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# NEC Scandinavia AB

## Org. Nr. 556335-4728

## ÅRSREDOVISNING FÖR RÄKENSKAPSÅRET 2022/2023

Styrelsen och verkställande direktören för NEC Scandinavia AB får härmed avge årsredovisning för räkenskapsåret 2022-04-01 - 2023-03-31.

Alla belopp anges i tusentals kronor, om inte annat anges. Belopp inom parantes avser föregående år.

## FASTSTÄLLELEINTYG

Härmed intygas att vid årsstämman 2024-01-31 med denna handling likalydande resultat- och balansräkning fastställts och beslut angående bolagets resultat fattats enligt förslaget i förvaltningsberättelsen.

den 31-01-2024

.....

Benny A. Ekman

CEO

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# ÅRSREDOVISNING

för

# NEC Scandinavia AB

Org. nr. 556335-4728

**Styrelsen och verkställande direktören får härmed avlämna årsredovisning för räkenskapsåret 2022-04-01 - 2023-03-31**

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# FÖRVALTNINGSBERÄTTELSE 2022/2023

## Ägarförhållande

NEC Scandinavia AB är ett helägt dotterbolag till NEC Europe Ltd, Storbritannien. Moderbolaget är sedan i sin tur helägt av NEC Corporation, Japan.

## Dotterbolag

Företaget NEC Scandinavia består av NEC Scandinavia AB, Sverige och dess filialer NEC Scandinavia AB (Oslo Office), Norge och NEC Scandinavia AB (Copenhagen Office), Danmark. NEC Scandinavia AB innehar även ett helägt dotterbolag i Finland, NEC Finland OY.

## Koncernredovisning

NEC Scandinavia har valt att inte upprätta en koncernredovisning för den nordiska delen av NEC koncernen. Detta beslut har tagits med stöd av kapitel 7 § 2 punkt 1 och 2 i Årsredovisningslagen. Bolaget upprättar sin redovisning enligt svenska redovisningsprinciper, men kunde ha valt att upprätta årsredovisningen enligt RFR2 (Rådet för Finansiell Rapportering). Bolaget hänvisar till den koncernredovisning som det ultimata moderbolaget, NEC Corporation har upprättat. NEC Corporation upprättar sin koncernredovisning i enlighet med IFRS.

## Företagets verksamhet

Företagets verksamhet omfattar marknadsföring och försäljning av produkter riktat mot mobil- och bredbandsoperatörer som radiolänk, IP-transmissions produkter, optisk transmission, produkter för cyber-security. Produktutbudet kommer till största del från tredje part. Ett tillägg i portföljen är även NEC's produkter inom biometri, exempelvis ansiktsigenkänning.

Faktureringen sker till största del från det svenska moderbolaget.

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## Flerårsöversikt

Bolagets resultat och utveckling under de fyra senaste åren har varit (kSEK):

| | 2022/2023 | 2021/2022 | 2020/2021 | 2019/2020 |
|---|---|---|---|---|
| Nettoomsättning | 388 521 | 316 571 | 217 694 | 173 218 |
| Resultat efter finansiella poster | 12 750 | 13 017 | 1 346 | - 14 480 |
| Rörelsemarginal *) | 3.52% | 4.1% | 0.6% | -8.4% |
| Avkastning på eget kapital **) | 28% | 42,3% | 4,9% | -34,7% |
| Balansomslutning | 252 370 | 166 761 | 122 637 | 103 997 |
| Soliditet ***) | 22.2% | 27.1% | 25.1% | 26.3% |
| Medelantalet anställda | 14.0 | 16.9 | 22.7 | 21.7 |

*) Rörelsemarginal resultat före finansiella poster genom nettoomsättning

**) Resultat efter finansiella poster genom eget kapital inklusive 78% av obeskattade reserver

***) Soliditet totalt eget kapital inklusive 78% av obeskattade reserver genom balansomslutning

## Händelser under räkenskapsåret

NEC Scandinavia har ett affärsområde; Carrier Networks.

För räkenskapsåret 2022/2023 var resultatet återigen starkt. På radiolänk (Wireless) så hade vi lagt en relativt konservativ budget som vi överträffade. Framförallt tack vare projekt i Norge.

Inom IP/Optical så hade vi ett fantastiskt år. Dels genom att kunderna redan innan periodens början tidigarelagt ordrar för att kompensera för långa leveranstider, men även tack vare att vi i början av perioden försvarade och förlängde ett av våra viktigaste kontrakt med nya beställningar som resultat.

Vi har under räkenskapsåret inte haft någon betydande försäljning inom Biometri.

Under slutet av året kunde vi se att leveranstiderna kortades. Fortfarande inte på nivån innan pandemi och komponentbrist men förbättrad, och vi förväntar oss att de fortsätter att förbättras.

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## Framtida utveckling

För nästkommande räkenskapsår förväntar vi oss en reducerad försäljning då flera stora projekt inom IP är i slutfasen.

Nedgångar för dom nordiska valutorna mot US dollar är en fortsatt en risk. Vi har delar av äldre beställningar som ska levereras under räkenskapsåret 2023/2024 där vi räknar med negativ påverkan på vårt resultat.

Det generella finansiella klimatet är även det en risk där hög inflation och kriser i närområdet leder till minskade investeringar rent generellt.

## Väsentliga händelser efter räkenskapsårets utgång

I maj 2023 annonserade vårt moderbolag NEC Corporation, Japan en försäljning av affärsområde för radiolänk (Wireless) till det amerikanska bolaget Aviat. Detta har väsentlig påverkan på NEC Scandinavia AB med ett flertal kundkontrakt som går över till Aviat. Däremot berörs ingen personal i bolaget eftersom alla är allokerade i huvudsak till IP/Optical. Lönsamheten för verksamheten som helhet kommer dock att påverkas eftersom Wireless, med egen produkt, gav en högre marginal än tredjepartsprodukter inom IP/Optical.

I övrigt har det inte förekommit några efterföljande händelser som påverkar räkenskapsåret 2023/2024.

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## Förändringar i eget kapital

| | Aktiekapital | Reservfond | Fritt eget kapital | Totalt |
|---|---|---|---|---|
| Belopp vid årets ingång | 7 250 | 8 950 | 29 071 | 45 271 |
| Redovisat resultat | - | - | 12 008 | 12 008 |
| Omräkningsdifferens | - | - | - 1 265 | - 1 265 |
| **Belopp vid årets utgång** | 7 250 | 8 950 | 39 814 | 56 014 |

## Förslag till vinstdisposition

Till årsstämmans förfogande står följande vinstmedel, 39,814,134 kr, varav årets resultat om 12,008,402 kr, disponeras enligt följande:

| | |
|---|---|
| Balanseras i ny räkning: | 39,814,134 |
| Totalt: | 39,814,134 |

Detaljer och noter till årsredovisningen per den 31 mars 2023 kommer att följa nedan.

Om inte annat särskilt anges, redovisas alla belopp i tusental kronor.

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# RESULTATRÄKNING

| | | 01/04/2022<br>31/03/2023 | 01/04/2021<br>31/03/2022 |
|---|---|---|---|
| Nettoomsättning | Not 2 | 388,521 | 316,571 |
| Kostnad för sålda varor | Not 3 | -339,629 | -284,982 |
| **Bruttoresultat** | | **48,892** | **31,589** |
| Försäljningskostnader | Not 4 | -26,783 | -18,982 |
| Administrationskostnader | Not 5, 6 | -2,033 | -1,773 |
| Övriga rörelseintäkter | Not 7 | 623 | 3,334 |
| Övriga rörelsekostnader | Not 8 | -6,987 | -1,042 |
| **Rörelseresultat** | | **13,712** | **13,126** |
| **Resultat från finansiella poster** | | | |
| Övriga ränteintäkter och liknande resultatposter | Not 9 | -416 | 28 |
| Räntekostnader och liknande resultatposter | | -545 | -136 |
| **Summa resultat från finansiella poster** | | **-961** | **-109** |
| **Resultat efter finansiella poster** | | **12,750** | **13,017** |
| **Resultat före skatt** | | **12,750** | **13,017** |
| **Skatt på årets resultat** | Not 10 | -742 | -63 |
| **ÅRETS RESULTAT** | | **12,008** | **12,954** |

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# BALANSRÄKNING

## TILLGÅNGAR

| | | 31/03/2023 | 31/03/2022 |
|---|---|---|---|
| **Anläggningstillgångar** | | | |
| **Materiella anläggningstillgångar** | | | |
| Inventarier, verktyg och installationer | Not 11 | 0 | 0 |
| | | 0 | 0 |
| **Finansiella anläggningstillgångar** | | | |
| Andelar i koncernföretag | Not 12 | 73 | 73 |
| | | 73 | 73 |
| **Summa anläggningstillgångar** | | **73** | **73** |
| **Omsättningstillgångar** | | | |
| **Varulager** | | | |
| Färdiga varor och handelsvaror | | 23 | 76 |
| | | 23 | 76 |
| **Kortfristiga fordringar** | | | |
| Kundfordringar | | 111,535 | 70,270 |
| Fordringar hos koncernföretag | | 132,620 | 58,586 |
| Skattefordran | | 0 | 3,904 |
| Övriga fordringar | | 0 | 2 |
| Förutbetalda kostnader och upplupna intäkter | Not 13 | 1,219 | 1,093 |
| | | 245,374 | 133,854 |
| **Kassa och bank** | | 6,900 | 32,759 |
| **Summa omsättningstillgångar** | | **252,297** | **166,689** |
| **SUMMA TILLGÅNGAR** | | **252,370** | **166,761** |

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# BALANSRÄKNING

## EGET KAPITAL OCH SKULDER

| | | 31/03/2023 | 31/03/2022 |
|---|---|---|---|
| **Eget kapital** | | | |
| **Bundet eget kapital** | | | |
| Aktiekapital (72.500 aktier med kvotvärde 100 kr) | | 7,250 | 7,250 |
| Reservfond | | 8,950 | 8,950 |
| | | 16,200 | 16,200 |
| **Fritt eget kapital** | | | |
| Balanserad vinst | | 29,071 | 14,556 |
| Omräkningsdifferens | | -1,265 | 1,561 |
| Årets resultat | | 12,008 | 12,954 |
| | | 39,814 | 29,071 |
| **Summa eget kapital** | | **56,014** | **45,271** |
| **Skulder** | | | |
| **Långfristiga skulder** | | | |
| Långfristig skuld till koncernföretag | | 54,632 | 31,126 |
| | | **54,632** | **31,126** |
| **Kortfristiga skulder** | | | |
| Leverantörsskulder | | 37,358 | 3,001 |
| Skuld till koncernföretag | | 84,343 | 60,084 |
| Skuld till intresseföretag | | 0 | 0 |
| Skatteskuld | | 2,315 | 0 |
| Övriga kortfristiga skulder | Not 14 | 8,837 | 5,445 |
| Upplupna kostnader och förutbetalda intäkter | Not 15 | 8,870 | 21,835 |
| **Summa kortfristiga skulder** | | **141,723** | **90,365** |
| **SUMMA EGET KAPITAL OCH SKULDER** | | **252,370** | **166,761** |

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# KASSAFLÖDESANALYS

| | | 01/04/2022<br>31/03/2023 | 01/04/2021<br>31/03/2022 |
|---|---|---|---|
| **DEN LÖPANDE VERKSAMHETEN** | | | |
| Inbetalningar från kunder | | 455,022 | 355,408 |
| Utbetalningar till leverantörer | | -367,411 | -278,192 |
| Utbetalningar till anställda | | -19,503 | -24,968 |
| **Kassaflöde från den löpande verksamheten före betalda räntor och inkomstskatter** | | **68,108** | **52,248** |
| Erhållen ränta | | 0 | 0 |
| Erlagd ränta | | -891 | -1 |
| Betalda skatter | | 684 | -872 |
| **Kassaflöde från den löpande verksamheten** | | **67,901** | **51,375** |
| **Kassaflöde från investeringsverksamheten** | | **0** | **0** |
| **FINANSIERINGSVERKSAMHETEN** | | | |
| Finansiella fordringar/skulder koncernföretag, netto | | -90,756 | -36,142 |
| **Kassaflöde från finansieringsverksamheten** | | **-90,756** | **-36,142** |
| **Årets kassaflöde** | | **-22,855** | **15,233** |
| Likvida medel vid årets början | | 32,759 | 17,385 |
| Kursdifferens i likvida medel | | -3,004 | 141 |
| **LIKVIDA MEDEL VID ÅRETS SLUT** | Not 16 | **6,900** | **32,759** |

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# NOTER TILL ÅRSREDOVISNINGEN

## NOT 1 - REDOVISNINGS- OCH VÄRDERINGSPRINCIPER

Årsredovisningen för räkenskapsåret 2022/2023 är upprättad i enlighet med Årsredovisningslagen och Bokföringsnämndens allmänna råd BFNAR 2012:1 Års- och koncernredovisning (K3).

