Corporate Governance

In recognition of the fact that reliable corporate governance is essential to the continued creation of social value and the maximization of corporate value, NEC is committed to strengthening its corporate governance practices through (1) assurance of transparent and sound management, (2) realization of prompt decision making and business execution, (3) clarification of accountability and (4) timely, appropriate and fair disclosure of information.

Main Initiatives for Strengthening Corporate Governance

1. Instituting Corporate Officer System
   NEC constituted a corporate officer system in April 2000 and went on to delegate authority from the Board of Directors to corporate officers with the aim of separating management supervision from business execution and expediting business execution based on prompt decision making. From fiscal 2020, NEC Corporation has adopted one-year mandate contracts, and the responsibilities and authority of corporate officers has been further clarified.

2. Reducing the Number of Directors
   The number of Directors was reduced to streamline the Board of Directors. The aim is to ensure sounder management through greater discussion at meetings of the Board of Directors and to deliver prompt decision making.

3. Appointing Multiple Outside Directors
   NEC added an Outside Director in June 2001 for a total of two Outside Directors in order to strengthen the supervisory functions of the Board of Directors. The number of members has increased and the system of the Five Outside Directors has continued since its inception in June 2007.

4. Shortening Directors’ Terms
   In June 2004, the term of Directors was shortened from two years to one year in order to clarify their responsibility for management.

5. Establishing a Nomination and Compensation Committee
   The committee was established in 2010 to enhance transparency of nomination and remuneration of Directors. *1* In June 2017, the committee was changed to a four-member structure consisting of three Outside Directors and one non-executive internal Director. *2* The chairperson is appointed from the Outside Directors. The majority of the members are Outside Directors, and all members are non-executive Directors to give consideration to independence and objectivity.

6. Instituting the Chief Officer Position
   The Chief Officer position was instituted in July 2017 to strengthen corporate-wide strategies. In April 2017, NEC extended the authority delegated to the Chief Officers in order to strengthen the corporate functions and accelerate the speed of decision making.

Overview of the Corporate Governance Structure

<table>
<thead>
<tr>
<th>Purpose and Activities</th>
<th>Members</th>
<th>Number of Meetings in Fiscal 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>11</td>
<td>13 times</td>
</tr>
<tr>
<td>Executive Committee</td>
<td>Around 20 corporate officers</td>
<td>11 times</td>
</tr>
<tr>
<td>Business Progress Committee</td>
<td>Corporate officers and general managers of business units, etc</td>
<td>12 times</td>
</tr>
<tr>
<td>Nomination and Compensation Committee</td>
<td>4 Directors</td>
<td>5 times</td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board KANSAIKU KAI (“A&amp;SB”)</td>
<td>5 A&amp;SBMs</td>
<td>16 times</td>
</tr>
</tbody>
</table>

*1* The Compensation Committee established in 2001 was reinforced to become the Nomination and Compensation Committee in 2010.

*2* The CEO, who was previously a member, resigned from the committee.
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Corporate Governance

Remuneration for Directors and Audit & Supervisory Board Members (KANSAYAKU)

For the purpose of continuously improving corporate value and strengthening its competitiveness, NEC’s basic policy on the remuneration for Directors and A&SBMs is to set a level and structure appropriate for a global company which enables NEC to secure excellent human resources and serves as an incentive to improve performance of the Group. In order to ensure objectiveness and properness of remuneration for Directors and A&SBMs, the level of the remuneration is determined on the result of the third party’s investigation regarding the remunerations of other companies whose business contexts and scale are similar to those of NEC.

### Remuneration System

For Directors:

- **Basic remuneration**: fixed-monthly payments that do not exceed the limit* established by resolutions of the General Meetings of Shareholders, and is determined separately for each job title and for Inside- and Outside-Directors. NEC will revise the setting of themes for the Board of Directors meeting for Directors to discuss long-term management strategies.

