Compliance and Risk Management

At NEC we consider "compliance" to not only mean compliance with the law, but also in the wide sense to include compliance with socially accepted norms and common sense. Likewise, our "risk management" activities include those for properly understanding risks, including compliance violations that have an impact on the company's business, and for taking preventive measures efficiently and effectively. NEC recognizes compliance and risk management as important issues that relate to the very existence of a company, and continues to promote company-wide efforts that include top management.

Policy

NEC believes that it is important for the company to continue by increasing its profitability through sound business activities and giving back to society. To this end, other than compliance with relevant laws, we recognize that it is important for us to fulfill our social responsibilities as a "corporate citizen," earn the trust of our stakeholders, and enhance our corporate value.

Guided by this belief, NEC is carrying out business activities that put a premium on compliance, in accordance with the Group Charter of Corporate Behavior and the Group Code of Conduct.

In line with the key concepts of "awareness" and "information sharing", the NEC Group's basic approach to implementing compliance is to foster awareness among every officer and employee so that irregularities are recognized as "being not in conformance". In addition, the Group encourages consultation with supervisors, related departments or the Compliance Hotline, sharing information, with a view to resolving and improving those issues collectively as an organization.

Moreover, as part of our risk management activities, we have established an efficient and integrated risk management framework to avoid oversights and overlap of measures, under a common policy for the entire Group, based on our Rules for Basic Risk Management. Every year, we identify risks that require priority measures (priority risks) for management across the entire Group, and formulate, implement, and assess measures to address those risks. In addition, each of our business units and subsidiaries are also conducting specific activities to manage particular risks in their unit or company.

▶ NEC Group Charter of Corporate Behavior
▶ NEC Group Code of Conduct

Promotion Framework

NEC enforces and effectively implements compliance that includes top management and conducts activities led by the Risk Control and Compliance Committee, the Internal Control Division and the Corporate Auditing Bureau.

1. Board of Directors
   Given its oversight role with respect to business execution, the Board of Directors receives reports related to material misconduct and reports on priority risks.

2. Executive Committee
   The Executive Committee deliberates important risks related to NEC's management strategies and policies, including priority risks and other important risks related to management and strategies.

3. Audit & Supervisory Board Members (KANSAYAKU)
   The Audit & Supervisory Board Members audit the performance of duties within the company by regularly receiving and discussing reports of audit results from the Internal Control Division, or by receiving reports of status of operations of the internal reporting system pertaining to business ethics and violations of laws and regulations (the Compliance Hotline).

4. Risk Control and Compliance Committee
The committee, whose members are officers, investigates the underlying causes of serious compliance breaches, studies related preventive measures, and deliberates policies for risk management activities, for selection of the priority risks, and policies for addressing them.

The committee executes a supervisory function in company-wide risk control by, for example, regularly receiving reports from the divisions in charge of deliberations and progress status related to specific priority risk measures, validating the activity results and issues and future activity plans and providing direction to improving and enhancing measures as needed.

5. Internal Control Division
This Division formulates and implements various initiatives designed to enforce compliance, including instilling knowledge of the NEC Group Charter of Corporate Behavior and Group Code of Conduct. In addition, the Division provides necessary support and coordination, as well as guidance, to ensure that risk management at business divisions and corporate staff divisions is implemented systematically and effectively.

For example, the Division enhances the risk control function for the whole NEC Group by continuously supporting risk control activities in each division including subsidiaries. This is accomplished by collecting external information, investigating through a risk management survey and exchanging information with subsidiaries worldwide.
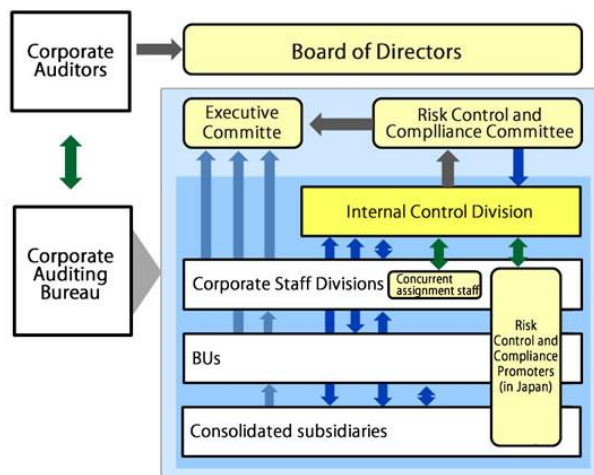
Further, it regularly receives and discusses reports of audit results from the Corporate Auditing Bureau and receives status reports on the operations of the internal reporting system pertaining to business ethics and violations of laws and regulations (the Compliance Hotline).

