

FY2020 Briefing on ESG

Materiality-related initiatives for the past year

December 5, 2019

Hajime Matsukura

Executive Vice President, CHRO (Chief Human Resources Officer)
and Member of the Board

NEC's Sustainable management

Since its founding, NEC has promoted sustainable management with an emphasis on social value

Orchestrating a brighter world

Creation of social value,
including safety, security,
efficiency, and equality

Better Products,
Better Services

C&C

Transforming
to a Social Value Innovator

Defining Materiality

1899

1977

2013

2018

Materiality-related initiatives for the past year

■ Principle for Value Creation Process

- Social value creation and minimization of risks through NEC Safer Cities
- Formulation of policies aimed at minimizing risks and enhancing competitiveness

■ Training of sustainably and socially literate human resources

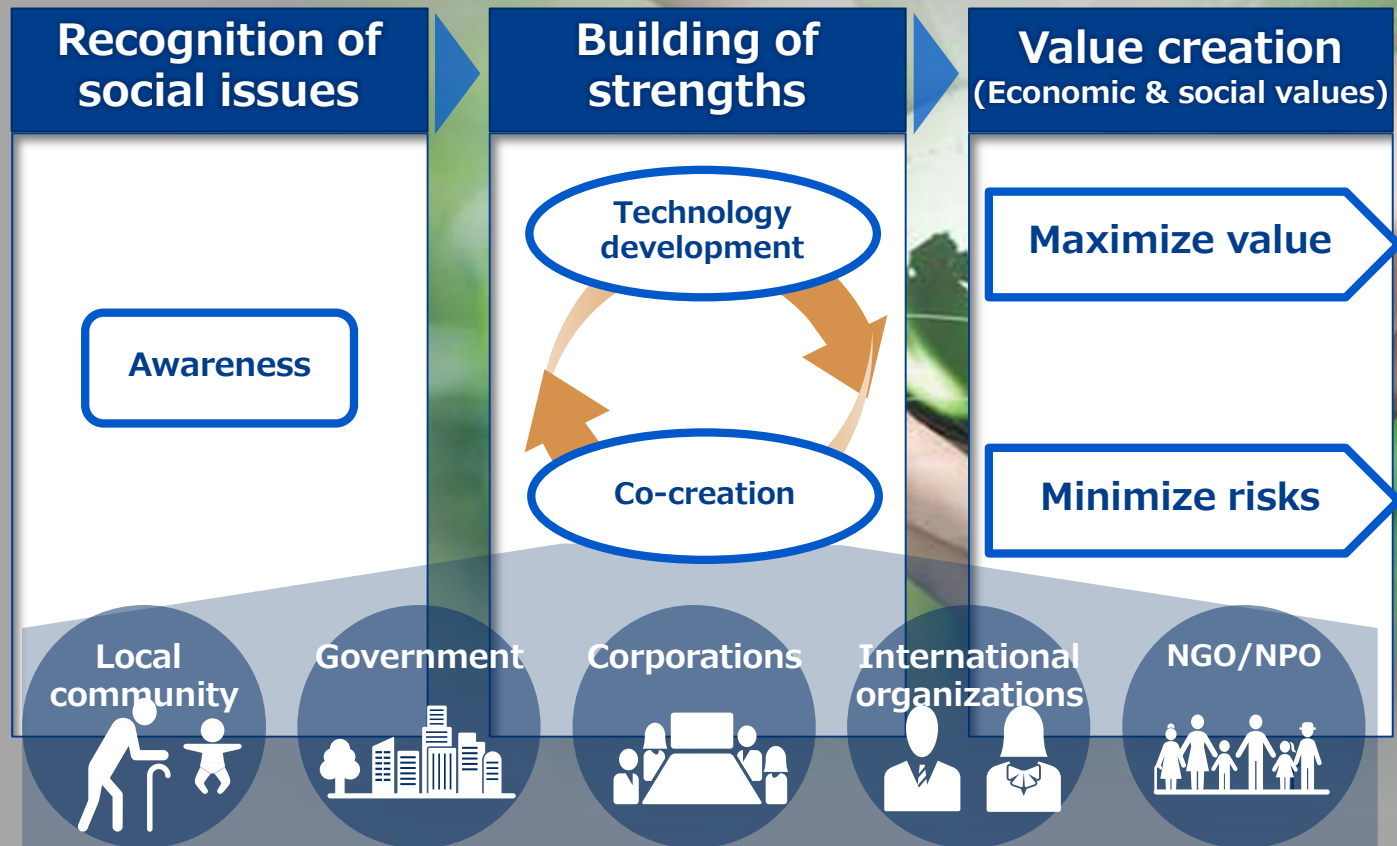
- Establishment of Human Resources (HR) policies
- Promotion of cultural transformation
- Acceleration of business and innovation by promoting Inclusion & Diversity (I&D)
- Enhancement of training program to produce human resources capable of solving social issues

