

December 5, 2019

ESG Presentation Q&A

Date/Time: December 5, 2019 15:00–16:15 JST

Location: NEC Headquarters, Tokyo

Presenters: Hajime Matsukura, Executive Vice President, CHRO and
Member of the Board

Shigeki Shimizu, Senior Vice President, CSCO

Yutaka Ukegawa, Senior Vice President

Questioner A

Q. I think your individual initiatives are excellent. However, I felt that they lacked concreteness in terms of whether or not they are quantitative. For example, would it be possible to present NEC's contribution against climate change and other issues in figures?

A. In fiscal 2021, we have a quantitative target of creating a five-fold reduction effect in the CO₂ emissions of NEC's entire supply chain. This includes a component of reduction through the Company's solutions as well as a component of reduction due to efficiency gains. Furthermore, we would also like to quantify by adding a component of damage reduction through advanced prediction of disasters. By providing more specific information, we hope to enable everyone to understand our value. We consider this an issue that we should continue to examine.

Questioner B

Q. You presented cases of fingerprint authentication and privacy. I am sure that AI can be explained as an important aspect of NEC's business, but are there any strategic objectives in other field for NEC?

A. Overall, we believe that it is important to provide value of security and safety widely throughout the world. Governments, NGOs and NPOs and companies are currently discussing about how to minimize the risks of these matters globally. NEC has proactively come up with policies regarding AI and human rights, and we will continue to promote initiatives under the belief that it is important to establish standards for our approaches in

areas that are still unclear around the world as we promote the world's progress through technology.

Q. In recent trends, GAFA has been cited for enhancing its competitive position by hoarding data. Is it NEC's position with regard to smart cities to resist data hoarding and enable as many people as possible to benefit from data access?

A. GAFA collects data on members of the general public. However, the data handled by smart cities differs in that it is mainly information related to local governments and cities. Although there is this distinction, we keep in mind that ultimately it can lead to this kind of data business.

Questioner C

Q. You mentioned that awareness of the Code of Values has improved with the penetration of culture transformation. Has this been in line with your initial expectations? Or do you see room for further improvement?

A. We check on employee awareness using an annual survey. However, personally, I am not satisfied with this result. The improvement has been in the ratio of people giving positive responses on the six-point overall evaluation scale, but more energetic and engaged companies produce higher scores. I believe we must aim for that level. The survey result includes scores by division, and the scores of divisions whose managers have been actively engaged have increased by a surprising amount. This shows that employees are observing the level of commitment of their division manager. As management, the division managers must therefore implement the initiatives with full commitment.

Questioner D

Q. Today you have presented a lot of good case examples. However, simply compiling these once a year in the integrated report or relying on the press to report them in the media is not going to communicate these activities well to the wider public. I don't think NEC is the only one with this issue, but how do you think these ESG initiatives can be communicated to the wider public? Could you tell me, including your current initiatives?

A. Our initiatives are not yet sufficient, as you have pointed out. As the person with overall

responsibility for communication, I think that we need to accelerate our communication more. In the current fiscal year, we have tried to accelerate our communication by increasing the number of dialogues with various stakeholders—this ESG briefing is part of that initiative. For example, in July we held NEC IR Day, with each Business Unit head presenting their business strategies to the investors. In addition, employees are also important stakeholders, so have started a new initiative where we hold a family day in the summer holidays to allow employees' families to visit the workplace. Moreover, we have increased our dialogues with NPOs and NGOs. After receiving feedback that we should accelerate these efforts even more, we intend to promote them further.

Questioner E

Q. I have the impression that among NEC's various recent initiatives, employee management in particular has evolved. I feel that NEC is showing real changes around this area. From an external perspective, I feel relieved to see this, and would like to encourage you to continue. However, if I were to point out one thing, while I understand NEC Safer Cities within the current material issues has been treated as a theme from an ESG perspective in the medium-term management plan, I am concerned that it is a short-range target for fiscal 2021. Shouldn't materiality initiatives have a medium- to long-term horizon, such as 10 or 20 years? I agree with the five items presented as "sustainable growth enablers." What will become of the Company's materiality when the current mid-term management plan is completed in 2020? I think you may need to set these targets with a longer time horizon. Is it appropriate to include them so close to 2020?

