

Messages from Newly Appointed Outside Directors



**I will share my passion
to promote change
for the future.**

Harufumi Mochizuki

Member of the Board
(Chairman of the Nominating Committee and
Member of the Audit Committee)

Realizing Genuine Change

After more than 30 years as a public servant, I worked as a corporate outside director for over 10 years, during which time I had the opportunity to serve as chairman of the board of directors of a Company with a Nominating Committee, etc. When exchanging views with President Morita based on these and other experiences, I sensed the earnestness of NEC's efforts to reform its corporate governance. Believing that my experience could help realize this goal, I accepted a position on NEC's Board of Directors. NEC has transitioned to a Company with a Nominating Committee, etc., and is currently working to enhance corporate value under its new structure. I hope to meet the expectations by supporting NEC's corporate governance reform efforts and helping to drive its success.

Outside Director's Role: Pursuing the Next Move

I believe that the role of an outside director is to pursue strategies to achieve a company's goals from an outside perspective until they are satisfied with said strategies. In a company where I previously served as an outside director, the board members responsible for business execution provided a detailed explanation of the background and causes of matters on the agenda, to which the outside directors responded that they should report not only on the causes and status of the matters in question but also on the

progress of contingency plans. This strict but accurate observation has led to meaningful discussions at meetings of the Executive Committee, which are no longer limited to reports on current issues, but instead focus on how to address such issues going forward. This is precisely the oversight function that the Board of Directors must fulfill. In a rapidly changing business environment, it is essential to review progress in a timely manner and implement measures in line with the situation at hand to ensure results. I will take responsibility and give candid opinions to ensure that the transition to a Company with a Nominating Committee, etc., is not a mere formality.

Creating Winning Scenarios

In general, Japan's leading companies have an impressive ability to pursue technologies, and I believe they have the potential to extend this ability to compete in the global marketplace. However, looking back on Japan's history, there have been major political and economic shifts, with periods of high growth followed by periods of stagnation. NEC itself has also been through difficult times, but after reading various literature on the Company, I got the sense that in its 120-year history, there has not been a single moment when NEC was outdone in technology. It could have, on the other hand, been on the losing side when it comes to business. I rate NEC's technologies highly, and I firmly believe that the Company's ability to link its technologies with social value

will lead to future growth. To this end, I am exploring scenarios in which NEC can win in business—my main concern. I share with President Morita the belief that winning in business means making profits, not expanding the top line. While the sales force is responsible for the top line—the source of those profits—the Company should have “profit managers” on the front lines, rather than sales managers. Consistent strategies are needed to determine how to pursue profits and which markets to target. First, there should be a coherent strategy. Next, plans for investments, facilities, human resources, and R&D should be made and incorporated into management, with investment efficiency also taken into consideration. I would like to contribute to building winning scenarios by emphasizing this approach while also engaging in extensive discussion with other experienced outside directors.

I would like to say to all of NEC's stakeholders, including employees, that the key to the Company's growth lies in its own history. We must achieve growth by sharing our passion and ideas for change as we look toward the future. Through various means, we will deepen communication with stakeholders and promote change together.



As a representative of stakeholders, I will listen to a wide range of opinions and build a corporate governance structure that leads to enhanced corporate value.

Joji Okada

Member of the Board
(Chairman of the Audit Committee)

Strengthening NEC's Corporate Governance Structure to Ensure Prompt Decision-Making

I worked for Mitsui & Co. for many years in the finance and accounting department, after which I became CFO. I also served as a member of the audit & supervisory board of the same company, during which time I was appointed chairperson of the Japan Audit & Supervisory Board Members Association.

I assumed the position of independent outside director and chairman of the Audit Committee at the time of NEC's transition to a Company with a Nominating Committee, etc. The aim of this transition was to separate execution and oversight functions and ensure prompt management decision-making. The Company with a Nominating Committee, etc., structure is known as a "monitoring model," in which directors are in a position to monitor the execution of business. The major advantage of this model is that those charged with execution of duties are able to make prompt decisions with greater authority without having to first seek the approval of the Board of Directors, as was the case prior to the transition.

However, the prerequisites for the success of this model are the establishment of in-house systems for internal control and risk management, the effective function of an internal auditing body which confirms that the systems are being operated in accordance with regulations, and the proper understanding and independent observation of the ethical codes proclaimed in the NEC Way by officers and employees. The role of the Board of Directors is to monitor whether these management structures and systems are being properly implemented, and whether management systems and the Company's philosophy, such as its Purpose and Principles, are compatible with changes in society and the business environment and, if not, to urge those with execution responsibilities to take immediate action.

Listening to and Embracing the Opinions of Stakeholders

While monitoring the execution function as a director, one of my roles as chairman of the Audit Committee is to act as a gatekeeper, so to speak, by refusing to overlook misconduct and other such issues. In order to fulfill this role, it is necessary for the Audit Committee members to proactively gather information. As such, we conduct audits in cooperation with the Internal Auditing Division and External Auditor, as well as by listening to internal feedback through channels such as the public interest whistleblowing system, and we are determined to never overlook any misdeeds or inappropriate behavior. The Internal Auditing Division not only conducts audits independently but also at the request of the CEO or the Audit Committee, so we constantly receive information from them. Also, if there is a matter regarding the Company that cannot be reported to the execution side and shared with those charged with execution responsibilities, I would like employees to feel safe to notify the Audit Committee members via the public interest whistleblowing system.