*Intäktsredovisning*
Inkomsten värderas till det verkliga värdet av vad som erhållits eller kommer att erhållas.

Varuförsäljning
Försäljning av varor redovisas när företaget till köparen har överfört de väsentliga risker och förmåner som är förknippade med ägandet, normalt när kunden har varorna i sin besittning.

Tjänster
Intäkter från konsulttjänster intäktsredovisas när tjänsterna tillhandahålls.

*Pågående tjänsteuppdrag*
Uppdrag på löpande räkning
Tjänsteuppdrag på löpande räkning redovisas som intäkt i takt med att arbetet utförs och material levereras eller förbrukas.

Uppdrag till fast pris
Tjänsteuppdrag till fast pris redovisas i takt med att arbetet utförs, så kallad successiv vinstavräkning. När utfallet av ett uppdrag går att bedöma på ett tillförlitligt sätt redovisas uppdragsinkomsten och hänförliga utgifter enligt färdigställandegraden av aktiviteterna i avtalet på balansdagen. Intäkterna värderas till verkligt värde för ersättning som har erhållits eller kommer att erhållas i förhållande till färdigställandegraden.

När utfallet av ett uppdrag inte går att bedöma på ett tillförlitligt sätt redovisas intäkter bara i den mån uppdragsutgifter har uppkommit och kan återvinnas. Uppdragsutgifter redovisas i den period de uppkommer.

Färdigställandegraden har beräknats som nedlagda uppdragsutgifter per balansdagen i relation till de totalt beräknade uppdragsutgifterna för att fullgöra uppdraget.

När det är sannolikt att de totala uppdragsutgifterna kommer att överstiga den totala uppdragsinkomsten, redovisas den befarade förlusten omgående i resultatet.

*Leasing*
Samtliga leasingavtal kostnadsförs linjärt över leasingperioden.

*Inkomstskatt*
Aktuell skatt är inkomstskatt för innevarande räkenskapsår som avser skattepliktiga resultat och den del av tidigare räkenskapsårs inkomstskatt som ännu inte har redovisats. Aktuell skatt värderas till det sannolika beloppet enligt de skattesatser och skatteregler som gäller på balansdagen.

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*Utländska filialer*
Vid omräkning av de utländska filialerna har den s.k. dagskursmetoden använts. Detta innebär att balansposterna har omräknats till balansdagens kurs samt att resultatposterna har omräknats till genomsnittskurs.

*Materiella anläggningstillgångar*
Materiella anläggningstillgångar redovisas till anskaffningsvärde med avdrag för ackumulerade avskrivningar och eventuella nedskrivningar. Tiilångarna skrivs av linjärt över tillgångarnas bedömda nyttjandeperiod. Följande nyttjandeperioder tillämpas:

| | |
|---|---|
| Datorer och andra inventarier | 3-5 år |

*Varulager*
Varulagret är värderat till det lägsta av anskaffningsvärde, beräknat enligt först-in-först-ut, och nettoförsäljningsvärde. Nettoförsäljningsvärdet har beräknats till försäljningsvärdet efter avdrag för beräknad försäljningskostnad, därmed har hänsyn tagits till inkurans. Varulagret består av färdiga varor, handelsvaror och pågående arbete för annans räkning.

*Fordringar*
Fordringar tas upp till det belopp som beräknas inflyta.

*Övriga tillgångar, avsättningar och skulder*
Övriga tillgångar, avsättningar och skulder har värderats till anskaffningsvärde om inget annat anges.

*Fordringar och skulder i utländsk valuta*
Fordringar och skulder i utländsk valuta har värderats till balansdagens kurs. Terminssäkrade fordringar och skulder i utländsk valuta har omräknats till dagskursen den dagen valuta-säkringen gjordes och terminspremien periodiseras sedan över terminskontraktets löptid. Valutakursdifferenser som uppkommer vid reglering eller omräkning av monetära poster redovisas i resultaträkningen det räkenskapsår de uppkommer, antingen som en rörelsepost eller som en finansiell post utifrån den underliggande affärshändelsen.

*Avsättningar*
Avsättningar till garantireserv redovisas under posten avsättningar i balansräkningen då beloppets storlek och tidpunkten för dess infriande är ovisst.

## NOT 2 - INTÄKTERNAS FÖRDELNING

| | **2022/2023** | **2021/2022** |
|---|---|---|
| Varuförsäljning | 388,521 | 316,265 |
| Kommissionsintäkt | 0 | 305 |
| | 388,521 | 316,571 |

Fördelningen ovan per intäktsslag är gjord med utgångspunkt från de olika typer av försäljnings- och- faktureringsstrategier som NEC har på de Nordiska och Baltiska marknaderna. Företagets omsättning består endast av en rörelsegren.

## NOT 3 - INKÖP OCH FÖRSÄLJNING MELLAN KONCERNFÖRETAG
Av årets totala inköpskostnader och försäljningsintäkter avser 72% (95%) av inköpen från och 0% (0%) av försäljningen till andra koncernföretag.

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## NOT 4 - ANSTÄLLDA OCH PERSONALKOSTNADER

| **Medelantalet anställda** | **2022/2023** | **2021/2022** |
|---|---|---|
| Sverige | 10,0 (7,0) | 9,9 (5,5) |
| Norge | 4,0 (4,0) | 7 (5,8) |
| **Totalt** | 14,0 (11,0) | 16,9 (11,3) |

Medelantalet anställda män visas inom parentes.

**Löner, andra ersättningar och sociala kostnader**

| | **2022/2023** | | **2021/2022** | |
|---|---|---|---|---|
| Löner och andra ersättningar | **Styrelse och VD** | **Övriga anställda** | **Styrelse och VD** | **Övriga anställda** |
| Sverige | 2,770 *) | 6,736 | 1,810 *) | 8,131 |
| Norge | 0 | 6,166 | 0 | 9,504 |
| | 2,770 | 12,902 | 1,810 | 17,635 |

*) Varav bonus till VD och styrelse är 1452k SEK (669).

| | **2022/2023** | | **2021/2022** | |
|---|---|---|---|---|
| Sociala kostnader (varav pensionskostnader) | | | | |
| Sverige | 5,870 | (2,297) | 5,976 | (2,115) |
| Norge | 1,964 | (985) | 2,498 | (1,337) |
| Danmark | 0 | (0) | 0 | (0) |
| | 7,834 | (3,283) | 8,474 | (3,452) |

Av årets pensionskostnader avser 473k SEK (407) styrelse och VD.

Delar av personalkostnaderna ovan har återdebiterats till NEC Europe Ltd.

**Könsfördelning i styrelse och ledningsgrupp**

| | | **2022/2023** | **2021/2022** |
|---|---|---|---|
| **Styrelse** | Män | 4 | 4 |
| | Kvinnor | 0 | 0 |
| | | 4 | 4 |
| **Företagets ledningsgrupp** | Män | 1 | 1 |
| | Kvinnor | 0 | 0 |
| | | 1 | 1 |

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## NOT 5 - OPERATIONELLA LEASINGAVTAL

Årets kostnad för operationella leasingavtal uppgår till 45 kSEK (656) för maskiner och inventarier samt 988 kSEK (1 442) för lokaler. Framtida leasingavgifter avseende operationella leasingavtal med återstående löptid överstigande ett år uppgår till:

| | **Maskiner & inventarier** | **Lokaler** |
|---|---|---|
| 2023/24 | 115 | 417 |
| 2024/25 | 106 | 417 |
| 2025/26 | 103 | 368 |
| 2026/27 | 77 | 222 |
| 2027/28 | 0 | 222 |
| **Summa** | 399 | 1,645 |

## NOT 6 - REVISIONSARVODEN

| **I administrationskostnader ingår kostnader till revisor enligt följande:** | **2022/2023** | **2021/2022** |
|---|---|---|
| Revisionsuppdrag KPMG | 416 | 399 |
| Skatteuppdrag KPMG | 26 | 0 |
| | 442 | 399 |

## NOT 7 - ÖVRIGA RÖRELSEINTÄKTER

| **I övriga rörelseintäkter ingår:** | **2022/2023** | **2021/2022** |
|---|---|---|
| Orealiserade kursvinster | 623 | 1,385 |
| Realiserade kursvinster | 0 | 970 |
| Övrigt | 0 | 979 |
| | 623 | 3,334 |

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## NOT 8 - ÖVRIGA RÖRELSEKOSTNADER

| | 2022/2023 | 2021/2022 |
|---|---|---|
| **I övriga rörelsekostnader ingår:** | | |
| Orealiserade kursförluster | 4,949 | 202 |
| Realiserade kursförluster | 2,039 | 840 |
| | 6,987 | 1,042 |

## NOT 9 - ÖVRIGA RÄNTEINTÄKTER OCH LIKNANDE RESULTATPOSTER

I beloppet ingår ränteintäkter på banktillgodohavanden med 416 kSEK (-28) samt dröjsmålsräntor från kund med 0 kSEK (0).

## NOT 10 - SKATT

| | 2022/2023 | 2021/2022 |
|---|---|---|
| Aktuell skattekostnad | 2,728 | – |
| Uppskjuten skattekostnad | – | – |
| | 2,728 | – |

Kommentar

**Avstämning av effektiv skatt**

| | 2022/2023 | | 2021/2022 | |
|---|---|---|---|---|
| | *Procent* | *Belopp* | *Procent* | *Belopp* |
| Resultat före skatt | | 12,750 | | 13,017 |
| Skatt enligt gällande skattesats | 20.6% | -2,627 | 20.6% | -2,682 |
| Ej avdragsgilla kostnader | 0.8% | -102 | 0.5% | -70 |
| Ej skattepliktiga intäkter | 0.0% | – | 0.0% | – |
| Utnyttjande av tidigare ej aktiverade underskottsavdrag | -21.4% | 2,728 | -21.1% | 2,751 |
| Redovisad effektiv skatt Sverige | 0.0% | – | 0.0% | – |
| Redovisad effektiv skatt Norge | | -742 | | -63 |
| **Redovisad effektiv skatt Summa** | | **-742** | | **-63** |

NEC Scandinavia AB har per den 31 mars 2023 ackumulerade förlustavdrag, från tidigare år samt från räkenskapsåret, uppgående till 19,293 kSEK (22,021 kSEK).
Det finns för närvarande inga tillräckligt övertygande skäl att anta att underskottsavdragen kommer att kunna utnyttjas mot framtida vinster varför någon uppskjuten skattefordran inte har redovisats i balansräkningen.

