

ESG Briefing Q&A

Date/Time: March 1, 2021 10:00–11:00am JST
Location: Live video streaming from NEC Headquarters
Presenters: Hajime Matsukura, Executive Vice President, CHRO and Member of the Board
Kaoru Seto, Outside Director (Chairperson, Nomination and Compensation Committee)

Questioner A

Q. I would like to ask Outside Director Seto about governance. NEC will adopt a governance style that will have three members of top management, specifically the Chairman of the Board, Vice Chairman of the Board and President and CEO from April 2021. What is your evaluation of this governance style?

A. (Outside Director Seto) The arrangement of the Chairman of the Board, Vice Chairman of the Board and President and CEO would make things difficult for the President and CEO because the extra levels of management would be like a fifth wheel on a carriage. I have discussed this issue in the Nomination and Compensation Committee. That said, I believe Japan currently faces a crisis. It is imperative that Japan as a whole transform itself into a digital society and accomplish this transformation at an extremely fast pace. Chairman of the Board Endo has been appointed to various outside director posts and other key posts in the business community, and has an extensive network of personal business connections, so he should be requested to remain in his current role as an emergency measure, and to accomplish one more major task for Japan and NEC. That was my conclusion. At first, I too had some doubts about the Vice Chairman of the Board post. However, I had received a request from President and CEO Niino and thoroughly understood his intentions, and I felt it was extremely significant that he made this proposal to the Nomination and Compensation Committee. Although this is an emergency measure, there is a clear separation of roles, with Vice Chairman of the Board Niino handling execution and Chairman of the Board Endo handling external relations.

Q. In this briefing, it was noted that the ratio of outside directors is expected to reach 50%. Going forward, in five years from now, the terms of office of the current directors and executive officers will have run their course and the next generation of management will be in place. At that time, how high could the ratio of outside directors get and how far do you think the ratio should be raised?

A. We would like to raise the ratio of independent outside directors to 50%. That said, we have not discussed whether we will further increase the number of outside directors. Looking ahead, we will consider this matter as we hold discussions.

Questioner B

Q. To increase corporate value, it will be essential for NEC to create synergies with the companies it has acquired through M&As. Could you please tell us about your personnel management system, including the integration of the organization and retention of personnel to capture such synergies?

A. (CHRO Matsukura) PMI committees are in operation at each acquired company and

specific synergies are being pursued on the business front. For example, KMD Holdings ApS (KMD) is a company that is providing solid support for Denmark's digital government. We are discussing how we will incorporate KMD into the Japanese market, where we are advancing the digitalization of government. Moreover, we are holding discussions with Avaloq Group AG (Avaloq), which we recently acquired, together with related business parties in Japan, on how digital finance will expand worldwide in the future.

Looking at the personnel management system that will backup these initiatives, we are moving forward with activities to integrate the personnel platform globally, in parallel with transforming the personnel management system in Japan. We have started to include personnel from international subsidiaries into the pool for job grading and the talent pool for top management. Therefore, during the period of the next mid-term management plan, we believe that these types of top human resources will come together and that we can lay the groundwork for building a new NEC.

Q. You said that the engagement survey of employees is improving. Could you please explain the background to why the survey has had a low score so far, and the reasons why you were able to increase the score? Also, have you started to see a correlation between the survey results and business performance? Please comment on how you are verifying the appropriateness of the survey as a KPI.

A. (CHRO Matsukura) We believe that the engagement survey previously had a low score because even when management gave orders, it was unable to deliver a fully convincing message to employees. Since Mr. Niino became President and CEO, we have started to conduct direct dialogue with employees in various situations. In addition, each Business Unit head has worked to communicate in their own words what needs to be done, and to listen more closely to the voices of employees. Through these activities, I believe that the seriousness of management has gradually been conveyed to employees. In addition, signs of transformation have become evident in a visible form, through such means as the promotion of smart work. I believe this is another reason why the survey results have improved.

In order for us to increase corporate value in the future, it will be crucial for our personnel, who are our greatest asset, to work creatively with great energy. To do so, we are putting emphasis on improving the engagement score. We believe that the productivity will inevitably increase at organizations and teams that have increased their engagement. In the next mid-term management plan, we will continue to apply the formula of enabling creative organizations with enhanced productivity to increase our corporate value.

Questioner C

Q. I believe that the Board of Directors repeatedly discusses important management issues over and over again, and that the inside and outside directors may sometimes disagree on opinions even in the Board of Directors. In this case, what kind of process do you follow to reach a decision? If you have a good example, could you please explain the process together with your example?

A. (Outside Director Seto) This may be contrary to your expectations, but we have had almost no disagreements. I believe that it was easy to come to agreement on opinions even among the outside directors. This was because how proposals were

made, and their content, made a lot of sense.

(CHRO Matsukura) We decided on a large M&A deal involving a tremendous amount of money. This deal was discussed in the Executive Committee on the business execution side two or three times. In parallel, the deal was put on the discussion agenda of the Board of Directors two or three times in the period leading up to final management decision. The opinions voiced in the Board of Directors were reflected in the execution measures. As with Outside Director Seto's previous comments, the deal was ultimately given the "go" sign based on a unanimous opinion.

Q. There are various regulations on ESG and sustainability activities, particularly outside of Japan. In the environmental field, carbon taxes and carbon pricing aimed at decarbonization have been required. In Europe, monitoring related to human rights and related activities have become necessary. Could you please tell us about any business fields or regions that may become concerns for your business going forward? Conversely, if there are any fields where changes of this sort that may lead to a competitive advantage for NEC's businesses, could you please explain them?

A. (CHRO Matsukura) As you pointed out, I realize first-hand that risks have been changing dramatically in a wide range of situations on the global stage. Environmental trends in Europe are evolving very rapidly. NEC is in direct dialogue with global investors and the staff of ratings agencies. We have also held direct discussions with people serving as chairs of CDP. We have so far incorporated their awareness of problems into our business. Additionally, in terms of human rights, I believe that we have built up our position while cautiously looking at trends in Europe and the U.S., beginning with our response to the U.K. Modern Slavery Act. That said, we see these matters not just as risks, but also as business opportunities in a positive sense. I believe that a major point of differentiation in the aspects of climate change and human rights in AI is our ability to protect society from the aforementioned kinds of risks using NEC's safe and secure ICT. Moreover, in the field of networks too, we see business opportunities from the viewpoint of supplying secure communications environments to people all over the world based on concepts such as the Clean Network.

Questioner D

Q. Japan Aviation Electronics Industry, Limited and NEC Networks & System Integration Corporation are two companies that are listed as subsidiaries. How will you treat the strategic position of these two companies, as the new mid-term management plan gets started? Could you please share your thoughts on this matter as an outside director?

A. (Outside Director Seto) I believe that we will eventually need to discuss the matter of publicly listed parent/subsidiaries, after we confirm factors such as the background for the parent/subsidiary listings, and the synergies available to the NEC Group, from a variety of perspectives. For now, however, publicly listed parent/subsidiaries have not been brought up as a topic of discussion.

Q. President and CEO Niino noted that the three-person top management structure with the Chairman of the Board, Vice Chairman of the Board, and President and CEO is an arrangement that will be in place for the time being from April 2021. Is it a temporary structure? What is the ideal arrangement over the medium and long

terms? May I ask Outside Director Seto to share his thoughts and ideas on this matter?

- A. (Outside Director Seto) We have put this structure in place as a tentative measure. However, I believe that it would be problematic to keep this structure in place permanently, and I expect that it will be dissolved within a short period of time. We have not yet held specific discussions on this matter.