

# NEC Corporate Governance Guidelines

(English Translation for Reference Purposes Only)

## Chapter 1 (General Provisions)

### Article 1 (Purpose of these Guidelines)

These guidelines set out the basic framework and policy of the corporate governance system of NEC Corporation (the “**Company**”) to help strengthen relationship with its stakeholders, thereby contributing to its sustainable growth and the increase of its corporate value. The Company will continuously examine the effectiveness of these guidelines and make amendments as necessary in order to realize more effective corporate governance.

### Article 2 (Corporate Philosophy and Business Strategies)

Based on the NEC Group Corporate Philosophy, “NEC strives through ‘C&C’ to help advance societies worldwide toward deepened mutual understanding and the fulfillment of human potential,” the Company aims to be a global company by contributing to the development of an information society through “C&C,” the integration of Computers (Information Technology) and Communications (Telecommunication Technology).

The NEC Group aims to expand business and improve profitability by transitioning to a "social value innovator" and establishing a globally competitive growth base based on its middle and long term management strategy, such as its "Mid-term Management Plan."

### Article 3 (Basic Views on the 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, the Company is committed to strengthening its corporate governance practices through:

- (i) Assurance of transparent and sound management;
- (ii) Realization of prompt decision making and business execution;
- (iii) Clarification of accountability; and
- (iv) Timely, appropriate and fair disclosure of information.

## Chapter 2 Corporate Governance System

### Article 4 (Overview)

An overview of the Company's corporate governance system is as follows:

- (i) The Company has adopted the company with the Audit & Supervisory Board (KANSAYAKU-KAI) (the "A&SB").
- (ii) The Company has introduced a corporate officer system to expedite business execution based on prompt decision-making and separate management supervision from business execution. This has involved delegating substantial authority for business execution from the Board of Directors to corporate officers.
- (iii) The Company has established the Nomination and Compensation Committee to enhance transparency of nomination of Directors and Audit & Supervisory Board Members (KANSAYAKU) (the "A&SBMs") and remuneration of Directors and corporate officers.

## **Article 5 (Board of Directors)**

### **(1) Composition and Role of Board of Directors**

The Company's Board of Directors consists of 11 members, 5 of whom are Outside Directors. To fulfill its responsibilities with various viewpoints based on broad knowledge, the Board of Directors is comprised with consideration given to diversity in such factors as career background, specialist field and gender. Outside Director's independency is expected to be ensured through the Board of Directors' composition as a whole. The Company judges their independency based on the standards defined by Tokyo Stock Exchange and the "Independence Criteria for Outside Directors and Outside A&SBMs" established by the Company (see the attachment for the criteria). The Board of Directors is responsible for making important decisions for the Company's business execution, including decision on its basic management policies, as well as supervising overall business execution.

### **(2) Term and Appointment of Directors etc.**

The term of office for Directors is set at one year in order to clarify their management responsibilities for management every fiscal year. The candidates for Directors are determined with consideration given to the followings, in addition to satisfaction of the requirement of a Director as specified by laws and regulations.

-they have superior character, discernment and high ethical standards

-they sympathize with the NEC Group Corporate Philosophy and act with strong will to realize the Philosophy

In addition to the above, in determining the candidates for Outside Directors the Company considers whether they have their experience of corporate management and/or deep insight in their areas of expertise.

The Board of Directors appoints the senior management officer who has superior character and discernment and fulfills its job responsibilities. The senior management officer will be dismissed by a decision of the Board of Directors if it is found to be in violation of laws or in lack of qualifications to be the officer or not to perform its duties appropriately. The Board of Directors

determines appointment and dismissal of the Chairman of the Board and the President taking into consideration the results of the deliberations by the Nomination and Compensation Committee.

### **(3) Operation of Board of Directors**

The Board of Directors holds regular meetings once a month, in principle, and extraordinary meetings as necessary. The Company coordinates with its Directors and A&SBMs and sets the schedule of the regular Board meetings well in advance. In addition, the Company operates the meetings of the Board of Directors in accordance with the annual plan for the anticipated agenda items, including reports by the Chief Officers and corporate officers in charge of the business units of the Company.

### **(4) Active Board Deliberations**

To make the Board deliberations more active, the Company takes the following measures:

- (i) Materials for Board meetings are distributed to the Directors and A&SBMs three business days prior to the meetings as a general rule;
- (ii) Briefings are provided to Outside Directors and Outside A&SBMs on particularly important agenda to be discussed at the meetings of the Board of Directors;
- (iii) Sufficient time for deliberations on each agenda items to be discussed by the Board of Directors is secured;
- (iv) Management discussion meetings consisting mainly of Outside Directors are held so that Outside Directors can exchange information and develop a shared awareness among themselves; and
- (v) Sessions for an exchange of opinions of Outside Directors and A&SBMs are arranged to strengthen cooperation among them.

