

## Priority Management Themes from an ESG Perspective — Materiality

### Priority Management Themes from an ESG Perspective that Are Set to Generate Economic Value and Social Value

To realize our aim of “Orchestrating a brighter world,” and to generate both economic value and social value, NEC is focusing attention on ESG (Environment, Social and Governance) perspectives as a priority area, and sets as our strong point the theme “materiality,” which is specified by the following three layers:

▶ For the specific process of materiality, please refer to the “[Sustainable Management](#)” page.

#### ① Sustainable Growth Enablers

To minimize risks to NEC and society, and to maximize the social value that NEC is to generate, NEC places priority on following five themes:

- Governance and compliance
- Environmental action with a particular focus on climate change
- Sustainably and socially literate human resources
- Privacy policies and measures aligned with societal expectations
- Security to maximize ICT possibilities

#### ② Engines of Change

The two following points have been defined as engines for maximizing economic value and social value as well as minimizing social risks:

- Dialogue and Co-Creation with Our Stakeholders
- Innovation Management

#### ③ 2020 Growth Focus to Create Social Value

The following growth areas of the Mid-Term Management Plan 2020 are defined as the themes that management should place priority on from ESG perspectives:

- NEC Safer Cities
- NEC Value Chain Innovation



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## Sustainable Growth Enablers

In order to maximize the social value that NEC is to generate, as well as minimizing the risks to NEC and society, NEC has specified five themes to pursue as priority areas, and non-financial indicators to measure the progress of each theme.

In order to specify the policies to pursue and non-financial indicators for themes on Human Resource Development, Privacy Policy, and Climate Change out of the five themes, we referred to the comments and advice offered by the experts with whom we held dialogues.

- ▶ For details on the discussions, please refer to the [“Dialogue Sessions on Materiality with Experts”](#) page.

### Governance and Compliance

Since our establishment in 1899, NEC has built our business based on the trust we enjoy from our customers and society. We believe that this trust is developed by every member of NEC, from executives to employees, with each member putting compliance first in order to carry out his/her work in a sustainable manner, based on an extremely sound and transparent governance framework.

In particular, ensuring compliance in areas such as fair trade and anti-corruption is an essential measure for gaining and maintaining trust. NEC ensures compliance in cooperation with the suppliers and partners who make up our value chain.

- ▶ [Compliance and Risk Management](#)
- ▶ [Supply Chain Management](#)

NEC also gives priority to human rights issues. [The NEC Group Human Rights Policy](#) is applied to all NEC members, from executives to employees. If any of our activities within the value chain should have negative effects on human rights, we make our best efforts to recover the situation or cooperate with others in order to do so, then make further efforts to ensure that similar incidents do not occur again.

#### ▶ [Respecting Human Rights](#)

As set out in our long-established motto, “Better Products, Better Services,” we will continue to improve the quality of our products and services as a priority area.

#### ▶ [Ensuring Quality and Safety](#)

### Non-financial Indicators to Measure the Progress of the Activities We Will Pursue

To eliminate violations of compliance, NEC implements in-house training courses to ensure that all our members from executives to employees can prioritize compliance in the actions they take at any time. In addition, we aim to accomplish the following indicator:

- Indicator: Number of cases of involvement with serious cartels and/or bid-rigging
- Target for fiscal 2019: 0 (zero)

#### ▶ [Compliance and Risk Management](#)

### Environmental Action with a Particular Focus on Climate Change

The negative effects that are brought about by climate change cover a range of different circumstances, such as an increasing number of natural disasters caused by abnormal weather conditions, depletion of water resources, effects on the supply of and demand for food, etc.

NEC has set out a goal of reducing our company's CO<sub>2</sub> emissions to zero by 2050, and reducing CO<sub>2</sub> emissions from the whole supply chain by cooperating with suppliers and partners. Based on these efforts, NEC is contributing to reductions in greenhouse gases on a global scale.

By offering energy-saving products and services, solutions aimed at preparing for the risks of natural disasters such as floods and landslides, and products and services to cope with environmental issues caused by climate change, NEC will contribute to the efforts our customers and society are making to address climate change.

