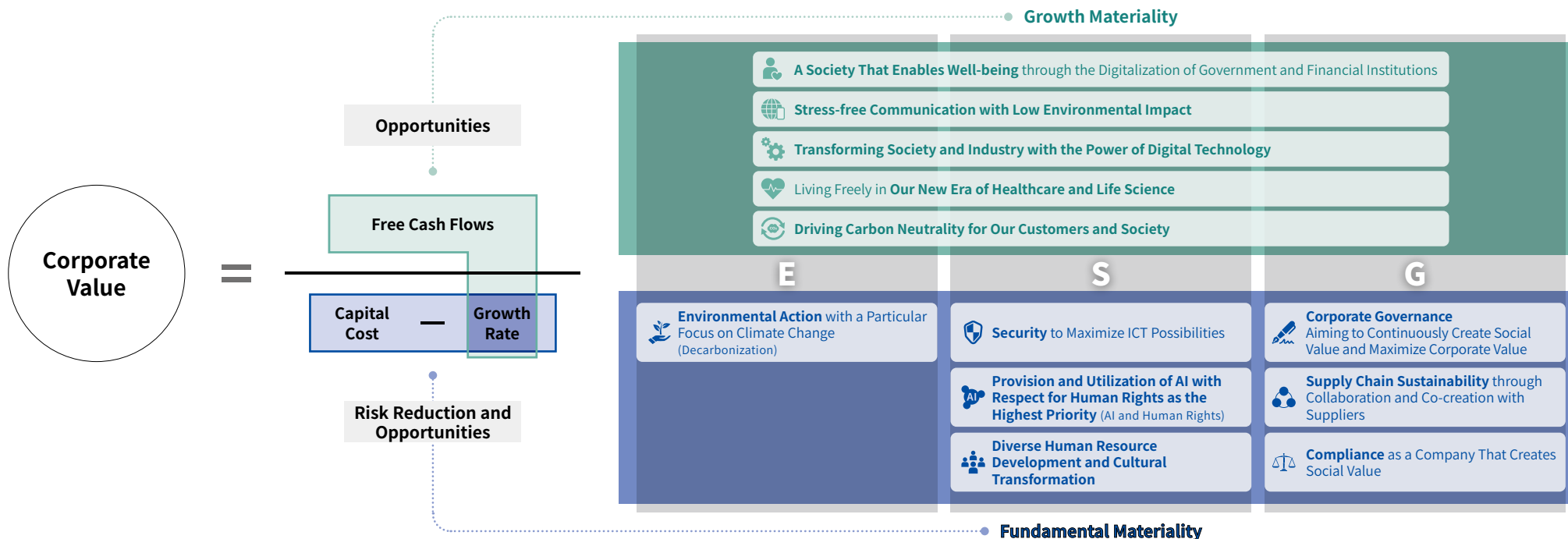# NEC's Approach to Materiality for Increasing Corporate Value

A part of our financial strategies in Mid-term Management Plan 2025 involves identifying and implementing initiatives to address seven priority management themes to strengthen the non-financial foundation that encompasses ESG and underpins the sustainable growth of companies and society. In fiscal 2024, we have further clarified our approach to increasing corporate value by addressing ESG issues in an integrated manner to both reduce risks and generate growth and opportunities. We positioned our seven priority management themes as our "Fundamental Materiality" with the objective of reducing risk and increasing our growth rate. We have also organized them into five social and environmental themes as our "Growth Materiality" under which we aim to create growth businesses during Mid-term Management Plan 2025 to generate growth and opportunities while increasing our growth rate. NEC will promote businesses with significant social, environmental, and economic value by addressing its Fundamental and Growth Materiality while aiming for continuous inclusion in major ESG indices.

Growth Materiality

Corporate Value = (Free Cash Flows) / (Capital Cost − Growth Rate)

Opportunities

Free Cash Flows

Risk Reduction and Opportunities

Growth Materiality
- **A Society That Enables Well-being** through the Digitalization of Government and Financial Institutions
- **Stress-free Communication with Low Environmental Impact**
- **Transforming Society and Industry with the Power of Digital Technology**
- Living Freely in **Our New Era of Healthcare and Life Science**
- **Driving Carbon Neutrality for Our Customers and Society**

E
- **Environmental Action** with a Particular Focus on Climate Change (Decarbonization)

S
- **Security** to Maximize ICT Possibilities
- **Provision and Utilization of AI with Respect for Human Rights as the Highest Priority** (AI and Human Rights)
- **Diverse Human Resource Development and Cultural Transformation**

G
- **Corporate Governance** Aiming to Continuously Create Social Value and Maximize Corporate Value
- **Supply Chain Sustainability** through Collaboration and Co-creation with Suppliers
- **Compliance** as a Company That Creates Social Value

Fundamental Materiality

The NEC Sustainability Advisory Committee—Providing an Opportunity for Dialogue with Stakeholders

NEC's 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 dialogue with experts in various fields and with representative stakeholders.

