)	(7,162)
Cash flows from financing activities	(5,393)	(7,079)
Effect of exchange rate changes on cash and cash equivalents	(69)	61
Net increase in cash and cash equivalents	10,105	11,316
Cash and cash equivalents, at the end of reporting period	68,426	79,732

Japan Aviation Electronics Industry, Limited

Japan Aviation Electronics Industry, Limited ("JAE") is a subsidiary that has non-controlling interests material to the NEC Group. Proportion of ownership interests held by non-controlling interests as of March 31, 2021 and 2022 were 64.3%, which is inclusive of the interest in the subsidiary held in the retirement benefit trust acting as an agent of the Company. Proportion of voting rights held by non-controlling interests as of March 31, 2021 and 2022 were 49.1%.

Summarized financial information before eliminating inter-company transactions as of March 31, 2021 and 2022, is as follows:

JPY (millions)

	2021	2022
Current assets	141,430	144,393
Non-current assets	118,300	116,612
Current liabilities	61,239	58,086
Non-current liabilities	27,255	18,312
Net assets	171,236	184,607
Carrying amount of non-controlling interests	110,450	119,142

Summarized financial information before eliminating inter-company transactions for the fiscal years ended March 31, 2021 and 2022, is as follows:

JPY (millions)

	2021	2022
Revenue	209,640	224,171
Net profit	5,169	12,816
Other comprehensive income	5,699	4,694
Comprehensive income	10,868	17,510
Net profit allocated to non-controlling interests	2,418	7,287
Dividends paid to non-controlling interests	1,754	1,745
Cash flows from operating activities	30,007	25,386
Cash flows from investing activities	(18,802)	(20,285)
Cash flows from financing activities	14,497	(10,956)
Effect of exchange rate changes on cash and cash equivalents	26	1,311
Net increase (decrease) in cash and cash equivalents	25,728	(4,544)
Cash and cash equivalents, at the end of reporting period	70,530	65,986

12. Investments Accounted for Using the Equity Method

Investments in associates and joint ventures are accounted for using the equity method. The number of associates accounted for using the equity method increased by one in the fiscal year ended March 31, 2022 due to new investments and decreased by one due to divestiture. The number of joint ventures accounted for using the equity methods decreased by one in the fiscal year ended March 31, 2022 due to divestiture.

Associates

Material associates

NEC Capital Solutions Limited is an associate, which is material to the NEC Group as of March 31, 2022. NEC Capital Solutions Limited engages in leasing various types of equipment, facilities, and products in Japan. The Company owns 37.7% of the voting rights as of March 31, 2021 and 2022.

Summarized financial information as of March 31, 2021 and 2022, is as follows:

JPY (millions)

	2021	2022
Current assets	918,326	889,743
Non-current assets	171,369	176,782
Current liabilities	469,816	503,438
Non-current liabilities	499,486	435,487
Total equity	120,393	127,600

Summarized financial information for the fiscal years ended March 31, 2021 and 2022, is as follows:

JPY (millions)

	2021	2022
Revenue	71,303	89,625
Net profit	5,865	8,923
Other comprehensive income	60	1,452
Comprehensive income	5,925	10,375
Dividends received from the associate	487	503

Reconciliation between the summarized financial information and the carrying amount of interests in associates as of March 31, 2021 and 2022, is as follows:

JPY (millions)

	2021	2022
Equity attributable to owners of the investee	100,616	109,073
Proportion of ownership interest	37.7%	37.7%
Equity attributable to the NEC Group	37,902	41,099
Elimination of unrealized profit on inter-company transactions	(48)	(129)
Carrying amount of the associate in the consolidated financial statements	37,854	40,970
Fair value of the associate	16,431	16,836

Aggregate information of associates that are not individually material for the fiscal years ended March 31, 2021 and 2022, is as follows:

JPY (millions)

	2021	2022
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	34,129	35,500
Aggregate amounts of the NEC Group's share of those associates:		
Net profit	2,461	2,452
Other comprehensive income	897	647
Comprehensive income	3,358	3,099

Unrecognized share of losses of associates accounted for using the equity method which the Company has stopped recognizing its share of losses for the fiscal years ended March 31, 2021 and 2022, was as follows:

JPY (millions)

	2021	2022
Unrecognized share of losses of associates for the period	—	44
Accumulated unrecognized share of losses of associates	514	453

Joint ventures

None of joint ventures are material to the NEC Group.

Aggregate information of joint ventures that are not individually material for the fiscal years ended March 31, 2021 and 2022, is as follows:

JPY (millions)

	2021	2022
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	1,333	—
Aggregate amounts of the NEC Group's share of those joint ventures:		
Net profit (loss)	(15)	201
Other comprehensive income	—	—
Comprehensive income	(15)	201

Unrecognized share of losses of joint ventures that the Company has stopped recognizing its share of losses in applying the equity method for the fiscal years ended March 31, 2021 and 2022, was as follows:

JPY (millions)

	2021	2022
Unrecognized share of losses of joint ventures for the period	—	286
Accumulated unrecognized share of losses of joint ventures	—	286

13. Income Taxes

Current and deferred tax expenses

The components of income tax expenses for the fiscal years ended March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Current tax expense		
Current year	39,317	30,817
Adjustments for current tax of prior periods	(1,060)	(1,609)
Subtotal	38,257	29,208
Deferred tax expense		
Origination and reversal of temporary differences	(13,007)	(11,673)
Derecognition of previously recognized / (Recognition of previously unrecognized) tax losses	1,075	(480)
Recognition of previously unrecognized deductible temporary differences	(30,360)	(29,322)
Subtotal	(42,292)	(41,475)
Income taxes	(4,035)	(12,267)

The Company and its subsidiaries in Japan are mainly subject to Japanese national and local income taxes, inhabitant tax, and enterprise tax. The statutory tax rates in Japan for the fiscal years ended March 31, 2021 and 2022, are 30.5%. The foreign subsidiaries are subject to taxes based on income at rates ranging from 2.5% to 35.0%.

Reconciliation between the Japanese statutory income tax rate and the effective tax rate of the Company for the fiscal years ended March 31, 2021 and 2022, is as follows:

(%)

	2021	2022
Statutory tax rate	30.5	30.5
Movement in tax rate		
Effects of undistributed profits	0.7	0.8
Effects of investments accounted for using the equity method	(0.8)	(1.2)
Non-deductible expenses	0.4	0.4
Differences in tax rates applied to foreign subsidiaries	0.1	0.0
Income tax credits	(5.4)	(3.5)
(Recognition or use of previously unrecognized) / Derecognition of previously recognized tax losses	(7.5)	(2.5)
Recognition of previously unrecognized deductible temporary differences	(19.6)	(30.7)
Others	(1.0)	(2.3)
Effective tax rate	(2.6)	(8.5)

As a result of the assessment of the recoverability of deferred tax assets, due to an improved long-term outlook of its ability to generate future taxable income, the effective tax rate for the fiscal year ended March 31, 2022 became lower than the statutory tax rate due to the recognition of deferred tax assets for previously unrecognized deductible temporary differences.

Deferred taxes

Major components of deferred tax assets and liabilities as of March 31, 2021 and 2022, are as follows:

JPY (millions)

	As of April 1, 2020	Recognized through profit or loss	Recognized in other comprehensive income	Acquisitions through business combinations	As of March 31, 2021
Deferred tax assets:					
Accrued expenses and product warranty liabilities	33,612	2,605	–	34	36,251
Write-off of inventories	21,073	(2,360)	–	–	18,713
Depreciation	12,506	(2,594)	–	(925)	8,987
Elimination of unrealized profit from intercompany transactions among consolidated companies	7,694	(154)	–	–	7,540
Investments in associates	1,466	(409)	359	–	1,416
Provision for retirement benefits	89,407	31,716	(43,045)	685	78,763
Tax losses carried forward	22,723	(16,665)	–	3,282	9,340
Others	28,977	1,094	–	(115)	29,956
Total deferred tax assets	217,458	13,233	(42,686)	2,961	190,966
Offset with deferred tax liabilities	(52,275)				(57,085)
Total deferred tax assets, net	165,183				133,881
Deferred tax liabilities:					
Valuation differences due to equity instruments measured at fair value through other comprehensive income	(24,145)	75	(3,927)	–	(27,997)
Undistributed earnings	(17,038)	(766)	–	–	(17,804)
Gain on contribution of securities to the retirement benefit trust	(11,221)	–	–	–	(11,221)
Valuation differences due to business combination	(21,004)	4,956	–	(28,671)	(44,719)
Others	(2,400)	762	–	–	(1,638)
Total deferred tax liabilities	(75,808)	5,027	(3,927)	(28,671)	(103,379)
Offset with deferred tax asset	52,275				57,085
Total deferred tax liabilities, net	(23,533)				(46,294)
Net deferred tax asset	141,650				87,587

