Consolidated Financial Statements
for the Fiscal Year Ended March 31, 2024

Contents

Management’s Discussion and Analysis

Year Ended March 31, 2024 (Fiscal 2024)
Compared With the Year Ended March 31, 2023 (Fiscal 2023)

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, 2024. 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 two main segments: IT Services and Social Infrastructure.

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

“Adjusted operating profit” 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.

“Non-GAAP operating profit” is an indicator for measuring underlying profitability. It is measured by deducting amortization of intangible assets recognized as a result of M&A, expenses for acquisition of companies (financial advisory fees and other fees), structural reform expenses, impairment losses, stock compensation and other one-time profits (losses) from operating profit. Also, “Non-GAAP net profit 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 profit before income taxes and corresponding amounts of tax and non-controlling interests from net profit attributable to owners of the parent.

2. Analysis of Fiscal 2024 Business Results

During the fiscal year ended March 31, 2024, the global economy saw the pace of improvement moderate due to elevated inflation and the effects of monetary tightening policies already in place, mainly in Europe and the United States. The Japanese economy also saw the pace of improvement moderate, especially in private demand, due to the impacts of inflation and other factors.

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

In terms of “Strategy,” the NEC Group has revised its operating segments to “IT Services Business” and “Social Infrastructure Business” in April 2023, and is now implementing business under this new organization.

In the “IT Services Business” in Japan, NEC Corporation (hereinafter referred to as "the Company") expanded the business related to “NEC Digital Platform*”, a common platform that brings together the Company’s strengths,

and grew the business providing consulting driven services to support strategy concept formulation through implementation and operation from end to end (Consulting-based business) amid the continued steady IT investments by customers and elevated demand in the DX (Digital Transformation) area. Regarding the NEC Digital Platform*, in terms of business strategy for the particular growth area of generative artificial intelligence (AI), in July 2023, the Company announced development and launch of its own generative AI, and in November 2023, began joint verification with Sagamihara City. In December 2023, the Company named this generative AI "cotomi" and announced the further strengthening of its functionality and expansion. Regarding the Consulting-based business, the Company's subsidiary, ABeam Consulting Ltd. took the lead in expanding the value co-creation business, including creating transformative themes and roadmaps tailored to customers' industry and management agenda. Additionally, the Company increased its headcount of engineers in DX area to more than 10,000, double the headcount as of March 31, 2021. In the overseas "IT Services Business" (digital government and digital finance), in June 2023, the Company's subsidiary, Avaloq Group AG entered into a strategic partnership with BlackRock, Inc., an American asset management company. This partnership has enabled the NEC Group to provide additional value to its customers.
* "NEC Digital Platform" has evolved to be "BluStellar", a value creation model in May 2024.

Within "Social Infrastructure Business," in the telecom services business, with regard to global 5G, the Company was selected as a virtualized radio access network (vRAN) vendor for nationwide 5G commercial network services by NTT DoCoMo, Inc., while developing business opportunities as for 5G base stations in Japan and shifting to high-value-added businesses centered on software services. Additionally, in the overseas 5G domain, profitability improved as a result of efforts to improve financial soundness by thoroughly controlling costs. In the aerospace and national security domain, the Company is acquiring more projects amid the rising defense budget of the Japanese government against the backdrop of growing awareness of national security, and future growth is expected.

The Company is working on the development of new businesses that will be the next pillar. In the healthcare and life sciences business, the Company expanded collaboration with two companies, Transgene SA of France, a biotechnology company, and BostonGene Corporation of the United States, a leading company in AI-based molecular and immune profiling, aimed at the randomized Phase I/II trial of an individualized therapeutic vaccine for patients with head and neck cancers. In addition, for a digital healthcare service called "FonesVisuas", the Company added and launched three new test items: "predicting the risk of developing dementia within 5 years from the test date," "predicting the risk of developing chronic renal failure within 4 years," and "the current state of the body due to the effects of smoking." In the agriculture area, partnering with Sumitomo Corporation, the Company plans to expand global sales of "CropScope," a service supporting the cultivation of agricultural crops with AI, by the end of 2024 to support the stable production of food using technology.

In regard to corporate governance, the Company transitioned to a Company with a Nominating Committee, etc. with the aim of strengthening the oversight function of the Board of Directors and accelerating timely decision-making and business execution by delegating substantial authority from the Board of Directors to Executive Officers. Additionally, in March 2024, the Company sold some of its shareholdings in listed subsidiary, Japan Aviation Electronics Industry, Limited, removing it from the scope of consolidation.

Regarding "Culture," as measures based on the "Mid-term Management Plan 2025," the Company mainly instituted personnel system revisions to transition to "job-based human resource management," accelerated "Inclusion and Diversity" and upgraded management infrastructure. The Company introduced job-based human resource management for all employees in April 2024, but ahead of this, it was introduced for senior directors and other upper levels of management in the fiscal year ended March 31, 2024. Through this, the Company has promoted filling each position in conformity with "the right time, the right place and the right person," while a mechanism was established and groundwork laid for supporting the career autonomy of employees. In terms of

"Inclusion and Diversity," with the aim of becoming a company where diverse human resources are playing active roles, the Company is promoting the hiring of mid-career professionals, female, and foreign nationals, and in particular, the ratio of female and foreign national Directors and other officers has increased by about 10 percentage points over the past two years (Note). With regard to management infrastructure, the Company has revamped its core internal IT systems as a flagship and started operating functions in succession from the fiscal year ended March 31, 2024. As a result, the Company has standardized and systematized the negotiation process company-wide and improved operations on the negotiation phase. In addition, the Company is taking the lead in tackling issues and promoting reforms based on the concept of "Client Zero," in which the Company implements, as the zeroth client, cutting-edge technology, such as the NEC Group's world-class biometric authentication technology and digital IDs for accessing offices, logging in to business PCs, making payments at in-house kiosks, and utilizing generative AI in various operations. The Company would like to provide experiences gained through such implementation as a reference point to its customers and society.

Note: The ratio of female and foreign nationals serving as Directors, Audit & Supervisory Board Members (KANSAYAKU), and Corporate Officers as of April 1, 2021 is compared with the ratio of female and foreign nationals serving as Directors, Executive Officers, Corporate SEVP, Corporate EVP, and Corporate SVP as of July 1, 2023.

In order to communicate the Company's vision for future society as outlined in "NEC 2030VISION," as part of Thought Leadership activities of the Company aimed at creating new value and implementing it in society together with stakeholders, the Company participated in the Davos Forum in Switzerland, and enhanced systems for the Institute for the International Socio-Economic Studies, the NEC Group's think tank and published a white paper on the NEC Group's focus areas, thereby accelerating the creation of shared sympathies in the future and contributing to social implementation of growth businesses.

Through these efforts, as well as ongoing communication between executives and employees, the engagement score set as an indicator in the "Mid-term Management Plan 2025" has improved from 25% in the fiscal year ended March 31, 2021 to 39%. Furthermore, in the "Mid-term Management Plan 2025", the Company set a goal of increasing the engagement score to 50%, which roughly corresponds to the top 25th percentile globally.

Condensed Consolidated Statements of Profit or Loss

	Billions of Yen		*YoY Change*
	2023	2024	2024/2023
Revenue	¥3,313.0	¥3,477.3	+5.0%
Operating profit	170.4	188.0	+10.3%
Profit before income taxes	167.7	185.0	+10.3%
Net profit attributable to owners of the parent	114.5	149.5	+30.6%

The NEC Group recorded consolidated revenue of 3,477.3 billion JPY for the fiscal year ended March 31, 2024, an increase of 164.2 billion JPY (+5.0%) year-on-year.This increase was due to increased revenue in IT Services Business and Social Infrastructure Business.

Regarding profitability, operating profit increased by 17.6 billion JPY year-on-year, to an operating profit of 188.0 billion JPY, due mainly to an increase in revenue. Adjusted operating profit increased by 18.0 billion JPY year-on-year, to 223.6 billion JPY. Non-GAAP operating profit increased by 30.5 billion JPY year-on-year, to 227.6 billion JPY.

Profit before income taxes was a profit of 185.0 billion JPY, a year-on-year increase of 17.3 billion JPY, mainly due to increased operating profit.

Net profit attributable to owners of the parent was a profit of 149.5 billion JPY, an increase of 35.0 billion JPY year-on-year. This was mainly due to an increase of profit before income taxes. Non-GAAP net profit attributable to owners of the parent was a profit of 177.8 billion JPY, an increase of 45.0 billion JPY year-on-year.

(1) IT Services Business

Revenue:	1,915.1 billion yen	(+9.1%)
Adjusted operating profit:	208.1 billion yen	(+40.1 billion yen)

In IT Services Business, revenue was 1,915.1 billion JPY, an increase of 160.2 billion JPY (+9.1%) year-on-year, mainly due to an increase in businesses for companies and public sector in Japan.

Adjusted operating profit increased by 40.1 billion JPY year-on-year, to an adjusted operating profit of 208.1 billion JPY, mainly due to increased revenue and profitability improvement in system integration areas.

(2) Social Infrastructure Business

Revenue	1,084.0 billion yen	(+2.1%)
Adjusted operating profit:	75.4 billion yen	(+1.6 billion yen)

In Social Infrastructure Business, revenue was 1,084.0 billion JPY, an increase of 21.8 billion JPY (+2.1%) year-on-year, mainly due to increased revenue in national security.

Adjusted operating profit increased by 1.6 billion JPY year-on-year, to an adjusted operating profit of 75.4 billion JPY, mainly due to increased revenue and profitability improvement in 5G business, despite one-off expenses such as unprofitable projects for telecom carriers and allowance for inventory valuation.

(3) Others

Revenue	478.1 billion yen	(-3.6%)
Adjusted operating profit:	18.4 billion yen	(-5.4 billion yen)

In the Others, revenue was 478.1 billion JPY, a decrease of 17.7 billion JPY (-3.6%) year-on-year.

Adjusted operating profit decreased by 5.4 billion JPY year-on-year, to an adjusted operating profit of 18.4 billion JPY.

