

Briefing about Human Capital Management Q&A

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Location: Live online streaming

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Questioner A

Q :

Regarding the movement of 5,000 employees within the company, how do you address concerns about potential negative impacts on performance due to inactivity during personnel transitions? Do you have any unique initiatives in place?

A :

Our reskilling program plays a vital role in this area. NEC Life Career, which was established four years ago, facilitates seamless career transitions across different roles and industries by offering support from career advisors.

In addition, our job-specific Human Resource Development Committees have designed educational programs to enable employees to quickly become productive in their new positions. We also plan to introduce AI-driven coaching for employees considering career changes, helping them prepare effectively for these transitions.

Q :

How long does it take for transferred personnel to become fully productive?

A :

It varies from person to person. For instance, at the Aerospace and National Security (ANS) Business Unit, there is a strategic need for network specialists. An engineer from a related telecom service can typically become fully

operational within a month after transferring to ANS. However, transitions that involve a change in job function may require several months.

Q :

You have indicated a goal to increase resources for ANS. What is the total workforce involved?

A :

Including our affiliated companies, the total workforce involved is approximately 5,000 employees.

Questioner B

Q :

As you transition from a seniority-based system to a Job-specific Human Resource Management, I understand you've addressed skill-related challenges through reskilling and other initiatives. Can you elaborate on other challenges and how you are addressing them?

A :

In transitioning to a Job-specific Human Resource Management, we're benchmarking against market standards to ensure competitive compensation. We are currently emphasizing investment in younger employees, allowing talented individuals to fast-track into higher positions. We believe that increasing the number of such skilled personnel across different age groups will help us tackle these challenges. Additionally, we pay close attention to employee feedback through engagement scores segmented by age group, ensuring we implement appropriate measures in response to their needs.

Questioner C

Q :

Throughout NEC's history, there seems to be a pattern of increasing investment

and workforce during prosperous times, then struggling with these costs when performance declines. Currently, I understand that workforce expansion is aligned with business performance, but how will you respond if the business stagnates and faces tough times? Additionally, how do you intend to manage long-term versus short-term hiring needs?

A :

As we progress with the Job-specific Human Resource Management, focusing on divisional strategies becomes important. Each division will enhance its vision and strategy, determining the necessary quantity and quality of human resources needed to achieve these objectives, and assessing how well these needs are being met. When there are divisions with improving performance and others in decline, a key advantage of the job-specific approach is the ability to allocate resources to the growing divisions, which is a fundamental aspect of workforce fluidity. Meanwhile, to address employee turnover, we monitor at the CHRO level and support divisions in preventing the exit of essential personnel. By observing business and resource dynamics at the divisional level, we aim to optimize the company-wide approach.

Questioner D

Q :

The adoption of Job-specific systems and talent promotion is something many companies are working on. While promoting individuals with strong performance is great, how do you manage the potential downsides of a merit-based, Job-specific system, such as demoting someone during less successful periods? Also, do you have any strategies to control potential increases in personnel costs?

A :

We utilize a nine-block evaluation model (as seen on page 32) to reassign employees who may not be reaching their full potential in their current roles to positions where they are likely to perform better. This nine-block evaluation

fairly assesses individuals based on two axes: behavior and performance.

Whenever there's a mismatch between an employee and their position, we have established a rule to take corrective actions for improvement in all cases. The reasons for mismatches vary, and often individuals excel in different roles, so this mobility enhances overall alignment within the company. NEC Life Career supports these efforts by offering tailored consulting and matching assistance, helping employees find positions that suit them either within or outside the company, thereby optimizing resource allocation and supporting individual career development.

Regarding personnel costs, it's evident from the responses in the spring wage negotiations that labor costs are on the rise across Japan. To secure internationally competitive talent, a remuneration structure that can rival Western companies is essential. We believe that by ensuring each business division consistently incorporates labor cost increases into pricing, the company can effectively recover the additional expenses associated with rising personnel costs.

Questioner E

Q :

Regarding the upward revision of the target number of DX talent(page 13), how many employees currently have legacy skills within the IT service businesses? Also, do you plan to transition these individuals into DX talent, or will they remain within the legacy business area?

A :

While I don't have exact figures at hand, we recognize the continued importance of our legacy business. The core of our IT service business continues to focus on modernization, including the enterprise sector, and as many companies transition from traditional systems to cloud-based solutions, individuals with expertise in this area remain key assets for NEC. As we

continue to acquire and develop DX talent, it's essential to clearly define the specific skills these roles require. We aim to establish the necessary educational frameworks and enhance transparency about current skill levels to encourage the development and transition of skills.

Q :

The legacy sector, primarily focused on modernization, is currently thriving but is projected to peak around 2030. Does this imply that there won't be a long-term risk of maintaining personnel with only legacy skills, as they will be reskilled to become DX talent during this period?

A :

Your question ties into how we leverage our senior talent. Personnel with legacy skills are crucial for our business because they possess both traditional and new knowledge. Many of these individuals are senior staff. We are committed to increasing the number of employees who acquire new skills through reskilling to better utilize their expertise.

Q :

Can you provide details on the size of the stock compensation per individual for those in strategic roles (page 31).

A :

Employees in strategic roles will receive stock compensation that amounts to over 10% of their salary. This compensation is designed as non-performance-based shares with transfer restrictions. It's intended to attract high-value talent externally and retain our top performers internally, which we believe will ultimately enhance NEC's corporate value.