

# CORPORATE GOVERNANCE

(As of July 1, 2011)

In recognition of the fact that reliable corporate governance is essential to the maximization of corporate value, NEC 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.

## CORPORATE GOVERNANCE STRUCTURE

NEC has adopted the corporate auditor system of corporate governance, as illustrated in the chart below.

NEC has introduced a corporate officer system to separate management supervision from business execution and implement business operations based on prompt decision-making. This has involved transferring substantial authority for business execution from the Board of Directors to corporate officers. The total number of directors was reduced from 15 to 13 at the Ordinary General Meeting of Shareholders held on June 22, 2011. NEC has also been strengthening the supervisory functions of the Board of Directors by ensuring that 5 of the 13 directors are outside directors who will have no conflicting interests with NEC's general shareholders. Furthermore, NEC has been working to improve transparency of personnel matters of directors and corporate auditors and remuneration of directors and corporate officers by making decisions on such matters based on the results of discussions by the Nomination and Compensation Committee. NEC has also put in place personnel and systems to reinforce the functions of the corporate auditor's audit, while encouraging closer cooperation among NEC's corporate auditors, internal auditing division and accounting auditors.

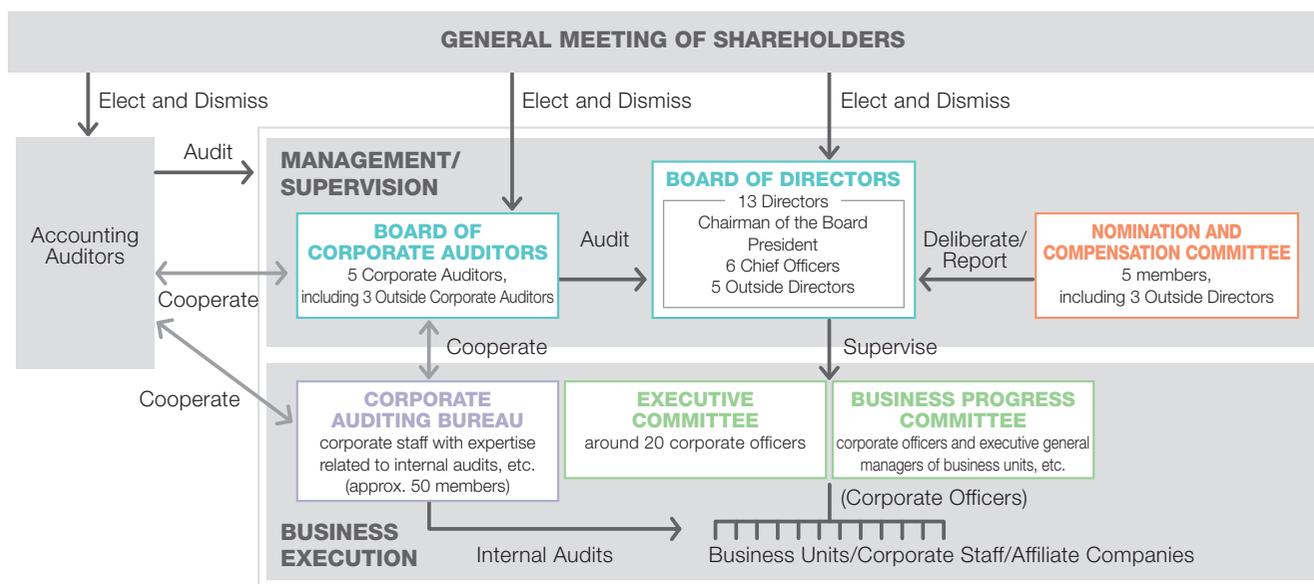
NEC has formulated a Company-wide strategy for realizing the NEC's Group Vision 2017. To this end, NEC appointed inside directors as chief officers in July 2011 to lead business unit operations and promote business development.

NEC believes that its corporate governance is functioning adequately under the current system described above. Nonetheless, NEC will make continuous improvements to this system in line with changes in the business environment in order to establish an optimal corporate governance system.

## BOARD OF DIRECTORS

NEC's Board of Directors consists of 13 members, 5 of whom are outside directors. The Board of Directors holds regular meetings once a month, in principle, 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. NEC reduced the size of its Board of Directors by 2 members from 15 members at the Ordinary General Meeting of Shareholders held on June 22, 2011. NEC will strive to ensure even sounder management through greater discussion at meetings of the Board of Directors as a result of this move.

## CORPORATE GOVERNANCE STRUCTURE



NEC appoints as outside directors the personnel who will have no conflicting interests with NEC's general shareholders and who have experience of corporate management and deep insight for the purpose of (i) strengthening the supervisory functions over business execution; (ii) obtaining a broad range of advice on corporate management; and (iii) enhancing accountability for management.

