

ESG Briefing Q&A

Date/Time: December 10, 2021 10:00-11:00am JST
Location: Live online streaming from NEC Headquarters
Presenters: Osamu Fujikawa, Executive Vice President, CFO (Chief Financial Officer)
Shigeki Shimizu, Senior Vice President, CSCO (Chief Supply Chain Officer),
General Manager, Sustainability Promotion Division

Questioner A

Q: NEC has positioned businesses related to carbon neutrality as growth businesses. Could you please share any sales or profit targets you may have set for these businesses over the period covered by Mid-term Management Plan 2025?

A (Fujikawa):

We have identified business areas as fields for our activities over the medium term, so no specific quantitative targets have been decided at this time. We are working toward the goal of turning these areas into core businesses in the final year of Mid-Term Management Plan 2025.

Q: Could you please discuss any carbon neutrality fields where there are heightened customer needs or any solutions that should be highlighted, such as those that will become core businesses in the future?

A: (Shimizu):

We receive inquiries from customers on a wide range of themes. At this stage, we have received a lot of inquiries about visualization solutions. We believe that NEC stands out for visualization-related analysis using its AI technologies, as well as its ability to contribute to areas that optimize such analysis. Looking ahead, we will develop specific ideas on what kinds of plans we will adopt, and what the primary focus of our development activities will be.

Q: On page 9 of the briefing materials titled "NEC's Activities toward Carbon Neutrality and Implementation in Business," the graph shows that NEC reduced Scope 3 CO₂ emissions by 33% from FY2017 to FY2020, while such emissions are planned to be reduced by only around 4-5% over the 10 years through FY2030. Is there any reason for the slower pace of reduction? Also, what is your outlook for the pace of reduction in Scope 3 emissions

through FY2050?

A: (Shimizu):

Looking toward to 2050, there are periods for which we have not yet set specific milestones. For those periods, we would like to decide on specific milestones when we reach the key junctures of FY2025 and FY2030. In setting those specific milestones, we will consider the status of technological development, supply-demand conditions for renewable energy and actual costs at each of those times. From FY2017 to FY2020, NEC carried out business restructuring and downsized the hardware business. That is why there were large CO₂ emissions reductions over those years. Therefore, excluding business restructuring, we plan to reduce CO₂ emissions at basically the same pace.

Questioner B

Q: Recently, more and more companies have expanded the range of their emissions targets from Scope 1 and 2 to Scope 3, and they have set CO₂ reduction targets for the whole supply chain, as NEC has done. Could you please discuss how customer demand for developing greener operations has changed in growth businesses involving products and services supplied by NEC, such as carbon neutrality solutions, core DX and global 5G?

A: (Shimizu):

In the Enterprise Business, many managers of client companies have positioned carbon neutrality as one of their greatest management priorities. Therefore, we have had more opportunities to discuss how we can address this priority together, and we believe that customers have heightened needs and expectations in this area. On the other hand, the fact remains that a lot of customers are still at the stage of starting to visualize their situation. For this reason, we acknowledge that we are at a stage where we need to take steps together with those customers.

Q: You discussed data centers powered by 100% renewable energy. Will you be able to set unit prices higher in return for providing value in the form of support for carbon neutrality?

A: (Shimizu):

Currently, we are not yet at that stage. Going forward, however, we would like to create a cycle where the markets recognize the value of products and services derived from renewable energy, and the proceeds we generate pave the way for the development of

the next generation of products and services.

Q: GreenGlobeX is NEC's visualization solution. Could you please describe the number of customers deploying GreenGlobeX, as well as its competitive landscape and points of differentiation?

A: (Shimizu):

GreenGlobeX has so far been deployed by more than 40 companies, primarily in the manufacturing sector. In some cases, the solution is provided on premises, while in other cases it is provided as a service. The first point of differentiation of GreenGlobeX is that it can be used not only to visualize CO₂ but also to manage a wide range of environmental data such as energy, waste, water, and chemical substances. The second point of differentiation is that it can be used to collect and aggregate actual environmental performance data from multiple sites in Japan and overseas. We have been working to strengthen GreenGlobeX's functions and enhance support. In the process, NEC's experience in using the solution as part of its own environmental management activities and the feedback it has received from customers who have deployed the solution have been reflected in GreenGlobeX. For this reason, we believe that GreenGlobeX also offers superior user friendliness.

Questioner C

Q: CFO Mr. Fujikawa gave a briefing on how NEC will build a solid non-financial and financial base to achieve sustainable growth. I found this briefing to be interesting because I have seldom seen any listed company provide disclosure materials that offer such an in-depth explanation of the performance impact of non-financial data on financial data. In the "S" area on page 3 (Security, AI and human rights, and Human resources development), "Double the number of personnel acquiring international certification" is listed as a KPI for FY2025. What kind of certification does this refer to?