JPY (millions)

	As of April 1, 2021	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2022
Deferred tax assets:				
Accrued expenses and product warranty liabilities	36,251	3,536	−	39,787
Write-off of inventories	18,713	799	−	19,512
Depreciation	8,987	(898)	−	8,089
Elimination of unrealized profit from intercompany transactions among consolidated companies	7,540	1,311	−	8,851
Investments in associates	1,416	(16)	25	1,425
Provision for retirement benefits	78,763	30,145	(9,551)	99,357
Tax losses carried forward	9,340	(1,326)	−	8,014
Others	29,956	(950)	524	29,530
Total deferred tax assets	190,966	32,601	(9,002)	214,565
Offset with deferred tax liabilities	(57,085)			(61,252)
Total deferred tax assets, net	133,881			153,313
Deferred tax liabilities:				
Valuation differences due to equity instruments measured at fair value through other comprehensive income	(27,997)	1,949	(6,396)	(32,444)
Undistributed earnings	(17,804)	(312)	−	(18,116)
Gain on contribution of securities to the retirement benefit trust	(11,221)	2,021	−	(9,200)
Valuation differences due to business combination	(44,719)	1,483	−	(43,236)
Others	(1,638)	(1,400)	−	(3,038)
Total deferred tax liabilities	(103,379)	3,741	(6,396)	(106,034)
Offset with deferred tax asset	57,085			61,252
Total deferred tax liabilities, net	(46,294)			(44,782)
Net deferred tax asset	87,587			108,531

A majority of deferred tax assets of the NEC Group were recognized by the Company and certain domestic consolidated subsidiaries that file a consolidated tax return.
The NEC Group considers the probability that a portion, or all of future deductible temporary differences or unused tax losses can be utilized against future taxable profits in the recognition of deferred tax assets. In assessing recoverability of deferred tax assets, the NEC Group considers the scheduled reversal of taxable temporary differences, projected future taxable profits and tax planning strategies. Based on the level of historical taxable profits and projected future taxable profits, reversal of taxable temporary differences and tax planning during the periods in which the temporary differences become deductible, the NEC Group believes that it is probable that tax benefits of recognized deferred tax assets as of March 31, 2022, can be utilized.

The tax effect by applicable tax rates of deductible temporary differences and tax losses carried forward for which deferred tax assets were not recognized as of March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Deductible temporary differences	116,938	80,970
Unused tax losses carried forward	66,492	57,788
Total	183,430	138,758

The tax effect by applicable tax rates of unused tax losses as of March 31, 2021 and 2022, for which deferred tax assets were not recognized will expire as follows:

JPY (millions)

	2021	2022
The 1st year	270	416
The 2nd year	310	429
The 3rd year	481	2,845
The 4th year	3,349	8,651
The 5th year and thereafter	62,082	45,447
Total	66,492	57,788

The aggregate amounts of temporary differences relating to investments in foreign subsidiaries for which no deferred tax liabilities were recognized were 16,159 million JPY and 45,321 million JPY as of March 31, 2021 and 2022, respectively.

14. Inventories

Components of inventories as of March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Merchandise and finished goods	46,919	83,725
Work in process	84,149	75,735
Raw materials and supplies	54,480	86,784
Total	185,548	246,244

The amount of inventories recognized as an expense during the period was included within cost of sales. Inventory write-down to net realizable value recognized as cost of sales for the fiscal years ended March 31, 2021 and 2022, was 7,298 million JPY and 10,476 million JPY, respectively. There was no material reversal of write-downs during the fiscal years presented.

15. Trade and Other Receivables

Components of trade and other receivables as of March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Notes receivable	16,714	16,440
Accounts receivable	688,786	664,797
Other receivables	34,948	41,097
Total	740,448	722,334

The amounts of trade and other receivables to be collected after 12 months as of March 31, 2021 and 2022, are 416 million JPY and 1,631 million JPY, respectively.

16. Cash and Cash Equivalents

Components of cash and cash equivalents as of March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Cash and deposits	342,167	374,819
Certificates of deposits	181,178	55,959
Total	523,345	430,778

17. Other Assets

Components of other current assets and other non-current assets as of March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Advance payments	49,752	49,934
Income taxes receivable	1,826	10,624
Prepaid expenses	59,945	59,656
Others	20,073	13,676
Other current assets	131,596	133,890
Net defined benefit assets	136,774	161,252
Long-term prepaid expenses	30,735	43,307
Others	40	3,219
Other non-current assets	167,549	207,778

18. Equity

Total number of authorized shares and issued shares

Changes in authorized shares and issued shares for the fiscal years ended March 31, 2021 and 2022, are as follows:

(Thousands of shares)

	2021	2022
Total number of authorized shares:		
End of the year	750,000	750,000
Total number of issued shares:		
Beginning of the year	260,473	272,850
Changes during the year	12,377	—
End of the year	272,850	272,850

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

The shares issued by the Company are ordinary shares with no par value that have no restrictions on any rights.

The board of directors of the Company passed a resolution as of June 25, 2020, to issue 12,376,600 new shares and dispose of 647,000 treasury shares (a total of 13,023,600 shares) at a price of 4,950 JPY per share, or 64,467 million JPY in total, to NTT Corporation by way of third-party allotment. The board of directors also passed a resolution as of the same date, to execute a capital and business alliance agreement with NTT Corporation, and executed the agreement on the same date. The payment for the shares has completed on July 10, 2020.

Treasury shares

Changes in treasury shares as of March 31, 2021 and 2022, are as follows:

(Thousands of shares)

	2021	2022
Ordinary shares		
Beginning of the year	886	357
Changes during the year	(529)	37
End of the year	357	394

The main reason for the decrease during the fiscal year ended March 31, 2021 was the sale of treasury stock by way of third-party allotment.

Surplus

The Companies Act of Japan (the "Companies Act") provides that an amount of 50% or more of contribution at the share issuance may be incorporated into share capital and the remaining into capital reserve. The capital reserve may be incorporated into share capital upon the resolution at the shareholders' meeting.

The Companies Act requires that an amount equivalent to 10% of dividends of surplus must be appropriated as capital reserve or retained earnings reserve. No further appropriations are required when the total amount of capital reserve and retained earnings reserve equals 25% of share capital. The appropriated retained earnings reserve may be used to offset losses carried forward. The Companies Act also provides that retained earnings reserve may be reduced upon the resolution at the shareholders' meeting.

Share premium in the consolidated financial statements includes capital reserve and other capital surplus in the non-consolidated financial statements of the Company. In addition, retained earnings include retained earnings reserve and other retained earnings. The amount that may be distributed is calculated based on the Company's non-consolidated financial statements prepared in accordance with the Companies Act and Japanese accounting standards.

A breakdown of other components of equity as of March 31, 2021 and 2022, is as follows:

JPY (millions)

	2021	2022
Remeasurements of defined benefit plans	89,431	114,990
Exchange differences on translating foreign operations	(5,712)	46,782
Cash flow hedges	(1,841)	(3,317)
Equity instruments designated as measured at fair value through other comprehensive income	66,395	81,380
Total	148,273	239,835

Components of other comprehensive income included in non-controlling interests for the fiscal years ended March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Remeasurements of defined benefit plans	2,734	1,691
Exchange differences on translating foreign operations	4,399	7,564
Cash flow hedges	(15)	—
Equity instruments designated as measured at fair value through other comprehensive income	272	596
Total	7,390	9,851

Other comprehensive income

The components of other comprehensive income and related tax expense and tax benefit for the fiscal years ended March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Items that will not be reclassified to profit or loss		
Equity instruments designated as measured at fair value through other comprehensive income		
Increase during the year	82,827	25,219
Tax expense	(26,182)	(9,612)
Subtotal, net of tax	56,645	15,607
Remeasurements of defined benefit plans		
Increase during the year	170,392	36,744
Tax expense	(43,045)	(9,551)
Subtotal, net of tax	127,347	27,193
Share of other comprehensive income of entities accounted for using the equity method		
Increase during the year	280	31
Subtotal	280	31
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations		
Increase during the year	29,125	56,498
Reclassification adjustments	1,019	2,674
Subtotal, before tax	30,144	59,172
Tax benefit (expense)	378	(91)
Sub-total, net of tax	30,522	59,081
Cash flow hedges		
(Decrease) increase during the year	(14)	71
Reclassification adjustments	(1,738)	(2,213)
Subtotal, before tax	(1,752)	(2,142)
Tax benefit	447	482
Sub-total, net of tax	(1,305)	(1,660)
Share of other comprehensive income of entities accounted for using the equity method		
Increase during the year	671	1,161
Reclassification adjustments	(33)	—
Subtotal, net of tax	638	1,161
Total other comprehensive income, net of tax	214,127	101,413

