Consolidated Financial Statements for the Fiscal Year Ended March 31, 2023

Contents

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, 2023. 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 2023 Business Results

During the fiscal year ended March 31, 2023, the global economy slowed down towards the latter half of the year due to the inflation and tightening of monetary policies mainly in Europe and the United States as well as the impact of outbreak of COVID-19 in China. Japanese economy has been firm centered on domestic demand as the movement restrictions by COVID-19 have been relaxed despite continued price hikes due to soaring of resource prices and rapid depreciation of the Yen, etc.

Under these business environments, 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 the areas of digital government and digital finance domain, the NEC Group steadily increased orders and revenue for its customers mainly in Europe and Asia under the circumstances of curbing IT investment due to concern about global recession caused by the influence of the situation in Ukraine, etc. In the global 5G domain, the NEC Group has steadily increased revenue both in the current fiscal year as well as in the previous fiscal year, centered on base stations despite domestic telecommunications carriers' tendency of restraining of their capital expenditures, and also expanded international revenue by starting shipment of base stations for a commercial project. Meanwhile, the profitability remained to be an issue for the NEC Group as market development costs increased.

In the "Transforming our IT business in Japan," the NEC Group has steadily increased revenue centered on consulting business in light of favorable demand in the DX (digital transformation) domain. In core DX where the NEC Group can leverage its strengths, the Company has further enhanced the "NEC Digital Platform," which integrates biometric authentication, video analysis, AI and security technologies. In addition, in collaboration with ABeam Consulting Ltd., the Company has also accelerated a strategic partnership program that realizes management problem solving and social value co-creation together with advanced customers. Moreover, the NEC Group has addressed to resolve issues for customers by co-creation with partners. In September 2022, the Company expanded its collaboration with Red Hat, Inc. of the United States as well as the partnerships with Microsoft Corporation of the United States, Amazon Web Services, Inc. of the United States, and Oracle Corporation Japan. Furthermore, the Company enhanced its delivery structure by doubling the number of Amazon Web Services (AWS) certified engineers to 3,000, etc.

For "Creating future growth business", in the healthcare and life science business, the NEC Group has addressed the development of individualized therapy by utilizing its cutting-edge AI technologies. CEPI, the Coalition for Epidemic Preparedness Innovations provided the funding award with the NEC Group as the first collaboration with Japanese industry and started to advance the development of vaccines that provide broad protection against SARS-CoV-2 variants and other betacoronaviruses. In April 2022, the NEC Group and Shionogi & Co., Ltd. entered into strategic research collaboration agreement for the development of a novel hepatitis B therapeutic vaccine. In agricultural area, in September 2022, the NEC Group established "DXAS Agricultural Technology, a joint venture with Kagome Co., Ltd. to realize environmentally friendly and profitable farming. In February 2023, the NEC Group started the joint creation with Keio University on "Future Carbon Reduction Credits" in order to contribute activating investments with the aim of encouraging ESG investments and disaster prevention for a decarbonization to accelerate the provision of social value.

Regarding "Culture," with the aim of transforming culture and management foundations based on the "Mid-term Management Plan 2025", the NEC Group has accelerated the in-house transformation initiative, "Project RISE". The Company has promoted cultural changes while resolving internal business issues by implementing the initiatives named "Work-Out" on sites broadly for resolving issues and organizational transformation. Moreover, the Company has promoted to build its internal digital infrastructure in preparation for providing customers as models with transformation methods and know-how practiced in the NEC Group. Furthermore, the Company has promoted measures to raise employees' motivation by promoting "Smart Work 2.0", enhancing support of individual career plans, advancing diversity by expanding the mid-career hiring and ratio of female to all employees, and reinforcing business infrastructure.

To realize a future society described in "NEC 2030VISION", the NEC Group showed its vision and its CEO presented in the World Economic Forum at Davos, Switzerland as a thought leadership activity, and strengthened the Institute for International Socio-Economic Studies, Ltd., think tank of NEC group while issued white papers on the Company's focusing areas to accelerate the creation of a shared future and contribution to deliver growth business into society.

In addition to these efforts, the NEC Group promoted communication between executives and employees. As a result, the engagement score set as an indicator in the "Mid-term Management Plan 2025" has improved from 25% in fiscal year ended March 2021 to 36% in fiscal year ended March 2023.

Condensed Consolidated Statements of Profit or Loss

	Billions of Yen		*YoY Change*
	2022	2023	2023/2022
Revenue	¥3,014.1	¥3,313.0	+9.9%
Operating profit	132.5	170.4	+28.6%
Profit before income taxes	144.4	167.7	+16.1%
Net profit (loss) attributable to owners of the parent	141.3	114.5	-19.0%

The NEC Group recorded consolidated revenue of 3,313.0 billion JPY for the fiscal year ended March 31, 2023, an increase of 29.9 billion JPY (+9.9%) year-on-year. This increase was due to increased revenue in all segments.

Regarding profitability, operating profit increased by 37.9 billion JPY year-on-year, to an operating profit of 170.4 billion JPY, due to an increase in the Global business and Enterprise business despite a decrease in Network Services business. Adjusted operating profit increased by 34.5 billion JPY year-on-year, to an adjusted operating profit of 205.5 billion JPY.

Profit before income taxes was a profit of 167.7 billion JPY, a year-on-year increasing of 23.2 billion JPY, mainly due to increased operating profit.

Net profit attributable to owners of the parent was a profit of 114.5 billion JPY, a decrease of 26.8 billion JPY year-on-year. This was primarily due to an increase in tax expenditure. Adjusted net profit attributable to owners of the parent decreased by 28.7 billion JPY year-on-year, to an adjusted net profit attributable to owners of the parent of 138.6 billion JPY.

(1) Public Solutions Business

Revenue:	456.7 billion yen	(+3.2%)
Adjusted operating profit (loss):	42.7 billion yen	(+6.7 billion yen)

In the Public Solutions business, revenue was 456.7 billion JPY, an increase of 14.1 billion JPY (+3.2%) year-on-year, mainly due to an increase in business for regional industries and public sector.

Adjusted operating profit (loss) increased by 6.7 billion JPY year-on-year, to an adjusted operating profit of 42.7 billion JPY, mainly due to increased revenue and optimized expenses.

(2) Public Infrastructure Business

Revenue	649.7 billion yen	(+6.8 %)
Adjusted operating profit (loss):	67.3 billion yen	(+8.1 billion yen)

In the Public Infrastructure business, revenue was 649.7 billion JPY, an increase of 41.2 billion JPY (+6.8%) year-on-year, mainly due to increased revenue in aerospace / national security.

Adjusted operating profit (loss) increased by 8.1 billion JPY year-on-year, to an adjusted operating profit of 67.3 billion JPY, mainly due to increased revenue and a decrease in unprofitable projects.

(3) Enterprise Business

Revenue	614.4 billion yen	(+6.9 %)
Adjusted operating profit	73.4 billion yen	(+15.9 billion yen)

(loss):

In the Enterprise business, revenue was 614.4 billion JPY, an increase of 39.7 billion JPY (+6.9%) year-on-year, due to an increase in all domains including business for financial, manufacturing and retail / services.

Adjusted operating profit (loss) improved by 15.9 billion JPY year-on-year, to an adjusted operating profit of 73.4 billion JPY, mainly due to increased revenue and profitability in the system integration domain.

(4) Network Services Business

Revenue	543.4 billion yen	(+6.2 %)
Adjusted operating profit (loss):	24.1 billion yen	(-11.3 billion yen)

In the Network Services business, revenue was 543.4 billion JPY, an increase of 31.9 billion JPY (+6.2%) year-on-year, mainly due to an increase in business for fixed network domain as well as intellectual property income despite investment restraint by telecom carriers.

Adjusted operating profit (loss) decreased by 11.3 billion JPY year-on-year, to an adjusted operating profit of 24.1 billion JPY, mainly due to recording the one-time losses for international 5G business and increased expenditure.

(5) Global Business

Revenue	586.3 billion yen	(+20.8 %)
Adjusted operating profit (loss):	42.9 billion yen	(+16.6 billion yen)

In the Global business, revenue was 586.3 billion JPY, an increase of 100.8 billion JPY (+20.8%) year-on-year, mainly due to increased revenue in the software / services business for service providers, digital government / digital finance, submarine systems.

Adjusted operating profit (loss) increased by 16.6 billion JPY year-on-year, to an adjusted operating profit of 42.9 billion JPY, mainly due to the business portfolio transformation as well as an improvement in profitability of software / services business for service providers.

(6) Others

Revenue	462.6 billion yen	(+18.2%)
Adjusted operating profit (loss):	14.7 billion yen	(+1.4 billion yen)

In the Others, revenue was 462.6 billion JPY, an increase of 71.3 billion JPY (+18.2%) year-on-year.

Adjusted operating profit (loss) increased by 1.4 billion JPY year-on-year, to an adjusted operating profit of 14.7 billion JPY.

