

# Priority Management Themes from an ESG Perspective—Materiality

NEC considers “materiality” as a priority management theme from an ESG perspective that we need to adopt to reinforce non-financial (ESG/future financial) evaluation methodologies to underpin the sustainable growth of the Company and society.

As part of our financial strategies for the Mid-term Management Plan 2025, formulated in fiscal 2022, we aim to continue to be included in the ESG indices used for ESG investment by reinforcing our non-financial initiatives, focusing on “materiality” and disclosing information with a high degree of transparency. We believe that our materiality-centered initiatives, coupled with the level of praise from society and capital markets for promoting these initiatives, will secure our inclusion in these ESG indices and foster Company pride and motivation among employees, while also having a positive impact on financial performance.

- Mid-term Management Plan 2025
- External Ratings and Evaluations (Inclusion in ESG Indices)

The implementation of materiality themes is clearly stated in the job description of internal directors and related officers, and is also incorporated into the performance evaluation KPIs of officers in order to enhance effectiveness. Moreover, we will utilize the evaluations and feedback from a variety of stakeholders, garnered through ESG research, direct dialogue, and other methods, in our efforts to build financial and non-financial measurement methodologies that will be resilient over the medium to long term.

- Main materiality-related initiatives, targets, and progress in the Mid-term Management Plan 2025
- “ESG-Related Objectives, Achievements and Progress, and Degree of Completion”

## Definition Process

NEC Corporation defined its materiality in fiscal 2019 and first redefined it in fiscal 2021. Our current materiality was redefined in fiscal 2022 upon the reformulation of the Mid-term Management Plan 2025. This materiality was determined with reference to ISO 26000, the GRI Standards, the principles of the UN Global Compact, the SDGs, and the SASB Materiality Map, among others, and through dialogues with experts in various fields and with representative stakeholders.

### Defining Materiality through the Years

#### Fiscal 2019—Defining Our Materiality

In fiscal 2019, we defined our materiality. When doing so, we were highly mindful of the dialogues we held with experts in a variety of fields and with representative stakeholders, as well as the connection it would have with our mid-term management plan. As a first step, we created a list of social issues that could potentially be priority themes, with reference to global guidelines and taking into account NEC’s particular business characteristics. We then conducted a survey of employees to determine the impact NEC could have on these issues, and what impact they would have on NEC. We then drew up a materiality matrix that centered on these impacts and the importance of these social issues. After this process, we highlighted issues that had a high level of importance, and therefore a high level of impact, on both NEC and society and tentatively defined these issues as materiality—issues that NEC should tackle with a high priority. In addition, we consulted with external experts regarding this approach.

After doing so, we set non-financial indicators to measure the progress of our materiality initiatives, aiming to best quantify outcomes in terms of the level of positive value provided to society. We also engaged in dialogues with external experts at this stage in order to organize our materiality, after which the materiality and the corresponding indicators were reported to the Board of Directors, which then decided upon them.

Defining process for fiscal 2019 materiality

“Sustainability Management” on page 3 of *Sustainability Report 2018*.

#### Fiscal 2021—Redefining Our Materiality

In 2020, we revised the NEC Way, a common set of values that form the basis for how the entire NEC Group conducts itself. In keeping with this change, we removed “Dialogue and Co-Creation with Our Stakeholders,” “Innovation Management,” and “Governance and Compliance” as materiality, as these were incorporated into the NEC Way. The six remaining themes were reported to the Board of Directors as materiality, which then decided upon them.

Materiality Reset in Fiscal 2021

“Priority Management Themes from an ESG Perspective—Materiality” on page 8 of *Sustainability Report 2020*

#### Fiscal 2022—Reviewing Our Materiality

We reviewed the materiality set within the Mid-term Management Plan 2025 based on the materiality defined in fiscal 2019. This review was conducted in light of changes in the business environment and social demand, after holding workshops for managers of growth businesses under the Mid-term Management Plan 2025 to examine the social and environmental value created by their businesses, and after dialogues with external experts. Materiality was then defined according to the following criteria.

- Non-financial (ESG/future financial) management foundation themes that have a significant positive or negative impact on society and the environment, as well as on the Company
- Themes where progress can be measured or visualized from a social or environmental perspective

As a result, we decided to exclude the two themes categorized under “2020 Growth Focus to Create Social Value,” which are both business themes, and to continue to work on the four themes categorized under “Sustainable Growth Enablers.” Furthermore, at the aforementioned workshops held for managers of growth businesses under the Mid-term Management Plan 2025 to examine the social and environmental value created by their businesses, it was confirmed that “corporate governance,” “supply chain sustainability,” and “compliance” are also essential themes for promoting businesses with high social and public value, and for gaining the trust of society. Accordingly, the seven following themes were reported to the Board of Directors as materiality for the Mid-term Management Plan 2025.