19. Dividends

Dividends declared for which the effective date falls in the fiscal years ended March 31, 2021 and 2022, are as follows:

Fiscal year ended March 31, 2021

Resolution	Board of directors on May 12, 2020
Type of shares	Ordinary shares
Total dividends JPY (millions)	10,393
Source of dividends	Retained earnings
Dividends per share (JPY)	40
Record date	March 31, 2020
Effective date	June 1, 2020

Resolution	Board of directors on October 29, 2020
Type of shares	Ordinary shares
Total dividends JPY (millions)	10,914
Source of dividends	Retained earnings
Dividends per share (JPY)	40
Record date	September 30, 2020
Effective date	December 1, 2020

Fiscal year ended March 31, 2022

Resolution	Board of directors on May 12, 2021
Type of shares	Ordinary shares
Total dividends JPY (millions)	13,642
Source of dividends	Retained earnings
Dividends per share (JPY)	50
Record date	March 31, 2021
Effective date	June 1, 2021

Resolution	Board of directors on October 29, 2021
Type of shares	Ordinary shares
Total dividends JPY (millions)	13,642
Source of dividends	Retained earnings
Dividends per share (JPY)	50
Record date	September 30, 2021
Effective date	December 1, 2021

Dividends declared for which the record date is in the fiscal year ended March 31, 2022, but the effective date falls in the following fiscal year are as follows:

Resolution	Board of directors on May 12, 2022
Type of shares	Ordinary shares
Total dividends JPY (millions)	13,642
Source of dividends	Retained earnings
Dividends per share (JPY)	50
Record date	March 31, 2022
Effective date	June 1, 2022

20. Bonds and Borrowings

A breakdown of bonds and borrowings and interest rates as of March 31, 2021 and 2022, is as follows:

	JPY (millions)		Average interest rate (%)	Maturity
	2021	2022		
Short-term borrowings	40,969	52,243	1.30	—
Current portion of long-term borrowings	10,541	49,540	0.36	—
Current portion of bonds	—	54,991	—	—
Commercial papers (short-term)	—	30,000	(0.04)	—
Long-term borrowings (excluding the current portion)	309,156	133,171	0.29	September 15, 2023 to March 31, 2026
Bonds (excluding the current portion)	179,583	124,728	—	—
Total	540,249	444,673	—	
Current	51,510	186,774	—	
Non-current	488,739	257,899	—	
Total	540,249	444,673	—	

A detail by issue of bonds, excluding the current portion, as of March 31, 2021 and 2022, are as follows:

Company name	Series	Issued date	JPY (millions)		Interest rate (%)	Maturity
			2021	2022		
NEC	The 48th	July 17, 2015	19,984	—	0.658	July 15, 2022
NEC	The 50th	June 15, 2017	34,964	—	0.290	June 15, 2022
NEC	The 51st	June 15, 2017	24,950	24,966	0.360	June 14, 2024
NEC	The 52nd	June 15, 2017	14,952	14,960	0.455	June 15, 2027
NEC	The 53rd	September 21, 2018	29,935	29,961	0.260	September 21, 2023
NEC	The 54th	September 21, 2018	9,970	9,976	0.360	September 19, 2025
NEC	The 55th	September 21, 2018	9,960	9,965	0.500	September 21, 2028
NEC	The 56th	April 23, 2020	9,972	9,986	0.280	April 21, 2023
NEC	The 57th	April 23, 2020	14,945	14,958	0.400	April 23, 2025
NEC	The 58th	April 23, 2020	9,951	9,956	0.540	April 23, 2030
	Total		179,583	124,728	—	—

Commitment line agreements

The NEC Group has entered into commitment line agreements for short-term borrowings with 18 financial institutions for the purpose of securing stable and flexible short-term funding. The unused commitment line of credit based on such agreements for short-term borrowings as of March 31, 2021 and 2022, is as follows:

JPY (millions)

	2021	2022
Aggregate amount of commitment line contracts	328,000	328,000
Amount used	2,000	2,000
Unused balance	326,000	326,000

Reconciliation of liabilities arising from financing activities for the fiscal years ended March 31, 2021 and 2022, is as follows:

JPY (millions)

	As of April 1, 2020	Changes arising from cash flows	Changes not arising from cash flows				As of March 31, 2021
			Business combinations /disposals	Foreign currency translation differences	Lease liabilities resulting from new lease	Others	
Short-term borrowings	96,976	(47,333)	(13,320)	4,646	—	—	40,969
Long-term borrowings	223,248	55,172	40,968	—	—	309	319,697
Lease liabilities	155,599	(57,530)	8,134	2,053	57,764	(3,413)	162,607
Bonds	199,596	(20,000)	—	—	—	(13)	179,583
Total	675,419	(69,691)	35,782	6,699	57,764	(3,117)	702,856

JPY (millions)

	As of April 1, 2021	Changes arising from cash flows	Changes not arising from cash flows				As of March 31, 2022
			Business combinations /disposals	Foreign currency translation differences	Lease liabilities resulting from new lease	Others	
Short-term borrowings	40,969	38,696	(1,208)	3,786	—	—	82,243
Long-term borrowings	319,697	(137,268)	—	35	—	247	182,711
Lease liabilities	162,607	(57,283)	(523)	3,302	44,814	(214)	152,703
Bonds	179,583	—	—	—	—	136	179,719
Total	702,856	(155,855)	(1,731)	7,123	44,814	169	597,376

Short-term borrowings comprise primarily of bank borrowings and commercial papers.

21. Employee Benefits

Employee benefit plans

The Company and its domestic subsidiaries provide cash balance pension plans, other defined benefit pension plans, lump-sum severance payment plans, and the defined contribution pension plans in accordance with the Defined-Benefit Corporate Pension Act and the Defined Contribution Pension Act of Japan. The Company’s defined benefit pension plans are administered by the Pension fund of NEC Corporation (the “Fund”) which is legally independent of the Company. The Director of the Fund has the fiduciary duty to comply with laws, the directives by the Minister of Health, Labour and Welfare and the Director-Generals of Regional Bureaus of Health and Welfare made pursuant to those laws, and the by-laws of the Fund and the decisions made by the Board of Representatives of the Fund. The Company is required to make contributions to the Fund and obligated to make contributions in the amount stipulated by the Fund. Contributions are also regularly reviewed and adjusted as necessary to the extent permitted by laws and regulations. In addition, the Company and its certain domestic consolidated subsidiaries have shifted from defined benefit pension plans to defined contribution pension plans for the portion funded after October 1, 2020.
Certain of its foreign subsidiaries have various types of defined benefit plans and defined contribution plans, covering substantially all of their employees. However, these plans are not considered material in aggregate to the NEC Group’s employee benefit arrangements.

The defined benefit plans of the NEC Group are exposed to the following risks:

Investment risks

The present value of defined benefit obligations is calculated using a discount rate by reference to market yields at the end of the reporting period on high quality corporate bonds. When the yield on plan assets falls below the discount rate, there is a risk of reduction in equity due to deterioration of the funding status. In short-term, plan assets may be exposed to fluctuations in the investment performance. The portfolio of plan assets is reviewed on a regular basis in order to secure sufficient income streams over the long term for pension and severance payments in the future to meet the investment objective.

Interest rate risks

When a discount rate is adjusted downwards in line with the fallen market yields on high quality corporate bonds, the present value of defined benefit obligations may increase and cause deterioration of the funding status, exposing the NEC Group to a risk of reduction in equity.