Aiming to ensure that these roles and functions expected of outside directors are properly fulfilled, NEC has been working to enhance deliberations by the Board of Directors through such means as briefing outside directors in advance on particularly important proposals to be put forward to the meetings of the Board of Directors.

NEC also provides support to outside directors in order to facilitate their understanding of the NEC Group, such as by organizing tours of business sites and exhibitions of NEC and its subsidiaries. Furthermore, since June 2004 the term of directors has been set at one year in order to clarify their responsibility for management every fiscal year.

#### EXECUTIVE COMMITTEE AND BUSINESS PROGRESS COMMITTEE

The Executive Committee, which comprises around 20 corporate officers, discusses important NEC Group management issues such as management 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.

Meanwhile, the Business Progress Committee comprises corporate officers, executive general managers of business units and other members. This 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 execution efficiency.

#### NOMINATION AND COMPENSATION COMMITTEE

NEC has established the Nomination and Compensation Committee to enhance transparency of personnel matters of directors and corporate auditors and remuneration of directors and corporate officers. The committee consists of five members, including three outside directors. This committee deliberates on (i) personnel matters for directors, representative directors and corporate auditors, the chairman of the Board, and the president and (ii) the remuneration system and level of compensation for directors, representative directors and corporate officers from an objective perspective. The committee reports the results of its deliberations to the Board of Directors.

#### BOARD OF CORPORATE AUDITORS (CORPORATE AUDITORS)

NEC has appointed corporate auditors and established the Board of Corporate Auditors pursuant to the Company Law of Japan. NEC has five corporate auditors, three of whom are outside corporate auditors. Furthermore, the Board of Corporate Auditors holds regular meetings once a month and extraordinary meetings as necessary, decides on audit policies, standards, and other matters, and receives status reports on audits and on other matters from each corporate auditor.

Furthermore, NEC appoints as corporate auditors 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 corporate auditors. The corporate auditors who have considerable expertise in finance and accounting are as follows:

Takao Ono	Experience as former General Manager of the Corporate Controller Division, the Corporate Finance and IR Division and the Internal Control Division, and Director in charge of accounting, corporate finance and internal control over financial reporting
Satoshi Itoh	Extensive auditing experience as a Certified Public Accountant for many years
Hideo Yamada	Experience in teaching and research in the fields of corporate finance and accounting at universities and other institutions as an expert in corporate management strategy

NEC appoints outside corporate auditors of independence who will have no conflicting interests with NEC's general shareholders, in order to ensure that audits are conducted from a neutral and objective perspective.

The full-time corporate auditors strive to establish a governance structure for the entire NEC Group by cooperating with full-time corporate auditors of subsidiaries.

The corporate auditors are taking steps to strengthen cooperation with the internal auditing division. These steps include receiving reports and exchanging opinions with the internal auditing division on audit results regularly or as necessary, as well as receiving reports from the same division on the status of the "NEC Helpline," a compliance hotline for employees and contractors to report issues concerning possible breaches of corporate ethics, compliance and other similar matters. In addition, the corporate auditors cooperate with the outside directors, mainly by exchanging opinions on audits. The corporate auditors 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 Law, and exchanging opinions on their audits.

NEC has established the Corporate Auditors Office with approximately 5 corporate staff members to assist with the corporate auditors' audit activities.

#### CORPORATE AUDITING BUREAU (INTERNAL AUDITING DIVISION)

NEC has established the Corporate Auditing Bureau as an internal auditing division reporting directly to the President of NEC. This Bureau consists of approximately 50 corporate staff members with expertise in internal auditing. The Corporate Auditing Bureau performs audits of the NEC Group in cooperation with the internal auditing sections of NEC subsidiaries to ensure legal, appropriate and efficient execution of business activities, and identifies issues and proposes improvements.

The Corporate Auditing Bureau is taking steps to strengthen cooperation with the accounting auditors by reporting on audit results and exchanging opinions with them regularly.

## ACCOUNTING AUDITORS

In fiscal 2011, the independent audit of NEC was performed by three certified public accountants of KPMG AZSA LLC: Hideki Amano, Yasushi Hamada and Masafumi Tanabu. The independent audit was assisted by 41 certified public accountants, 45 assistant accountants and 31 other individuals.

## RELATIONSHIPS WITH OUTSIDE DIRECTORS AND OUTSIDE CORPORATE AUDITORS

NEC conducts business transactions with Sumitomo Mitsui Banking Corporation ("SMBC"), for which the President and Chief Executive Officer is Takeshi Kunibe, who is an outside director of NEC. These transactions include sales of NEC's products and provision of services including, without limitation, system construction, operation and maintenance. In addition, NEC has borrowings from SMBC.