3. Liquidity and Capital Resources

(1) Assets, Liabilities and Net Assets

Condensed Consolidated Balance Sheets

	Billions of Yen		*YoY Change*
	2022	2023	2023/2022
Assets			
Current assets	¥ 1,836.7	¥ 1,995.9	¥+159.2
Property, plant and equipment	540.3	563.4	+23.1
Investments and other assets	1,384.8	1,424.8	+40.0
Total Assets	3,761.7	3,984.1	+222.3
Liabilities			
Current liabilities	1,334.0	1,365.5	+31.5
Noncurrent liabilities	641.1	705.8	+64.7
Total liabilities	1,975.1	2,071.3	+96.2
Equity			
Total equity attributable to owners of the parent	1,513.5	1,623.8	+110.3
Non-controlling interests	273.1	288.9	+15.8
Total equity	1,786.6	1,912.7	+126.1
Total liabilities and equity	3,761.7	3,984.1	+222.3
Interest-bearing debt	597.4	608.5	+11.1
Net interest-bearing debt	166.6	189.0	+22.4
Equity attributable to owners of the parent	1,513.5	1,623.8	+110.3
Ratio of equity attributable to owners of the parent	40.2%	40.8%	+0.5
Debt equity ratio	0.39 times	0.37 times	-0.02
Net debt equity ratio	0.11 times	0.12 times	+0.01

Total assets were 3,984.1 billion JPY as of March 31, 2023, an increase of 222.3 billion JPY as compared with the end of the previous fiscal year. Current assets as of March 31, 2023 increased by 159.2 billion JPY compared with the end of the previous fiscal year to 1,995.9 billion JPY, mainly due to an increase in trade and other receivables and contract assets. Non-current assets as of March 31, 2023 increased by 63.1 billion JPY compared with the end of the previous fiscal year to 1,988.1 billion JPY. This was mainly due to an increase in property, plant and equipment as well as goodwill and intangible assets resulting from currency fluctuations, etc.

Total liabilities as of March 31, 2023 increased by 96.2 billion JPY compared with the end of the previous fiscal year to 2,071.3 billion JPY. This was mainly due to an increase in trade and other payables and contract liabilities. The balance of interest-bearing debt amounted to 608.5 billion JPY, an increase of 11.1 billion JPY as compared with the end of the previous fiscal year. The debt-equity ratio as of March 31, 2023 was 0.37 (an improvement of 0.02 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of March 31, 2023, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 189.0 billion JPY, an increase of 22.4 billion JPY as compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2023 was 0.12 (a worsening of 0.01 points as compared with the end of the previous fiscal year).

Total equity was 1,912.7 billion JPY as of March 31, 2023, an increase of 126.1 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, 2023, an increase of currency translation effect of operating activities abroad caused by currency fluctuations, and the increase in other components of equity resulting from remeasurements of defined benefit plans, etc. despite a repurchase of shares of common stock and payment of dividends.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of March 31, 2023 was 1,623.8 billion JPY, and the ratio of equity attributable to owners of the parent was 40.8% (an improvement of 0.5 points as compared with the end of the previous fiscal year).

(2) Cash Flows

Condensed Consolidated Cash Flows

		Billions of Yen		*YoY Change*
		2022	2023	2023/2022
I	Cash flows from operating activities	¥ 147.5	¥ 152.1	¥+4.6
II	Cash flows from investing activities	-63.4	-49.6	-13.8
I+II	Free cash flows	+84.1	+102.5	+18.4
III	Cash flows from financing activities	-189.6	-122.8	+66.8
Cash and cash equivalents at end of period		430.8	419.5	-11.3

Net cash inflows from operating activities for the fiscal year ended March 31, 2023 were 152.1 billion JPY, an increasing of 4.6 billion JPY as compared with the previous fiscal year, mainly due to increased income before income taxes despite a decrease in working capital.

Net cash outflows from investing activities for the fiscal year ended March 31, 2023 were 49.6 billion JPY, an improvement of 13.8 billion JPY as compared with the previous fiscal year, mainly due to a decrease of the purchase of shares, etc.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for the fiscal year ended March 31, 2023 totaled a cash inflow of 102.5 billion JPY, an improvement of 18.4 billion JPY year-on-year.

Net cash flows from financing activities for the fiscal year ended March 31, 2023 totaled a cash outflow of 122.8 billion JPY, mainly due to payments of lease liabilities and redemption of bonds, etc. despite an increase in proceeds from issuance of bonds.

As a result, cash and cash equivalents as of March 31, 2023 amounted to 419.5 billion JPY, a decrease of 11.3 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, 2023, NEC had a sufficient amount of liquidity. Total liquidity in hand as of March 31, 2023, was 665.5 billion JPY, comprising cash and cash equivalents of 419.5 billion JPY and unused committed credit facilities of 246.0 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 issuance of CP, the NEC Group maintains committed short-term credit facilities of 248.0 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,	2022	2023
Long-term fund procurement*1	60.5%	70.8%
Use of capital market instruments*2	35.1%	38.5%

*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 2022 and 2023 are broken down as follows (amounts do not include consumption taxes):

	Billions of Yen		*YoY Change*
	2022	2023	2023/2022
Public Solutions Business	¥0.9	¥0.5	-47.3%
Public Infrastructure Business	24.2	25.7	+6.9%
Enterprise Business	0.9	0.4	-52.1%
Network Services Business	4.3	5.0	+15.4%
Global Business	8.5	10.2	+21.3%
Others	20.5	25.7	+24.8%
Total	¥59.3	¥67.6	+13.9%

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 network infrastructure related 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 software products and cloud services related facilities.

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

Consolidated Statements of Financial Position as of March 31, 2022 and 2023

JPY (millions)

	Notes	2022	2023
Assets			
Current assets			
Cash and cash equivalents	15	430,778	419,462
Trade and other receivables	14	722,334	799,875
Contract assets	24	285,890	335,852
Inventories	13	246,244	267,576
Other financial assets	29	17,554	15,776
Other current assets	16	133,890	157,362
Total current assets		1,836,690	1,995,903
Non-current assets			
Property, plant and equipment, net	7, 9	540,257	563,384
Goodwill	8, 9	335,978	355,572
Intangible assets, net	8, 9	374,703	378,250
Investments accounted for using the equity method	11	76,470	80,425
Other financial assets	29	236,544	207,731
Deferred tax assets	12	153,313	159,930
Other non-current assets	9, 16	207,778	242,855
Total non-current assets		1,925,043	1,988,147
Total assets		3,761,733	3,984,050

JPY (millions)

	Notes	2022	2023
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	22	446,788	497,625
Contract liabilities	24	266,158	287,859
Bonds and borrowings	19	186,774	130,867
Accruals		232,257	240,870
Lease liabilities	29	49,462	47,056
Other financial liabilities	29	21,397	21,950
Accrued income taxes		17,403	20,951
Provisions	21	62,077	57,574
Other current liabilities	23	51,667	60,757
Total current liabilities		1,333,983	1,365,509
Non-current liabilities			
Bonds and borrowings	19	257,899	320,794
Lease liabilities	29	103,241	109,764
Other financial liabilities	29	26,937	20,428
Net defined benefit liabilities	20	179,599	179,106
Provisions	21	18,910	20,470
Other non-current liabilities	23	54,522	55,255
Total non-current liabilities		641,108	705,817
Total liabilities		1,975,091	2,071,326
Equity			
Share capital	17	427,831	427,831
Share premium	17	169,090	165,034
Retained earnings	17	678,653	764,604
Treasury shares	17	(1,906)	(31,588)
Other components of equity	17	239,835	297,936
Total equity attributable to owners of the parent		1,513,503	1,623,817
Non-controlling interests	10	273,139	288,907
Total equity		1,786,642	1,912,724
Total liabilities and equity		3,761,733	3,984,050

See accompanying notes to consolidated financial statements.

Consolidated Statements of Profit or Loss for the Fiscal Years Ended March 31, 2022 and 2023

JPY (millions)

	Notes	2022	2023
Revenue	6, 24	3,014,095	3,313,018
Cost of sales	13, 26	2,127,682	2,354,770
Gross profit		886,413	958,248
Selling, general and administrative expenses	26	762,970	793,700
Other operating income	25	9,082	5,899
Operating profit	6	132,525	170,447
Finance income	6, 27	17,894	10,899
Finance costs	6, 27	11,367	17,624
Share of profit of entities accounted for using the equity method	6, 11	5,384	3,949
Profit before income taxes		144,436	167,671
Income taxes	12	(12,267)	36,155
Net profit		156,703	131,516
Net profit attributable to:			
Owners of the parent		141,277	114,500
Non-controlling interests		15,426	17,016
Total		156,703	131,516
Earnings per share attributable to owners of the parent:			
Basic earnings per share (JPY)	28	518.54	424.51
Diluted earnings per share (JPY)	28	518.54	424.50

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income for the Fiscal Years Ended March 31, 2022 and 2023

JPY (millions)

	Notes	2022	2023
Net profit		156,703	131,516
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	17	15,607	(10,747)
Remeasurements of defined benefit plans	17, 20	27,193	23,123
Share of other comprehensive income of entities accounted for using the equity method	17	31	(43)
Total items that will not be reclassified to profit or loss		42,831	12,333
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	17	59,081	52,009
Cash flow hedges	17	(1,660)	119
Share of other comprehensive income of entities accounted for using the equity method	17	1,161	809
Total items that may be reclassified subsequently to profit or loss		58,582	52,937
Total other comprehensive income, net of tax		101,413	65,270
Total comprehensive income		258,116	196,786
Total comprehensive income attributable to:			
Owners of the parent		232,839	172,601
Non-controlling interests		25,277	24,185
Total		258,116	196,786

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity for the Fiscal Years Ended March 31, 2022 and 2023

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	17	–	–	–	–	91,562	91,562	9,851	101,413
Comprehensive income		–	–	141,277	–	91,562	232,839	25,277	258,116
Purchase of treasury shares	17	–	–	–	(570)	–	(570)	–	(570)
Sale of treasury shares	17	–	1	–	242	–	243	–	243
Cash dividends	18	–	–	(27,284)	–	–	(27,284)	(6,097)	(33,381)
Changes in interests in subsidiaries	10	–	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.

