Risks and Opportunities

NEC properly identifies financial risks and non-financial risks that could have an impact not only on itself but also on the environment and greater society and takes effective and efficient counter-measures against such risks. At the same time, NEC is taking steps to turn environmental and social themes into business opportunities. For example, among its areas of "materiality," which is a set of priority management themes from an ESG perspective, NEC has identified and implemented "Growth Materiality" as a theme that helps create opportunities and improve the growth rate, and "Fundamental Materiality" as a theme that focuses on mitigating risk and improving the growth rate.

Response to Priority Risks

NEC has prepared a risk map based on the findings of risk assessments conducted for business units and corporate staff, and each year selects Priority Risks that are deemed to have a particularly major influence on corporate management based on their degree of impact and level of urgency. Priority Risks are reported to the Board of Directors and action is taken to implement countermeasures.

The Risk Control and Compliance Committee, chaired by NEC's Chief Risk Officer (CRO), detects changes in internal and external factors and discusses and periodically reviews the severity of the impact of risks.

🛈 For more details, please refer to "Corporate Governance" on page 54.

In fiscal 2023, NEC selected "risks of human rights violations in the value chain (especially in regions with high geopolitical risk)" as Priority Risks. In order to promote initiatives, it revised the NEC Group Human Rights Policy, formulated in 2015, to clearly show the commitment of the NEC Group's management to respecting human rights across the NEC Group's entire value chain as well as the Group's governance system.

In addition, NEC considers "human rights risks related to geopolitical situations and conflicts" a salient human rights issue and has conducted a human rights impact assessment and implemented risk mitigation measures in its operations in high-risk countries and regions, reporting the results of these to the Board of Directors.

🛈 For more details, please refer to "Respecting Human Rights" on page 48.

Materiality-related Initiatives That Contribute to the Creation of Opportunities and Increase Growth Rate

NEC has identified ESG themes that have the potential to negatively impact itself and society but which, if properly managed, could also help to accelerate growth as "Fundamental Materiality," with reference to ISO 26000, the GRI Standards, the principles of the UN Global Compact, the Sustainable Development Goals (SDGs), the SASB Materiality Map, and other relevant standards. The preamble of Transforming our world: the 2030 Agenda for Sustainable Development (in which the SDGs are set forth), adopted at the UN General Assembly in 2015, states that "The spread of information and communications technology and global interconnectedness has great potential to accelerate human progress, to bridge the digital divide and to develop knowledge societies." NEC believes that it can create opportunities and increase its growth rate by solving social issues through co-creation with diverse stakeholders, leveraging its strengths in R&D and implementing cutting-edge technologies such as biometrics, AI, and 5G.

In order to clarify the social and environmental themes that growth businesses and future growth businesses aim to create under the Mid-term Management Plan 2025, NEC has organized them into five social and environmental themes as its "Growth Materiality," which contribute to generate growth and opportunities while increasing its growth rate for realizing its Purpose that are in line with the SDGs. In promoting these growth businesses, it is also essential to address "Fundamental Materiality." To address the technological risks that may be associated with the themes of "security to maximize ICT possibilities" and "AI and human rights" as well as to promote "environmental action with a particular focus on climate change (decarbonization)" and thorough "compliance," sustainability initiatives must be implemented together with our business partners.

Through these activities, NEC hopes to achieve not only sustainable growth for itself but also for more sustainable world where everyone has the chance to reach their full potential.

🛈 For more details, please refer to "NEC's Approach to Materiality for Increasing Corporate Value" on page 17.

Risks and Opportunities

Risks and Opportunities from an ESG Perspective and Related Initiatives

NEC will work to manage the following risks and link them to opportunities in order to facilitate a flexible response to unexpected changes that may occur.