NEC entered into agreements with the outside directors and outside corporate auditors to limit their liabilities as stipulated in Paragraph 1, Article 423 of the Company Law to the higher of ¥20 million or the amount provided in the Company Law and the regulation for enforcement of the Company Law on condition that they perform their duties as directors or corporate auditors in good faith and without gross negligence.

## STIPULATIONS IN NEC'S ARTICLES OF INCORPORATION

NEC stipulates in its Articles of Incorporation that the number of directors shall be no more than 20, and that the quorum required for the approval of a resolution on the election of directors shall be one-third of all the voting rights of the shareholders entitled to exercise their voting rights. NEC also stipulates in its Articles of Incorporation that it may determine matters provided for in each item of Paragraph 1, Article 459 of the Company Law by a resolution of the Board of Directors unless otherwise provided by the relevant laws and regulations, in order to conduct the distribution of surplus and acquisition of NEC's shares and other matters expeditiously. Furthermore, NEC stipulates in its Articles of Incorporation that the quorum required for the approval of a resolution by the general meetings of shareholders, as stipulated in Paragraph 2, Article 309 of the Company Law, shall be one-third of all the voting rights of the shareholders entitled to exercise their voting rights. This is to ensure the smooth operation of the general meetings of shareholders.

## INTERNAL CONTROL SYSTEMS

NEC has formulated a "Basic Policy on Internal Control Systems" as a policy for development of systems necessary to ensure that the execution of duties by directors complies with laws and regulations and the articles of incorporation and other systems necessary to ensure the properness of operations.

NEC shall endeavor to establish and operate its internal control systems more effectively, through continuous evaluation of the implementation of the internal control systems under this policy as well as taking measures necessary for its improvement, and conducting consistent reviews of this basic policy in response to changes in the business environment.

NEC assessed the status of the implementation of its internal control systems for fiscal 2011 and confirmed that it has established and operated its internal control systems properly based on the Policy.

Below is an outline of systems based on the "Basic Policy on internal control systems":

- ① In order to ensure that the directors and employees perform their duties in compliance with laws, regulations, and NEC's articles of incorporation, the directors and corporate officers take the lead in practicing and striving to make known the "NEC Group Charter of Corporate Behavior" and the "NEC Group Code of Conduct," both of which were adopted to establish business ethics standards for the NEC Group and to ensure compliance with laws and regulations, the articles of incorporation and internal rules. NEC encourages the use of the NEC Helpline, a compliance hotline, and strives to identify breaches or facts that may constitute breaches as early as possible.
- ② NEC properly conducts the storage and management of information in accordance with applicable laws, regulations and internal rules.
- ③ NEC implements risk management systems efficiently and comprehensively under a consistent policy throughout the NEC Group in accordance with internal rules. Business divisions properly implement risk management systems related to their operations and corporate staff divisions support such business divisions' activities. NEC fully deliberates matters of importance from a risk management perspective such as its strategy to control important management risks. Of these, matters of particular importance are reported to the Board of Directors. The Corporate Auditing Bureau conducts audits of the NEC Group's risk management system and the implementation status of risk management in cooperation with internal auditing section of subsidiaries.
- ④ In order to ensure that the directors perform their duties efficiently, the Board of Directors delegates substantial authority to corporate officers and promotes more timely decision making concerning management of business operations and effective performance of duties. The corporate officers conduct business efficiently in accordance with medium-term corporate management goals and budgets determined by the Board of Directors.
- ⑤ In order to ensure that the NEC Group conducts operations appropriately, based on the "NEC Group Management Policy", NEC sends directors and corporate auditors to subsidiaries as well as shares information and conducts discussions on important matters concerning the management of business operations with subsidiaries. At the same time, NEC gives instructions and assistance to subsidiaries with respect to the establishment of systems for ensuring compliance with laws and regulations, and ensuring the properness of their business operations. The Corporate Auditing Bureau conducts audits of subsidiaries in cooperation with their internal auditing sections to ensure proper operations.
- ⑥ From the perspective of ensuring proper and efficient operations of the NEC Group, NEC also endeavors to improve and standardize business processes, and further strengthen internal control utilizing information systems.
- ⑦ Internal control over financial reporting of the NEC Group will be evaluated, maintained and improved in accordance with applicable laws and regulations.
- ⑧ NEC assigns full-time employees to assist the corporate auditors in performing their duties. Performance evaluations, personnel changes, disciplinary action and

- other similar measures pertaining to these employees are subject to the approval of the corporate auditors.
- ⑨ The directors and employees report on the status of the performance of their duties and other matters, as necessary.
- ⑩ In order to ensure that audits are performed effectively, the corporate auditors exchange information and consult with each other on the status of audits. Furthermore, the corporate auditors periodically receive reports on financial audits from the accounting auditors and exchange opinions with them.

