Consolidated Financial Statements
for the Fiscal Year Ended March 31, 2025

Contents

Management’s Discussion and Analysis

Year Ended March 31, 2025 (Fiscal 2025)
Compared With the Year Ended March 31, 2024 (Fiscal 2024)

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, 2025. 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

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 2025 Business Results

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. Each business activity was conducted with "IT Services Business" and "Social Infrastructure Business" as the main segments.

- Business Strategy
In the “IT Services Business”, NEC Corporation (hereinafter referred to as "the Company") announced in May 2024 the “NEC BluStellar” a value creation model that aims to lead customers into the future. NEC BluStellar leverages our cutting-edge technologies, such as AI and cyber security, refined through years of knowledge and know-how through its DX (Digital Transformation) business, which contributes to the provision of prompt and advanced services to customers. NEC BluStellar Business achieved faster growth and improved profitability than projected in the fiscal year ended March 31, 2025, supported in part by solid demand for DX. This contributed significantly to the strong performance of the IT Services Business.

Within the “Social Infrastructure Business”, in the aerospace and national security domain, the Company secured orders at a record high level during the fiscal year ended March 31, 2025, as in the fiscal year ended March 31, 2024, due to the rising defense budget of the Japanese government against a backdrop of growing awareness of national security. The Company also strengthened its business foundation, including reinforcing human resources and production facilities, to prepare for more expanding the business scale.

- Human Resource Strategy

In April 2024, the Company launched job-based human resource management for all employees in the Company as a driving force to promote “the right time, the right place and the right person” through flexible allocation of human resources. The intention of this is to clarify jobs and encourage the career autonomy of employees as the starting point of the Company’s strategy. In addition, in April 2025, five NEC Group companies (Note) also introduced job-based human resource management to further increase the mobility of human resources within the NEC Group. Furthermore, the Company is promoting the appointment of diverse human resources such as mid-career professionals, women, and non-Japanese. The ratio of female and non-Japanese Directors and other officers was 15.8% as of April 2024 and 20% as of April 2025, achieving the target of 20% set in the “Mid-term Management Plan 2025”.

The Company’s employee engagement score has improved from 25% in the fiscal year ended March 31, 2021 to 42% through efforts to foster a culture where employees take pride in working at the Company and work proactively, as well as focusing on developing fair systems for evaluation, appointment, and compensation. Furthermore, in the “Mid-term Management Plan 2025”, the Company set a goal to increase the employee engagement score to 50%, which is roughly within the global top 25 percentile.

Note: NEC Solution Innovators, Ltd., NEC Platforms, Ltd., NEC Communication Systems, Ltd., NEC Nexsolutions, Ltd. and NEC Business Intelligence, Ltd.

Condensed Consolidated Statements of Profit or Loss

	Billions of Yen		*YoY Change*
	2024	2025	2025/2024
Revenue	¥3,477.3	¥3,423.4	-1.5%
Operating profit	188.0	256.5	+36.4%
Profit before income taxes	185.0	239.8	+29.6%
Net profit attributable to owners of the parent	149.5	175.2	+17.2%

The NEC Group recorded consolidated revenue of 3,423.4 billion JPY for the fiscal year ended March 31, 2025, a decrease of 53.8 billion JPY (-1.5%) year-on-year. This decrease was mainly due to the deconsolidation of Japan Aviation Electronics Industry, Limited., despite an increase in the revenues of the IT Services Business and the Social Infrastructure Business.

Regarding profitability, operating profit increased by 68.5 billion JPY year-on-year, to an operating profit of 256.5 billion JPY, due mainly to an increase in revenue in IT Services Business and Social Infrastructure Business. Adjusted operating profit increased by 63.6 billion JPY year-on-year, to 287.2 billion JPY. Non-GAAP operating profit increased by 83.7 billion JPY year-on-year, to 311.3 billion JPY.

Profit before income taxes was a profit of 239.8 billion JPY, a year-on-year increase of 54.8 billion JPY, due to increased operating profit, despite the recording of an impairment loss on the investment in NEC Capital Solutions Limited under share of profit (loss) of entities accounted for using the equity method.

Net profit attributable to owners of the parent was a profit of 175.2 billion JPY, an increase of 25.7 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 225.7 billion JPY, an increase of 47.9 billion JPY year-on-year.

(1) IT Services Business

Revenue:	2,033.2 billion yen	(+6.2%)
Adjusted operating profit:	237.1 billion yen	(+53.0 billion yen)

In IT Services Business, revenue was 2,033.2 billion JPY, an increase of 119.2 billion JPY (+6.2%) year-on-year, mainly due to an increase in businesses both in Japan and overseas.

Adjusted operating profit increased by 53.0 billion JPY year-on-year, to an adjusted operating profit of 237.1 billion JPY, mainly due to increased revenue and profitability improvement in system integration areas.

(2) Social Infrastructure Business

Revenue	1,141.7 billion yen	(+6.0%)
Adjusted operating profit:	85.4 billion yen	(+30.2 billion yen)

In Social Infrastructure Business, revenue was 1,141.7 billion JPY, an increase of 64.4 billion JPY (+6.0%) year-on-year, mainly due to increased revenue in aerospace and national security.

Adjusted operating profit increased by 30.2 billion JPY year-on-year, to an adjusted operating profit of 85.4 billion JPY, mainly due to increased revenue and cost optimization in the telecom services, .

(3) Others

Revenue	248.5 billion yen	(-48.9%)
Adjusted operating profit:	-14.7 billion yen	(-19.7 billion yen)

In the Others, revenue was 248.5 billion JPY, a decrease of 237.4 billion JPY (-48.9%) year-on-year.

Adjusted operating profit decreased by 19.7 billion JPY year-on-year, to an adjusted operating profit of -14.7 billion JPY.

3. Liquidity and Capital Resources

(1) Assets, Liabilities and Net Assets

Condensed Consolidated Balance Sheets

	Billions of Yen		*YoY Change*
	2024	2025	2025/2024
Assets			
Current assets	¥2,141.8	¥2,225.0	¥+83.2
Property, plant and equipment	511.0	580.2	+69.2
Investments and other assets	1,574.8	1,510.2	-64.6
Total Assets	4,227.5	4,315.4	+87.9
Liabilities			
Current liabilities	1,469.4	1,633.4	+164.1
Noncurrent liabilities	668.6	610.4	-58.2
Total liabilities	2,138.0	2,243.9	+105.9
Equity			
Total equity attributable to owners of the parent	1,915.6	1,952.0	+36.4
Non-controlling interests	173.9	119.5	-54.4
Total equity	2,089.5	2,071.5	-18.0
Total liabilities and equity	4,227.5	4,315.4	+87.9
Interest-bearing debt	548.6	666.4	+117.7
Net interest-bearing debt	72.2	81.7	+9.6
Equity attributable to owners of the parent	1,915.6	1,952.0	+36.4
Ratio of equity attributable to owners of the parent	45.3%	45.2%	-0.1
Debt equity ratio	0.29 times	0.34 times	+0.05
Net debt equity ratio	0.04 times	0.04 times	+0.00

Total assets were 4,315.4billion JPY as of March 31, 2025, an increase of 87.9 billion JPY as compared with the end of the previous fiscal year. Current assets as of March 31, 2025 were 2,225.0 billion JPY, an increase of 83.2 billion JPY compared with the end of the previous fiscal year, mainly due to an increase in cash and cash equivalents and trade and other receivables. Non-current assets as of March 31, 2025 increased by 4.6 billion JPY compared with the end of the previous fiscal year to 2,090.4 billion JPY. This was mainly due to an increase in tangible fixed assets.

Total liabilities as of March 31, 2025 increased by 105.9 billion JPY compared with the end of the previous fiscal year to 2,243.9 billion JPY. This was mainly due to an increase in corporate bonds, borrowings, and unpaid corporate income taxes. The balance of interest-bearing debt amounted to 666.4 billion JPY, an increase of 117.7 billion JPY as compared with the end of the previous fiscal year. The debt-equity ratio as of March 31, 2025 was 0.34 (a worsening of 0.05 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of March 31, 2025, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 81.7 billion JPY, an increase of 9.6 billion JPY as compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2025 was 0.04 (Remained comparable to the level at the end of the previous fiscal year).

Total equity was 2,071.5 billion JPY as of March 31, 2025, a decrease of 18.0 billion JPY as compared with the end of the previous fiscal year, mainly due to the reduction in capital surplus and non-controlling interests, despite the increase in retained earnings from the recognition of the profit attributable to the owners of the parent and other increases in capital components such as the remeasurement of defined benefit plans.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of March 31, 2025 was 1,952.0 billion JPY, and the ratio of equity attributable to owners of the parent was 45.2% (Remained comparable to the level at the end of the previous fiscal year).

(2) Cash Flows

Condensed Consolidated Cash Flows

		Billions of Yen		*YoY Change*
		2024	2025	2025/2024
I	Cash flows from operating activities	¥271.2	¥344.4	¥+73.2
II	Cash flows from investing activities	-76.0	-131.2	-55.1
I+II	Free cash flows	+195.2	+213.2	+18.0
III	Cash flows from financing activities	-155.5	-104.0	+51.5
Cash and cash equivalents at end of period		476.5	584.6	+108.1

Net cash inflows from operating activities for the fiscal year ended March 31, 2025 were 344.4 billion JPY, an increase of 73.2 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, 2025 were 131.2 billion JPY, an increase of 55.1 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, 2025 totaled a cash inflow of 213.2 billion JPY, an improvement of 18.0 billion JPY year-on-year.

Net cash flows from financing activities for the fiscal year ended March 31, 2025 totaled a cash outflow of 104.0 billion JPY, mainly due to expenditure for acquisition of subsidiary interests from non-controlling interests, payments of lease liabilities and repayment of long-term debt, etc., despite an increase in short-term borrowings .

Effect of exchange rate changes on cash and cash equivalents as of March 31, 2025 amounted to a negative 1.1 billion JPY.

As a result, cash and cash equivalents as of March 31, 2025 amounted to 584.6 billion JPY, an increase of 108.1 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, 2025, the NEC Group had a sufficient amount of liquidity. Total liquidity in hand as of March 31, 2025, was 822.6 billion JPY, comprising cash and cash equivalents of 584.6 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 300.0 billion JPY straight bond issuance program in Japan.

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

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

As of March 31,	2024	2025
Long-term fund procurement*1	75.0%	57.0%
Use of capital market instruments*2	42.7%	35.9%

*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 2024 and 2025 are broken down as follows (amounts do not include right-of-use assets and consumption taxes):

	Billions of Yen		*YoY Change*
	2024	2025	2025/2024
IT Services Business	¥11.6	¥9.4	-18.7%
Social Infrastructure Business	12.1	11.7	-3.6%
Others	63.0	95.0	+50.8%
Total	¥86.7	¥116.1	+33.9%

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 partial acquisition of trust beneficial interests in the head office building, and construction of a new building at the Fuchu plant.