3. Liquidity and Capital Resources

(1) Assets, Liabilities and Net Assets

Condensed Consolidated Balance Sheets

	Billions of Yen		*YoY Change*
	2023	2024	2024/2023
Assets			
Current assets	¥1,995.9	¥2,141.8	¥+145.9
Property, plant and equipment	563.4	511.0	-52.4
Investments and other assets	1,424.8	1,574.8	+150.0
Total Assets	3,984.1	4,227.5	+243.5
Liabilities			
Current liabilities	1,365.5	1,469.4	+103.8
Noncurrent liabilities	705.8	668.6	-37.2
Total liabilities	2,071.3	2,138.0	+66.7
Equity			
Total equity attributable to owners of the parent	1,623.8	1,915.6	+291.8
Non-controlling interests	288.9	173.9	-115.0
Total equity	1,912.7	2,089.5	+176.8
Total liabilities and equity	3,984.1	4,227.5	+243.5
Interest-bearing debt	608.5	548.6	-59.8
Net interest-bearing debt	189.0	72.2	-116.9
Equity attributable to owners of the parent	1,623.8	1,915.6	+291.8
Ratio of equity attributable to owners of the parent	40.8%	45.3%	+4.6
Debt equity ratio	0.37 times	0.29 times	-0.08
Net debt equity ratio	0.12 times	0.04 times	-0.08

Total assets were 4,227.5billion JPY as of March 31, 2024, an increase of 243.5 billion JPY as compared with the end of the previous fiscal year. Current assets as of March 31, 2024 were 2,141.8 billion JPY, an increase of 145.9 billion JPY compared with the end of the previous fiscal year, mainly due to an increase in trade and other receivables and contract assets. Non-current assets as of March 31, 2024 increased by 97.6 billion JPY compared with the end of the previous fiscal year to 2,085.7 billion JPY. This was mainly due to an increase in other non-current assets as well as goodwill resulting from currency fluctuations, etc.

Total liabilities as of March 31, 2024 increased by 66.7 billion JPY compared with the end of the previous fiscal year to 2,138.0 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 548.6 billion JPY, a decrease of 59.8 billion JPY as compared with the end of the previous fiscal year. The debt-equity ratio as of March 31, 2024 was 0.29 (an improvement of 0.08 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of March 31, 2024, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 72.2 billion JPY, a decrease of 116.9 billion JPY as compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2024 was 0.04 (an improvement of 0.08 points as compared with the end of the previous fiscal year).

Total equity was 2,089.5 billion JPY as of March 31, 2024, an increase of 176.8 billion JPY as compared with the end of the previous fiscal year, mainly due to the recognition of net profit attributable to owners of the parent for the fiscal year ended March 31, 2024, 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 payment of dividends.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of March 31, 2024 was 1,915.6 billion JPY, and the ratio of equity attributable to owners of the parent was 45.3% (an improvement of 4.6 points as compared with the end of the previous fiscal year).

(2) Cash Flows

Condensed Consolidated Cash Flows

		Billions of Yen		*YoY Change*
		2023	2024	2024/2023
I	Cash flows from operating activities	¥152.1	¥271.2	¥+119.1
II	Cash flows from investing activities	-49.6	-76.0	-26.4
I+II	Free cash flows	+102.5	+195.2	+92.7
III	Cash flows from financing activities	-122.8	-155.5	-32.7
Cash and cash equivalents at end of period		419.5	476.5	+57.0

Net cash inflows from operating activities for the fiscal year ended March 31, 2024 were 271.2 billion JPY, an increase of 119.1 billion JPY compared with the previous fiscal year, mainly due to increased working capital and income before income taxes.

Net cash outflows from investing activities for the fiscal year ended March 31, 2024 were 76.0 billion JPY, an increase of 26.4 billion JPY compared with the previous fiscal year, mainly due to an increase of the acquisition of property, plant and equipment.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for the fiscal year ended March 31, 2024 totaled a cash inflow of 195.2 billion JPY, an improvement of 92.7 billion JPY year-on-year.

Net cash flows from financing activities for the fiscal year ended March 31, 2024 totaled a cash outflow of 155.5 billion JPY, mainly due to payments of lease liabilities and repayment of long-term debt, etc. despite proceeds from issuance of preference shares with put/call options, etc.

Effect of exchange rate changes on cash and cash equivalents as of March 31, 2024 amounted to 17.3 billion JPY.

As a result, cash and cash equivalents as of March 31, 2024 amounted to 476.5 billion JPY, an increase of 57.0 billion JPY from 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, 2024, the NEC Group had a sufficient amount of liquidity. Total liquidity in hand as of March 31, 2024, was 714.5 billion JPY, comprising cash and cash equivalents of 476.5 billion JPY and unused committed credit facilities of 238.0 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 238.0 billion JPY to ensure that funds may be borrowed from financial institutions at all times. For long-term financing, the NEC Group has a 260.0 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,	2023	2024
Long-term fund procurement*1	70.8%	75.0%
Use of capital market instruments*2	38.5%	42.7%

*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 2023 and 2024 are broken down as follows (amounts do not include consumption taxes):

	Billions of Yen		*YoY Change*
	2023	2024	2024/2023
IT Services Business	¥7.5	¥11.7	+56.2%
Social Infrastructure Business	11.4	12.1	+5.9%
Others	48.7	62.9	+29.2%
Total	¥67.6	¥86.7	+28.2%

In the IT Services Business, capital expenditures included investments in cloud services related facilities.
In the Social Infrastructure Business, capital expenditures included investments in R&D equipment and production facilities for defense and satellite systems as well as production facilities for submarine cables.
In others, capital expenditures included investments in data center construction.

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

5. Audit fees, etc.

Fees for Independent Auditor*

Categories	2023		2024	
	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)
The Company	569	26	1,029	31
Consolidated subsidiaries	578	—	623	21
Total	1,147	26	1,652	52

The audit agreement entered into by the Company and the independent auditor does not separately stipulate the fee amounts for the audit under the Financial Instruments and Exchange Act, and the audit under the Companies Act. Furthermore, those amounts cannot be practically distinguished from one another, so this report lists the total amount that should be paid to the independent auditor. The Audit Committee approved the fees for the independent auditor pursuant to Article 399, Paragraph 1 of the Companies Act without distinguishing those amounts.

Fees for audit services for the Company for the fiscal year ended March 31, 2024 include audit fees regarding business transfer of wireless backhaul, except for above.

Non-audit services for the Company and its consolidated subsidiaries include assessment services of control risks in outsourcing arrangements and various advisory services.

Fees for Organizations that Belong to the Same Network (KPMG) as the Independent Auditor (excluding the above *)

Categories	2023		2024	
	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)
The Company	—	96	—	154
Consolidated subsidiaries	643	339	1,131	518
Total	643	435	1,131	672

Non-audit services for the Company and its consolidated subsidiaries include tax advisory service and various advisory services.

Details of Fees for Other Significant Audit Services

There were no significant audit services for the Company and its consolidated subsidiaries for the fiscal year ended March 31, 2023 and 2024, except for the scope of Fees for Independent Auditor and Fees for Organizations that Belong to the Same Network (KPMG) as the Independent Auditor.

Policy for Determining Audit Fees

While there is no specific policy applicable, audit fees are determined considering factors such as the size, nature, and days for audit work.

Reason for Approval of the Fees for the Independent Auditor by the Audit Committee

The Audit Committee got required information and received reports from CFO (Chief Financial Officer), internal related departments and the independent auditor. As a result of assessment and consideration in terms of audit planning contents and validity of evidence for estimating the fees, which were taken into account the audit performance for the fiscal year ended March 31, 2023, the Audit Committee approved the fee amounts for the independent auditor pursuant to Article 399, Paragraph 1 of the Companies Act.

Consolidated Statements of Financial Position as of March 31, 2023 and 2024

JPY (millions)

	Notes	2023	2024
Assets			
Current assets			
Cash and cash equivalents	16	419,462	476,490
Trade and other receivables	15	799,875	829,497
Contract assets	25	335,852	411,715
Inventories	14	267,576	242,634
Other financial assets	31	15,776	15,729
Other current assets	17	157,362	165,719
Total current assets		1,995,903	2,141,784
Non-current assets			
Property, plant and equipment, net	8, 10	563,384	510,970
Goodwill	9, 10	355,572	392,290
Intangible assets, net	9, 10	378,250	371,762
Investments accounted for using the equity method	12	80,425	107,925
Other financial assets	31	207,731	203,099
Deferred tax assets	13	159,930	156,888
Other non-current assets	10, 17	242,855	342,796
Total non-current assets		1,988,147	2,085,730
Total assets		3,984,050	4,227,514

	Notes	2023	2024
			JPY (millions)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	23	497,625	519,762
Contract liabilities	25	287,859	389,908
Bonds and borrowings	20	130,867	84,665
Accruals		240,870	252,713
Lease liabilities	31	47,056	52,579
Other financial liabilities	31	21,950	20,185
Accrued income taxes		20,951	22,494
Provisions	22	57,574	57,642
Other current liabilities	24	60,757	69,405
Total current liabilities		1,365,509	1,469,353
Non-current liabilities			
Bonds and borrowings	20	320,794	298,279
Lease liabilities	31	109,764	113,121
Other financial liabilities	31	20,428	28,838
Net defined benefit liabilities	21	179,106	157,646
Provisions	22	20,470	23,960
Other non-current liabilities	24	55,255	46,794
Total non-current liabilities		705,817	668,638
Total liabilities		2,071,326	2,137,991
Equity			
Share capital	18	427,831	427,831
Share premium	18	165,034	167,451
Retained earnings	18	764,604	883,453
Treasury shares	18	(31,588)	(31,097)
Other components of equity	18	297,936	467,975
Total equity attributable to owners of the parent		1,623,817	1,915,613
Non-controlling interests	11	288,907	173,910
Total equity		1,912,724	2,089,523
Total liabilities and equity		3,984,050	4,227,514

See accompanying notes to consolidated financial statements.

Consolidated Statements of Profit or Loss for the Fiscal Years Ended March 31, 2023 and 2024

JPY (millions)

	Notes	2023	2024
Revenue	6, 25	3,313,018	3,477,262
Cost of sales	14, 27	2,354,770	2,471,404
Gross profit		958,248	1,005,858
Selling, general and administrative expenses	27	793,700	814,013
Other operating income (expenses)	26	5,899	(3,833)
Operating profit	6	170,447	188,012
Finance income	6, 28	10,899	9,804
Finance costs	6, 28	17,624	18,072
Share of profit of entities accounted for using the equity method	6, 12	3,949	5,267
Profit before income taxes		167,671	185,011
Income taxes	13	36,155	20,259
Net profit		131,516	164,752
Net profit attributable to:			
Owners of the parent		114,500	149,521
Non-controlling interests		17,016	15,231
Total		131,516	164,752
Earnings per share attributable to owners of the parent:			
Basic earnings per share (JPY)	29	424.51	561.25
Diluted earnings per share (JPY)	29	424.50	561.24

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income for the Fiscal Years Ended March 31, 2023 and 2024

JPY (millions)

	Notes	2023	2024
Net profit		131,516	164,752
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Equity instruments designated as measured at fair value through other comprehensive income	18	(10,747)	12,326
Remeasurements of defined benefit plans	18, 21	23,123	81,217
Share of other comprehensive income of entities accounted for using the equity method	18	(43)	206
Total items that will not be reclassified to profit or loss		12,333	93,749
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	18	52,009	86,055
Cash flow hedges	18	119	(3,758)
Share of other comprehensive income of entities accounted for using the equity method	18	809	1,710
Total items that may be reclassified subsequently to profit or loss		52,937	84,007
Total other comprehensive income, net of tax		65,270	177,756
Total comprehensive income		196,786	342,508
Total comprehensive income attributable to:			
Owners of the parent		172,601	319,560
Non-controlling interests		24,185	22,948
Total		196,786	342,508

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity for the Fiscal Years Ended March 31, 2023 and 2024

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	18	–	–	–	–	58,101	58,101	7,169	65,270
Comprehensive income		–	–	114,500	–	58,101	172,601	24,185	196,786
Purchase of treasury shares	18	–	–	–	(30,547)	–	(30,547)	–	(30,547)
Disposal of treasury shares	18	–	1	–	865	–	866	–	866
Cash dividends	19	–	–	(28,549)	–	–	(28,549)	(8,739)	(37,288)
Changes in interests in subsidiaries	11	–	(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.