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## NOT 11 - INVENTARIER, VERKTYG OCH INSTALLATIONER

| | 31/03/2023 | 31/03/2022 |
|---|---|---|
| Ingående anskaffningsvärden | 4,446 | 4,446 |
| Omräkningsdifferens | 0 | 0 |
| Utgående ackumulerade anskaffningsvärden | 4,446 | 4,446 |
| | | |
| Ingående ackumulerade avskrivningar enligt plan | -4,446 | -4,446 |
| Årets avskrivningar enligt plan | 0 | 0 |
| Omräkningsdifferens | 0 | 0 |
| Utgående ackumulerade avskrivningar enligt plan | -4,446 | -4,446 |
| | | |
| **Utgående planenligt restvärde** | 0 | 0 |

## NOT 12 - ANDELAR I KONCERNFÖRETAG

| **Aktier i dotterbolag** | **Antal** | **Kapital-andel** | **Kvotvärde per aktie** | **Bokf. värde 31/03/2023** | **Bokf. värde 31/03/2022** |
|---|---|---|---|---|---|
| | | | **EUR** | **kSEK** | **kSEK** |
| NEC Finland OY (FI) (Org.nr. 0680446-4, säte Espoo) | 50 | 100% | 170 | 73 | 73 |
| **Totalt bokfört värde** | | | | 73 | 73 |

| | 31/03/2023 | 31/03/2022 |
|---|---|---|
| *Ackumulerade anskaffningsvärden* | | |
| Vid årets början | 73 | 73 |
| Vid årets slut | 73 | 73 |
| | | |
| *Ackumulerade nedskrivningar* | | |
| Vid årets början | 0 | 0 |
| Avyttring | 0 | 0 |
| | | |
| **Redovisat värde vid årets slut** | 73 | 73 |

## NOT 13 - FÖRUTBETALDA KOSTNADER OCH UPPLUPNA INTÄKTER

| **Specifikation** | 31/03/2023 | 31/03/2022 |
|---|---|---|
| Förutbetalda materialinköp | 560 | 469 |
| Pensionskostnad | 271 | 252 |
| Hyra och andra lokalkostnader | 368 | 325 |
| Förutbetalda externa tjänster | 0 | 43 |
| Förutbetalda personalkostnader | 19 | 4 |
| | 1,219 | 1,093 |

20240202206323

## NOT 14 - ÖVRIGA KORTFRISTIGA SKULDER

| **Specifikation** | **31/03/2023** | **31/03/2022** |
|---|---|---|
| Förskott från kunder | 557 | 542 |
| Preliminärsskatt | 529 | 246 |
| Skuld arbetsgivaravgift | 775 | 192 |
| Momsskuld | 6,976 | 4,465 |
| | 8,837 | 5,445 |

## NOT 15 - UPPLUPNA KOSTNADER OCH FÖRUTBETALDA INTÄKTER

| **Specifikation** | **31/03/2023** | **31/03/2022** |
|---|---|---|
| Upplupna kostnader avseende installationer hos kund | 0 | 3,453 |
| Semesterskuldsreserv | 1,948 | 1,726 |
| Övriga upplupna personalkostnader | 1,919 | 2,305 |
| Revision och konsultation | 2,718 | 2,162 |
| Upplupna fakturor för varuleveranser | 769 | 10,982 |
| Fraktkostnader | 90 | 240 |
| Övrigt | 1,426 | 966 |
| | 8,870 | 21,835 |

20240202063324

## NOT 16 - TILLÄGGSUPPLYSNINGAR TILL KASSAFLÖDESANALYSEN

| **Likvida medel** | **31/03/2023** | **31/03/2022** |
|---|---|---|
| Kassa och bank | 6,900 | 32,759 |
| **Belopp vid årets slut** | 6,900 | 32,759 |

## NOT 17 - UPPGIFTER OM MODERBOLAG

| **Namn** | **Företagsnummer** | **Koncernredovisning** |
|---|---|---|
| NEC Corporation Ltd. | 435520 | NEC Corporation, Tokyo, Japan<br>Legal & Administration Division,<br>eller<br>NEC Scandinavia AB, Stockholm<br>Administrativa avdelningen |

NEC Scandinavia har valt att inte upprätta en koncernredovisning för den Nordiska delen av NEC koncernen. Detta görs med stöd av kapitel 7 § 2 punkt 1 och 2 i Årsredovisningslagen. Bolaget hänvisar till den koncernredovisning som det ultimata moderbolaget, NEC Corporation upprättat. NEC Corporation upprättar sin koncernredovisning i enlighet med IFRS (International Financial Reporting Standards).

20240202063325

Stockholm, den 22 november 2023

NEC Scandinavia AB

DocuSigned by:
Benny Andersson Ekman
29EE34EE7AF54A3...

Ekman, Benny

DocuSigned by:
Craig Mills
12E552903A714A1...

Mills, Craig Charles Edward

Angelo Binetti

Binetti, Angelo

DocuSigned by:
Christopher Jackson
0728BE144737480...

Jackson, Christopher
Styrelseordförande

Vår revisionsberättelse har avgivits den 22 november 2023

KPMG AB

DocuSigned by:
27157B2B0D224DD...

Mats Kåvik
Auktoriserad revisor

DocuSign

## Certificate Of Completion

Envelope Id: 586FD852677E44E3850CB1C37D2AAFD1
Status: Completed
Subject: Complete with DocuSign: NEC Scandinavia Financial Statements Mar23.pdf
Source Envelope:
Document Pages: 18
Signatures: 1
Certificate Pages: 5
Initials: 0
AutoNav: Enabled
EnvelopeId Stamping: Enabled
Time Zone: (UTC) Dublin, Edinburgh, Lisbon, London

Envelope Originator:
Anju Sudhan
Athene, Odyssey Business Park, West End Road,
South Ruislip,, Middlesex, HA4 6QE
anju.sudhan@emea.nec.com
IP Address: 195.47.207.100

20240207063303

## Record Tracking

Status: Original
1/31/2024 10:05:46 AM
Holder: Anju Sudhan
anju.sudhan@emea.nec.com
Location: DocuSign

| Signer Events | Signature | Timestamp |
|---|---|---|
| Angelo Binetti<br>Angelo.Binetti@EMEA.NEC.COM<br>Security Level: Email, Account Authentication (None) | Angelo Binetti<br>Signature Adoption: Pre-selected Style<br>Using IP Address: 195.47.207.100 | Sent: 1/31/2024 10:08:41 AM<br>Viewed: 1/31/2024 10:28:07 AM<br>Signed: 1/31/2024 10:28:33 AM |

**Electronic Record and Signature Disclosure:**
Accepted: 1/31/2024 10:28:07 AM
ID: bd2ce23e-da4b-4512-bc33-63d89030aa42

| In Person Signer Events | Signature | Timestamp |
|---|---|---|
| **Editor Delivery Events** | **Status** | **Timestamp** |
| **Agent Delivery Events** | **Status** | **Timestamp** |
| **Intermediary Delivery Events** | **Status** | **Timestamp** |
| **Certified Delivery Events** | **Status** | **Timestamp** |
| **Carbon Copy Events** | **Status** | **Timestamp** |
| Agkoustin Bampa<br>agkoustin.bampa@emea.nec.com<br>Security Level: Email, Account Authentication (None) | COPIED | Sent: 1/31/2024 10:08:41 AM |
| **Electronic Record and Signature Disclosure:**<br>Not Offered via DocuSign | | |
| Corporate<br>corporate@emea.nec.com<br>Security Level: Email, Account Authentication (None) | COPIED | Sent: 1/31/2024 10:08:41 AM |
| **Electronic Record and Signature Disclosure:**<br>Not Offered via DocuSign | | |
| **Witness Events** | **Signature** | **Timestamp** |
| **Notary Events** | **Signature** | **Timestamp** |
| **Envelope Summary Events** | **Status** | **Timestamps** |

| Envelope Summary Events | Status | Timestamps |
| --- | --- | --- |
| Envelope Sent | Hashed/Encrypted | 1/31/2024 10:08:41 AM |
| Certified Delivered | Security Checked | 1/31/2024 10:28:07 AM |
| Signing Complete | Security Checked | 1/31/2024 10:28:33 AM |
| Completed | Security Checked | 1/31/2024 10:28:33 AM |

| Payment Events | Status | Timestamps |
| --- | --- | --- |

## Electronic Record and Signature Disclosure

20240207063304

DocuSign

## Certificate Of Completion

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Status: Completed

Subject: Complete with DocuSign: Financial Statements cons v5.pdf

Source Envelope:

Document Pages: 18 Signatures: 4
Certificate Pages: 6 Initials: 0
AutoNav: Enabled
EnvelopeId Stamping: Enabled
Time Zone: (UTC+01:00) Amsterdam, Berlin, Bern, Rome, Stockholm, Vienna

Envelope Originator:
Klara Gummesson
PO Box 50768
Malmö, SE -202 71
klara.gummesson@kpmg.se
IP Address: 195.84.56.2

### Record Tracking

Status: Original
11/22/2023 10:27:32 AM

Holder: Klara Gummesson
klara.gummesson@kpmg.se

Location: DocuSign

### Signer Events

Benny Andersson Ekman
benny.a.ekman@emea.nec.com
Managing Director
Security Level: Email, Account Authentication (None)

### Signature

DocuSigned by:
Benny Andersson Ekman
29EE34EE7AF54A3...

Signature Adoption: Pre-selected Style
Using IP Address: 195.47.207.100

### Timestamp

Sent: 11/22/2023 10:32:13 AM
Viewed: 11/22/2023 10:35:22 AM
Signed: 11/22/2023 10:38:47 AM

**Authentication Details**
Identity Verification Details:
Workflow ID: facedebc-e28d-4182-adbf-789fbd673b01
Workflow Name: DocuSign ID Verification
Workflow Description: The signer will need to identify themselves with a valid government ID.
Identification Method: Electronic ID
Type of Electronic ID: BankID Sweden
Transaction Unique ID: 8158e890-a069-52cb-ab1c-86233b7b48ae
Country or Region of ID: SE
Result: Passed
Performed: 11/22/2023 10:35:09 AM

**Electronic Record and Signature Disclosure:**
Accepted: 11/22/2023 10:35:22 AM
ID: 16bd0754-fc17-4cd2-ac30-c2fbe75b0380

Christopher Jackson
chris.jackson@emea.nec.com
President & CEO NEC Europe Ltd
NEC
Security Level: Email, Account Authentication (None)

DocuSigned by:
Christopher Jackson
0728BE144737480...

Signature Adoption: Pre-selected Style
Using IP Address: 195.47.207.100

Sent: 11/22/2023 10:32:14 AM
Viewed: 11/22/2023 12:36:21 PM
Signed: 11/22/2023 12:36:28 PM

**Authentication Details**
Identity Verification Details:
Workflow ID: facedebc-e28d-4182-adbf-789fbd673b01
Workflow Name: DocuSign ID Verification
Workflow Description: The signer will need to identify themselves with a valid government ID.
Identification Method: Government Issued Id Document
Type of Document: Passport
Identification Level: ID Only
Transaction Unique ID: 36bf4b1d-815b-58ac-b1a1-a4f0be993e33
Country or Region of ID: GB
Result: Passed
Performed: 11/22/2023 12:35:59 PM

**Electronic Record and Signature Disclosure:**
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ID: fc409dd4-1514-464a-9c21-fd7e87cfffff

| Signer Events | Signature | Timestamp |
|---|---|---|
| Craig Mills<br>craig.mills@emea.nec.com<br>Company Secretary<br>Security Level: Email, Account Authentication (None) | DocuSigned by:<br>Craig Mills<br>12E552903A714A1<br><br>Signature Adoption: Pre-selected Style<br>Using IP Address: 90.255.51.168<br>Signed using mobile | Sent: 11/22/2023 10:32:13 AM<br>Viewed: 11/22/2023 11:17:54 AM<br>Signed: 11/22/2023 11:18:14 AM |

**Authentication Details**
Identity Verification Details:
Workflow ID: facedebc-e28d-4182-adbf-789fbd673b01
Workflow Name: DocuSign ID Verification
Workflow Description: The signer will need to identify themselves with a valid government ID.
Identification Method: Government Issued Id Document
Type of Document: Photo ID
Identification Level: ID Only
Transaction Unique ID: aebc5a25-a964-5ad0-84f6-a1b18f74c634
Country or Region of ID: GB
Result: Passed
Performed: 11/22/2023 11:17:30 AM

**Electronic Record and Signature Disclosure:**
Accepted: 11/22/2023 11:17:54 AM
ID: bec8a867-414a-4845-b6f3-4e5c0a5f3d30

| | | |
|---|---|---|
| Mats Kåvik<br>mats.kavik@kpmg.se<br>Partner<br>KPMG AB<br>Security Level: Email, Account Authentication (None) | DocuSigned by:<br>27157B2B0D224DD<br><br>Signature Adoption: Uploaded Signature Image<br>Using IP Address: 155.4.41.223 | Sent: 11/22/2023 10:32:14 AM<br>Resent: 11/22/2023 12:36:31 PM<br>Viewed: 11/22/2023 12:45:11 PM<br>Signed: 11/22/2023 12:45:22 PM |

**Authentication Details**
Identity Verification Details:
Workflow ID: facedebc-e28d-4182-adbf-789fbd673b01
Workflow Name: DocuSign ID Verification
Workflow Description: The signer will need to identify themselves with a valid government ID.
Identification Method: Electronic ID
Type of Electronic ID: BankID Sweden
Transaction Unique ID: f579ad6c-3f13-537f-a367-cae634ebaca8
Country or Region of ID: SE
Result: Passed
Performed: 11/22/2023 12:44:54 PM

**Electronic Record and Signature Disclosure:**
Not Offered via DocuSign

| In Person Signer Events | Signature | Timestamp |
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| Editor Delivery Events | Status | Timestamp |
|---|---|---|

| Agent Delivery Events | Status | Timestamp |
|---|---|---|

| Intermediary Delivery Events | Status | Timestamp |
|---|---|---|

| Certified Delivery Events | Status | Timestamp |
|---|---|---|

| Carbon Copy Events | Status | Timestamp |
|---|---|---|

| Witness Events | Signature | Timestamp |
|---|---|---|

| Notary Events | Signature | Timestamp |
|---|---|---|

| Envelope Summary Events | Status | Timestamps |
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| Envelope Summary Events | Status | Timestamps |
|---|---|---|
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| Certified Delivered | Security Checked | 11/22/2023 12:45:11 PM |
| Signing Complete | Security Checked | 11/22/2023 12:45:22 PM |
| Completed | Security Checked | 11/22/2023 12:45:22 PM |

| Payment Events | Status | Timestamps |
|---|---|---|

## Electronic Record and Signature Disclosure

20240214002432

DocuSign Envelope ID: 326BC307-D61E-4265-8C92-D6A2F43481FD

20231220080413

# Revisionsberättelse

Till bolagsstämman i NEC Scandinacia AB, org. nr 556335-4728

## Rapport om årsredovisningen

### Uttalanden

Vi har utfört en revision av årsredovisningen för NEC Scandinacia AB för räkenskapsåret 2022-04-01—2023-03-31.

