Corporate Governance

In recognition of the fact that reliable corporate governance is essential to the continuous creation of social value and the maximization of corporate value, NEC Corporation 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

- **2012**
  - Strenthened corporate function and accelerated the speed of decision making
  - Established Compensation Committee
- **2019**
  - Majority of Directors are non-executive
  - Clarified further the responsibilities and authorities of corporate officers
  - Increased the ratio of performance-based stock compensation for Executive Directors

Strength of the execution structure

- **2017**
  - Strengthened corporate function and accelerated the speed of decision making
  - Established Compensation Committee
- **2019**
  - Clarified further the responsibilities and authorities of corporate officers

Overview of the Corporate Governance Structure

GENERAL MEETING OF SHAREHOLDERS

- **Board of Directors**
- **Executive Committee**
- **Corporate Officers**
- **Corporate Auditing Bureau**
- **Business Units/Corporate Staff/Affiliate Companies**

Management and Supervision

**Purpose, Activities, and Number of Meetings**

**Board of Directors**

- Number of Meetings: 12
- Management Policies:
  - Review of the NEC Way
  - Review of the NEC Group Code of Conduct
  - Report on sustainability by promotion activities (materiality, environment, human rights, etc.)
- Management Strategy:
  - Development of Corporate Strategy
  - Digital transformation strategy
- Human Resource Measures:
  - Human resource policy and measures
  - Assessment of management systems for Directors, Audit & Supervisory Board Members (A&SBMs), and corporate officers

**Nomination and Compensation Committee**

- Number of Meetings: 6
- Nomination related:
  - Nomination for Directors, A&SBMs, and important corporate officers
  - Succession planning for the President
- Compensation related:
  - Revision of remuneration systems for Directors and A&SBMs
  - Decision on bonus payment for Directors

**Audit & Supervisory Board (KANSAYAKU KAI) (“A&SB”)**

- Number of Meetings: 16
- Creation of audit policy and plan:
  - Discussions and the adoption of audit policy
  - Discussions and the adoption of audit plan
- Matters regarding selection and dismissal of accounting auditors:
  - Confirmation of establishment and implementation of internal control system
- Evaluation of Sarbanes-Oxley Act compliance

**Main Matters Discussed in Fiscal 2020**

- **Board of Directors**
  - Number of Meetings: 12
  - Management Policies:
    - Review of the NEC Way
    - Review of the NEC Group Code of Conduct
    - Report on sustainability by promotion activities (materiality, environment, human rights, etc.)
  - Management Strategy:
    - Development of Corporate Strategy
    - Digital transformation strategy
  - Human Resource Measures:
    - Human resource policy and measures
    - Assessment of management systems for Directors, Audit & Supervisory Board Members (A&SBMs), and corporate officers
- **Nomination and Compensation Committee**
  - Number of Meetings: 6
  - Nomination related:
    - Nomination for Directors, A&SBMs, and important corporate officers
    - Succession planning for the President
  - Compensation related:
    - Revision of remuneration systems for Directors and A&SBMs
    - Decision on bonus payment for Directors
- **Audit & Supervisory Board (KANSAYAKU KAI) (“A&SB”)**
  - Number of Meetings: 16
  - Creation of audit policy and plan:
    - Discussions and the adoption of audit policy
    - Discussions and the adoption of audit plan
  - Matters regarding selection and dismissal of accounting auditors:
    - Confirmation of establishment and implementation of internal control system
  - Evaluation of Sarbanes-Oxley Act compliance

In apppointing Directors and A&SBMs, when an appointee serves as a Director or A&SBM of other public companies, it is considered that the number of concurrent positions does not exceed the number specified as follows:

- When an appointee serves as an executive of NEC Corporation or another company, only 1 company in addition to the company where the appointee serves as an executive.
- In cases other than those above, up to 4 companies in addition to NEC Corporation.

For further information, please refer to Integrated Report 2020 page 28, “Directors and Audit & Supervisory Board Members.”

Business Execution

**Purpose, Activities, and Number of Meetings**

**Executive Committee**

- Number of Meetings: 11
- The Executive Committee discusses important NEC Group management issues such as policies and strategies. The committee extensively discusses matters of particular importance prior to putting them forward to meetings of the Board of Directors for approval.

**Business Progress Committee**

- Number of Meetings: 12
- The Business Progress Committee deliberates and reports on matters related to the status of the NEC Group’s business execution, such as monitoring progress with respect to meeting budgets adopted by the Board of Directors, with the aim of sharing management information and promoting business execution efficiency.