### Non-financial Indicators to Measure the Progress of the Activities We Will Pursue

To realize a sustainable society, it is essential not only to minimize CO<sub>2</sub> emissions and various risks facing and engendered by our supply chains, but also to expand the values that we offer to our customers and society via ICT in terms of both reducing and coping with environmental issues. We are enhancing our activities by setting a goal in the form of the following indicator:

- Indicator: Rate of contribution to CO<sub>2</sub> emission reductions across the whole supply chain.
- Target for fiscal 2021: 5 times

#### ▶ [Environmental Management Initiatives](#)

### Sustainably and Socially Literate Human Resource

For enabling Social Value Creation at NEC, we need to continue developing personnel who are capable of sensing or reading the needs of customers and society and discovering potential issues through conversations and co-creation processes with our customers and diverse stakeholders, and who are capable of swiftly offering products and services that will contribute to solving the issues that they are experiencing.

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In 2016, NEC formulated its “People Philosophy,” a basic approach to human resource development at NEC Group, with the aim of ensuring that these ideas become thoroughly embedded among our members, from executives to employees.

NEC continues to deliver products and services that will be accepted by society, including our customers, by developing the kind of “human resources” who can take on a diverse range of values and continuously create social value based on the “People Philosophy.”

#### ▶ Human Resources Development and Training

### Non-financial Indicators to Measure the Progress of the Activities We Will Pursue

NEC will use the following indicators to confirm whether we succeed in developing human resources who possess a higher level of social sensitivity and in outputting the social value created by our personnel, and whether we succeed in creating an organization that has a sense of speed embedded in its culture.

- Indicator: rate of employees who have a strong sense that NEC is changing to create social value by accepting a diverse range of values
- Target for fiscal 2019:  
To review the questions in the opinion survey among NEC group employees and set a specific target number for fiscal 2021.

### Privacy Policies and Measures Aligned with Social Expectations

As the use of AI (artificial intelligence) and the IoT (internet of things) spreads, there are growing concerns about adverse impacts on human rights, including violations of privacy and discrimination.

In addition to responding to the General Data Protection Regulation (GDPR) that came into force in the European Union (EU) from May 2018, NEC also intends to develop and supply products and services that are responsive to differences in privacy needs between different countries and regions due to cultural perspectives and are sensitive to human rights issues, such as the challenge of discrimination that could potentially be furthered through

the usage of AI. Through these means, NEC intends not only to minimize adverse impacts on society but also to maximize social value through such initiatives.

### Non-financial Indicators to Measure Progress of Activities to Pursue

NEC has set out the following indicators and will clarify our approach concerning respect for human rights in our business activities, including dealing with privacy in our business activities. Our approach is to provide products and services that are sensitive to privacy concerns, based on adherence to the law, cooperating with our customers and sales partners.

- Indicators:
  - ① To have discussions with multi-stakeholders regarding sensitive cases from human rights or privacy perspectives.
  - ② Number of cases incorporated, in areas such as R&D, product development and proposals for services, based on “Human Rights by Design\*” concept
- Target for fiscal 2019
  - ① Carry out once per quarter
  - ② Set the specific target number for fiscal 2021

\* Incorporation of the approach of respect for human rights (privacy, fairness, etc.) into each process in the value chain.

#### ▶ Personal Information Protection and Privacy

### Security to Maximize ICT Possibilities

Security, as well as privacy, is also a theme that NEC needs to take up across the whole value chain including our customers and clients, in order to provide values such as safety, security and fairness to society through our business activities.

NEC is making efforts to minimize risks in the fields of “Information Security” and “Cyber Security” in particular, ensuring that our customers are able to securely experience the benefits offered by ICT.

### Non-financial Indicators to Measure the Progress of Activities That We Will Pursue

The following two indicators are used to measure the progress we make in terms of minimizing risks while maximizing value, with the aim of realizing a secure information society.

- Indicators:
  - ① Minimize the effects of major security incidents by ensuring that we enhance cyber security measures while also enhancing information security measures in order to prevent leakage of information.
  - ② Promote products and services that incorporate security measures and case studies taken from the NEC Group’s own information security practices as a reference

#### ▶ Information Security and Cyber Security

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## Engines of Change

### Dialogue and Co-creation with Our Stakeholders

Values are constantly changing for our customers and society. To provide products and services that deliver real value, NEC must incorporate processes for dialogue and co-creation with stakeholders into its corporate activities.

Through dialogue with our stakeholders, we will develop insights into the issues our customers and society face and their opinions regarding NEC's activities, while developing partners with whom to engage in the co-creation. By connecting these activities to value we aim to realize NEC's goal of "Orchestrating a brighter world."

We recognize that dialogues and co-creation of value are processes that NEC should carry out at all times. For this reason, we do not specify non-financial indicators for this area.