The NEC Sustainability Advisory Committee, in which the CFO and officers engaged in sustainability promotion consult with external experts on sustainability, was established in 2022 to serve as a place for holding high-level discussions on the theme of materiality that contribute to improving both corporate and social value and identifying the Company's direction in times of high uncertainty and rapid change, leading to improvements in sustainability-related initiatives.

Starting in fiscal 2025, the committee has been holding discussions on the theme of how to not only reduce sustainability-related risks but also how to link sustainability to growth with the aim of achieving sustainability-driven management.

🌐 For more details on the NEC Sustainability Advisory Committee, please visit the website below.
https://www.nec.com/en/global/sustainability/management/advisory_committee.html

(From left to right)
Peter David Pedersen (Chair) Co-Founder, Next Leaders' Initiative for Sustainability (NELIS) **Masaru Arai** Chair, Japan Sustainable Investment Forum (JSIF) (until March 2024) **Asako Nagai** Managing Director, Business for Social Responsibility (BSR) **Hiroyuki Horii** Senior Managing Executive Officer and Chief Sustainability & Strategy Officer, Sumitomo Mitsui Trust Asset Management Co., Ltd. **Osamu Fujikawa** CFO, NEC

NEC's Approach to Materiality for Increasing Corporate Value

Materiality Risks and Opportunities

The risks and opportunities for each of our material issues (materiality), and the measures we are taking to respond to them, are as follows. NEC is working to appropriately manage risks and expand 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 (DGDF)	• Widening regional differences in government services due to Japan's 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	▶ [I.] P.22 Digital Government / Digital Finance ▶ 🌐 Digital Government ▶ 🌐 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	▶ [I.] P.24 Telecom Services ▶ 🌐 5G
	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	▶ [I.] P.21 IT Services in Japan ▶ 🌐 NEC BluStellar (in Japanese only)
	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	▶ [I.] P.31 Healthcare and Life Science Businesses ▶ 🌐 Healthcare and Life Science
	Driving Carbon Neutrality for Our Customers and Society	• 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	▶ [I.] P.31 Green / Carbon Neutrality-related Businesses, AI Farm Management (Agriculture) ▶ 🌐 Environmental Solutions (in Japanese only) ▶ 🌐 Agricultural ICT Solutions ▶ 🌐 Adaptation Finance
Fundamental Materiality	Environmental Action with a Particular Focus on Climate Change (Decarbonization)			▶ 🌐 Securities Report for Fiscal 2024 (in Japanese only), P.23 "The NEC Group's Climate Change Strategy, Indicators, and Targets" ▶ [I.] P.36 Environmental Initiatives: Living Harmoniously with the Earth to Secure the Future ▶ [E.] P.20 Climate Change Countermeasures
	Security to Maximize ICT Possibilities	• Information leaks, unauthorized access, system failure	• Development of security professionals • Provision and operation of robust information systems	▶ [I.] P.28 Innovation: R&D and Business Development ▶ [E.] P.81 Information Security and Cybersecurity
	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	• Strengthening competitiveness	▶ [I.] P.28 Innovation: R&D and Business Development ▶ [E.] P.68 Respect for Human Rights P.74 AI and Human Rights P.77 Personal Information Protection and Privacy P.81 Information Security and Cybersecurity P.114 Innovation Management
	Diverse Human Resource Development and Cultural Transformation	• Harassment (designated as a Priority Risk in fiscal 2024 and fiscal 2025) • Long working hours (designated as a Priority Risk in fiscal 2025) • Difficulty in securing and developing human resources	• Greater organizational strength through improved employee engagement	▶ [I.] P.34 Human Resource Strategy: NEC, for Those Who Seek Challenge ▶ [E.] P.41 Human Capital Management P.43 Inclusion and Diversity P.50 Hiring, Retention, and Compensation P.55 Human Resource Development P.60 Occupational Health and Safety and Work–Life Balance
	Corporate Governance Aiming to Continuously Create Social Value and Maximize Corporate Value	• Inadequate accounting processes • Mismanagement of confidential information	• Acquisition of trust from society	▶ [I.] P.6 Message from the President P.17 CFO Message P.20 Business Strategy P.40 Corporate Governance ▶ [E.] P.96 Corporate Governance
	Supply Chain Sustainability through Collaboration and Co-creation with Suppliers	• Risks of human rights violations in the value chain	• Collaboration and co-creation with suppliers	▶ [E.] P.108 Supply Chain Management
	Compliance as a Company That Creates Social Value	• Compliance breaches (illegal acts, fraudulent acts) • Compliance with quality and safety laws and regulations (designated as a Priority Risk in fiscal 2024 and fiscal 2025) • Enhancing the quality of project contracts (designated as a Priority Risk in fiscal 2024 and fiscal 2025)	• Acquisition of trust from society	▶ [E.] P.68 Respect for Human Rights P.74 AI and Human Rights P.77 Personal Information Protection and Privacy P.81 Information Security and Cybersecurity P.88 Quality and Safety P.96 Corporate Governance P.98 Risk Management P.103 Compliance P.108 Supply Chain Management

[I.] : NEC Integrated Report 2024   [E.] : NEC ESG Databook 2024