

Corporate Governance

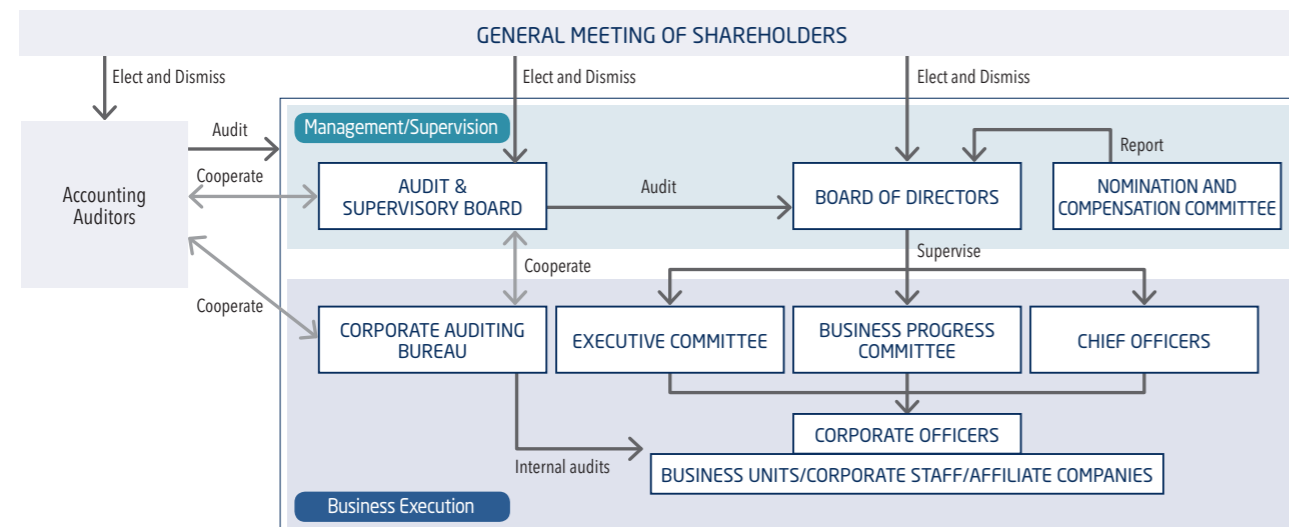
In recognition of the fact that reliable corporate governance is essential to the continuous creation of social value and the maximization of corporate value, NEC Corporation is committed to strengthening its corporate governance practices through (1) assurance of transparent and sound management, (2) 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

	2000	2010	2012	2014	2016	2018	2020
Strengthen management and supervision functions			● 2012 Ratio of Outside Directors: 45.5%				
							● 2019 Majority of Directors are non-executive
Strengthen the execution structure			● 2001 Established Compensation Committee				
			● 2010 Established Nomination and Compensation Committee*1: Enhanced transparency of nomination and remuneration of Directors, etc.				● 2019 To ensure independence and objectivity in the Nomination and Compensation Committee, changed to a four-member structure consisting of three Outside Directors (including the chairperson) and one non-executive Inside Director*2
Revise the remuneration for Directors and AS&BMs							
			● 2011 Instituting Chief Officer position: Strengthened companywide strategies				
							● 2017 Strengthened corporate functions and accelerated the speed of decision making: Extended the authority delegated to the Chief Officers
							● 2019 Clarified further the responsibilities and authority of corporate officers: Adopted one year mandate contracts
							● 2017 Introduced stock compensation system
							● 2019 Increased the ratio of performance-based stock compensation for executive Directors: Moved to a 1:1 ratio for fixed remuneration to performance based remuneration

*1 The Compensation Committee was enhanced to become the Nomination and Compensation Committee.
*2 The CEO, who was previously a member, resigned from the committee.