#### ▶ Dialogue and Co-creation with Our Stakeholders



### Innovation Management

Over the years since NEC was founded, we have cultivated our technologies based on NEC's motto of "Better Products, Better Services." In a society that is constantly changing, the technologies in demand keep changing as well; by implementing appropriate innovation management, we can continue to generate social value in the form of the technologies, products and services that society demands.

NEC is investing approximately 4% of our sales revenues into R&D in order to realize innovation sustainably. However, for this theme, we have not set a non-financial indicator to measure how much value is generated by innovation management. This is because NEC believes that the outcomes of innovation management in terms of social value creation are, by their nature, things that can only be measured for the first time when our technologies successfully deliver value to society in the form of products and services.

#### ▶ Innovation Management

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## 2020 Growth Focus to Create Social Value

In the Mid-Term Management Plan 2020, we define “NEC Safer Cities,” “Formation of a sustainable, smart supply chain,” and “Safe and comfortable connected cars” as growing businesses. From ESG perspectives, these are placed into two growth fields: “NEC Safer Cities” and “NEC Value Chain Innovation.”

Based on the approach that social value is to be engendered by the products and services that NEC offers, we will measure the progress of this theme by using the financial indicators set out in the Mid-term Management Plan 2020.

At the same time, while managing the progress of the Mid-term Management Plan going forward, from non-financial perspectives as well we will continue to consider how to demonstrate in quantitative terms what kind of impacts on society NEC aims to bring about through the products and services we provide.

### NEC Safer Cities

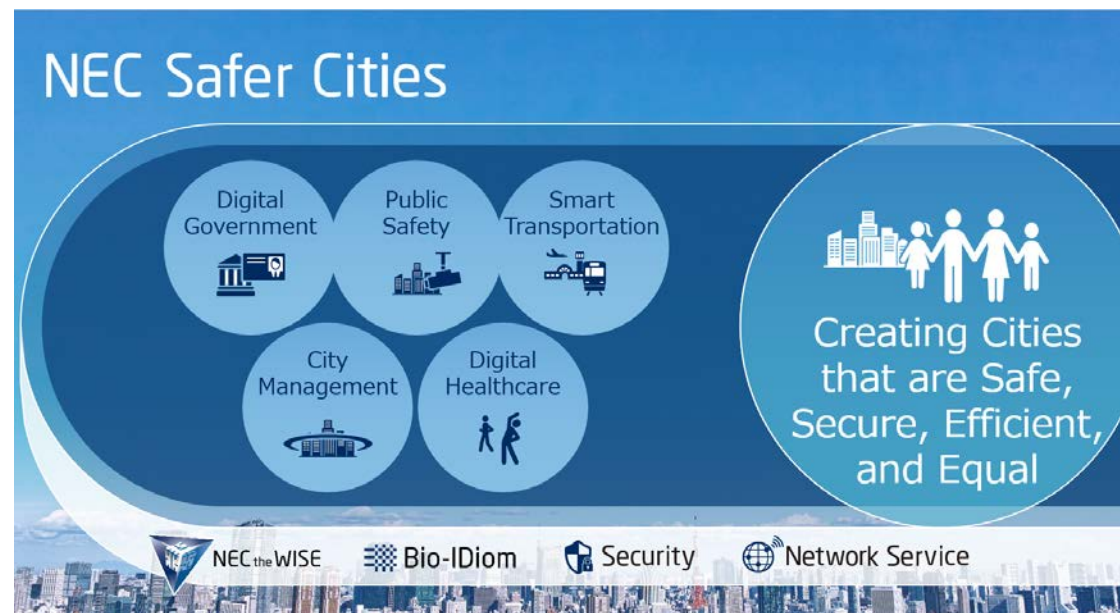
As populations rapidly concentrate in urban areas, new value is created through economic growth and the diversification of life and culture; at the same time, cities also face a wide range of social challenges, such as increasing levels of crime and terrorism.

NEC will contribute to realizing safe, secure, efficient and fair cities where individuals can exhibit their potential to the full and live better lives, by utilizing cutting-edge technology such as biometric authentication, AI, IoT, etc.

### Non-financial Indicators to Measure the Progress of the Activities That We Will Pursue

For example, by having a wider range of our customers use NEC products and services such as biometric authentication solutions and AI-based crime/disaster-prevention systems and providing these to a larger number of organizations, NEC will ensure that the social value we provide will be amplified in terms of both quantity and quality.

For fiscal 2021, NEC will focus on expansion of our international sales and aims to increase our international sales to 200 billion yen.



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## NEC Value Chain Innovation

Our society faces various kinds of social issues, such as food waste, labor shortages, changes in consumption patterns, and diversifying threats.