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, 2022		427,831	169,090	678,653	(1,906)	239,835	1,513,503	273,139	1,786,642
Net profit		–	–	114,500	–	–	114,500	17,016	131,516
Other comprehensive income	17	–	–	–	–	58,101	58,101	7,169	65,270
Comprehensive income		–	–	114,500	–	58,101	172,601	24,185	196,786
Purchase of treasury shares	17	–	–	–	(30,547)	–	(30,547)	–	(30,547)
Sale of treasury shares	17	–	1	–	865	–	866	–	866
Cash dividends	18	–	–	(28,549)	–	–	(28,549)	(8,739)	(37,288)
Changes in interests in subsidiaries	10	–	(4,057)	–	–	–	(4,057)	322	(3,735)
Total transactions with owners		–	(4,056)	(28,549)	(29,682)	–	(62,287)	(8,417)	(70,704)
As of March 31, 2023		427,831	165,034	764,604	(31,588)	297,936	1,623,817	288,907	1,912,724

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows for the Fiscal Years Ended March 31, 2022 and 2023

JPY (millions)

	Notes	2022	2023
Cash flows from operating activities			
Profit before income taxes		144,436	167,671
Depreciation and amortization	6	180,539	183,298
Impairment loss	6,9	985	6,857
Increase (decrease) in provisions		3,420	(8,173)
Finance income	27	(17,894)	(10,899)
Finance costs	27	11,367	17,624
Share of profit of entities accounted for using the equity method		(5,384)	(3,949)
(Increase) decrease in trade and other receivables		25,469	(77,305)
(Increase) decrease in contract assets		(5,946)	(46,278)
(Increase) decrease in inventories		(58,848)	(23,428)
Increase (decrease) in trade and other payables		(27,434)	41,114
Increase (decrease) in contract liabilities		(1,775)	16,522
Others, net		(58,824)	(72,837)
Subtotal		190,111	190,217
Interest received		1,917	3,038
Dividends received		3,959	3,697
Interest paid		(8,508)	(7,418)
Income taxes paid		(39,962)	(37,407)
Net cash provided by (used in) operating activities		147,517	152,127
Cash flows from investing activities			
Purchases of property, plant and equipment		(56,949)	(56,391)
Proceeds from sales of property, plant and equipment		15,373	12,387
Acquisitions of intangible assets		(14,157)	(21,323)
Purchase of equity instruments designated as measured at fair value through other comprehensive income		(11,679)	(2,094)
Proceeds from sales of equity instruments designated as measured at fair value through other comprehensive income		18,443	19,182
Purchase of shares of newly consolidated subsidiaries		(12,214)	(6,935)
Proceeds from sales of shares of subsidiaries		5,078	9,679
Disbursements for sales of shares of subsidiaries		(92)	—
Purchases of investments in associates or joint ventures		(137)	(198)
Proceeds from sales of investments in associates or joint ventures		2,197	1,951
Others, net		(9,240)	(5,849)
Net cash provided by (used in) investing activities		(63,377)	(49,591)

JPY (millions)

	Notes	2022	2023
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings, net	19	38,696	(39,978)
Proceeds from long-term borrowings	19	382	40,000
Repayments of long-term borrowings	19	(137,650)	(49,550)
Proceeds from issuance of bonds	19	—	110,000
Redemption of bonds	19	—	(55,000)
Payments of lease liabilities	30	(57,283)	(60,879)
Dividends paid	18	(27,259)	(28,522)
Dividends paid to non-controlling interests		(6,093)	(8,733)
Proceeds from sale of treasury shares		243	865
Purchase of treasury shares		(570)	(30,547)
Others, net		(82)	(442)
Net cash provided by (used in) by financing activities		(189,616)	(122,786)
Effect of exchange rate changes on cash and cash equivalents		12,909	8,934
Net increase (decrease) in cash and cash equivalents		(92,567)	(11,316)
Cash and cash equivalents, at the beginning of the year		523,345	430,778
Cash and cash equivalents, at the end of the year	15	430,778	419,462

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 10. "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, Corporate Executive Vice president, Member of the Board (Representative Director), and CFO, on June 22, 2023.

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	2–13 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, 2023, 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). There is no material impact to the consolidated financial statements as of fiscal year ended March 31, 2023, 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 29)
- Recoverable Amount in Impairment Test of Non-financial Assets (Note 9)
- Actuarial Assumptions of Post-retirement Benefits (Note 20)
- Recognition and Measurement of Provisions (Note 21)
- Revenue Recognition (Note 3, “Revenue”)
- Recoverability of Deferred Tax Assets (Note 12)
- Identification of Lease and Determination of Lease Term (Note 30)

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 adopts amendments of IAS 12, from the fiscal year ending March 31,2024. This amendment requires recognition of deferred tax on transactions that incur taxable and deductible temporary difference in same amount such as Leases and Asset retirement obligations.

As a result of this adoption, both Deferred tax asset and Deferred tax liability is expected to increase by approximately 35,000 million yen. However, Deferred tax assets and liabilities increased by this adoption are offset in the financial statement 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.

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, Media, 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 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.

In addition to the above, business consulting and development, manufacturing and sales of system equipment are mainly included in “Others”.

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, 2022 and 2023, are as follows:

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	442,637	608,413	574,680	511,547	485,578	2,622,855	391,240	—	3,014,095
Intersegment	12,900	3,104	34,221	10,200	319	60,744	5,814	(66,558)	—
Total	455,537	611,517	608,901	521,747	485,897	2,683,599	397,054	(66,558)	3,014,095
Segment profit (loss)	35,938	59,216	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	4,292	35,993	31,169	10,202	47,561	129,217	32,064	19,258	180,539
Impairment loss	149	—	34	—	491	674	244	67	985
Reversal of impairment loss	—	—	—	—	—	—	(12)	—	(12)
Capital expenditures	7,042	34,606	30,383	12,400	21,098	105,529	33,173	24,700	163,402

Fiscal year ended March 31, 2023

JPY (millions)

	Reportable segments						Others	Reconciling Items	Consolidated total
	Public Solutions	Public Infrastructure	Enterprise	Network Services	Global	Total			
Revenue:									
External customers	456,687	649,662	614,369	543,400	586,336	2,850,454	462,564	—	3,313,018
Intersegment	13,694	2,529	38,704	7,044	564	62,535	6,225	(68,760)	—
Total	470,381	652,191	653,073	550,444	586,900	2,912,989	468,789	(68,760)	3,313,018
Segment profit (loss)	42,650	67,288	73,386	24,137	42,887	250,348	14,697	(59,529)	205,516
Amortization of acquisition-related intangible assets									(33,513)
M&A related expenses									(1,556)
Operating profit (loss)									170,447
Finance income									10,899
Finance costs									(17,624)
Share of profit of entities accounted for using the equity method									3,949
Profit (loss) before income taxes									167,671
Other items:									
Depreciation and amortization	4,786	36,800	29,971	12,117	47,757	131,431	29,575	22,292	183,298
Impairment loss	819	—	333	2,584	374	4,110	2,747	—	6,857

Reversal of impairment loss	–	–	–	–	–	–	–	–	–
Capital expenditures	5,486	38,212	40,137	23,308	29,392	136,535	34,069	29,081	199,685

“Reconciling Items” in segment profit (loss) includes amounts not allocated to each reportable segment that consist principally of corporate expenses of 52,824 million JPY, and 63,951 million JPY for the fiscal years ended March 31, 2022 and 2023, respectively. Corporate expenses are mainly general and administrative expenses and research and development expenses incurred at the headquarters of the Company.

Information about revising segments

From the first quarter of the fiscal year ending March 31, 2023, the Company's descriptions of the reportable segments have been revised based on a new organization structure effective as of April 1, 2022. A major revision is the transfer of Media Solution Business from "Public Infrastructure" segment to "Public Solutions" segment. In connection with this revision, segment information for the fiscal year ended March 31, 2022 has been reclassified to conform to the presentation of the revised segments for the fiscal year ended March 31, 2023.

