

Corporate Governance

Basic Policies on Corporate Governance and Measures Taken to Date

Basic Policies on Corporate Governance

1. Assurance of transparent and sound management
2. Realization of prompt decision-making and business execution
3. Clarification of accountability
4. Timely, appropriate, and fair disclosure of information

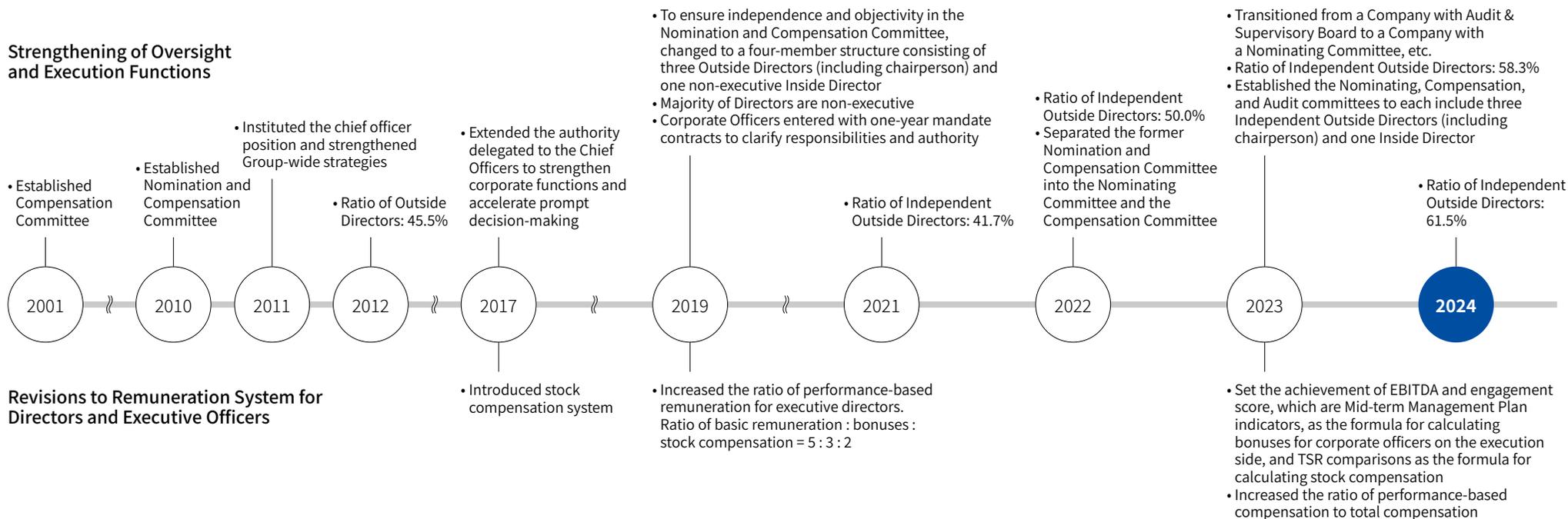
In June 2023, the Company transitioned from a Company with Audit & Supervisory Board to a Company with a Nominating Committee, etc. Taking the opportunity of this transition to clearly separate the oversight function from execution by management, the Company has strengthened the oversight function of the Board of Directors by having Independent Outside Directors make up its majority. By delegating substantial authority from the Board of Directors to Executive Officers with respect to business execution, the Company accelerates timely decision-making and

implementation. At the same time, the Company is strengthening corporate governance on the execution side, including by reinforcing the Company-wide risk management system, improving the quality of decision-making on the execution side, and enhancing its internal audit function.

With the aim of accelerating the reform of the Board of Directors, the Company increased the number of Independent Directors by one in June 2024, bringing the total number of Directors to 13, including eight Independent Directors.