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

5. Audit fees, etc.

Fees for Independent Auditor*

Categories	2024		2025	
	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	1,029	31	645	41
Consolidated subsidiaries	623	21	648	35
Total	1,652	52	1,293	76

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 years ended March 31, 2024 and 2025 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	2024		2025	
	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	—	154	4	186
Consolidated subsidiaries	1,131	518	1,045	490
Total	1,131	672	1,049	676

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 years ended March 31, 2024 and 2025, 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, 2024, the Audit Committee approved the fee amounts for the independent auditor for the fiscal year ended March 31, 2025 pursuant to Article 399, Paragraph 1 of the Companies Act.

Consolidated Statements of Financial Position as of March 31, 2024 and 2025

JPY (millions)

	Notes	2024	2025
Assets			
Current assets			
Cash and cash equivalents	16	476,490	584,615
Trade and other receivables	15	829,497	878,434
Contract assets	26	411,715	374,511
Inventories	14	242,634	184,779
Other financial assets	32	15,729	9,830
Other current assets	17	165,719	181,883
Subtotal		2,141,784	2,214,052
Assets held for sale	18	—	10,942
Total current assets		2,141,784	2,224,994
Non-current assets			
Property, plant and equipment, net	8, 10	510,970	580,165
Goodwill	9, 10	392,290	393,881
Intangible assets, net	9, 10	371,762	351,904
Investments accounted for using the equity method	12	107,925	107,242
Other financial assets	32	203,099	221,133
Deferred tax assets	13	156,888	177,216
Other non-current assets	10, 17	342,796	258,833
Total non-current assets		2,085,730	2,090,374
Total assets		4,227,514	4,315,368

	Notes	2024	2025
			JPY (millions)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	24	519,762	492,833
Contract liabilities	26	389,908	405,778
Bonds and borrowings	21	84,665	233,886
Accruals		252,713	249,989
Lease liabilities	32	52,579	52,519
Other financial liabilities	32	20,185	15,787
Accrued income taxes		22,494	59,180
Provisions	23	57,642	42,415
Other current liabilities	25	69,405	74,500
Subtotal		1,469,353	1,626,887
Liabilities directly associated with assets held for sale	18	—	6,529
Total current liabilities		1,469,353	1,633,416
Non-current liabilities			
Bonds and borrowings	21	298,279	255,842
Lease liabilities	32	113,121	124,112
Other financial liabilities	32	28,838	22,168
Net defined benefit liabilities	22	157,646	137,916
Provisions	23	23,960	26,142
Other non-current liabilities	25	46,794	44,261
Total non-current liabilities		668,638	610,441
Total liabilities		2,137,991	2,243,857
Equity			
Share capital	19	427,831	427,831
Share premium	19	167,451	46,704
Retained earnings	19	883,453	1,023,945
Treasury shares	19	(31,097)	(30,725)
Other components of equity	19	467,975	484,263
Total equity attributable to owners of the parent		1,915,613	1,952,018
Non-controlling interests	11	173,910	119,493
Total equity		2,089,523	2,071,511
Total liabilities and equity		4,227,514	4,315,368

See accompanying notes to consolidated financial statements.

Consolidated Statements of Profit or Loss for the Fiscal Years Ended March 31, 2024 and 2025

JPY (millions)

	Notes	2024	2025
Revenue	6, 26	3,477,262	3,423,431
Cost of sales	14, 28	2,471,404	2,362,875
Gross profit		1,005,858	1,060,556
Selling, general and administrative expenses	28	814,013	777,424
Other operating income (expenses)	27	(3,833)	(26,635)
Operating profit	6	188,012	256,497
Finance income	6, 29	9,804	9,956
Finance costs	6, 29	18,072	16,579
Share of profit (loss) of entities accounted for using the equity method	6, 12	5,267	(10,103)
Profit before income taxes	6	185,011	239,771
Income taxes	13	20,259	55,107
Net profit		164,752	184,664
Net profit attributable to			
Owners of the parent		149,521	175,183
Non-controlling interests		15,231	9,481
Total		164,752	184,664
Earnings per share attributable to owners of the parent			
Basic earnings per share (JPY)	30	112.25	131.50
Diluted earnings per share (JPY)	30	112.25	131.49

Note: The Company conducted a share split at a ratio of five (5) shares for one (1) share of its common share, effective April 1, 2025. Basic earnings per share and diluted earnings per share have been calculated assuming that the share split had occurred at the beginning of the previous fiscal year.

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income for the Fiscal Years Ended March 31, 2024 and 2025

JPY (millions)

	Notes	2024	2025
Net profit		164,752	184,664
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	19	12,326	1,746
Remeasurements of defined benefit plans	19,22	81,217	14,424
Share of other comprehensive income of entities accounted for using the equity method	19	206	5
Total items that will not be reclassified to profit or loss		93,749	16,175
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	19	86,055	1,494
Cash flow hedges	19	(3,758)	1,784
Share of other comprehensive income of entities accounted for using the equity method	19	1,710	(1,947)
Total items that may be reclassified subsequently to profit or loss		84,007	1,331
Total other comprehensive income, net of tax		177,756	17,506
Total comprehensive income		342,508	202,170
Total comprehensive income attributable to			
Owners of the parent		319,560	191,471
Non-controlling interests		22,948	10,699
Total		342,508	202,170

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity for the Fiscal Years Ended March 31, 2024 and 2025

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	19	–	–	–	–	170,039	170,039	7,717	177,756
Comprehensive income		–	–	149,521	–	170,039	319,560	22,948	342,508
Purchase of treasury shares	19	–	–	–	(74)	–	(74)	–	(74)
Disposal of treasury shares	19	–	2	–	565	–	567	–	567
Share-based payment transactions	31	–	180	–	–	–	180	–	180
Cash dividends	20	–	–	(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

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, 2024		427,831	167,451	883,453	(31,097)	467,975	1,915,613	173,910	2,089,523
Net profit		–	–	175,183	–	–	175,183	9,481	184,664
Other comprehensive income	19	–	–	–	–	16,288	16,288	1,218	17,506
Comprehensive income		–	–	175,183	–	16,288	191,471	10,699	202,170
Purchase of treasury shares	19	–	–	–	(98)	–	(98)	–	(98)
Disposal of treasury shares	19	–	10	–	470	–	480	–	480
Share-based payment transactions	31	–	533	–	–	–	533	–	533
Cash dividends	20	–	–	(34,691)	–	–	(34,691)	(7,011)	(41,702)
Put option, written over shares held by a non-controlling interest shareholder		–	(3,865)	–	–	–	(3,865)	–	(3,865)
Changes in interests in subsidiaries	11	–	(117,425)	–	–	–	(117,425)	(58,105)	(175,530)
Total transactions with owners		–	(120,747)	(34,691)	372	–	(155,066)	(65,116)	(220,182)
As of March 31, 2025		427,831	46,704	1,023,945	(30,725)	484,263	1,952,018	119,493	2,071,511

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows for the Fiscal Years Ended March 31, 2024 and 2025

JPY (millions)

	Notes	2024	2025
Cash flows from operating activities			
Profit before income taxes		185,011	239,771
Depreciation and amortization	6	187,700	158,437
Impairment loss	6,10	4,735	9,590
Increase (decrease) in provisions		4,307	(13,864)
Finance income	6,29	(9,804)	(9,956)
Finance costs	6,29	18,072	16,579
Share of profit (loss) of entities accounted for using the equity method	6,12	(5,267)	10,103
(Increase) decrease in trade and other receivables		(64,754)	(55,795)
(Increase) decrease in contract assets		(69,375)	36,464
(Increase) decrease in inventories		(6,658)	52,731
Increase (decrease) in trade and other payables		24,224	(12,579)
Increase (decrease) in contract liabilities		91,147	15,575
Others, net		(33,608)	(55,774)
Subtotal		325,730	391,282
Interest received		5,896	5,738
Dividends received		3,330	3,595
Interest paid		(10,980)	(9,098)
Income taxes paid		(52,748)	(47,109)
Net cash provided by (used in) operating activities		271,228	344,408
Cash flows from investing activities			
Purchases of property, plant and equipment		(75,176)	(126,410)
Proceeds from sales of property, plant and equipment		7,656	8,701
Acquisitions of intangible assets		(24,591)	(24,215)
Purchase of equity instruments designated as measured at fair value through other comprehensive income		(367)	(5,804)
Proceeds from sales of equity instruments designated as measured at fair value through other comprehensive income		16,676	7,394
Purchase of shares of newly consolidated subsidiaries		(811)	(878)
Proceeds from sales of shares of subsidiaries		1,892	—
Disbursements for sales of shares of subsidiaries	7	(9,008)	(490)
Purchases of investments in associates or joint ventures		(276)	(5,795)
Proceeds from sales of investments in associates or joint ventures		226	15,874
Others, net		7,764	459
Net cash provided by (used in) investing activities		(76,015)	(131,164)

JPY (millions)

	Notes	2024	2025
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	21	(21,345)	134,217
Proceeds from long-term borrowings	21	—	1,962
Repayments of long-term borrowings	21	(46,696)	(36,231)
Proceeds from issuance of bonds	21	40,000	30,000
Redemption of bonds	21	(40,000)	(25,000)
Payments of lease liabilities	33	(63,117)	(56,596)
Payments for acquisition of interests in subsidiaries from non-controlling interests	11	—	(111,003)
Dividends paid	20	(30,655)	(34,682)
Dividends paid to non-controlling interests		(8,715)	(7,013)
Proceeds from sale of treasury shares		567	470
Proceeds from issuance of preference shares with put/call options		15,797	—
Others, net		(1,344)	(98)
Net cash provided by (used in) financing activities		(155,508)	(103,974)
Effect of exchange rate changes on cash and cash equivalents		17,323	(1,145)
Net increase (decrease) in cash and cash equivalents		57,028	108,125
Cash and cash equivalents, at the beginning of the year		419,462	476,490
Cash and cash equivalents, at the end of the year	16	476,490	584,615

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 312 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 19, 2025.

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 7 “Statement of Cash Flows” and IFRS 7 “Financial Instruments: Disclosures”, effective from the fiscal year ended March 31, 2025. These amendments require disclosures to enhance the transparency of supplier finance arrangements. Except for the impact on the Note 24. “Trade and Other Payables - Supplier finance arrangements,” the adoption of these amendments has no effect on the consolidated financial statements.

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 measured at amortized cost

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.

Financial assets measured at fair value through other comprehensive income

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 measured at fair value through profit or loss

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.

Derivatives designated as hedging instruments are classified as either cash flow hedge, fair value hedge, or hedge of a net investment at the inception of a hedge relationship. 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. At the inception of the hedges, the NEC Group designates an appropriate hedge ratio by assessing the economic relationship between the hedging instrument and the hedged item in light of its risk management strategy. 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.

Derivatives that are not designated as hedging instruments are used when their use is economically rational, even if the hedging relationship does not meet the qualifying criteria for hedge accounting.

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. If a defined benefit plan is overfunded, the net value of the defined benefit assets is measured at the lower of the overfunded amount of the plan or the asset ceiling.

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 (including outsourcing and maintenance) 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 (including outsourcing and maintenance) 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 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 (i) the NEC Group has a present right to payment for the asset; (ii) the customer has legal title to the asset; (iii) the NEC Group has transferred physical possession of the asset; (iv) the customer has the significant risks and rewards related to the ownership of the asset; and (v) 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, is in principle recognized upon the customer's acceptance. Revenue on standard Hardware is recognized in principle upon delivery, where the control of the Hardware is transferred to the customer.