Overview of the Corporate Governance Structure



Management and Supervision

	Purpose, Activities, and Number of Meetings	Members
Board of Directors	<p>The Board of Directors holds regular meetings basically once a month and extraordinary meetings as necessary to determine important matters related to business execution, including business realignment, funding plans and financing and investment, as well as matters concerning business plans.</p> <p>Main Matters Discussed in Fiscal 2020 Number of Meetings: 12</p> <ul style="list-style-type: none"> Management Policies <ul style="list-style-type: none"> Revision of the NEC Way Revision of the NEC Group Code of Conduct Report on sustainability promotion activities (materiality, environment, human rights initiatives, etc.) Management Strategy <ul style="list-style-type: none"> Report on status of progress on Mid-term Management Plan 2020 Overseas business strategy Digital transformation strategy Cross-industry business execution plan Governance <ul style="list-style-type: none"> Status of countermeasures for "Priority Risks" and supervision of these measures Revision of policy regarding cross-shareholdings Evaluation of effectiveness of the Board of Directors Human Resource Measures <ul style="list-style-type: none"> Human resource policy and measures Revision of remuneration systems for Directors, Audit & Supervisory Board Members (A&SBMs), and corporate officers 	<p>11 Directors</p> <p>Chairman of the Board (Chair of the Board of Directors)</p> <p>6 non-executive 5 corporate officers</p> <p>Outside Directors (5, including 4 independent) Inside Directors (6)</p>
Nomination and Compensation Committee	<p>The Nomination and Compensation Committee deliberates on (i) nomination for Directors, Representative Directors and Audit & Supervisory Board Members (KANSAYAKU) ("A&SBMs"), the Chairman of the Board, and the President and (ii) the structure and the level of compensation for Directors, Representative Directors and corporate officers taking the business results of NEC and other conditions into account and from an objective, transparent, and fair perspective. The committee reports the results of its deliberations to the Board of Directors.</p> <p>Main Matters Discussed in Fiscal 2020 Number of Meetings: 6</p> <ul style="list-style-type: none"> Nomination-related <ul style="list-style-type: none"> Nomination for Directors, A&SBMs, and important corporate officers Succession planning for the President Compensation-related <ul style="list-style-type: none"> Revision of remuneration systems for Directors and A&SBMs Decision on bonus payment for Directors Decision on additional trust and check on operations (payment status) in the stock compensation system 	<p>4 Directors All non-executive</p> <p>Inside Director (1) Nobuhiro Endo Outside Directors (3) Kaoru Seto (Chairperson), Kuniharu Nakamura, Masatoshi Ito</p> <p>The chairperson is appointed among Outside Directors</p>
Audit & Supervisory Board (KANSAYAKU-KAI) ("A&SB")	<p>The Audit & Supervisory Board holds regular meetings basically once a month and extraordinary meetings as necessary, decides on audit policies, standards, annual auditing plan and other matters, and receives status reports on audits and on other matters from each A&SBM.</p> <p>Main Activities in Fiscal 2020 Number of Meetings: 16</p> <ul style="list-style-type: none"> Creation of audit policy and plan Discussion and drafting of audit report Matters regarding selection and dismissal of accounting auditor Confirmation of establishment and implementation of internal control system Exchange of opinions with President regarding priority management issues Receiving oral reports on audits from the accounting auditor and the Corporate Auditing Bureau Evaluation of the effectiveness of the A&SB 	<p>5 A&SBMs</p> <p>Outside A&SBMs (3, all independent officers) Inside A&SBMs (2)</p>

■ In appointing Directors and A&SBMs, when an appointee serves as a Director or A&SBM of other public companies, it is desirable that the number of concurrent positions does not exceed the numbers 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 the above: up to four companies in addition to NEC Corporation

However, if a Director or A&SBM serves in multiple roles concurrently at group companies of NEC Corporation or another listed company, the concurrent roles within the group companies shall be deemed as roles in one company.

■ Excepting special circumstances, each Director and A&SBM aims to have at least 75% attendance at the Board of Directors meetings in a single fiscal year, and each A&SBM aims to have at least 75% attendance at the Audit & Supervisory Board meetings in a single fiscal year.

For further information, please refer to Integrated Report 2020 page 59, "Directors and Audit & Supervisory Board Members."

Business Execution

	Purpose, Activities, and Number of Meetings	Members
Executive Committee	<p>The Executive Committee discusses important NEC Group management issues such as policies and strategies. This committee extensively discusses matters of particular importance prior to putting them forward to the meetings of the Board of Directors for approval. In doing so, the committee enhances the deliberations and ensures appropriate decision making.</p> <p>Number of Meetings in Fiscal 2020: 11</p>	Around 20 corporate officers
Business Progress Committee	<p>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.</p> <p>Number of Meetings in Fiscal 2020: 12</p>	Corporate officers and general managers of business units, etc.

Continuously Strengthening and Improving the System

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; and
- Regarding Business-unit reporting, NEC Corporation abolished reports that were uniformly implemented by all Business-units, and set important themes that should be discussed from the perspective of group strategies by the President so that discussions can be conducted based on knowledge of the specialized field of each Outside of 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&SBMs and the Audit & Supervisory Board every year with a view to improving the effectiveness of A&SBMs' audits. In fiscal 2020, the A&SBMs 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&SBMs 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&SBMs 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&SBMs 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.

- The A&SBMs 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 and timely reports to the A&SBMs and the Audit & Supervisory Board within the executive side, the A&SBMs and the Audit & Supervisory Board will continue to actively communicate their intentions to the executive side.
- The A&SBMs 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&SBMs of subsidiaries. They will further strengthen connections with the A&SBMs of subsidiaries to help them perform effective and efficient A&SBM 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&SBMs, 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&SBMs will continue to strengthen their cooperation with the Accounting Auditor and the Internal Auditing Division.