Main Initiatives for Strengthening Corporate Governance

Strengthening of Oversight and Execution Functions



Revisions to Remuneration System for Directors and Executive Officers

Increased the ratio of performance-based remuneration for executive directors. Ratio of basic remuneration : bonuses : stock compensation = 5 : 3 : 2

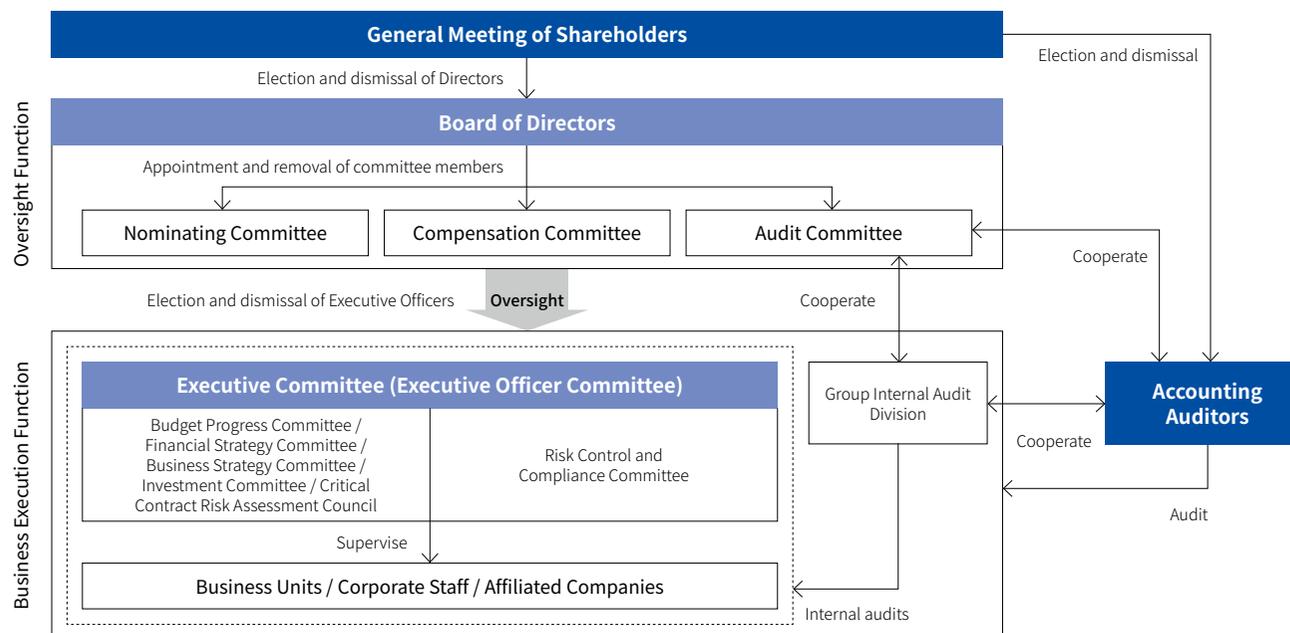
Corporate Governance

Overview of Corporate Governance System

The Board of Directors is responsible for overseeing the execution of duties by Directors and Executive Officers as well as guiding the direction of management through deliberation of important matters related to the Company’s basic management policy. From the perspective of ensuring independence, the majority of the Board of Directors comprises Independent Outside Directors, and the Nominating, Compensation, and Audit committees are each chaired by an Independent Outside Director. The primary role of the Chairman of the Board, along with chairing Board meetings, is to oversee the management of the Company. The Chairman does not serve concurrently as an Executive Officer and is not involved in the day-to-day execution of the Company’s business operations.

Executive Officers are responsible for the execution of the Company’s business operations as delegated by the Board of Directors. By delegating substantial authority to Executive Officers, the Company is working to accelerate business execution and business execution-related decision-making. In line with this, the Company is working to strengthen corporate governance on the execution side through such measures as reinforcing the Company-wide risk management system centered on the Chief Risk Officer (CRO), improving the quality of decision-making by reorganizing the executive meeting bodies centered on the Executive Committee, and enhancing the internal audit function led by the Chief Audit Officer (CAO).