Contracts for services to customers (including outsourcing and maintenance)/contracts for system integrations and equipment constructions
Supply of the services usually corresponds to any of the following criteria: (i) the customer simultaneously receives and consumes all of the benefits provided by the NEC Group 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 (iii) 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 until such time that the outcome of the performance obligation can be reasonably measured.
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.
Related to contracts for system integrations and equipment constructions, the NEC Group recognizes revenue in principle by the method of measuring the progress based on the costs incurred to date as a percentage of the total estimated project costs.

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.

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.

Government grants

Government grants are recognized when there is reasonable assurance that the NEC Group will comply with the conditions attached to the grant and that the grant will be received. The recognition method is as follows:

- Grants related to assets are recognized as deferred income and systematically recognized in profit or loss over the useful life of the related assets.
- Grants related to income are recognized in profit or loss by deducting the grant from the related expense.

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, 2025, are as follow:

Revenue recognition

Related to contracts for system integrations and equipment constructions, the NEC Group recognizes revenue in principle by the method of measuring the progress based on the costs incurred to date as a percentage of the total estimated project costs.
The total estimated project costs, which are the basis for measuring the progress, are estimated based on the specifications, work period, and risks associated with contracts of each project. However, if there is a discrepancy between the estimates and actual results, it may significantly impact the amount of revenue in the consolidated financial statements for the consolidated fiscal year ending March 31, 2026.
Regarding the amount of revenue disaggregated into contracts for system integrations and equipment constructions, please refer to Note 26. “Revenue.”

Provision for loss on construction contracts and others

The estimated future loss is recognized as provision for contracts for system integrations and equipment constructions for which the NEC Group is fulfilling its performance obligations, if the total estimated project costs probably exceed the total revenue at the end of the reporting period, and if the estimated future loss after the reporting period can be reasonably estimated. The timing of cash outflows depends on the progress of the project in the future.
The total estimated project costs are estimated based on the specifications, work period, and risks associated with contracts of each project. However, if there is a discrepancy between the estimates and actual results, it may significantly impact the amount of provision for loss on construction contracts and others in the consolidated financial statements for the consolidated fiscal year ending March 31, 2026.
Regarding the carrying amount of provision for loss on construction contracts and others, please refer to Note 23. “Provision.”

Assessment for recoverability of deferred tax assets

A deferred tax assets is recognized for the carryforward of unused tax losses, and deducible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized.
Due to market conditions and other environmental deterioration, and if the estimates of future taxable income are less than forecasted, the amount of recoverable deferred tax assets may be reduced.
Regarding the carrying amount of deferred tax assets, please refer to Note 13. “Income Taxes.”

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 32)
- Recoverable Amount in Impairment Test of Non-financial Assets (Note 10)
- Actuarial Assumptions of Post-retirement Benefits (Note 22)
- Recognition and Measurement of Provisions (Note 23)
- Revenue Recognition (Note 3, “Revenue”)
- Recoverability of Deferred Tax Assets (Note 13)
- Identification of Lease and Determination of Lease Term (Note 33)

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)
IFRS 9	Financial Instruments	Amendments of the requirements for the classification of financial assets and derecognition of financial liabilities, and of the disclosure related to investments in equity instruments	January 1, 2026	March 31, 2027
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 national security 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, 2024 and 2025, are as follows:

Fiscal year ended March 31, 2024

JPY (millions)

	Reportable segments			Others	Reconciling Items	Consolidated total
	IT Services	Social Infrastructure	Total			
Revenue:						
External customers	1,913,992	1,077,335	2,991,327	485,935	—	3,477,262
Intersegment	48,857	5,888	54,745	6,661	(61,406)	—
Total	1,962,849	1,083,223	3,046,072	492,596	(61,406)	3,477,262
Segment profit (loss)	184,106	55,143	239,249	5,039	(20,726)	223,562
Amortization of acquisition-related intangible assets						(35,202)
M&A related expenses						(348)
Operating profit						188,012
Finance income						9,804
Finance costs						(18,072)
Share of profit of entities accounted for using the equity method						5,267
Profit 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

Fiscal year ended March 31, 2025

JPY (millions)

	Reportable segments			Others	Reconciling Items	Consolidated total
	IT Services	Social Infrastructure	Total			
Revenue:						
External customers	2,033,222	1,141,705	3,174,927	248,504	—	3,423,431
Intersegment	55,996	6,365	62,361	6,050	(68,411)	—
Total	2,089,218	1,148,070	3,237,288	254,554	(68,411)	3,423,431
Segment profit (loss)	237,084	85,362	322,446	(14,654)	(20,633)	287,159
Amortization of acquisition-related intangible assets						(30,660)
M&A related expenses						(2)
Operating profit						256,497
Finance income						9,956
Finance costs						(16,579)
Share of loss of entities accounted for using the equity method						(10,103)
Profit before income taxes						239,771
Other items:						
Depreciation and amortization	85,738	29,230	114,968	18,149	25,320	158,437
Impairment loss	2,052	1,560	3,612	5,978	—	9,590
Reversal of impairment loss	—	—	—	(75)	—	(75)
Capital expenditures	71,935	38,797	110,732	15,394	133,172	259,298

“Reconciling Items” in segment profit (loss) includes amounts not allocated to each reportable segment that consist principally of corporate expenses of 19,829 million JPY, and 20,986 million JPY for the fiscal years ended March 31, 2024 and 2025, respectively. Corporate expenses are mainly research and development expenses for advanced technology.

Information about revising segments

From the fiscal year ended March 31, 2025, the Company has revised a part of its method for calculating the financial performance of reportable segments to present the performance of each segment more appropriately. Under the former basis of measurement, corporate-wide non-business expenses were included in Reconciling Items. From the “Principle of Benefit and Burden” perspective, corporate expenses, and business development department and intellectual property department related expenses, both of which are components of corporate-wide non-business expenses, are allocated to reportable segments and included in Others, respectively. Additionally, intellectual property related revenue and expenses, which were included in reportable segments, are included in Others. Segment information for the fiscal year ended March 31, 2024 is reclassified to conform to the presentation of the revised segments for the fiscal year ended March 31, 2025.

Geographical information

Revenues from contract with customers by country or region for the fiscal years ended March 31, 2024 and 2025, are as follows:

		JPY (millions)
	2024	2025
Japan	2,589,262	2,716,019
North America and Latin America	145,892	116,097
Europe, Middle East, and Africa	355,000	343,111
China, East Asia, and Asia Pacific	387,108	248,204
Total	3,477,262	3,423,431

Non-current assets other than financial instruments, deferred tax assets, and net defined benefit assets by country/region as of March 31, 2024 and 2025, are as follows:

		JPY (millions)
	2024	2025
Japan	589,541	674,186
North America and Latin America	55,441	48,309
Europe, Middle East, and Africa	657,159	635,064
China, East Asia, and Asia Pacific	24,658	20,882
Total	1,326,799	1,378,441

Non-current assets in Europe, Middle East, and Africa include goodwill recognized for KMD A/S, which is in Denmark, of 116,302 million JPY and 115,555 million JPY as of March 31, 2024 and 2025, respectively, and goodwill and intangible assets of Avaloq Group Ltd., which is in Switzerland, 141,586 million JPY and 186,578 million JPY, 143,374 million JPY and 173,293 million JPY as of March 31, 2024 and 2025.

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, 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
Others, net	3,758
Non-current assets	
Property, plant and equipment, net	93,462
Goodwill	6,319
Intangible assets, net	16,994
Others, net	14,008
Total assets	278,899
Current liabilities	
Trade and other payables	27,151
Others, net	20,671
Non-current liabilities	
Others, 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)

Loss of control during the fiscal year ended March 31, 2025

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

8. Property, Plant and Equipment

Reconciliation of the carrying amounts of property, plant and equipment for the fiscal years ended March 31, 2024 and 2025, 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, 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
Acquisitions	9,380	1,873	3,474	47,069	49,265	78,218	189,279
Reclassifications	23,511	448	26,633	396	(32,209)	—	18,779
Depreciation	(16,218)	(3,379)	(30,440)	—	—	(58,469)	(108,506)
Impairment losses	(3,708)	(185)	(703)	(1,873)	(44)	(30)	(6,543)
Reversal of impairment loss	—	—	—	75	—	—	75
Disposals	(730)	(66)	(3,759)	(1,135)	(6,725)	(9,028)	(21,443)
Transfer to assets held for sale	(913)	(86)	(117)	(991)	(81)	(31)	(2,219)
Foreign currency translation adjustments	62	(14)	(51)	4	(101)	(127)	(227)
As of March 31, 2025	206,466	9,270	72,673	89,042	44,067	158,647	580,165

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, 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
As of March 31, 2025	536,632	125,872	357,587	95,764	44,068	429,684	1,589,607

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, 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
As of March 31, 2025	330,166	116,602	284,914	6,722	1	271,037	1,009,442

The “Reclassifications” in the table above for the fiscal years ended March 31, 2024 and 2025, includes the transfer from inventories under current assets.

The “Disposals” in the table above for the fiscal year 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, 2024 and 2025, were as follows:

JPY (millions)

	2024	2025
Land	128	128
Others	637	632
Total	765	760

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, 2024 and 2025, 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, 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
Acquisitions	—	16,985	21,943	—	—	2,276	41,204
Acquisitions through business combinations	984	—	—	—	—	—	984
Reclassifications	—	19,985	11,518	—	—	(552)	30,951
Amortization	—	(41,378)	(26,182)	(18,065)	(2,927)	(2,758)	(91,310)
Impairment losses	(951)	(38)	(781)	—	—	—	(1,770)
Disposals	(14)	(1,109)	(845)	—	—	(265)	(2,233)
Transfer to assets held for sale	—	(712)	(11)	—	—	—	(723)
Foreign currency translation adjustments	1,572	530	(51)	1,721	27	(733)	3,066
Other	—	46	1,307	1	—	210	1,564
As of March 31, 2025	393,881	113,125	81,059	142,831	2,088	12,801	745,785

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, 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
As of March 31, 2025	409,733	306,548	173,977	262,287	23,600	21,021	1,197,166

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, 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
As of March 31, 2025	15,852	193,423	92,918	119,456	21,512	8,220	451,381

The “Reclassifications” in the table above for the fiscal year ended March 31, 2024 and 2025, 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, 2024 and 2025, are 115,787 million JPY and 99,194 million JPY, respectively.

The carrying amounts of goodwill allocated to each operating segment as of March 31, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
IT Services	359,321	362,227
Social Infrastructure	21,150	20,920
Others	11,819	10,734
Total	392,290	393,881

The CGUs to which significant amounts of goodwill are allocated as of March 31, 2024 and 2025, are as follows:

JPY (millions)

CGUs	2024	2025
Avaloq Group Ltd.	141,586	143,374
KMD A/S	116,302	115,555
NEC Software Solutions UK Limited	67,751	69,630
Others	66,651	65,322
Total	392,290	393,881

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 Ltd., KMD A/S and NEC Software Solutions UK Limited 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 Ltd., KMD A/S and NEC Software Solutions UK Limited.