6. Corporate Auditing Bureau
The Corporate Auditing Bureau functions as an internal auditing department directly under the supervision of the President and is composed of members who are experts in internal audit. The Bureau carries out audit aimed at ensuring that NEC Group companies are operating lawfully, properly and efficiently, as well as in pointing out problems and giving proposals for improvement.

7. Framework for Promoting Compliance in Subsidiaries Worldwide
In regard to domestic subsidiaries, compliance frameworks are being developed through activities of the Risk Control and Compliance Managers and Promoters set up in each company. In regard to overseas subsidiaries, the five regional headquarters, including the subsidiaries under them worldwide, further strengthen compliance. Also, NEC has established channels for reporting compliance-related issues from the domestic and overseas subsidiaries to headquarters in Japan, regularly and as the need arises.

Framework for internal control

Main Activities and Results for Fiscal 2017

Compliance

Education and Awareness-Raising Programs

NEC offers annual web-based compliance training programs to all officers and employees. Domestic subsidiaries also use this educational program. Almost all of our employees participated, with 98% completing the training in fiscal 2017. Also, once a year, the President speaks about compliance at the NEC Business Ethics Forum. For fiscal 2017, we confirmed the criticality of winning the trust of our stakeholders through actions that show integrity and by implementing thorough compliance under the theme "Integrity Is the Basis of Trust." In addition, NEC emphasizes the importance of action that complies with the NEC Group Code of Conduct, leveraging opportunities such as new employee training, education and position-specific training programs (including those for officers and general managers in subsidiaries).

The risk compliance portal on the NEC intranet (for Japan) and DASHBOARD Global (for subsidiaries outside Japan) are dedicated to sharing and disseminating information on the latest compliance issues within the NEC Group. The company issues a fortnightly Compliance News web-based magazine, which provides timely topics in accordance with the business environment. Every year, it also updates the NEC Group Code of Conduct Case Sheet, which currently presents more than 170 case studies. These materials are used for a wide range of purposes including distribution to new employees and for use as educational materials when managers are promoted.

Addressing Global Business Expansion

Enforcement of compliance in overseas business has become an ever more urgent priority. In response, starting from 2016, the compliance teaching materials designed for overseas subsidiaries have been made available in multiple languages (English, Spanish, Portuguese, and Chinese) and compliance training has been implemented at overseas subsidiaries. NEC continued to provide guidance to executives posted to overseas subsidiaries and ongoing training locally to executives in fiscal 2016 to reinforce compliance management, and also provided a compliance checklist.

Compliance Hotline (Whistle-blowing system for employees and business partners)

The NEC Group believes that creating a positive working environment for all is important to enforcing compliance. Accordingly, we are thoroughly raising employee awareness so that they can consult about any concerns or issues related to compliance in the workplace with their superiors, colleagues, and others from related divisions. In addition, the Compliance Hotline has been established in the Corporate Auditing Bureau for consultations from employees encountering cases of violations or suspected violations of the NEC Group Code of Conduct. NEC has established an additional contact point for this hotline at a third-party institution in order to enhance convenience and to address a broader range of risks at an early stage. This contact point fields consultations and reports from not only NEC employees, but also domestic subsidiaries and business partners in Japan.

Awareness of this whistle-blowing system (the Compliance Hotline) within NEC has remained above 90% for the past several years (95.8% in fiscal 2017). In fiscal 2017, the number of reports to the Compliance Hotline reached 101.
They include reports or consultations about violations of ethical conduct, violations of the NEC Group Code of Conduct and internal rules, and suggestions about possible illegal actions. NEC Group companies overseas have also set up in-house consultation and reporting systems and third-party systems, which are available to officers and employees of overseas subsidiaries. Information received by the Hotline is also shared by NEC.

Survey on Corporate Ethics Initiatives

NEC conducts online surveys as part of its web-based training programs for officers and employees to gauge ethical awareness among them and to evaluate the status of business ethics initiatives. The results are put to good use in developing and implementing measures related to business ethics improvements.