A (Fujikawa):

The international certification refers to CISSP (Certified Information Systems Security Professional). In Japanese, this certification is known as "Joho System Security Professional Nintei." CISSP is an internationally recognized certification for information security professionals.

Q: Page 6 of the briefing materials states that NEC performed an analysis using the Yanagi

model. As a result, the analysis showed that an increase in female managers at the department manager level and above led to improvement in PBR. Which company's products did you use to conduct the engagement survey that is the basis for this conclusion?

A (Fujikawa):

We have continuously used Kincentric products, so that we can make fixed-point observations.

Questioner D

Q: NEC has indicated that it has reduced CO₂ in Categories 1, 3 and 11 of Scope 3 by 33%. What were the reduction rates for Categories 1 and 11 individually?

A: (Shimizu):

We would like to refrain from disclosing detailed figures for the Category 1 and Category 11 components. We can say that the reduction rate for Category 11 is larger than that for Category 1.

Q: NEC is a member of X Digital Consortium. I believe the key point is to build a platform that visualizes CO₂ reductions across the entire supply chain. Could you please discuss NEC's roles and plans for this consortium?

A: (Shimizu):

In X Digital Consortium, NEC is working on the theme of visualization as the lead company of a working group. While this consortium is organized by Japan Electronics and Information Technology Industries Association (JEITA), companies from other industries have also joined. Accordingly, we believe that the consortium's efforts to build industry-wide visualization and promote standardization will contribute to Japan's whole economy. We seek to lead the way forward by harnessing NEC's knowledge and insight.

Questioner E

Q: Efforts by companies to strengthen their CO₂ reduction measures in the supply chain should create business opportunities for NEC in areas such as carbon neutrality solutions. Do you agree?

A: (Shimizu):

Yes. Some partners in our supply chain have made an even stronger commitment to reducing CO₂ than NEC and are taking action on this front. We are in close

communication with such partners, and we are discussing whether we can jointly create a platform with them. On the other hand, these measures still present challenges, or in the most extreme examples, some partners don't know where to start.

For these partners, we recognize that there is a positive spiral where we can present NEC's solutions and examples of its past measures, and provide consultations as we supply them with services they can use.

Questioner F

Q: NEC has performed an analysis of the impact of non-financial indicators on financial indicators. Could you please discuss how NEC will make use of the results of this analysis? In the future, do you plan to continuously present these analysis results in ESG briefings or in your integrated reports? Also, could you please tell us how you will reflect the recent analysis results in internal measures, such as weighing the importance of investments?

A (Fujikawa):

We will continuously perform this analysis. The accumulation of historical data is critical to performing a synoptic analysis. This time around, we performed an analysis covering data accumulated for at least five years. Some data was not covered by this analysis because the five-year threshold was not met. For this data, we believe that there may be correlations. Based on this conjecture, we will continue to accumulate data, and explore effective overall measures, including personnel-related data. Although the results may not change dramatically in one year, we, as management, would like to announce the analysis findings based on results that reflect newly added data.

The synoptic analysis shows that there are 25 indicators that have an impact on PBR. These indicators will be shared with executives in charge of individual measures and will be put to good use in management to improve corporate value. The results of these activities will then be observed from a fixed point and the effects will be measured. In addition, the correlations in the data will be confirmed using NEC's AI technologies, such as cause-and-effect analysis. We will explore effective management methods by repeating PDCA cycles focused on determining how to put the data obtained to good use in management. We will continue to implement measures that will ultimately lead to an improvement in our corporate value.

Q: You said that NEC is using the services of ABeam Consulting to analyze the impact of non-financial indicators on financial indicators. Do you have any plans to combine these

services with NEC's AI and other technologies, in order to sell solutions to outside customers?

A (Fujikawa):

NEC already supplies ABeam's analysis services to customers, and it has a track record of deploying these services at several tens of companies. We have obtained patents for the digital ESG platform, which includes this synoptic analysis. In addition, we have supplied the cause-and-effect analysis solution to certain customers for a fee, although it is still a demonstration trial. The solution has produced benefits not only in the ESG area, but also in marketing and other areas, so we will move forward with sales to outside customers. Together with ABeam, we will find indicators that contribute to our management by going even further than synoptic analysis. We are jointly studying the creation of frameworks for implementing PDCA cycles. In addition, we seek to create models internally and work on those models with the view to supplying them to other companies, as we successively roll them out.