Defined benefit obligations and plan assets

The changes in present value of defined benefit obligations and fair value of plan assets of the NEC Group for the fiscal years ended March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Present value of defined benefit obligations		
Balance at the beginning of the year	966,563	1,005,834
Current service cost	23,238	17,093
Interest cost	6,193	6,360
Remeasurements:		
Actuarial losses (gains) arising from changes in demographic assumptions	2,940	(5,538)
Actuarial gains arising from changes in financial assumptions	(606)	(15,842)
Past service cost and gains on settlements	152	―
Benefits paid	(56,537)	(59,624)
Effects of business combinations and disposals	46,527	(1,147)
Foreign currency translation differences	5,322	9,520
Transfer to liabilities directly associated with assets held for sale	7,771	―
Others	4,271	(2,887)
Balance at the end of the year	1,005,834	953,769
Fair value of plan assets		
Balance at the beginning of the year	750,851	950,701
Interest income	6,165	5,802
Remeasurement: Actual gains on plan assets	172,726	15,364
Employer contributions	7,791	5,761
Benefits paid	(44,893)	(47,153)
Effects of business combinations and disposals	46,654	(1,218)
Foreign currency translation differences	5,478	9,711
Transfer to liabilities directly associated with assets held for sale	2,343	―
Others	3,586	(3,546)
Balance at the end of the year	950,701	935,422
Defined benefit liabilities	191,907	179,599
Defined benefit assets	(136,774)	(161,252)
Net defined benefit liabilities recognized in the consolidated statements of financial position	55,133	18,347

Components of defined benefit cost for the fiscal years ended March 31, 2021 and 2021, are as follows:

JPY (millions)

	2021	2022
Current service cost	23,238	17,093
Net interest	28	558
Past service cost and gains on settlements	152	―
Total	23,418	17,651

Fair value of plan assets

The fair value of the plan assets by asset category as of March 31, 2021 and 2022, is as follows:

JPY (millions)

	2021		2022	
	With quoted market price in an active market	No quoted market price in an active market	With quoted market price in an active market	No quoted market price in an active market
Cash and cash equivalents	11,696	—	37,494	—
Equity securities	237,369	—	225,702	—
Mutual funds	—	691,605	—	663,681
Others	—	10,031	—	8,545
Total	249,065	701,636	263,196	672,226

Consolidated subsidiaries' shares that are contributed to retirement benefit trust included in Equity securities are 62,104 million JPY and 61,767 million JPY as of March 31, 2021 and 2022, respectively. Equity securities consist of only Japanese securities.

Mutual funds are investment vehicles such as commingled funds and primarily invested in the marketable instruments such as listed stocks and government and municipal bonds in both Japanese and global markets.

Significant actuarial assumptions used to determine the present value of the defined benefit obligations as of March 31, 2021 and 2022, are as follows:

	2021	2022
Discount rate	0.6%	0.7%

The assumptions for future mortality are based on the official mortality table generally used for actuarial assumptions in Japan. Under the mortality table used at March 31, 2021 and 2022, the current average remaining life expectancy of an individual retiring at age 60 was 23 years for males and 28 years for females.

The effects on defined obligations of a 0.1% change in the discount rate as of March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Discount rate		
Increased by 0.1%	(10,634)	(9,769)
Decreased by 0.1%	10,840	9,952

The NEC Group makes contributions to its defined benefit plans considering various factors, including the financial condition of the Company and its subsidiaries, funding status of the plans, and actuarial assumptions. Regarding the NEC corporate pension fund, the contribution amount is reviewed on a regular basis, and financial recalculations are conducted every five years in accordance with the Defined-Benefit Corporation Pension Act. The Fund determines investment strategies for each pension asset categories by considering expected returns and risks. Plan assets are managed within those set parameters to minimize risk, and the Company and certain of its consolidated subsidiaries may make contributions of a necessary amount if the amount of reserve falls below the minimum base amount.

The NEC Group plans to contribute 9,835 million JPY to its defined benefit pension plans during the fiscal year ending March 31, 2023.

The remaining weighted-average duration of the defined benefit obligation was 10.4 years and 10.1 years as of March 31, 2021 and 2022, respectively.

Contribution to the defined contribution plans

The Company and certain of its subsidiaries provide defined contribution benefit plans. The contributions made by the NEC Group recorded as retirement benefit expenses were 63,238 million JPY, and 70,908 million JPY for the years ended March 31, 2021 and 2022, respectively. The amount includes the payment of premiums by employer in welfare pension insurance premiums.

22. Provisions

A roll forward of provisions by major component for the fiscal year ended March 31, 2022, is as follows:

JPY (millions)

	Product warranty liabilities	Provision for business structure improvement	Asset retirement obligations	Provision for loss on construction contracts and others	Provision for Commercial Disputes and Litigation	Other	Total
Balance as of April 1, 2021	15,057	2,232	13,680	19,402	18,272	7,159	75,802
Increase	7,466	2,430	1,344	24,681	5,223	3,007	44,151
Decrease (used during the year)	(9,006)	(1,050)	(2,029)	(20,157)	(1,635)	(1,710)	(35,587)
Decrease (reversed during the year)	(1,837)	(211)	—	(1,018)	(1,743)	(720)	(5,529)
Other	(64)	181	(16)	796	1,679	(426)	2,150
Balance as of March 31, 2022	11,616	3,582	12,979	23,704	21,796	7,310	80,987
Balance as of April 1, 2021	15,057	2,232	13,680	19,402	18,272	7,159	75,802
Balance as of April 1, 2021 - Current	10,920	2,232	1,185	19,402	16,714	4,928	55,381
Balance as of April 1, 2021 - Non-current	4,137	—	12,495	—	1,558	2,231	20,421
Balance as of March 31, 2022	11,616	3,582	12,979	23,704	21,796	7,310	80,987
Balance as of March 31, 2022 - Current	10,177	3,582	588	23,704	18,882	5,144	62,077
Balance as of March 31, 2022 - Non-current	1,439	—	12,391	—	2,914	2,166	18,910

Product Warranty Liabilities

The NEC Group sells products that are repaired or exchanged for free of charge within the warranty period after the sale of products or delivery of developed software, based on contracts.

Product warranty liabilities are recognized for individually estimated future warranty costs using the historical ratio of warranty costs to net sales or other relevant factors, considering the additional incremental costs that are expected to be incurred. Most of these costs are expected to be incurred in the following fiscal year and the rest to be incurred within approximately two years after the end of the reporting period.

Provision for Business Structure Improvement

The provision is recognized for the estimated expenses and losses in connection with restructuring activities. Most of this provision is expected to be utilized in the next year and the rest to be utilized within approximately two years from the end of the reporting period.

Asset Retirement Obligations

The provision is made mainly for the expenses in association with scrap, removal and retirement of long-lived assets, and restoring the site based on past experience. These expenses are added to the carrying amount of the related assets. The expenses and discount rate are reviewed every year. Most of these costs are expected to be incurred by 2050.

Provision for Loss on Construction Contracts and Others

A provision is recognized for customized software or construction contracts for which the NEC Group is fulfilling its contract obligations, when it identifies construction contracts for which it is probable, at the end of the reporting period, that it will incur a loss, and the amount of the loss after the reporting period is reasonably estimable. The timing of cash outflows depends on the progress of the project in the future.

Provision for Commercial Disputes and Litigation

A provision is recognized for certain potential commercial claims and disputes as well as pending, threatened or possible legal proceedings and litigation. The timing of cash outflows depends on the progress of cases in the future. The Company's management has conducted an assessment of the probable outcome of each commercial claim and dispute. Regarding the most significant matter in terms of provision amount, management has decided not to disclose further details of the matter as such disclosure could seriously prejudice the position of the Company with respect thereto. The remaining matters are significantly smaller, a substantial majority of them being disputes in the ordinary course of business regarding alleged breach of contract claims related to product delivery.

Other

A provision is recognized for present obligations other than those included in the above categories.

23. Trade and Other Payables

Components of trade and other payables as of March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Notes payable	5,343	3,887
Accounts payable-trade	413,910	391,502
Accounts payable-other	48,385	51,399
Total	467,638	446,788

24. Other Liabilities

Components of other current and non-current liabilities as of March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Consumption tax withheld	40,318	37,326
Deposits from employees	4,457	4,827
Others	16,946	9,514
Other current liabilities	61,721	51,667
Deferred tax liabilities	46,294	44,782
Others	11,753	9,740
Other non-current liabilities	58,047	54,522

25. Revenue

Disaggregation of revenue

The NEC Group has five reportable segments: Public Solutions, Public Infrastructure, Enterprise, Network Services and Global.