	Materiality	Risks	Opportunities		Initiatives
Growth Materiality	A Society That Enables Well-being through the Digitalization of Government and Financial Institutions (DG/DF)	• Widening regional differences in government services due to the aging population and the so-called "digital divide," as well as increasing wealth polarization and disparity	• Collaboration and integration with government, finance, and various other industries • Expansion of user base for advanced asset management advice and asset transactions	Build an infrastructure that enables highly transparent and fair use of government and financial services and ensures that said services are customer-centered and tailored to the needs of each individual through the use of extremely reliable digital technology	▶ Ⓘ P.21 Digital Government and Digital Finance
	Stress-free Communication with Low Environmental Impact (Global 5G)	• Environmental burden due to increased energy consumption by telecommunications equipment	• Increased demand for solutions that enable efficient traffic accommodation, network construction, flexible network operation, and carbon neutrality • Increased emphasis on secure communications	Enable a wide range of entities—from individuals to businesses and government agencies—to make extensive use of information, leading to richer and brighter lives for everyone, anywhere, at all times by implementing high-speed, high-capacity, low-latency telecommunications environments that support enhanced access to information, new DX services, and disaster prevention	▶ Ⓘ P.23 Telecom Services
	Transforming Society and Industry with the Power of Digital Technology (Core DX)	• Delays in implementation in actual business due to a lack of human resources with DX expertise and difficulty in creating road maps	• Continued IT demand due to digitalization of both society and enterprises • Increased adoption of cloud-based services that use digital technologies	Promote digital transformation in both society and industry by leveraging our technological strengths in AI, biometrics, and security, as well as our abundant expertise in human resources in areas such as cloud services, agile development, and data science	▶ Ⓘ P.20 IT Services in Japan
	Living Freely in Our New Era of Healthcare and Life Science	• Delays in collaborations and market growth	• Increasing demand for healthcare that uses cutting-edge technologies such as AI	Achieve advanced personalized treatment, comprehensive medical services, and lifestyle support, promoting new business development with AI and image recognition technology	▶ Ⓘ P.26 Healthcare and Life Science Businesses
	Driving Carbon Neutrality for Our Customers and Society			Contribute to carbon neutrality throughout society by supporting our customers' decarbonization efforts, including initiatives within manufacturing supply chains, with digital technologies such as IT networks and AI	▶ Ⓘ P.25 Green / Carbon Neutrality Businesses
Fundamental Materiality	Environmental Action with a Particular Focus on Climate Change (Decarbonization)	• Increased costs due to the introduction of carbon pricing and CO$_2$ emission levels • System failure from natural disasters	• Increasing demand for ICT solutions to realize carbon neutrality	Contribute to reducing CO$_2$ emissions, not only from NEC but also from customers' businesses and the entire supply chain Sign The Climate Pledge, and promote thorough energy conservation and increased use of renewable energy based on the NEC Eco Action Plan 2025, to achieve SBT 1.5°C	▶ ⊕ *The Securities Report for Fiscal 2023* (Japanese only), P.23 "The NEC Group's Climate Change Strategy, Indicators, and Targets" ▶ Ⓘ P.42 Living Harmoniously with the Earth to Secure the Future ▶ Ⓔ P.18 Initiatives to Reduce Environmental Impact
	Security to Maximize ICT Possibilities	• Information leaks, unauthorized access, system failure	• Development of security professionals • Provision and operation of robust information systems	Promote information security measures in a sound manner Provide products and services that incorporate security measures Develop information security professionals	▶ Ⓘ P.30 Innovation: R&D and Business Development ▶ Ⓔ P.94 Information Security and Cyber Security
	Provision and Utilization of AI with Respect for Human Rights as the Highest Priority (AI and Human Rights)	• Invasion of privacy-related risks accompanying new technologies • Risks of human rights violations in the value chain (designated as a Priority Risk in fiscal 2023)	• Strengthening competitiveness	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 Revise and disseminate the NEC Group Human Rights Policy	▶ Ⓘ P.30 Innovation: R&D and Business Development 　P.48 Respecting Human Rights ▶ Ⓔ P.54 Respecting Human Rights　P.58 AI and Human Rights 　P.62 Personal Information Protection and Privacy 　P.92 Innovation Management
	Diverse Human Resource Development and Cultural Transformation	• Harassment • Risks of human rights violations in the value chain (designated as a Priority Risk in fiscal 2023) • Difficulty in securing and developing human resources	• Greater organizational strength through improved employee engagement	Accelerate diversity as a source of innovation and implement workstyle reforms supporting diverse talent	▶ Ⓘ P.36 NEC, for Those Who Seek Challenge ▶ Ⓔ P.34 Inclusion and Diversity 　P.40 Securing and Retaining Employees and Labour Practices 　P.46 Human Resource Development
	Corporate Governance	• Inadequate accounting processes • Mismanagement of confidential information	• Acquisition of trust from society	Increase the sophistication of corporate governance and further improve transparency	▶ Ⓘ P.3 Message from the President　P.12 CFO Message 　P.19 Business Strategy 　P.54 Corporate Governance ▶ Ⓔ P.74 Corporate Governance
	Supply Chain Sustainability	• Environmental and human rights risks • Risks of human rights violations in the value chain (designated as a Priority Risk in fiscal 2023)	• Collaboration and co-creation with suppliers	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	▶ Ⓘ P.50 Supply Chain Sustainability ▶ Ⓔ P.86 Supply Chain Management
	Compliance	• Compliance breaches (illegal acts, fraudulent acts) • Reputation risks • Poor quality of products and services, defects	• Acquisition of trust from society	Ensure all NEC Group members, from officers to employees, conduct themselves in accordance with the NEC Group Code of Conduct every day	▶ Ⓘ P.65 Risks and Opportunities ▶ Ⓔ P.54 Respecting Human Rights　P.58 AI and Human Rights 　P.62 Personal Information Protection and Privacy 　P.68 Quality and Safety　P.74 Corporate Governance 　P.76 Risk Management　P.80 Compliance 　P.86 Supply Chain Management

Ⓘ : *NEC Integrated Report 2023*　Ⓔ : *NEC ESG Databook 2023*