🌐 For information on the Company’s corporate governance system, initiatives, and achievements, please visit the website below.
https://www.nec.com/en/global/about/pdf/nec_governance.pdf



Corporate Governance

Oversight Function

Board of Directors

The Board of Directors is responsible for overseeing the execution of duties by Directors and Executive Officers as well as guiding the direction of management through deliberation of important matters related to the Company’s basic management policy.

Important Matters Related to the Company’s Basic Management Policy

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. Medium- to long-term strategy / mid-term management plan policy formulation 2. Governance structure / decision-making process policy formulation 3. Capital policy and balance sheet policy formulation | <ol style="list-style-type: none"> 4. Business portfolio policy formulation 5. Large-scale M&A and large-scale investments 6. Other measures to enhance corporate value originating from the NEC Way |
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Main Agenda Items and Discussion Details in Fiscal 2024

12 meetings held with an attendance rate of 100%

With the exception of special circumstances, each Director aims to have at least 75% attendance at meetings of the Board of Directors in a single fiscal year.

Matters Related to Oversight of the Execution of Duties

- Progress of Mid-term Management Plan 2025 and budget
- Policy for strengthening risk management
- Internal audit plan and audit results
- Status of development and operation of internal control system
- Status of activities of the Nominating Committee, the Compensation Committee, and the Audit Committee

Important Matters Related to the Company’s Basic Management Policy

- Group management and business portfolio (optimization of Group management functions with the aim of maximizing the performance of the entire NEC Group, initiatives for low-profit businesses, policies for growth investment, etc.)
- Capital allocation (the Company’s overall capital allocation policy, shareholder return measures, approach to growth investment, etc.)
- Human capital management (status of initiatives to improve employee engagement, progress in human resource diversity indicators, etc.)
- Sustainability (status of initiatives to the materiality, direction of the sustainability management framework, etc.)
- Corporate governance (corporate governance reform policy and progress, including evaluation of effectiveness of the Board of Directors)

Off-site Meetings for Improving the Effectiveness of the Board of Directors

In addition to overseeing the execution of duties, the Board of Directors is also responsible for guiding the direction of management. The transition to a Company with a Nominating Committee, etc., has led to more in-depth discussions of management agenda items aimed at enhancing corporate value over the long term.

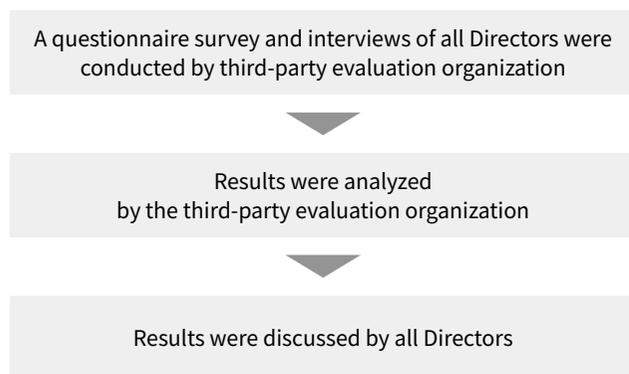
The Company has also been utilizing off-site meetings as a forum for intensive discussions separate from Board meetings. At the off-site meeting in fiscal 2024, the first year following the transition to a Company with a Nominating Committee, etc., all of the Directors engaged in a full-day discussion on medium- to long-term strategies and the strengthening of corporate governance, with a shared understanding of the execution side’s thinking on the medium- to long-term management plan. The wide-ranging and candid discussions at off-site meetings lead to deeper discussions of each agenda item at subsequent Board of Directors and to improvements in its effectiveness.

Corporate Governance

Evaluation of the Effectiveness of the Board of Directors

The Company conducts an evaluation and verification of the effectiveness of the Board of Directors every fiscal year, in order to improve the effectiveness of the Board of Directors.