Revenue consists of the following three categories; "Contracts for hardware and packaged software deployments", "Contracts for services to customers (including maintenance and outsourcing)", and "Contracts for system integrations and equipment constructions". The revenue in three categories for the fiscal years ended March 31, 2021 and 2022, are as follows:

Fiscal year ended March 31, 2021

JPY (millions)

	Reportable segments						Others	Consolidated Total
	Public Solutions	Public Infrastructure	Enterprise	Network Services	Global	Total		
Contracts for hardware and packaged software deployments	128,613	310,683	119,012	153,871	102,708	814,887	166,490	981,377
Contracts for services to customers (including maintenance and outsourcing)	148,135	128,655	226,931	221,977	186,932	912,630	127,132	1,039,762
Contracts for system integrations and equipment constructions	148,312	253,538	157,131	162,962	160,348	882,291	90,593	972,884
Total	425,060	692,876	503,074	538,810	449,988	2,609,808	384,215	2,994,023

Fiscal year ended March 31, 2022

JPY (millions)

	Reportable segments						Others	Consolidated Total
	Public Solutions	Public Infrastructure	Enterprise	Network Services	Global	Total		
Contracts for hardware and packaged software deployments	121,849	288,117	128,666	144,442	71,425	754,499	161,130	915,629
Contracts for services to customers (including maintenance and outsourcing)	146,203	129,740	234,210	237,578	258,047	1,005,778	135,589	1,141,367
Contracts for system integrations and equipment constructions	132,125	233,016	211,804	129,527	156,106	862,578	94,521	957,099
Total	400,177	650,873	574,680	511,547	485,578	2,622,855	391,240	3,014,095

The table above includes revenues arising from leases for the years ended March 31, 2021 and 2022 because they are immaterial.

Contract balances

There are no significant changes to contract assets during the fiscal years ended March 31, 2021 and 2022. The amounts of revenue recognized for the fiscal years ended March 31, 2021 and 2022, that were included in the contract liability balances at the beginning of the years are 113,635 million JPY and 163,081 million JPY, respectively.

Remaining performance obligations

The revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of March 31, 2021 and 2022, is as follows:

	JPY (millions)	
	2021	2022
Timing of recognition in revenue		
One year or less	637,653	686,058
More than one year	1,042,741	1,038,484
Remaining performance obligations	1,680,394	1,724,542

The table above does not include the remaining performance obligations that have original expected durations of one year or less.

26. Other Operating Income (Expenses)

Components of other operating income (expenses) for the fiscal years ended March 31, 2021 and 2022, are as follows:

	JPY (millions)	
	2021	2022
Other operating income		
Gain on sales of land	16,073	11,929
Gain on sales of subsidiaries' stocks	11,540	3,594
Insurance recovery	4,773	2,100
Other	10,085	8,142
Subtotal	42,471	25,765
Other operating expenses		
Loss on disposal of property, plant and equipment	(3,746)	(3,380)
Settlement package and compensation for damage	(399)	(2,833)
Loss on sales of subsidiaries' stocks	—	(2,520)
Impairment loss	(4,035)	(985)
Other	(8,726)	(6,965)
Subtotal	(16,906)	(16,683)
Other operating expenses, net	25,565	9,082

"Gain on sales of land" for the fiscal year ended March 31, 2021, mainly represents a gain on sale and leaseback transactions. "Gain on sales of subsidiaries' stocks" for the fiscal year ended March 31, 2021, mainly represents a gain on sale of shares of Showa Optronics.

"Gain on sales of land" for the fiscal year ended March 31, 2022, mainly represents a gain on sale of company dormitory and housing. "Loss on sales of subsidiaries' stocks" for the fiscal year ended March 31, 2022, mainly represents a loss on sale of shares of NEC Energy Solutions.

For "Impairment loss," please refer to Note 10. "Impairment Losses of Non-Financial Assets."

27. Expenses by Nature

Major components of expenses by nature included in “Cost of sales” and “Selling, general and administrative expenses” for the fiscal years ended March 31, 2021 and 2022, are as follows:

		JPY (millions)
	2021	2022
Material costs	959,267	898,167
Personnel expenses	885,457	944,381
Outsourcing and subcontracting fees	568,306	618,588
Depreciation and amortization	191,227	207,588

Components of personnel expenses for the fiscal years ended March 31, 2021 and 2022, are as follows:

		JPY (millions)
	2021	2022
Salaries and bonuses	713,084	765,885
Retirement benefit expenses	91,674	90,715
Social security expense	59,319	66,160
Other	21,380	21,621
Total	885,457	944,381

28. Finance Income and Finance Costs

Components of finance income and finance costs for the fiscal years ended March 31, 2021 and 2022, are as follows:

		JPY (millions)
	2021	2022
Finance income		
Interest income	1,037	1,737
Dividend income	4,162	4,069
Gain on valuation of financial instruments	—	8,482
Foreign exchange gains, net	758	2,019
Gain on sales of associates	3,365	1,256
Other	369	331
Total	9,691	17,894

		JPY (millions)
	2021	2022
Finance costs		
Interest expenses	8,527	8,032
Other	2,086	3,335
Total	10,613	11,367

Interest income arises from financial assets measured at amortized cost. Dividend income arises from equity instruments designated as measured at fair value through other comprehensive income. In addition, interest expenses arise from financial liabilities measured at amortized cost and lease liabilities.

"Gain on sales of associates" in the fiscal year ended March 31, 2021, is mainly from the sale of shares of SINCERE Corporation.

"Gain on valuation of financial instruments" in the fiscal year ended March 31, 2022, is from gains on financial assets measured at fair value through profit or loss.

29. Earnings Per Share

The calculation of basic earnings per share ("EPS") and diluted EPS has been based on the following profit attributable to ordinary shareholders of the parent company for the fiscal years ended March 31, 2021 and 2022:

JPY (millions)

	2021	2022
Net profit attributable to owners of the parent	149,606	141,277
Net profit attributable to ordinary shareholders of the parent to calculate basic EPS	149,606	141,277
Net profit attributable to ordinary shareholders of the parent after adjustment for the effects of dilutive potential ordinary shares	149,606	141,276
Weighted-average number of ordinary shares to calculate basic EPS (in thousands of shares)	268,504	272,450
Weighted-average number of ordinary shares (diluted) (in thousands of shares)	268,504	272,450
Basic EPS (JPY)	557.18	518.54
Diluted EPS (JPY)	557.18	518.54

Net Profit attributable to ordinary shareholders of the parent after adjustment for the effects of dilutive potential ordinary shares includes the effect of share options issued by Japan Aviation Electronics Industry, Limited, a subsidiary of the Company.

30. Financial Instruments

Capital management

The NEC Group focuses on the business operation for emphasizing capital efficiency, invests to growth sectors, and enhances capital base to create long-term corporate value of the NEC Group. The NEC Group manages net debt-equity ratio for enhancing capital base.

Total assets, total liabilities, and total equity are as follows:

Condensed Consolidated Statement of Financial Position as of March 31, 2021 and 2022

	JPY (billions)		YoY Change
	2021	2022	2022/2021
Total Assets	3,668.6	3,761.7	93.2
Total liabilities	2,106.7	1,975.1	(131.6)
Total equity	1,561.8	1,786.6	224.8
Interest-bearing debt	702.9	597.4	(105.5)
Net interest-bearing debt	179.5	166.6	(12.9)
Equity attributable to owners of the parent	1,308.2	1,513.5	205.4
Ratio of equity attributable to owners of the parent	35.7%	40.2%	4.6
Debt equity ratio	0.54times	0.39times	(0.15)
Net debt-equity ratio	0.14times	0.11times	(0.03)

** Net debt-equity ratio = (Interest-bearing debt – Cash and cash equivalents) / Equity attributable to owners of the parent*

Financial risk management

The NEC Group operates its business in various countries and jurisdictions, and as such, it has exposure to credit risk, liquidity risk, and market risk (mainly represented by interest rate risk and currency risk). The NEC Group conducts appropriate risk management activities to minimize the effect of these financial risks on its financial position and performance.

Credit risk

Credit risk is a risk of financial loss to the NEC Group if a customer or a counterparty to a financial instrument fails to meet its obligations and arises principally from the NEC Group’s receivables from customers and investments in debt securities. The NEC Group is monitoring the financial position and past due balances of customers in order to minimize the risk of default resulting from deterioration of customers' financial position. Further, if necessary, preventative measures are taken by holding collateral or through other means. Financial institutions with high credit capabilities are selected as counterparties while dealing in derivative transactions, deposit transactions, and the purchase of financial assets for short-term investments in order to reduce the counterparty risk.

The maximum exposure to credit risk, without taking into account of any collateral held at the end of the reporting period, is represented by the total amount of financial guarantee and carrying amount of the financial instruments which is exposed to credit risk in the consolidated statement of financial position.