Geographical information

Revenues from contract with customers by country or region for the fiscal years ended March 31, 2022 and 2023, are as follows:

		JPY (millions)
	2022	2023
Japan	2,259,551	2,417,450
North America and Latin America	121,332	160,523
Europe, Middle East, and Africa	294,610	351,318
China, East Asia, and Asia Pacific	338,602	383,727
Total	3,014,095	3,313,018

Non-current assets other than financial instruments, deferred tax assets, and net defined benefit assets by country/region as of March 31, 2022 and 2023, are as follows:

		JPY (millions)
	2022	2023
Japan	648,247	659,540
North America and Latin America	40,404	48,676
Europe, Middle East, and Africa	583,516	613,233
China, East Asia, and Asia Pacific	22,161	21,355
Total	1,294,328	1,342,804

Non-current assets in Europe, Middle East, and Africa include goodwill recognized for KMD Holding ApS (“KMD”), which is in Denmark, of 98,403 million JPY and 104,074 million JPY as of March 31, 2022 and 2023, respectively, and goodwill and intangible assets of Avaloq Group AG, which is in Switzerland, 111,755 million JPY and 181,836 million JPY,123,239 million JPY and 181,256 million JPY as of March 31, 2022 and 2023.

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. Property, Plant and Equipment

Reconciliation of the carrying amounts of property, plant and equipment for the fiscal years ended March 31, 2022 and 2023, 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, 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
Acquisitions	5,241	3,427	9,623	71	49,246	67,630	135,238
Reclassifications	15,173	4,868	31,335	2,774	(24,294)	—	29,856
Depreciation	(17,040)	(12,400)	(41,272)	—	—	(59,461)	(130,173)
Impairment losses	(970)	(11)	(661)	—	—	—	(1,642)
Disposals	(2,494)	(469)	(463)	(3,455)	(3,922)	(3,684)	(14,487)
Foreign currency translation adjustments	286	72	782	86	226	2,883	4,335
As of March 31, 2023	190,265	37,113	90,818	62,747	42,434	140,007	563,384

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, 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
As of March 31, 2023	541,377	245,746	465,552	67,711	42,434	331,312	1,694,132

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, 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
As of March 31, 2023	351,112	208,633	374,734	4,964	—	191,305	1,130,748

The “Reclassifications” in the table above for the fiscal years ended March 31, 2022 and 2023, includes the transfer from inventories under current assets.

Pledged assets as of March 31, 2022 and 2023, were as follows:

JPY (millions)

	2022	2023
Land	128	128
Others	669	651
Total	797	779

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 9 “Impairment Losses of Non-Financial Assets.”

8. Intangible Assets including Goodwill

Reconciliation of the carrying amounts of intangible assets including goodwill for the fiscal years ended March 31, 2022 and 2023, 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, 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
Acquisitions	—	14,057	18,362	—	—	2,958	35,377
Acquisitions through business combinations	5,186	—	—	686	2,312	—	8,184
Reclassifications	—	17,785	11,500	—	—	2,278	31,563
Amortization	—	(34,380)	(24,165)	(22,745)	(4,251)	(1,964)	(87,505)
Impairment losses	(3,029)	(167)	(1,805)	—	—	—	(5,001)
Disposals	—	(2,549)	(658)	—	—	(24)	(3,231)
Foreign currency translation adjustments	19,853	6,800	564	15,031	108	245	45,052
Other	(2,416)	1,023	845	2,825	—	(1,124)	(1,298)
As of March 31, 2023	355,572	107,232	71,038	165,859	12,727	21,394	733,822

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, 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
As of March 31, 2023	370,473	250,473	156,746	268,793	41,264	22,238	1,109,987

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, 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
As of March 31, 2023	14,901	143,241	85,708	102,935	28,536	844	376,165

The “Reclassifications” in the table above for the fiscal years ended March 31, 2022 and 2023, 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, 2022 and 2023, are 126,266 million JPY and 121,359 million JPY, respectively.

The carrying amounts of goodwill allocated to each operating segment as of March 31, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Public Infrastructure	6,150	6,150
Network Services	551	3,575
Global	289,550	307,004
Others	39,727	38,843
Total	335,978	355,572

The CGUs to which significant amounts of goodwill are allocated as of March 31, 2022 and 2023, are as follows:

JPY (millions)

CGUs	2022	2023
Avaloq Group	111,755	123,239
KMD	98,403	104,074
NEC Software Solutions UK	60,076	59,349
Others	65,744	68,910
Total	335,978	355,572

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 9. "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, 2022 and 2023, are as follows:

	2022	2023
Growth Rate	0.0 to 3.7%	0.0 to 4.0%
Discount Rate (Pre-tax)	5.9 to 15.0%	7.3 to 17.0%

The NEC Group considers, except for CGUs of which impairment losses are recognized for the fiscal years ended March 31, 2022 and 2023, 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.

9. Impairment Losses of Non-Financial Assets

A breakdown of impairment losses and subsequent reversals by asset class for the fiscal years ended March 31, 2022 and 2023, is as follows:

JPY (millions)

	2022		2023	
	Impairment loss	Reversal	Impairment loss	Reversal
Property, plant and equipment				
Buildings and structures	398	(10)	970	—
Machinery and equipment	—	—	11	—
Tools, furniture and fixtures	119	(2)	661	—
Land	66	—	—	—
Construction in progress	2	—	—	—
Right-of-use assets	—	—	—	—
Goodwill	—	—	3,029	—
Intangible asset				
Software for internal use	215	—	1,805	—
Software for sale	—	—	167	—
Others	34	—	—	—
Other non-financial assets				
Others	151	—	214	—
Total	985	(12)	6,857	—

Impairment losses and reversal of impairment loss are included in other operating expenses in the consolidated statements of profit or loss.

10. Subsidiaries

Material subsidiaries

The number of consolidated subsidiaries increased by 6 primarily due to establishments and acquisitions and decreased by 11 primarily due to divestitures, in the fiscal year ended March 31, 2023.

Major consolidated subsidiaries as of March 31, 2023, 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	50.8	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, 2022 and 2023 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, 2022 and 2023 were 48.6%.

Summarized financial information before eliminating inter-company transactions as of March 31, 2022 and 2023, is as follows:

JPY (millions)

	2022	2023
Current assets	214,173	220,741
Non-current assets	48,834	59,196
Current liabilities	85,993	89,801
Non-current liabilities	39,097	43,171
Net assets	137,917	146,965
Carrying amount of non-controlling interests	84,704	91,689

Summarized financial information before eliminating inter-company transactions for the fiscal years ended March 31, 2022 and 2023, is as follows:

JPY (millions)

	2022	2023
Revenue	309,740	320,796
Net profit	15,678	15,086
Other comprehensive income	3,677	(109)
Comprehensive income	19,355	14,977
Net profit allocated to non-controlling interests	10,305	11,094
Dividends paid to non-controlling interests	3,689	4,330
Cash flows from operating activities	25,486	5,968
Cash flows from investing activities	(7,162)	(4,934)
Cash flows from financing activities	(7,079)	(12,395)
Effect of exchange rate changes on cash and cash equivalents	61	178
Net increase (decrease) in cash and cash equivalents	11,306	(11,183)
Cash and cash equivalents, at the end of reporting period	79,732	68,549

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, 2022 and 2023 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, 2022 and 2023 were 49.1% and 49.2%, respectively.

Summarized financial information before eliminating inter-company transactions as of March 31, 2022 and 2023, is as follows:

JPY (millions)

	2022	2023
Current assets	144,393	142,282
Non-current assets	116,612	116,543
Current liabilities	58,086	50,918
Non-current liabilities	18,312	11,776
Net assets	184,607	196,131
Carrying amount of non-controlling interests	119,142	126,706

Summarized financial information before eliminating inter-company transactions for the fiscal years ended March 31, 2022 and 20223 is as follows:

JPY (millions)

	2022	2023
Revenue	224,171	235,829
Net profit	12,816	13,262
Other comprehensive income	4,694	3,274
Comprehensive income	17,510	16,536
Net profit allocated to non-controlling interests	7,287	7,805
Dividends paid to non-controlling interests	1,745	2,635
Cash flows from operating activities	25,386	33,365
Cash flows from investing activities	(20,285)	(23,432)
Cash flows from financing activities	(10,956)	(12,440)
Effect of exchange rate changes on cash and cash equivalents	1,311	92
Net increase (decrease) in cash and cash equivalents	(4,544)	(2,415)
Cash and cash equivalents, at the end of reporting period	65,986	63,571

11. 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 two in the fiscal year ended March 31, 2023 due to new investments and decreased by three due to divestiture. The number of joint ventures accounted for using the equity methods increased by one in the fiscal year ended March 31, 2023 due to new investment and decreased by one due to liquidation.

Associates

Material associates

NEC Capital Solutions Limited is an associate, which is material to the NEC Group as of March 31, 2023. 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, 2022 and 2023.

