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## Compliance and Risk Management

### Policy

As a company to deploy the social solution business, NEC believes that to earn and sustain the trust of customers and society are the most important things.

NEC considers 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 properly understanding risks that have an impact on the company's business, and taking preventive measures efficiently and effectively, including compliance violations.

NEC positions compliance at the foundation of management, and recognizes compliance and risk management as priority themes "materiality" which are essential for corporate governance. We, including the top management, will continue to promote company-wide efforts.

Based on this belief, NEC has established the "NEC Group Charter of Corporate Behavior" and "NEC Group Code of Conduct" that are also translated into multiple languages (English, Spanish, Portuguese, and Chinese) to have these at our overseas consolidated subsidiaries also, by which we put a top priority on the compliance to run our business domestically and internationally. In February 2017, the Japan Fair Trade Commission issued a Cease and Desist Order and an Order for Payment of Surcharge against NEC Corporation for activities in violation of the competition law. To keep this fact fresh in mind, and to enhance our sense of compliance, NEC has newly established "NEC Compliance Day" that periodically gives us, from executives to employees an environment to review and reconsider the compliance.

In line with the key concepts of "awareness" and "information sharing", our 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, NEC encourages consultation with supervisors, related departments or the "Compliance Hotline", and "sharing information", with a view to resolving those issues and improving our practices systematically 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 of NEC, based on our "Rules of Basic Risk Management". Every year, we identify risks that require priority measures "Priority Risks" for management across the entire of NEC, 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](#)
- ▶ [Priority Management Themes from an ESG Perspective - Materiality](#)

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## Activity Objectives, Achievements and Progress

### Objectives for the Mid-term (from fiscal 2019 to 2021)

1. Ensure the Compliance
  - Based on the NEC Group Code of Conduct, establish the organizational culture of “Compliance on Top Priority” and promote fair commercial transactions.
2. Carry Out the Appropriate Risk Management
  - Adopt those critical risks that have an impact on implementing the business, and set up and carry out effective measures.

### Objectives, Achievements and Progress, and Degree of Completion

(Degree of completion: ◎Achieved, ○Mostly Achieved, △Some Progress, ×No Progress)

Objectives for the Mid-term	FY2018 Objectives	FY2018 Achievements and Progress	Degree of Completion	FY2019 Objectives
1. Ensure the compliance	<ul style="list-style-type: none"> <li>• Implement the web-based compliance training.</li> <li>• Maintain and increase the recognition rate of the “Compliance Hotline.”</li> </ul>	<ul style="list-style-type: none"> <li>• Established “NEC Compliance Day” (November 18.)</li> <li>• Conducted the web-based compliance training (completion rate in NEC Corporation: 98.3%.)</li> <li>• Recognition rate of the Compliance Hotline was increased (recognition rate in NEC Corporation: 96.9%.)</li> </ul>	◎	<ul style="list-style-type: none"> <li>• Deliver the executive messages to employees on the occasion of NEC Compliance Day.</li> <li>• Raise the completion rate of web-based compliance training (completion rate in NEC Corporation: 98% or higher.)</li> <li>• Number of reports to the Compliance Hotline: 100 cases or more.</li> <li>• Number of cases of involvement with serious cartel/bid-rigging: 0.</li> </ul>
2. Carry out the appropriate risk management	<ul style="list-style-type: none"> <li>• Implement measures to raise the employees’ consciousness of the importance to prevent fraud.</li> <li>• Implement the training to prevent recurrence by reviewing the fact that the Japan Fair Trade Commission issued a Cease and Desist Order and an Order for Payment of Surcharge against NEC Corporation.</li> <li>• Reshuffle personnel to prevent the violation of competition law.</li> </ul>	<ul style="list-style-type: none"> <li>• Held workplace meetings where all the employees attended.</li> <li>• Held face-to-face education programs for 140 times in Japan to convey the facts about three bid-rigging incidents caused by NEC Corporation.</li> <li>• Transferred and changed the employees who had had long-term responsibility for the same governmental agency-related customers to prevent competition law violations.</li> </ul>	◎	<ul style="list-style-type: none"> <li>• Establish and implement effective measures for Priority Risks.</li> </ul>

## Promotion Framework

NEC Corporation enforces and effectively implements compliance with 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 the activities taken for the Priority Risks.

### 2. Executive Committee

The Executive Committee discusses important NEC's management issues such as policies and strategies, including Priority Risks and other important risks related to management and strategies.

### 3. Audit & Supervisory Board Members (Kansa-yaku)

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

### 4. Risk Control and Compliance Committee

The Risk Control and Compliance Committee, whose members are officers, investigates the underlying causes of serious compliance breaches, studies related prevention of recurrence and preventive measures, and deliberates policies for risk management activities and policies for selection and countermeasures of the Priority Risks. 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

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

For example, the division enhances the risk control function for the entire NEC Group by continuously supporting risk control activities in each division including subsidiaries. This is accomplished by collecting external information, investigating using a risk management survey and exchanging information with subsidiaries worldwide.