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, 2023		427,831	165,034	764,604	(31,588)	297,936	1,623,817	288,907	1,912,724
Net profit		–	–	149,521	–	–	149,521	15,231	164,752
Other comprehensive income	18	–	–	–	–	170,039	170,039	7,717	177,756
Comprehensive income		–	–	149,521	–	170,039	319,560	22,948	342,508
Purchase of treasury shares	18	–	–	–	(74)	–	(74)	–	(74)
Disposal of treasury shares	18	–	2	–	565	–	567	–	567
Share-based payment transactions	30	–	180	–	–	–	180	–	180
Cash dividends	19	–	–	(30,673)	–	–	(30,673)	(8,647)	(39,320)
Put option, written over shares held by a non-controlling interest shareholder		–	2,214	–	–	–	2,214	–	2,214
Changes in interests in subsidiaries	7,11	–	21	–	–	–	21	(129,298)	(129,277)
Total transactions with owners		–	2,417	(30,673)	491	–	(27,765)	(137,945)	(165,710)
As of March 31, 2024		427,831	167,451	883,453	(31,097)	467,975	1,915,613	173,910	2,089,523

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows for the Fiscal Years Ended March 31, 2023 and 2024

JPY (millions)

	Notes	2023	2024
Cash flows from operating activities			
Profit before income taxes		167,671	185,011
Depreciation and amortization	6	183,298	187,700
Impairment loss	6,10	6,857	4,735
Increase (decrease) in provisions		(8,173)	4,307
Finance income	28	(10,899)	(9,804)
Finance costs	28	17,624	18,072
Share of profit of entities accounted for using the equity method		(3,949)	(5,267)
(Increase) decrease in trade and other receivables		(77,305)	(64,754)
(Increase) decrease in contract assets		(46,278)	(69,375)
(Increase) decrease in inventories		(23,428)	(6,658)
Increase (decrease) in trade and other payables		41,114	24,224
Increase (decrease) in contract liabilities		16,522	91,147
Others, net		(72,837)	(33,608)
Subtotal		190,217	325,730
Interest received		3,038	5,896
Dividends received		3,697	3,330
Interest paid		(7,418)	(10,980)
Income taxes paid		(37,407)	(52,748)
Net cash provided by (used in) operating activities		152,127	271,228
Cash flows from investing activities			
Purchases of property, plant and equipment		(56,391)	(75,176)
Proceeds from sales of property, plant and equipment		12,387	7,656
Acquisitions of intangible assets		(21,323)	(24,591)
Purchase of equity instruments designated as measured at fair value through other comprehensive income		(2,094)	(367)
Proceeds from sales of equity instruments designated as measured at fair value through other comprehensive income		19,182	16,676
Purchase of shares of newly consolidated subsidiaries		(6,935)	(811)
Proceeds from sales of shares of subsidiaries		9,679	1,892
Disbursements for sales of shares of subsidiaries	7	—	(9,008)
Purchases of investments in associates or joint ventures		(198)	(276)
Proceeds from sales of investments in associates or joint ventures		1,951	226
Others, net		(5,849)	7,764
Net cash provided by (used in) investing activities		(49,591)	(76,015)

JPY (millions)

	Notes	2023	2024
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	20	(39,978)	(21,345)
Proceeds from long-term borrowings	20	40,000	—
Repayments of long-term borrowings	20	(49,550)	(46,696)
Proceeds from issuance of bonds	20	110,000	40,000
Redemption of bonds	20	(55,000)	(40,000)
Payments of lease liabilities	32	(60,879)	(63,117)
Dividends paid	19	(28,522)	(30,655)
Dividends paid to non-controlling interests		(8,733)	(8,715)
Proceeds from sale of treasury shares		865	567
Purchase of treasury shares		(30,547)	(74)
Proceeds from issuance of preference shares with put/call options		—	15,797
Others, net		(442)	(1,270)
Net cash provided by (used in) financing activities		(122,786)	(155,508)
Effect of exchange rate changes on cash and cash equivalents		8,934	17,323
Net increase (decrease) in cash and cash equivalents		(11,316)	57,028
Cash and cash equivalents, at the beginning of the year		430,778	419,462
Cash and cash equivalents, at the end of the year	16	419,462	476,490

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 two reportable segments: IT Services business and Social Infrastructure business, which are operating segments. For further information regarding these businesses, see Note 6. "Segment Information." The NEC Group's principal operating bases are located mainly in Japan and other countries as disclosed in Note 11. "Subsidiaries."

2. Basis of Preparation

Compliance with International Financial Reporting Standards

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

Approval of Financial Statements

The consolidated financial statements were approved by Takayuki Morita, President and CEO, and Osamu Fujikawa, Corporate Executive Vice president, Member of the Board (Representative Director), and CFO, on June 21, 2024.

Basis of Measurement

The consolidated financial statements have been prepared on historical cost, except for certain assets and liabilities separately stated in Note 3. "Material 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.

New Accounting Standards and Interpretations Adopted

The NEC Group applied amendments of IAS 12 "Income taxes", effective from the fiscal year ended 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, both Deferred tax assets and Deferred tax liabilities have increased 35,616 million JPY as of March 31, 2023. 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. As a result of amendments, there are no impact on retained earnings at the beginning of the fiscal year ended March 31, 2023 and the consolidated financial statements except the impact on the Note 13. "Income Taxes". The NEC Group applied the amendments of IAS 12 retrospectively and restated the previous fiscal year amounts in the Note 13. "Income Taxes".

3. Material 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	5–18 years
Acquired capitalized development costs	6–17 years
Others	2–15 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 are 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 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).

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 assets or liabilities in a transaction which is not a business combination and that affects neither accounting nor taxable income nor loss and does not give rise to equal taxable and deductible temporary differences;
- 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.

Stock Compensation
The portion equity-settled share-based payment transaction is measured based on the fair value of the equity price of the Company and is recognized as an expense over the vesting period with a corresponding increase in equity. The portion cash-settled share-based payment is measured based on the fair value of the equity price of the Company and is recognized as an expense over the vesting period with a corresponding increase in liabilities. The fair value of the liability is remeasured at the end of reporting period and at the date of settlement, any changes in the fair value are recognized in profit or loss.

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, 2024, is the recoverability of deferred tax assets for corporate inhabitant tax and enterprise tax recognized by the Company. 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, 2024, 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.

The amounts of deferred tax assets for corporate inhabitant tax and enterprise tax recognized and unrecognized by the Company are 17,829 million JPY and 2,843 million JPY, respectively, in the consolidated statement of financial position as of March 31, 2024.

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 31)
- Recoverable Amount in Impairment Test of Non-financial Assets (Note 10)
- Actuarial Assumptions of Post-retirement Benefits (Note 21)
- Recognition and Measurement of Provisions (Note 22)
- Revenue Recognition (Note 3, “Revenue”)
- Recoverability of Deferred Tax Assets (Note 13)
- Identification of Lease and Determination of Lease Term (Note 32)

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 New accounting standards/Amendments	Mandatory adoption (Effective from the year beginning)	To be adopted by the NEC Group (Effective from the year ending)
IAS 7	Statement of Cash Flows	Amendments of disclosures relating to supplier finance arrangements	January 1, 2024	March 31, 2025
IFRS 7	Financial Instruments: Disclosures			
IFRS 18	Presentation and Disclosure in Financial Statements	New accounting standard to replace IAS 1 (Presentation of Financial Statements) and the related interpretations	January 1, 2027	March 31, 2028
IAS 7	Statement of Cash Flows	Amendments of presentation of statement of cash flows		

The NEC Group is in the process of assessing the impact on the adoption of these new accounting standard and amendments.

6. Segment Information

The NEC Group has two reportable segments: IT Services business and Social Infrastructure business, 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 President and CEO 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 two operating segments and other business activities based primarily on the characteristics of the customers served.

IT Services business provides Systems Integration including Systems Implementation and Consulting, Maintenance and Support, Outsourcing / Cloud Services, System Equipment, and Software Services.

Social Infrastructure business provides Network Infrastructure including Core Network, Mobile Phone Base Stations, Optical Transmission Systems and Submarine Systems, Operation Support System (“OSS”) / Business Support System (“BSS”) to telecom industries, and System Equipment, Systems Integration including Systems Implementation and Consulting, and Maintenance and Support to aerospace and defense area.

In addition to the above, 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). Intersegment revenues are based on third-party transaction prices.