Enligt vår uppfattning har årsredovisningen upprättats i enlighet med årsredovisningslagen och ger en i alla väsentliga avseenden rättvisande bild av NEC Scandinacia ABs finansiella ställning per den 31 mars 2023 och av dess finansiella resultat och kassaflöde för räkenskapsåret enligt årsredovisningslagen. Förvaltningsberättelsen är förenlig med årsredovisningens övriga delar.

Vi tillstyrker därför att bolagsstämman fastställer resultaträkningen och balansräkningen.

### Grund för uttalanden

Vi har utfört revisionen enligt International Standards on Auditing (ISA) och god revisionssed i Sverige. Vårt ansvar enligt dessa standarder beskrivs närmare i avsnittet Revisorns ansvar. Vi är oberoende i förhållande till NEC Scandinacia AB enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

### Styrelsens och verkställande direktörens ansvar

Det är styrelsen och verkställande direktören som har ansvaret för att årsredovisningen upprättas och att den ger en rättvisande bild enligt årsredovisningslagen. Styrelsen och verkställande direktören ansvarar även för den interna kontroll som de bedömer är nödvändig för att upprätta en årsredovisning som inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag.

Vid upprättandet av årsredovisningen ansvarar styrelsen och verkställande direktören för bedömningen av bolagets förmåga att fortsätta verksamheten. De upplyser, när så är tillämpligt, om förhållanden som kan påverka förmågan att fortsätta verksamheten och att använda antagandet om fortsatt drift. Antagandet om fortsatt drift tillämpas dock inte om styrelsen och verkställande direktören avser att likvidera bolaget, upphöra med verksamheten eller inte har något realistiskt alternativ till att göra något av detta.

### Revisorns ansvar

Våra mål är att uppnå en rimlig grad av säkerhet om huruvida årsredovisningen som helhet inte innehåller några väsentliga felaktigheter, vare sig dessa beror på oegentligheter eller misstag, och att lämna en revisionsberättelse som innehåller våra uttalanden. Rimlig säkerhet är en hög grad av säkerhet, men är ingen garanti för att en revision som utförs enligt ISA och god revisionssed i Sverige alltid kommer att upptäcka en väsentlig felaktighet om en sådan finns. Felaktigheter kan uppstå på grund av oegentligheter eller misstag och anses vara väsentliga om de enskilt eller tillsammans rimligen kan förväntas påverka de ekonomiska beslut som användare fattar med grund i årsredovisningen.

Som del av en revision enligt ISA använder vi professionellt omdöme och har en professionellt skeptisk inställning under hela revisionen. Dessutom:

- identifierar och bedömer vi riskerna för väsentliga felaktigheter i årsredovisningen, vare sig dessa beror på oegentligheter eller misstag, utformar och utför granskningsåtgärder bland annat utifrån dessa risker och inhämtar revisionsbevis som är tillräckliga och ändamålsenliga för att utgöra en grund för våra uttalanden. Risken för att inte upptäcka en väsentlig felaktighet till följd av oegentligheter är högre än för en väsentlig felaktighet som beror på misstag, eftersom oegentligheter kan innefatta agerande i maskopi, förfalskning, avsiktliga utelämnanden, felaktig information eller åsidosättande av intern kontroll.
- skaffar vi oss en förståelse av den del av bolagets interna kontroll som har betydelse för vår revision för att utforma granskningsåtgärder som är lämpliga med hänsyn till omständigheterna, men inte för att uttala oss om effektiviteten i den interna kontrollen.
- utvärderar vi lämpligheten i de redovisningsprinciper som används och rimligheten i styrelsens och verkställande direktörens uppskattningar i redovisningen och tillhörande upplysningar.
- drar vi en slutsats om lämpligheten i att styrelsen och verkställande direktören använder antagandet om fortsatt drift vid upprättandet av årsredovisningen. Vi drar också en slutsats, med grund i de inhämtade revisionsbevisen, om huruvida det finns någon väsentlig osäkerhetsfaktor som avser sådana händelser eller förhållanden som kan leda till betydande tvivel om bolagets förmåga att fortsätta verksamheten. Om vi drar slutsatsen att det finns en väsentlig osäkerhetsfaktor, måste vi i revisionsberättelsen fästa uppmärksamheten på upplysningarna i årsredovisningen om den väsentliga osäkerhetsfaktorn eller, om sådana upplysningar är otillräckliga, modifiera uttalandet om årsredovisningen. Våra slutsatser baseras på de revisionsbevis som inhämtas fram till datumet för revisionsberättelsen. Dock kan framtida händelser eller förhållanden göra att ett bolag inte längre kan fortsätta verksamheten.
- utvärderar vi den övergripande presentationen, strukturen och innehållet i årsredovisningen, däribland upplysningarna, och om årsredovisningen återger de underliggande transaktionerna och händelserna på ett sätt som ger en rättvisande bild.

Vi måste informera styrelsen om bland annat revisionens planerade omfattning och inriktning samt tidpunkten för den. Vi måste också informera om betydelsefulla iakttagelser under revisionen, däribland de eventuella betydande brister i den interna kontrollen som vi identifierat.

## Rapport om andra krav enligt lagar och andra författningar

### Uttalanden

Utöver vår revision av årsredovisningen har vi även utfört en revision av styrelsens och verkställande direktörens förvaltning för NEC Scandinacia AB för räkenskapsåret 2022-04-01—2023-03-31 samt av förslaget till dispositioner beträffande bolagets vinst eller förlust.

Vi tillstyrker att bolagsstämman disponerar vinsten enligt förslaget i förvaltningsberättelsen och beviljar styrelsens ledamöter och verkställande direktören ansvarsfrihet för räkenskapsåret.

## Grund för uttalanden

Vi har utfört revisionen enligt god revisionssed i Sverige. Vårt ansvar enligt denna beskrivs närmare i avsnittet Revisorns ansvar. Vi är oberoende i förhållande till NEC Scandinacia AB enligt god revisorssed i Sverige och har i övrigt fullgjort vårt yrkesetiska ansvar enligt dessa krav.

Vi anser att de revisionsbevis vi har inhämtat är tillräckliga och ändamålsenliga som grund för våra uttalanden.

## Styrelsens och verkställande direktörens ansvar

Det är styrelsen som har ansvaret för förslaget till dispositioner beträffande bolagets vinst eller förlust. Vid förslag till utdelning innefattar detta bland annat en bedömning av om utdelningen är försvarlig med hänsyn till de krav som bolagets verksamhetsart, omfattning och risker ställer på storleken av bolagets egna kapital, konsolideringsbehov, likviditet och ställning i övrigt.

Styrelsen ansvarar för bolagets organisation och förvaltningen av bolagets angelägenheter. Detta innefattar bland annat att fortlöpande bedöma bolagets ekonomiska situation och att tillse att bolagets organisation är utformad så att bokföringen, medelsförvaltningen och bolagets ekonomiska angelägenheter i övrigt kontrolleras på ett betryggande sätt.

Verkställande direktören ska sköta den löpande förvaltningen enligt styrelsens riktlinjer och anvisningar och bland annat vidta de åtgärder som är nödvändiga för att bolagets bokföring ska fullgöras i överensstämmelse med lag och för att medelsförvaltningen ska skötas på ett betryggande sätt.

## Revisorns ansvar

Vårt mål beträffande revisionen av förvaltningen, och därmed vårt uttalande om ansvarsfrihet, är att inhämta revisionsbevis för att med en rimlig grad av säkerhet kunna bedöma om någon styrelseledamot eller verkställande direktören i något väsentligt avseende:

- företagit någon åtgärd eller gjort sig skyldig till någon försummelse som kan föranleda ersättningsskyldighet mot bolaget, eller
- på något annat sätt handlat i strid med aktiebolagslagen, årsredovisningslagen eller bolagsordningen.

Vårt mål beträffande revisionen av förslaget till dispositioner av bolagets vinst eller förlust, och därmed vårt uttalande om detta, är att med rimlig grad av säkerhet bedöma om förslaget är förenligt med aktiebolagslagen.

Rimlig säkerhet är en hög grad av säkerhet, men ingen garanti för att en revision som utförs enligt god revisionssed i Sverige alltid kommer att upptäcka åtgärder eller försummelser som kan föranleda ersättningsskyldighet mot bolaget, eller att ett förslag till dispositioner av bolagets vinst eller förlust inte är förenligt med aktiebolagslagen.

Som en del av en revision enligt god revisionssed i Sverige använder vi professionellt omdöme och har en professionellt skeptisk inställning under hela revisionen. Granskningen av förvaltningen och förslaget till dispositioner av bolagets vinst eller förlust grundar sig främst på revisionen av räkenskaperna. Vilka tillkommande granskningsåtgärder som utförs baseras på vår professionella bedömning med utgångspunkt i risk och väsentlighet. Det innebär att vi fokuserar granskningen på sådana åtgärder, områden och förhållanden som är väsentliga för verksamheten och där avsteg och överträdelser skulle ha särskild betydelse för bolagets situation. Vi går igenom och prövar fattade beslut, beslutsunderlag, vidtagna åtgärder och andra förhållanden som är relevanta för vårt uttalande om ansvarsfrihet. Som underlag för vårt uttalande om styrelsens förslag till dispositioner beträffande bolagets vinst eller förlust har vi granskat om förslaget är förenligt med aktiebolagslagen.

## Anmärkning

Bolaget har vid flera tillfällen inte betalat skatter och avgifter i rätt tid.

Stockholm den 2023-11-22

KPMG AB

DocuSigned by:

271578260D224DD...

Mats Kåvik

Auktoriserad revisor

DocuSign

## Certificate Of Completion

Envelope Id: 326BC307D61E42658C92D6A2F43481FD
Status: Completed
Subject: Complete with DocuSign: Revisionsberättelse.pdf, ANALYSMODELLEN INFÖR REVISIONSBERÄTTELSENS AVG...
Source Envelope:
Document Pages: 3
Signatures: 2
Certificate Pages: 2
Initials: 0
AutoNav: Enabled
EnvelopeId Stamping: Enabled
Time Zone: (UTC+01:00) Amsterdam, Berlin, Bern, Rome, Stockholm, Vienna

Envelope Originator:
Klara Gummesson
PO Box 50768
Malmö, SE -202 71
klara.gummesson@kpmg.se
IP Address: 195.84.56.2

20240124084418

## Record Tracking

Status: Original
11/22/2023 12:47:07 PM
Holder: Klara Gummesson
klara.gummesson@kpmg.se
Location: DocuSign

## Signer Events

Mats Kåvik
mats.kavik@kpmg.se
Partner
KPMG AB
Security Level: Email, Account Authentication (None)

## Signature

DocuSigned by:
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Signature Adoption: Uploaded Signature Image
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**Authentication Details**
Identity Verification Details:
Workflow ID: facedebc-e28d-4182-adbf-789fbd673b01
Workflow Name: DocuSign ID Verification
Workflow Description: The signer will need to identify themselves with a valid government ID.
Identification Method: Electronic ID
Type of Electronic ID: BankID Sweden
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Country or Region of ID: SE
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| **Editor Delivery Events** | **Status** | **Timestamp** |
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| **Carbon Copy Events** | **Status** | **Timestamp** |
| **Witness Events** | **Signature** | **Timestamp** |
| **Notary Events** | **Signature** | **Timestamp** |

| Envelope Summary Events | Status | Timestamps |
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| Completed | Security Checked | 11/22/2023 12:49:50 PM |

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

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# Management's Discussion and Analysis

Year Ended March 31, 2023 (Fiscal 2023)
Compared With the Year Ended March 31, 2022 (Fiscal 2022)

This section contains forward-looking statements concerning the NEC Group's analysis of financial condition, business results and cash flows. These statements are based on the judgment of the NEC Group as of March 31, 2023. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated.

