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Supply-Chain Management

As supply chains expand globally, corporations are required to give full attention not only to such things as quality, delivery deadlines and cost but also the environment, human rights, labor practices and so on throughout the supply-chain including the own company. To this end, it is imperative that they not only enforce total risk management and compliance but also continuously and responsibly act so as to be worthy of the trust given by society.

In response to these societal requests, NEC is determined to continue implementing a better supply chain by collaborating with its suppliers and learning together about the critical issues facing the world and the influence and impact that NEC may have.

Policy

Basic Policies and Initiatives

In accordance with ISO26000, a standard providing international guidance for social responsibility, NEC formulated a "Group Procurement Policy" based on CSR management. This policy deploys CSR in internal control and among suppliers. In terms of purchasing ethics and other forms of internal control, NEC has established "Basic Rules for Procurement" to ensure that all employees remain in compliance with the regulations. To strengthen this effort, NEC formulated "Supply-Chain CSR Guidelines" to promote CSR-related activities. We are continuing to make efforts to nurture partnerships from a long-term perspective so that steady progress can be made while deepening mutual understanding.

- ▶ [NEC Group Procurement Policy](#)
- ▶ [Supply-Chain CSR Guidelines](#)

Based on the above policies and guidelines, NEC has defined the priority risks to be: "human rights," "occupational health and safety," "fair trade," "environment," "information security" and "product quality and safety." NEC is promoting initiatives for CSR procurement at various stages including contract, dissemination, document review and onsite auditing in order to give full attention to these priority risks throughout the supply-chain.

➤ Basic Contract

NEC has presented the "NEC Group Procurement Policy" and the "Supply-Chain CSR Guidelines" to all suppliers. For those suppliers in Japan, NEC pledges to execute and comply with these initiatives by executing a basic contract with them and obtaining from them a declaration regarding the environment and safety and health management.

NEC has also obtained a declaration regarding the environment and safety and health management from suppliers in North America, Europe and Asia.

➤ Dissemination

NEC has presented its suppliers with the NEC Group Procurement Policy, Supply-Chain CSR Guidelines and various guidelines regarding conflict minerals and environmental protection and have obtained affirmation from them. In Japan, NEC held explanatory meetings on "CSR/Information Security Measures" and shared information with suppliers about the latest measures which we have to promote together.

➤ Document Review

NEC conducted a survey for its suppliers in Japan and abroad about conflict minerals. NEC also checked the documents specifically for information relating to security. In all areas except Europe, NEC suspended document checks in the SAQ (Self-Assessment Questionnaire) format covering all CSR-related items, but beginning this fiscal year, by prioritizing high risk regions and areas, the company will resume and proceed with the document check.

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➤ Onsite review

NEC visits its suppliers and conduct onsite review to evaluate the implementation status of measures relating to information security, human rights and safety and health management. NEC shares the items that require improvement with its suppliers and support them in implementation and improvement.

| Environmental Measures

NEC has been promoting green procurement of parts and materials and has operated a green certification system based on the Green Procurement Guidelines that cover the procurement of not only hardware, but also software and services. We have maintained a green procurement rate of 100% for product-related materials, excluding some supplies for internal use. Also, to comply with chemical substances regulations around the world, notably the “European RoHS (Restriction on Hazardous Substance) Directive,” and “European REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) Regulation,” NEC continuously conducts chemical substance content surveys covering purchased items. Furthermore, since combating global warming has become an urgent priority, which must be responded by whole supply-chain, NEC, since 2012, has been monitoring the CO₂ emission related to the purchased items with the cooperation of major suppliers. We disclose the CO₂ emission amount data of the whole supply-chain including the purchased items after being validated by the third party, and are applying the data in the measures to reduce CO₂ emission.

- ▶ [Standards Pertaining to Procurement Restrictions for the Inclusion of Chemical Substances in Products](#)
- ▶ [Scope 3](#)

| Addressing the Issue of Mineral Resources

It is claimed that minerals mined in the Democratic Republic of the Congo and neighboring countries are financing armed groups, contributing to tribal conflict, human rights violations and environmental destruction. In fiscal 2012, the NEC Group clarified its policy of neither using nor procuring mineral products mined improperly in conflict areas and sought the understanding and cooperation of its suppliers by establishing the “Conflict Minerals Guidelines.” NEC established a response structure drawing on a liaison between its internal sales and business units so it can swiftly respond to requests from customers based on the conflict minerals survey.