In addition, the division regularly receives and discusses reports on 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 (Compliance Hotline).

### 6. Corporate Auditing Bureau

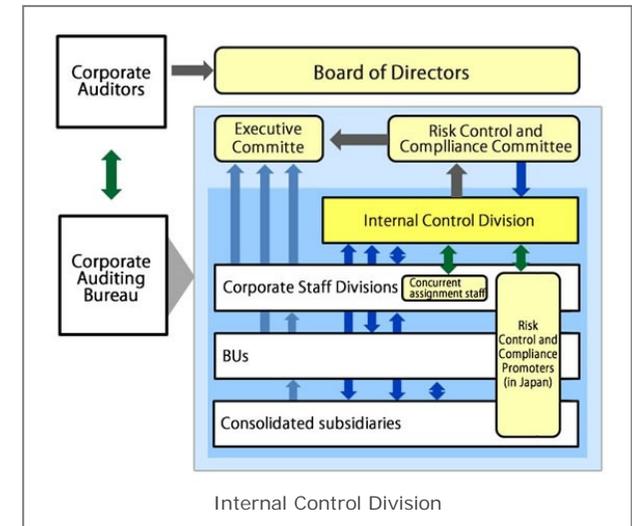
The Corporate Auditing Bureau functions as an internal auditing department directly under the supervision of the president and is composed of members who are experts in internal audits. The bureau carries out audits aimed at ensuring that NEC is operating lawfully, properly and efficiently, as well as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

### 7. Framework for Promoting Compliance in Consolidated Subsidiaries Worldwide

In regard to domestic consolidated subsidiaries, compliance frameworks are being developed through the activities of the Risk Control and Compliance Managers and promoters set up in each company.

In regard to overseas consolidated subsidiaries, the five regional headquarters, including the subsidiaries under them worldwide, further strengthen compliance.

NEC has also established channels for reporting compliance-related issues regularly, and as the need arises, from the domestic and overseas consolidated subsidiaries to headquarters in Japan.



## Main Activities and Results for Fiscal 2018

### Compliance

#### Establishing “NEC Compliance Day”

NEC Corporation received notification of violations of the Antimonopoly Act from the Japan Fair Trade Commission in July 2016 regarding the deal of telecommunications equipment for electrical power security system with Tokyo Electric Power Co., Inc. (current Tokyo Electric Power Company Holdings, Inc.), and in February 2017 regarding the transactions for wireless digital emergency firefighting equipment, and telecommunications equipment for electrical power security system with Chubu Electric Power Co., Inc. In order to keep these events fresh in mind and reconfirm the importance of compliance for each individual, we established NEC Compliance Day and set it on November 18 on which we received an on-site inspection at all NEC offices from the headquarters to the branches located all over Japan in regard to transactions for wireless digital emergency firefighting equipment.

In fiscal 2018, the President, the Chief Compliance Officer (CCO) and all general managers (approximately 130 people) of NEC Corporation, and the Presidents of domestic consolidated subsidiaries communicated messages on NEC Compliance Day to again ensure the importance of compliance to all the employees. The messages sent out by the general managers were reviewed and evaluated by the members of the division and the evaluation results were fed back to all general managers to further promote compliance. In addition, we made a poster appealing the messages “Compliance on Top Priority” and “Act Fairly and with Integrity” from our president Takashi Niino, and posted them at all the domestic business bases.

In the period around NEC Compliance Day, NEC Corporation and its domestic consolidated subsidiaries held workplace meetings under themes such as preventing fraudulent accounting and compliance with competition law. These provided opportunities for individual employees to consider compliance themselves.

#### Spread Education and Enlightenment Activities in Japan and Overseas

NEC Corporation conducts the web-based training program regarding the compliance for all the executives and employees once a year (completion rate in NEC Corporation: 98.3% in fiscal 2018). Our domestic consolidated subsidiaries also use this educational program, where almost all of members participated (completion rate in domestic consolidated subsidiaries: 98.0% in fiscal 2018). Also, the web-based compliance training program is translated into multiple languages (English, Spanish, Portuguese, and Chinese), which made our overseas consolidated subsidiaries available to take this program. After they completed the program, we collected their pledges in which they pledged to comply with the NEC Group Code of Conduct and other internal policies.

“NEC Business Ethics” is the forum where our president uses his own words to tell how important the compliance is, which is held annually for NEC Corporation and its domestic consolidated subsidiaries. In fiscal 2018, the forum was held themed on “Three Types of Trusts – To Focus on Sustaining Business Growth,” where he confirmed to focus on the business growth centering on the trusts of clients, shareholders, and colleagues at workplace by acting fairly and honestly to eradicate violations of compliance.

Furthermore, NEC Corporation emphasizes the importance of action that complies with the NEC Group Code of Conduct using the opportunities of the trainings and educations for new employees, and stratified education programs for new officers and new general managers. To strengthen the compliance management in overseas consolidated subsidiaries as well, we also conduct the education and training programs for executives to be posted there and for the local executives there.