## 1. Business Overview and Key Business Drivers

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

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

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

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

## 2. Analysis of Fiscal 2023 Business Results

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

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

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

Regarding the "Focusing on our global business pillars including Japan", in the areas of digital government and digital finance domain, the NEC Group steadily increased orders and revenue for its customers mainly in Europe and Asia

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

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

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

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

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

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

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**Condensed Consolidated Statements of Profit or Loss**

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

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

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

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

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

***(1) Public Solutions Business***

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

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

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

***(2) Public Infrastructure Business***

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

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

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

***(3) Enterprise Business***

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

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(loss):

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

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

***(4) Network Services Business***

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

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

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

***(5) Global Business***

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

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

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

***(6) Others***

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

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

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

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## 3. Liquidity and Capital Resources

### *(1) Assets, Liabilities and Net Assets*

**Condensed Consolidated Balance Sheets**

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

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

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

Total equity was 1,912.7 billion JPY as of March 31, 2023, an increase of 126.1 billion JPY as compared with the end of the previous fiscal year, mainly due to the recognition of net profit attributable to owners of the parent for the fiscal year ended March 31, 2023, an increase of currency translation effect of operating activities abroad caused by currency fluctuations, and the increase in other components of equity resulting from remeasurements of defined benefit plans, etc. despite a repurchase of shares of common stock and payment of dividends.

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

### *(2) Cash Flows*

**Condensed Consolidated Cash Flows**

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

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

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

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

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

As a result, cash and cash equivalents as of March 31, 2023 amounted to 419.5 billion JPY, a decrease of 11.3 billion JPY as compared with the end of the previous fiscal year.

### *(3) Basic Liquidity Management Policy / Capital Resources*

The NEC Group's basic policy is to maintain sufficient liquidity in hand for conducting business activities. Liquidity in hand is the sum of cash and cash equivalents and the unused portion of committed credit facilities established with multiple financial institutions. As of March 31, 2023, NEC had a sufficient amount of liquidity. Total liquidity in hand as of March 31, 2023, was 665.5 billion JPY, comprising cash and cash equivalents of 419.5 billion JPY and unused committed credit facilities of 246.0 billion JPY. Cash and cash equivalents are mainly denominated in JPY as well as other denominations that include U.S. dollars and euros.

The NEC Group maintains credit facilities that it believes are sufficient to meet its short-term and long-term financing needs. With regard to short-term financing, the NEC Group relies primarily on commercial paper ("CP") in Japan to provide for short-term financing. It has a 500.0 billion JPY CP program. To prepare for unexpected short-term funding needs or instability in fund procurement through the issuance of CP, the NEC Group maintains committed short-term credit facilities of 248.0 billion JPY to ensure that funds may be borrowed from financial institutions at all times. For long-term financing, the NEC Group has a 300.0 billion JPY straight bond issuance program in Japan.

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

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

| As of March 31, | 2022 | 2023 |
|---|---|---|
| Long-term fund procurement*1 | 60.5% | 70.8% |
| Use of capital market instruments*2 | 35.1% | 38.5% |

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

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

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## 4. Capital Expenditures

Capital expenditures of NEC and its consolidated subsidiaries for fiscal 2022 and 2023 are broken down as follows (amounts do not include consumption taxes):

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

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

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

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

In the Network Services Business, capital expenditures included investments in R&D equipment for network infrastructure related facilities.

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

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

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

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

JPY (millions)

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

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JPY (millions)

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

See accompanying notes to consolidated financial statements.

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

JPY (millions)

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

See accompanying notes to consolidated financial statements.

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

JPY (millions)

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

See accompanying notes to consolidated financial statements.

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

JPY (millions)

| | Notes | Equity attributable to owners of the parent | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Share premium | Retained earnings | Treasury shares | Other components of equity | Total | | |
| **As of April 1, 2021** | | 427,831 | 168,965 | 564,660 | (1,578) | 148,273 | 1,308,151 | 253,675 | 1,561,826 |
| Net profit | | — | — | 141,277 | — | — | 141,277 | 15,426 | 156,703 |
| Other comprehensive income | 17 | — | — | — | — | 91,562 | 91,562 | 9,851 | 101,413 |
| **Comprehensive income** | | — | — | 141,277 | — | 91,562 | 232,839 | 25,277 | 258,116 |
| Purchase of treasury shares | 17 | — | — | — | (570) | — | (570) | — | (570) |
| Sale of treasury shares | 17 | — | 1 | — | 242 | — | 243 | — | 243 |
| Cash dividends | 18 | — | — | (27,284) | — | — | (27,284) | (6,097) | (33,381) |
| Changes in interests in subsidiaries | 10 | — | 124 | — | — | — | 124 | 284 | 408 |
| **Total transactions with owners** | | — | 125 | (27,284) | (328) | — | (27,487) | (5,813) | (33,300) |
| **As of March 31, 2022** | | 427,831 | 169,090 | 678,653 | (1,906) | 239,835 | 1,513,503 | 273,139 | 1,786,642 |

See accompanying notes to consolidated financial statements.

JPY (millions)

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

See accompanying notes to consolidated financial statements.

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

JPY (millions)

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

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JPY (millions)

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

See accompanying notes to consolidated financial statements.

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# Notes to Consolidated Financial Statements

## 1. Reporting Entity

NEC Corporation (the "Company" or "NEC") is a public company incorporated in Japan. NEC and its subsidiaries (collectively, the "NEC Group") has five segments: Public Solutions business, Public Infrastructure business, Enterprise business, Network Services business and Global business, all of which are operating segments. For further information regarding these businesses, see Note 6. "Segment Information." The NEC Group's principal operating bases are located mainly in Japan and other countries as disclosed in Note 10. "Subsidiaries."

## 2. Basis of Preparation

***Compliance with International Financial Reporting Standards***

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

***Approval of Financial Statements***

The consolidated financial statements were approved by Takayuki Morita, President and CEO, and Osamu Fujikawa, Corporate Executive Vice president, Member of the Board (Representative Director), and CFO, on June 22, 2023.

***Basis of Measurement***

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

***Functional and Presentation Currency***

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

## 3. Significant Accounting Policies

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

***Basis of Consolidation***

*Subsidiaries*

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

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

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

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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.

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***Foreign Currency Translation***

*Foreign Currency Transactions*

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

*Foreign Operations*

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

***Financial Instruments***

*Non-derivative Financial Assets*

The NEC Group classifies non-derivative financial assets into financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, or financial assets measured at fair value through profit or loss. The NEC Group has irrevocably elected to designate all equity instruments, except for those in the form of venture capital investments, in principle as financial assets measured at fair value through other comprehensive income. The NEC Group initially recognizes financial assets measured at amortized cost on the date they originated. All other financial assets are initially recognized in the consolidated statements of financial position when the NEC Group becomes a party to the contractual provisions of the financial instruments.

The NEC Group derecognizes financial assets when the contractual rights to the cash flows from the asset expire, or when the NEC Group transfers the contractual rights to the cash flows from the asset, as well as substantially all the risks and rewards of ownership of the financial asset. Separate assets or liabilities are recognized when the NEC Group derecognizes financial assets, but still retains an interest that does not result in the retention of control over the financial asset.

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

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

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

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

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

*Impairment of Financial Assets*

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

*Non-derivative Financial Liabilities*

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

*Derivative Financial Instruments*

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

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*Cash Flow Hedges*

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

***Cash and Cash Equivalents***

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

***Property, Plant and Equipment***

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

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

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

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

***Goodwill***

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

***Intangible Assets***

Development expenditures on software for sale and software for internal use are recognized as intangible assets, if all of the following criteria of capitalization are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

The estimated useful lives of major intangible assets are as follows:

| | |
|---|---|
| Software for sale | 1–9 years |
| Software for internal use | 3–5 years |
| Customer related intangible assets | 3–19 years |
| Acquired capitalized development costs | 3–17 years |
| Others | 2–13 years |

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

***Leases***

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

*As a lessee*

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

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

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

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

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

***Inventories***

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

***Impairment of Non-Financial Assets***

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

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

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

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

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***Assets Held for Sale***

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

***Employee Benefits***

*Defined Benefit Plans*

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

*Defined Contribution Pension Plans*

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

***Provisions***

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

***Revenue***

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

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

*Identifying Distinct Performance Obligations in Contracts with Customers*

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

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*Determining the Transaction Price*

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

*Allocating the Transaction Price to Performance Obligation*

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

*Satisfaction of Performance Obligation*

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

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

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

*Contracts for Hardware and Packaged Software Deployments*

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

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

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

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

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

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*Methods for Measuring Progress*

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

*Product Warranty*

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

*Contract Asset and Contract Liability*

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

*Contract Costs*

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

***Income Taxes***

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

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

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

Deferred tax assets and liabilities are not recognized for the following temporary differences:

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

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

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

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

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

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

## 4. Use of Accounting Estimates and Judgments

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

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

The NEC Group has assessed the impact of significant uncertainty on its accounting estimates and judgments based upon the information currently available. The area which the accounting estimates and judgements was of particular importance as of March 31, 2023, is the recoverability of deferred tax assets. The underlying future earnings projections were based on management's estimates that are highly uncertain due to significant management judgments on certain assumptions related to external factors, such as its future profitability considering demand forecasts for the domestic markets that reflected, among others, growing investments in IT infrastructures including those for DX (digital transformation). There is no material impact to the consolidated financial statements as of fiscal year ended March 31, 2023, however, actual results and outcomes in future reporting periods may differ materially from the estimates of the NEC Group's managements as the additional information becomes available.

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

- Fair Value of Financial Instruments (Note 29)
- Recoverable Amount in Impairment Test of Non-financial Assets (Note 9)
- Actuarial Assumptions of Post-retirement Benefits (Note 20)
- Recognition and Measurement of Provisions (Note 21)
- Revenue Recognition (Note 3, "Revenue")
- Recoverability of Deferred Tax Assets (Note 12)
- Identification of Lease and Determination of Lease Term (Note 30)

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

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

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

The NEC Group adopts amendments of IAS 12, from the fiscal year ending March 31,2024. This amendment requires recognition of deferred tax on transactions that incur taxable and deductible temporary difference in same amount such as Leases and Asset retirement obligations.
As a result of this adoption, both Deferred tax asset and Deferred tax liability is expected to increase by approximately 35,000 million yen. However, Deferred tax assets and liabilities increased by this adoption are offset in the financial statement when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities are for those related to income taxes levied by the same taxation authority on the same taxable entity.