The aforementioned Basic Policy is disclosed in full on NEC's website at the following URL:  
<http://www.nec.co.jp/profile/en/internalcontrol.html>

### INFORMATION DISCLOSURE STRUCTURE

NEC recognizes the importance of providing timely, proper and fair disclosure to obtain a fair evaluation of its corporate value from the capital markets. Accordingly, NEC regularly strives to ensure that internal divisions and subsidiaries have a clear understanding of timely disclosure and other rules issued by financial instruments exchanges, while establishing a framework for communication between relevant internal head office divisions and subsidiaries. Furthermore, NEC holds various events for the news media, analysts and institutional investors. Examples include management strategy presentations and quarterly earnings presentations by senior management, as well as business strategy presentations by various responsible managers, including plant tours. Efforts are also focused on improving disclosure of information on NEC's website, including the disclosure of materials, audio streams and other information issued at presentations and other events, both in Japanese and English, and enhancing investor relations activities on a global scale, including visiting overseas institutional investors. Disclosure to individual investors includes presentations and a website for these investors.

### REMUNERATION FOR DIRECTORS AND CORPORATE AUDITORS

The maximum total amounts of remuneration for directors and corporate auditors are determined by a resolution at the general meeting of shareholders.

At NEC, remuneration for directors is determined by the Board of Directors based on the results of deliberations of this remuneration from an objective perspective by the Nomination and Compensation Committee. Remuneration for directors is determined according to their positions and whether they are an outside director or not, while bonuses for directors are calculated by adding an amount determined based on an evaluation of the contribution of their performance to the business results of NEC during the previous fiscal year to an amount prescribed based on their position. No bonuses are paid to outside directors.

Remuneration for corporate auditors is calculated under certain rules determined by the Board of Corporate Auditors; no bonuses are paid to corporate auditors.

NEC abolished the retirement allowance system for directors and corporate auditors at the close of the 168th Ordinary General Meeting of Shareholders held on June 22, 2006.

Remuneration for NEC's directors and corporate auditors for fiscal 2011 is as follows:

### FISCAL 2011 REMUNERATION

Position	(Millions of yen)	
	Total remuneration	Headcount
Directors (excluding Outside Directors)	417	14
Corporate Auditors (excluding Outside Corporate Auditors)	59	2
Outside Directors and Outside Corporate Auditors	95	9

- Notes: 1. The above headcount includes 4 directors and a corporate auditor who retired at the close of the 172nd Ordinary General Meeting of Shareholders held on June 22, 2010.
2. Retirement allowance of ¥6,000,000 and ¥3,000,000 are scheduled to be paid to one director and one corporate auditor, respectively, who are to retire at the close of the 173rd Ordinary General Meeting of Shareholders.
3. The maximum monthly remuneration for directors is ¥65,000,000 (Approved at the 153rd Ordinary General Meeting of Shareholders held on June 27, 1991).
4. The maximum monthly remuneration for corporate auditors is ¥12,000,000 (approved at the 170th Ordinary General Meeting of Shareholders held on June 23, 2008).

### OWNERSHIP OF SHARES

As of March 31, 2011, the number of stocks classified as investment securities held for purposes other than realizing income and capital gain was 469 and the total balance sheet amount of these stocks was ¥126,083 million. The top 10 stocks based on the balance sheet amount (except unlisted stocks) are as follows:

#### TOP 10 STOCKS BASED ON BALANCE SHEET AMOUNT

Name of stock	As of March 31, 2011		
	Number of shares (Thousands of shares)	Book value (Millions of yen)	Holding Purpose
Elpida Memory, Inc.	7,740	8,290	①
Sumitomo Electric Industries, Ltd.	6,914	7,958	②
Anritsu Corporation	8,312	5,262	③
The Sumitomo Trust and Banking Co., Ltd.	8,658	3,732	②
MEIDENSHA CORPORATION	8,730	3,230	②
MS&AD Insurance Group Holdings, Inc.	1,570	2,974	④
NIPPON TELEGRAPH AND TELEPHONE CORPORATION	686	2,562	④
Taisho Pharmaceutical Co., Ltd.	1,100	1,980	②
Sumitomo Chemical Company Limited	4,083	1,694	②
Seven Bank, Ltd.	10	1,675	②

Note: Figures less than one thousand are rounded down.

- ① Due to the background of the establishment of the company as a joint venture with a third party
- ② To maintain and strengthen business relations with the company
- ③ At the request of the company
- ④ To maintain and strengthen business relations with the company and its group companies

No stocks classified as investment securities are held for the purposes of realizing income and capital gain.

In fiscal 2011, there was no stock classified as investment securities for which the purpose of holding changed from realizing income and capital gain to another purpose, and vice versa.