For further information, please refer to Integrated Report 2020 page 55, “Directors and Audit & Supervisory Board Members.”
NEC Corporation adopts the Company with Audit & Supervisory Board Members (KANSAYAKU) corporate structure to provide a double-check process: the Board of Directors supervises business execution and the A&SB audits the legitimacy and appropriateness of NEC Corporation’s decision making or activities. We have established a hybrid structure by utilizing the combination of a corporate officer system, multiple Outside Directors, and the Nomination and Compensation Committee, which we established voluntarily and is comprised of a majority of Outside Directors. In this way, we separate management supervision from business execution while striving to ensure management transparency and soundness. NEC Corporation believes that its corporate governance is functioning adequately under the current system described above. However, we are focusing our efforts on enhancements and improvements of this system in order to realize more effective corporate governance responding to changes in the business environment.

Evaluation of the Effectiveness of the Board of Directors
NEC Corporation has conducted an analysis and evaluation of the effectiveness of the Board of Directors once a year to improve the function of the Board of Directors since fiscal 2016.

Procedure of the analysis and evaluation
In fiscal 2020, NEC Corporation conducted a questionnaire of all the Directors and A&SBMs, and conducted individual interviews based on the results. In the questionnaire and interviews, participants were asked mainly for their opinions regarding issues concerning the role, function, and operation method of the Board of Directors and points for improvement with a view to the kind of governance structure that NEC Corporation should aim for. In fiscal 2020 particularly, the process focused on asking for opinions based on the results of the effectiveness evaluation undertaken in the previous fiscal year. Participants were asked about the appropriateness of the themes of matters brought for discussion and the sufficiency of discussion based on perspectives that should be emphasized in deliberations in order to ensure high quality, in depth discussion in the Board of Directors with an emphasis on broad, companywide management strategies and governance perspectives. The results of the analysis and evaluation of these opinions were reported at the ordinary Board of Directors meeting in March, which deliberated on plans for improvement going forward.

To improve the analysis and evaluation process in fiscal 2020, NEC Corporation used a third-party institution for setting the questionnaire and interview questions, analyzing the results, and examining improvement measures, and so forth.

Summary of the evaluation result
A summary of the evaluation of the effectiveness of the Board of Directors for fiscal 2020 is as follows:

- In the Board of Directors, it can be evaluated that appropriate supervision of business execution has been conducted with lively discussion regarding decision making on important business execution and other important matters of medium to long-term management strategy.
- Overall, the Board of Directors had discussions based on important perspectives for fulfilling its responsibility.
- With regard to discussions with an emphasis on broad, companywide management strategies and governance, which was identified as an issue in the effectiveness evaluation for fiscal 2019, there was an overall improvement due to initiatives such as reviewing the setting of themes for discussion, and
- The governance structure has room for improvement in terms of the composition of the Board of Directors and its operation.

Initiatives going forward
NEC Corporation will conduct the following initiatives to make discussions more effective based on the clarified role expected of Outside Directors by results of the effectiveness evaluation:

- To further deepen discussions from a broad, companywide perspective, NEC Corporation will continue to consider how to set discussion themes and to report on medium- to long-term strategy, collateral risk, and group-wide synergies, and governance;
- Regarding Business-unit reporting, NEC Corporation abolished reports that were uniformly implemented by all Business-units, and set important themes that should be discussed to be consistent with the perspective of group strategies by the President so that discussions can be conducted based on knowledge of the specialized field of each Outside Director.

Evaluation of the Effectiveness of the Nomination and Compensation Committee
In the questionnaire and individual interviews about the effectiveness of the Board of Directors, NEC Corporation asked for opinions from Directors and A&SBMs to clarify challenges and improvements for the Nomination and Compensation Committee.

In summary, the results show that the composition of the Nomination and Compensation Committee can generally be evaluated as appropriate. However, some responses pointed out improvement in the operation with regard to securing discussion time appropriate to the themes for discussion by the Nomination and Compensation Committee, and using prior explanations to make its meetings more efficient. Going forward, NEC Corporation will work to improve the guidance in accordance with the priorities of the responses pointed out.

Evaluation of the Effectiveness of the Audit & Supervisory Board
NEC Corporation conducts an evaluation of the effectiveness of the A&SBs and the Audit & Supervisory Board every year with a view to improving the effectiveness of A&SBs’ audits. In fiscal 2020, the A&SBs each conducted a self-evaluation by answering a questionnaire regarding their audit activities and the operation of the Audit & Supervisory Board, then all of the A&SBs held a discussion based on the results of the questionnaire. The Audit & Supervisory Board will work to make improvements regarding the challenges and initiatives recognized in this evaluation process by reflecting them appropriately in audit plans and so forth.