Evaluation Process



Summary of Fiscal 2024 Evaluation Results

Significant improvements were recognized in the three priority items addressed in fiscal 2024: Enhancement of deliberations and discussions, strengthening of oversight function, and strengthening of communication. There has been a shift from a resolution-centric approach to an agenda that focuses on important management matters to enhance corporate value, the monitoring process has been redeveloped in light of the significant delegation of authority to the execution side, and opportunities for communication among Directors and between Directors and Executive Officers has been enhanced, as well as the content of such communication. However, it was confirmed that, in order to further improve the effectiveness of the Board of Directors and committees, it is necessary to upgrade the operation of the Board of Directors, clarify committee functions, and strengthen the support system for Directors by the Secretariat.

Policy for Future Initiatives

Based on the results of the fiscal 2024 evaluation, the Company will promote the following initiatives in fiscal 2025.

- 1. Upgrade of Board of Directors Operations**
Agenda setting focusing on important matters as well as review of materials and advance explanations to enhance discussions in each agenda item, etc.
- 2. Clarification of committee functions**
Clarification of the roles and functions of each committee, as well as items and processes to be deliberated, etc.
- 3. Strengthening of the support system for Directors by the Secretariat**
Strengthening of the secretariat system, streamlining of operations across the Board of Directors and committees, enhancement of the onboarding program at the time of appointment, etc.

Nominating Committee

Three Independent Directors
(including the committee chairperson)
One Inside Director

The Nominating Committee deliberates, from the perspective of objectivity, fairness, and transparency, on matters concerning nomination of the Company's Officers and the succession plan for the CEO including management personnel development, as well as on the contents of proposals to be submitted to the General Meeting of Shareholders concerning the election or dismissal of Directors.

Fiscal 2024 Activities

Five meetings held with an attendance rate of 100%*

The Nominating Committee mainly deliberated the composition of the Board of Directors to ensure the functionality of the transformation of the Board of Directors' role following the transition to a Company with a Nominating Committee, etc., the selection of candidates for Outside Directors, and the administration, etc., of the CEO's succession plan (management personnel development and CEO selection process).

Compensation Committee

Three Independent Directors
(including committee chairperson)
One Inside Director

The Compensation Committee deliberates, from the perspective of objectivity, fairness, and transparency, on matters concerning the remuneration of the Company's Directors and Executive Officers, including the formulation of policies on remuneration, etc., for Directors and Executive Officers and the determination of the details of remuneration, etc., for each individual Director and Executive Officer.

Fiscal 2024 Activities

Four meetings held with an attendance rate of 100%*

The Compensation Committee mainly deliberated on the establishment of the remuneration system for Directors and Executive Officers, determination of the amount of remuneration for each individual, the additional trust for stock compensation, and monitoring the operation of the remuneration system (analysis of regular benchmark results and responses to problematic items).

Audit Committee

Five Independent Directors
(including committee chairperson)
One Inside Director

The Audit Committee audits the execution of duties by Executive Officers and Directors. It periodically reports the audit plan and audit results to the Board of Directors and makes recommendations based on the audit results to the President.

Fiscal 2024 Activities

11 meetings held with an attendance rate of 100%*

In light of the fact that this is the first year following the transition to a Company with a Nominating Committee, etc., the Audit Committee proceeded with its audits in accordance with the basic policies of improving the quality of the Audit Committee audits, strengthening cooperation between the Audit Committee and the internal auditing division, and developing a framework for three-way audits (the Audit Committee, the internal auditing division, and the Accounting Auditors), in which the Audit Committee plays a leading role.

* After the transition to a Company with a Nominating Committee, etc.

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Remuneration for Directors and Executive Officers

In accordance with the basic policy on the remuneration of Directors and Executive Officers, the Company has established a remuneration system that will lead to the sustainable growth of corporate value and the realization of management that is focused on the creation of shareholder value. The system is applied to Directors and corporate officers on the execution side including Executive Officers.

The ratio of basic remuneration, bonuses, and stock compensation are determined in accordance with the responsibilities of each officer on the execution side, taking into account the compensation levels and ratios of competitors and other companies. The ratio is set at one-third of each for the President.

