

## ESG Briefing Q&A

Date/Time: March 29, 2023, 11:00am-12:00pm JST  
Location: Live online streaming from NEC Headquarters  
Presenters: Osamu Fujikawa, Executive Vice President and CFO  
(Representative Director)  
Hajime Matsukura, Executive Vice President, CHRO (Chief Human Resources Officer) and CLCO (Chief Legal and Compliance Officer)

### **Questioner A**

Q:

*Human resources who have held leadership positions at companies that are highly rated for their corporate governance will join NEC's management as new Outside Directors. As a result, I expect that the message that NEC wishes to convey will be more clearly defined and that stakeholder feedback will be incorporated into management more rapidly. How would you describe your awareness of the issues faced by NEC's Board of Directors so far? In addition, could you please explain how the newly appointed Outside Director candidates were chosen and what you expect from them in the future?*

A:

We have discussed the current round of corporate governance reforms over the last two years. While we have acknowledged the importance of discussing our ideal vision for NEC from medium- and long-term perspectives and enhancing governance in accordance with this vision, decision-making on detailed issues has consumed a significant amount of the Board of Directors' time, and we have recognized this as an issue. With this in mind, we have thoroughly reviewed changes to the institutional design. We spent more than a year in the Nomination Committee preparing and discussing a list of Outside Director candidates, based on the belief that the most important point was the members who make up the Board of Directors, or in other words, the selection of candidates. We shared NEC's aspirations for its Purpose-driven Management and Mid-term Management Plan 2025 with the candidates identified in that process. We gained the candidates' strong understanding of and support for our aspirations, and they agreed to join NEC's management. Some of these individuals not only have extensive experience as leaders of corporate governance reforms at other companies, but they are also highly knowledgeable about technology. Accordingly, we expect to obtain advice from these individuals on how NEC can evolve further as a technology company.

**Questioner B**

Q:

*How will you incorporate the findings of the engagement score analysis into management in the future?*

A:

Based on factors such as the recent analysis findings, we have confirmed that communication by top management is highly effective in terms of the engagement score. Looking ahead, it will be critical for the CEO, as well as the chief officers, business unit presidents and others, to continue to enhance communication. We have already implemented a wide range of measures to address our human resource portfolio. We believe that certain measures will contribute immensely to improving the engagement score. Examples of such measures include the expansion of job-based human resource management to all employees, the global deployment of our internal job posting system, and its accelerated entrenchment throughout the Group. Through the review of objective data, these measures can reinforce the links between human resource measures and management. In the future, we will conduct an annual review of the engagement score to pave the way for carrying out even more highly accurate and effective human resource measures.

**Questioner C**

Q:

*As an example of the separation of management supervision and business execution in the corporate governance system, you stated that if an M&A transaction is worth less than ¥100.0 billion, the business execution side will be able to approve it without a resolution by the Board of Directors. Could you please tell us the differences between this approach and previous approaches?*

A:

In terms of the development of capital policies and business portfolio policies, we will properly discuss the framework for those policies in Board of Directors meetings. If an investment project falls within that framework, the business execution side will be able to make the decision without obtaining the Board of Directors' approval. Previously, the Board of Directors passed resolutions on M&A transactions, even those worth only a small amount, and made decisions in some cases at extraordinary Board of Directors meetings. The new approach will allow for more flexible management of business operations.

**Questioner D**

Q:

*How will factors such as the introduction of job-based human resource management and intensive investment in top talent affect the total amount of investment in human resources?*

A:

Our personnel expenses will inevitably rise by a certain amount when we realize an attractive compensation level in the market and reward talented employees with a compensation level they deserve, as a result of the introduction of job-based human resource management. These personnel expenses, however, will increase the added value of NEC's business, and will be implemented as we link compensation to revenue and profits. Therefore, these personnel expenses are investments in NEC's future growth, rather than a factor that will reduce profits. We are also working to streamline the whole organization as we introduce job-based management. Throughout the process, we will select talented human resources while also managing total expenses appropriately.