Credit risk exposure relating to trade and other receivables and contract assets

The trade and other receivables are mainly from Japanese customers. An allowance for expected credit losses for trade and other receivables and contract assets is measured at an amount equal to the lifetime expected credit losses. The assets are grouped by each asset with similar characteristics of credit risks and expected credit losses are calculated based on historical default rates, concerning the current conditions and future economic environment. Expected credit losses for credit-impaired financial assets are calculated by each asset.

The NEC Group determines whether credit risk of financial assets has increased significantly since initial recognition by considering reasonable and supportable information. This information includes past information, external ratings, past due information, as well as forward-looking information.

The NEC Group determines that credit risk has increased significantly since initial recognition when, for example, a borrower falls under any of the following conditions:

- The external rating of the borrower is deemed ineligible for investment.
- The delinquency period exceeds 30 days.

The NEC Group defines that a default has occurred when a borrower falls under any of the following conditions:

- It is judged that there is almost no possibility that the borrower pays obligations to the NEC Group without executing the security interest.
- The delinquency period exceeds 90 days.

The NEC Group determines that a financial asset has been credit impaired when any of the following situations is confirmed:

- Significant financial difficulty of the issuer or borrower.
- A breach of contract, such as a default or past due event.
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider.
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties.

Credit risk exposure relating to trade receivables

The NEC Group's credit risk exposure relating to trade receivables as of March 31, 2021 and 2022, is as follows:

JPY (millions)

	Gross carrying amount of a financial asset	Allowance for expected credit losses	Carrying amount, net of allowance for expected credit losses
March 31, 2021	694,578	(5,792)	688,786
March 31, 2022	669,985	(5,188)	664,797

In determining whether the financial assets are credit-impaired, the NEC Group uses reasonable and substantiated information which is available without undue cost or effort. The NEC Group considers that the financial assets are not credit-impaired if the information provides counterevidence. Expected credit losses from other receivables, contract assets, other financial assets, and financial guarantee contracts are not significant and the table above does not include them.

The changes in allowance for expected credit losses on trade receivables for the fiscal years ended March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Beginning balance	7,343	5,792
Increase	2,282	1,715
Decrease (written off)	(1,105)	(1,525)
Decrease (reversal)	(2,813)	(1,192)
Others	85	398
Ending balance	5,792	5,188

Liquidity risk

Liquidity risk is the risk that the NEC Group encounters difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The NEC Group's approach of managing liquidity is to ensure that it has sufficient liquidity to meet its liabilities when they are due. The NEC Group periodically updates forecasts of its future cash flows aiming to maintain the level of its cash and cash equivalents and the unused balance of commitment line of credit at an amount in excess of expected cash outflows on financial liabilities required for conducting its business.

The following are the remaining contractual maturities of financial liabilities as of March 31, 2021 and 2022. The amounts below include contractual interest payments and exclude the impact of netting agreements.

As of March 31, 2021

JPY (millions)

	Carrying amount	Contractual cash flows	Within one year	Between one and two years	Between two and three years	Between three and four years	Between four and five years	More than five years
Non-derivative financial liabilities:								
Trade and other payables	467,638	467,638	467,638	—	—	—	—	—
Accruals	63,908	63,908	63,908	—	—	—	—	—
Short-term borrowings	40,969	41,504	41,504	—	—	—	—	—
Long-term borrowings	319,697	427,062	12,981	51,745	48,703	36,693	51,039	225,901
Bonds	179,583	182,652	697	55,580	40,411	25,313	25,220	35,431
Lease liabilities	162,607	169,924	52,226	39,809	22,790	17,315	10,863	26,921
Derivative financial liabilities:								
Forward exchange contracts	7,454	7,454	5,738	1,133	261	84	88	150
Total	1,241,856	1,360,142	644,692	148,267	112,165	79,405	87,210	288,403

As of March 31, 2022

JPY (millions)

	Carrying amount	Contractual cash flows	Within one year	Between one and two years	Between two and three years	Between three and four years	Between four and five years	More than five years
Non-derivative financial liabilities:								
Trade and other payables	446,788	446,788	446,788	—	—	—	—	—
Accruals	62,801	62,801	62,801	—	—	—	—	—
Short-term borrowings	52,243	52,918	52,918	—	—	—	—	—
Commercial Papers	30,000	30,000	30,000	—	—	—	—	—
Long-term borrowings	182,711	184,077	50,031	47,002	37,865	49,179	—	—
Bonds	179,719	182,003	55,583	40,413	25,314	25,221	173	35,299
Lease liabilities	152,703	159,307	53,400	34,186	24,596	15,409	6,778	24,938
Derivative financial liabilities:								
Forward exchange contracts	7,784	7,784	6,688	812	95	76	55	58
Total	1,114,749	1,125,678	758,209	122,413	87,870	89,885	7,006	60,295

It is not expected that the contractual cash flows included in the maturity analysis disclosed above could occur significantly earlier or at significantly different amounts.

Market risk

Interest rate risk

Interest-bearing debts with floating interest rates, including long-term borrowings, are exposed to interest rate risk. The NEC Group may use interest rate swaps as hedges of the variability in cash flows attributable to interest rate risk.

The following table shows the floating-rate financial liabilities of the NEC Group as of March 31, 2021 and 2022. Interest-bearing debts with floating rates that are fixed rates in substance under interest rate swap contracts are excluded from the amounts.

		JPY (millions)
	2021	2022
	Carrying amount	Carrying amount
Long-term borrowings (floating rates)	65,500	329

Sensitivity analysis for financial instruments with floating rates

An increase of 1% in interest rates on the financial instruments with floating rates at the end of the reporting period would have decreased profit before income taxes by the amounts shown below. The amounts are calculated by multiplying the balance of financial liabilities with the floating rate held by the NEC Group at the end of the reporting period (except for those with floating rates that are fixed rates in substance under interest rate swap contracts) by 1% and assuming that all other variables, in particular foreign current exchange rates, remain constant. The analysis applies the same assumptions in each fiscal year.

		JPY (millions)
	2021	2022
Profit before income taxes	(655)	(3)

Foreign currency risk

The NEC Group operates its business globally and is exposed to the risk of fluctuation in foreign exchange rates. The NEC Group mitigates foreign currency risk exposures to an extent possible by offsetting trade receivables and payables denominated in the same foreign currencies and conducting hedge transactions mainly on the remaining net exposures and net forecast transaction exposures using forward exchange contracts.

The NEC Group's exposure to foreign currency risk as of March 31, 2021 and 2022, is as follows:

				(Thousands of U.S. dollars and euros)
	2021		2022	
	U.S. dollars	Euros	U.S. dollars	Euros
Trade receivables	231,040	5,522	576,787	13,400
Trade payables	(302,572)	(8,567)	(340,450)	(10,932)
Forward exchange contracts	(380,655)	(10,665)	61,028	(990)
Net exposure	(452,187)	(13,710)	297,365	1,478

Sensitivity analysis for foreign exchange rates

Strengthening of the JPY by 1% against the U.S. dollar and euro at the end of the reporting period would have increased or decreased profit before income taxes by the amounts shown below.

This analysis assumes that all other variables, such as interest rates, remain constant.

JPY (millions)

	2021	2022
	Profit before income taxes	Profit before income taxes
U.S. dollars (1% strengthening of the JPY)	501	(364)
Euros (1% strengthening of the JPY)	18	(2)

Equity price risk

The NEC Group holds listed equity instruments of parties with which the NEC Group has a business relationship, and, therefore, is exposed to the risk of fluctuation in prices of equity instruments. The equity instruments are held for if the NEC Group determines that it will contribute to the increase of the mid- to long-term corporate value of the NEC Group after comprehensive consideration of its management strategy, the relationships with business partners and other circumstances.

Sensitivity analysis for fluctuation in equity prices

An increase or decrease of 1% in equity prices based on the price risk of equity instruments at the end of the reporting period would have increased or decreased other components of equity (before tax) by the amounts shown below.

JPY (millions)

	2021	2022
Increase or decrease of 1% in equity prices	761	596

Fair value measurement

Fair value hierarchy

Hierarchy and classification used for the fair value measurement for financial assets and liabilities measured at fair value are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices classified into Level 1 that are observable for the financial asset or liability, either directly or indirectly

Level 3: Unobservable inputs that are not based on observable market data

The NEC Group recognizes transfers between levels of the fair value hierarchy when a triggering event of the change has occurred.

Basis of the fair value measurement for financial instruments

Cash and cash equivalents, trade and other receivables, trade and other payables, and accruals: The fair value is determined as equal or close to the carrying amount since they are to be settled in a short term.