JEITA joint briefing

NEC continues to collaborate with industry as a member of the “Responsible Mineral Trade Working Group” of the Japan Electronics and Information Technology Industries Association (JEITA). In fiscal 2017, NEC joined the “Education and PR Team” and the “Smelter Support Team” under the Working Group. As part of the “Education and PR Team,” NEC acted as a presenter in a briefing for its suppliers and worked to understand their particular mineral conflict problems. For the “Smelter Support Team,” NEC directly encouraged overseas smelters that had not yet been certified as “Conflict Free” to get audited and certified.

- ▶ [Conflict Minerals Guidelines](#)

| Recommendation by the CSR Review Forum (CRF)

Since 2012, NEC has continued its dialog with various civic organizations (NGOs, consumer organizations, etc.) and the CSR Review Forum (CRF), a private, non-profit organization established by individuals affiliated with those civic organizations, to solve frontline social issues and help bring about a sustainable society.

After receiving the recommendations listed below from the CRF, NEC is continuing its onsite review of human rights, safety and health, and is promoting a deeper understanding of CSR procurement for the procurement staff; it is also implementing an environment where it can keep working autonomously, while recognizing CSR, in the frontline of procurement.

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- Enhance onsite reviews to be more effective in the areas of human rights, safety and health, and conduct more onsite reviews.
- Implement procurement staff training to raise their awareness of the CSR key aspects (i.e., human rights).
- Enhancement of dialog with stakeholders who are impacted by procurement operations, clarify the issues by executing due diligence and feedback those issues to the procurement front end.

 [CSR Review Forum - Japan](#)

Promotion Framework

NEC's CSR Procurement System

Playing a central role under the direction of the Procurement Executive officer, the Purchasing Division promotes CSR procurement by coordinating with the related internal divisions. By engaging with international initiatives and stakeholders such as civic communities (NGO/NPO), NEC understands the latest status of social issues that are common worldwide and the initiatives promoted by other corporations, and is developing a plan to promote and improve those initiatives. NEC is also implementing a plan sequentially at its consolidated subsidiaries worldwide.

At its regional headquarters in EMEA, China, East Asia and APAC, NEC's overseas subsidiaries have assigned personnel to manage CSR procurement over the whole region to promote CSR procurement based on the basic policies described above.

- The NEC group companies in the region will comply in full with the environment regulations related to the companies (operations, products, etc.)
- Suppliers (including contractors and waste disposal companies) in the region have been encouraged to address human rights issues as well as those related to the environment and safety management and to comply with waste management laws and regulations (e.g., obtaining a declaration regarding the environment and safety and health management from suppliers, etc.)

Participation in Common SAQ Formulation in GCNJ

The working group on supply-chain in GCNJ (Global Compact Network Japan) formulated an SAQ format that can be used universally in the industry and formally published it in June of this year. NEC has been actively participating in this activity as a member of the working group, aiming to leverage this format for its CSR procurement.

Planned training

NEC is establishing a training plan relevant to the appropriate positions and roles of the procurement staff for CSR and the procurement laws and regulations so that all procurement staff not only comply with laws but also are able to execute highly sustainable procurement by fulfilling their social responsibility.

Main Activities and Results for Fiscal 2017

Contract: Collaboration with Overseas Subsidiaries and Suppliers for Environmental Health Services (EHS)

In fiscal 2016, the overseas NEC Group companies made a declaration regarding the environment, safety and health management from its suppliers. They pledged to comply with the laws and regulations relevant to environment and safety management by addressing environmental regulations strengthened by countries and regions, and secure the safety of workers at local construction sites.

In this declaration, the suppliers pledged to comply with the following three rules:

- Compliance with regulations on banned chemical substances for delivered items (products or purchased goods)

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- Proper disposal of wastes output from construction of facilities, etc.
- Securing worker's safety at construction sites, etc.

Through this kind of collaboration with its suppliers, NEC will continue to implement a compliance organization in its overseas NEC Group companies and improve the compliance process.

Dissemination: In-House Training and Monitoring

NEC and its consolidated subsidiaries regularly implement, by checking the situation of those companies, various educational and training programs for procurement staff as part of their efforts to maintain proper business conduct. These initiatives continued in fiscal 2017 based on the annual plan. The content was closely related to purchasing tasks, including overall CSR, corporate ethics, and the Act against Delay in Payment of Subcontract Proceeds, etc., to Subcontractors (the Subcontract Act in Japan), and included courses needed to enhance operations skills.

NEC's compliance training related to procurement puts special emphasis on onsite contracting, dispatch staffing and the Subcontract Act.

In connection with accepting employees from suppliers in the form of onsite contracting or dispatch staffing, training is conducted so that employees learn the compliance requirements at their respective workplaces. Since fiscal 2008, all newly appointed management personnel are provided with annual Web training. Regarding the Subcontract Act, newly appointed management personnel are provided with annual Web training; about once every three years, mandatory Web training is provided and all personnel must take a refresher training.