Segment information on revenue, profit or loss and other metrics by reportable segment for the fiscal years ended March 31, 2023 and 2024, are as follows:

Fiscal year ended March 31, 2023

JPY (millions)

	Reportable segments			Others	Reconciling Items	Consolidated total
	IT Services	Social Infrastructure	Total			
Revenue:						
External customers	1,754,964	1,062,216	2,817,180	495,838	—	3,313,018
Intersegment	45,449	5,845	51,294	6,206	(57,500)	—
Total	1,800,413	1,068,061	2,868,474	502,044	(57,500)	3,313,018
Segment profit (loss)	168,004	73,781	241,785	23,835	(60,104)	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	88,190	27,131	115,321	47,620	20,357	183,298
Impairment loss	3,932	2,601	6,533	324	—	6,857
Capital expenditures	85,031	42,088	127,119	50,770	21,796	199,685

Fiscal year ended March 31, 2024

JPY (millions)

	Reportable segments			Others	Reconciling Items	Consolidated total
	IT Services	Social Infrastructure	Total			
Revenue:						
External customers	1,915,126	1,084,025	2,999,151	478,111	—	3,477,262
Intersegment	46,371	5,888	52,259	6,039	(58,298)	—
Total	1,961,497	1,089,913	3,051,410	484,150	(58,298)	3,477,262
Segment profit (loss)	208,064	75,359	283,423	18,449	(78,310)	223,562
Amortization of acquisition-related intangible assets						(35,202)
M&A related expenses						(348)
Operating profit (loss)						188,012
Finance income						9,804
Finance costs						(18,072)
Share of profit of entities accounted for using the equity method						5,267
Profit (loss) before income taxes						185,011
Other items:						
Depreciation and amortization	93,391	27,636	121,027	45,211	21,462	187,700
Impairment loss	1,537	6	1,543	3,192	—	4,735
Capital expenditures	98,795	33,987	132,782	47,581	48,130	228,493

“Reconciling Items” in segment profit (loss) includes amounts not allocated to each reportable segment that consist principally of corporate expenses of 63,951 million JPY, and 77,413 million JPY for the fiscal years ended March 31, 2023 and 2024, 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 fiscal year ended March 31, 2024, the reportable segments have been revised based on a new organization structure effective as of April 1, 2023. 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 this organizational reform, IT Services Business and Social Infrastructure Business have been newly established, which are operating segments. Segment information for the fiscal year ended March 31, 2023 has been reclassified to conform to the presentation of the revised segments for the fiscal year ended March 31, 2024.

Geographical information

Revenues from contract with customers by country or region for the fiscal years ended March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Japan	2,417,450	2,589,262
North America and Latin America	160,523	145,892
Europe, Middle East, and Africa	351,318	355,000
China, East Asia, and Asia Pacific	383,727	387,108
Total	3,313,018	3,477,262

Non-current assets other than financial instruments, deferred tax assets, and net defined benefit assets by country/region as of March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Japan	659,540	589,541
North America and Latin America	48,676	55,441
Europe, Middle East, and Africa	613,233	657,159
China, East Asia, and Asia Pacific	21,355	24,658
Total	1,342,804	1,326,799

Non-current assets in Europe, Middle East, and Africa include goodwill recognized for KMD Holding ApS (“KMD”), which is in Denmark, of 104,074 million JPY and 116,302 million JPY as of March 31, 2023 and 2024, respectively, and goodwill and intangible assets of Avaloq Group AG, which is in Switzerland, 123,239 million JPY and 181,256 million JPY,141,586 million JPY and 186,578 million JPY as of March 31, 2023 and 2024.

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. Loss of control of a subsidiary

Loss of control during the fiscal year ended March 31, 2023

There is no loss of control of subsidiaries that are considered material to the NEC Group.

Loss of control during the fiscal year ended March 31, 2024

Overview of the loss of control

Japan Aviation Electronics Industry, Ltd. (“JAE”) resolved at its Board of Directors meeting held on January 29, 2024, to repurchase its own common shares by way of an issuer tender offer. The Company entered into a “Tender Offer Application Agreement” with JAE on the same date, under which the Company agreed to tender 23,843,402 common shares of JAE held by the Company. The issuer tender offer was completed on February 28, 2024, and all of the common shares tendered by the Company were purchased by JAE. On March 22, 2024, the commencement date of settlement of the tender offer, the percentage of ownership of voting rights in JAE decreased to 33.4%, and JAE, which used to be a consolidated subsidiary of the Company, became an affiliate accounted for using the equity method.

Assets and liabilities associated with the loss of control of the subsidiary

JPY (millions)

Items	Amount
Current assets	
Cash and cash equivalents	71,120
Trade and other receivables	44,833
Inventories	28,405
Other, net	3,758
Non-current assets	
Property, plant and equipment, net	93,462
Goodwill	6,319
Intangible assets, net	16,994
Other, net	14,008
Total assets	278,899
Current liabilities	
Trade and other payables	27,151
Other, net	20,671
Non-current liabilities	
Other, net	11,313
Total liabilities	59,135

Note: The carrying amount of non-controlling interests in JAE at the date when control was lost is 137,925 million JPY.

Gain or loss associated with the loss of control of the subsidiary

Out of gain on sales of subsidiaries’ stocks 7,927 million JPY, 1,955 million JPY was attributable to measuring investment retained in JAE at its fair value at the date of loss of control. These amounts are included in “Other operating income (expenses)” in the consolidated statement of profit or loss.

Net change in cash and cash equivalents from loss of control of the subsidiary

JPY (millions)

	Amount
Consideration received by cash	62,112
Cash and cash equivalents at the time of loss of control of the subsidiary	(71,120)
Net change in cash and cash equivalents from loss of control of the subsidiary	(9,008)

8. Property, Plant and Equipment

Reconciliation of the carrying amounts of property, plant and equipment for the fiscal years ended March 31, 2023 and 2024, 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, 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
Acquisitions	8,897	950	7,307	—	69,551	71,228	157,933
Reclassifications	43,077	12,454	28,931	86	(64,440)	—	20,108
Depreciation	(17,304)	(11,505)	(39,521)	—	—	(62,442)	(130,772)
Impairment losses	(206)	(2)	(186)	(1,981)	(107)	—	(2,482)
Disposals	(30,204)	(28,844)	(11,291)	(15,485)	(13,659)	(5,879)	(105,362)
Foreign currency translation adjustments	557	513	1,578	130	183	5,200	8,161
As of March 31, 2024	195,082	10,679	77,636	45,497	33,962	148,114	510,970

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, 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
As of March 31, 2024	512,791	129,238	367,608	52,774	33,974	385,026	1,481,411

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, 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
As of March 31, 2024	317,709	118,559	289,972	7,277	12	236,912	970,441

The “Reclassifications” in the table above for the fiscal years ended March 31, 2023 and 2024, includes the transfer from inventories under current assets.

The “Disposals” in the table above for the fiscal years ended March 31, 2024, includes the effects of the loss of control of Japan Aviation Electronics Industry, Ltd. The breakdown is Buildings and structures for 28,067 million JPY, Machinery and equipment for 28,423 million JPY, Tools, furniture and fixtures for 10,743 million JPY, Land for 14,071 million JPY, Construction in progress for 9,535 million JPY and Right-of-use assets for 2,623 million JPY.

Pledged assets as of March 31, 2023 and 2024, were as follows:

JPY (millions)

	2023	2024
Land	128	128
Others	651	637
Total	779	765

Impairment losses

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

9. Intangible Assets including Goodwill

Reconciliation of the carrying amounts of intangible assets including goodwill for the fiscal years ended March 31, 2023 and 2024, 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, 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	42,601
Other	(2,416)	1,023	845	2,825	—	(1,124)	1,153
As of March 31, 2023	355,572	107,232	71,038	165,859	12,727	21,394	733,822
Acquisitions	—	15,193	22,078	—	—	2,515	39,786
Acquisitions through business combinations	846	—	—	—	—	—	846
Reclassifications	—	17,961	9,810	—	—	510	28,281
Amortization	—	(32,806)	(25,912)	(24,470)	(4,637)	(1,909)	(89,734)
Impairment losses	—	(71)	(1,136)	—	—	(8)	(1,215)
Disposals	(6,319)	(780)	(2,981)	(5,733)	(4,021)	(7,092)	(26,926)
Foreign currency translation adjustments	42,191	12,515	746	23,518	919	282	80,171
Other	—	(428)	518	—	—	(1,069)	(979)
As of March 31, 2024	392,290	118,816	74,161	159,174	4,988	14,623	764,052

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, 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
As of March 31, 2024	407,191	286,647	168,335	260,694	23,328	20,263	1,166,458

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, 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
As of March 31, 2024	14,901	167,831	94,174	101,520	18,340	5,640	402,406

The “Reclassifications” in the table above for the fiscal years ended March 31, 2023 and 2024, includes the transfer from inventories under current assets.
The “Disposals” in the table above for the fiscal years ended March 31, 2024, includes the effects of the loss of control of Japan Aviation Electronics Industry, Ltd. The breakdown is Goodwill for 6,319 million JPY, Software for internal use for 2,229 million JPY, Customer related intangible assets for 5,733 million JPY, Acquired capitalized development costs for 4,021 million JPY and Other for 5,011 million JPY.
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, 2023 and 2024, are 121,359 million JPY and 115,787 million JPY, respectively.

The carrying amounts of goodwill allocated to each operating segment as of March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
IT Services	320,344	359,321
Social Infrastructure	18,849	21,150
Others	16,379	11,819
Total	355,572	392,290

The CGUs to which significant amounts of goodwill are allocated as of March 31, 2023 and 2024, are as follows:

JPY (millions)

CGUs	2023	2024
Avaloq Group	123,239	141,586
KMD	104,074	116,302
NEC Software Solutions UK	59,349	67,751
Others	68,910	66,651
Total	355,572	392,290

The NEC Group recognized impairment losses due to the lower profitability than initially expected for certain goodwill and intangible assets. Impairment losses are included in other operating expenses in the consolidated statements of profit or loss. The aggregate amount of impairment losses is disclosed in Note 10. “Impairment Losses of Non-Financial Assets.” Avaloq Group, KMD and NEC Software Solutions UK were based on its assessment of their profitability compared with the five years 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, 2023 and 2024, are as follows:

	2023	2024
Growth Rate	0.0 to 4.0%	0.0 to 2.8%
Discount Rate (Pre-tax)	7.3 to 17.0%	6.1 to 17.1%

The NEC Group considers, except for CGUs of which impairment losses are recognized for the fiscal years ended March 31, 2023 and 2024, that it is less likely that a significant impairment occurs even when the discount rate and growth rate, which are significant assumptions used for impairment testing of goodwill, have changed to a reasonable extent.

10. Impairment Losses of Non-Financial Assets

A breakdown of impairment losses and subsequent reversals by asset class for the fiscal years ended March 31, 2023 and 2024, is as follows:

JPY (millions)

	2023		2024	
	Impairment loss	Reversal	Impairment loss	Reversal
Property, plant and equipment				
Buildings and structures	970	―	206	―
Machinery and equipment	11	―	2	―
Tools, furniture and fixtures	661	―	186	―
Land	―	―	1,981	―
Construction in progress	―	―	107	―
Right-of-use assets	―	―	―	―
Goodwill	3,029	―	―	―
Intangible asset				
Software for internal use	1,805	―	1,136	―
Software for sale	167	―	71	―
Others	―	―	8	―
Other non-financial assets				
Others	214	―	1,038	―
Total	6,857	―	4,735	―

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

11. Subsidiaries

Major consolidated subsidiaries

The number of consolidated subsidiaries increased by 7 primarily due to establishments and acquisitions and decreased by 37 primarily due to divestitures, in the fiscal year ended March 31, 2024.

