

Briefing on ESG

# **Development of Robust Financial and Non-financial Measurement Methodologies for Sustainable Growth**

---

NEC

Executive Vice President and CFO

Osamu Fujikawa

# Purpose

## \Orchestrating a brighter world

NEC creates the social values of safety, security, fairness and efficiency to promote a more sustainable world where everyone has the chance to reach their full potential.

### Strategy

**EBITDA Growth rate: 9% Annual average**

NEC's growth model

"Maximizing long-term profit" and  
"optimizing short-term profit"

Non-financial measurement  
methodologies for sustainable growth

### Culture

**50% Engagement score**

Transformation of People and Culture  
Establishment of Business Infrastructure

Creation of a Shared Vision for  
a Brighter Future with Customers

— Reinforce non-financial measurement methodologies to underpin for sustainable growth of the company and society

# Continuously incorporate ESG indexes as indicators of risk minimization and value maximization initiatives

	Key themes (Materiality)	Main initiatives	FY2025*1 KPIs
<b>E</b>	<b>Climate change (Decarbonization)</b>	<ol style="list-style-type: none"> <li>1. Acceleration of environmental management toward achievement of the SBT*2 1.5 degrees by 2030</li> <li>2. Contribution to CO<sub>2</sub> reduction through customer DX</li> </ol>	<ol style="list-style-type: none"> <li>1. 33.6% reduction*3 (Compared to FY2017)</li> </ol>
<b>S</b>	<b>Security AI &amp; human rights Diverse Human resources</b>	<ol style="list-style-type: none"> <li>1. Development of human resources in advanced security to handle social infrastructure</li> <li>2. AI provision and utilization prioritizing respect for human rights</li> </ol>	<ol style="list-style-type: none"> <li>1. Doubling of internationally certified personnel</li> <li>2. Incorporated initiatives based on the AI and Human Rights Principles</li> </ol>
<b>G</b>	<b>Corporate governance Supply chain sustainability Compliance</b>	<ol style="list-style-type: none"> <li>1. Further improvement of transparency of corporate governance</li> <li>2. Strengthening of collaboration with suppliers from a human rights/environmental perspective</li> <li>3. Eradication of serious compliance incidents</li> </ol>	<ol style="list-style-type: none"> <li>2. Suppliers agreeing to the procurement guideline: 75%*4</li> <li>3. No. of serious incidents: 0</li> </ol>

\*1 Fiscal year ending March 2026   \*2 Science-based targets   \*3 Scopes 1 and 2   \*4 Ratio based on the procurement amount

— Included in all major ESG indexes

# Further reinforce initiatives in non-financial capitals that contribute to financial performance

**Dow Jones Sustainability Indices  
(World, Asia Pacific)**

Member of

**Dow Jones  
Sustainability Indices**

Powered by the S&P Global CSA

**FTSE4Good Index Series**



**FTSE4Good**

**MSCI ESG Leaders Indexes**

**2021** MSCI ESG Leaders  
Indexes Constituent

THE INCLUSION OF NEC Corporation IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF NEC Corporation BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.

— Toward the development of non-financial measurement methodologies for sustainable growth

# Develop resilient financial measurement methodologies from a mid- and long-term perspective

## Financial indicators

Result of corporate activities

**IMPACT**

## Initiatives in non-financial capitals

Manufacturing Intellectual  
Human Natural Social & relationships

**Analysis**

**Improvement / enhancement**

Toward the development of non-financial measurement methodologies for sustainable growth

# Analyzing the impact of non-financial indicators on financial indicator (PBR)



Collaboration with Abeam to analyze  
**273 non-financial indicators\***  
within the NEC Group An average amount of data for 7.34 years

## Analysis

**25 non-financial indicators**  
contribute to increase of PBR

**Indicators related to the human capitals** were  
the most positively correlated with PBR

## Indicators related to the human capitals

## Financial indicators

Increase the number of female department heads or higher\* by 1%

3.3% increase in PBR in 7 years

Increase in training days per employee\* by 1%

7.24% increase in PBR In 5 years

\* Figures for NEC Corporation on a non-consolidated basis



# Analyzing human capital using Causal Analysis

Causal Analysis: NEC's proprietary AI technology

## Improving employee engagement

Team members' personal discretion

\*Findings from the engagement survey

To uncover the factors behind team members' individual discretion, we revealed behavioral factors required of people managers by analyzing 360-degree assessment result.

### Personal discretion

- Discovering issues
- Internal collaboration
- Affective empathy
- On-the-spot decision-making
- Career vision
- Psychological safety
- Common philosophy
- Challenges and recommendations
- Risk assessment
- Rapid decision-making
- Sense of ownership
- Building relationships

and more

# Analyzing human capital using Causal Analysis

Causal Analysis: NEC's proprietary AI technology

## Improving employee engagement

Team members' personal discretion

Team psychological safety

People manager's communication that elicit emotional empathy from team members

## Results

How team members feel

B33\_Personal discretion

B30\_Psychological safety

B09\_Affective empathy

Challenges

Collaboration

Problem-solving skills

Transformation

Communication

Quick

Ownership

\*Created using NEC's Causal Analysis

N=1,916  
RMSEA=0.04  
CFI=0.96

# Human capital

Promote, enhance, and improve Initiatives that lead to the engagement score of 50%  
Expand the analysis target globally to cover the entire group

# Natural capital

Quantify the financial impact on business  
through visualization of CO<sub>2</sub> emissions or other means

# **Develop resilient financial measurement methodologies from a mid- and long-term perspective to promote sustainable growth**

**Promote more appropriate investment for initiatives in non-financial capitals**

**Analyze the impact of initiatives in non-financial capitals on mid- and long-term financial performance**

# Sustainability Promotion Division

A new division established as a corporate planning function in April 2021

It promotes non-financial efforts to enhance corporate value from a mid- and long-term perspective, with the focus on materiality