### **(5) Board Evaluation**

The Company conducts an analysis and evaluation on the effectiveness of the Board of Directors once a year to improve the function of the Board of Directors. The Company discloses a summary of the results of such analysis and evaluation.

## **Article 6 (Nomination and Compensation Committee)**

### **(1) Composition and Role of Nomination and Compensation Committee**

The Nomination and Compensation Committee consists of 5 members, including 3 Outside Directors. The chairperson is appointed among such Outside Directors. This Committee deliberates on (i) nomination for Directors, Representative Directors and 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 from an objective perspective based on the results of the evaluation of the company's performance. The Committee reports the results of its deliberations to the Board of Directors.

### **(2) Oversight of Succession Planning for the President**

The Nomination and Compensation Committee deliberates on nomination for the chairman of the Board and the President and engages in the appropriate oversight of succession planning therefor.

### **(3) Basic Policy on Remuneration for Directors**

For the purpose of continuously improving corporate value and strengthening its competitiveness, the Company's basic policy on the remuneration for Directors and A&SBMs is to set the level and system appropriate for a global company which enables the Company to secure excellent human resources and serves as an incentive to improve performance of the NEC Group.

## **Article 7 (Main Committees in Business Execution)**

### **(1) Executive Committee**

The Executive Committee, which comprises around 20 corporate officers, discusses important NEC Group management issues such as policies and strategies. This Committee extensively discusses matters of particular importance prior to submitting them to the meetings of the Board of Directors for approval. In doing so, the Committee enhances the deliberations and ensures appropriate decision making.

### **(2) Business Progress Committee**

The Business Progress Committee comprises corporate officers, general managers of business units and other members. This Committee reports and deliberate 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 execution efficiency.

## **Article 8 (Audit & Supervisory Board (KANSAYAKU-KAI))**

### **(1) Composition and Role of the A&SB**

The Company has 5 A&SBMs, 3 of whom are Outside A&SBMs. The Company appoints as A&SBMs the personnel who have the knowledge and experience necessary for audits, such as considerable expertise in finance and accounting or experience as an attorney at law, and strengthen the auditing functions of the A&SBMs. Independency of each Outside A&SBM is ensured at individual level. The Company judges their independency based on the standards defined by Tokyo Stock Exchange and the "Independence Criteria for Outside Directors and Outside A&SBMs" established by the Company (see the attachment for the criteria).

The A&SB conducts audits of legality, as well as certain level of audits of validity (including internal control auditing) and provides advice to the President based on the results of the auditing. Moreover, the A&SB reports to the Board of Directors on its auditing plan and the results of the audit on a regular basis.

### **(2) Term and Appointment of A&SBMs**

The term of the A&SBMs is four years. The candidates for the A&SBMs are determined with consideration given to the followings, in addition to satisfaction of the requirement of A&SBM as

specified by laws and regulations.

-they have superior character, discernment and high ethical standards

-they sympathize with the NEC Group Corporate Philosophy and act with strong will to realize the Philosophy

In addition to the above, in determining the candidates for A&SBMs the Company considers whether they have deep insight in their areas of expertise.

### **(3) Operation of A&SB**

The A&SB holds regular meetings 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&SBMs. The Company coordinates with A&SBMs and determines the schedule for the regular meetings of the A&SB well in advance.

### **(4) Relationship with Accounting Auditors and Internal Auditing Division**

The A&SBMs receive reports and exchanges opinions with the internal auditing division on audit results regularly or as necessary.

In addition, the A&SBMs are also stepping up cooperation with the accounting auditors, such as by receiving briefings on financial audits covering status reports on their audits and audit plans, as well as on audits of the internal control systems based on the Financial Instruments and Exchange Act, and exchanging opinions on their audits.

Moreover, the Company arranges regular meetings among the accounting auditors, A&SBMs and the internal auditing division at least once in quarter.

## **Article 9 (Compliance Hotline)**

The Company has established a “Compliance Hotline”, a compliance hotline for employees and contractors to report issues concerning possible breaches of corporate ethics, compliance and other similar matters and stipulated rules to secure the confidentiality of the information provider and prohibit any disadvantageous treatment. The Compliance Hotline is operated by the internal auditing division. The internal auditing division reports regularly to the Board of Directors and A&SBMs on the status of establishing the framework and operation of the Company’s Compliance Hotline, as well as the status of operation of compliance hotlines of the Company’s subsidiaries.