Remuneration for Directors is, in principle, basic remuneration. However, from the viewpoint of increasing shareholder value, inside Directors will be paid medium- to long-term incentive (stock compensation) up to a maximum of approximately 30% of their total remuneration. In order to promote management that creates shareholder value, inside Directors and Executive Officers are encouraged to own shares of the Company.

🌐 For more details on the remuneration for Directors for fiscal 2024, please visit the website below.
https://www.nec.com/en/global/about/pdf/nec_governance.pdf

Basic Policy on the Remuneration of Directors and Executive Officers

1. The remuneration system is highly objective and transparent, with content which leads to sustainable growth with the aim of maximizing corporate value, and which allows shareholders to confirm that management is linked to shareholder value.
2. The remuneration system is linked to the Mid-term Management Plan target indicators and provides incentives for Executive Officers to achieve the management targets indicated in the Mid-term Management Plan.
3. As a technology company with global operations, the remuneration system is competitive in the human resources market in terms of both remuneration structure and level.

Remuneration type	Fixed remuneration	Performance-based remuneration		
	Basic remuneration	Short-term incentive (bonuses)		Medium- to long-term incentive (stock compensation)
		Group-wide performance-based component	Department performance-based component	
Payment method	Monetary remuneration	Monetary remuneration		Non-monetary remuneration
Evaluation period	—	One year		Three years
Calculation method and indicators for determining remuneration amounts, etc.	Amount is determined based on market competitiveness in accordance with the role, authority, and responsibility of each job title For corporate officers on the execution side, basic remuneration increases or decreases based on performance, and 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.	Linked to the degree of achieving targets of key performance indicators set in the Mid-term Management Plan for each fiscal year Indicator responsible for the “Strategy” aspect of Mid-term Management Plan 2025 EBITDA (amount) 50% EBITDA (percentage to revenue) 30% ESG indicator responsible for the “Culture” aspect of Mid-term Management Plan 2025 Employee engagement score 20%	Linked to the degree of achieving targets of the departments for which each corporate officer on the execution side is responsible for each fiscal year Efforts to achieve adjusted operating profit, ROIC, and cash flow targets and the initiatives to achieve the Mid-term Management Plan	The number of shares to be granted for stock compensation is determined in a range from 0% to 150% of the number of shares granted by job title, in accordance with the results of a comparison of the Company’s total shareholder return (TSR) with indices such as the Tokyo Stock Price Index (TOPIX) and peer group companies in order to further clarify the linkage with sustainable growth of corporate value and increase in shareholder value.
		The amount is set between 0% and 200% of the standard amount for each job title, based on the achievement level of performance targets.		
		$\text{The amount of Bonus} = \left[\text{Group-wide standard amount} \times \text{Group-wide evaluation} \right] + \left[\text{Department standard amount} \times \text{Department evaluation} \right]$	$\text{Shares to be granted} = \left[\text{Number of shares granted by job title} \times \left(\text{Index comparison} + \text{Peer group comparison} \right) \right]$ <div style="display: flex; justify-content: space-around; font-size: small;"> 50% 50% </div>	

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Execution Function

The Company promotes accelerated decision-making and business execution by delegating substantial authority to Executive Officers. The Company has introduced Chief Officers to implement Group-wide strategies. Under the direction of the President, each Chief Officer is working to establish and operate the optimal management infrastructure for the areas for which they are responsible.

The Company has established the Executive Committee, which is the highest-level deliberative body on the execution

side, as well as other committees which work in tandem with the Executive Committee in order to ensure high-quality decision-making in terms of both opportunities and risks. The Executive Committee, consisting of Executive Officers, including Presidents of each business unit and Chief Officers, deliberates on important matters related to the management of NEC, such as management policies and strategies, and examines important business execution matters. In addition, the Budget Progress Committee, Financial Strategy Committee,

Business Strategy Committee, Investment Committee, and Critical Contract Risk Assessment Council conduct deliberations in advance on their respective responsibilities in accordance with their roles and authorities and work in tandem with the Executive Committee in order to ensure that appropriate decisions can be made.