In the course of enforcing compliance with purchasing-related laws and regulations and meticulously addressing such laws and regulations, NEC has appointed compliance promoters who are specialized in purchasing-related laws and regulations at NEC and its domestic major consolidated subsidiaries. These compliance promoters rigorously enforce legal compliance within the divisions and their companies. In particular, compliance promoters are also trained to enhance the level of compliance promotion regarding on-site contracting and dispatch staffing and the Subcontract Act. In fiscal 2017, NEC continued to conduct Web training for new managers and training for compliance promoters. Last year, Web training for "onsite contracting" was provided to the supervisors and staff.

NEC continued to conduct internal auditing in fiscal 2017 to further promote appropriate on-site contracting and dispatch staffing practice. In regards to ensuring appropriate dispatch staffing practices, NEC worked closely with the personnel divisions to revise the audit details based on the amended Worker Dispatching Act. Internal audits conducted at NEC and the NEC Group during fiscal 2017 revealed no major problems pertaining to on-site contracting and dispatch staffing practices.

A Compliance Hotline, a point of contact for compliance consultation and reporting, has been made available to suppliers since 2003. This mechanism provides an independent channel for transaction-related complaints and consultation by suppliers. The Compliance Hotline has been easily accessible from NEC's website.

[Compliance Hotline](#)

Document Review: Strengthening Information Security

For NEC, a system integrator of information system that is a critical societal infrastructure, strengthening and committing to information security involving subcontractors is one of the most critical issues. The Procurement Division in particular is focusing on managing subcontractors and raising awareness on information security.

NEC is involved with the following every year:

- Briefings on CSR and information security for management and CSR managers for subcontractors.
Held 14 times in 13 locations throughout Japan. About 2,000 attended from about 1,500 companies.
- Compliance education for subcontractor staff working on NEC Group operations.
About 900 companies downloaded educational materials.

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- Document checks to assess the information security implementation status of each subcontractor.
Done for about 1,500 companies.
- On-site inspection of subcontractors.
Done for about 50 companies.

NEC will continue to implement measures to improve the information security level in its subcontractors.

Onsite Auditing: Confirming CSR Practices among Suppliers

In fiscal 2013, NEC launched the CSR Process Management Review Assessment as an on-site diagnostic program (CSR-PMR* Assessment) that focuses on human rights and occupational safety and health to improve management weaknesses among suppliers. This program evaluates sites from an array of aspects, including through interviews with top management and employees and through plant visits. This program is based on NEC Group employees personally visiting suppliers and bases to engage in direct dialog based on direct observations. Both NEC and suppliers mutually understand each other's situations through an approach called "Co-Capacity Building," which aims to enhance the CSR capabilities of both parties.

NEC collaborated with local institutions with expertise in resolving regional issues and selected two production subcontractors in East China and South China that had a close business relationship with NEC and were recognized as needing an onsite diagnostics. NEC set up a program to confirm CSR practices among its suppliers. The program highlighted numerous excellent practices but also identified several issues relating to working conditions, overtime and occupational safety and health management, and recommended corrective measures and ways to confirm progress.

* PMR=Process Management Review



Plant diagnostics



Canteen inspection

Objectives and Achievements

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

Further promotion of autonomous CSR for suppliers

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Fiscal 2017 Objectives, Achievements and Progress, and degree of Completion

Objective	Achievements and Progress	Degree of Completion
1. Formulate CSR policy to promote solutions procurement	<ul style="list-style-type: none"> Conducted a current situation survey for solutions procurement to formulate a policy Conducted stakeholder engagement and gained knowledge from society. Solution procurement viewpoint of SAQ, audit policy and planning will be included in the future. 	Some progress
2. Start CSR initiative survey of the suppliers by using the survey slip in APAC	<ul style="list-style-type: none"> Added CSR-related items to the purchase order used when an APAC corporation places an order with a supplier. Confirmed the document check method done first in the EMEA region, and reviewed the feasibility to implement the survey in APAC. 	Some progress
3. Continue expanding CSR Process Management Review Assessment (CSR-PMR) scheme in Greater China	<ul style="list-style-type: none"> Conducted an assessment for two subcontractors in Greater China. Reviewed measure to increase the number of subcontractors in the future. 	Some progress

Fiscal 2018 Objectives

1. Conduct (resume) SAQ that covers all CSR-related items.
2. Expand continuous CSR-PMR
3. Start a survey on CSR initiative of suppliers in APAC.