#### Materiality in the Mid-term Management Plan 2025 (from fiscal 2022)

Key Themes (Materiality)	Main Initiatives	FY2026 KPIs
<b>E</b> Climate change (Decarbonization)	1. Acceleration of environmental management toward achievement of SBT <sup>*1</sup> 1.5°C by 2030 2. Contribution to CO <sub>2</sub> reduction through customer DX	1. 33.6% reduction <sup>*2</sup> (compared with FY2018)
<b>S</b> Security AI & human rights Diverse human resources	1. Development of human resources in advanced security to handle social infrastructure 2. AI provision and utilization prioritizing respect for human rights	1. Doubling of internationally certified personnel 2. Incorporated initiatives based on the AI and Human Rights Principles
<b>G</b> Corporate governance Supply chain sustainability Compliance	1. Further improvement of transparency of corporate governance 2. Strengthening of collaboration with suppliers from a human rights/environmental perspective 3. Eradication of serious compliance incidents	2. Suppliers agreeing to procurement guidelines: 75% <sup>*3</sup> 3. No. of serious incidents: 0

\*1 Science Based Targets \*2 Scope 1, 2 \*3 Ratio based on procurement amount



## Analysis of the Relationship between Non-financial Indicators and Financial Indicators

In fiscal 2022, NEC Corporation continued to be included in major ESG indexes, such as the Dow Jones Sustainability Indices and FTSE4Good Index Series, as part of targets set forth in the Mid-term Management Plan 2025. Generally, most ESG indexes are evaluated from a risk management perspective, so that we believe ESG indexes are not sufficient to assess whether we are connecting ESG and sustainability to our business opportunities and growth. Furthermore, we cannot measure how our non-financial initiatives directly impact our financial performance through inclusion in these indexes.

Therefore, we initiated measures to analyze how non-financial efforts affect Price-to-Book Ratio (P/B), an indicator of financial performance, using “Digital ESG Data Analytics,” an ESG management support system provided by ABeam Consulting Ltd., to visualize the data.

In fiscal 2022, we analyzed 273 non-financial indicators that the NEC Group is working on from their fifth year of implementation to their 10th year and looked for correlations with the P/B. The results of this analysis showed a positive correlation between 25 of these indicators and the P/B. In addition, more than half of these 25 were related to human capital.

## Analyzing the impact of non-financial indicators on financial indicators (P/B)



\* Source: Adapted from “Yanagi Model,” R. Yanagi (2020), “CFO Policy 2nd Edition,” Chuo Keizai-Sha, 2021  
Analysis conducted by Digital ESG Data Analytics, ABeam Consulting Ltd.

For example, NEC Corporation is monitoring the progress of the number of female department heads or higher as an index of diversity initiatives. According to this analysis, a 1% increase in this indicator would result in a 3.3% increase in the P/B after seven years. Moreover, a 1% increase in the number of training days per employee, an indicator of human resource development, would yield a 7.24% increase in the P/B after five years.

### Indicators related to human capital

### Financial indicators

Increase the number of female department heads or higher\* by 1%

3.3% increase in P/B in 7 years

Increase the number of training days\* per employee by 1%



























7.24% increase in P/B in 5 years

\* Figures for NEC Corporation on a non-consolidated basis

Continuing this analysis into the future will help us to identify non-financial initiatives that will lead to greater corporate value, to properly allocate investment toward these initiatives, and to review materiality as appropriate.

It takes some time for non-financial initiatives to make a concrete impact on financial performance, and management that integrates financial and non-financial aspects can be difficult. Even so, these initiatives are crucial to creating more solid non-financial measurement methodologies that will ultimately lead to the creation of a strong and resilient financial base for the medium to long term. Moreover, they are necessary for NEC to continue creating social value. By providing value to society, that is, by materializing our Purpose, we believe that we can contribute toward sustainable growth—not only for NEC but also for society.