Summarized financial information as of March 31, 2022 and 2023, is as follows:

JPY (millions)

	2022	2023
Current assets	889,743	904,781
Non-current assets	176,782	183,035
Current liabilities	503,438	499,474
Non-current liabilities	435,487	454,100
Total equity	127,600	134,242

Summarized financial information for the fiscal years ended March 31, 2022 and 2023, is as follows:

JPY (millions)

	2022	2023
Revenue	89,625	71,720
Net profit	8,923	9,016
Other comprehensive income	1,452	1,616
Comprehensive income	10,375	10,632
Dividends received from the associate	503	641

Reconciliation between the summarized financial information and the carrying amount of interests in associates as of March 31, 2022 and 2023, is as follows:

JPY (millions)

	2022	2023
Equity attributable to owners of the investee	109,073	114,918
Proportion of ownership interest	37.7%	37.7%
Equity attributable to the NEC Group	41,099	43,301
Elimination of unrealized profit on inter-company transactions	(129)	(78)
Carrying amount of the associate in the consolidated financial statements	40,970	43,223
Fair value of the associate	16,836	20,486

Aggregate information of associates that are not individually material for the fiscal years ended March 31, 2022 and 2023, is as follows:

JPY (millions)

	2022	2023
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	35,500	37,193
Aggregate amounts of the NEC Group’s share of those associates:		
Net profit	2,452	1,646
Other comprehensive income	647	157
Comprehensive income	3,099	1,803

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, 2022 and 2023, was as follows:

JPY (millions)

	2022	2023
Unrecognized share of losses of associates for the period	44	―
Accumulated unrecognized share of losses of associates	453	380

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, 2022 and 2023, is as follows:

JPY (millions)

	2022	2023
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	―	9
Aggregate amounts of the NEC Group’s share of those joint ventures:		
Net profit (loss)	201	314
Other comprehensive income	―	―
Comprehensive income	201	314

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, 2022 and 2023, was as follows:

JPY (millions)

	2022	2023
Unrecognized share of losses of joint ventures for the period	286	―
Accumulated unrecognized share of losses of joint ventures	286	―

12. Income Taxes

Current and deferred tax expenses

The components of income tax expenses for the fiscal years ended March 31, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Current tax expense		
Current year	30,817	46,331
Adjustments for current tax of prior periods	(1,609)	254
Subtotal	29,208	46,585
Deferred tax expense		
Origination and reversal of temporary differences	(11,673)	(5,505)
Recognition of previously unrecognized tax losses	(480)	(1,578)
Recognition of previously unrecognized deductible temporary differences	(29,322)	(3,347)
Subtotal	(41,475)	(10,430)
Income taxes	(12,267)	36,155

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, 2022 and 2023, 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, 2022 and 2023, is as follows:

(%)

	2022	2023
Statutory tax rate	30.5	30.5
Movement in tax rate		
Effects of undistributed profits	0.8	1.3
Effects of investments accounted for using the equity method	(1.2)	(0.7)
Non-deductible expenses	0.4	0.2
Differences in tax rates applied to foreign subsidiaries	0.0	0.0
Income tax credits	(3.5)	(8.1)
Recognition or use of previously unrecognized tax losses	(2.5)	(2.4)
Recognition of previously unrecognized deductible temporary differences	(30.7)	(3.2)
Others	(2.3)	4.0
Effective tax rate	(8.5)	21.6

"Recognition of previously unrecognized deductible temporary differences" is the recognition of deferred tax assets for previously unrecognized deductible temporary differences against inhabitant tax and enterprise tax for this fiscal year. This is mainly due to the result of the assessment of the recoverability of deferred tax assets based on improved outlook of its ability to generate future taxable income.

Deferred taxes

Major components of deferred tax assets and liabilities as of March 31, 2022 and 2023, are as follows:

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

	As of April 1, 2022	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2023
				JPY (millions)
Deferred tax assets:				
Accrued expenses and product warranty liabilities	39,787	4,308	—	44,095
Write-off of inventories	19,512	2,520	—	22,032
Depreciation	8,089	1,928	—	10,017
Elimination of unrealized profit from intercompany transactions among consolidated companies	8,851	270	—	9,121
Investments in associates	1,425	(676)	29	778
Provision for retirement benefits	99,357	(8,763)	(6,302)	84,292
Tax losses carried forward	8,014	(241)	—	7,773
Others	29,530	6,553	(38)	36,045
Total deferred tax assets	214,565	5,900	(6,311)	214,154
Offset with deferred tax liabilities	(61,252)			(54,224)
Total deferred tax assets, net	153,313			159,930
Deferred tax liabilities:				
Valuation differences due to equity instruments measured at fair value through other comprehensive income	(32,444)	—	7,224	(25,220)
Undistributed earnings	(18,116)	(2,026)	—	(20,142)
Gain on contribution of securities to the retirement benefit trust	(9,200)	705	—	(8,495)
Valuation differences due to business combination	(43,236)	1,837	—	(41,399)
Others	(3,038)	(555)	—	(3,593)
Total deferred tax liabilities	(106,034)	(39)	7,224	(98,849)
Offset with deferred tax asset	61,252			54,224
Total deferred tax liabilities, net	(44,782)			(44,625)
Net deferred tax asset	108,531			115,305

A majority of deferred tax assets of the NEC Group were recognized by the Company and certain domestic consolidated subsidiaries that file a Japanese group relief system.
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, 2023, can be utilized.
The NEC Group adopts temporary exception of “International Tax Reform - Pillar Two Model Rules (amendments of IAS12)” issued in May 23, 2023. As a result, the NEC Group has not recognized deferred tax assets and liabilities related to income taxes arising from legislated tax system which adopts Pillar Two model rules.

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, 2022 and 2023, are as follows:

	2022	2023
		JPY (millions)
Deductible temporary differences	80,970	77,069
Unused tax losses carried forward	57,788	61,190
Total	138,758	138,259

The tax effect by applicable tax rates of unused tax losses as of March 31, 2022 and 2023, for which deferred tax assets were not recognized will expire as follows:

JPY (millions)

	2022	2023
The 1st year	416	45
The 2nd year	429	302
The 3rd year	2,845	3,862
The 4th year	8,651	17,051
The 5th year and thereafter	45,447	39,930
Total	57,788	61,190

The aggregate amounts of temporary differences relating to investments in foreign subsidiaries for which no deferred tax liabilities were recognized were 45,321 million JPY and 65,110 million JPY as of March 31, 2022 and 2023, respectively.

13. Inventories

Components of inventories as of March 31, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Merchandise and finished goods	83,725	89,095
Work in process	75,735	83,017
Raw materials and supplies	86,784	95,464
Total	246,244	267,576

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, 2022 and 2023, was 10,476 million JPY and 17,515 million JPY, respectively. There was no material reversal of write-downs during the fiscal years presented.

14. Trade and Other Receivables

Components of trade and other receivables as of March 31, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Notes receivable	16,440	16,411
Accounts receivable	664,797	747,730
Other receivables	41,097	35,734
Total	722,334	799,875

The amounts of trade and other receivables to be collected after 12 months as of March 31, 2022 and 2023, are 1,631 million JPY and 8,325 million JPY, respectively.

15. Cash and Cash Equivalents

Components of cash and cash equivalents as of March 31, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Cash and deposits	374,819	418,725
Certificates of deposits	55,959	737
Total	430,778	419,462

16. Other Assets

Components of other current assets and other non-current assets as of March 31, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Advance payments	49,934	62,075
Income taxes receivable	10,624	6,454
Prepaid expenses	59,656	66,572
Others	13,676	22,261
Other current assets	133,890	157,362
Net defined benefit assets	161,252	194,403
Long-term prepaid expenses	43,307	44,814
Others	3,219	3,638
Other non-current assets	207,778	242,855

17. Equity

Total number of authorized shares and issued shares

Changes in authorized shares and issued shares for the fiscal years ended March 31, 2022 and 2023, are as follows:

(Thousands of shares)

	2022	2023
Total number of authorized shares:		
End of the year	750,000	750,000
Total number of issued shares:		
Beginning of the year	272,850	272,850
Changes during the year	—	—
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.

Treasury shares

Changes in treasury shares as of March 31, 2022 and 2023, are as follows:

(Thousands of shares)

	2022	2023
Ordinary shares		
Beginning of the year	357	394
Changes during the year	37	6,108
End of the year	394	6,502

(Overview of Change)

On December 8, 2022, NEC concluded the repurchase of shares of its own common stock approved at the Board of Directors meeting held on August 29, 2022.

