

Management That Supports Corporate Value Creation

# Risks and Opportunities

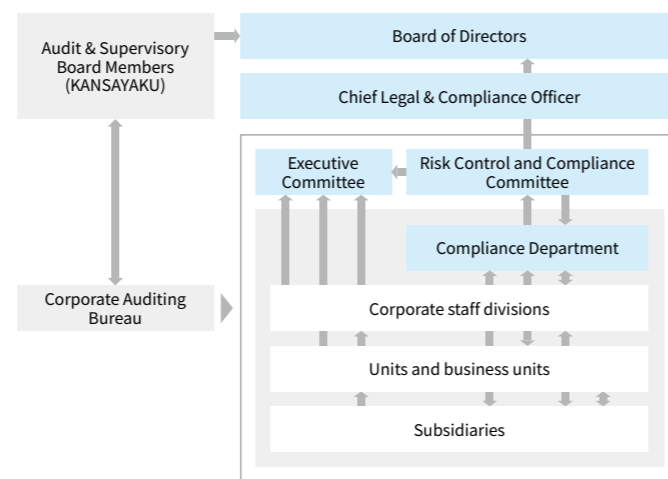
In addition to financial risks, NEC works to gain a proper understanding of non-financial (ESG) risks that, if realized, may cause NEC to negatively impact the environment or society. As well as implementing effective and efficient measures to mitigate these risks, NEC is taking steps to turn these risks into business opportunities. As part of this initiative, we intend to direct our efforts according to materiality, which is a set of priority management themes from an ESG perspective. These efforts will maximize the value provided while minimizing risk, which in turn will improve future financial performance and contribute to achieving the SDGs.

## Risk Management Framework

NEC's Chief Legal and Compliance Officer (CLCO), a member of the Board of Directors, is responsible for overseeing Companywide risk management and serves as Chairperson of the Risk Control and Compliance Committee.

Every fiscal year, the committee, which comprises officers, selects Priority Risks as risks in particular need of countermeasures, and regularly receives reports from the divisions in charge of deliberations regarding specific measures and the progress of these measures, after which the committee undertakes efforts to improve or enhance these measures if necessary. The CLCO reports matters of particular importance to the Executive Committee and the Business Progress Committee and other entities, which are attended by the CEO.

To supervise business execution, the Board of Directors receives reports on matters that include material misconduct and measures taken for the Priority Risks. In addition, the Board of Directors regularly confirms the effectiveness of the Company's risk management and the operational status of the Company's internal control system.



## Response to Priority Risks

In fiscal 2022, one important risk, "risk management system in response to changes in risks" was selected as a Priority Risk. To address this risk, the Company adjusted its comprehensive risk management system and compiled a list of risks that NEC should be aware of. The Company assessed these risks in terms of likelihood and their impact on NEC and prepared a risk map visualizing the priority of each risk.

Based on this risk map, "risks of human rights violations in the value chain" was selected as a Priority Risk to be addressed in fiscal 2023, which was then reported to the Board of Directors. As one effort to address this risk, the Company revised the NEC Group Human Rights Policy in June 2022.

For more details, please refer to the "Respecting Human Rights" section on page 60.

## Major Risks & Opportunities and Related Initiatives

Major risks and opportunities that NEC recognizes and key initiatives aimed at addressing them are listed on the right. We will review these risks as necessary to facilitate a flexible response to sudden changes that may occur.

### Financial

	Risks (●) and Opportunities (○)	Initiatives
<b>Trends in Economic Environment and Financial Markets</b>	<ul style="list-style-type: none"> <li>● Impacts from economic trends and market fluctuations</li> <li>● Fluctuations in exchange rates and interest rates</li> <li>● Adverse effects of infectious diseases, man-made disasters, and natural disasters</li> <li>○ Greater expectations for ICT as a solution to social issues</li> </ul>	<ul style="list-style-type: none"> <li>▶ <i>The Securities Report for Fiscal 2022</i> (Japanese only), P.21 "Trends in Economic Environment and Financial Markets"</li> <li>▶  P.54 Living Harmoniously with the Earth to Secure the Future P.78 At a Glance</li> </ul>
<b>The NEC Group's Management Policies</b>	<ul style="list-style-type: none"> <li>● Financial instability and fluctuations in revenue</li> <li>● Failure in company acquisitions and withdrawal from businesses, etc.</li> <li>● Difficulty in maintaining relationships with strategic partners</li> <li>● Inability to participate in certain markets and country-related risks</li> <li>○ New growth from implementing the Mid-term Management Plan 2025</li> </ul>	<ul style="list-style-type: none"> <li>▶ <i>The Securities Report for Fiscal 2022</i> (Japanese only), P.23 "Risks Related to the NEC Group's Management Policies"</li> <li>▶  P.20 Mid-term Management Plan 2025 P.36 CFO Message P.40 Innovation: R&amp;D and Business Development P.46 NEC, for Those Who Seek Challenge P.54 Living Harmoniously with the Earth to Secure the Future</li> </ul>
<b>The NEC Group's Business Activities</b>	<ul style="list-style-type: none"> <li>● Dependence on the NEC Group's primary customer base</li> <li>● Difficulties with respect to new businesses, intensifying competition</li> <li>○ Increase in business opportunities</li> </ul>	<ul style="list-style-type: none"> <li>▶ <i>The Securities Report for Fiscal 2022</i> (Japanese only), P.27 "Risks Related to the NEC Group's Business Activities"</li> <li>▶  P.78 At a Glance</li> </ul>