■ Reform of governance system serving as the foundation of sustainable management

- Initiatives for strengthening governance
- Initiatives for improving the effectiveness of the Board of Directors
- Reform of remuneration system for Directors and Audit & Supervisory Board Members | executive compensation and evaluation system

■ Environmental initiatives

Principle for Value Creation Process



Contribute to the achievement of
SDGs

Principle for Value Creation Process

Materiality

Building of
Strengths

Value creation
(Economic & social values)

NEC Safer Cities

Technology
development

Awareness

Sustainably
and socially
literate
human
resources

Privacy
policies and
measures
aligned with
Social
expectations

Environmental
action with a
particular
focus on
climate change

Minimize risks

Local
community

NGO/NPO

Governance and compliance



Contribute to the
achievement of
SDGs

Social Issues; around the world

Persons without legal identity **1.1** billion ※1
(14% of the world's population)

Children dying before
the age of 5 every year **5.6** million ※2
(3.9% of the population of children under 5 years old)

※1:<http://www.worldbank.org/en/programs/id4d> ※2:<https://data.unicef.org/resources/levels-trends-child-mortality/>

Immunization

**Save children's lives and protect
people's health with vaccines**

simprints
every person counts

Scanner / Application



Accuracy
99%

Co-creation

Orchestrating a brighter world

NEC

Child fingerprint engine

Fingerprint Recognition

**8 wins in NIST*
evaluations**

(2003,2004,2007,2009,2012,2013,2016,2016)



*NIST : National Institute of Standards and Technology

Social value creation and minimization of risks through NEC Safer Cities

- Vaccine distribution and immunization records based on fingerprint identification
- Acquisition of fingerprint images with emphasis on respect for privacy



Recognition of social issues

Loss of many children's lives from vaccine-preventable diseases

Difficulty in providing support for vaccination of children without official IDs

Building of strengths

Fingerprint identification technology

Co-creation

Gavi

Simprints



Value creation (Economic & social values)

Raising healthy children by providing vaccines

Equal distribution of social welfare services with emphasis on respect for privacy