Details of the repurchase, are as follows:

・Type of shares repurchased	Common stock
・Total number of shares repurchased	6,187,500 shares
・Aggregate value of shares repurchased	29,999,739,000 yen
・Repurchase period	August 30, 2022 - December 8, 2022
・Method of repurchase	Open market purchase through the Tokyo Stock Exchange based on a discretionary trading contract

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, 2022 and 2023, are as follows:

		JPY (millions)
	2022	2023
Remeasurements of defined benefit plans	114,990	136,994
Exchange differences on translating foreign operations	46,782	92,902
Cash flow hedges	(3,317)	(3,185)
Equity instruments designated as measured at fair value through other comprehensive income	81,380	71,225
Total	239,835	297,936

Components of other comprehensive income included in non-controlling interests for the fiscal years ended March 31, 2022 and 2023, are as follows:

		JPY (millions)
	2022	2023
Remeasurements of defined benefit plans	1,691	1,036
Exchange differences on translating foreign operations	7,564	6,678
Cash flow hedges	—	7
Equity instruments designated as measured at fair value through other comprehensive income	596	(552)
Total	9,851	7,169

Other comprehensive income

The components of other comprehensive income and related tax expense and tax benefit for the fiscal years ended March 31, 2022 and 2023, are as follows:

	JPY (millions)	
	2022	2023
Items that will not be reclassified to profit or loss		
Equity instruments designated as measured at fair value through other comprehensive income		
Increase (Decrease) during the year	25,219	(16,345)
Tax (expense) benefit	(9,612)	5,598
Subtotal, net of tax	15,607	(10,747)
Remeasurements of defined benefit plans		
Increase during the year	36,744	29,425
Tax expense	(9,551)	(6,302)
Subtotal, net of tax	27,193	23,123
Share of other comprehensive income of entities accounted for using the equity method		
Increase (Decrease) during the year	31	(43)
Subtotal	31	(43)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations		
Increase during the year	56,498	52,485
Reclassification adjustments	2,674	—
Subtotal, before tax	59,172	52,485
Tax expense	(91)	(476)
Sub-total, net of tax	59,081	52,009
Cash flow hedges		
Increase during the year	71	17
Reclassification adjustments	(2,213)	139
Subtotal, before tax	(2,142)	156
Tax benefit (expense)	482	(37)
Sub-total, net of tax	(1,660)	119
Share of other comprehensive income of entities accounted for using the equity method		
Increase during the year	1,161	809
Reclassification adjustments	—	—
Subtotal, net of tax	1,161	809
Total other comprehensive income, net of tax	101,413	65,270

18. Dividends

Dividends declared for which the effective date falls in the fiscal years ended March 31, 2022 and 2023, are as follows:

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

Fiscal year ended March 31, 2023

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

Resolution	Board of directors on October 28, 2022
Type of shares	Ordinary shares
Total dividends JPY (millions)	14,907
Source of dividends	Retained earnings
Dividends per share (JPY)	55
Record date	September 30, 2022
Effective date	December 1, 2022

Dividends declared for which the record date is in the fiscal year ended March 31, 2023, but the effective date falls in the following fiscal year are as follows:

Resolution	Board of directors on May 11, 2023
Type of shares	Ordinary shares
Total dividends JPY (millions)	14,665
Source of dividends	Retained earnings
Dividends per share (JPY)	55
Record date	March 31, 2023
Effective date	June 1, 2023

19. Bonds and Borrowings

A breakdown of bonds and borrowings and interest rates as of March 31, 2022 and 2023, is as follows:

	JPY (millions)		Average interest rate (%)	Maturity
	2022	2023		
Short-term borrowings	52,243	44,172	4.46	—
Current portion of long-term borrowings	49,540	46,708	0.24	—
Current portion of bonds	54,991	39,987	—	—
Commercial papers (short-term)	30,000	—	—	—
Long-term borrowings (excluding the current portion)	133,171	126,392	0.35	November 29, 2024 to November 30, 2026
Bonds (excluding the current portion)	124,728	194,402	—	—
Total	444,673	451,661	—	
Current	186,774	130,867	—	
Non-current	257,899	320,794	—	
Total	444,673	451,661	—	

A detail by issue of bonds, excluding the current portion, as of March 31, 2022 and 2023, are as follows:

Company name	Series	Issued date	JPY (millions)		Interest rate(%)	Maturity
			2022	2023		
NEC	The 51st	June 15, 2017	24,966	24,981	0.360	June 14, 2024
NEC	The 52nd	June 15, 2017	14,960	14,968	0.455	June 15, 2027
NEC	The 53rd	September 21, 2018	29,961	—	0.260	September 21,2023
NEC	The 54th	September 21, 2018	9,976	9,983	0.360	September 19,2025
NEC	The 55th	September 21, 2018	9,965	9,970	0.500	September 21,2028
NEC	The 56th	April 23, 2020	9,986	—	0.280	April 21, 2023
NEC	The 57th	April 23, 2020	14,958	14,972	0.400	April 23, 2025
NEC	The 58th	April 23, 2020	9,956	9,961	0.540	April 23, 2030
NEC	The 59th	July 12, 2022	—	59,782	0.460	July 12, 2027
NEC	The 60th	July 12, 2022	—	19,921	0.584	July 12, 2029
NEC	The 61st	July 12, 2022	—	29,864	0.749	July 12, 2032
	Total		124,728	194,402	—	—

Commitment line agreements

The NEC Group has entered into commitment line agreements for short-term borrowings with 13 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, 2022 and 2023, is as follows:

JPY (millions)

	2022	2023
Aggregate amount of commitment line contracts	328,000	248,000
Amount used	2,000	2,000
Unused balance	326,000	246,000

Reconciliation of liabilities arising from financing activities for the fiscal years ended March 31, 2022 and 2023, is as follows:

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

JPY (millions)

	As of April 1, 2022	Changes arising from cash flows	Changes not arising from cash flows				As of March 31, 2023
			Business combinations /disposals	Foreign currency translation differences	Lease liabilities resulting from new lease	Others	
Short-term borrowings	82,243	(39,978)	373	1,534	–	–	44,172
Long-term borrowings	182,711	(9,550)	–	26	–	(87)	173,100
Lease liabilities	152,703	(60,879)	(990)	3,095	67,630	(4,739)	156,820
Bonds	179,719	55,000	–	–	–	(330)	234,389
Total	597,376	(55,407)	(617)	4,655	67,630	(5,156)	608,481

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

20. 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, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Present value of defined benefit obligations		
Balance at the beginning of the year	1,005,834	953,769
Current service cost	17,093	17,368
Interest cost	6,360	7,788
Remeasurements:		
Actuarial losses (gains) arising from changes in demographic assumptions	(5,538)	(3,300)
Actuarial gains arising from changes in financial assumptions	(15,842)	(41,318)
Past service cost and gains on settlements	–	106
Benefits paid	(59,624)	(58,698)
Effects of business combinations and disposals	(1,147)	(5,900)
Settlements of defined benefit pension plans	–	(210)
Foreign currency translation differences	9,520	6,639
Others	(2,887)	(1,518)
Balance at the end of the year	953,769	874,726
Fair value of plan assets		
Balance at the beginning of the year	950,701	935,422
Interest income	5,802	7,938
Remeasurement: Actual gains on plan assets	15,364	(15,193)
Employer contributions	5,761	6,066
Benefits paid	(47,153)	(45,098)
Effects of business combinations and disposals	(1,218)	(4,105)
Foreign currency translation differences	9,711	7,172
Others	(3,546)	(2,179)
Balance at the end of the year	935,422	890,023
Defined benefit liabilities	179,599	179,106
Defined benefit assets	(161,252)	(194,403)
Net defined benefit liabilities recognized in the consolidated statements of financial position	18,347	(15,297)

Components of defined benefit cost for the fiscal years ended March 31, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Current service cost	17,093	17,368
Net interest	558	(150)
Past service cost and gains on settlements	–	106
Total	17,651	17,324

Fair value of plan assets

The fair value of the plan assets by asset category as of March 31, 2022 and 2023, is as follows:

JPY (millions)

	2022		2023	
	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	37,494	—	32,557	—
Equity securities	225,702	—	263,104	—
Mutual funds	—	663,681	—	586,491
Others	—	8,545	—	7,871
Total	263,196	672,226	295,661	594,362

Consolidated subsidiaries' shares that are contributed to retirement benefit trust included in Equity securities are 61,767 million JPY and 62,720 million JPY as of March 31, 2022 and 2023, 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, 2022 and 2023, are as follows:

	2022	2023
Discount rate	0.7%	1.1%

The effects on defined obligations of a 0.1% change in the discount rate as of March 31, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Discount rate		
Increased by 0.1%	(9,769)	(8,380)
Decreased by 0.1%	9,952	8,530

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 7,032 million JPY to its defined benefit pension plans during the fiscal year ending March 31, 2024.

The remaining weighted-average duration of the defined benefit obligation was 10.1 years and 9.4 years as of March 31, 2022 and 2023, 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 70,908 million JPY, and 71,109 million JPY for the years ended March 31, 2022 and 2023, respectively. The amount includes the payment of premiums by employer in welfare pension insurance premiums.

21. Provisions

A roll forward of provisions by major component for the fiscal year ended March 31, 2023, 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, 2022	11,616	3,582	12,979	23,704	21,796	7,310	80,987
Increase	6,621	2,192	5,708	9,466	2,286	874	27,147
Decrease (used during the year)	(8,341)	(1,338)	(1,118)	(15,165)	(1,536)	(417)	(27,915)
Decrease (reversed during the year)	(962)	(813)	—	(154)	(223)	(1,051)	(3,203)
Other	7	144	(30)	590	1,444	(1,127)	1,028
Balance as of March 31, 2023	8,941	3,767	17,539	18,441	23,767	5,589	78,044
Balance as of April 1, 2022	11,616	3,582	12,979	23,704	21,796	7,310	80,987
Balance as of April 1, 2022 - Current	10,177	3,582	588	23,704	18,882	5,144	62,077
Balance as of April 1, 2022 - Non-current	1,439	—	12,391	—	2,914	2,166	18,910
Balance as of March 31, 2023	8,941	3,767	17,539	18,441	23,767	5,589	78,044
Balance as of March 31, 2023 - Current	7,707	3,662	2,443	18,441	21,161	4,160	57,574
Balance as of March 31, 2023 - Non-current	1,234	105	15,096	—	2,606	1,429	20,470

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.