NEC will develop cutting-edge technologies and promote co-creation with customers in order to connect people, goods, and processes, reaching across the boundaries between enterprises and industries to create new value. In doing so, NEC will support a more sustainable planet, sustainable growth for companies, a society where people can live in abundance and a brighter world for the future.

### Non-financial Indicators to Measure the Progress of the Activities That We Will Pursue

NEC aims to amplify the social value we provide by developing and supplying larger numbers of services. For example, we will contribute to reducing food waste from manufacturing and supply chains, which is defined in Target 12.3 of the SDGs' Goal 12, by promoting NEC Value Chain Innovation which aims to optimize the demand-and-supply balance.

For fiscal 2021, we have set out a goal of expanding our domestic sales to 85 billion yen in growth fields including NEC Value chain Innovation.



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## Initiatives by NEC for Contributing to the Achievement of the SDGs

To specify materiality, NEC has held meetings with experts to discuss whether NEC should specify goals and targets\* for SDGs as a theme to pursue as a priority area.

As a company that announced a shift towards Social Value Creation in 2013, NEC has been engaging in businesses that originate in social issues. Since 2015, when the UN adopted the SDGs, NEC has developed an even stronger sense of purpose in these businesses. Since ICT has the potential for responding to a variety of issues, we believe that we can contribute at least a little to all the goals outlined in the SDGs, through engaging in discussions and co-creation with customers and stakeholders.

For example, looking only at the targets among the areas defined as growing fields in the Mid-Term Management Plan 2020, such as “NEC Safer Cities” and “NEC Value Chain Innovation,” there are No. 3, No. 7, No. 8, No. 9, No. 11, No. 12, No. 16 and No. 17 to which NEC wishes to contribute on its own initiative, as shown on the right. There are a large number of targets that could potentially be set out as goals.

Meanwhile, it has been pointed out by some external experts that narrowing down the range of SDGs to pursue brings the risk of narrowing the scope of our business expansion and the possible range of social value that could be delivered by our products and services as well.

\* 17 goals and 169 targets have been set by the SDGs

### Dialogue Sessions on Materiality with Experts

To demonstrate NEC’s approach of contributing to the SDGs on a wider basis, we have categorized the targets of materiality into the two following areas: “Targets to which NEC wishes to contribute on its own initiative and/or positively,” and “Targets to which NEC is able to contribute or wishes to contribute in the future” (see the following figure). In addition, to ensure that the SDGs are used proactively for defining the goals that NEC should aim towards, or as indicators for measuring the social values that are generated by NEC business, we will

aim to engage in educational activities on this matter within our company.

## Fields that NEC Contributes to SDGs

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
NEC Safer Cities	1.4		3.8	4.a		6.4		8.3	9.3 9.a	10.7	11.2 11.3 11.7 11.b			14.1		16.6 16.a	17.16
NEC Value Chain Innovation		2.1 2.4 2.a 2.c	3.6				7.2 7.3	8.1 8.2 8.8	9.1 9.3 9.4		11.2	12.2 12.3	13.3				17.16
Dialog and co-creation with our stakeholders			3.8	4.3 4.4 4.a				8.1 8.2 8.3 8.8	9.1 9.4		11.2 11.3 11.b	12.8	13.3			16.6 16.7 16.a	17.16 17.17
Innovation management			3.6 3.8 3.b		5.2		7.3	8.1 8.2 8.3 8.8	9.1 9.3 9.4 9.5 9.a	10.5	11.2 11.3 11.b	12.2 12.3 12.5	13.1		15.2	16.1 16.2 16.6 16.9 16.a	17.6
Sustainably and socially literate human resources				4.3 4.4 4.5 4.a	5.1 5.5			8.3 8.5 8.7	9.2	10.2 10.3			13.3			16.5	17.16
Privacy policies and measures aligned with societal expectations					5.2			8.7	9.5							16.1 16.9 16.10	17.16
Security to maximize ICT possibilities									9.5		11.1 11.7					16.1 16.3	17.16
Environmental action with a particular focus on climate change	1.5	2.4	3.d			6.4	7.2 7.3 7.a 7.b		9.4		11.5 11.b		13.1 13.3	14.2 14.5	15.1 15.4 15.5		17.16
Governance and compliance					5.1 5.2 5.5			8.5 8.7 8.8		10.2 10.3		12.7				16.1 16.2 16.5 16.6	17.16

■ Targets to which NEC wishes to contribute on its own initiative and/or positively  
■ Targets to which NEC is able to contribute or wishes to contribute in the future