The word "audit" is derived from the Latin word *audire*, which means "to hear." We must listen and embrace the opinions of shareholders, customers, and other stakeholders. Being on the receiving end of a wide variety of views and opinions, Audit Committee members carry a lot of responsibility and have to face any issues that arise head on—something that I am prepared to do.

One of the important elements of internal control is communication. It is important to have an environment in which free and open discussion can take place. In such an environment, employees and those charged with execution responsibilities will be able to work more freely than ever before, not by simply following instructions from their superiors, but by engaging in discussion until they are satisfied with the

outcome, and then taking action based on the insights gained through said discussions. I believe that by enabling employees and officers to speak out more freely, we will be able to further enhance discussions on how to make the current situation even better.

Although I have only been with NEC for a short time, my interactions with everyone at the Company have given me a strong sense of a corporate culture that encourages people to express their opinions on any topic. In addition, I believe that NEC is actively promoting diversity and humbly listens to and accepts different opinions and varied ideas—an approach that has spurred further innovation.

Meeting Expectations for Change

NEC has undergone a major transformation of its organizational and corporate governance structure. As well as being one of fewer than 100 companies in Japan to transition to a Company with a Nominating Committee, etc., NEC is taking on major challenges, such as increasing the number of independent directors to comprise a majority of the Board of Directors. I feel that stakeholders are also expecting change from NEC. We, the outside directors, have a responsibility to respond to those expectations with results. The best way to show results is through tangible evidence, namely, business performance. But it is also important that this transformation in corporate governance leads to even greater trust from stakeholders and increases the Company's value in the capital markets. I will strive to fulfill my responsibilities as an outside director by closely monitoring whether NEC is making changes that will lead to the enhancement of corporate value. I hope that NEC's employees will not think of the corporate governance reforms as someone else's business. Rather, I hope that they will monitor and share their views on whether we, the outside directors, are fulfilling our responsibilities.



I will encourage the execution side of the Board to take appropriate risks and forge ahead at full speed.

Yoshihito Yamada

Member of the Board
(Member of the Compensation Committee)

Delaying Decisions—The Biggest Risk

NEC's transition to a Company with a Nominating Committee, etc., has resulted in a corporate governance system that delegates authority to officers with execution responsibility. For example, these officers can make decisions on investments such as mergers and acquisitions of up to ¥100 billion, significantly raising their level of responsibility and authority. As a result, a mechanism has been established for those charged with executive responsibilities to make prompt decisions. However, such a mechanism is meaningless if it is not accompanied by action.

Year by year, corporate management is becoming increasingly difficult due to international affairs and the economic climate, among other matters. Since we cannot predict what the future holds, we have no choice but to quickly and flexibly adapt to changes, respond to new situations that emerge, and make the right decisions at the right time. While it would not be fatal to postpone some decisions if the changes faced were not so extreme, delaying a decision in the current climate is the worst decision to make.

I was president of OMRON Corporation for 12 years, so I know that making decisions can be intimidating. But decisions must be made, no matter how difficult. In such difficult times, a company's philosophy serves as the basis of management's decisions. And the key is to never delay such decisions, and to bear in mind that the biggest risk is to not make a decision. For example, those responsible for execution are expected to be willing to overturn a decision made the day before if they realize that it was a mistake.

Asking Fundamental Questions to Catalyze Awareness on the Execution Side of the Board

I don't consider execution to function as an accelerator and oversight a brake. I would like the officers with execution responsibility to accelerate as fast as they can, and I believe that oversight creates the mechanisms to enable these officers to forge ahead at full speed. In such cases, it is the responsibility of these officers to take risks and drive businesses forward. The role of the Board of Directors is to take a bird's-eye view and provide supervision as to whether the risks are taken in a judicious manner or if they are taken recklessly. Conversely, it is also the role of the Board of Directors to urge the president to take action if the speed of execution is insufficient for any reason.

Through my many years of experience as an executive officer, I am very familiar with the struggle, the joy, and the real thrill of being involved in a company's business execution. As president of OMRON Corporation, I experienced the clarity and deep insight that can be gained by sincerely answering challenging and fundamental questions from outside directors.

I hope to broaden the horizons of those with execution responsibility by asking fundamental questions from my perspective as an independent outside director.

The Value That Only NEC Can Provide

In today's VUCA era, there are many risks associated with running a business. Risks must be taken, however, to get returns. It is important that companies create value by taking the right risks in areas in which they excel and that this process is sufficiently expedited. Of course, losing is out of the question, so we must think carefully about the areas in which NEC excels, NEC's unique strengths, and the value that only NEC can provide, in order to win the battle.

I believe that NEC's direction of supporting social infrastructure with the power of technology and IT solutions is the right way forward. These are areas in which NEC excels, and areas in which I believe NEC simply must operate. After overcoming a period of hardship, NEC is moving forward under a new strategy and vision. I have accepted the position of outside director in the hope that I can be of some assistance in these efforts. This is my first time accepting the role of outside director. Whether or not I can sufficiently fulfill this role will be a major challenge for me. I will strive to contribute to the enhancement of NEC's corporate value by asking fundamental questions.