3 GOOD HEALTH AND WELL-BEING



SUSTAINABLE DEVELOPMENT GOALS

3.8 Provide access to vaccines
3.2 Reduce under-5 mortality



Formulation of policies aimed at minimizing risks and enhancing competitiveness

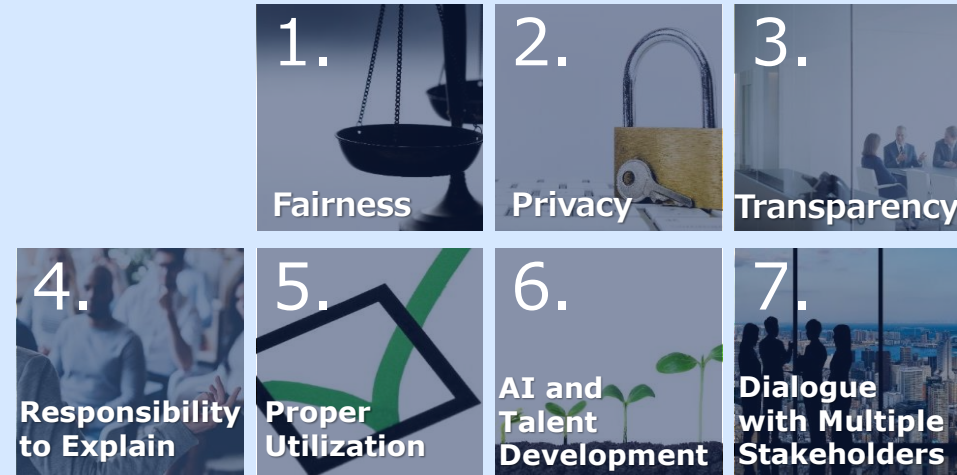
■ Taking the lead in dealing with social receptivity and effects on privacy and other human rights issues

Ensure that AI products and services will be utilized by our customers in accordance with respect for human rights

- Ensure that AI utilization does not lead to unfair discrimination
- Respect and protect individual's privacy in AI utilization
- Comprehensively explain the effects, value, and impacts of AI utilization (decision-making process, basis, etc.)
- Gain understanding of stakeholders

**Enhance business competitiveness
by thoroughly implementing
these policies**

NEC Group AI and Human Rights Principles



Announced in April 2019

Training of sustainably and socially literate human resources

- **Establishing of Human Resources (HR) Policies**

- **Promotion of Cultural transformation**

- **Acceleration of businesses and innovation by promoting Inclusion & Diversity**

- **Enhancement of training programs**

Establishing the Human Resources (HR) Policy

HR policies for
developing highly capable
people and teams



NEC, for those who seek new challenges

Diverse opportunities for new challenges

Our guiding principle is right time, right position, right person. Diverse opportunities for challenges are provided, which employees can take advantage of flexibly build their own careers.

Unlimited growth opportunities

If your outlook is ambitious, you can continue improving your skills and growing as a professional.

Fair appraisal and progressive rewards

Performance is evaluated fairly and rewarded with the appropriate pay and subsequent growth opportunities and positions.

Work environments and culture that bring out your best

Systems support good work environments and culture in addition to a fulfilling quality of life, allowing employees to dedicate themselves to taking on challenges.

Spread of changes in corporate culture

Creating a corporate culture in which employees and organizations are able to sustainably produce even greater results

- **Personnel system reform**

Implementation of Code of Values (CoV), development of evaluation and training system centered on 9Blocks

- **Smart Work**

Redesigning of offices, introduction of super flex-time system, development of IT infrastructure



Rise* in percentage of employees responding positively to all CoV-related questions

Look Outward.
See the Future.

**Up 7
points**

Think Simply.
Display Clear
Strategy.

**Up 8
points**

Be Passionate.
Follow through
to the End.

**Up 7
points**

Move Fast.
Never Miss an
Opportunity.

**Up 7
points**

Encourage
Openness.
Stimulate the
Growth of All.

**Up 9
points**

*2019 engagement survey results

Internal NEC survey; comparison with last fiscal year

Acceleration of business and innovation through I&D promotion

Deployment of measures to foster a corporate culture that embraces diversity (NEC Corporation)

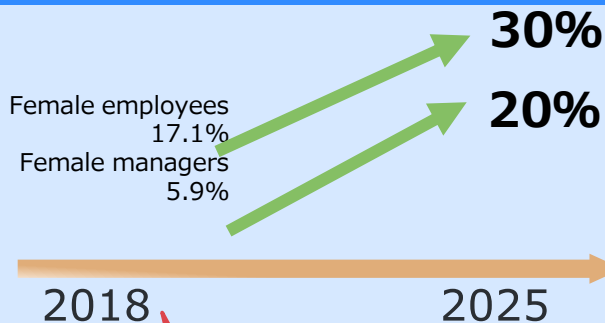
- Advancement of hiring and promotion practices emphasizing diversity
 - Percentage of new female hires: 31% (FY2020 results)
 - Expansion of mid-career recruitment: 1.7 times the number of mid-career hires than that for the previous fiscal year (FY2019 results)
 - Expansion of AI talent and DX specialists
- Infrastructure development for the promotion of inclusion
 - Revision of internal regulations to treat common law marriage, including same-sex marriage, as legal marriage (Labor Agreement & Regulation 14)
 - Establishment of a consultation desk for LGBT employees