22. Trade and Other Payables

Components of trade and other payables as of March 31, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Notes payable	3,887	5,209
Accounts payable-trade	391,502	426,972
Accounts payable-other	51,399	65,444
Total	446,788	497,625

23. Other Liabilities

Components of other current and non-current liabilities as of March 31, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Consumption tax withheld	37,326	42,799
Deposits from employees	4,827	5,079
Others	9,514	12,879
Other current liabilities	51,667	60,757
Deferred tax liabilities	44,782	44,625
Others	9,740	10,630
Other non-current liabilities	54,522	55,255

24. 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, 2022 and 2023, are as follows:

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	125,371	284,595	128,666	144,442	71,425	754,499	161,130	915,629
Contracts for services to customers (including maintenance and outsourcing)	159,263	116,680	234,210	237,578	258,047	1,005,778	135,589	1,141,367
Contracts for system integrations and equipment constructions	158,003	207,138	211,804	129,527	156,106	862,578	94,521	957,099
Total	442,637	608,413	574,680	511,547	485,578	2,622,855	391,240	3,014,095

Fiscal year ended March 31, 2023

JPY (millions)

	Reportable segments						Others	Consolidated Total
	Public Solutions	Public Infrastructure	Enterprise	Network Services	Global	Total		
Contracts for hardware and packaged software deployments	144,220	306,629	137,520	171,478	78,468	838,315	195,261	1,033,576
Contracts for services to customers (including maintenance and outsourcing)	162,002	124,526	248,887	245,604	292,748	1,073,767	152,296	1,226,063
Contracts for system integrations and equipment constructions	150,465	218,507	227,962	126,318	215,120	938,372	115,007	1,053,379
Total	456,687	649,662	614,369	543,400	586,336	2,850,454	462,564	3,313,018

The table above includes revenues arising from leases for the years ended March 31, 2022 and 2023 because they are immaterial.

Contract balances

There are no significant changes to contract assets during the fiscal years ended March 31, 2022 and 2023. The amounts of revenue recognized for the fiscal years ended March 31, 2022 and 2023, that were included in the contract liability balances at the beginning of the years are 163,081 million JPY and 161,627 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, 2022 and 2023, is as follows:

	JPY (millions)	
	2022	2023
Timing of recognition in revenue		
One year or less	686,058	876,358
More than one year	1,038,484	1,215,832
Remaining performance obligations	1,724,542	2,092,190

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

25. Other Operating Income (Expenses)

Components of other operating income (expenses) for the fiscal years ended March 31, 2022 and 2023, are as follows:

	JPY (millions)	
	2022	2023
Other operating income		
Gain on sales of subsidiaries' stocks	3,594	6,266
Gain on sales of land	11,929	4,380
Gain on transfer of business	—	3,323
Insurance recovery	2,100	2,719
Other	8,142	7,758
Subtotal	25,765	24,446
Other operating expenses		
Impairment loss	(985)	(6,857)
Loss on disposal of property, plant and equipment	(3,380)	(3,238)
Business structure improvement expense	(484)	(1,848)
Settlement package and compensation for damage	(2,833)	(279)
Loss on sales of subsidiaries' stocks	(2,520)	—
Other	(6,481)	(6,325)
Subtotal	(16,683)	(18,547)
Other operating expenses, net	9,082	5,899

“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 9. “Impairment Losses of Non-Financial Assets.”

26. 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, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Material costs	898,167	1,085,977
Personnel expenses	944,381	1,003,109
Outsourcing and subcontracting fees	618,588	592,759
Depreciation and amortization	207,588	217,668

Components of personnel expenses for the fiscal years ended March 31, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Salaries and bonuses	765,885	815,374
Retirement benefit expenses	90,715	90,341
Social security expense	66,160	73,154
Other	21,621	24,240
Total	944,381	1,003,109

27. Finance Income and Finance Costs

Components of finance income and finance costs for the fiscal years ended March 31, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Finance income		
Interest income	1,737	3,351
Dividend income	4,069	3,628
Gain on valuation of financial instruments	8,482	—
Foreign exchange gains, net	2,019	—
Other	1,587	3,920
Total	17,894	10,899

JPY (millions)

	2022	2023
Finance costs		
Interest expenses	8,032	8,001
Foreign exchange losses, net	—	4,158
Loss on valuation of financial instruments	—	3,730
Other	3,335	1,735
Total	11,367	17,624

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 valuation of financial instruments" and “Loss on valuation of financial instruments" in the fiscal year ended March 31, 2022 and 2023, are from gains or losses on financial assets measured at fair value through profit or loss.

28. 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, 2022 and 2023:

JPY (millions)

	2022	2023
Net profit attributable to owners of the parent	141,277	114,500
Net profit attributable to ordinary shareholders of the parent to calculate basic EPS	141,277	114,500
Net profit attributable to ordinary shareholders of the parent after adjustment for the effects of dilutive potential ordinary shares	141,276	114,498
Weighted-average number of ordinary shares to calculate basic EPS (in thousands of shares)	272,450	269,722
Weighted-average number of ordinary shares (diluted) (in thousands of shares)	272,450	269,722
Basic EPS (JPY)	518.54	424.51
Diluted EPS (JPY)	518.54	424.50

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.

29. 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, 2022 and 2023

	JPY (billions)		YoY Change
	2022	2023	2023/2022
Total Assets	3,761.7	3,984.1	222.3
Total liabilities	1,975.1	2,071.3	96.2
Total equity	1,786.6	1,912.7	126.1
Interest-bearing debt	597.4	608.5	11.1
Net interest-bearing debt	166.6	189.0	22.4
Equity attributable to owners of the parent	1,513.5	1,623.8	110.3
Ratio of equity attributable to owners of the parent	40.2%	40.8%	0.5
Debt equity ratio	0.39times	0.37times	(0.02)
Net debt-equity ratio	0.11times	0.12times	0.01

** 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. 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, 2022 and 2023, are 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, 2022	669,985	(5,188)	664,797
March 31, 2023	752,618	(4,888)	747,730

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, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Beginning balance	5,792	5,188
Increase	1,715	1,912
Decrease (written off)	(1,525)	(447)
Decrease (reversal)	(1,192)	(1,948)
Others	398	183
Ending balance	5,188	4,888

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, 2022 and 2023. The amounts below include contractual interest payments and exclude the impact of netting agreements.

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

As of March 31, 2023

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	497,625	497,625	497,625	—	—	—	—	—
Accruals	63,393	63,393	63,393	—	—	—	—	—
Short-term borrowings	44,172	46,163	46,163	—	—	—	—	—
Long-term borrowings	173,100	174,754	47,215	38,042	49,324	40,173	—	—
Bonds	234,389	240,568	41,032	25,934	25,840	792	75,620	71,350
Lease liabilities	156,820	164,491	50,879	36,735	24,945	13,437	8,693	29,802
Derivative financial liabilities:								
Forward exchange contracts	7,151	7,151	6,807	212	113	18	—	—
Total	1,176,650	1,194,145	753,114	100,923	100,222	54,420	84,313	101,152

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, 2022 and 2023. Interest-bearing debts with floating rates that are fixed rates in substance under interest rate swap contracts are excluded from the amounts.

		JPY (millions)
	2022	2023
	Carrying amount	Carrying amount
Long-term borrowings (floating rates)	329	157

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)
	2022	2023
Profit before income taxes	(3)	(2)

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, 2022 and 2023, are as follows:

				(Thousands of U.S. dollars and euros)
	2022		2023	
	U.S. dollars	Euros	U.S. dollars	Euros
Trade receivables	576,787	13,400	506,515	19,660
Trade payables	(340,450)	(10,932)	(313,845)	(10,715)
Forward exchange contracts	61,028	(990)	19,873	3,173
Net exposure	297,365	1,478	212,543	12,118

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)

	2022	2023
	Profit before income taxes	Profit before income taxes
U.S. dollars (1% strengthening of the JPY)	(364)	(284)
Euros (1% strengthening of the JPY)	(2)	(18)

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)

	2022	2023
Increase or decrease of 1% in equity prices	596	470

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, 2022 and 2023, are as follows:

JPY (millions)

	2022		2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost:				
Cash and cash equivalents	430,778	430,778	419,462	419,462
Trade and other receivables	722,334	722,334	799,875	799,875
Others	54,861	54,861	62,223	62,223
Financial liabilities measured at amortized cost:				
Trade and other payables	446,788	446,788	497,625	497,625
Short-term borrowings	52,243	52,243	44,172	44,172
Commercial Papers	30,000	30,000	—	—
Current portion of long-term borrowings	49,540	49,540	46,708	46,708
Bonds	179,719	180,202	234,389	232,268
Long-term borrowings	133,171	133,192	126,392	126,017
Accruals	62,801	62,801	63,393	63,393
Others	12,428	12,428	15,494	15,494

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, 2022 and 2023, are as follows:

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

As of March 31, 2023				JPY (millions)
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	451	2,304	17,790	20,545
Equity instruments designated as measured at fair value through other comprehensive income	46,515	—	94,224	140,739
Financial liabilities measured at fair value through profit or loss	—	7,151	—	7,151

Reconciliation of financial assets measured at fair value using Level 3 inputs for the fiscal year ended March 31, 2022 and 2023, are as follows:

	JPY (millions)
	Level 3
As of April 1, 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
Profit or loss	(203)
Other comprehensive income	(17,741)
Purchases	3,843
Sales	(2,162)
Others	(6,602)
As of March 31, 2023	112,014

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.

