

Supply Chain Management

Basic Policy Concerning Supply-Chain CSR

As supply chains continually become globalized, corporations are required to responsibly conduct procurement activities that strongly emphasize sustainability throughout the entire supply chain. NEC believes that conducting business while giving full attention to its impacts to the environment and the society as a whole, not only singly but in collaboration with suppliers constituting the supply chain, makes us worthy of the trust given by society and enables us to contribute to sustainable social value creation.

NEC endeavors to work in cooperation with suppliers to learn about critical social issues and the impact of business on society, and continually engage in initiatives toward building a better supply chain.

Basic Policies and Initiatives

NEC formulated the "NEC Group Procurement Policy" based on the NEC Sustainable Management Policy and on ISO26000 and ISO20400 international guidance standards for social responsibility. This policy will be implemented in internal control pertaining to Supply-Chain CSR and among suppliers. In terms of purchasing ethics and other forms of internal control, NEC has established "Basic Rules for Procurement," and ensures that all employees remain in compliance with these regulations. To strengthen this effort, NEC also devised concrete operational rules for its procurement processes, and ensures that the rules are disseminated among procurement-related personnel by conducting regular training. In terms of implementation among suppliers, NEC devised the "Supply-Chain CSR Guidelines" to deepen mutual understanding with suppliers. Based on these guidelines, NEC will promote procurement activities in close collaboration with suppliers and continue in efforts to nurture partnerships from a long-term perspective.

▶ [NEC Group Procurement Policy](#)

▶ [Supply-Chain CSR Guidelines](#)

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

➤ Basic Contract

NEC ensures implementation and compliance to these initiatives by suppliers in Japan by entering into basic contracts and obtaining declarations that demonstrate their commitment to the environment and safety and health management. NEC also obtains a declaration regarding the environment and safety and health management from suppliers in North America, Europe and Asia. For Asia, we have also incorporated CSR provisions in individual order documents.

➤ Dissemination

NEC presents the NEC Group Procurement Policy, Supply-Chain CSR Guidelines, and various other guidelines to its suppliers, and ensures that they have understood and agree to those guidelines. In Japan, NEC held briefings on "CSR/Information Security Measures" and shared information with subcontractors about the latest measures that we have to promote together with them.

➤ Document Check

NEC conducts web-based self-assessment in order to assess the status of compliance with requirements and initiatives relating to information security among suppliers.

➤ On-site Assessment

NEC visits its suppliers and continually conducts on-site assessment to evaluate the implementation status of measures relating to information security. NEC shares the items that require improvement with its suppliers and supports them in implementing improvement measures.

In regard to the on-site assessment (CSR-PMR) held until fiscal 2017, we have decided to suspend the review for fiscal 2018 based on results of evaluation of its effectiveness and of future initiatives. (Details are explained in "Original objectives (second item)" in the next section.)