6-point increase in the percentage of employees responding positively to questions related to I&D

NEC's corporate culture is accepting of those with diverse backgrounds and perspectives

Diversity is respected in this company

Current & target female employee percentages



NIKKEI WOMAN 2019
“Best 100 Companies Where Women Play an Active Role”
Ranked No.1 in the Diversity Promotion Level category

*2019 engagement survey results; comparison with last fiscal year

Enhancement of training program to produce human resources capable of solving social issues

Training of internal and external AI social implementation professionals

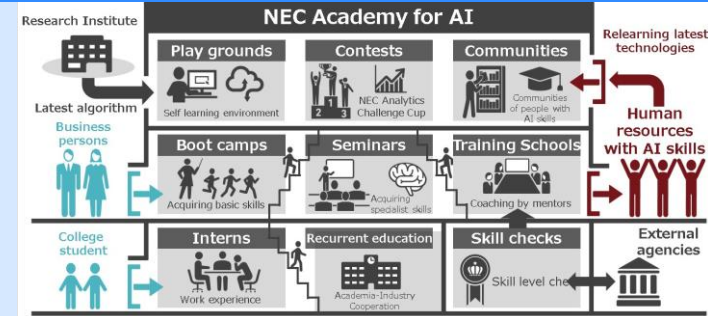
–NEC Academy for AI–

Solve the lack of AI human resources by sharing NEC's HR training methods widely with society

- Target: Working professionals, students
- Provide not only venues for systematic learning, but also opportunities for gaining practical experience and exchange of personnel
- Aim to cater to 100 students for Classroom Course and 1,000 students for Open Course (3 years)

Classroom Course: Aimed at nurturing independent AI professionals through a one-year, daytime-class program

Open Course: Learning of selected knowhow necessary for AI professionals



Development of internal human resources capable of initiating social value creation

–Program for HR development through experience of social issues –

Provide opportunities for learning a wide range of social issues to employees regardless of age and experience

- Target: All NEC employees
- Develop human resources with a deep and realistic understanding of social issues, and human resources with formative experiences in social value creation
- Around 120 members participated in three types (journey-based, project-based, and long-term dispatch) of programs for HR development through experience of social issues (>10 programs)



Reform of the governance system serving as the foundation of sustainability management

■ Initiatives for strengthening governance

- Board of Directors and Nomination and Compensation Committee
- Compensation for directors
- Executive structure

■ Initiatives for improving the effectiveness of the Board of Directors

■ Reform of executive compensation and evaluation system

Initiatives for strengthening governance

2012: Board of Directors 11 members;
less than 1/3 that of 1999

2010: Establishment of Nomination
and Compensation Committee

2017:
Introduction of
performance-based
stock compensation
(Corporate Officers)

2011: Chief officer system

2017: Expansion of delegation
authority for chief officers

FY2020

**Board of
Directors**

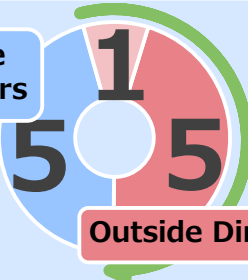
Chairman

**Nomination and
Compensation
Committee**

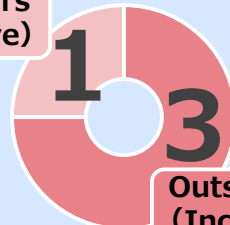
Inside Directors
(Non-executive)

Inside Directors
(Non-executive)

Inside
Directors



Outside Directors



Outside Directors
(Including Chair)

**Remuneration
for Directors**

- Enhancing incentive for better business performance
- Remuneration structure with more mid-to long term perspective

**Executive
structure
(Number of
executives)**

48

40

All officers shall be reappointed to positions corresponding to the scale of their responsibilities.