### Non-financial

Materiality	Risks (●) and Opportunities (○)	Initiatives
<b>Environmental Action with a Particular Focus on Climate Change</b>	<ul style="list-style-type: none"> <li>● System failure from natural disasters</li> <li>● Increased costs related to CO<sub>2</sub> emissions</li> <li>○ Provision of ICT solutions</li> </ul>	<ul style="list-style-type: none"> <li>Contribute to reducing CO<sub>2</sub> emissions, not only from NEC but also from customers' businesses and the entire supply chain</li> <li>Promote thorough energy conservation and increased use of renewable energy based on the NEC Eco Action Plan 2025, to achieve SBT 1.5°C</li> <li>▶ <i>The Securities Report for Fiscal 2022</i> (Japanese only), P.18 "Response to Climate Change"</li> <li>▶  P.54 Living Harmoniously with the Earth to Secure the Future</li> <li>▶  P.40 Climate Change</li> </ul>
<b>Security to Maximize ICT Possibilities</b>	<ul style="list-style-type: none"> <li>● Information leaks, unauthorized access, system failure</li> <li>○ Development of security professionals</li> <li>○ Provision and operation of robust information systems</li> </ul>	<ul style="list-style-type: none"> <li>Promote information security measures in a sound manner</li> <li>Provide products and services that incorporate security measures</li> <li>Develop information security professionals</li> <li>▶  P.40 Innovation: R&amp;D and Business Development</li> <li>▶  P.69 Information Security and Cyber Security</li> </ul>
<b>AI and Human Rights</b>	<ul style="list-style-type: none"> <li>● Invasion of privacy-related risks accompanying new technologies</li> <li>● Risks of human rights violations in the value chain (designated as a Priority Risk in fiscal 2023)</li> <li>○ Strengthening competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>Promote appropriate utilization of AI, develop advanced technology and talent, and engage with a range of stakeholders to build partnerships and collaborate with closely in accordance with the NEC Group AI and Human Rights Principles</li> <li>Revise and disseminate the NEC Group Human Rights Policy</li> <li>▶  P.40 Innovation: R&amp;D and Business Development P.60 Respecting Human Rights</li> <li>▶  P.17 Topic: Respecting Human Rights, P.64 AI and Human Rights P.66 Personal Information Protection and Privacy P.77 Innovation Management</li> </ul>
<b>Diverse Human Resource Development and Cultural Transformation</b>	<ul style="list-style-type: none"> <li>● Harassment</li> <li>● Risks of human rights violations in the value chain (designated as a Priority Risk in fiscal 2023)</li> <li>● Difficulty in securing and developing human resources</li> <li>○ Greater organizational strength through improved employee engagement</li> </ul>	<ul style="list-style-type: none"> <li>Bolster diversity as a source of innovation, and implement workstyle reforms supporting diverse talent</li> <li>▶  P.46 NEC, for Those Who Seek Challenge</li> <li>▶  P.53 Inclusion and Diversity P.56 Human Resource Development and Training P.59 Creating a Diverse Workstyle Environment</li> </ul>
<b>Corporate Governance</b>	<ul style="list-style-type: none"> <li>● Inadequate accounting processes</li> <li>● Mismanagement of confidential information</li> <li>● Inadequate Group governance</li> <li>● Risk management systems in response to changes in risks (designated as a Priority Risk in fiscal 2022)</li> <li>○ Acquisition of trust from society</li> </ul>	<ul style="list-style-type: none"> <li>Increase the transparency of corporate governance further</li> <li>▶  P.6 Message from the President P.20 Mid-term Management Plan 2025 P.36 CFO Message P.66 Corporate Governance</li> <li>▶  P.80 Corporate Governance</li> </ul>
<b>Supply Chain Sustainability</b>	<ul style="list-style-type: none"> <li>● Environmental and human rights risks</li> <li>● Risks of human rights violations in the value chain (designated as a Priority Risk in fiscal 2023)</li> <li>○ Collaboration and co-creation with suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Promote activities to ensure that all suppliers are aware of the Guidelines for Responsible Business Conduct in Supply Chains and agree to uphold its contents</li> <li>▶  P.62 Supply Chain Sustainability</li> <li>▶  P.88 Supply Chain Management</li> </ul>
<b>Compliance</b>	<ul style="list-style-type: none"> <li>● Compliance breaches (illegal acts, fraudulent acts)</li> <li>● Reputation risks</li> <li>● Poor quality of products and services, defects</li> <li>● Risks in obeying the law regarding new technologies and new fields (designated as a Priority Risk in fiscal 2022)</li> <li>○ Acquisition of trust from society</li> </ul>	<ul style="list-style-type: none"> <li>Ensure all NEC Group members, from officers to employees, conduct themselves in accordance with the NEC Group Code of Conduct every day</li> <li>▶  P.72 Risks and Opportunities</li> <li>▶  P.17 Topic: Respecting Human Rights, P.64 AI and Human Rights P.66 Personal Information Protection and Privacy P.71 Ensuring Quality and Safety, P.80 Corporate Governance P.81 Compliance and Risk Management, P.88 Supply Chain Management</li> </ul>

Note: The SDGs that are particularly impacted are listed.

: NEC Integrated Report 2022 : NEC Sustainability Report 2022