Major consolidated subsidiaries as of March 31, 2024, 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
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
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 with material non-controlling interests to the NEC Group

NEC Networks & System Integration Corporation

NEC Networks & System Integration Corporation is a subsidiary with material non-controlling interests to the NEC Group. Proportion of ownership interests held by non-controlling interests as of March 31, 2023 and 2024 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, 2023 and 2024 were 48.6%.

Summarized financial information before eliminating inter-company transactions as of March 31, 2023 and 2024, is as follows:

JPY (millions)

	2023	2024
Current assets	220,741	237,464
Non-current assets	59,196	65,135
Current liabilities	89,801	99,095
Non-current liabilities	43,171	44,387
Net assets	146,965	159,116
Carrying amount of non-controlling interests	91,689	99,652

Summarized financial information before eliminating inter-company transactions for the fiscal years ended March 31, 2023 and 2024, is as follows:

JPY (millions)

	2023	2024
Revenue	320,796	359,499
Net profit	15,086	16,112
Other comprehensive income	(109)	1,801
Comprehensive income	14,977	17,913
Net profit allocated to non-controlling interests	11,094	11,217
Dividends paid to non-controlling interests	4,330	4,377
Cash flows from operating activities	5,968	23,367
Cash flows from investing activities	(4,934)	(4,848)
Cash flows from financing activities	(12,395)	(13,659)
Effect of exchange rate changes on cash and cash equivalents	178	98
Net increase (decrease) in cash and cash equivalents	(11,183)	4,958
Cash and cash equivalents, at the end of reporting period	68,549	73,507

Japan Aviation Electronics Industry, Limited

Japan Aviation Electronics Industry, Limited ("JAE") was a subsidiary with material non-controlling interests to the NEC Group. Proportion of ownership interests held by non-controlling interests as of March 31, 2023 was 64.3%, which was 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, 2023 was 49.2%. As of March 31, 2024, JAE, which used to be a consolidated subsidiary of the Company, became an affiliate accounted for using the equity method. For overview and impact of loss of control of JAE, please refer to Note 7. "Loss of control of a subsidiary."

Summarized financial information before eliminating inter-company transactions as of March 31, 2023 and 2024, is as follows:

JPY (millions)

	2023	2024
Current assets	142,282	—
Non-current assets	116,543	—
Current liabilities	50,918	—
Non-current liabilities	11,776	—
Net assets	196,131	—
Carrying amount of non-controlling interests	126,706	—

Summarized financial information before eliminating inter-company transactions for the fiscal years ended March 31, 2023 and 2024 is as follows:

JPY (millions)

	2023	2024
Revenue	235,829	—
Net profit	13,262	—
Other comprehensive income	3,274	—
Comprehensive income	16,536	—
Net profit allocated to non-controlling interests	7,805	—
Dividends paid to non-controlling interests	2,635	—
Cash flows from operating activities	33,365	—
Cash flows from investing activities	(23,432)	—
Cash flows from financing activities	(12,440)	—
Effect of exchange rate changes on cash and cash equivalents	92	—
Net increase (decrease) in cash and cash equivalents	(2,415)	—
Cash and cash equivalents, at the end of reporting period	63,571	—

12. Investments Accounted for Using the Equity Method

Investments in associates and joint ventures are accounted for using the equity method. The number of associates accounted for using the equity method increased by three in the fiscal year ended March 31, 2024 due to new investments and decreased by five due to divestiture.

Associates

Material associates

NEC Capital Solutions Limited

NEC Capital Solutions Limited is an associate, which is material to the NEC Group as of March 31, 2024. 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, 2023 and 2024.

Summarized financial information as of March 31, 2023 and 2024, is as follows:

JPY (millions)

	2023	2024
Current assets	904,781	936,054
Non-current assets	183,035	221,939
Current liabilities	499,474	498,954
Non-current liabilities	454,100	516,328
Total equity	134,242	142,711

Summarized financial information for the fiscal years ended March 31, 2023 and 2024, is as follows:

JPY (millions)

	2023	2024
Revenue	71,720	204,448
Net profit	9,016	8,490
Other comprehensive income	1,616	2,087
Comprehensive income	10,632	10,577
Dividends received from the associate	641	1,120

Reconciliation between the summarized financial information and the carrying amount of interests in associates as of March 31, 2023 and 2024, is as follows:

JPY (millions)

	2023	2024
Equity attributable to owners of the investee	114,918	121,664
Proportion of ownership interest	37.7%	37.7%
Equity attributable to the NEC Group	43,301	45,843
Elimination of unrealized profit on inter-company transactions	(78)	(431)
Carrying amount of the associate in the consolidated financial statements	43,223	45,412
Fair value of the associate	20,486	31,102

Japan Aviation Electronics Industry, Limited

Japan Aviation Electronics Industry, Limited is an associate, which is material to the NEC Group as of March 31, 2024. Japan Aviation Electronics Industry, Limited engages in manufacture and sale of connectors and electronic devices for avionics and aerospace. The Company owns 50.8% and 33.3% of the voting rights as of March 31, 2023 and 2024, respectively. Proportion of the voting rights includes the percentage of shares held in the retirement benefit trust acting as an agent of the Company.

Summarized financial information as of March 31, 2023 and 2024, is as follows:

JPY (millions)

	2023	2024
Current assets	—	145,984
Non-current assets	—	103,371
Current liabilities	—	53,822
Non-current liabilities	—	58,883
Total equity	—	136,650

Summarized financial information for the fiscal years ended March 31, 2023 and 2024, is as follows:

JPY (millions)

	2023	2024
Revenue	—	225,654
Net profit	—	12,298
Other comprehensive income	—	7,606
Comprehensive income	—	19,904
Dividends received from the associate	—	1,682

Reconciliation between the summarized financial information and the carrying amount of interests in associates as of March 31, 2023 and 2024, is as follows:

JPY (millions)

	2023	2024
Equity attributable to owners of the investee	—	136,650
Proportion of ownership interest	—	12.9%
Equity attributable to the NEC Group	—	17,560
Goodwill and consolidation adjustment	—	4,752
Carrying amount of the associate in the consolidated financial statements	—	22,312
Fair value of the associate	—	21,439

Aggregate information of associates that are not individually material for the fiscal years ended March 31, 2023 and 2024, is as follows:

JPY (millions)

	2023	2024
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	37,193	40,182
Aggregate amounts of the NEC Group's share of those associates:		
Net profit	1,646	2,458
Other comprehensive income	157	1,129
Comprehensive income	1,803	3,587

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, 2023 and 2024, was as follows:

JPY (millions)

	2023	2024
Unrecognized share of losses of associates for the period	—	26
Accumulated unrecognized share of losses of associates	380	359

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, 2023 and 2024, is as follows:

JPY (millions)

	2023	2024
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	9	19
Aggregate amounts of the NEC Group's share of those joint ventures:		
Net profit (loss)	314	(20)
Other comprehensive income	—	—
Comprehensive income	314	(20)

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, 2023 and 2024, was not applicable.

13. Income Taxes

Current and deferred tax expenses

The components of income tax expenses for the fiscal years ended March 31, 2023 and 2024, are as follows:

		JPY (millions)
	2023	2024
Current tax expense		
Current year	46,331	24,542
Adjustments for current tax of prior periods	254	554
Subtotal	46,585	25,096
Deferred tax expense		
Origination and reversal of temporary differences	(5,505)	19,023
Recognition of previously unrecognized tax losses	(1,578)	(7,574)
Recognition of previously unrecognized deductible temporary differences	(3,347)	(16,286)
Subtotal	(10,430)	(4,837)
Income taxes	36,155	20,259

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, 2023 and 2024, are 30.5%. The foreign subsidiaries are subject to taxes based on income at rates ranging from 5.2% 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, 2023 and 2024, is as follows:

		(%)
	2023	2024
Statutory tax rate	30.5	30.5
Movement in tax rate		
Effects of undistributed profits	1.3	5.6
Effects of investments accounted for using the equity method	(0.7)	(0.9)
Non-deductible expenses	0.2	0.4
Differences in tax rates applied to foreign subsidiaries	0.0	0.0
Income tax credits	(8.1)	(6.3)
Recognition or use of previously unrecognized tax losses	(2.4)	(6.0)
Recognition of previously unrecognized deductible temporary differences	(3.2)	(14.9)
Others	4.0	2.5
Effective tax rate	21.6	10.9

"Recognition of previously unrecognized deductible temporary differences" is mainly the recognition of deferred tax assets for previously unrecognized deductible temporary differences against inhabitant tax and enterprise tax of the Company 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, 2023 and 2024, are as follows:

JPY (millions)

	As of April 1, 2022	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2023
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
Net defined benefit liabilities	99,357	(8,763)	(6,302)	84,292
Tax losses carried forward	8,014	(241)	―	7,773
Lease liabilities	39,337	(545)	―	38,792
Others	25,272	7,635	(38)	32,869
Total deferred tax assets	249,644	6,437	(6,311)	249,770
Offset with deferred tax liabilities	(96,331)			(89,840)
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)
Right-of-use assets	(34,756)	352	―	(34,404)
Others	(3,361)	(1,444)	―	(4,805)
Total deferred tax liabilities	(141,113)	(576)	7,224	(134,465)
Offset with deferred tax asset	96,331			89,840
Total deferred tax liabilities, net	(44,782)			(44,625)
Net deferred tax asset	108,531			115,305

				JPY (millions)
	As of April 1, 2023	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2024
Deferred tax assets:				
Accrued expenses and product warranty liabilities	44,095	4,387	—	48,482
Write-off of inventories	22,032	2,599	—	24,631
Depreciation	10,017	1,616	—	11,633
Elimination of unrealized profit from intercompany transactions among consolidated companies	9,121	1,800	—	10,921
Investments in associates	778	174	(1)	951
Net defined benefit liabilities	84,292	6,821	(8,129)	82,985
Tax losses carried forward	7,773	8,567	—	16,340
Lease liabilities	38,792	3,220	—	42,012
Others	32,869	(14,501)	1,969	20,337
Total deferred tax assets	249,770	14,683	(6,161)	258,292
Offset with deferred tax liabilities	(89,840)			(101,404)
Total deferred tax assets, net	159,930			156,888
Deferred tax liabilities:				
Valuation differences due to equity instruments measured at fair value through other comprehensive income	(25,220)	—	(900)	(26,120)
Undistributed earnings	(20,142)	(2,631)	—	(22,773)
Gain on contribution of securities to the retirement benefit trust	(8,495)	(339)	—	(8,834)
Net defined benefit assets	—	(1,026)	—	(1,026)
Valuation differences due to business combination	(41,399)	7,710	—	(33,689)
right of useassets	(34,404)	(3,385)	—	(37,789)
Others	(4,805)	(3,512)	—	(8,317)
Total deferred tax liabilities	(134,465)	(3,183)	(900)	(138,548)
Offset with deferred tax asset	89,840			101,404
Total deferred tax liabilities, net	(44,625)			(37,144)
Net deferred tax asset	115,305			119,744

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, 2024, can be utilized.
The NEC Group adopts temporary exception of “International Tax Reform - Pillar Two Model Rules (amendments of IAS12)” issued on 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.
This adoption is not expected to have a material impact on the NEC Group's financial statements.