Activity Objectives, Achievements and Progress

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

Further promotion of autonomous CSR for supply-chain partners

Objectives, Achievements and Progress, and Degree of Completion

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

FY2018 Objectives (New)	Achievements and progress for fiscal 2018	Degree of completion	FY2019 Objectives
<ul style="list-style-type: none"> Formulate supply-chain CSR policy in procurement of software and solutions 	<ul style="list-style-type: none"> Revised and presented the Group Procurement Policies and Supply-Chain CSR Guidelines on the NEC website. Achieved specified learning objectives regarding the Supply-Chain CSR initiatives by major hardware suppliers based on onsite surveys conducted thus far through SAQs and CSR-PMR; analyzed NEC Corporation's purchase cost structure, and revised the policy to focus on Supply-Chain CSR promotion in software and solutions procurement from now on, based on initial results of assessment of medium-term strategies to promote Supply-Chain CSR. Supervising executive officers approached executives of major suppliers in efforts to further promote co-creation in software and solutions procurement. Developed a quantitative "Supplier Risk Index" that takes into consideration the product domain, transaction history, corporate information, and other factors, to promote Supply-Chain CSR in accordance with supplier's conditions. 	○	<ul style="list-style-type: none"> Promote supply-chain CSR in the procurement of software and solutions <ul style="list-style-type: none"> Identify issues in software and solutions procurement through supplier surveys. Devise and start implementation of measures suited to each supplier using the Supplier Risk Index. Initially, determine measures for "long working hours" and "health management," which are also the focus of government measures. Verify the impact of the measures through collaboration with internal and external information sources and dialogues with NPOs.
<ul style="list-style-type: none"> Develop effective supplier CSR to replace SAQ, PMR Develop monitoring tools 	<ul style="list-style-type: none"> Developed Supplier Visit Record, which can be used by local procurement personnel for routine CSR monitoring. Constructed system infrastructure for the online use of Supplier Visit Record, enabling the sharing of information among procurement personnel including overseas subsidiaries. 	○	<ul style="list-style-type: none"> Promotion of use of Supplier Visit Record <ul style="list-style-type: none"> Prepare a user's manual for Supplier Visit Record, and conduct training for procurement personnel. Start actual use of Supplier Visit Record in Greater China, and proceed with gathering of needed information.
<ul style="list-style-type: none"> Incorporate CSR provisions to individual order documents for APAC (Asia-Pacific region) 	<ul style="list-style-type: none"> Incorporated CSR provisions in individual order documents used by APAC Regional Headquarters, and started their actual use. Proceeded with incorporation of CSR provisions in individual order documents used by overseas affiliates supervised by NEC APAC, and started their actual use in overseas affiliates except in Oceania. Proceeded with activities aimed at incorporating CSR provisions in individual order documents used by EMEA Regional Headquarters (Europe, Middle East and Africa) and its affiliated subsidiaries. 	◎	<ul style="list-style-type: none"> Globally implement the incorporation of CSR provisions in individual order documents <ul style="list-style-type: none"> Complete the incorporation of CSR provisions in individual order documents for APAC and EMEA Regional Headquarters and their affiliated subsidiaries. Start studying the incorporation of CSR provisions in individual order documents in Greater China, which has different business practices. Start studying the incorporation of CSR provisions in basic contract for materials in Japan (NEC Corporation and its consolidated subsidiaries in Japan.)

Original objectives	Reason for changing objectives
1. Conduct (resume) SAQ that covers all CSR-related items.	The introduction of existing SAQ (self-assessment questionnaire prepared by the Global Compact Network Japan working group) designed for hardware procurement was considered, but it was discontinued after the formulation of the policy for promoting supply-chain CSR in software and solutions procurement.
2. Expand continuous CSR-PMR.	After close examination of the effectiveness of the current PMR, it was determined that although it can effectively assess safety and health, and waste management at the factory level, it was difficult to identify critical problems such as human rights violations. Also, due to the decision to comprehensively revise all initiatives towards promotion of Supply-Chain CSR in the development of software and solutions, the implementation of CSR-PMR was suspended.
3. Start a survey on CSR initiative of suppliers in APAC.	For the same reason as (1) above, the survey of CSR initiatives (document check) was not conducted, but instead, CSR provisions were incorporated in the individual order documents that are tailored to APAC regional attributes.

Promotion Framework

NEC's Supply-Chain CSR System

Supply-Chain CSR activities of the entire NEC Group are under the responsibility of the Chief Supply Chain Officer. Decisions related to Supply-Chain CSR are discussed at the Procurement Steering Committee chaired by the General Manager of Purchasing Division. Measures are devised and implemented after dissemination of information and deliberations at the CSR Procurement Sectional Committee convened every quarter by the Purchasing Division. Also, the promotion of Supply-Chain CSR is held in collaboration with relevant in-house departments.

NEC endeavors to gain a deep understanding of global social issues and actively gathers the latest information on initiatives of international institutions, government agencies, and other companies by engaging with international initiatives and stakeholders such as civic communities (NGO/NPO) and academia, to serve as basis in drawing up Supply-Chain CSR promotion plans, as well as plans for effective implementation and improvement of individual measures.

Information gathered at the CSR Procurement Sectional Committee is announced to subsidiaries in Japan, and activities are carried out as activities of the entire NEC Group.

Overseas subsidiaries conduct activities under the Global SCM Leadership Session, which meets annually, as the decision-making body. Regional Headquarters in EMEA, China and East Asia, and APAC have assigned personnel to manage Supply-Chain CSR over their entire respective regions to effectively promote Supply-Chain CSR in accordance with the culture and business practices of each country, as well as with the basic policies mandated by the Headquarters in Japan.

Participation in Activities with Other Companies

NEC also actively participates in cross-company activities related to Supply-Chain CSR. The Supply Chain Working Group of Global Compact Network Japan hosts continuing discussions regarding the goals of Supply-Chain CSR among various members coming from companies in different industries, NGOs, etc., and conducts activities aimed at generating output that will contribute to improvement of CSR practices in corporations. As part of these activities, the Working Group published the CSR/Sustainable Procurement Self-assessment Tool Set in June 2017. As an active member of the Working Group, NEC Corporation has also contributed to generating output for the tool set.