The fair value of loans is measured by discounting estimated future cash flows to the present value based on an interest rate that takes into account the remaining period to the maturity date and credit risk.

Of equity instruments designated as measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss, the fair value of listed equity instruments is determined using a quoted market price at an exchange. The fair value of equity securities with no active market is measured mainly by using the comparable company valuation method or other appropriate valuation methods. Earnings Before Interest and Taxes (EBIT) ratio of a comparable company is used as a significant unobservable input in the fair value measurement of the equity securities with no active market.
For derivative assets and liabilities, the fair value of forward exchange contracts is calculated based on the quoted forward exchange rates at the end of the fiscal year, while the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on the interest rate at the end of the reporting period.

The fair values of short-term borrowings and long-term borrowings (current portion) are determined as the carrying amount, as the carrying amount is a reasonable estimate of fair value due to the relatively short period of maturity of these instruments. The fair value of long-term borrowings (excluding the current portion) is calculated as the present value of the estimated future cash flows, based on the expected interest rate at which a similar new borrowing was made.

The fair value of bonds is determined based on the quoted market price in a non-active market.

The carrying amounts and fair values of financial assets and liabilities as of March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021		2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost:				
Cash and cash equivalents	523,345	523,345	430,778	430,778
Trade and other receivables	740,448	740,448	722,334	722,334
Others	47,565	47,565	54,861	54,861
Financial liabilities measured at amortized cost:				
Trade and other payables	467,638	467,638	446,788	446,788
Short-term borrowings	40,969	40,969	52,243	52,243
Commercial Papers	—	—	30,000	30,000
Current portion of long-term borrowings	10,541	10,541	49,540	49,540
Bonds	179,583	180,475	179,719	180,202
Long-term borrowings	309,156	309,536	133,171	133,192
Accruals	63,908	63,908	62,801	62,801
Others	11,543	11,543	12,428	12,428

Regarding the fair value hierarchy of assets and liabilities (except for those whose fair value is determined as equal or close to the carrying amount) presented in the table above, bonds are categorized as Level 2 and long-term borrowings are categorized as Level 3.
Additionally, accruals that are categorized as financial instruments do not include accruals for employee benefit and accruals by statutory requirements.

Financial assets and liabilities measured at fair value on a recurring basis by fair value category as of March 31, 2021 and 2022, are as follows:

As of March 31, 2021				JPY (millions)
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	—	3,295	12,855	16,150
Equity instruments designated as measured at fair value through other comprehensive income	76,159	—	80,126	156,285
Financial liabilities measured at fair value through profit or loss	—	7,454	—	7,454

As of March 31, 2022				JPY (millions)
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	—	4,752	23,348	28,100
Equity instruments designated as measured at fair value through other comprehensive income	59,606	—	111,531	171,137
Financial liabilities measured at fair value through profit or loss	—	7,784	—	7,784

Reconciliation of financial assets measured at fair value using Level 3 inputs for the fiscal year ended March 31, 2022, is as follows:

	JPY (millions)
	Level 3
As of March 31, 2021	92,981
Profit or loss	8,295
Other comprehensive income	21,940
Purchases	12,819
Sales	(2,371)
Others	1,215
As of March 31, 2022	134,879

Gains and losses recognized in profit or loss are included in finance income or finance costs in the consolidated statement of profit or loss. Gains and losses recognized in other comprehensive income are included in equity instruments designated as measured at fair value through other comprehensive income in the consolidated statement of comprehensive income. There are no significant changes during the fiscal year ended March 31, 2021.

Level 3 fair value

Financial assets classified into Level 3 mainly consist of unquoted equity instruments. The fair value of significant unquoted equity instruments is measured by using comparable company valuation multiples and other appropriate valuation techniques. For the financial assets classified into Level 3, changes of unobservable inputs to reasonably possible alternative assumptions are not expected to cause significant changes in the fair value of those financial assets. Further, fair value measurements of financial assets and liabilities classified into Level 3 are reviewed and approved by the personnel responsible in the accounting department based on relating internal regulations.

Equity instruments designated as financial assets measured at fair value through other comprehensive income

The NEC Group designates long-term stock holdings for the purpose of maintaining and strengthening relationship with its business partners and expanding its revenue base as equity instruments measured at fair value through other comprehensive income. The NEC Group, in principle, makes an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in equity instruments, except those in the form of venture capital investment. The fair value and dividend income of equity instruments designated as measured at fair value through other comprehensive income and recognized in other financial assets are 156,285 million JPY and 3,602 million JPY, respectively, for the fiscal year ended March 31, 2021, and 171,137 million JPY and 3,387 million JPY, respectively, for the fiscal year ended March 31, 2022. The NEC Group attempts to review the strategic stockholding by evaluating whether the purpose of holdings is appropriate, benefits and risks from holdings are balanced with capital costs of holdings, and existence of future risk when selling, etc., from both of quantitative and qualitative aspects. When the stockholdings are deemed unnecessary, they will be sold promptly. The fair value at the time of derecognition and the cumulative gains or losses which were recognized as other comprehensive income are 97,107 million JPY and 71,210 million JPY, respectively, for the fiscal year ended March 31, 2021, and 18,443 million JPY and 11,248 million JPY, respectively, for the fiscal year ended March 31, 2022.

Equity instruments designated as measured at fair value through other comprehensive income classified as Level 1 in the fair value hierarchy as of March 31, 2021 and 2022, include the following:

		JPY (millions)
	2021	2022
Sumitomo Electric Industries, Ltd.	11,464	10,109
MEIDENSHA CORPORATION	4,203	4,437
TBS HOLDINGS, INC.	5,233	4,305
The Sumitomo Warehouse Co., Ltd.	2,435	3,807
Sumitomo Forestry Co., Ltd.	3,425	3,112
MS&AD Insurance Group Holdings, Inc.	3,572	3,061
Sumitomo Realty & Development Co., Ltd.	3,024	2,624

Equity instruments designated as measured at fair value through other comprehensive income classified as Level 3 in the fair value hierarchy as of March 31, 2021 and 2022, include the following:

		JPY (millions)
	2021	2022
BostonGene Corporation	5,690	38,218
JECC Corporation	37,110	37,473
Dalian Hi-Think Computer Technology Corp.	16,462	15,027

Hedge accounting

There were no significant transactions to which hedge accounting was applied.

Other financial assets and other financial liabilities

A breakdown of other financial assets and other financial liabilities as of March 31, 2021 and 2022, is as follows:

JPY (millions)

	2021	2022
Financial assets measured at amortized cost:		
Deposits with contractual maturity of more than three months	3,893	10,332
Others	43,672	44,529
Financial assets measured at fair value through other comprehensive income:		
Equity instruments	156,285	171,137
Financial assets measured at fair value through profit or loss:		
Equity instruments	12,855	17,809
Others	3,295	10,291
Total	220,000	254,098
Other financial assets-current	9,573	17,554
Other financial assets-non-current	210,427	236,544
Total	220,000	254,098
Financial liabilities measured at amortized cost:		
Deposits received	6,077	5,370
Long-term accounts payable	29,855	22,965
Others	11,258	12,215
Financial liabilities measured at fair value through profit or loss:		
Others	7,454	7,784
Total	54,644	48,334
Other financial liabilities-current	19,670	21,397
Other financial liabilities-non-current	34,974	26,937
Total	54,644	48,334

31. Leases

The nature of the leasing activities

The NEC Group, as a lessee, mainly leases buildings for its office space. Certain of these property leases include options to extend the lease term after the end of the lease period exercisable by the NEC Group to obtain operational flexibility. There are no significant restrictions or covenants, such as those restricting additional debts and further leasing, imposed by leases. The vast majority of the building lease contracts, especially for those entered into for the use in the domestic businesses, contain extension options exercisable at the discretion of the NEC Group, and only lease payments for the duration of the lease term that is a period covered by the options which the NEC Group is reasonably certain to exercise are included in measuring the lease liability.

Expenses, and cash outflows related to lease arrangements for the fiscal year ended March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Depreciation expense for right-of-use assets by the class of underlying asset		
Property	52,211	53,092
Machinery and equipment	1,346	784
Tools, furniture and fixtures	2,784	2,991
Total	56,341	56,867
Interest expense on lease liabilities	2,316	2,491
Expense relating to short-term leases	4,446	4,845
Expense relating to leases of low-value assets	5,700	5,691
Total cash outflow for leases	69,970	70,325

The carrying amount of right-of-use assets by class of underlying asset as of March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Property	133,758	122,000
Machinery and equipment	1,369	3,990
Tools, furniture and fixtures	7,460	6,649
Total	142,587	132,639

Additions to right-of-use assets amounted to 42,074 million JPY and 44,814 million JPY for the fiscal year ended March 31, 2021 and 2022 respectively.