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, 2024 and 2025, are as follows:

	2024	2025
Growth Rate	0.0 to 2.8%	0.0 to 2.4%
Discount Rate (Pre-tax)	6.1 to 17.1%	5.4 to 16.7%

The NEC Group considers, except for CGUs of which impairment losses are recognized for the fiscal years ended March 31, 2024 and 2025, 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, 2024 and 2025, is as follows:

JPY (millions)

	2024		2025	
	Impairment loss	Reversal	Impairment loss	Reversal
Property, plant and equipment				
Buildings and structures	206	—	3,708	—
Machinery and equipment	2	—	185	—
Tools, furniture and fixtures	186	—	703	—
Land	1,981	—	1,873	(75)
Construction in progress	107	—	44	—
Right-of-use assets	—	—	30	—
Goodwill	—	—	951	—
Intangible asset				
Software for internal use	1,136	—	781	—
Software for sale	71	—	38	—
Others	8	—	—	—
Other non-financial assets				
Others	1,038	—	1,277	—
Total	4,735	—	9,590	(75)

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 5 primarily due to establishments and acquisitions and decreased by 10 primarily due to liquidation and divestitures, in the fiscal year ended March 31, 2025.

Major consolidated subsidiaries as of March 31, 2025, are as follows:

Name of entity	Country of incorporation	Ownership of voting rights (%)	Principal activities
NEC Platforms, Ltd.	Japan	100.0	Development, manufacture, 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	100.0	Design, construction and maintenance of information and communications systems, and sale of related equipment
NEC Corporation of America	U.S.A.	100.0	Regional headquarters operations, sale of computer-related equipment and communications equipment, and provision of systems integration services etc.
NEC Europe Ltd.	U.K.	100.0	Regional headquarters operations
NEC Asia Pacific Pte. Ltd.	Singapore	100.0	Regional headquarters operations, sale of computers-related equipment and communications equipment, and provision of systems integration services etc.
NEC (China) Co., Ltd.	China	100.0	Regional headquarters operations
NEC Latin America S.A.	Brazil	100.0	Regional headquarters operations, sale of communications equipment, and provision of systems integration services etc.
NEC Australia Pty Ltd	Australia	100.0	Design and construction of information and communications systems and provision of IT services
NEC Corporation India Private Limited	India	100.0 (62.6)	Sale and maintenance of hardware and software products, provision of systems integration services etc., and development of software and provision of associated services
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 Ltd., which owns under its umbrella subsidiaries for which the principal business is development of software and provision of IT services

Name of entity	Country of incorporation	Ownership of voting rights (%)	Principal activities
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

Note: The figures in parentheses in the Ownership of voting rights (%) in the table above indicate indirect ownership ratio and are included in the total.

Subsidiaries with material non-controlling interests to the NEC Group

NEC Networks & System Integration Corporation

NEC Networks & System Integration Corporation ("NESIC") 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, 2024 was 61.5%, which was inclusive of the interest in the subsidiary held in the retirement benefit trust acting as an agent of the Company. Proportion of ownership interests held by non-controlling interests as of March 31, 2025 is 26.0% due to the additional acquisition resulting from tender offer for shares of NESIC and the reversion of NESIC common stocks contributed to the retirement benefit trust in January 2025.

Proportion of voting rights held by non-controlling interests as of March 31, 2024 was 48.6%. And due to the consolidation of shares, effective March 25, 2025, proportion of voting rights held by non-controlling interests as of March 31, 2025 is 0%.

Please refer to Note 37. "Subsequent Events, Squeeze-out procedures related to the conversion of NEC Networks & System Integration Corporation into a wholly-owned subsidiary" for the squeeze-out procedures related to making NESIC a wholly-owned subsidiary.

Summarized financial information before eliminating inter-company transactions as of March 31, 2024 and 2025, is as follows:

		JPY (millions)
	2024	2025
Current assets	237,464	259,547
Non-current assets	65,135	73,862
Current liabilities	99,095	112,215
Non-current liabilities	44,387	48,858
Net assets	159,116	172,336
Carrying amount of non-controlling interests	99,652	48,329

Summarized financial information before eliminating inter-company transactions for the fiscal years ended March 31, 2024 and 2025, is as follows:

	JPY (millions)	
	2024	2025
Revenue	359,499	390,098
Net profit	16,112	19,542
Other comprehensive income	1,801	1,955
Comprehensive income	17,913	21,497
Net profit allocated to non-controlling interests	11,217	10,913
Dividends paid to non-controlling interests	4,377	4,835
Cash flows from operating activities	23,367	29,931
Cash flows from investing activities	(4,848)	(4,957)
Cash flows from financing activities	(13,659)	(15,860)
Effect of exchange rate changes on cash and cash equivalents	98	55
Net increase (decrease) in cash and cash equivalents	4,958	9,169
Cash and cash equivalents, at the end of reporting period	73,507	82,676

Consequences of changes in a parent’s ownership interest in a subsidiary due to the additional acquisition resulting from tender offer for shares of NESIC and the reversion of NESIC common stocks contributed to the retirement benefit trust that do not result in a loss of control is as follows:

	JPY (millions)
	Amounts
Acquisition cost	174,354
Decrease in non-controlling interests	57,412
Decrease in share premium	116,942

12. Investments Accounted for Using the Equity Method

Investments in associates and joint ventures are accounted for using the equity method. The number of associates accounted for using the equity method increased by one in the fiscal year ended March 31, 2025 due to new investments and decreased by two due to divestiture. The number of joint ventures accounted for using the equity methods decreased by one in the fiscal year ended March 31, 2025 due to liquidation.

Associates

Material associates

Japan Aviation Electronics Industry, Limited

Japan Aviation Electronics Industry, Limited is an associate, which is material to the NEC Group as of March 31, 2025. Japan Aviation Electronics Industry, Limited engages in manufacture and sale of connectors and electronic devices for avionics and aerospace. The Company owns 33.3% and 33.5% of the voting rights as of March 31, 2024 and 2025.

Summarized financial information as of March 31, 2024 and 2025, is as follows:

JPY (millions)

	2024	2025
Current assets	145,984	126,663
Non-current assets	103,371	99,667
Current liabilities	53,822	49,536
Non-current liabilities	58,883	34,500
Total equity	136,650	142,294

Summarized financial information for the fiscal years ended March 31, 2024 and 2025, is as follows:

JPY (millions)

	2024	2025
Revenue	225,654	221,667
Net profit	12,298	10,456
Other comprehensive income	7,606	(524)
Comprehensive income	19,904	9,932
Dividends received from the associate	1,682	520

Reconciliation between the summarized financial information and the carrying amount of interests in associates as of March 31, 2024 and 2025, is as follows:

JPY (millions)

	2024	2025
Equity attributable to owners of the investee	136,650	142,294
Proportion of ownership interest	12.9%	33.5%
Equity attributable to the NEC Group	17,560	47,697
Goodwill and consolidation adjustment	4,752	13,524
Carrying amount of the associate in the consolidated financial statements	22,312	61,221
Fair value of the associate	21,439	58,907

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, 2024.

NEC Capital Solutions Limited was excluded from the scope of associates accounted for using the equity method of the Company in the current fiscal year due to the partial transfer of the Company's shareholding to a third party.

An impairment loss of 14,335 million JPY on the investment in NEC Capital Solutions Limited is included in “Share of profit (loss) of entities accounted for using the equity method” in the consolidated statements of profit or loss for the fiscal year ended March 31, 2025.

Summarized financial information as of March 31, 2024 and 2025, is as follows:

JPY (millions)

	2024	2025
Current assets	936,054	—
Non-current assets	221,939	—
Current liabilities	498,954	—
Non-current liabilities	516,328	—
Total equity	142,711	—

Summarized financial information for the fiscal years ended March 31, 2024 and 2025, is as follows:

JPY (millions)

	2024	2025
Revenue	204,448	—
Net profit	8,490	—
Other comprehensive income	2,087	—
Comprehensive income	10,577	—
Dividends received from the associate	1,120	—

Reconciliation between the summarized financial information and the carrying amount of interests in associates as of March 31, 2024 and 2025, is as follows:

JPY (millions)

	2024	2025
Equity attributable to owners of the investee	121,664	—
Proportion of ownership interest	37.7%	—
Equity attributable to the NEC Group	45,843	—
Elimination of unrealized profit on inter-company transactions	(431)	—
Carrying amount of the associate in the consolidated financial statements	45,412	—
Fair value of the associate	31,102	—

Aggregate information of associates that are not individually material for the fiscal years ended March 31, 2024 and 2025, is as follows:

JPY (millions)

	2024	2025
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	40,182	45,983
Aggregate amounts of the NEC Group's share of those associates:		
Net profit	2,458	1,632
Other comprehensive income	1,129	(165)
Comprehensive income	3,587	1,467

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, 2024 and 2025, was as follows:

JPY (millions)

	2024	2025
Unrecognized share of losses of associates for the period	26	431
Accumulated unrecognized share of losses of associates	359	783

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, 2024 and 2025, is as follows:

JPY (millions)

	2024	2025
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	19	38
Aggregate amounts of the NEC Group's share of those joint ventures:		
Net profit (loss)	(20)	29
Other comprehensive income	―	―
Comprehensive income	(20)	29

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, 2024 and 2025, was not applicable.

13. Income Taxes

Current and deferred tax expenses

The components of income tax expenses for the fiscal years ended March 31, 2024 and 2025, are as follows:

		JPY (millions)
	2024	2025
Current tax expense		
Current year	24,542	75,278
Adjustments for current tax of prior periods	554	(133)
Subtotal	25,096	75,145
Deferred tax expense		
Origination and reversal of temporary differences	19,023	(20,806)
Derecognition or use of previously recognized / (Recognition of previously unrecognized) tax losses	(7,574)	3,476
Recognition of previously unrecognized deductible temporary differences	(16,286)	(2,708)
Subtotal	(4,837)	(20,038)
Income taxes	20,259	55,107

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, 2024 and 2025, are 30.5%.
In addition, amendments to the Japanese tax regulations were enacted into law on March 31,2025, the "Special Defense Corporation Tax" will be imposed from the fiscal year beginning on or after April 1, 2026.
Accordingly, for deferred tax assets and deferred tax liabilities related to temporary differences expected to be resolved in or after the fiscal year beginning on April 1, 2026, the statutory effective tax rate has been changed from 30.5% to 31.5% for calculation purposes. The impact of this tax rate change is negligible.
The foreign subsidiaries are subject to taxes based on income at rates ranging from 5.0% to 35.0%.
The NEC Group evaluates the exposure to the income taxes arising from legislated tax system which adopts Pillar Two model rules published by OECD (Organisation for Economic Co-operation and Development). The exposure to the income taxes associated with the Pillar Two model rules is not material.