In January 2018, the Japan Electronics and Information Technology Industries Association (JEITA) established a CSR Committee to conduct surveys, research, and promotional activities, as well as provide external suggestions and proposals from an expert viewpoint pertaining to CSR. At the same time, as a subsidiary body under the said committee, the Responsible Supply Chain Working Group was launched, to which NEC Corporation is also a member, sharing the latest information and issues common to the industry and contributing to the improvement of the Working Group's initiatives.

Measures

Revision of the NEC Group Procurement Policy

The NEC Group Procurement Policy was revised along with the formulation of the Mid-term Management Plan 2020. Under the goal of pursuing economic and social values, NEC issued the following statement: "We will aim to solve social issues through co-creation of values with our partners towards the building of sustainable societies."

Likewise, we have clarified our vision to (1) promote sustainable and responsible procurement, (2) generate social value through co-creation, and (3) build relationships of trust aimed at growth. Guided by these visions, we will endeavor to link our daily procurement activities with the concept of value co-creation with partners, and aim to conduct activities that integrate financial as well as non-financial elements.

A major recent social issue, "modern slavery," is now the subject of discussions as a negative aspect of globalization. So as not to contribute to the exacerbation of absolute poverty in developing countries, NEC included a declaration against slavery and human trafficking in the "Concept of NEC Procurement" under the revised NEC Group Procurement Policy.

▶ [NEC Group Procurement Policy](#)

In addition, NEC Europe also reviews the EMEA Procurement Policy as needed, promoting Supply-Chain CSR in accordance with guidelines specific to countries and regions where customers are based.

▶ [Promoting Human Rights in Europe, Middle East and Africa \(EMEA\)](#)

Revision of Supply-Chain CSR Guidelines

We also revised our Supply-Chain CSR Guidelines following the revision of the NEC Group Procurement Policy and published the revised guidelines in our website.

There is a limit to the extent of problems that can be addressed by initiatives that are confined either within NEC or within individual suppliers. The guidelines were

revised mainly to put the focus on collaborations with companies upstream in the supply chain and pursue collaborations to promote co-creation with each supplier. NEC will promote activities that address social issues commonly recognized by both NEC and suppliers by identifying concrete and more relevant issues through various programs and venues for co-creation with suppliers.

Since many CSR problems are related with "social exclusion," items related to human rights, such as "consider minorities" and "protect foreign employees" were added as issues to address, for which suppliers have also been requested to comply.

▶ [Supply-Chain CSR Guidelines](#)

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 measures against global warming must be implemented across the entire supply chain, NEC, from 2012, has been monitoring CO₂ emissions related to purchased items with the cooperation of major suppliers. We disclose CO₂ emissions data for the entire supply chain, including purchased items, after third-party validation, and are making use of the data in developing measures to reduce CO₂ emissions.

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

▶ [Scope 3](#)

Addressing the Issue of Conflict Minerals

It is claimed that minerals mined in the Democratic Republic of the Congo and neighboring countries are used to finance 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.

▶ [Conflict Minerals Guidelines](#)

NEC continues to collaborate with industry as a member of the "Responsible Mineral Trade Working Group" led by JEITA.

In fiscal 2018, 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 joint briefing for its suppliers and worked to understand their particular conflict-mineral 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.



Seminar on conflict minerals

48-49	Corporate Governance
55	Basic Approach on Tax Matters
60-66	Business Continuity
73-79	Supply Chain Management

50-54	Compliance and Risk Management
56-59	Promoting Fair Commercial Transactions
67-72	Information Security and Cyber Security
80-83	Ensuring Quality and Safety

Response to Recommendations by the CSR Review Forum (CRF)

In 2017, NEC implemented the following initiatives in regard to items pertaining to Supply-Chain CSR based on recommendations from the CSR Review Forum.