Initiatives for improving the effectiveness of the Board of Directors

Advanced evaluation of effectiveness

- Individual sessions with all the Directors (FY2019)

Changes responding to the evaluation (FY2020)

- Raising the pricing criteria of the standard for matters to be resolved at the Board of Directors and delegating authority from the Board of Directors to corporate officers with the aim of separating management supervision from business execution
- Enhancing the deliberations regarding mid to long term management strategies
 - Promote discussions regarding cross functional topics and HR management strategies

Performance for FY2019

Main Matters Discussed

1. Activity reports from Chief Officers
2. Management plans and progress reports for each business segment
3. Implemented special measures to support career changes
4. Acquisition of KMD Holding ApS
5. Formulated the “NEC Group AI and Human Rights Principles”
6. Revised remuneration system for Directors, Audit & Supervisory Board Members, and corporate officers

Attendance rate

(Directors/Audit & Supervisory Board Members)

Inside Directors

100%

Outside Directors

97%

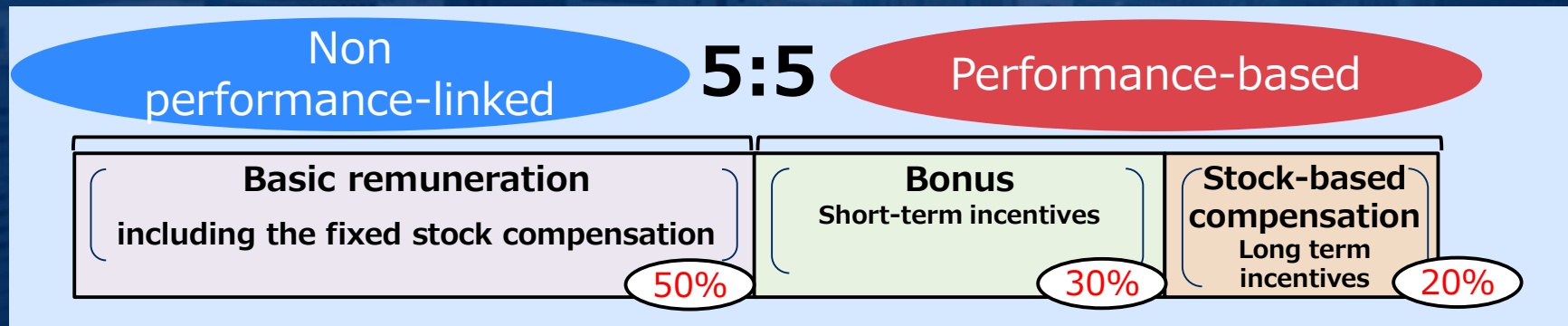
Reform of executive compensation and evaluation system

Evaluation systems for managers

- Behavioral evaluation based on “Code of Values” and Performance evaluation based on each director’s commitment (KPIs), which is called “9 Blocks”.

Remuneration for Directors and Audit & Supervisory Board Members

- Increasing the ratio of
 - The performance-linked remuneration as an incentive for performance improvement
 - The fixed stock compensation



Principle for Value Creation Process

Materiality

Building of
Strengths

Value creation
(Economic & social values)

NEC Safer Cities

Technology
development

Awareness

Sustainably
and socially
literate
human
resources

Privacy
policies and
measures
aligned with
Social
expectations

Environmental
action with a
particular
focus on
climate change

Minimize risks

Local
community

NGO/NPO

Governance and compliance



Contribute to the
achievement of
SDGs



Orchestrating a brighter world

NEC brings together and integrates technology and expertise to create the ICT-enabled society of tomorrow.

We collaborate closely with partners and customers around the world, orchestrating each project to ensure all its parts are fine-tuned to local needs.

Every day, our innovative solutions for society contribute to greater safety, security, efficiency and equality, and enable people to live brighter lives.