A summary of the evaluation of the effectiveness of the A&SBs and the Audit & Supervisory Board, challenges, and the direction of initiatives going forward are as follows:

- At meetings of the Audit & Supervisory Board, the A&SBs resolve and discuss statutory matters, as well as sharing information through reports on the status of audits by each A&SBM, hearing reports on audit results and activity status from the Accounting Auditor, Internal Auditing Division, and the Internal Control Division, and exchanging opinions with the CEO regarding management issues. Moreover, the Audit & Supervisory Board provides regular audit activity reports to the Board of Directors and management executives including the CEO, as well as communicating items that have been noticed in the audits and recommendations, and exchanging opinions.

Remuneration System

NEC Corporation has conducted an analysis and evaluation of the effectiveness of the A&SBs and the Audit & Supervisory Board every year with a view to improving the effectiveness of A&SBs’ audits. In fiscal 2020, the A&SBs conducted a self-evaluation by answering a questionnaire regarding their audit activities and the operation of the Audit & Supervisory Board, then all of the A&SBs held a discussion based on the results of the questionnaire. The Audit & Supervisory Board will work to make improvements regarding the challenges and initiatives recognized in this evaluation process by reflecting them appropriately in audit plans and so forth.

A summary of the evaluation of the effectiveness of the A&SBs and the Audit & Supervisory Board, challenges, and the direction of initiatives going forward are as follows:

- At meetings of the Audit & Supervisory Board, the A&SBs resolve and discuss statutory matters, as well as sharing information through reports on the status of audits by each A&SBM, hearing reports on audit results and activity status from the Accounting Auditor, Internal Auditing Division, and the Internal Control Division, and exchanging opinions with the CEO regarding management issues. Moreover, the Audit & Supervisory Board provides regular audit activity reports to the Board of Directors and management executives including the CEO, as well as communicating items that have been noticed in the audits and recommendations, and exchanging opinions.

Evaluation of the Effectiveness of the Nomination and Compensation Committee
In the questionnaire and individual interviews about the effectiveness of the Board of Directors, NEC Corporation asked for opinions from Directors and A&SBMs to clarify challenges and improvements for the Nomination and Compensation Committee.

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Remuneration System

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

For the purpose of continuously improving corporate value and strengthening its competitiveness, NEC Corporation’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 us to secure excellent human resources and serves as an incentive to improve performance of the NEC Group. In order to ensure objectivity and probity of the 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 contents and scale are similar to those of NEC Corporation.

Remuneration Structure

<table>
<thead>
<tr>
<th>Directors</th>
<th>Inside Directors</th>
<th>Non-insiders</th>
<th>A&amp;SBMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive</td>
<td>Basic remuneration (including stock compensation)</td>
<td>Bonus</td>
<td>A&amp;SBM compensation</td>
</tr>
<tr>
<td>Non-executive</td>
<td>Basic remuneration (including stock compensation)</td>
<td>Bonus</td>
<td>A&amp;SBM compensation</td>
</tr>
</tbody>
</table>

The ratio of performance-based stock compensation and other remuneration for Executive Directors is set at 1:1 in order to serve as an incentive to improve performance (Ratio of basic remuneration : Bonuses : Stock compensation = 5:3:2).

The A&SBs receive regular reports from the Directors, executive officers, and employees of NEC Corporation and its subsidiaries in accordance with the audit plan, and indicate beforehand items that they particularly wish to have been reported as part of efforts to enhance the exchange of opinions when the reports are received. Furthermore, to help strengthen the structure for irregular reports to the A&SBs and the Audit & Supervisory Board within the executive side, the A&SBs and the Audit & Supervisory Board will continue to actively communicate their intentions to the executive side.

The A&SBs will work to improve and strengthen the quality of audits for the NEC Group overall by holding regular information exchange meetings and training sessions for the A&SBs of subsidiaries. They will further strengthen connections with the A&SBs of subsidiaries to help them perform effective and efficient A&SB effective audits with limited resources.

The Audit & Supervisory Board receives regular (and irregular as needed) reports on audit results and so forth from the Accounting Auditor and the Internal Auditing Division. In addition, the A&SBs, Accounting Auditor, and Internal Auditing Division hold regular meetings to share information and to exchange opinions on set themes such as use of digital technology in audits. The A&SBs will continue to strengthen their cooperation with the Accounting Auditor and the Internal Auditing Division.

The ratio of bonuses and the performance-based stock compensation is calculated based on a standard amount before reflecting the degree of achievement of the performance targets.
The performance indicators for this component are the NEC Group’s consolidated revenue, operating income and free cash flows in the applicable fiscal year.

(a) The performance indicators for this component are the NEC Group’s consolidated revenue, operating income and free cash flows in the applicable fiscal year.

(b) The performance indicators for this component are the NEC Group’s consolidated revenue, operating income and free cash flows in the applicable fiscal year.

The number of shares granted for the compensation is set between 0% and 100% of the standard amount of shares determined for each job title, based on the achievement level of performance targets.

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