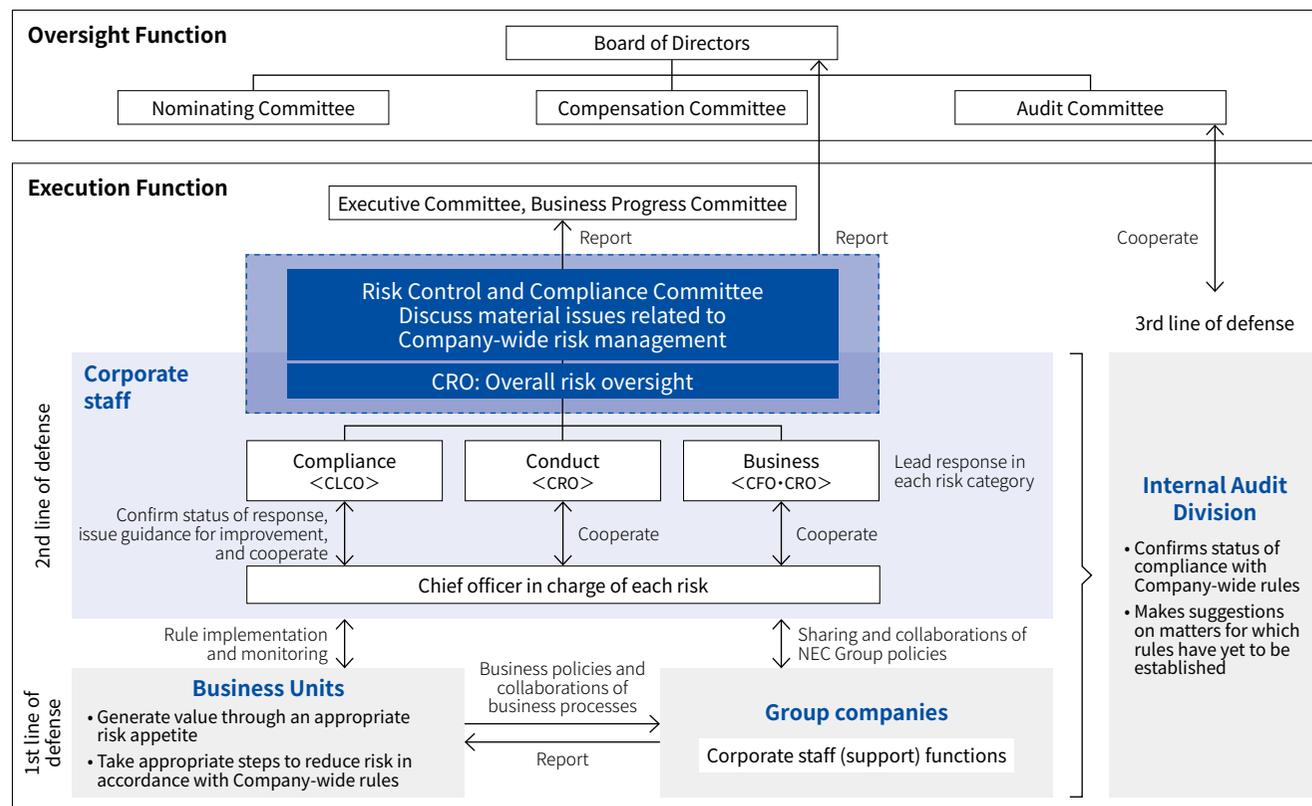
Risk Management

Overview of Risk Management System

NEC has a Company-wide cross-sectional risk management system, centered on the Risk Control and Compliance Committee and CRO, to accurately comprehend and to respond appropriately to both internal and external risks related to NEC's businesses. The system is outlined in the chart on the right.