▶ Recommendations from the CSR Review Forum (p. 60)

- In regard to the recommendation for onsite auditing to be more effective in the areas of human rights, safety and health, etc., NEC has still been unable at this point to establish auditing methods that balance effectiveness and efficiency across the wide area encompassed by human rights. However, since our major overseas manufacturing contractors have already completed self-assessment and reviews by international organizations such as the Responsible Business Alliance (RBA), risks are believed to be minimal. As part of human rights due diligence, we will continue the research on effective methods for identifying and assessing risks.
- In regard to the recommendation for implementing procurement personnel training to raise their awareness on CSR, as mentioned below, NEC has formulated a training plan and is systematically conducting training that include CSR and compliance with relevant laws. For fiscal 2019, we will enhance the training programs to incorporate revisions to the NEC Group Procurement Policy and Supply-Chain CSR Guidelines, such as measures against modern slavery and other new items.
- In regard to the recommendation for enhancement of dialogue with stakeholders and the execution of due diligence, recognizing the importance of implementing initiatives in accordance with the shift to software and solutions, this fiscal year, we will identify priority themes based on the unique characteristics of these business areas and strengthen collaborations with suppliers. Also, activities aimed at the dissemination and entrenchment of the different measures in the procurement frontlines will be pursued across the entire NEC Group via the CSR Procurement Sectional Committee.

Planned Training

NEC has established and is implementing a training plan relevant to the appropriate positions and roles of the procurement staff for CSR and related procurement laws and regulations, so that all procurement personnel not only comply with laws, but also fulfill their social responsibility and conduct highly sustainable procurement activities.

Previous Initiatives and Future Directions

Policy formulation: Critical Issues in Supply-Chain CSR

Compared to the time when the NEC Group first initiated Supply-Chain CSR initiatives, the ratio of procurement related to software and solutions has increased, while that related to hardware has decreased. NEC has decided to focus on Solutions for Society in line with the shift in its management policy, and therefore expects this procurement trend to continue following the shift in business direction. In fiscal 2018, NEC has started devising Supply-Chain CSR strategies that are tailored to these changes in business and procurement areas.

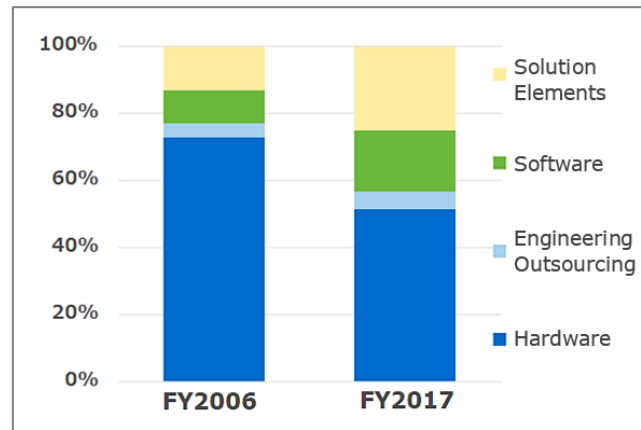
The software and solutions domain is different from the hardware domain in terms of the nature of business and social issues that must be addressed. Through survey of literature and consultations with experts, we have identified that besides information security, long working hours, health considerations, and work-life balance are among the issues that we need to focus on in software procurement.

In solutions procurement, we have identified the need to prevent danger and ensure safety in factories as important issues to address.

Going forward, we will determine more concrete issues as we move along with co-creation activities with suppliers and will identify specific issues that NEC should focus on in Supply-Chain CSR.

Policy Formulation: Measures in Accordance with Status of Suppliers

The NEC Group purchase cost structure indicates that the top 1,000 companies based on purchase amount account for 85% of the entire purchase volume. On the basis of corporate influence, we expect to see greater impact for our initiatives at Procurement Steering Committee by working with our major suppliers.



There is also a need, however, to monitor small-scale suppliers. Since there are still considerable risks related to human rights violations and other issues even for small purchase amounts, we believe it is also necessary to promote awareness from a perspective other than corporate influence.

Therefore, for fiscal 2018, we conducted an analysis of purchase cost structure and developed the "Supplier Risk Index" in order to carry out varied and adaptive CSR measures that fully take the scale of suppliers, status of transactions with NEC, and other factors into consideration.

The Supplier Risk Index is essentially based on purchase amount and is aimed at visualizing supplier risk conditions in terms of product domain, transaction history, corporate information, and other factors.

Starting fiscal 2019, we will leverage the Supplier Risk Index to carry out measures that emphasize effectiveness of activities based on newly identified key issues to address.

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

From fiscal 2016, NEC Group overseas subsidiaries have required their suppliers, including hardware manufacturers and local construction companies, to submit a declaration regarding the environment and safety and health management. This is aimed at ensuring compliance with environmental regulations enforced in each country and region and at securing the safety of workers at local construction sites.