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## 6. Segment Information

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

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

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

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

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

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

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

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

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

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Segment information on revenue, profit or loss and other metrics by reportable segment for the fiscal years ended March 31, 2022 and 2023, are as follows:

*Fiscal year ended March 31, 2022*

JPY (millions)

| | Reportable segments | | | | | | Others | Reconciling Items | Consolidated total |
|---|---|---|---|---|---|---|---|---|---|
| | Public Solutions | Public Infrastructure | Enterprise | Network Services | Global | Total | | | |
| Revenue: | | | | | | | | | |
| External customers | 442,637 | 608,413 | 574,680 | 511,547 | 485,578 | 2,622,855 | 391,240 | — | 3,014,095 |
| Intersegment | 12,900 | 3,104 | 34,221 | 10,200 | 319 | 60,744 | 5,814 | (66,558) | — |
| Total | 455,537 | 611,517 | 608,901 | 521,747 | 485,897 | 2,683,599 | 397,054 | (66,558) | 3,014,095 |
| Segment profit (loss) | 35,938 | 59,216 | 57,475 | 35,479 | 26,290 | 214,398 | 13,264 | (56,663) | 170,999 |
| Amortization of acquisition-related intangible assets | | | | | | | | | (37,838) |
| M&A related expenses | | | | | | | | | (636) |
| Operating profit (loss) | | | | | | | | | 132,525 |
| Finance income | | | | | | | | | 17,894 |
| Finance costs | | | | | | | | | (11,367) |
| Share of profit of entities accounted for using the equity method | | | | | | | | | 5,384 |
| Profit (loss) before income taxes | | | | | | | | | 144,436 |
| Other items: | | | | | | | | | |
| Depreciation and amortization | 4,292 | 35,993 | 31,169 | 10,202 | 47,561 | 129,217 | 32,064 | 19,258 | 180,539 |
| Impairment loss | 149 | — | 34 | — | 491 | 674 | 244 | 67 | 985 |
| Reversal of impairment loss | — | — | — | — | — | — | (12) | — | (12) |
| Capital expenditures | 7,042 | 34,606 | 30,383 | 12,400 | 21,098 | 105,529 | 33,173 | 24,700 | 163,402 |

*Fiscal year ended March 31, 2023*

JPY (millions)

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

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

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

***Information about revising segments***

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

***Geographical information***

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

JPY (millions)

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

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

JPY (millions)

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

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

***Major customers***

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

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## 7. Property, Plant and Equipment

Reconciliation of the carrying amounts of property, plant and equipment for the fiscal years ended March 31, 2022 and 2023, is as follows:

JPY (millions)

| Carrying amounts | Buildings and structures | Machinery and equipment | Tools, furniture and fixtures | Land | Construction in progress | Right-of-use assets | Total |
|---|---|---|---|---|---|---|---|
| **As of April 1, 2021** | 190,843 | 45,330 | 92,625 | 63,409 | 18,377 | 142,587 | 553,171 |
| Acquisitions | 2,687 | 3,195 | 8,911 | 57 | 45,148 | 44,814 | 104,812 |
| Reclassifications | 15,136 | 6,846 | 28,356 | (215) | (40,475) | 1,434 | 11,082 |
| Depreciation | (15,446) | (13,604) | (38,731) | — | — | (56,867) | (124,648) |
| Impairment losses | (398) | — | (119) | (66) | (2) | — | (585) |
| Reversal of impairment loss | 10 | — | 2 | — | — | — | 12 |
| Disposals | (3,009) | (439) | (736) | (2) | (2,121) | (2,274) | (8,581) |
| Foreign currency translation adjustments | 246 | 298 | 1,166 | 88 | 251 | 2,945 | 4,994 |
| **As of March 31, 2022** | 190,069 | 41,626 | 91,474 | 63,271 | 21,178 | 132,639 | 540,257 |
| Acquisitions | 5,241 | 3,427 | 9,623 | 71 | 49,246 | 67,630 | 135,238 |
| Reclassifications | 15,173 | 4,868 | 31,335 | 2,774 | (24,294) | — | 29,856 |
| Depreciation | (17,040) | (12,400) | (41,272) | — | — | (59,461) | (130,173) |
| Impairment losses | (970) | (11) | (661) | — | — | — | (1,642) |
| Disposals | (2,494) | (469) | (463) | (3,455) | (3,922) | (3,684) | (14,487) |
| Foreign currency translation adjustments | 286 | 72 | 782 | 86 | 226 | 2,883 | 4,335 |
| **As of March 31, 2023** | 190,265 | 37,113 | 90,818 | 62,747 | 42,434 | 140,007 | 563,384 |

JPY (millions)

| Cost | Buildings and structures | Machinery and equipment | Tools, furniture and fixtures | Land | Construction in progress | Right-of-use assets | Total |
|---|---|---|---|---|---|---|---|
| As of April 1, 2021 | 540,798 | 249,579 | 428,405 | 70,925 | 18,402 | 245,721 | 1,553,830 |
| As of March 31, 2022 | 539,366 | 251,057 | 446,326 | 70,853 | 21,178 | 282,636 | 1,611,416 |
| As of March 31, 2023 | 541,377 | 245,746 | 465,552 | 67,711 | 42,434 | 331,312 | 1,694,132 |

JPY (millions)

| Accumulated Depreciation and Accumulated impairment losses | Buildings and structures | Machinery and equipment | Tools, furniture and fixtures | Land | Construction in progress | Right-of-use assets | Total |
|---|---|---|---|---|---|---|---|
| As of April 1, 2021 | 349,955 | 204,249 | 335,780 | 7,516 | 25 | 103,134 | 1,000,659 |
| As of March 31, 2022 | 349,297 | 209,431 | 354,852 | 7,582 | — | 149,997 | 1,071,159 |
| As of March 31, 2023 | 351,112 | 208,633 | 374,734 | 4,964 | — | 191,305 | 1,130,748 |

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

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

JPY (millions)

| | 2022 | 2023 |
|---|---|---|
| Land | 128 | 128 |
| Others | 669 | 651 |
| Total | 797 | 779 |

*Impairment losses*

Impairment losses are included in other operating expenses in the consolidated statements of profit or loss. The aggregate amount of impairment losses is disclosed in Note 9 "Impairment Losses of Non-Financial Assets."

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## 8. Intangible Assets including Goodwill

Reconciliation of the carrying amounts of intangible assets including goodwill for the fiscal years ended March 31, 2022 and 2023, is as follows:

JPY (millions)

| Carrying amount | Goodwill | Software for sale | Software for internal use | Customer related intangible assets | Acquired capitalized development costs | Other | Total |
|---|---|---|---|---|---|---|---|
| **As of April 1, 2021** | 300,530 | 95,700 | 61,778 | 177,490 | 18,386 | 15,504 | 669,388 |
| Acquisitions | — | 14,750 | 13,664 | — | — | 680 | 29,094 |
| Acquisitions through business combinations | 12,410 | 1,241 | 17 | — | — | 2,160 | 15,828 |
| Reclassifications | — | 13,582 | 12,399 | — | — | 3,266 | 29,247 |
| Amortization | — | (28,194) | (23,173) | (24,944) | (4,323) | (2,306) | (82,940) |
| Impairment losses | — | — | (215) | — | — | (34) | (249) |
| Disposals | — | (162) | (391) | — | — | (184) | (737) |
| Foreign currency translation adjustments | 23,038 | 7,534 | 707 | 17,516 | 495 | 317 | 49,607 |
| Other | — | 212 | 1,609 | — | — | (378) | 1,443 |
| **As of March 31, 2022** | 335,978 | 104,663 | 66,395 | 170,062 | 14,558 | 19,025 | 710,681 |
| Acquisitions | — | 14,057 | 18,362 | — | — | 2,958 | 35,377 |
| Acquisitions through business combinations | 5,186 | — | — | 686 | 2,312 | — | 8,184 |
| Reclassifications | — | 17,785 | 11,500 | — | — | 2,278 | 31,563 |
| Amortization | — | (34,380) | (24,165) | (22,745) | (4,251) | (1,964) | (87,505) |
| Impairment losses | (3,029) | (167) | (1,805) | — | — | — | (5,001) |
| Disposals | — | (2,549) | (658) | — | — | (24) | (3,231) |
| Foreign currency translation adjustments | 19,853 | 6,800 | 564 | 15,031 | 108 | 245 | 45,052 |
| Other | (2,416) | 1,023 | 845 | 2,825 | — | (1,124) | (1,298) |
| **As of March 31, 2023** | 355,572 | 107,232 | 71,038 | 165,859 | 12,727 | 21,394 | 733,822 |

JPY (millions)

| Cost | Goodwill | Software for sale | Software for internal use | Customer related intangible assets | Acquired capitalized development costs | Other | Total |
|---|---|---|---|---|---|---|---|
| As of April 1, 2021 | 312,402 | 200,711 | 139,320 | 221,736 | 36,433 | 27,241 | 937,843 |
| As of March 31, 2022 | 347,850 | 225,773 | 145,868 | 244,082 | 37,980 | 26,713 | 1,028,266 |
| As of March 31, 2023 | 370,473 | 250,473 | 156,746 | 268,793 | 41,264 | 22,238 | 1,109,987 |

JPY (millions)

| Accumulated amortization and accumulated impairment losses | Goodwill | Software for sale | Software for internal use | Customer related intangible assets | Acquired capitalized development costs | Other | Total |
|---|---|---|---|---|---|---|---|
| As of April 1, 2021 | 11,872 | 105,011 | 77,542 | 44,246 | 18,047 | 11,737 | 268,455 |
| As of March 31, 2022 | 11,872 | 121,110 | 79,473 | 74,020 | 23,422 | 7,688 | 317,585 |
| As of March 31, 2023 | 14,901 | 143,241 | 85,708 | 102,935 | 28,536 | 844 | 376,165 |

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

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Internally generated intangible assets mainly consist of software for sale and software for internal use. Amortization is recognized either as selling, general and administrative expenses or as cost of sales when the amortization expenses have been allocated to the cost of inventories and those inventories are sold. The NEC Group recognizes research and developments costs as expenses except items that meet criteria for capitalization. Research and development costs recognized as expenses during the fiscal years ended March 31, 2022 and 2023, are 126,266 million JPY and 121,359 million JPY, respectively.

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

JPY (millions)

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

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

JPY (millions)

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

The NEC Group recognized impairment losses due to the lower profitability than initially expected for certain goodwill and intangible assets. Impairment losses are included in other operating expenses in the consolidated statements of profit or loss. The aggregate amount of impairment losses is disclosed in Note 9. "Impairment Losses of Non-Financial Assets." Avaloq Group, KMD and NEC Software Solutions UK were newly acquired in recent years, and based on its assessment of their profitability compared with the initially developed business plans, management considers there is no significant impairment risk associated with goodwill allocated to Avaloq Group, KMD and NEC Software Solutions UK.

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

The significant assumptions used to calculate the recoverable amount (value in use) for the fiscal years ended March 31, 2022 and 2023, are as follows:

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

The NEC Group considers, except for CGUs of which impairment losses are recognized for the fiscal years ended March 31, 2022 and 2023, that it is less likely that a significant impairment occurs even when the discount rate and growth rate, which are significant assumptions used for impairment testing of goodwill, have changed to a reasonable extent.

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## 9. Impairment Losses of Non-Financial Assets

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

JPY (millions)

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

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

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# 10. Subsidiaries

***Material subsidiaries***

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

Major consolidated subsidiaries as of March 31, 2023, are as follows:

| Name of entity | Country of incorporation | Ownership of voting rights (%) | Principal activities |
|---|---|---|---|
| NEC Platforms, Ltd. | Japan | 100.0 | Development, manufacturing, sale and maintenance of information and communications systems, equipment etc., and provision of systems integration services etc. |
| NEC Fielding, Ltd. | Japan | 100.0 | Installation and maintenance of computers and network systems |
| NEC Solution Innovators, Ltd. | Japan | 100.0 | Provision of systems integration services etc., and development of software |
| ABeam Consulting Ltd. | Japan | 100.0 | Business consulting |
| NEC Networks & System Integration Corporation | Japan | 51.4 | Design, construction and maintenance of information and communications systems, and sale of related equipment |
| Japan Aviation Electronics Industry, Limited | Japan | 50.8 | Manufacture and sale of connectors and electronic devices for avionics and aerospace |
| NEC Corporation of America | U.S.A. | 100.0 | Regional representative and supervising operations in North America, sale of computer-related equipment and communications equipment, and provision of systems integration services etc. |
| NEC Europe Ltd. | U.K. | 100.0 | Regional representative and supervising operation in Europe |
| NEC Asia Pacific Pte. Ltd. | Singapore | 100.0 | Regional representative and supervising operation in Asia, sale of computers-related equipment and communications equipment, and provision of systems integration services etc. |
| NEC (China) Co., Ltd. | China | 100.0 | Regional representative and supervising operation in Greater China |
| NEC Latin America S.A. | Brazil | 100.0 | Regional representative and supervising operation in Latin America, sale of communications equipment, and provision of systems integration services etc. |
| NetCracker Technology Corporation | U.S.A. | 100.0 | Development and sale of software |
| Comet Holding B.V. | Netherlands | 100.0 | Pure holding company<br>Its principal subsidiary is Avaloq Group AG, which owns under its umbrella subsidiaries for which the principal business is development of software and provision of IT services |
| Garden Private Holdings Limited | U.K. | 100.0 | Pure holding company<br>Its principal subsidiary is NEC Software Solutions UK Limited, for which its principal business is development of software and provision of IT services |

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

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

***NEC Networks & System Integration Corporation***

NEC Networks & System Integration Corporation is a subsidiary that has non-controlling interests material to the NEC Group. Proportion of ownership interests held by non-controlling interests as of March 31, 2022 and 2023 were 61.5%, which is inclusive of the interest in the subsidiary held in the retirement benefit trust acting as an agent of the Company. Proportion of voting rights held by non-controlling interests as of March 31, 2022 and 2023 were 48.6%.