## **Article 10 (Supporting System for Directors and/or A&SBMs)**

### **(1) Supporting System for Directors and/or A&SBMs**

The Company has established a supporting system for Directors and A&SBMs to provide necessary information to them in a timely manner. In particular, the Secretariat Office within the General Affairs Division and the Directors’ Office within the Legal Division are in charge of liaison and coordination with Outside Directors, while the A&SBMs’ Office is in charge of liaison and coordination with Outside A&SBMs.

### **(2) Training**

The Company regularly provides training for Directors and A&SBMs so that they can acquire necessary expertise and information regarding the roles and responsibilities of Directors and A&SBMs (including legal liabilities), as well as support for Outside Directors and Outside A&SBMs to deepen their understanding on the NEC Group's business by organizing management discussion meetings, budget briefings and tours of business sites and exhibitions of the Company and its subsidiaries.

## **Chapter 3 Relationship with Stakeholders**

### **Article 11 (Relationship with Shareholders)**

#### **(1) General Shareholder Meeting**

The Company takes appropriate measures to ensure the exercise of shareholder rights at the general shareholder meetings as follows:

- (i) The Company determines the date of the general shareholder meeting avoiding the peak day.
- (ii) The Company strives to send out the notice of the general shareholder meetings approximately three weeks prior to the date of the meeting and discloses on its website the information included in the notice in advance of sending the notice.
- (iii) The Company provides electronic voting platform and English translation of the notice of the general shareholder meetings, taking into consideration the number of institutional and non-Japanese shareholders.
- (iv) The Company provides or discloses information to shareholders as necessary to facilitate their appropriate decision-making at the general shareholder meetings through disclosure under timely disclosure rules, filing of statutory disclosure documents, taking questions at the general shareholder meetings and its IR activities.
- (v) When a considerable number of votes have been cast against a proposal by the Company at the general shareholder meetings, the Company analyzes the reasons and causes for the dissenting votes and takes necessary steps based on the result of the analysis.

#### **(2) Policy for Constructive Dialogue with Shareholders**

Dialogues with shareholders (interviews) and identification of the Company's shareholder ownership structure are primarily conducted by the Investor Relations Office, the department within the Corporate Strategy Division. The President and the CFO also meet with key shareholders. Before members of senior management meet with the shareholders, they coordinate with the relevant divisions in accordance with the Company's "Disclosure Policy" (see Chapter 4) to prevent the disclosure of what could be considered material information, including insider information.

In addition to individual meetings, the President and the CFO hold management briefings and quarterly financial-result briefings for the media, securities analysts, and institutional investors

(including shareholders). Also, executives responsible for individual businesses have briefings on their businesses, including tours of facilities and briefings on research progress. Shareholders' opinions and the ideas gained through these IR activities are regularly provided as feedback to senior management on a regular basis and reported to the Board of Directors.

### **(3) Capital Policy and Fundamental Policy on Shareholder Return**

The Company's commitment to shareholder returns includes comprehensive consideration for the profit status of each period in addition to future capital requirements and the execution of business operations with an emphasis on capital efficiency, while regarding investment in growth areas and the enhancement of its financial base as being tied to the creation of long-term corporate value.

### **(4) Policy regarding Cross-Shareholdings**

The Company may hold shares of other companies if the Company determines that it will contribute to the increase of the mid- to long-term corporate value of the NEC Group after comprehensive consideration of its management strategy, the relationships with business partners and other circumstances.

The Board of the Directors of the Company examines the rationale of each individual cross-shareholding from a comprehensive perspective, taking into consideration the returns from such cross-shareholdings based on the Company's cost of capital. The Company intends to reduce the cross-shareholdings by selling such individual cross-shareholding which the rationality to hold is not confirmed as the result of the examination.

When exercising voting rights, the Company examines various factors, such as whether it will contribute to enhancement of the mid- to long-term corporate value of issuers, as well as whether it will be in the interest of the NEC Group.

### **(5) Related Party Transactions**

In order to protect the interests of shareholders, the Company stipulates in the Rules of the Board of Directors that approval of the Board of Directors is required when a member of the Board of Directors engages in transactions that may have conflict of interests with the Company. The Board of Directors monitors such transactions in accordance with laws and regulations.

