

## Corporate Governance Dialogue

# Corporate Governance Reforms Aimed at Enhancing Corporate Value



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(Executive Officer),  
Member of the Board

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Committee and Member of the  
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NEC is currently implementing corporate governance reforms, including the transition to a Company with a Nominating Committee, etc., structure. Two key individuals—the corporate officers driving the reforms, Hajime Matsukura, Corporate Secretary and Member of the Board, and Masashi Oka, Member of the Board, Chairman of the Compensation Committee, and Member of the Nominating Committee—sat down for a candid exchange of opinions on the background and objectives of the transformation and discussed key measures to be taken in the future.

### A key role of outside directors is to provide an external perspective.

#### Matsukura

Since 2000, NEC has been navigating a very difficult period and has been working to ensure its survival by reorganizing its financial structure, transforming its portfolio, renewing the NEC Way, and reforming its internal culture. From a corporate governance standpoint, we increased the number of outside directors and reviewed our compensation system, but the reality is that we took those steps out of necessity. The full-scale transformation we are currently

undertaking is an initiative to establish corporate governance as a platform for management decision-making that will propel the Company into its next stage of growth. I also believe that the transformation is unavoidable if we are to demonstrate our competitiveness on the global stage.

#### Oka

I have leadership experience at both Japanese and U.S. companies, and my management keyword has been “self-transformation.” I accepted the position of outside director last year as I could relate to President Morita’s strong desire to transform NEC and was convinced of his

seriousness in this regard. As a member of the Board of Directors, I hope to support this transformation and help maximize NEC’s potential. Based on my experience, I believe an *external perspective* is vital for management. I have always taken “inconvenient truths” seriously without being swayed by logic driven by institutional legacy or past successes. I have instead favored dialogue with investors and outside experts to make levelheaded decisions based on facts, deploying insights from external parties as a driving force for change. The Board of Directors in particular represents the closest external perspective available to management, and in contrast to the tendency of those tasked with

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business execution to give priority to short-term periodic or divisional profit and loss, the Board is required to promote profitable and sustainable growth and enhance the Company's overall management quality from the perspective of increasing corporate value over the medium to long term. I believe that as virtual investors- so to speak- the Board of Directors must be the guardians of corporate value.

#### Building trust between the Company's execution and oversight functions will enhance the effectiveness of the Board of Directors.

##### Matsukura

I believe that raising the effectiveness of the Board of Directors will be a matter of key importance in driving the transformation of NEC's corporate governance. When electing outside directors, we engaged in extensive discussions from the perspective of whether the candidates were in tune with NEC's reforms and were capable of building relationships of trust with corporate officers. As a result, we have been joined by some very promising members. In addition, the director remuneration system has been changed to provide incentives so that all officers share the ultimate goal of increasing corporate value and strive to achieve the goals put forth in the mid-term management plan to that end. Mr. Oka, who was appointed outside director in June 2022, and I have been discussing these reforms together, and we will continue our efforts to further enhance the effectiveness of the Board from

the perspective of becoming a company that can succeed on the global stage.

##### Oka

Raising the effectiveness of the Board of Directors is a top priority. In fiscal 2023, as chairman of the Compensation Committee, I led a review of the director remuneration system, including its structure, compensation levels, and KPIs. Our perspective was to assess if the system was (a) appropriate for a technology company with global operations, and (b) sufficiently linked to shareholder value. I believe the appropriate structure and systems are now in place, including the transition to a Company with a Nominating Committee, etc., effective June 2023. To further enhance the effectiveness of the Board of Directors, we will continuously monitor the structure and systems to ensure they are functioning as intended. We will also focus on enhancing the quality of discussions at Board meetings and ensure that management from a corporate value perspective permeates the front lines of business execution.

To connect corporate governance reforms to the enhancement of corporate value, I believe that two-way trust between the management team, which is responsible for the execution of business, and the Board of Directors, which is responsible for oversight, is of the utmost importance. Directors need to communicate matters that are difficult for those on the execution side of the Company to hear, but there must be mutual understanding and trust in order for the management team to take seriously what they hear from the Board and apply it to the management of the Company. Those responsible for

business execution and who have been given significant delegation of authority under the new institutional design are expected to always be aware that the primary management goal is to increase corporate value. They also need to be able to explain quantitatively at any time how their respective businesses and roles are contributing to that goal. At the same time, the Board of Directors is required to have a deep understanding of the Company, represent its diverse stakeholders, and fulfill its oversight function through constructive and frank discussions with members of management charged with execution responsibilities. I believe it is important for the management team to fully leverage the Board of Directors as virtual investors.

##### Matsukura

Although healthy friction is an essential element of a successful relationship between execution and oversight functions, I believe that Mr. Oka is correct in saying that trust is an important foundation, without which meaningful discussion is impossible. I believe that both tough and cordial feedback leads to setting higher goals, creating new perspectives, and refining policies, which in turn drives management forward.

#### Realizing the Transformation

##### Matsukura

I believe that the change in institutional design will significantly change the positioning of the Board of Directors and the contents of its discussions. Since a significant portion of authority will

be transferred to management, discussions at Board meetings will focus on more overarching themes, such as medium- to long-term strategies and how to increase corporate value. That being the case, it is inherently preferable to gather people with diverse perspectives and experiences for discussion, so I believe it is a natural progression for outside directors to become the majority.

NEC's corporate governance transformation has only just begun. I would like to work with the outside directors to build a relationship of trust with stakeholders and transform NEC into a company that steadily executes decisions by following through on its word while growing step by step.

##### Oka

The Board of Directors is expected to enhance NEC's corporate value over the medium to long term. To this end, we believe it is important for directors to constantly strive to maintain and elevate the freshness of their *external perspective* and ensure an environment of open and constructive discussions with management.

In addition to sustainable profit growth on the financial side, it is also very important to strengthen the non-financial aspects of our operations in order to enhance corporate value over the medium to long term. Within the framework of ESG, we will fulfill our responsibility as guardians of corporate value by catalyzing discussions at Board meetings and helping maximize corporate value, starting from the governance (G) reforms we have implemented to date and setting our sights even higher in terms of the environment (E) and society (S).