## Main Materiality-related Initiatives, Targets, and Progress under the Mid-term Management Plan 2025

Materiality	Mid-term Management Plan 2025: Main Initiatives	KPIs for Fiscal 2026	Results for Fiscal 2022	Related Pages
<b>Environmental Action with a Particular Focus on Climate Change (Decarbonization)</b> 	<p>We are accelerating environmental management toward achievement of SBT 1.5°C by 2030 and, in addition to reducing CO<sub>2</sub> emissions at our businesses, we will reduce emissions at customer businesses by implementing DX.</p> <p>We have declared our intention to reducing CO<sub>2</sub> emissions from our supply chains to net zero by 2050. As milestones toward our 2050 goal, we acquired the certification of our targets aimed at reducing CO<sub>2</sub> emissions to the SBT 1.5°C level, as set by the Science Based Targets initiative, and joined the global initiative RE100.</p> <p> NEC Eco Action Plan 2025</p>	Reduce Scope 1 and Scope 2 CO <sub>2</sub> emissions by 33.6% compared with fiscal 2018	31.1% reduction	 <a href="#">Topic: Climate Transition Plan</a>  <a href="#">Response to Climate Change</a>
<b>Security to Maximize ICT Possibilities</b> 	<p>We aim to minimize the effects of major security incidents by ensuring that we enhance cyber security measures while also strengthening information security, and provide products and services that incorporate security measures and case studies taken from the NEC Group's own information security practices as a reference to realize a secure information society.</p> <p>We will reinforce the development of information security professionals to protect the information assets entrusted to us by our customers and business partners as well as the Group's own information assets.</p>	Double the number of CISSP*1 certification holders compared with fiscal 2021, which we use as an indicator to confirm that we are developing personnel with advanced security capabilities in supporting social infrastructure and ensuring qualified personnel appropriately to conduct "security by design"	The number of CISSP certification holders: Approx. 200 (30% increase)	 <a href="#">Information Security Report</a>  <a href="#">Information Security and Cyber Security</a>
<b>Provision and Utilization of AI with Respect for Human Rights as the Highest Priority (AI and Human Rights)</b> 	<p>In accordance with the NEC Group AI and Human Rights Principles, we are committed to the following three initiatives:</p> <ol style="list-style-type: none"> <li>1. Ensure that all products and services are implemented and utilized by NEC, customers, and partners appropriately</li> <li>2. Continue to develop advanced technology and talent to further promote AI utilization, with respect for human rights as the highest priority</li> <li>3. Engage with a range of stakeholders to build partnerships and collaborate with closely</li> </ol>	Apply the NEC Group AI and Human Rights Principles in our business activities	Apply the NEC Group AI and Human Rights Principles in our business activities	 <a href="#">Topic: Respecting Human Rights</a>  <a href="#">AI and Human Rights</a>  <a href="#">Personal Information Protection and Privacy</a>
<b>Diverse Human Resource Development and Cultural Transformation</b> 	<p>We will bolster diversity as a source of innovation and implement workstyle reforms supporting diverse talent.</p>	<ul style="list-style-type: none"> <li>• Achieve a 50%*2 employee engagement score by transforming our culture and how we work, including the transformation of people and culture</li> <li>• Ratio of female or non-Japanese to Directors, Audit &amp; Supervisory Board Members (KANSAYAKU), and corporate officers 20%</li> </ul> <p>(When the Mid-term Management Plan 2025 was announced, we set a target for the percentage of officers ranked corporate officer or higher who are female or non-Japanese [excluding Audit &amp; Supervisory Board Members (KANSAYAKU) (A&amp;SBMs)]. This target originally did not include A&amp;SBMs, and we have now decided to include them, believing that the A&amp;SBMs should have a target for diversity as well.)</p> <ul style="list-style-type: none"> <li>• Ratio of female to all managers 20%</li> <li>• Ratio of female to all employees 30%</li> </ul>	<ul style="list-style-type: none"> <li>• Employee engagement score 35%</li> <li>• Ratio of female or non-Japanese to Directors, Audit &amp; Supervisory Board Members (KANSAYAKU), and corporate officers (as of June 30, 2022) 9.4%</li> <li>• Ratio of female or non-Japanese to Directors, Audit &amp; Supervisory Board Members (KANSAYAKU), and corporate officers (as of April 1, 2022) 9.1%</li> <li>• Ratio of female or non-Japanese to Directors and corporate officers (as of April 1, 2022) 8.0%</li> <li>• Ratio of female to all managers (as of April 1, 2022) 8.1%</li> <li>• Ratio of female to all employees (as of April 1, 2022) 20.3%</li> </ul>	 <a href="#">Human Resource Development and Training</a>  <a href="#">Inclusion and Diversity</a>  <a href="#">Creating a Diverse Workstyle Environment</a>
<b>Corporate Governance</b> 	Further improvement of transparency of corporate governance	Promote timely and appropriate initiatives to enhance transparency	<ul style="list-style-type: none"> <li>• Enhanced the Board of Directors System</li> <li>• Increased the percentage of independent directors, non-executive directors, and women and foreign nationals</li> </ul>	 <a href="#">Corporate Governance</a>
<b>Supply Chain Sustainability</b> 	We will continue to promote activities to ensure that all suppliers are aware of the "Guidelines for Responsible Business Conduct in Supply Chains" and submit declarations, pledging to uphold its contents.	Acquire declarations from suppliers which account for 75% of the total consolidated procurement amount	Acquired declarations from suppliers which account for 80% of the total consolidated procurement amount	 <a href="#">Supply Chain Management</a>
<b>Compliance</b> 	Have everyone, from employees to officers, sign the Statement of Agreement for the NEC Group Code of Conduct. Each individual recognizes compliance as a personal matter and practices actions based on this code every day.	Build on daily practices and continue to aim for zero cases of serious involvement with cartels and/or bid-rigging	Had zero cases of serious involvement with cartels and/or bid-rigging	<p>Initiatives for management transparency</p>  <a href="#">Corporate Governance</a> <p>Ensuring compliance in areas such as fair trade and anti-corruption</p>  <a href="#">Compliance and Risk Management</a> <p>Initiatives to respect human rights in NEC's business activities</p>  <a href="#">Topic: Respecting Human Rights</a> <p>Initiatives related to the environment, quality, and the supply chain</p>  <a href="#">Environment</a>  <a href="#">Ensuring Quality and Safety</a>  <a href="#">Supply Chain Management</a>

\*1 Certified Information Systems Security Professional (CISSP) is an internationally recognized information security professional qualification certified by International Information System Security Certification Consortium, Inc. (ISC)\*.

\*2 Based on the Kincentric Survey of a 50% score, which is Tier 1 level and in the global top 25 percentile