The latest information on the compliance is disseminated and shared within NEC through our intranet web portal “Risk Control and Compliance” (in Japan) and “DASHBOARD Global” (overseas). We also provide the timely topics in consideration for our business

environment by issuing the push-type newsletter “Compliance News” every month.

For NEC Corporation and its domestic consolidated subsidiaries, we also complied 170 expected case examples on compliance as “NEC Group Code of Conduct Case Sheet” to advise the points to keep in mind when we behave. The case examples of this Case Sheet are reviewed every year, which is posted on our intranet web portal and is used as the training aid for managers to be at the time of their promotion. In this way, we continue the educational activities.

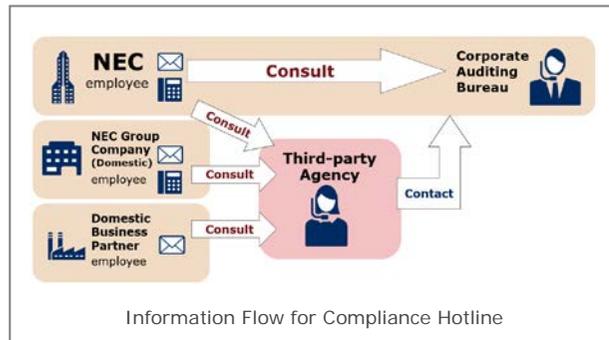
#### Compliance Hotline (Whistle-blowing system for employees and business partners)

NEC believes that creating a positive working environment for all is important to enforce compliance. Accordingly, we are taking care to raise employee awareness so there can be consultations with superiors, colleagues or others from related divisions about any concerns or issues on compliance in the workplace.

Compliance Hotline, internal reporting system, has also been established in the Corporate Auditing Bureau for consultations from employees encountering 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 agency 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 employees of NEC Corporation but also its domestic subsidiaries and business partners.

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The fact that who consults/reports what to the Compliance Hotline is guaranteed to be confidential by personnel in charge. One who consults/reports will never be retaliated due to the consulting/reporting fact. These are informed at our intranet web portal, and disseminated to employees through the education and training programs.

NEC Corporation believes that the Compliance Hotline is an effective system to early detect incidents that may violate the compliance, and it is important to disseminate this system to employees in order to promote its usage. The recognition rate of this system within NEC Corporation has remained above 90% for the past several years. (In fiscal 2018, it was 96.9%, the highest ever) As a result, in fiscal 2018, the number of consulting/reporting cases was 118, increased by 17 from the previous year. The topics of consulted/reported cases are the violations against ethical behavior criteria, violations against or injustice to the NEC Group Code of Conduct or company rules, and possibilities of some violations. These cases have been appropriately handled.

NEC's overseas consolidated subsidiaries also set up the whistle-blowing system operated by a third-party per region, which is available for the local executives and employees to use. The consulted/reported cases and how the overseas consolidated subsidiaries treated are shared with NEC Corporation.

## 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 2018, we received many comments, such as "wishing to work for making the good environment as our culture that allows easier communications between bosses and their subordinates," "understood that only one person's violation against the compliance could give a big damage to the company performances, strongly feel that I need to discipline myself from now on," etc. The results of survey are posted on our intranet web portal, and fed them back to the executives and employees.

## Risk Management

### Selecting "Priority Risks" and Countermeasures

The Internal Control Division annually identifies "important risks", selected from the perspectives of the need for additional countermeasures and the magnitude of the impact on corporate business and society. These are based on the result of risk assessment for each division which was obtained through a questionnaire-based "risk management survey", and findings in the internal audit by the Corporate Auditing Bureau, etc. 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 improvements to the existing countermeasures, and on risks that may significantly affect NEC's continuity. The divisions nominated by the Risk Control and Compliance Committee devise countermeasures as the risk owners.

In fiscal 2018, we selected the following Priority Risks – "risks regarding the accounting fraud", "risks regarding violation of the competition law," and "risks regarding violation of the Construction Industry Act." For details on their major countermeasures, see "Spread Education and Enlightenment Activities in Japan and Overseas" described previously and "Promoting Fair Commercial Transactions" in the next.

## Participation in Activities of External Organizations

### Business Ethics Research Center (BERC)

NEC Corporation has been a BERC member since its establishment in 2000. BERC collects worldwide information relating to business ethics, does research on ethics, offers consulting on business activities and educates businessperson 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.

[Business Ethics Research Center](#)

### Business Ethics Research Center Japan Business Federation –Corporate Behavior & CSR Committee

NEC Corporation participated in the task force on "Revision of the Charter of Corporate Behavior" held under the above committee. We cooperated to revise the charter of corporate behavior and its implementation guide such as writing the parts regarding the cyber securities, protecting/utilizing personal information data that are closely related to our business.