Reconciliation between the Japanese statutory income tax rate and the effective tax rate of the Company for the fiscal years ended March 31, 2024 and 2025, is as follows:

		(%)
	2024	2025
Statutory tax rate	30.5	30.5
Movement in tax rate		
Effects of undistributed profits	5.6	0.2
Effects of investments accounted for using the equity method	(0.9)	(0.5)
Non-deductible expenses	0.4	0.4
Differences in tax rates applied to foreign subsidiaries	0.0	0.0
Income tax credits	(6.3)	(4.4)
Derecognition of previously recognized / (Recognition or use of previously unrecognized) tax losses	(6.0)	(1.5)
Recognition of previously unrecognized deductible temporary differences	(14.9)	(1.1)
Others	2.5	(0.6)
Effective tax rate	10.9	23.0

Deferred taxes

Major components of deferred tax assets and liabilities as of March 31, 2024 and 2025, are as follows:

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

JPY (millions)

	As of April 1, 2024	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2025
Deferred tax assets:				
Accrued expenses and product warranty liabilities	48,482	3,488	―	51,970
Write-off of inventories	24,631	(722)	―	23,909
Depreciation	11,633	5,330	―	16,963
Elimination of unrealized profit from intercompany transactions among consolidated companies	10,921	1,269	―	12,190
Investments in associates	951	659	(76)	1,534
Net defined benefit liabilities	82,985	(5,649)	14,663	91,999
Tax losses carried forward	16,340	(3,484)	―	12,856
Lease liabilities	42,012	5,149	―	47,161
Others	20,337	6,259	(514)	26,082
Total deferred tax assets	258,292	12,299	14,073	284,664
Offset with deferred tax liabilities	(101,404)			(107,448)
Total deferred tax assets, net	156,888			177,216
Deferred tax liabilities:				
Valuation differences due to equity instruments measured at fair value through other comprehensive income	(26,120)	―	(3,199)	(29,319)
Undistributed earnings	(22,773)	2,128	(8,569)	(29,214)
Gain on contribution of securities to the retirement benefit trust	(8,834)	7,539	―	(1,295)
Net defined benefit assets	(1,026)	(72)	―	(1,098)
Valuation differences due to business combination	(33,689)	4,127	―	(29,562)
right of useassets	(37,789)	(4,865)	―	(42,654)
Others	(8,317)	1,875	16	(6,426)
Total deferred tax liabilities	(138,548)	10,732	(11,752)	(139,568)
Offset with deferred tax asset	101,404			107,448
Total deferred tax liabilities, net	(37,144)			(32,120)
Net deferred tax asset	119,744			145,096

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, 2025, 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.

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, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Deductible temporary differences	73,952	77,383
Unused tax losses carried forward	54,738	51,886
Total	128,690	129,269

The tax effect by applicable tax rates of unused tax losses as of March 31, 2024 and 2025, for which deferred tax assets were not recognized will expire as follows:

JPY (millions)

	2024	2025
The 1st year	1,057	325
The 2nd year	479	1,604
The 3rd year	11,981	909
The 4th year	1,292	2,134
The 5th year and thereafter	39,929	46,914
Total	54,738	51,886

The aggregate amounts of temporary differences relating to investments in foreign subsidiaries for which no deferred tax liabilities were recognized were 108,458 million JPY and 111,540 million JPY as of March 31, 2024 and 2025, respectively.

14. Inventories

Components of inventories as of March 31, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Merchandise and finished goods	97,616	64,910
Work in process	65,235	58,377
Raw materials and supplies	79,783	61,492
Total	242,634	184,779

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, 2024 and 2025, was 29,090 million JPY and 10,829 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, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Notes receivable	16,843	8,756
Accounts receivable	779,843	838,332
Other receivables	32,811	31,346
Total	829,497	878,434

The amounts of trade and other receivables to be collected after 12 months as of March 31, 2024 and 2025, are 6,645 million JPY and 4,970 million JPY, respectively.

16. Cash and Cash Equivalents

Components of cash and cash equivalents as of March 31, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Cash and deposits	474,663	583,596
Certificates of deposits	1,827	1,019
Total	476,490	584,615

17. Other Assets

Components of other current assets and other non-current assets as of March 31, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Advance payments	67,814	81,758
Income taxes receivable	8,096	5,486
Prepaid expenses	68,672	78,518
Others	21,137	16,121
Other current assets	165,719	181,883
Net defined benefit assets	291,019	206,342
Long-term prepaid expenses	48,184	50,484
Others	3,593	2,007
Other non-current assets	342,796	258,833

18. Disposal group held for sale

Major components of assets held for sale and liabilities directly associated with assets held for sale as of March 31, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Trade and other receivables	—	3,609
Inventories	—	4,266
Property, plant and equipment, net	—	2,219
Others, net	—	848
Assets held for sale	—	10,942

JPY (millions)

	2024	2025
Trade and other payables	—	2,813
Net defined benefit liabilities	—	1,915
Others, net	—	1,801
Liabilities directly associated with assets held for sale	—	6,529

Fiscal year ended March 31, 2024

There are no disposal group held for sale as of March 31, 2024.

Fiscal year ended March 31, 2025

On September 30, 2024, the Company's consolidated subsidiary, NEC Platforms, Ltd., entered into an agreement to transfer the POS-related business to a newly established company, and then transfer all shares of this new company to a special purpose company that is wholly funded by a fund managed by Nippon Mirai Capital Co., Ltd. The transfer is scheduled for August 2025. Accordingly, the related assets and liabilities are classified as “Assets held for sale” and “Liabilities directly associated with assets held for sale” and are measured at their carrying amounts.

19. Equity

Total number of authorized shares and issued shares

Changes in authorized shares and issued shares for the fiscal years ended March 31, 2024 and 2025, are as follows:

(Thousands of shares)

	2024	2025
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:

1. The number of shares is rounded to the nearest thousand.
2. The Company conducted a share split at a ratio of five (5) shares for one (1) share of its common share, effective April 1, 2025. The number of shares stated above is based on the actual amounts prior to the share split.

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, 2024 and 2025, are as follows:

(Thousands of shares)

	2024	2025
Ordinary shares		
Beginning of the year	6,502	6,395
Changes during the year	(106)	(85)
End of the year	6,395	6,310

Note:

1. The number of shares is rounded to the nearest thousand.
2. The number of treasury shares includes the company's shares held by the trust account related to the stock compensation scheme for executives and certain employees, which amounted to 330,900 shares and 364,000 shares as of March 31, 2024 and 2025, respectively.
3. The Company conducted a share split at a ratio of five (5) shares for one (1) share of its common share, effective April 1, 2025. The number of shares stated above is based on the actual amounts prior to the share split.

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, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Remeasurements of defined benefit plans	214,678	228,707
Exchange differences on translating foreign operations	176,439	175,452
Cash flow hedges	(6,794)	(5,132)
Equity instruments designated as measured at fair value through other comprehensive income	83,652	85,236
Total	467,975	484,263

Components of other comprehensive income included in non-controlling interests for the fiscal years ended March 31, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Remeasurements of defined benefit plans	3,725	601
Exchange differences on translating foreign operations	4,083	653
Cash flow hedges	(4)	3
Equity instruments designated as measured at fair value through other comprehensive income	(87)	(39)
Total	7,717	1,218

Other comprehensive income

The components of other comprehensive income and related tax expense and tax benefit for the fiscal years ended March 31, 2024 and 2025, are as follows:

	JPY (millions)	
	2024	2025
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	14,429	3,349
Tax (expense) benefit	(2,103)	(1,603)
Subtotal, net of tax	12,326	1,746
Remeasurements of defined benefit plans		
Increase during the year	117,428	16,696
Tax expense	(36,211)	(2,272)
Subtotal, net of tax	81,217	14,424
Share of other comprehensive income of entities accounted for using the equity method		
Increase (Decrease) during the year	206	5
Subtotal	206	5
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations		
Increase during the year	86,479	2,296
Reclassification adjustments	(209)	(1,242)
Subtotal, before tax	86,270	1,054
Tax expense	(215)	440
Sub-total, net of tax	86,055	1,494
Cash flow hedges		
Increase (Decrease) during the year	(8)	(1,942)
Reclassification adjustments	(5,673)	4,435
Subtotal, before tax	(5,681)	2,493
Tax benefit (expense)	1,923	(709)
Sub-total, net of tax	(3,758)	1,784
Share of other comprehensive income of entities accounted for using the equity method		
Increase during the year	1,710	(36)
Reclassification adjustments	—	(1,911)
Subtotal, net of tax	1,710	(1,947)
Total other comprehensive income, net of tax	177,756	17,506

20. Dividends

Dividends declared for which the effective date falls in the fiscal years ended March 31, 2024 and 2025, are as follows:

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

Fiscal year ended March 31, 2025

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

Resolution	Board of directors on October 29, 2024
Type of shares	Ordinary shares
Total dividends JPY (millions)	18,684
Source of dividends	Retained earnings
Dividends per share (JPY)	70
Record date	September 30, 2024
Effective date	December 2, 2024

Dividends declared for which the record date is in the fiscal year ended March 31, 2025, but the effective date falls in the following fiscal year are as follows:

Resolution	Board of directors on May 12, 2025
Type of shares	Ordinary shares
Total dividends JPY (millions)	18,683
Source of dividends	Retained earnings
Dividends per share (JPY)	70
Record date	March 31, 2025
Effective date	June 2, 2025

The Company conducted a share split at a ratio of five (5) shares for one (1) share of its common share, effective April 1, 2025. However, the dividend amounts are stated at the actual amounts prior to the share split.

21. Bonds and Borrowings

A breakdown of bonds and borrowings and interest rates as of March 31, 2024 and 2025, is as follows:

	JPY (millions)		Average interest rate (%)	Maturity
	2024	2025		
Short-term borrowings	24,591	159,352	1.62	—
Current portion of long-term borrowings	35,077	49,538	0.31	—
Current portion of bonds	24,997	24,996	—	—
Long-term borrowings (excluding the current portion)	88,920	41,457	0.48	November 30, 2026 to March 31, 2030
Bonds (excluding the current portion)	209,359	214,385	—	—
Total	382,944	489,728	—	—
Current	84,665	233,886	—	—
Non-current	298,279	255,842	—	—
Total	382,944	489,728	—	—

A detail by issue of bonds, excluding the current portion, as of March 31, 2024 and 2025, are as follows:

Company name	Series	Issued date	JPY (millions)		Interest rate(%)	Maturity
			2024	2025		
NEC	The 52nd	June 15, 2017	14,975	14,983	0.455	June 15, 2027
NEC	The 54th	September 21, 2018	9,990	—	0.360	September 19, 2025
NEC	The 55th	September 21, 2018	9,976	9,981	0.500	September 21, 2028
NEC	The 57th	April 23, 2020	14,985	—	0.400	April 23, 2025
NEC	The 58th	April 23, 2020	9,967	9,972	0.540	April 23, 2030
NEC	The 59th	July 12, 2022	59,831	59,883	0.460	July 12, 2027
NEC	The 60th	July 12, 2022	19,932	19,945	0.584	July 12, 2029
NEC	The 61st	July 12, 2022	29,877	29,892	0.749	July 12, 2032
NEC	The 62nd	July 11, 2023	19,922	19,941	0.355	July 11, 2028
NEC	The 63rd	July 11, 2023	19,904	19,915	0.840	July 11, 2033
NEC	The 64th	July 9, 2024	—	19,923	0.868	July 9, 2029
NEC	The 65th	July 9, 2024	—	9,950	1.590	July 7, 2034
Total			209,359	214,385	—	—

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, 2024 and 2025, is as follows:

JPY (millions)

	2024	2025
Aggregate amount of commitment line contracts	238,000	238,000
Amount used	—	—
Unused balance	238,000	238,000

Reconciliation of liabilities arising from financing activities for the fiscal years ended March 31, 2024 and 2025, is as follows:

JPY (millions)

			Changes not arising from cash flows				
	As of April 1, 2023	Changes arising from cash flows	Changes arising from obtaining or losing control of subsidiaries or other businesses	Foreign currency translation differences	Lease liabilities resulting from new lease	Others	As of March 31, 2024
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

JPY (millions)

			Changes not arising from cash flows				
	As of April 1, 2024	Changes arising from cash flows	Changes arising from obtaining or losing control of subsidiaries or other businesses	Foreign currency translation differences	Lease liabilities resulting from new lease	Others	As of March 31, 2025
Short-term borrowings	24,591	134,217	—	(432)	—	976	159,352
Long-term borrowings	123,997	(34,269)	—	(7)	—	1,274	90,995
Lease liabilities	165,700	(56,596)	(176)	(160)	78,218	(10,355)	176,631
Bonds	234,356	5,000	—	—	—	25	239,381
Total	548,644	48,352	(176)	(599)	78,218	(8,080)	666,359

Short-term borrowings comprise primarily of bank borrowings.