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, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Deductible temporary differences	77,069	73,952
Unused tax losses carried forward	61,190	54,738
Total	138,259	128,690

The tax effect by applicable tax rates of unused tax losses as of March 31, 2023 and 2024, for which deferred tax assets were not recognized will expire as follows:

JPY (millions)

	2023	2024
The 1st year	45	1,057
The 2nd year	302	479
The 3rd year	3,862	11,981
The 4th year	17,051	1,292
The 5th year and thereafter	39,930	39,929
Total	61,190	54,738

The aggregate amounts of temporary differences relating to investments in foreign subsidiaries for which no deferred tax liabilities were recognized were 65,110 million JPY and 108,458 million JPY as of March 31, 2023 and 2024, respectively.

14. Inventories

Components of inventories as of March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Merchandise and finished goods	89,095	97,616
Work in process	83,017	65,235
Raw materials and supplies	95,464	79,783
Total	267,576	242,634

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, 2023 and 2024, was 17,515 million JPY and 29,090 million JPY, respectively. There was no material reversal of write-downs during the fiscal years presented.

15. Trade and Other Receivables

Components of trade and other receivables as of March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Notes receivable	16,411	16,843
Accounts receivable	747,730	779,843
Other receivables	35,734	32,811
Total	799,875	829,497

The amounts of trade and other receivables to be collected after 12 months as of March 31, 2023 and 2024, are 8,325 million JPY and 6,645 million JPY, respectively.

16. Cash and Cash Equivalents

Components of cash and cash equivalents as of March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Cash and deposits	418,725	474,663
Certificates of deposits	737	1,827
Total	419,462	476,490

17. Other Assets

Components of other current assets and other non-current assets as of March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Advance payments	62,075	67,814
Income taxes receivable	6,454	8,096
Prepaid expenses	66,572	68,672
Others	22,261	21,137
Other current assets	157,362	165,719
Net defined benefit assets	194,403	291,019
Long-term prepaid expenses	44,814	48,184
Others	3,638	3,593
Other non-current assets	242,855	342,796

18. Equity

Total number of authorized shares and issued shares

Changes in authorized shares and issued shares for the fiscal years ended March 31, 2023 and 2024, are as follows:

(Thousands of shares)

	2023	2024
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, 2023 and 2024, are as follows:

(Thousands of shares)

	2023	2024
Ordinary shares		
Beginning of the year	394	6,502
Changes during the year	6,108	(106)
End of the year	6,502	6,395

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

(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, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Remeasurements of defined benefit plans	136,994	214,678
Exchange differences on translating foreign operations	92,902	176,439
Cash flow hedges	(3,185)	(6,794)
Equity instruments designated as measured at fair value through other comprehensive income	71,225	83,652
Total	297,936	467,975

Components of other comprehensive income included in non-controlling interests for the fiscal years ended March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Remeasurements of defined benefit plans	1,036	3,725
Exchange differences on translating foreign operations	6,678	4,083
Cash flow hedges	7	(4)
Equity instruments designated as measured at fair value through other comprehensive income	(552)	(87)
Total	7,169	7,717

Other comprehensive income

The components of other comprehensive income and related tax expense and tax benefit for the fiscal years ended March 31, 2023 and 2024, are as follows:

	JPY (millions)	
	2023	2024
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	(16,345)	14,429
Tax (expense) benefit	5,598	(2,103)
Subtotal, net of tax	(10,747)	12,326
Remeasurements of defined benefit plans		
Increase during the year	29,425	117,428
Tax expense	(6,302)	(36,211)
Subtotal, net of tax	23,123	81,217
Share of other comprehensive income of entities accounted for using the equity method		
Increase (Decrease) during the year	(43)	206
Subtotal	(43)	206
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations		
Increase during the year	52,485	86,479
Reclassification adjustments	—	(209)
Subtotal, before tax	52,485	86,270
Tax expense	(476)	(215)
Sub-total, net of tax	52,009	86,055
Cash flow hedges		
Increase (Decrease) during the year	17	(8)
Reclassification adjustments	139	(5,673)
Subtotal, before tax	156	(5,681)
Tax benefit (expense)	(37)	1,923
Sub-total, net of tax	119	(3,758)
Share of other comprehensive income of entities accounted for using the equity method		
Increase during the year	809	1,710
Reclassification adjustments	—	—
Subtotal, net of tax	809	1,710
Total other comprehensive income, net of tax	65,270	177,756

19. Dividends

Dividends declared for which the effective date falls in the fiscal years ended March 31, 2023 and 2024, are as follows:

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

Fiscal year ended March 31, 2024

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

Resolution	Board of directors on October 30, 2023
Type of shares	Ordinary shares
Total dividends JPY (millions)	16,007
Source of dividends	Retained earnings
Dividends per share (JPY)	60
Record date	September 30, 2023
Effective date	December 1, 2023

Dividends declared for which the record date is in the fiscal year ended March 31, 2024, but the effective date falls in the following fiscal year are as follows:

Resolution	Board of directors on May 10, 2024
Type of shares	Ordinary shares
Total dividends JPY (millions)	16,007
Source of dividends	Retained earnings
Dividends per share (JPY)	60
Record date	March 31, 2024
Effective date	June 3, 2024

20. Bonds and Borrowings

A breakdown of bonds and borrowings and interest rates as of March 31, 2023 and 2024, is as follows:

	JPY (millions)		Average interest rate (%)	Maturity
	2023	2024		
Short-term borrowings	44,172	24,591	5.10	―
Current portion of long-term borrowings	46,708	35,077	0.33	―
Current portion of bonds	39,987	24,997	―	―
Long-term borrowings (excluding the current portion)	126,392	88,920	0.36	July 31, 2025 to November 30, 2026
Bonds (excluding the current portion)	194,402	209,359	―	―
Total	451,661	382,944	―	―
Current	130,867	84,665	―	―
Non-current	320,794	298,279	―	―
Total	451,661	382,944	―	―

A detail by issue of bonds, excluding the current portion, as of March 31, 2023 and 2024, are as follows:

Company name	Series	Issued date	JPY (millions)		Interest rate(%)	Maturity
			2023	2024		
NEC	The 51st	June 15, 2017	24,981	―	0.360	June 14, 2024
NEC	The 52nd	June 15, 2017	14,968	14,975	0.455	June 15, 2027
NEC	The 54th	September 21, 2018	9,983	9,990	0.360	September 19, 2025
NEC	The 55th	September 21, 2018	9,970	9,976	0.500	September 21, 2028
NEC	The 57th	April 23, 2020	14,972	14,985	0.400	April 23, 2025
NEC	The 58th	April 23, 2020	9,961	9,967	0.540	April 23, 2030
NEC	The 59th	July 12, 2022	59,782	59,831	0.460	July 12, 2027
NEC	The 60th	July 12, 2022	19,921	19,932	0.584	July 12, 2029
NEC	The 61st	July 12, 2022	29,864	29,877	0.749	July 12, 2032
NEC	The 62nd	July 11, 2023	―	19,922	0.355	July 11, 2028
NEC	The 63rd	July 11, 2023	―	19,904	0.840	July 11, 2033
	Total		194,402	209,359	―	―

Commitment line agreements

The NEC Group has entered into commitment line agreements for short-term borrowings with 11 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, 2023 and 2024, is as follows:

JPY (millions)

	2023	2024
Aggregate amount of commitment line contracts	248,000	238,000
Amount used	2,000	—
Unused balance	246,000	238,000

Reconciliation of liabilities arising from financing activities for the fiscal years ended March 31, 2023 and 2024, is as follows:

JPY (millions)

	As of April 1, 2022	Changes arising from cash flows	Changes not arising from cash flows				As of March 31, 2023
			Changes arising from obtaining or losing control of subsidiaries or other businesses	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

JPY (millions)

	As of April 1, 2023	Changes arising from cash flows	Changes not arising from cash flows				As of March 31, 2024
			Changes arising from obtaining or losing control of subsidiaries or other businesses	Foreign currency translation differences	Lease liabilities resulting from new lease	Others	
Short-term borrowings	44,172	(21,345)	(2,500)	4,264	—	—	24,591
Long-term borrowings	173,100	(46,696)	(2,500)	20	—	73	123,997
Lease liabilities	156,820	(63,117)	(2,667)	5,599	72,595	(3,530)	165,700
Bonds	234,389	—	—	—	—	(33)	234,356
Total	608,481	(131,158)	(7,667)	9,883	72,595	(3,490)	548,644

Short-term borrowings comprise primarily of bank borrowings.

21. Employee Benefits

Employee benefit plans

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

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

Investment risks

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

Interest rate risks

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

Defined benefit obligations and plan assets

The changes in present value of defined benefit obligations and fair value of plan assets of the NEC Group for the fiscal years ended March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Present value of defined benefit obligations		
Balance at the beginning of the year	953,769	874,726
Current service cost	17,368	19,178
Interest cost	7,788	11,644
Remeasurements:		
Actuarial losses (gains) arising from changes in demographic assumptions	(3,300)	292
Actuarial gains arising from changes in financial assumptions	(41,318)	(20,204)
Past service cost and gains on settlements	106	—
Benefits paid	(58,698)	(61,204)
Effects of business combinations and disposals	(5,900)	(27,682)
Settlements of defined benefit pension plans	(210)	—
Foreign currency translation differences	6,639	6,994
Others	(1,518)	3,513
Balance at the end of the year	874,726	807,257
Fair value of plan assets		
Balance at the beginning of the year	935,422	890,023
Interest income	7,938	11,046
Remeasurement: Actual gains on plan assets	(15,193)	97,516
Employer contributions	6,066	6,515
Benefits paid	(45,098)	(46,192)
Effects of business combinations and disposals	(4,105)	(34,215)
Foreign currency translation differences	7,172	13,728
Others	(2,179)	2,209
Balance at the end of the year	890,023	940,630
Defined benefit liabilities	179,106	157,646
Defined benefit assets	(194,403)	(291,019)
Net defined benefit liabilities (assets) recognized in the consolidated statements of financial position	(15,297)	(133,373)

Components of defined benefit cost for the fiscal years ended March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Current service cost	17,368	19,178
Net interest	(150)	598
Past service cost and gains on settlements	106	—
Total	17,324	19,776

Fair value of plan assets

The fair value of the plan assets by asset category as of March 31, 2023 and 2024, is as follows:

JPY (millions)

	2023		2024	
	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	32,557	—	208,909	—
Equity securities	263,104	—	156,596	—
Mutual funds	—	586,491	—	571,561
Others	—	7,871	—	3,564
Total	295,661	594,362	365,505	575,125

Consolidated subsidiaries’ shares that are contributed to retirement benefit trust included in Equity securities are 62,720 million JPY and 48,672 million JPY as of March 31, 2023 and 2024, 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, 2023 and 2024, are as follows:

	2023	2024
Discount rate	1.1%	1.5%

The effects on defined obligations of a 0.1% change in the discount rate as of March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Discount rate		
Increased by 0.1%	(8,380)	(7,296)
Decreased by 0.1%	8,530	7,421

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 7,160 million JPY to its defined benefit pension plans during the fiscal year ending March 31, 2025.