In a survey conducted in fiscal 2017, we received many comments "…reconfirmed to never breach compliance," "it is critical that all employees should view compliance as a top priority," etc. We also fed back some of the survey results to NEC Group officers and employees by posting results on the NEC intranet.

Compliance Self-assessment

In fiscal 2017 as well, NEC implemented compliance self-assessments for all general managers of NEC and domestic unlisted subsidiaries. The goal was to raise the awareness on compliance risks in each division, encourage swift identification of compliance weaknesses within those divisions and deploy countermeasures very quickly. NEC feeds back analysis results and best practices to respondents so they can leverage them for daily compliance activities within their divisions.

Risk Management

Selecting Priority Risks and Countermeasures

Every year, the Internal Control Division identifies "group-wide important risks", selected from the perspective of the need for additional countermeasures and the magnitude of the impact on corporate business and on society, on the basis of risk assessment for each organization. These are obtained through a questionnaire-based risk management survey, an internal audit done by the Corporate Auditing Bureau and the findings of the Corporate Auditor, accounting auditors, and other information. NEC Corporation selects priority risks following deliberations by the Risk Control and Compliance Committee and the Executive Committee on risks deemed to require new countermeasures, including improvement of existing countermeasures, and on risks that may significantly affect the NEC Group's continuity. The divisions nominated by the Risk Control and Compliance Committee devise, with other divisions, countermeasures for all Group companies.

In fiscal 2017, we selected the following priority risks – "Risks for violation of completion law, bribery and fraud" and "Risks for violation of the Construction Industry Act (in Japan)." For details on major countermeasures, see "Education and Awareness-Raising Programs" in the previous section and "Fair Trade."

Participation in Activities of External Organizations

Business Ethics Research Center (BERC)

NEC Corporation has been a member since BERC was established in 2000. BERC collects information relating to business ethics and also does research on ethics, offers consulting on business activities and educates businessmen while promoting ethics. We have utilized information on examples of initiatives in other companies obtained through BERC in the enforcement and planning of measures to promote compliance within the company.

Business Ethics Research Center

Objectives and Achievements

Objectives for the Medium Term (From fiscal 2017 to fiscal 2019)

1. To continue and enforce activities based on the NEC Group Code of Conduct throughout the entire Group
2. To continue implementation of effective and efficient risk management activities
3. To continuously operate the Compliance Hotline and promote its use throughout the entire NEC Group

Fiscal 2017 Objectives, Achievements and Progress and Degree of Completion

Objective	Achievements and Progress	Degree of completion
1. To continue compliance training in Japan and overseas and gain employee acceptance of compliance awareness	· We conducted web-based compliance training for almost all NEC employees and domestic subsidiaries and achieved a 98% completion rate. · We held the NEC Business Ethics Forum at which the president spoke about the importance of compliance. · We implemented training for new employees and position-specific training programs (including those for new managers, new general managers, and new executives). · We implemented compliance training for all officers at domestic subsidiaries (including general managers at some subsidiaries). · We translated training programs on compliance into multiple languages for overseas subsidiaries and conducted training for those subsidiaries. · We provided guidance to executives posted to overseas subsidiaries and provided training locally to executives.	Achieved
2. To continue risk management activities, such as addressing the priority risks, to overcome issues facing the NEC Group	· We selected the priority risks for fiscal 2017 and executed a countermeasure to prevent manifestation of risks.	Achieved
3. To continue activities to popularize and inform about the Compliance Hotline, and promote early discovery and solution of problems and issues	· Internal awareness of the Compliance Hotline has remained above 90% for the past several years (it was 95.8% in fiscal 2017).	Achieved

Fiscal 2018 Objectives

Objective	
1. To continue compliance training in Japan and overseas and gain employee acceptance of compliance awareness	· We will review the contents of web-based compliance training and promote further entrenchment of compliance awareness.
2. To continue risk management activities, such as addressing the priority risks, to overcome issues facing the NEC Group	· In particular, we will implement measures to the employee awareness of the importance of fraud prevention.
3. To continue activities to popularize and inform about the Compliance Hotline, and promote early discovery and solution of problems and issues	· We will maintain and improve the awareness level of the Compliance Hotline by talking about the Compliance Hotline in various training programs.