The future cash outflows to which the NEC Group is potentially exposed that are not reflected in the measurement of lease liabilities, arising from leases not yet commenced to which the NEC Group is committed, as of March 31, 2021 and 2022, are 8,130 million JPY and 7,320 million JPY, respectively .

Maturity analysis of lease liabilities is disclosed in Note 30, “Financial Instruments”.

32. Related Parties

In the ordinary course of business, the NEC Group purchases from and sells to its related parties materials, supplies, and services. Such related parties include associates and joint ventures accounted for using the equity method.

Transactions with related parties

Other than those purchase and sales transaction entered into in the ordinary course of business that are summarized in the table below, there were no significant transactions between the NEC Group and its related parties for the fiscal years ended March 31, 2021 and 2022.

Purchases from and sales to related parties for the fiscal years ended March 31, 2021 and 2022 are as follows:

JPY (millions)

	2021	2022
Purchases	132,094	88,867
Sales	149,046	154,513

Balances of trade and other receivables due from related parties and trade and other payables due to related parties as of March 31, 2021 and 2022, are as follows:

JPY (millions)

	2021	2022
Trade and other receivables	29,758	21,991
Trade and other payables	51,503	32,970

Key management personnel compensation

Key management personnel are defined as the Company’s board of directors and members of the audit and supervisory board. The compensation for the key management personnel for the fiscal years ended March 31, 2021 and 2022, is as follows:

JPY (millions)

	2021	2022
Basic compensation	400	426
Bonuses	184	131
Stock compensation	167	134
Total	751	691

33. Commitments

The amounts of contractual commitments for the purchases of property, plant and equipment as of March 31, 2021 and 2022, are 1,690 million JPY and 2,098 million JPY, respectively.
The amounts of contractual commitments for the purchases of intangible assets as of March 31, 2021 and 2022, are 1,308 million JPY and 974 million JPY, respectively.

34. Contingencies

The Company and certain of its subsidiaries are subject to legal proceedings, including civil litigations related to trade, tax, products, or intellectual properties, and governmental investigations. The Company has been dealing with the various litigations and investigations. Depending upon the outcome of these proceedings, the Company and certain of its subsidiaries may be subject to fines, and accordingly, the Company has accrued for certain probable and reasonable estimated amounts for the fines as it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

There are a number of legal actions against the Company and certain subsidiaries. Management is of the opinion that damages, if any, resulting from these actions will not have a material effect on the Company’s consolidated financial statements.

It is difficult to predict the outcome of these actions and proceedings, given that certain of the investigations and legal proceedings are still at an early stage and present novel legal theories, involving a large number of parties or taking place in jurisdictions outside of Japan where the laws are complex or unclear. Accordingly, the Company is unable to estimate the losses or range of losses for the actions and proceedings where there is only a reasonable possibility that a loss exceeding the amounts already recognized may have been incurred.

35. Subsequent Events

Issuance of Sustainability-Linked Bonds

The Company plans to issue bonds with a total issuance amount of up to 300 billion JPY in as early as July 2022.
A portion of the bonds to be issued will be sustainability-linked bonds, whose tenor are five, seven and ten years and issuance amount is to be determined (hereinafter, the “Issuance”).
The Company submitted a revised corporate bond shelf registration statement to the Director-General of the Kanto Local Finance Bureau for the Issuance on June 3, 2022.

Independent Auditor's Report

To the Board of Directors of NEC Corporation:

Opinion

We have audited the accompanying consolidated financial statements of NEC Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as of March 31, 2022, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards prescribed in Article 93 of "the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (hereinafter referred to as "IFRS").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><td colspan="2">Reasonableness of the Company's determination on the recoverability of deferred tax assets concerning corporate income tax of the consolidated tax-return group</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>In the consolidated statement of financial position of NEC Corporation and subsidiaries (collectively referred to as the "Group") for the current fiscal year, deferred tax assets of ¥153,313 million, representing approximately 4.1% of total assets, were recognized. As described in Note 13, "Income Taxes" to the consolidated financial statements, unrecognized deferred tax assets amounted to ¥138,758 million.

A majority of those deferred tax assets for corporate income tax were recognized by NEC Corporation (the "Company") and certain domestic subsidiaries that file a consolidated tax return (hereinafter, referred to collectively as the "consolidated tax-return group").</td><td>The primary procedures we performed to assess whether the Company's determination on the recoverability of deferred tax assets concerning corporate income tax of the consolidated tax-return group was reasonable included the following:

(1) Internal control testing

● We tested the design and operating effectiveness of certain of the consolidated tax-return group's internal controls relevant to the process of determining the recoverability of deferred tax assets. In this assessment, we focused our testing on the sufficiency of management reviews, including its evaluation of alternative assumptions with respect to key</td></tr>
</table>

As described in Note 3, "Significant accounting policies" under "Income Taxes" to the consolidated financial statements, deferred tax assets are recognized for the carryforward of unused tax losses and deductible temporary differences (hereinafter, referred to collectively as the "temporary differences") to the extent that it is probable that future taxable income will be available against which they can be utilized. The amount of deferred tax assets is reduced to the extent that it is no longer probable that future taxable income would be sufficient to allow the benefit of part or all of the deferred tax assets to be utilized.

In the current fiscal year, as a result of the assessment of the recoverability of deferred tax assets, in light of an improved long-term outlook of the consolidated tax-return group's ability to generate future taxable income, additional deferred tax assets were recognized for certain previously unrecognized temporary differences.

The recoverability of those deferred tax assets was determined based on the estimated future taxable income to be generated by the consolidated tax-return group. The underlying future earnings projections were based on management's estimates that were highly uncertain due to significant management judgments involved in certain assumptions. The following table presents key assumptions related to the future earnings projections for the current fiscal year compared to the prior fiscal year, with changes in key assumptions from the prior fiscal year.

Key assumptions related to the future earnings projections	PY	CY	Changes from the PY
Future profitability considering demand forecasts for the domestic markets including growing investments in DX (including the impact on corresponding costs)	Yes	Yes	Increase in future taxable income due to improved prospects of profitability
Impact of global shortages in the supply of components	No	Yes	Decrease in future taxable income due to increased risk

assumptions related to the future earnings projections and the timing of the reversal of temporary differences.

(2) Assessment of the reasonableness of the recoverability of deferred tax assets

In order to assess the appropriateness of key assumptions related to the future earnings projections and the timing of the reversal of temporary differences which formed the basis for determining the recoverability of deferred tax assets, we:

- evaluated the consistency of the future earnings projections with management's policy in the Mid-term Management Plan and the next fiscal year's budget approved by management, and assessed whether they were reasonable in light of the historical operating profits and taxable income, including those for the current fiscal year;
- inquired of management about the future profitability considering demand forecasts for the domestic markets including growing investments in DX (including the impact on corresponding costs) and the impact of global shortages in the supply of components, which were key assumptions used in the future earnings projections by management, and then assessed the reasonableness of the management assumptions by comparing them with the relevant statistical data provided by outside sources and market forecast reports published by external organizations; and
- evaluated the consistency of key assumptions related to the future earnings projections and the timing of the reversal of temporary differences, with other relevant information appearing in the minutes of the board of directors' meetings and related materials and documents, and assumptions used for other accounting estimates.

Potential effect of COVID-19	Yes	No	Increase in future taxable income due to decreased risk

PY: Prior fiscal year CY: Current fiscal year

In addition, the recoverability of deferred tax assets was affected by the assumptions related to the timing of the reversal of temporary differences, and those assumptions also involved significant management judgment.

We, therefore, determined that our assessment of the reasonableness of the Company's determination on the recoverability of deferred tax assets concerning corporate income tax of the consolidated tax-return group was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

Other Information

The other information comprises the information included in the Financials with Audit Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Corporate Auditors and the Audit and Supervisory board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the Audit and Supervisory board are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the Audit and Supervisory board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the Audit and Supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with corporate auditors and the Audit and Supervisory board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/ Hideaki Koyama
Designated Engagement Partner
Certified Public Accountant

/S/ Tsutomu Ogawa
Designated Engagement Partner
Certified Public Accountant

/S/ Yoshiaki Hasegawa
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 22, 2022

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.