## **Article 12 (Relationship with other stakeholders)**

### **(1) Code of Conduct**

The Company has adopted and implements the "NEC Group Code of Conduct" as the code of conduct shared by the NEC Group. In addition, the Company has established the internal rules embodying the NEC Group Code of Conduct and ensures compliance of those rules by its employees, as well as monitoring the status of operation of those rules on an annual basis as part of its internal control. The Company's subsidiaries have adopted and implement the "NEC Group Code of Conducts" as well.

### **(2) Sustainability**

The NEC Group recognizes that issues related to sustainability, including social and environmental matters, are important factors which can lead to creation of opportunities as well as restrictions for the sustainable development and improvement of the corporate value of the NEC Group. The Board of Directors shares information on these issues faced by the NEC Group and addresses them appropriately.

### **(3) Diversity**

The NEC Group is fostering an environment that promotes the success of a diverse array of human resources in various divisions and organizations who can incorporate multiple perspectives and ideas. The NEC Group sees this as an important management strategy, as well as a crucial approach to meeting the demands of society and creating a foundation for growth that will enable NEC Group to compete globally, as set forth in the Mid-term Management Plan. As part of measures to achieve this, the NEC Group is working to promote global recruitment of human resources, women's success in the workplace and employment of people with disabilities.

### **(3) Corporate Pension Funds**

The Company manages corporate pension funds through NEC Corporate Pension Fund ("Fund") in which the Company's finance division and accounting division properly deploy its personnel. The Committee of Representatives of the Fund decides all important matters on the Fund. The Company appropriately manages conflicts of interest which could arise between the beneficiary and the Company through the Committee of Representatives which consists of equal number of members elected by the Company and elected from among the pension subscribers.

## **Chapter 4 Disclosure**

### **Article 13 (Basic Policy)**

The Company recognizes the importance of providing timely, proper and fair disclosure to obtain a fair evaluation of its corporate value from the capital markets and stipulates "Disclosure Policy." The Company manages and discloses its information, such as information regarding business management and operation, in accordance with applicable laws and regulations, including the listing regulations of Tokyo Stock Exchange (the "**Listing Regulations**") and fair disclosure rules under Financial Instruments and Exchange Act. The Company ensures the accuracy of the information to be disclosed and make sure that the disclosures are made in a timely, appropriate and fair manner.

### **Article 14 (Information Disclosure Structure)**

In order to ensure timely, appropriate and fair disclosure, the Company has established a communication structure for reporting material information among relevant divisions and subsidiaries.

The Company makes efforts to enhance disclosure of corporate information by establishing the

Company's corporate web page targeted for individual investors, holding briefings for individual investors several times a year at branches of securities companies, posting specific and clear corporate information on the Company's website (such as presentation materials used at briefings both in Japanese and English and video streaming) and strengthening global IR activities (including visits of major overseas investors).

## **Chapter 5 (Miscellaneous)**

### **Article 15 (Amendments)**

Amendments or abolishment of these guidelines (except for minor revisions of these guidelines) will require a resolution of the Board of Directors.

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### Independence Criteria for Outside Directors and Outside A&SBMs

The Company declares that an Outside Director and an Outside A&SBM who is not fallen under any of the following description is independent of the Company.

- (1) Presently or at any time within the past three years, any of his or her relative within the second degree of relationship holds or held a position equal to or higher than a general manager at the Company or its subsidiary
- (2) Presently or at any time within the past three years, the person is or was executing person of a major business partner\*1, or any of his or her relative within the second degree of relationship is or was an executing person at a major business partner\*1 (if such a person holds or held a position equal to or higher than a position equivalent of a general manager at the Company)
- (3) In any one of the past three fiscal years, the person or any of his or her relative within the second degree of relationship has received financial compensation of JPY10 million or more (excluding remuneration for Directors or A&SBMs) from the Company
- (4) Presently or at any time within the past three years, the person or any of his or her relative within the second degree of relationship has belonged to Accounting Auditors of the Company
- (5) Presently or at any time within the past three years, the person or any of his or her relative within the second degree of relationship has been an Executing person of an organization that has received a significant amount of donation from the Company\*2

\*1 Major business partner:

- (1) A business partner with the total amount of transactions with the Company (consideration for offering products/services and procurements) exceeding 2% of sales of the Company or such business partner; or,
- (2) a business partner from which the Company's annual average outstanding borrowings exceeding 2% of total assets of the Company in any one of the past three fiscal years

\*2 Organization that has received a significant amount of donation from the Company:

An organization that has received from the Company a significant amount of donation exceeding the greater of JPY 10 million, or 2% of the gross income of such organization, in any one of the past three fiscal years