22. 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.
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. In addition, effective October 1, 2024, the company and its certain domestic consolidated subsidiaries have transitioned from defined benefit pension plans to defined contribution plans for the certain portion of accrued funds prior to September 30,2020.
The company has contributed to the retirement benefit trust with the aim of preparing for future retirement benefits. The company received a partial reversion of the shares from the retirement benefit trust for the fiscal year ended March 31, 2025, because the plan assets including retirement benefit trust overfunded to retirement benefit obligations in recent years and the situation expected to continue.
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, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Present value of defined benefit obligations		
Balance at the beginning of the year	874,726	807,257
Current service cost	19,178	12,655
Interest cost	11,644	12,002
Remeasurements:		
Actuarial losses (gains) arising from changes in demographic assumptions	292	(5,357)
Actuarial gains arising from changes in financial assumptions	(20,204)	(16,221)
Benefits paid	(61,204)	(68,002)
Effects of business combinations and disposals	(27,682)	—
Settlements of defined benefit pension plans	—	(154,705)
Foreign currency translation differences	6,994	1,161
Transfer to assets held for sale	—	(1,915)
Others	3,513	(1,225)
Balance at the end of the year	807,257	585,650
Fair value of plan assets		
Balance at the beginning of the year	890,023	940,630
Interest income	11,046	14,017
Remeasurement: Actual gains on plan assets	97,516	14,648
Employer contributions	6,515	13,366
Employer refunds	—	(101,419)
Benefits paid	(46,192)	(51,882)
Effects of business combinations and disposals	(34,215)	—
Settlements of defined benefit pension plans	—	(155,338)
Foreign currency translation differences	13,728	1,121
Others	2,209	(262)
Balance at the end of the year	940,630	674,881
Change in adjustment due to asset ceiling		
Balance at the beginning of the year	—	—
Remeasurements:		
Effect of limiting the net value of plan assets to the amount of asset ceiling	—	20,805
Balance at the end of the year	—	20,805
Defined benefit liabilities	157,646	137,916
Defined benefit assets	(291,019)	(206,342)
Net defined benefit liabilities (assets) recognized in the consolidated statements of financial position	(133,373)	(68,426)

Components of defined benefit cost for the fiscal years ended March 31, 2024 and 2025, are as follows:

		JPY (millions)
	2024	2025
Current service cost	19,178	12,655
Net interest	598	(2,015)
Past service cost and gains on settlements	—	(633)
Total	19,776	10,007

Fair value of plan assets

The fair value of the plan assets by asset category as of March 31, 2024 and 2025, is as follows:

				JPY (millions)
	2024		2025	
	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	208,909	—	216,631	—
Equity securities	156,596	—	36,075	—
Mutual funds	—	571,561	—	416,522
Others	—	3,564	—	5,653
Total	365,505	575,125	252,706	422,175

Consolidated subsidiaries' shares that are contributed to retirement benefit trust included in Equity securities are 48,672 million JPY as of March 31, 2024, and are not applicable as of March 31, 2025. 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, 2024 and 2025, are as follows:

	2024	2025
Discount rate	1.5%	2.0%

The effects on defined obligations of a 0.1% change in the discount rate as of March 31, 2024 and 2025, are as follows:

		JPY (millions)
	2024	2025
Discount rate		
Increased by 0.1%	(7,296)	(4,268)
Decreased by 0.1%	7,421	4,329

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 4,839 million JPY to its defined benefit pension plans during the fiscal year ending March 31, 2026.
The remaining weighted-average duration of the defined benefit obligation was 8.8 years and 7.2 years as of March 31, 2024 and 2025, 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 74,922 million JPY, and 70,948 million JPY for the years ended March 31, 2024 and 2025, respectively. The amount includes the payment of premiums by employer in welfare pension insurance premiums.

23. Provisions

A roll forward of provisions by major component for the fiscal year ended March 31, 2025, 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, 2024	8,417	8,481	15,934	14,150	30,430	4,190	81,602
Increase	5,116	9,004	1,380	17,177	4,733	5,022	42,432
Decrease (used during the year)	(6,113)	(8,776)	(952)	(6,932)	(2,312)	(1,252)	(26,337)
Decrease (reversed during the year)	(276)	(679)	—	(483)	(22,003)	(962)	(24,403)
Other	5	(84)	84	(773)	(3,883)	(86)	(4,737)
Balance as of March 31, 2025	7,149	7,946	16,446	23,139	6,965	6,912	68,557
Balance as of April 1, 2024	8,417	8,481	15,934	14,150	30,430	4,190	81,602
Balance as of April 1, 2024 – Current	6,966	6,361	894	14,150	26,463	2,808	57,642
Balance as of April 1, 2024 – Non-current	1,451	2,120	15,040	—	3,967	1,382	23,960
Balance as of March 31, 2025	7,149	7,946	16,446	23,139	6,965	6,912	68,557
Balance as of March 31, 2025 – Current	5,703	7,195	1,308	23,139	1,477	3,593	42,415
Balance as of March 31, 2025 – Non-current	1,446	751	15,138	—	5,488	3,319	26,142

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
The estimated future loss is recognized as provision for contracts for system integrations and equipment constructions and others for which the NEC Group is fulfilling its performance obligations, if the total estimated project costs probably exceed the total revenue at the end of the reporting period, and if the estimated future loss after the reporting period can be reasonably estimated. 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.

24. Trade and Other Payables

Components of trade and other payables

Components of trade and other payables as of March 31, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Notes payable	4,987	4,140
Accounts payable-trade	419,841	409,561
Accounts payable-other	94,934	79,132
Total	519,762	492,833

Supplier finance arrangements

NEC Group has supplier finance arrangements with finance provider where NEC Group pays the finance provider based on the arrangements agreed to with the suppliers. The finance provider offers earlier payment of the invoices at the sole discretion of the supplier for a discounted amount. NEC Group does not provide assets pledged as security or any other forms of guarantees under the arrangements.

The carrying amounts of the financial liabilities that are part of the supplier finance arrangements are as follows:

JPY (millions)

	2024	2025
Financial liabilities that are part of the supplier finance arrangements		
Presented within trade and other payables	30,028	32,236
– of which suppliers have received payment from the finance provider	(Note)	23,366

The range of payment due dates is as follows:

	2024	2025
Liabilities that are part of the arrangements	(Note)	80-195 days after the end of acceptance month
Comparable trade payables that are not part of the arrangements	(Note)	19-195 days after the end of acceptance month

Note: NEC Group applies the transition relief of Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) and does not disclose the information as of the beginning of the first year of application.

The supplier finance arrangements which NEC group has entered into do not result in a concentration or significant extension of payment terms compared to the payment terms agreed with other suppliers not participating in the arrangements. There are no material liquidity risks associated with the supplier finance arrangements. And there are no non-cash transfers from financial liabilities that are part of the supplier finance arrangements in 2025.

25. Other Liabilities

Components of other current and non-current liabilities as of March 31, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Consumption tax withheld	53,613	54,448
Deposits from employees	7,470	5,404
Others	8,322	14,648
Other current liabilities	69,405	74,500
Deferred tax liabilities	37,144	32,120
Others	9,650	12,141
Other non-current liabilities	46,794	44,261

26. 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 outsourcing and maintenance)", and "Contracts for system integrations and equipment constructions". The revenue in three categories for the fiscal years ended March 31, 2024 and 2025, are as follows:

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	409,953	237,221	647,174	371,319	1,018,493
Contracts for services to customers (including outsourcing and maintenance)	832,969	362,595	1,195,564	92,391	1,287,955
Contracts for system integrations and equipment constructions	671,070	477,519	1,148,589	22,225	1,170,814
Total	1,913,992	1,077,335	2,991,327	485,935	3,477,262

Fiscal year ended March 31, 2025

JPY (millions)

	Reportable segments			Others	Consolidated Total
	IT Services	Social Infrastructure	Total		
Contracts for hardware and packaged software deployments	454,267	226,673	680,940	142,360	823,300
Contracts for services to customers (including outsourcing and maintenance)	883,134	390,095	1,273,229	86,706	1,359,935
Contracts for system integrations and equipment constructions	695,821	524,937	1,220,758	19,438	1,240,196
Total	2,033,222	1,141,705	3,174,927	248,504	3,423,431

The table above includes revenues arising from leases for the years ended March 31, 2024 and 2025 because they are immaterial.

Contract balances

There are no significant changes to contract assets during the fiscal years ended March 31, 2024 and 2025. The amounts of revenue recognized for the fiscal years ended March 31, 2024 and 2025, that were included in the contract liability balances at the beginning of the years are 184,120 million JPY and 230,166 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, 2024 and 2025, is as follows:

	JPY (millions)	
	2024	2025
Timing of recognition in revenue		
One year or less	888,401	1,121,665
More than one year	1,526,448	1,404,130
Remaining performance obligations	2,414,849	2,525,795

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

27. Other Operating Income (Expenses)

Components of other operating income (expenses) for the fiscal years ended March 31, 2024 and 2025, are as follows:

	JPY (millions)	
	2024	2025
Other operating income		
Indemnification received	1,008	2,882
Gain on sales of land	1,864	2,360
Gain on transfer of business	1,880	2,248
Gain on sales of subsidiaries' stocks	7,927	—
Other	7,385	7,578
Subtotal	20,064	15,068
Other operating expenses		
Business structure improvement expense	(8,059)	(13,384)
Impairment loss	(4,735)	(9,590)
Loss on disposal of property, plant and equipment	(3,575)	(6,361)
Other	(7,528)	(12,368)
Subtotal	(23,897)	(41,703)
Other operating expenses, net	(3,833)	(26,635)

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.”

28. 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, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Material costs	1,056,334	844,188
Personnel expenses	1,038,149	1,002,392
Outsourcing and subcontracting fees	620,859	650,806
Depreciation and amortization	220,506	199,816

Components of personnel expenses for the fiscal years ended March 31, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Salaries and bonuses	844,462	819,763
Retirement benefit expenses	96,564	87,733
Social security expense	71,189	72,540
Other	25,934	22,356
Total	1,038,149	1,002,392

29. Finance Income and Finance Costs

Components of finance income and finance costs for the fiscal years ended March 31, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Finance income		
Interest income	5,572	5,859
Dividend income	3,348	3,781
Other	884	316
Total	9,804	9,956

JPY (millions)

	2024	2025
Finance costs		
Interest expenses	12,152	9,464
Foreign exchange losses, net	2,596	2,860
Other	3,324	4,255
Total	18,072	16,579

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.