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 objectiveness and properness 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 System

Directors	Inside	Executive	1 Basic remuneration (Including 3 - (b) Stock compensation)	2 Bonuses	3 - (a) Stock compensation
		Non-executive	1 Basic remuneration (Including 3 - (b) Stock compensation)		3 - (a) Stock compensation
	Outside		1 Basic remuneration		
A&SBMs	Inside and Outside		1 Basic remuneration		

The ratio of performance based remuneration 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 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.

1 Basic remuneration

Basic remuneration is 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 Directors and Outside Directors.

However, for some Executive Directors basic remuneration increases or decreases depending on the performance of these individuals in each fiscal year. The Board of Directors determines for each job title the standard amount of basic remuneration and the range of fluctuations.

The performance indicators include non-financial indicators such as practical implementation of the NEC Way and our "materiality" – priority management themes from an ESG perspective.

* The maximum annual remuneration is 580,000,000 yen (approved at the 181st Ordinary General Meeting of Shareholders held on June 24, 2019)

2 Bonuses

Bonuses serve as short-term incentives to achieve performance targets in each fiscal year for the sustained growth of the NEC Group. Executive Directors are eligible to receive these bonuses. The limit for total payments of these bonuses is determined by a resolution of the General Meetings of Shareholders. Individual bonus payments are determined by adjusting the standard bonus amount determined for each job title of Directors to reflect the achievement level of performance targets

The amount of each bonus is set between 0% and 200% of the standard amount determined for each job title, based on the achievement level of performance targets.

* The maximum annual bonus payment is 800,000,000 yen (approved at the 181st Ordinary General Meeting of Shareholders held on June 24, 2019)

Bonuses have two components: a Group-wide performance-based component linked to key performance indicators regarding the consolidated business results of the NEC Group during the fiscal year to which the bonus applies, and a business-unit performance-based component linked to the degree to which performance targets are achieved in the businesses overseen by each Director. The ratio between these two components is as follows for each job title.

President	Group-wide performance-based component 100%		
Senior Executive Vice President and Member of the Board	Group-wide performance-based component 60%	Business-unit performance-based component	
		Fiscal year budget portion 20%	Mid-term plan portion 20%
Executive Vice President and Member of the Board	Group-wide performance-based component 40%	Business-unit performance-based component	
		Fiscal year budget portion 30%	Mid-term plan portion 30%
Senior Vice President and Member of the Board	Group-wide performance-based component 30%	Business-unit performance-based component	
		Fiscal year budget portion 35%	Mid-term plan portion 35%

(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. These indicators were selected taking account of their importance concerning the NEC Group's management strategies and suitability in determining the achievement level of performance targets.

(b) The performance indicators for this component are budget indicators and mid-term plan indicators.

Budget indicators are consolidated revenue, operating income, free cash flows, etc. in the applicable fiscal year in the business units overseen by each Director. These indicators were selected because they allow the appropriate evaluation of the achievement level of performance targets for each fiscal year in individual business units overseen by relevant Directors.

Mid-term plan indicators are used to evaluate activities for accomplishing the goals set in the mid-term management plan. The indicators are fiscal year performance targets set for individual Directors based on a discussion between each Director and the President, and the President evaluates their achievement level by interviewing the Director. To ensure that evaluations are done properly, evaluation results are reported to the Nomination and Compensation Committee.

For Directors who oversee operations other than business units, indicators for the business-unit performance-based component are the NEC Group's consolidated revenue, operating income, free cash flows, etc.

3 Stock compensation

(a) The performance-based stock compensation serves as a medium- to long-term incentive to further raise Directors' awareness for contribution to improvement in NEC Group's medium- and long-term performance and its corporate value, by clarifying the link between remuneration of Directors and NEC's performance as well as value of NEC shares.

Indicators for performance-based stock compensation are the NEC Group's consolidated revenue, adjusted operating profit*¹ and adjusted net profit attributable to owners of the parent**² in the applicable fiscal year. The indicators were selected by considering their importance concerning the NEC Group's medium- to long-term management strategies as well as for reinforcing the commitment and activities of Directors to contribute to maximizing corporate value from a medium- to long-term perspective and giving back to shareholders.

*¹ Adjusted operating profit is an indicator for measuring the underlying profitability in order to clarify the contribution of acquired companies to NEC's overall earnings. It is calculated by deducting amortization of intangible assets recognized as a result of M&A and expenses for acquisition of companies (financial advisory fees, etc.) from operating profit (loss).

*² Adjusted net profit attributable to owners of the parent is an indicator for measuring the underlying profitability attributable to owners of the parent. It is calculated by deducting adjustment items of operating profit (loss), and corresponding amount of tax and noncontrolling interests from net profit (loss) attributable to owners of the parent.