  *Composition of remuneration of Inside-Directors in fiscal 2019 (total amount)*

For A&SBMs:

- **Basic remuneration**: fixed-monthly payments that do not exceed the limit* established by resolutions of the General Meetings of Shareholders, and is determined separately for each job title and for Inside- and Outside-Directors. NEC will revise the setting of themes for the Board of Directors meeting for Directors to discuss long-term management strategies.

  *Composition of remuneration of Outside-Directors in fiscal 2019 (total amount)*

#### Procedure of the analysis and evaluation

In fiscal 2019, NEC conducted a questionnaire on all of the Directors and A&SBMs. In addition, individual interviews were held based on the results of the questionnaire. In the questionnaire and interviews, participants were asked mainly for their opinions regarding the kind of governance structure that the Company should aim for (organizational design, director composition, etc.) and the roles, functions, and method of operation of the Board of Directors. Based on the analysis and evaluation of these opinions, the Board of Directors deliberated on a policy and improvement plan for strengthening governance going forward.

### Remuneration for Directors

- **For long-term management strategy and other such themes, NEC will combine use of the Board of Directors and other decision-making institutions**
- **For important and complex matters for discussion, NEC will aim at holding multiple meetings of the Board of Directors and to make further improvements to the format of materials for reports to the Board of Directors**
- **To further deepen discussions in the Board of Directors regarding broad, company-wide management strategies and governance, NEC will revise the setting of themes for the matters brought for discussion by the Board of Directors and the annual discussion plan**
- **For important and complex matters for discussion, NEC will aim at holding multiple meetings of the Board of Directors and to make further improvements**
- **For long-term management strategy and other such themes, NEC will combine use of the Board of Directors and other meetings to enable deeper discussion**
- **To enhance the provision of information to Outside-Directors, NEC will hold worksite tours and provide guidance to newly appointed Directors, along with improving the Board of Directors materials in line with the new themes for discussion by the Board of Directors**

### Remuneration for Outside-Directors

- **Basic remuneration**: fixed-monthly payments that do not exceed the limit* established by resolutions of the General Meetings of Shareholders, and is determined separately for each job title and for Inside- and Outside-Directors. NEC will combine use of the Board of Directors and other decision-making institutions.

  *The ratio of performance-linked remuneration to non-performance-linked remuneration for Executive-Directors. The ratio of bonuses and the Performance-linked Stock Compensation is calculated based on a standard amount before reflecting the degree of achievement of the performance targets.*

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### Summary of the evaluation result

A summary of the evaluation of the effectiveness of the Board of Directors for fiscal 2019 is as follows:

- In the Board of Directors, it can be evaluated that appropriate supervision of business execution has been conducted as actively discussed was held among the Directors regarding decision making on important business execution and other important matters of medium- to long-term management strategy.
- The current governance structure (organizational design, director composition, etc.) can be generally considered appropriate, however, operation of the Board of Directors has room for improvement, such as conducting discussions with an emphasis on broad, company-wide management strategies and governance; and
- NEC will continue working to enhance the information provided to Directors prior to meetings.

### Future challenges

Based on the above evaluation results, NEC will strengthen the Board of Directors’ functions through the following initiatives:

- To further deepen discussions in the Board of Directors regarding broad, company-wide management strategies and governance, NEC will revise the setting of themes for the matters brought for discussion by the Board of Directors and the annual discussion plan;
- For important and complex matters for discussion, NEC will aim at holding multiple meetings of the Board of Directors and to make further improvements;
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### For further details on the corporate governance of NEC Corporation, please visit the following URL:

[https://www.nec.com/en/gov/about/governance.html](https://www.nec.com/en/gov/about/governance.html)

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Corporate Governance

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Improvements were also made to the questionnaire. In addition to the questions regarding the level of achievement of measures based on the evaluation of effectiveness, evaluation items for confirming the degree of improvement from the previous fiscal year were added as part of improvements to the survey method.

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