The remaining weighted-average duration of the defined benefit obligation was 9.4 years and 8.8 years as of March 31, 2023 and 2024, 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 71,109 million JPY, and 74,922 million JPY for the years ended March 31, 2023 and 2024, respectively. The amount includes the payment of premiums by employer in welfare pension insurance premiums.

22. Provisions

A roll forward of provisions by major component for the fiscal year ended March 31, 2024, 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, 2023	8,941	3,767	17,539	18,441	23,767	5,589	78,044
Increase	6,665	7,701	2,607	8,673	3,081	1,538	30,265
Decrease (used during the year)	(6,798)	(2,952)	(4,176)	(12,836)	(592)	(954)	(28,308)
Decrease (reversed during the year)	(500)	(376)	—	(788)	(625)	(3,865)	(6,154)
Other	109	341	(36)	660	4,799	1,882	7,755
Balance as of March 31, 2024	8,417	8,481	15,934	14,150	30,430	4,190	81,602
Balance as of April 1, 2023	8,941	3,767	17,539	18,441	23,767	5,589	78,044
Balance as of April 1, 2023 – Current	7,707	3,662	2,443	18,441	21,161	4,160	57,574
Balance as of April 1, 2023 – Non-current	1,234	105	15,096	—	2,606	1,429	20,470
Balance as of March 31, 2024	8,417	8,481	15,934	14,150	30,430	4,190	81,602
Balance as of March 31, 2024 – Current	6,966	6,361	894	14,150	26,463	2,808	57,642
Balance as of March 31, 2024 – Non-current	1,451	2,120	15,040	—	3,967	1,382	23,960

Product Warranty Liabilities

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

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

Provision for Business Structure Improvement

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

Asset Retirement Obligations

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

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

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

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

23. Trade and Other Payables

Components of trade and other payables as of March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Notes payable	5,209	4,987
Accounts payable-trade	426,972	419,841
Accounts payable-other	65,444	94,934
Total	497,625	519,762

24. Other Liabilities

Components of other current and non-current liabilities as of March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Consumption tax withheld	42,799	53,613
Deposits from employees	5,079	7,470
Others	12,879	8,322
Other current liabilities	60,757	69,405
Deferred tax liabilities	44,625	37,144
Others	10,630	9,650
Other non-current liabilities	55,255	46,794

25. Revenue

Disaggregation of revenue

The NEC Group has two reportable segments: IT Services business and Social Infrastructure business.

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, 2023 and 2024, are as follows:

Fiscal year ended March 31, 2023

JPY (millions)

	Reportable segments			Others	Consolidated Total
	IT Services	Social Infrastructure	Total		
Contracts for hardware and packaged software deployments	419,345	233,130	652,475	381,101	1,033,576
Contracts for services to customers (including maintenance and outsourcing)	766,264	365,037	1,131,301	94,762	1,226,063
Contracts for system integrations and equipment constructions	569,355	464,049	1,033,404	19,975	1,053,379
Total	1,754,964	1,062,216	2,817,180	495,838	3,313,018

Fiscal year ended March 31, 2024

JPY (millions)

	Reportable segments			Others	Consolidated Total
	IT Services	Social Infrastructure	Total		
Contracts for hardware and packaged software deployments	410,959	237,972	648,931	369,562	1,018,493
Contracts for services to customers (including maintenance and outsourcing)	833,303	366,511	1,199,814	88,141	1,287,955
Contracts for system integrations and equipment constructions	670,864	479,542	1,150,406	20,408	1,170,814
Total	1,915,126	1,084,025	2,999,151	478,111	3,477,262

The table above includes revenues arising from leases for the years ended March 31, 2023 and 2024 because they are immaterial.

Contract balances

There are no significant changes to contract assets during the fiscal years ended March 31, 2023 and 2024. The amounts of revenue recognized for the fiscal years ended March 31, 2023 and 2024, that were included in the contract liability balances at the beginning of the years are 161,627 million JPY and 184,120 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, 2023 and 2024, is as follows:

	JPY (millions)	
	2023	2024
Timing of recognition in revenue		
One year or less	876,358	888,401
More than one year	1,215,832	1,526,448
Remaining performance obligations	2,092,190	2,414,849

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

26. Other Operating Income (Expenses)

Components of other operating income (expenses) for the fiscal years ended March 31, 2023 and 2024, are as follows:

	JPY (millions)	
	2023	2024
Other operating income		
Gain on sales of subsidiaries' stocks	6,266	7,927
Gain on transfer of business	3,323	1,880
Gain on sales of land	4,380	1,864
Insurance recovery	2,719	1,057
Other	7,758	7,336
Subtotal	24,446	20,064
Other operating expenses		
Business structure improvement expense	(1,848)	(8,059)
Impairment loss	(6,857)	(4,735)
Loss on disposal of property, plant and equipment	(3,238)	(3,575)
Other	(6,604)	(7,528)
Subtotal	(18,547)	(23,897)
Other operating expenses, net	5,899	(3,833)

For "Gain on sales of subsidiaries stocks," please refer to Note 7. "Loss of control of a subsidiary."
For "Impairment loss," please refer to Note 10. "Impairment Losses of Non-Financial Assets."

27. Expenses by Nature

Major components of expenses by nature included in “Cost of sales” and “Selling, general and administrative expenses” for the fiscal years ended March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Material costs	1,085,977	1,056,334
Personnel expenses	1,003,109	1,038,149
Outsourcing and subcontracting fees	592,759	620,859
Depreciation and amortization	217,678	220,506

Components of personnel expenses for the fiscal years ended March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Salaries and bonuses	815,374	844,462
Retirement benefit expenses	90,341	96,564
Social security expense	73,154	71,189
Other	24,240	25,934
Total	1,003,109	1,038,149

28. Finance Income and Finance Costs

Components of finance income and finance costs for the fiscal years ended March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Finance income		
Interest income	3,351	5,572
Dividend income	3,628	3,348
Other	3,920	884
Total	10,899	9,804

JPY (millions)

	2023	2024
Finance costs		
Interest expenses	8,001	12,152
Foreign exchange losses, net	4,158	2,596
Loss on valuation of financial instruments	3,730	—
Other	1,735	3,324
Total	17,624	18,072

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.

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

29. Earnings Per Share

The calculation of basic earnings per share ("EPS") and diluted EPS has been based on the following profit attributable to ordinary shareholders of the parent company for the fiscal years ended March 31, 2023 and 2024:

	JPY (millions)	
	2023	2024
Net profit attributable to owners of the parent	114,500	149,521
Net profit attributable to ordinary shareholders of the parent to calculate basic EPS	114,500	149,521
Net profit attributable to ordinary shareholders of the parent after adjustment for the effects of dilutive potential ordinary shares	114,498	149,517
Weighted-average number of ordinary shares to calculate basic EPS (in thousands of shares)	269,722	266,405
Weighted-average number of ordinary shares (diluted) (in thousands of shares)	269,722	266,405
Basic EPS (JPY)	424.51	561.25
Diluted EPS (JPY)	424.50	561.24

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, Ltd. As of March 22, 2024, Japan Aviation Electronics Industry, Ltd. was excluded from a consolidated subsidiary and included in an associate accounted for using the equity method.

30. Stock Compensation

The Company has introduced a performance-based stock compensation plan (the stock compensation plan) through a share settlement trust for Directors (excluding Outside Directors), corporate officers and a part of employees of the Company to serve as a mid- to long-term incentive to further raise the awareness for contribution to improvement in the Company's mid- and long-term performance and its corporate value.

The stock compensation plan is based on three fiscal years, and the number of the vested shares is determined in the range of 0% to 150%, depending on the degree of achievement of the relative TSR compared with TOPIX and peer group companies, and is delivered three years after the beginning of the three fiscal years.

The stock compensation plan is accounted for equity-settled share-based payment and cash-settled share-based payment, and the fair value is measured based on the equity price of the Company.

Stock compensation expense of equity-settled share-based payment is 180 million JPY and of cash-settled share-based payment is 286 million JPY, the carrying amount of liabilities is 286 million JPY, the number of stocks granted is 156,056, and fair value at grant date is 6,912 JPY for the fiscal year ended March 31, 2024.

31. 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, 2023 and 2024

	JPY (billions)		YoY Change
	2023	2024	2023/2024
Total Assets	3,984.1	4,227.5	243.5
Total liabilities	2,071.3	2,138.0	66.7
Total equity	1,912.7	2,089.5	176.8
Interest-bearing debt	608.5	548.6	(59.8)
Net interest-bearing debt	189.0	72.2	(116.9)
Equity attributable to owners of the parent	1,623.8	1,915.6	291.8
Ratio of equity attributable to owners of the parent	40.8%	45.3%	4.6
Debt equity ratio	0.37times	0.29times	(0.08)
Net debt-equity ratio	0.12times	0.04times	(0.08)

** 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, 2023 and 2024, 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, 2023	752,618	(4,888)	747,730
March 31, 2024	785,844	(6,001)	779,843

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, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Beginning balance	5,188	4,888
Increase	1,912	2,847
Decrease (written off)	(447)	(1,177)
Decrease (reversal)	(1,948)	(915)
Others	183	358
Ending balance	4,888	6,001

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, 2023 and 2024. The amounts below include contractual interest payments and exclude the impact of netting agreements.