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 171,137 million JPY and 3,387 million JPY, respectively, for the fiscal year ended March 31, 2022, and 140,739 million JPY and 3,014 million JPY, respectively, for the fiscal year ended March 31, 2023. 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 18,443 million JPY and 11,248 million JPY, respectively, for the fiscal year ended March 31, 2022, and 19,182 million JPY and 10,198 million JPY, respectively, for the fiscal year ended March 31, 2023.

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, 2022 and 2023, include the following:

		JPY (millions)
	2022	2023
TBS HOLDINGS, INC.	4,305	4,589
Sumitomo Electric Industries, Ltd.	10,109	3,903
Sumitomo Forestry Co., Ltd.	3,112	3,761
The Sumitomo Warehouse Co., Ltd.	3,807	3,600
MEIDENSHA CORPORATION	4,437	3,354
Seven Bank, Ltd.	2,390	2,650
SANSHIN ELECTRONICS CO., LTD.	1,686	2,526

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, 2022 and 2023, include the following:

		JPY (millions)
	2022	2023
JECC Corporation	37,473	38,008
BostonGene Corporation	38,218	24,301
Dalian Hi-Think Computer Technology Corp.	15,027	11,181

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, 2022 and 2023, is as follows:

JPY (millions)

	2022	2023
Financial assets measured at amortized cost:		
Deposits with contractual maturity of more than three months	10,332	10,090
Others	44,529	52,133
Financial assets measured at fair value through other comprehensive income:		
Equity instruments	171,137	140,739
Financial assets measured at fair value through profit or loss:		
Equity instruments	17,809	2,288
Others	10,291	18,257
Total	254,098	223,507
Other financial assets-current	17,554	15,776
Other financial assets-non-current	236,544	207,731
Total	254,098	223,507
Financial liabilities measured at amortized cost:		
Deposits received	5,370	6,778
Long-term accounts payable	22,965	15,867
Others	12,215	12,582
Financial liabilities measured at fair value through profit or loss:		
Others	7,784	7,151
Total	48,334	42,378
Other financial liabilities-current	21,397	21,950
Other financial liabilities-non-current	26,937	20,428
Total	48,334	42,378

30. 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, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Depreciation expense for right-of-use assets by the class of underlying asset		
Property	53,092	54,082
Machinery and equipment	784	2,489
Tools, furniture and fixtures	2,991	2,890
Total	56,867	59,461
Interest expense on lease liabilities	2,491	2,810
Expense relating to short-term leases	4,845	5,299
Expense relating to leases of low-value assets	5,691	5,515
Total cash outflow for leases	70,325	74,567

The carrying amount of right-of-use assets by class of underlying asset as of March 31, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Property	122,000	125,465
Machinery and equipment	3,990	8,922
Tools, furniture and fixtures	6,649	5,620
Total	132,639	140,007

Additions to right-of-use assets amounted to 44,814 million JPY and 67,630 million JPY for the fiscal year ended March 31, 2022 and 2023 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, 2022 and 2023, are 7,320 million JPY and 798 million JPY, respectively .

Maturity analysis of lease liabilities is disclosed in Note 29, “Financial Instruments”.

31. 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, 2022 and 2023.

Purchases from and sales to related parties for the fiscal years ended March 31, 2022 and 2023 are as follows:

JPY (millions)

	2022	2023
Purchases	88,867	94,378
Sales	154,513	153,942

Balances of trade and other receivables due from related parties and trade and other payables due to related parties as of March 31, 2022 and 2023, are as follows:

JPY (millions)

	2022	2023
Trade and other receivables	21,991	28,117
Trade and other payables	32,970	40,161

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, 2022 and 2023, is as follows:

JPY (millions)

	2022	2023
Basic compensation	426	368
Bonuses	131	112
Stock compensation	134	109
Total	691	589

32. Commitments

The amounts of contractual commitments for the purchases of property, plant and equipment as of March 31, 2022 and 2023, are 2,098 million JPY and 74,187 million JPY, respectively.
The amounts of contractual commitments for the purchases of intangible assets as of March 31, 2022 and 2023, are 974 million JPY and 607 million JPY, respectively.

33. 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.

34. Subsequent Events

Information about revising segments

The Company implemented organizational reform effective as of April 1, 2023 to establish business structure based on the Mid-term Management Plan 2025.

Under the former organization structure, The NEC Group had five reporting segments: Public Solutions business, Public Infrastructure business, Enterprise business, Network Services Business, and Global Business.

In connection with organizational reform, IT Services Business and Social Infrastructure Business have been newly established, which are operating segments. These two operating segments will be reported for the fiscal year ending March 31, 2024.

The amounts of each item for the fiscal year ended March 31, 2023 reclassified by new segment are currently being calculated.

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 2023.

A portion of the bonds to be issued will be sustainability-linked bonds, whose tenors are five 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 2, 2023.

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, 2023, 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, 2023, 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.

Considering relative changes in risks during the current fiscal year, we have changed a key audit matter in our audit as follows.

Reasonableness of the Company’s determination on the recoverability of deferred tax assets

<table>
<tr><th>Scope</th><th>Prior fiscal year</th><th>Current fiscal year</th><th>Reason for this change</th></tr>
<tr><td>Deferred tax assets concerning corporate income tax of companies under the Japanese Group Relief System*</td><td>Yes</td><td rowspan="2">Yes</td><td rowspan="2">Mainly due to improvement of outlook of the Company’s ability to generate future taxable income, we have included recoverability of deferred tax assets concerning corporate inhabitant tax and enterprise tax of the Company in the key audit matter.</td></tr>
<tr><td>Deferred tax assets concerning corporate inhabitant tax and enterprise tax of the Company*</td><td>No</td></tr>
</table>

* Corporate income tax: The recoverability is assessed based on the future taxable income of the Company and certain domestic subsidiaries (the Japanese Group Relief System is applied).
Corporate inhabitant tax and enterprise tax: The recoverability is assessed based on the future taxable income of the Company only (the Japanese Group Relief System is not applied).

Reasonableness of the Company’s determination on the recoverability of deferred tax assets	
The key audit matter	**How the matter was addressed in our audit**
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 ¥159,930 million, representing approximately 4.0% of total assets, were recognized. As described in Note 12, “Income Taxes” to the consolidated financial statements, unrecognized deferred tax assets amounted to ¥138,259 million. A majority of those deferred tax assets (including unrecognized deferred tax assets) were deferred tax assets for corporate income tax recognized by the Company and certain domestic subsidiaries to which the Japanese Group Relief System is applied (hereinafter, referred to collectively as the “companies under the Japanese Group Relief System”) and deferred tax assets for corporate inhabitant tax and enterprise tax recognized by the Company. As described in Income Taxes of Note 3, “Significant accounting policies” 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, mainly in light of an improved outlook of the Company’s ability to generate future taxable income, additional deferred tax assets were recognized for certain previously unrecognized temporary differences for corporate inhabitant tax and enterprise tax of the Company. For the recoverability of those deferred tax assets, the recoverability relating to corporate income tax was determined based on the estimated future taxable income to be generated by the companies under the Japanese Group Relief System, and the recoverability relating to corporate inhabitant tax and enterprise tax was determined based on the estimated future taxable income to be generated by the Company. The underlying future earnings projections were based on management’s estimates that were highly uncertain due to significant management judgments involved in certain	The primary procedures we performed to assess whether the Company’s determination on the recoverability of deferred tax assets was reasonable included the following: **(1) Internal control testing** ● We tested the design and operating effectiveness of certain of the 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 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), which was a key assumption 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

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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.
<table>
<tr><th>Key assumptions related to the future earnings projections</th><th>PY</th><th>CY</th><th>Changes from the PY</th></tr>
<tr><td>Future profitability considering demand forecasts for the domestic markets including growing investments in DX (including the impact on corresponding costs)</td><td>Yes</td><td>Yes</td><td>Increase in future taxable income due to improved prospects of profitability</td></tr>
<tr><td>Impact of global shortages in the supply of components</td><td>Yes</td><td>No</td><td>Increase in future taxable income due to decreased risk</td></tr>
</table>
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 was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.
</td>
<td>relevant information appearing in the minutes of the board of directors' meetings and related materials and documents, and assumptions used for other accounting estimates.</td>
</tr>
</table>

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. The audit committee is 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 the Audit Committee 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.

The audit committee is 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 the audit committee 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 the audit committee 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 the audit committee, 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.

Hideaki Koyama
Designated Engagement Partner
Certified Public Accountant

Tsutomu Ogawa
Designated Engagement Partner
Certified Public Accountant

Shinya Fujino
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 22, 2023