30. 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, 2024 and 2025:

JPY (millions)

	2024	2025
Net profit attributable to owners of the parent	149,521	175,183
Net profit attributable to ordinary shareholders of the parent to calculate basic EPS	149,521	175,183
Net profit attributable to ordinary shareholders of the parent after adjustment for the effects of dilutive potential ordinary shares	149,517	175,183
Weighted-average number of ordinary shares to calculate basic EPS (in thousands of shares)	1,332,027	1,332,240
Weighted-average number of ordinary shares (diluted) (in thousands of shares)	1,332,027	1,332,240
Basic EPS (JPY)	112.25	131.50
Diluted EPS (JPY)	112.25	131.49

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 associates accounted for using the equity method.

The Company conducted a share split at a ratio of five (5) shares for one (1) share of its common share, effective April 1, 2025. Basic EPS and diluted EPS have been calculated assuming that the share split had occurred at the beginning of the previous fiscal year.

31. Stock Compensation

Details

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.

Number of Shares

The number of shares granted is as follows:

(Units: shares)

	2024	2025
Outstanding at the beginning of the year	—	780,280
Granted	780,280	551,935
Other increased	—	355,318
Issuanced and paid	—	(60,105)
Other decreased	—	(15,605)
Outstanding at the ending of the year	780,280	1,611,823

Note

1.There are no exercisable shares as of the end of the previous and current consolidated fiscal year.
2.The Company conducted a share split at a ratio of five (5) shares for one (1) share of its common share, effective April 1, 2025. The number of shares granted has been calculated based on the fair value of our company's stock,assuming that the share split had occurred at the beginning of the consolidated fiscal year ended March 31, 2024.

Weighted average fair value

The weighted average fair value at the grant date of the shares granted during the interim is as follows:

	2024	2025
Weighted average fair value(JPY)	1,382	2,421

Note

The Company conducted a share split at a ratio of five (5) shares for one (1) share of its common share, effective April 1, 2025.The weighted average fair value has been calculated assuming that the share split had occurred at the beginning of the consolidated fiscal year ended March 31, 2024.

Amounts on the consolidated financial statements

The amounts of expenses recognized in the consolidated income statement, and liabilities and capital recognized in the consolidated statement of financial position are as follows:

JPY (millions)

	2024	2025
Selling, general and administrative expenses	466	1,677
Equity-settled	180	546
Cash-settled	286	1,131
Provisions	286	1,404
Share premium	180	713

Note

There are no intrinsic values of liabilities with vested right at the end of the previous and current consolidated fiscal year.

32. 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, 2024 and 2025

	JPY (billions)		YoY Change
	2024	2025	2024/2025
Total Assets	4,227.5	4,315.4	87.9
Total liabilities	2,138.0	2,243.9	105.9
Total equity	2,089.5	2,071.5	(18.0)
Interest-bearing debt	548.6	666.4	117.8
Net interest-bearing debt	72.2	81.7	9.5
Equity attributable to owners of the parent	1,915.6	1,952.0	36.4
Ratio of equity attributable to owners of the parent	45.3%	45.2%	(0.1)
Debt equity ratio	0.29times	0.34times	0.05
Net debt-equity ratio	0.04times	0.04times	0.00

** 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, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Gross carrying amount of trade receivables	785,844	853,743
Allowance for expected credit losses	(6,001)	(6,655)
Carrying amount, net of allowance for expected credit losses	779,843	847,088

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, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Beginning balance	4,888	6,001
Increase	2,847	4,660
Decrease (written off)	(1,177)	(2,506)
Decrease (reversal)	(915)	(669)
Others	358	(831)
Ending balance	6,001	6,655

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, 2024 and 2025. The amounts below include contractual interest payments and exclude the impact of netting agreements.

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

As of March 31, 2025

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	492,833	492,833	492,833	—	—	—	—	—
Accruals	48,739	48,739	48,739	—	—	—	—	—
Short-term borrowings	159,352	161,924	161,924	—	—	—	—	—
Long-term borrowings	90,995	91,763	49,955	40,804	516	324	164	—
Bonds	239,381	247,578	26,413	1,365	76,193	30,959	40,753	71,895
Lease liabilities	176,631	189,069	53,953	37,909	25,209	18,286	12,694	41,018
Preference shares with put/call options*	16,990	18,896	—	—	—	9,684	—	9,212
Derivative financial liabilities:								
Forward exchange contracts	3,970	3,970	3,083	694	83	58	37	15
Total	1,228,891	1,254,772	836,900	80,772	102,001	59,311	53,648	122,140

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 the 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.
As of the end of the reporting period, the NEC Group's exposure to interest rate fluctuation risk is limited, and the impact of such fluctuations on net profit or loss is considered immaterial. Accordingly, disclosure of a sensitivity analysis has been omitted.

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, 2024 and 2025, are as follows:

(Thousands of U.S. dollars and euros)

	2024		2025	
	U.S. dollars	Euros	U.S. dollars	Euros
Trade receivables and contract assets	342,034	2,796	301,445	1,894
Trade payables and contract liabilities	(181,371)	(8,717)	(151,497)	(8,816)
Forward exchange contracts	153,766	(25,315)	361,035	(22,455)
Net exposure	314,429	(31,236)	510,983	(29,377)

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)

	2024	2025
	Profit before income taxes	Profit before income taxes
U.S. dollars (1% strengthening of the JPY)	(476)	(764)
Euros (1% strengthening of the JPY)	51	48

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)

	2024	2025
Increase or decrease of 1% in equity prices	479	526

Derivatives and hedging
Derivatives designated as hedging instruments
Cash flow hedges
The NEC Group utilizes forward exchange contracts primarily for the purpose of hedging foreign exchange fluctuation risks associated with forecast transactions. 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. The ineffective portion of hedges recognized in profit or loss was not material for both the previous and current fiscal years. In addition, the NEC Group has selected the option to continue to apply hedge accounting of IAS 39.

Fair value hedges
No applicable items to disclose.

Net investment hedges
No applicable items to disclose.

Derivatives not designated as hedging instruments
The Group utilizes forward exchange contracts and other instruments to hedge foreign exchange fluctuation risks associated with foreign currency-denominated trade receivables and payables, as well as intercompany loans and deposits between the Company and its overseas subsidiaries. Changes in the fair value of derivatives are recognized in profit or loss.

Fair value of derivatives
The fair values of derivatives designated as hedging instruments and those not designated as hedging instruments as of March 31, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Foreign exchange fluctuation risks		
Cash flow hedges		
Other financial assets	1,860	1,691
Other financial liabilities	7,493	2,616
Derivatives not designated as hedging instruments		
Other financial assets	4,254	1,150
Other financial liabilities	1,367	1,352

Nominal amounts, maturities, and average rates of hedging instruments

The nominal amounts, maturities, and average rates of the principal derivatives designated as hedging instruments as of March 31, 2024 and 2025, are as follows. These hedging instruments are managed separately by project, and foreign exchange contracts are executed at the time each contract is concluded.

Fiscal year ended March 31, 2024

Types of risks	Types of hedges	Hedging instruments	Nominal amounts		Average rates
				over 1 year	
Foreign exchange fluctuation risks	Cash flow hedges	U.S. dollars sell / Japanese yen buy Foreign exchange contract	448,956 thousand U.S. dollars	70,700 thousand U.S. dollars	131.93 yen / U.S. dollars
		U.S. dollars buy / Japanese yen sell Foreign exchange contract	69,331 thousand U.S. dollars	40,046 thousand U.S. dollars	109.60 yen / U.S. dollars

Fiscal year ended March 31, 2025

Types of risks	Types of hedges	Hedging instruments	Nominal amounts		Average rates
				over 1 year	
Foreign exchange fluctuation risks	Cash flow hedges	U.S. dollars sell / Japanese yen buy Foreign exchange contract	311,356 thousand U.S. dollars	29,200 thousand U.S. dollars	140.31 yen / U.S. dollars
		U.S. dollars buy / Japanese yen sell Foreign exchange contract	53,383 thousand U.S. dollars	34,854 thousand U.S. dollars	114.08 yen / U.S. dollars

Fair value of financial instrument

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.
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.

Basis of the fair value measurement

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.

Financial assets and liabilities measured at amortized cost

The carrying amounts and fair values of financial assets and liabilities as of March 31, 2024 and 2025, are as follows:

JPY (millions)

	2024		2025	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost:				
Cash and cash equivalents	476,490	476,490	584,615	584,615
Trade and other receivables	829,497	829,497	878,434	878,434
Others	53,656	53,656	51,729	51,729
Financial liabilities measured at amortized cost:				
Trade and other payables	519,762	519,762	492,833	492,833
Short-term borrowings	24,591	24,591	159,352	159,352
Current portion of long-term borrowings	35,077	35,077	49,538	49,538
Bonds	234,356	232,067	239,381	232,181
Long-term borrowings	88,920	88,714	41,457	41,009
Accruals	56,115	56,115	48,739	48,739
Preference shares with put/call options	16,984	17,464	16,990	18,024
Others	28,366	28,366	11,431	11,431

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

Financial assets and liabilities measured at fair value on a recurring basis by fair value category as of March 31, 2024 and 2025, are as follows:

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

As of March 31, 2025				JPY (millions)
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	—	2,841	21,553	24,394
Equity instruments designated as measured at fair value through other comprehensive income	52,591	—	102,249	154,840
Financial liabilities measured at fair value through profit or loss	—	3,970	—	3,970

The carrying amounts and the fair values of financial assets and liabilities presented in the table above are the same.
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.

Reconciliation of financial assets measured at fair value using Level 3 inputs for the fiscal year ended March 31, 2024 and 2025, are as follows:

	JPY (millions)
	Level 3
As of April 1, 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
Profit or loss	(1,734)
Other comprehensive income	6,831
Purchases	8,396
Sales	(329)
Others	(424)
As of March 31, 2025	123,802

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.
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.

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 138,845 million JPY and 2,718 million JPY, respectively, for the fiscal year ended March 31, 2024, and 154,840 million JPY and 3,013 million JPY, respectively, for the fiscal year ended March 31, 2025. 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 16,676 million JPY and 9,733 million JPY, respectively, for the fiscal year ended March 31, 2024, and 7,394 million JPY and 4,558 million JPY, respectively, for the fiscal year ended March 31, 2025.

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, 2024 and 2025, include the following:

	JPY (millions)	
	2024	2025
NEC Capital Solutions Limited*	―	14,348
TBS HOLDINGS, INC.	10,501	10,272
MEIDENSHA CORPORATION	3,846	3,768
The Sumitomo Warehouse Co., Ltd.	4,247	3,430
Seven Bank, Ltd.	2,957	2,800
OTSUKA CORPORATION	2,494	2,524

* As stated in Note 12. “Investments Accounted for Using the Equity Method”, NEC Capital Solutions Limited, which had been an associate accounted for using the equity method of the Company in the previous fiscal year, was excluded from the scope of associates accounted for using the equity method of the Company in the current fiscal year due to the partial transfer of the Company's shareholding to a third party. The remaining interest the Company continue to hold is classified as an equity instrument designated as measured at fair value through other comprehensive income.