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

As of March 31, 2024

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	519,762	519,762	519,762	—	—	—	—	—
Accruals	56,115	56,115	56,115	—	—	—	—	—
Short-term borrowings	24,591	25,888	25,888	—	—	—	—	—
Long-term borrowings	123,997	125,066	35,514	49,379	40,173	—	—	—
Bonds	234,356	241,457	26,173	26,080	1,032	75,860	30,626	81,686
Lease liabilities	165,700	176,286	57,382	41,228	25,652	15,702	9,724	26,598
Preference shares with put/call options*	16,984	19,383	—	—	—	—	9,710	9,673
Derivative financial liabilities:								
Forward exchange contracts	8,860	8,860	7,345	878	553	51	26	7
Total	1,150,365	1,172,817	728,179	117,565	67,410	91,613	50,086	117,964

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.

* Preference shares with put/call options issued by a subsidiary of the Company are included in Other financial liabilities in Consolidated Statement of Financial Position.

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, 2023 and 2024. Interest-bearing debts with floating rates that are fixed rates in substance under interest rate swap contracts are excluded from the amounts.

JPY (millions)

	2023	2024
	Carrying amount	Carrying amount
Long-term borrowings (floating rates)	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)

	2023	2024
Profit before income taxes	(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, 2023 and 2024, are as follows:

(Thousands of U.S. dollars and euros)

	2023		2024	
	U.S. dollars	Euros	U.S. dollars	Euros
Trade receivables	506,515	19,660	342,034	2,796
Trade payables	(313,845)	(10,715)	(181,371)	(8,717)
Forward exchange contracts	19,873	3,173	153,766	(25,315)
Net exposure	212,543	12,118	314,429	(31,236)

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)

	2023	2024
	Profit before income taxes	Profit before income taxes
U.S. dollars (1% strengthening of the JPY)	(284)	(476)
Euros (1% strengthening of the JPY)	(18)	51

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)

	2023	2024
Increase or decrease of 1% in equity prices	470	479

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 fair value of preference shares with put/call options, which are classified as financial liabilities, is measured by discounting the estimated future cash flows, which are based on the expected timing of the exercise of the put/call options, at the interest rate that takes into account the period to the date of exercise and the credit risk.

The carrying amounts and fair values of financial assets and liabilities as of March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023		2024	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost:				
Cash and cash equivalents	419,462	419,462	476,490	476,490
Trade and other receivables	799,875	799,875	829,497	829,497
Others	62,223	62,223	53,656	53,656
Financial liabilities measured at amortized cost:				
Trade and other payables	497,625	497,625	519,762	519,762
Short-term borrowings	44,172	44,172	24,591	24,591
Current portion of long-term borrowings	46,708	46,708	35,077	35,077
Bonds	234,389	232,268	234,356	232,067
Long-term borrowings	126,392	126,017	88,920	88,714
Accruals	63,393	63,393	56,115	56,115
Preference shares with put/call options	—	—	16,984	17,464
Others	15,494	15,494	28,366	28,366

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 and preference shares with put/call options 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, 2023 and 2024, are as follows:

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

As of March 31, 2024				JPY (millions)
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	—	6,232	20,095	26,327
Equity instruments designated as measured at fair value through other comprehensive income	47,878	—	90,967	138,845
Financial liabilities measured at fair value through profit or loss	—	8,860	—	8,860

Reconciliation of financial assets measured at fair value using Level 3 inputs for the fiscal year ended March 31, 2023 and 2024, are as follows:

	JPY (millions)
	Level 3
As of April 1, 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
Profit or loss	(750)
Other comprehensive income	(2,140)
Purchases	2,504
Sales	(857)
Others	291
As of March 31, 2024	111,062

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 140,739 million JPY and 3,014 million JPY, respectively, for the fiscal year ended March 31, 2023, and 138,845 million JPY and 2,718 million JPY, respectively, for the fiscal year ended March 31, 2024. 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 19,182 million JPY and 10,198 million JPY, respectively, for the fiscal year ended March 31, 2023, and 16,676 million JPY and 9,733 million JPY, respectively, for the fiscal year ended March 31, 2024.

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, 2023 and 2024, include the following:

JPY (millions)

	2023	2024
TBS HOLDINGS, INC.	4,589	10,501
Aviat Networks, Inc.	—	4,277
The Sumitomo Warehouse Co., Ltd.	3,600	4,247
MEIDENSHA CORPORATION	3,354	3,846
Seven Bank, Ltd.	2,650	2,957
Ryosan Company, Ltd.	2,386	2,591
OTSUKA CORPORATION	1,827	2,494

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, 2023 and 2024, include the following:

JPY (millions)

	2023	2024
JECC Corporation	38,008	38,673
BostonGene Corporation	24,301	25,589
Dalian Hi-Think Computer Technology Corp.	11,181	10,421

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, 2023 and 2024, is as follows:

JPY (millions)

	2023	2024
Financial assets measured at amortized cost:		
Deposits with contractual maturity of more than three months	10,090	5,591
Others	52,133	48,065
Financial assets measured at fair value through other comprehensive income:		
Equity instruments	140,739	138,845
Financial assets measured at fair value through profit or loss:		
Equity instruments	2,288	2,739
Others	18,257	23,588
Total	223,507	218,828
Other financial assets-current	15,776	15,729
Other financial assets-non-current	207,731	203,099
Total	223,507	218,828
Financial liabilities measured at amortized cost:		
Deposits received	6,778	5,634
Long-term accounts payable	15,867	7,792
Preference shares with put/call options	—	16,984
Others	12,582	9,753
Financial liabilities measured at fair value through profit or loss:		
Others	7,151	8,860
Total	42,378	49,023
Other financial liabilities-current	21,950	20,185
Other financial liabilities-non-current	20,428	28,838
Total	42,378	49,023

32. 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, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Depreciation expense for right-of-use assets by the class of underlying asset		
Property	54,082	56,203
Machinery and equipment	2,489	3,370
Tools, furniture and fixtures	2,890	2,869
Total	59,461	62,442
Interest expense on lease liabilities	2,810	3,400
Expense relating to short-term leases	5,299	4,961
Expense relating to leases of low-value assets	5,515	5,868
Total cash outflow for leases	74,567	78,012

The carrying amount of right-of-use assets by class of underlying asset as of March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Property	125,465	136,113
Machinery and equipment	8,922	6,919
Tools, furniture and fixtures	5,620	5,082
Total	140,007	148,114

Additions to right-of-use assets amounted to 67,630 million JPY and 71,228 million JPY for the fiscal year ended March 31, 2023 and 2024 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, 2023 and 2024, are 798 million JPY and 5,919 million JPY, respectively .

Maturity analysis of lease liabilities is disclosed in Note 31. “Financial Instruments”.

33. 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, 2023 and 2024.

Purchases from and sales to related parties for the fiscal years ended March 31, 2023 and 2024 are as follows:

JPY (millions)

	2023	2024
Purchases	94,378	91,685
Sales	153,942	139,465

Outstanding balances due to related parties as of March 31, 2023 and 2024, are as follows:

JPY (millions)

	2023	2024
Trade and other receivables, Contract assets	28,117	26,101
Trade and other payables, Contract liabilities	40,161	82,475

Key management personnel compensation

The Company transitioned from a company with an audit & supervisory board to a company with a nominating committee, etc. on June 22, 2023. Prior to the transition to a company with a nominating committee, etc., key management personnel are defined as the Company's board of directors and members of the audit and supervisory board. After the transition to a company with a nominating committee, etc., key management personnel are defined as the Company's board of directors and executive officers. The compensation for the key management personnel for the fiscal years ended March 31, 2023 and 2024, is as follows:

JPY (millions)

	2023	2024
Basic compensation	368	973
Bonuses	112	551
Stock compensation	109	240
Total	589	1,764

34. Commitments

The amounts of contractual commitments for the purchases of property, plant and equipment as of March 31, 2023 and 2024, are 74,187 million JPY and 51,152 million JPY, respectively.

The amounts of contractual commitments for the purchases of intangible assets as of March 31, 2023 and 2024, are 607 million JPY and 893 million JPY, respectively.

35. 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.

36. Subsequent Events

Issuance of Sustainability-Linked Bonds

The Company plans to issue bonds with a total issuance amount of up to 260 billion JPY in as early as July 2024.
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 revised corporate bond shelf registration statements to the Director-General of the Kanto Local Finance Bureau for the Issuance on June 3, 2024 and June 18, 2024.

<u>Independent Auditor's Report</u>

To the Board of Directors of NEC Corporation:

Report on the Audit of the Consolidated Financial Statements

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, 2024, 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 material 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 at March 31, 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board prescribed in Article 93 of "the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (IFRS Accounting Standards).

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

Scope	Prior fiscal year	Current fiscal year	Reason for this change
Deferred tax assets concerning corporate income tax of companies under the Japanese Group Relief System*	Yes	No	Excluded from the key audit matter due to improvement of outlook of the ability of the Company and certain of its domestic consolidated subsidiaries to generate future taxable income.
Deferred tax assets concerning corporate inhabitant tax and enterprise tax of the Company*		Yes	-

* 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).

<table>
<tr><th colspan="2">Reasonableness of the Company's determination on the recoverability of deferred tax assets concerning its corporate inhabitant tax and enterprise tax</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>
In the consolidated statement of financial position of NEC Corporation and subsidiaries (collectively referred to as the "Group") for the current fiscal year, deferred tax assets of ¥156,888 million, representing approximately 3.7% of total assets, were recognized. Of this amount, deferred tax assets concerning the corporate inhabitant tax and enterprise tax recognized by the Company were ¥17,829 million, and unrecognized deferred tax assets were ¥2,843 million.
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 temporary differences for the corporate inhabitant tax and enterprise tax of the Company.
The recoverability of those deferred tax assets was determined based on the estimated future taxable income to be generated. The underlying future earnings projections included assumptions based on highly uncertain estimates regarding future profitability considering demand forecasts for the domestic market, including growing investments in digital transformation (DX) (including the impact on corresponding costs), and involved management's judgment.
We, therefore, determined that our assessment of the reasonableness of the Company's determination on the recoverability of deferred tax assets concerning its corporate inhabitant tax and enterprise tax 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>
The primary procedures we performed to assess whether the Company's determination on the recoverability of deferred tax assets concerning its corporate inhabitant tax and enterprise tax 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.
(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 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; and
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.
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</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 Accounting Standards, 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 Accounting Standards 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 Accounting Standards, 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 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, actions taken to eliminate threats or safeguards applied.

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.

Fee-related Information

Fees paid or payable to our firm and to other firms within the same network as our firm for audit and non-audit services provided to the Company and its subsidiaries are described in "5. Audit fees, etc." of the Financials with Audit Report.

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 is 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 21, 2024