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

- ① Compliance with regulations on banned chemical substances for delivered items (products or purchased goods)
- ② Proper and lawful disposal of wastes from construction of facilities, etc.
- ③ Ensuring worker's safety at construction sites, etc.

Through this kind of co-creation with its suppliers, NEC will continue to implement a compliance organization in its overseas subsidiaries and improve the compliance process.

48-49	Corporate Governance
55	Basic Approach on Tax Matters
60-66	Business Continuity
73-79	Supply Chain Management

50-54	Compliance and Risk Management
56-59	Promoting Fair Commercial Transactions
67-72	Information Security and Cyber Security
80-83	Ensuring Quality and Safety

Dissemination of Information Regarding Compliance

In-house Training and Monitoring

NEC Corporation and its consolidated subsidiaries regularly implement various educational and training programs for procurement personnel in accordance with the situation of each company, as part of efforts to maintain proper business conduct. These initiatives continued in fiscal 2018 based on the annual plan. The content was closely related to purchasing tasks, including overall aspects of CSR, corporate ethics, and the Act against Delay in Payment of Subcontract Proceeds, etc., to Subcontractors, and included courses needed to enhance operations skills. In particular, procurement personnel are required to undergo training on “onsite contracting and dispatch staffing” and on the “Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors” (Basic Compliance I, II, and Application) repeatedly for a total of three times over a period of several years.

In connection with accepting employees from suppliers through 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 undergo annual Web training. All employees also undergo mandatory Web training every year regarding the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors as a refresher course, in addition to when they become promoted into management positions.

In the course of enforcing compliance with purchasing-related laws and regulations and meticulously implementing such laws and regulations, NEC has appointed compliance promoters who are specialized in purchasing-related laws and regulations at NEC Corporation and its major consolidated subsidiaries in Japan. These compliance promoters rigorously enforce legal compliance within the divisions and their companies. Compliance promoter conferences are held twice a year, during which they share recent trends in reinforcement of control by competent authorities, and

information on training programs for procurement personnel, Web training materials, and other information needed in promoting compliance.

NEC continued to conduct internal auditing in fiscal 2018 to further promote appropriate onsite contracting and dispatch staffing practices. 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 during fiscal 2018 revealed no major problems pertaining to onsite contracting and dispatch staffing practices.

A Compliance Hotline, a point of contact for compliance consultation and reporting, has been made available also to suppliers since 2003. This mechanism provides an independent channel for transaction-related complaints and consultation by suppliers. The Compliance Hotline is easily accessible from NEC’s website. As part of efforts to eliminate compliance violations by NEC employees, starting fiscal 2018, a “request for cooperation towards thorough compliance” was issued to solicit cooperation of suppliers in handling complaints of violations. This initiative will be continued to further enhance the effectiveness of the Compliance Hotline.

▶ [Compliance Hotline](#)

Web-based Self-assessment: Strengthening Information Security

For NEC, a system integrator of information systems that serve as critical social infrastructures, strengthening and committing to information security involving subcontractors is one of the most critical issues. The Purchasing Division in particular is focusing on managing subcontractors and raising awareness on information security. Yearly activities include holding briefings for subcontractors, preparing educational materials and tools, and conducting web-based self-assessment. The following are the activities for fiscal 2018:

- Briefings on CSR and information security measures for management and CSR managers of 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.
- Web-based self-assessment to assess the information security implementation status of each subcontractor. Done for about 1,500 companies.
- On-site assessment of subcontractors. Done for about 100 companies.

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

On-site Assessment: Information Security Checks by Visitation

Comprehensive dissemination of instructions and requirements to include employees of suppliers is necessary in ensuring information security along the supply chain. This is because accidents are bound to occur if these stipulations are not followed at the workplace. Every year, NEC issues “Information Security Standards for NEC Group Business Partners” as part of the framework for implementing information security management among subcontractors. During On-site assessment, NEC representatives visit supplier operation sites to conduct interviews, check supporting documents, and carry out inspections to verify conformance with the standards stipulated in standards manuals. Subcontractors are selected for onsite assessment based on comprehensive criteria that include, not only the scale of transactions, but also the criticality of handled information, the level of confidentiality, and results of web-based self-assessment. In fiscal 2018, around 100 suppliers were visited, and requests for improvement of information security management system were issued to 9 companies.