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

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

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

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

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***Japan Aviation Electronics Industry, Limited***

Japan Aviation Electronics Industry, Limited ("JAE") is a subsidiary that has non-controlling interests material to the NEC Group. Proportion of ownership interests held by non-controlling interests as of March 31, 2022 and 2023 were 64.3%, which is inclusive of the interest in the subsidiary held in the retirement benefit trust acting as an agent of the Company. Proportion of voting rights held by non-controlling interests as of March 31, 2022 and 2023 were 49.1% and 49.2%, respectively.

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

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

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

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

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## 11. Investments Accounted for Using the Equity Method

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

***Associates***

*Material associates*

NEC Capital Solutions Limited is an associate, which is material to the NEC Group as of March 31, 2023. NEC Capital Solutions Limited engages in leasing various types of equipment, facilities, and products in Japan. The Company owns 37.7% of the voting rights as of March 31, 2022 and 2023.

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

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

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

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

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

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

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

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

Unrecognized share of losses of associates accounted for using the equity method which the Company has stopped recognizing its share of losses for the fiscal years ended March 31, 2022 and 2023, was as follows:

| | JPY (millions) | |
|---|---|---|
| | 2022 | 2023 |
| Unrecognized share of losses of associates for the period | 44 | — |
| Accumulated unrecognized share of losses of associates | 453 | 380 |

***Joint ventures***

None of joint ventures are material to the NEC Group.

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

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

Unrecognized share of losses of joint ventures that the Company has stopped recognizing its share of losses in applying the equity method for the fiscal years ended March 31, 2022 and 2023, was as follows:

| | JPY (millions) | |
|---|---|---|
| | 2022 | 2023 |
| Unrecognized share of losses of joint ventures for the period | 286 | — |
| Accumulated unrecognized share of losses of joint ventures | 286 | — |

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# 12. Income Taxes

***Current and deferred tax expenses***

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

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

The Company and its subsidiaries in Japan are mainly subject to Japanese national and local income taxes, inhabitant tax, and enterprise tax. The statutory tax rates in Japan for the fiscal years ended March 31, 2022 and 2023, are 30.5%. The foreign subsidiaries are subject to taxes based on income at rates ranging from 2.5% to 35.0%.

Reconciliation between the Japanese statutory income tax rate and the effective tax rate of the Company for the fiscal years ended March 31, 2022 and 2023, is as follows:

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

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

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***Deferred taxes***

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

JPY (millions)

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

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JPY (millions)

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

A majority of deferred tax assets of the NEC Group were recognized by the Company and certain domestic consolidated subsidiaries that file a Japanese group relief system.

The NEC Group considers the probability that a portion, or all of future deductible temporary differences or unused tax losses can be utilized against future taxable profits in the recognition of deferred tax assets. In assessing recoverability of deferred tax assets, the NEC Group considers the scheduled reversal of taxable temporary differences, projected future taxable profits and tax planning strategies. Based on the level of historical taxable profits and projected future taxable profits, reversal of taxable temporary differences and tax planning during the periods in which the temporary differences become deductible, the NEC Group believes that it is probable that tax benefits of recognized deferred tax assets as of March 31, 2023, can be utilized.

The NEC Group adopts temporary exception of "International Tax Reform - Pillar Two Model Rules (amendments of IAS12)" issued in May 23, 2023. As a result, the NEC Group has not recognized deferred tax assets and liabilities related to income taxes arising from legislated tax system which adopts Pillar Two model rules.

The tax effect by applicable tax rates of deductible temporary differences and tax losses carried forward for which deferred tax assets were not recognized as of March 31, 2022 and 2023, are as follows:

JPY (millions)

| | 2022 | 2023 |
|---|---|---|
| Deductible temporary differences | 80,970 | 77,069 |
| Unused tax losses carried forward | 57,788 | 61,190 |
| Total | 138,758 | 138,259 |

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

JPY (millions)

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

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

## 13. Inventories

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

JPY (millions)

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

The amount of inventories recognized as an expense during the period was included within cost of sales. Inventory write-down to net realizable value recognized as cost of sales for the fiscal years ended March 31, 2022 and 2023, was 10,476 million JPY and 17,515 million JPY, respectively. There was no material reversal of write-downs during the fiscal years presented.

## 14. Trade and Other Receivables

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

JPY (millions)

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

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

## 15. Cash and Cash Equivalents

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

JPY (millions)

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

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## 16. Other Assets

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

JPY (millions)

| | 2022 | 2023 |
|---|---|---|
| Advance payments | 49,934 | 62,075 |
| Income taxes receivable | 10,624 | 6,454 |
| Prepaid expenses | 59,656 | 66,572 |
| Others | 13,676 | 22,261 |
| Other current assets | 133,890 | 157,362 |

| | | |
|---|---|---|
| Net defined benefit assets | 161,252 | 194,403 |
| Long-term prepaid expenses | 43,307 | 44,814 |
| Others | 3,219 | 3,638 |
| Other non-current assets | 207,778 | 242,855 |

## 17. Equity

***Total number of authorized shares and issued shares***

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

(Thousands of shares)

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

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

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

***Treasury shares***

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

(Thousands of shares)

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

(Overview of Change)

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

Details of the repurchase, are as follows:

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

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***Surplus***

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

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

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

A breakdown of other components of equity as of March 31, 2022 and 2023, are as follows:

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

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

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

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***Other comprehensive income***

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

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

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## 18. Dividends

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

Fiscal year ended March 31, 2022

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

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

Fiscal year ended March 31, 2023

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

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

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

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

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## 19. Bonds and Borrowings

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

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

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

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

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*Commitment line agreements*

The NEC Group has entered into commitment line agreements for short-term borrowings with 13 financial institutions for the purpose of securing stable and flexible short-term funding. The unused commitment line of credit based on such agreements for short-term borrowings as of March 31, 2022 and 2023, is as follows:

JPY (millions)

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

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

JPY (millions)

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

JPY (millions)

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

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

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# 20. Employee Benefits

***Employee benefit plans***

The Company and its domestic subsidiaries provide cash balance pension plans, other defined benefit pension plans, lump-sum severance payment plans, and the defined contribution pension plans in accordance with the Defined-Benefit Corporate Pension Act and the Defined Contribution Pension Act of Japan. The Company's defined benefit pension plans are administered by the Pension fund of NEC Corporation (the "Fund") which is legally independent of the Company. The Director of the Fund has the fiduciary duty to comply with laws, the directives by the Minister of Health, Labour and Welfare and the Director-Generals of Regional Bureaus of Health and Welfare made pursuant to those laws, and the by-laws of the Fund and the decisions made by the Board of Representatives of the Fund. The Company is required to make contributions to the Fund and obligated to make contributions in the amount stipulated by the Fund. Contributions are also regularly reviewed and adjusted as necessary to the extent permitted by laws and regulations. In addition, the Company and its certain domestic consolidated subsidiaries have shifted from defined benefit pension plans to defined contribution pension plans for the portion funded after October 1, 2020.

Certain of its foreign subsidiaries have various types of defined benefit plans and defined contribution plans, covering substantially all of their employees. However, these plans are not considered material in aggregate to the NEC Group's employee benefit arrangements.

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

*Investment risks*

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

*Interest rate risks*

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

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*Defined benefit obligations and plan assets*

The changes in present value of defined benefit obligations and fair value of plan assets of the NEC Group for the fiscal years ended March 31, 2022 and 2023, are as follows:

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

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

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

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*Fair value of plan assets*

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

JPY (millions)

| | 2022 | | 2023 | |
|---|---|---|---|---|
| | With quoted market price in an active market | No quoted market price in an active market | With quoted market price in an active market | No quoted market price in an active market |
| Cash and cash equivalents | 37,494 | — | 32,557 | — |
| Equity securities | 225,702 | — | 263,104 | — |
| Mutual funds | — | 663,681 | — | 586,491 |
| Others | — | 8,545 | — | 7,871 |
| Total | 263,196 | 672,226 | 295,661 | 594,362 |

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

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

Significant actuarial assumptions used to determine the present value of the defined benefit obligations as of March 31, 2022 and 2023, are as follows:

| | 2022 | 2023 |
|---|---|---|
| Discount rate | 0.7% | 1.1% |

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

JPY (millions)

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

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

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

The remaining weighted-average duration of the defined benefit obligation was 10.1 years and 9.4 years as of March 31, 2022 and 2023, respectively.

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***Contribution to the defined contribution plans***

The Company and certain of its subsidiaries provide defined contribution benefit plans. The contributions made by the NEC Group recorded as retirement benefit expenses were 70,908 million JPY, and 71,109 million JPY for the years ended March 31, 2022 and 2023, respectively. The amount includes the payment of premiums by employer in welfare pension insurance premiums.

# 21. Provisions

A roll forward of provisions by major component for the fiscal year ended March 31, 2023, is as follows:

JPY (millions)

| | Product warranty liabilities | Provision for business structure improvement | Asset retirement obligations | Provision for loss on construction contracts and others | Provision for Commercial Disputes and Litigation | Other | Total |
|---|---|---|---|---|---|---|---|
| Balance as of April 1, 2022 | 11,616 | 3,582 | 12,979 | 23,704 | 21,796 | 7,310 | 80,987 |
| Increase | 6,621 | 2,192 | 5,708 | 9,466 | 2,286 | 874 | 27,147 |
| Decrease (used during the year) | (8,341) | (1,338) | (1,118) | (15,165) | (1,536) | (417) | (27,915) |
| Decrease (reversed during the year) | (962) | (813) | — | (154) | (223) | (1,051) | (3,203) |
| Other | 7 | 144 | (30) | 590 | 1,444 | (1,127) | 1,028 |
| Balance as of March 31, 2023 | 8,941 | 3,767 | 17,539 | 18,441 | 23,767 | 5,589 | 78,044 |
| | | | | | | | |
| Balance as of April 1, 2022 | 11,616 | 3,582 | 12,979 | 23,704 | 21,796 | 7,310 | 80,987 |
| | | | | | | | |
| Balance as of April 1, 2022 - Current | 10,177 | 3,582 | 588 | 23,704 | 18,882 | 5,144 | 62,077 |
| Balance as of April 1, 2022 - Non-current | 1,439 | — | 12,391 | — | 2,914 | 2,166 | 18,910 |
| | | | | | | | |
| Balance as of March 31, 2023 | 8,941 | 3,767 | 17,539 | 18,441 | 23,767 | 5,589 | 78,044 |
| | | | | | | | |
| Balance as of March 31, 2023 - Current | 7,707 | 3,662 | 2,443 | 18,441 | 21,161 | 4,160 | 57,574 |
| Balance as of March 31, 2023 - Non-current | 1,234 | 105 | 15,096 | — | 2,606 | 1,429 | 20,470 |

*Product Warranty Liabilities*

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

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

*Provision for Business Structure Improvement*

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

*Asset Retirement Obligations*

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

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*Provision for Loss on Construction Contracts and Others*

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

*Provision for Commercial Disputes and Litigation*

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

*Other*

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

## 22. Trade and Other Payables

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

JPY (millions)

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

## 23. Other Liabilities

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

JPY (millions)

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

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## 24. Revenue

*Disaggregation of revenue*

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

Revenue consists of the following three categories; "Contracts for hardware and packaged software deployments", "Contracts for services to customers (including maintenance and outsourcing)", and "Contracts for system integrations and equipment constructions". The revenue in three categories for the fiscal years ended March 31, 2022 and 2023, are as follows:

*Fiscal year ended March 31, 2022*

JPY (millions)

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

*Fiscal year ended March 31, 2023*

JPY (millions)

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

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

*Contract balances*

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

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*Remaining performance obligations*

The revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of March 31, 2022 and 2023, is as follows:

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

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

## 25. Other Operating Income (Expenses)

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

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

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

For "Impairment loss," please refer to Note 9. "Impairment Losses of Non-Financial Assets."

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## 26. Expenses by Nature

Major components of expenses by nature included in "Cost of sales" and "Selling, general and administrative expenses" for the fiscal years ended March 31, 2022 and 2023, are as follows:

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

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

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

## 27. Finance Income and Finance Costs

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

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

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

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

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

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## 28. Earnings Per Share

The calculation of basic earnings per share ("EPS") and diluted EPS has been based on the following profit attributable to ordinary shareholders of the parent company for the fiscal years ended March 31, 2022 and 2023:

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

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

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# 29. Financial Instruments

*Capital management*

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

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

*Condensed Consolidated Statement of Financial Position as of March 31, 2022 and 2023*

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

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

*Financial risk management*

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

*Credit risk*

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

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

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

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

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

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

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

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

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

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

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

*Credit risk exposure relating to trade receivables*

The NEC Group's credit risk exposure relating to trade receivables as of March 31, 2022 and 2023, are as follows:

JPY (millions)

| | Gross carrying amount of a financial asset | Allowance for expected credit losses | Carrying amount, net of allowance for expected credit losses |
|---|---|---|---|
| March 31, 2022 | 669,985 | (5,188) | 664,797 |
| March 31, 2023 | 752,618 | (4,888) | 747,730 |

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

The changes in allowance for expected credit losses on trade receivables for the fiscal years ended March 31, 2022 and 2023, are as follows:

JPY (millions)

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

*Liquidity risk*

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

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The following are the remaining contractual maturities of financial liabilities as of March 31, 2022 and 2023. The amounts below include contractual interest payments and exclude the impact of netting agreements.