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, 2024 and 2025, include the following:

	JPY (millions)	
	2024	2025
JECC Corporation	38,673	39,407
BostonGene Corporation	25,589	27,063
Dalian Hi-Think Computer Technology Corp.	10,421	15,673

Other financial assets and other financial liabilities

A breakdown of other financial assets and other financial liabilities as of March 31, 2024 and 2025, is as follows:

JPY (millions)

	2024	2025
Financial assets measured at amortized cost:		
Deposits with contractual maturity of more than three months	5,591	3,889
Others	48,065	47,840
Financial assets measured at fair value through other comprehensive income:		
Equity instruments	138,845	154,840
Financial assets measured at fair value through profit or loss:		
Equity instruments	2,739	575
Debt instruments	17,356	20,978
Derivative financial instruments	6,232	2,841
Total	218,828	230,963
Other financial assets-current	15,729	9,830
Other financial assets-non-current	203,099	221,133
Total	218,828	230,963
Financial liabilities measured at amortized cost:		
Deposits received	5,634	3,669
Long-term accounts payable	7,792	2,169
Preference shares with put/call options	16,984	16,990
Others	9,753	11,157
Financial liabilities measured at fair value through profit or loss:		
Derivative financial instruments	8,860	3,970
Total	49,023	37,955
Other financial liabilities-current	20,185	15,787
Other financial liabilities-non-current	28,838	22,168
Total	49,023	37,955

33. 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, 2024 and 2025, are as follows:

		JPY (millions)
	2024	2025
Depreciation expense for right-of-use assets by the class of underlying asset		
Property	56,203	51,527
Machinery and equipment	3,370	3,638
Tools, furniture and fixtures	2,869	3,304
Total	62,442	58,469
Interest expense on lease liabilities	3,400	4,134
Expense relating to short-term leases	4,961	5,137
Expense relating to leases of low-value assets	5,868	6,906
Total cash outflow for leases	78,012	72,872

The carrying amount of right-of-use assets by class of underlying asset as of March 31, 2024 and 2025, are as follows:

		JPY (millions)
	2024	2025
Property	136,113	147,764
Machinery and equipment	6,919	4,679
Tools, furniture and fixtures	5,082	6,204
Total	148,114	158,647

Additions to right-of-use assets amounted to 71,228 million JPY and 78,218 million JPY for the fiscal year ended March 31, 2024 and 2025 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, 2024 and 2025, are 5,919 million JPY and 5,997 million JPY, respectively .

Maturity analysis of lease liabilities is disclosed in Note 32. “Financial Instruments”.

34. 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 the purchase and sales transactions entered into in the ordinary course of business and the transactions with the retirement benefit trust, which 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, 2024 and 2025.

Transactions between the NEC Group and related parties for the fiscal years ended March 31, 2024 and 2025 are as follows:

JPY (millions)

	2024	2025
Purchases	91,685	107,514
Sales	139,465	69,816
Partial reversion of retirement benefit trust assets	—	101,419

Outstanding balances between the NEC Group and related parties as of March 31, 2024 and 2025, are as follows:

JPY (millions)

	2024	2025
Trade and other receivables, Contract assets	26,101	16,051
Trade and other payables, Contract liabilities	82,475	29,313

Key management personnel compensation

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, 2024 and 2025, is as follows:

JPY (millions)

	2024	2025
Basic compensation	973	1,106
Bonuses	551	616
Stock compensation	240	735
Total	1,764	2,457

35. Commitments

The amounts of contractual commitments for the purchases of property, plant and equipment as of March 31, 2024 and 2025, are 51,152 million JPY and 51,758 million JPY, respectively.

The amounts of contractual commitments for the purchases of intangible assets as of March 31, 2024 and 2025, are 893 million JPY and 982 million JPY, respectively.

36. 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.

37. Subsequent Events

Squeeze-out procedures related to the conversion of NEC Networks & System Integration Corporation into a wholly-owned subsidiary

Conclusion of share transfer agreement

The Company entered into a share transfer agreement with its consolidated subsidiary, NEC Networks & System Integration Corporation ("NESIC") on April 2, 2025. The share transfer agreement is regarding the purchase of one common share equivalent to the total number of fractional shares (based on Article 235, Paragraph 1 of the Companies Act, if any fraction constituting less than one share arises, such fraction shall be rounded down to the nearest whole number) from NESIC. These fractional shares resulted from the consolidation of NESIC's common shares (effective on March 25, 2025), which was resolved at the extraordinary shareholders' meeting held on March 4, 2025. The share transfer agreement was concluded on the condition that the court's permission for the voluntary sale of the common shares (the "Voluntary Sale Permission") under Article 234, Paragraph 2 of the Companies Act, which is applied mutatis mutandis by Article 235, Paragraph 2 of the same Act, is obtained.
On April 23, 2025, NESIC received the court's Voluntary Sale Permission, and on May 7, 2025, the Company agreed with NESIC on the payment date based on the share transfer agreement. Payments to NESIC were made by the Company on May 20, 2025 and June 4, 2025.

Date of share transfer agreement conclusion:	April 2, 2025
Number of shares acquired:	1 share
	(acquired as one common share by aggregating all fractional shares)
Payment for acquired shares:	168,209,467,800 JPY

* Amount payable to NESIC after offsetting the value of fractional shares held by the Company: 128,290,856,100 JPY

Date of acquisition:	April 23, 2025
Payment dates:	May 20, 2025, and June 4, 2025

Cash payment to shareholders holding fractional shares by NEC Networks & System Integration Corporation

On April 23, 2025, NESIC, a consolidated subsidiary of the Company, obtained the Voluntary Sale Permission from the court and sold the relevant shares to the Company. On June 20, 2025, NESIC commenced the distribution of proceeds from the sale to the shareholders recorded in the final shareholder register as of March 24, 2025, the day prior to the effective date of the share consolidation (the "Fractional Shareholders"). The amount distributed to each Fractional Shareholder corresponds to the number of NESIC common shares held by such shareholder as of March 24, 2025, multiplied by 3,300 JPY, which is the same price as that offered in the tender offer conducted by the Company for NESIC common shares from October 30, 2024, to January 10, 2025.

Commencement date of cash payment to Fractional Shareholders: June 20, 2025 (scheduled)

Partial reversion of retirement benefit trust

The Company has established a retirement benefit trust to prepare for future retirement benefit obligations. However, as the pension assets, including the assets in the retirement benefit trust, have exceeded the retirement benefit obligations and this surplus is expected to continue, the Company received a partial reversion of the retirement benefit trust.

Date of reversion:	May 23, 2025
Amount reverted:	140,000 million JPY
Impact on financial results:	The partial reversion of the retirement benefit trust will have no impact on the consolidated statement of profit or loss for the fiscal year ending March 31, 2026.

Independent Auditor's Report

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, 2025, 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, 2025, 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 312 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.

Item	Prior fiscal year	Current fiscal year	Reason for this change
Reasonableness of the Company's determination on the recoverability of deferred tax assets concerning its corporate inhabitant tax and enterprise tax	Yes	No	Excluded from a key audit matter due to improvement of outlook of the ability of the Company to generate future taxable income.
Reasonableness of the total estimated costs that formed the basis for measuring revenue and provision for loss on construction contracts and others recognized for system integrations and equipment constructions	No	Yes	Determined that this matter was a key audit matter based on the relative significance of the risk related to the assessment of the recoverability of deferred tax assets as such risk decreased.

<table>
<tr><td colspan="2">Reasonableness of the total estimated costs that formed the basis for measuring revenue and provision for loss on construction contracts and others recognized for system integrations and equipment constructions</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>As described in Note 3, “Material Accounting Policies, Revenue” and Note 26, “Revenue” to the consolidated financial statements, NEC Corporation and its consolidated subsidiaries (hereinafter collectively referred to as the “Group”) recognize revenue from contracts to provide system integrations and equipment constructions. Revenue from contracts for system integrations and equipment constructions for the current fiscal year amounted to ¥1,240,196 million (36.2% of revenue in the consolidated financial statements). In principle, revenue from these contracts is recognized by using the method of measuring the progress based on the costs incurred to date as a percentage of the total estimated project costs.

In addition, as described in Note 23, “Provisions” to the consolidated financial statements, the Group records a provision for loss on construction contracts and others recognized for system integrations and equipment constructions for which the Group has performance obligations. The balance of provision for loss on construction contracts and others amounted to ¥23,139 million (0.5% of total assets in the consolidated financial statements) as of the end of the current fiscal year. The estimated future loss on construction contracts and others is recognized as a provision if the total estimated project costs probably exceed the total revenue at the end of the reporting period, and if the estimated future loss after the reporting period can be reasonably estimated.

Revenue and provision for loss on construction contracts and others recognized for system integrations and equipment constructions are measured based on the total estimated costs. System integrations and equipment constructions include large-scale projects with long contract periods, as well as projects involving new or complex developments. In addition, unforeseen issues or changes in circumstances after the commencement of a project are expected. Accordingly, the total estimated costs reflected assumptions developed based on highly uncertain estimates and involved significant management judgment.

We, therefore, determined that our assessment of the reasonableness of the total estimated costs that formed the basis for measuring revenue and provision for loss on construction contracts and others recognized for system integrations and equipment constructions 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 the reasonableness of the total estimated costs that formed the basis for measuring revenue and provision for loss on construction contracts and others recognized for system integrations and equipment constructions 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 developing total estimated costs. In this assessment, we focused our testing on the following:
● Internal controls to ensure the reasonableness of the total estimated costs involving uncertainties; and
● Internal controls to reflect changes in circumstances, after the commencement of a project, into the total estimated costs in a timely and appropriate manner.

(2) Assessment of the reasonableness of the total estimated costs

Regarding the projects for which we determined that uncertainty in the total estimated costs was high, we performed the procedures described below according to the circumstances of each project, to assess the appropriateness of key assumptions used in estimating the total costs. When selecting these projects, we considered the monetary materiality of contract amounts and total estimated costs and qualitative materiality, such as contract periods, profitability and the novelty and complexity of each development.
● Understood the project risks in the individual contracts, as well as the prerequisites for the total estimated costs, by inspecting the supporting contracts and materials of management meetings;
● Assessed the precision of the total estimated costs by comparing them with the actual costs incurred and analyzing the trends of changes in the total estimated costs;
● Understood the key assumptions used in estimating the total costs by inquiring of the appropriate responsible personnel and assessed whether there were any changes in the circumstances of projects that required a review of the total estimated costs;
● Assessed the contents and appropriateness of material costs, outsourcing costs, and major man-hours, including key assumptions that formed the basis in estimating the total costs, by inspecting the project budgets and the estimates of suppliers and contractors, and by performing vouching; and
● Assessed whether the total estimated costs appropriately reflected the assumptions based on the significant prerequisites related to the projects and the appropriate assessment of risk factors, considering the procedures described above.</td></tr>
</table>

Other Information

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

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

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

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

We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS 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.

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purpose 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

Shuhei Toyama
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 19, 2025