A. Regarding your first point—we included reforming our execution capability in the mid-term management plan, and we have been focused on promoting initiatives with the idea that this will be the driving force for various matters. I also believe your opinion on taking a longer perspective is right. At NEC's current stage, we are currently aiming to come into line with ordinary companies by fiscal 2021, and we are promoting business model changes and making various efforts to achieve an operating profit ratio of 5%. Looking beyond this to 2025 and 2030, we expect to see even further advancements in digitalization at these times, and on this assumption, we believe that creating new businesses and fields from the perspective of social issues is an important consideration. .

Questioner F

Q. A host of disaster detection devices has emerged. Are there any technologies for

improving the response time of the user, rather than simply detecting the phenomena? Recently, there have been a number of cases where people were too late to evacuate, so this would seem to be important.

A. We are taking measures to issue alarms directly to residents on their smart devices, and I believe these have brought some effect. On the other hand, I recognize that reaction time is not so much an issue as delay in ascertaining the situation. Recently, the nature of disasters has also changed, and we find that where as we had envisaged disasters involving flooding of major rivers up to now, minor rivers are now also flooding. In the example of Takamatsu City, we have installed sensors to such places to measure the level of water, and if we combine such countermeasures, we will be able to deliver accurate information to residents in real time.

In terms of soft aspects, it would take much time for residents to access a system that is used only for emergency events. We provide daily necessary information using this system so that the residents become familiar with the system. With new types of disasters on the increase, I think that each area will begin trialing use of local 5G to process large amounts of information more quickly. This is the area where I think we should contribute.

Questioner G

Q. Having an explanation of your existing initiatives including example cases is very important for us to understand your company, and I'm very grateful for that. On the other hand, you have presented various numerical targets, and some of these seem quite ambitious. For example, your ratio of female employees currently stands at 17.1% and the ratio of female new graduate hires in fiscal 2020 was 31%. At this rate, how will you realize the target female employee ratio of 30% for fiscal 2026? In addition, you also mentioned product energy efficiency, and I believe there was a 74% improvement in fiscal 2019 compared to fiscal 2014. Are you targeting improvements compared to fiscal 2019 of 30% by fiscal 2021 and 80% by fiscal 2031?

A. In setting our targets, we hold internal discussions and ask for expert opinions. In the process, we thought that setting high targets would motivate us to achieve change. Among our outside directors, there was an opinion that these targets might even be a little low. However, we see these targets as the absolute maximum stretch possible from our current situation. For example, with regard to new graduates, we have been lifting the ratio of female recruits each year, and we are continuing with the challenge of achieving a 50-50 ratio with no difference between male and female. For our recruitment of new graduates

planning to join the company next year, the male to female ratio of informal offers to free applicants was 50-50. However, recommendations from universities have yet to reach this level, and we hope to raise the level in various ways.

With regard to energy efficiency, our targets for fiscal 2021 and fiscal 2031 are both compared to fiscal 2014 results. Our improvement against the fiscal 2021 target in fiscal 2019 was quite advanced.

Questioner H

Q. There has been a lot of talk about CO₂ reduction today. Is this something that you will be looking at in short-and long-term perspectives, and spending money to tackle? Or is it something that will be started up as a business and contribute to profits by offsetting investment?

A. At this point, we aren't able to set sales targets, and we are at the stage of sorting out our approach. However, in the future, we intend to make it a source of growth rather than a cost, and we aim to incorporate it into our mid-term management plans going forward. As there are few places left for reducing our own CO₂ emissions, we think that contributing to CO₂ reduction through our business holds greater potential to contribute to profit. However, taking a long-term view looking at 2030 and 2050, the issue of cost arises. In that regard, we intend to take a long-term view.

Q. In governance, you explained that you will strengthen the link between remuneration for directors and Audit & Supervisory Board members and share prices. Will the introduction of a new compensation system change the specific decision making and movements of directors and Audit & Supervisory Board members?

A. Regarding remuneration for directors and Audit & Supervisory Board members, we have had a method of calculation, but it did not clearly reveal each individual's efforts and results. Now, bonuses and monthly remuneration are highly transparent, so people can understand for themselves. This is a major change. The bonus fluctuates between 0 and 200%, and in practice, some people have been awarded 200% while other have had very small bonuses. All of these details are agreed upon by the person and their supervisor, and there is feedback on results as well. I think that the opinions and rigor of individual directors and Audit & Supervisory Board members are having an effect on business decisions.

Q. Is stock compensation decided based on a monetary amount or by a number of shares?

A. For the long-term incentive, it is decided based on a number of shares.