*As of March 31, 2022*

JPY (millions)

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

*As of March 31, 2023*

JPY (millions)

| | Carrying amount | Contractual cash flows | Within one year | Between one and two years | Between two and three years | Between three and four years | Between four and five years | More than five years |
|---|---|---|---|---|---|---|---|---|
| Non-derivative financial liabilities: | | | | | | | | |
| Trade and other payables | 497,625 | 497,625 | 497,625 | — | — | — | — | — |
| Accruals | 63,393 | 63,393 | 63,393 | — | — | — | — | — |
| Short-term borrowings | 44,172 | 46,163 | 46,163 | — | — | — | — | — |
| Long-term borrowings | 173,100 | 174,754 | 47,215 | 38,042 | 49,324 | 40,173 | — | — |
| Bonds | 234,389 | 240,568 | 41,032 | 25,934 | 25,840 | 792 | 75,620 | 71,350 |
| Lease liabilities | 156,820 | 164,491 | 50,879 | 36,735 | 24,945 | 13,437 | 8,693 | 29,802 |
| Derivative financial liabilities: | | | | | | | | |
| Forward exchange contracts | 7,151 | 7,151 | 6,807 | 212 | 113 | 18 | — | — |
| Total | 1,176,650 | 1,194,145 | 753,114 | 100,923 | 100,222 | 54,420 | 84,313 | 101,152 |

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

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***Market risk***

*Interest rate risk*

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

The following table shows the floating-rate financial liabilities of the NEC Group as of March 31, 2022 and 2023. Interest-bearing debts with floating rates that are fixed rates in substance under interest rate swap contracts are excluded from the amounts.

JPY (millions)

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

*Sensitivity analysis for financial instruments with floating rates*

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

JPY (millions)

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

*Foreign currency risk*

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

The NEC Group's exposure to foreign currency risk as of March 31, 2022 and 2023, are as follows:

(Thousands of U.S. dollars and euros)

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

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*Sensitivity analysis for foreign exchange rates*

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

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

JPY (millions)

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

*Equity price risk*

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

*Sensitivity analysis for fluctuation in equity prices*

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

JPY (millions)

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

***Fair value measurement***

*Fair value hierarchy*

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

Level 1: Quoted prices in active markets for identical assets or liabilities
Level 2: Inputs other than quoted prices classified into Level 1 that are observable for the financial asset or liability, either directly or indirectly
Level 3: Unobservable inputs that are not based on observable market data

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

*Basis of the fair value measurement for financial instruments*

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

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

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

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

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

The carrying amounts and fair values of financial assets and liabilities as of March 31, 2022 and 2023, are as follows:

JPY (millions)

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

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

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Financial assets and liabilities measured at fair value on a recurring basis by fair value category as of March 31, 2022 and 2023, are as follows:

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

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

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

| | JPY (millions) |
|---|---|
| | Level 3 |
| As of April 1, 2021 | 92,981 |
| Profit or loss | 8,295 |
| Other comprehensive income | 21,940 |
| Purchases | 12,819 |
| Sales | (2,371) |
| Others | 1,215 |
| As of March 31, 2022 | 134,879 |
| Profit or loss | (203) |
| Other comprehensive income | (17,741) |
| Purchases | 3,843 |
| Sales | (2,162) |
| Others | (6,602) |
| As of March 31, 2023 | 112,014 |

Gains and losses recognized in profit or loss are included in finance income or finance costs in the consolidated statement of profit or loss. Gains and losses recognized in other comprehensive income are included in equity instruments designated as measured at fair value through other comprehensive income in the consolidated statement of comprehensive income.

*Level 3 fair value*

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

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

The NEC Group designates long-term stock holdings for the purpose of maintaining and strengthening relationship with its business partners and expanding its revenue base as equity instruments measured at fair value through other comprehensive income. The NEC Group, in principle, makes an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in equity instruments, except those in the form of venture capital investment. The fair value and dividend income of equity instruments designated as measured at fair value through other comprehensive income and recognized in other financial assets are 171,137 million JPY and 3,387 million JPY, respectively, for the fiscal year ended March 31, 2022, and 140,739 million JPY and 3,014 million JPY, respectively, for the fiscal year ended March 31, 2023. The NEC Group attempts to review the strategic stockholding by evaluating whether the purpose of holdings is appropriate, benefits and risks from holdings are balanced with capital costs of holdings, and existence of future risk when selling, etc., from both of quantitative and qualitative aspects. When the stockholdings are deemed unnecessary, they will be sold promptly. The fair value at the time of derecognition and the cumulative gains or losses which were recognized as other comprehensive income are 18,443 million JPY and 11,248 million JPY, respectively, for the fiscal year ended March 31, 2022, and 19,182 million JPY and 10,198 million JPY, respectively, for the fiscal year ended March 31, 2023.

Equity instruments designated as measured at fair value through other comprehensive income classified as Level 1 in the fair value hierarchy as of March 31, 2022 and 2023, include the following:

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

Equity instruments designated as measured at fair value through other comprehensive income classified as Level 3 in the fair value hierarchy as of March 31, 2022 and 2023, include the following:

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

***Hedge accounting***

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

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***Other financial assets and other financial liabilities***

A breakdown of other financial assets and other financial liabilities as of March 31, 2022 and 2023, is as follows:

JPY (millions)

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

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## 30. Leases

*The nature of the leasing activities*

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

Expenses, and cash outflows related to lease arrangements for the fiscal year ended March 31, 2022 and 2023, are as follows:

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

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

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

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

The future cash outflows to which the NEC Group is potentially exposed that are not reflected in the measurement of lease liabilities, arising from leases not yet commenced to which the NEC Group is committed, as of March 31, 2022 and 2023, are 7,320 million JPY and 798 million JPY, respectively .

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

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## 31. Related Parties

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

***Transactions with related parties***

Other than those purchase and sales transaction entered into in the ordinary course of business that are summarized in the table below, there were no significant transactions between the NEC Group and its related parties for the fiscal years ended March 31, 2022 and 2023.

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

JPY (millions)

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

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

JPY (millions)

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

***Key management personnel compensation***

Key management personnel are defined as the Company's board of directors and members of the audit and supervisory board. The compensation for the key management personnel for the fiscal years ended March 31, 2022 and 2023, is as follows:

JPY (millions)

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

## 32. Commitments

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

The amounts of contractual commitments for the purchases of intangible assets as of March 31, 2022 and 2023, are 974 million JPY and 607 million JPY, respectively.

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## 33. Contingencies

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

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

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

## 34. Subsequent Events

*Information about revising segments*

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

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

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

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

*Issuance of Sustainability-Linked Bonds*

The Company plans to issue bonds with a total issuance amount of up to 300 billion JPY in as early as July 2023.

A portion of the bonds to be issued will be sustainability-linked bonds, whose tenors are five and ten years, and issuance amount is to be determined (hereinafter, the "Issuance").

The Company submitted a revised corporate bond shelf registration statement to the Director-General of the Kanto Local Finance Bureau for the Issuance on June 2, 2023.

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# Independent Auditor's Report

To the Board of Directors of NEC Corporation:

## Opinion

We have audited the accompanying consolidated financial statements of NEC Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as of March 31, 2023, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards prescribed in Article 93 of "the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (hereinafter referred to as "IFRS").

## Basis for Opinion

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

## Key Audit Matters

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

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

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

| Scope | Prior fiscal year | Current fiscal year | Reason for this change |
|---|---|---|---|
| Deferred tax assets concerning corporate income tax of companies under the Japanese Group Relief System* | Yes | Yes | Mainly due to improvement of outlook of the Company's ability to generate future taxable income, we have included recoverability of deferred tax assets concerning corporate inhabitant tax and enterprise tax of the Company in the key audit matter. |
| Deferred tax assets concerning corporate inhabitant tax and enterprise tax of the Company* | No | | |

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

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| Reasonableness of the Company's determination on the recoverability of deferred tax assets | |
|---|---|
| **The key audit matter** | **How the matter was addressed in our audit** |
| In the consolidated statement of financial position of NEC Corporation and subsidiaries (collectively referred to as the "Group") for the current fiscal year, deferred tax assets of ¥159,930 million, representing approximately 4.0% of total assets, were recognized. As described in Note 12, "Income Taxes" to the consolidated financial statements, unrecognized deferred tax assets amounted to ¥138,259 million.<br><br>A majority of those deferred tax assets (including unrecognized deferred tax assets) were deferred tax assets for corporate income tax recognized by the Company and certain domestic subsidiaries to which the Japanese Group Relief System is applied (hereinafter, referred to collectively as the "companies under the Japanese Group Relief System") and deferred tax assets for corporate inhabitant tax and enterprise tax recognized by the Company.<br><br>As described in Income Taxes of Note 3, "Significant accounting policies" to the consolidated financial statements, deferred tax assets are recognized for the carryforward of unused tax losses and deductible temporary differences (hereinafter, referred to collectively as the "temporary differences") to the extent that it is probable that future taxable income will be available against which they can be utilized. The amount of deferred tax assets is reduced to the extent that it is no longer probable that future taxable income would be sufficient to allow the benefit of part or all of the deferred tax assets to be utilized.<br><br>In the current fiscal year, as a result of the assessment of the recoverability of deferred tax assets, mainly in light of an improved outlook of the Company's ability to generate future taxable income, additional deferred tax assets were recognized for certain previously unrecognized temporary differences for corporate inhabitant tax and enterprise tax of the Company.<br><br>For the recoverability of those deferred tax assets, the recoverability relating to corporate income tax was determined based on the estimated future taxable income to be generated by the companies under the Japanese Group Relief System, and the recoverability relating to corporate inhabitant tax and enterprise tax was determined based on the estimated future taxable income to be generated by the Company. The underlying future earnings projections were based on management's estimates that were highly uncertain due to significant management judgments involved in certain | The primary procedures we performed to assess whether the Company's determination on the recoverability of deferred tax assets was reasonable included the following:<br><br>**(1) Internal control testing**<br><br>● We tested the design and operating effectiveness of certain of the Group's internal controls relevant to the process of determining the recoverability of deferred tax assets. In this assessment, we focused our testing on the sufficiency of management reviews, including its evaluation of alternative assumptions with respect to key assumptions related to the future earnings projections and the timing of the reversal of temporary differences.<br><br>**(2) Assessment of the reasonableness of the recoverability of deferred tax assets**<br><br>In order to assess the appropriateness of key assumptions related to the future earnings projections and the timing of the reversal of temporary differences which formed the basis for determining the recoverability of deferred tax assets, we:<br><br>● evaluated the consistency of the future earnings projections with management's policy in the Mid-term Management Plan and the next fiscal year's budget approved by management, and assessed whether they were reasonable in light of the historical operating profits and taxable income, including those for the current fiscal year;<br>● inquired of management about the future profitability considering demand forecasts for the domestic markets including growing investments in DX (including the impact on corresponding costs), which was a key assumption used in the future earnings projections by management, and then assessed the reasonableness of the management assumptions by comparing them with the relevant statistical data provided by outside sources and market forecast reports published by external organizations; and<br>● evaluated the consistency of key assumptions related to the future earnings projections and the timing of the reversal of temporary differences, with other |

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assumptions. The following table presents key assumptions related to the future earnings projections for the current fiscal year compared to the prior fiscal year, with changes in key assumptions from the prior fiscal year.

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

PY: Prior fiscal year CY: Current fiscal year

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

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

relevant information appearing in the minutes of the board of directors' meetings and related materials and documents, and assumptions used for other accounting estimates.

**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.

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

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

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

The audit committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify

during our audit.

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

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

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

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

Hideaki Koyama
Designated Engagement Partner
Certified Public Accountant

Tsutomu Ogawa
Designated Engagement Partner
Certified Public Accountant

Shinya Fujino
Designated Engagement Partner
Certified Public Accountant

*KPMG AZSA LLC*
Tokyo Office, Japan
June 22, 2023