The ratio of performance-based payment rate for each indicator and the targets and results for each indicator in fiscal 2020 are as follows.

Granting of shares for performance-based stock compensation for fiscal 2020 is scheduled for July 2022.

	Consolidated revenue	Adjusted operating profit	Adjusted net profit
Ratio of performance-based payment rate	30%	40%	30%
Target achievement rate	104.9%	116.6%	150.2%
Target (budget)	2,950.0 billion yen	125.0 billion yen	74.0 billion yen
Results	3,095.2 billion yen	145.8 billion yen	111.2 billion yen

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

(b) The fixed stock compensation further clarifies the link between remuneration for Directors and the value of NEC Corporation's shares by increasing the ratio of stock compensation in the remuneration for Directors, and encourages Directors to operate the business with a higher consciousness of NEC Corporation's share price by sharing with shareholders not only the benefits of rising share prices but also the risks associated with falling share prices.

In these stock compensation systems, the shares are granted after three years from the beginning of the applicable period.

Under the stock compensation system, clawback and malus provisions have been included. These enable NEC Corporation to take action in cases where compliance breaches or inappropriate accounting treatment (including the submission of amended reports and amendment of past financial statements) have been confirmed. In such cases, after deliberation by the Nomination and Compensation Committee and a resolution by the Board of Directors, NEC Corporation may withhold all or part of the rights to receive a grant of NEC Corporation's shares prior to the grant of NEC Corporation's shares; or after the grant of NEC Corporation's shares, NEC Corporation may demand the return of all or part of the granted shares of NEC Corporation (including an amount of cash equivalent to NEC Corporation's shares as liquidated and disposed of paid instead of the NEC Corporation's shares).

Remuneration for A&SBMs

Remuneration for A&SBMs is only basic remuneration and does not include bonuses linked to the business results because the responsibility of A&SBMs is to audit execution of Directors' duties. Basic remuneration is a fixed monthly payment determined based on whether the recipient is a full-time A&SBM or not, to the extent of the maximum amount approved at the General Meeting of Shareholders.

* The annual remuneration is 144,000,000 yen (approved at the 181st Ordinary General Meeting of Shareholders held on June 24, 2019)

Amounts of Remuneration for Fiscal 2020

	Total amount by type			Total amount	Headcount
	Basic remuneration	Bonuses	Stock compensation		
Inside Directors	342	217	196	756	7
Inside A&SBMs	60	-	-	60	2
Outside Directors and A&SBMs	96	-	-	96	11

Among the above recipients, the following have a total remuneration amount of 100 million yen or higher:

Nobuhiro Endo: Total remuneration amount: 100 million yen (basic remuneration: 92 million yen, stock compensation: 8 million yen)
 Takashi Niino: Total remuneration amount: 159 million yen (basic remuneration: 80 million yen, bonus: 71 million yen, stock compensation: 8 million yen)

- Notes: 1. The number of Inside Directors includes one Director who retired at the close of the 181st Ordinary General Meeting of Shareholders held on June 24, 2019. Moreover, six of the above number were eligible for stock-based compensation.
 2. The numbers of Outside Directors and A&SBMs include two Outside Directors and one Outside A&SBM who retired at the close of the 181st Ordinary General Meeting of Shareholders held on June 24, 2019.
 3. The above amounts of stock compensation are the amounts recorded as expenses during the fiscal year under review. The amounts recorded as expenses in relation to the above stock compensation are the total of the amounts recorded as expenses for the performance-based stock compensation introduced at the 179th Ordinary General Meeting of Shareholders held on June 22, 2017, the current performance-based stock compensation introduced at the 179th Ordinary General Meeting of Shareholders held on June 22, 2017 and partially revised at the 181st Ordinary General Meeting of Shareholders held on June 24, 2019, and the current fixed stock compensation introduced at the 181st Ordinary General Meeting of Shareholders held on June 24, 2019.
 4. The amount of stock compensation of people whose above total amount of remuneration is 100 million yen or higher is the amount of the performance-based stock compensation introduced at the 179th Ordinary General Meeting of Shareholders, held on June 22, 2017, for a target period of two fiscal years from fiscal 2018. The shares were granted during the fiscal year under review (including an amount paid in cash after selling a certain portion of the shares on the market to provide funds for taxes payable upon grant of the shares).

Guidelines on Officer Ownership of NEC Corporation Shares

NEC Corporation has established "Guidelines on Ownership of Company Shares" for Directors (excluding Outside Directors) and corporate officers regarding the holding of more than a certain number of shares.

For further details on the corporate governance of NEC Corporation, please visit the following URL:

<https://www.nec.com/en/global/about/governance.html>