The Company, in the Risk Control and Compliance Committee, discusses a risk management policy, selection of and response policies to "Priority Risks" that requires countermeasures across NEC, as well as measures to address risks that require Company-wide management due to fluctuations in risk environment during the fiscal year, and other important matters related to Company-wide risk management, then reports them to the Business Strategy Committee and the Board of Directors on a regular basis.

The Company has the CRO to monitor and address Company-wide risks centrally and cross-functionally and manage possibilities to make losses. The CRO takes a lead the Company-wide risk management by detecting and analyzing various / complicated risks in social and business environment changing day by day, and evaluating impacts, while prioritizing countermeasures and closely collaborating with other chief officers managing each risk.

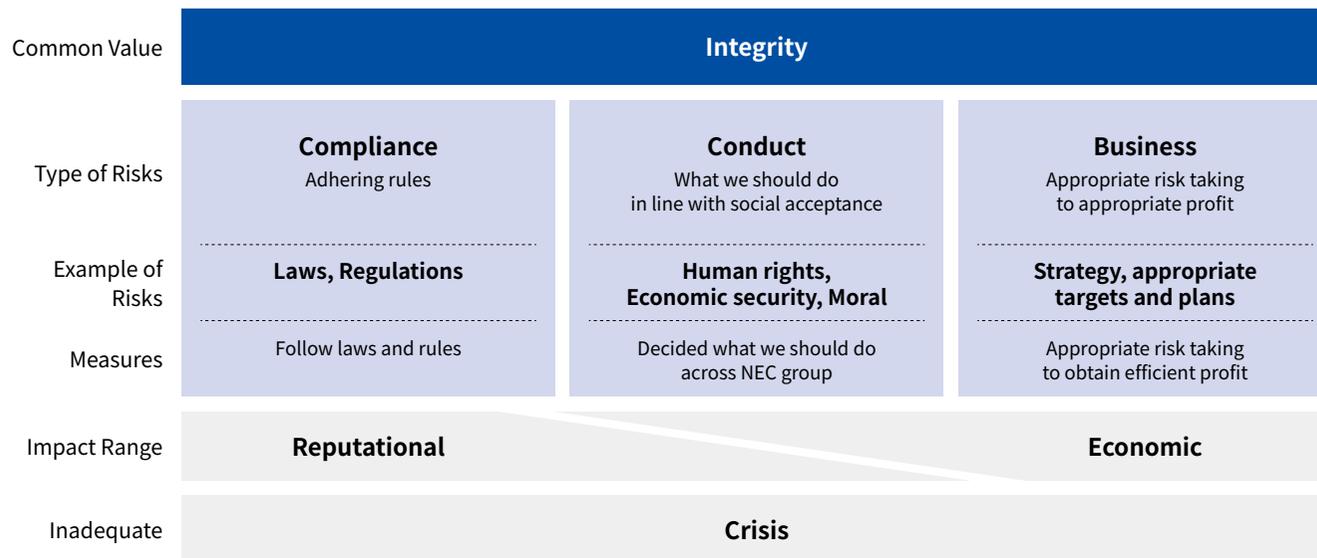


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Risk Management Policies

In order to pursue returns through appropriate risk management, NEC has categorized the risks associated with its businesses into the Risk Total Picture as shown in the chart on the right, and has decided responsible divisions and response policies for each risk in line with this picture. NEC recognizes integrity as the foundation of all risk management activities and classifies risks into three categories according to their nature.

Should a risk materialize, especially in the event of a crisis that threatens the survival of the Company, the Company has developed a response flow centered on the divisions responsible for each risk.



Based on a comprehensive list of risks that NEC should be aware of, the CRO engages in dialogue with the other chief officers in charge of managing each risk and conducts risk assessment. The CRO creates a risk map that visualizes risk priorities under common criteria such as impact and urgency based on changes in the external and internal environment and the status of each risk countermeasure. The CRO updates the risk map through the review of the Risk Control and Compliance Committee on a quarterly basis, and regularly report to the Business Strategy Committee and the Board of Directors.

