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 “weird”. In addition, the Group encourages officers and employees to consult with supervisors, related departments or the Compliance Hotline 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.

Promotion Framework

NEC enforces and effectively implements compliance including the 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 priority risks.

2. Executive Committee
   The Executive Committee deliberates important risks related to NEC’s management strategies and policies, including the 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 (Compliance Hotline).

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

Further, it regularly receives and discusses reports of audit results from the Corporate Auditing Bureau, and receives reports of status of 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 audit. The Bureau works with the Internal Audit Divisions of subsidiaries in carrying 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

NEC is proactively developing compliance frameworks at its five regional headquarters around the world to further strengthen compliance in step with global business expansion. For example, NEC has delegated internal audit, compliance and legal affairs functions to the regional headquarters after clarifying the job descriptions for these three functions.

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

![Diagram of Framework for internal control]
### 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 in the training, with 98% completing it in fiscal 2016. Also, once a year, the President speaks about compliance at the NEC Business Ethics Forum. For fiscal 2016, the Forum tackled important themes primarily related to the Competition Law that all members, including management-level officers, should keep in mind. NEC also uses educational opportunities for new graduate recruit programs and other rank-specific programs to instill the importance of complying with the NEC Group Code of Conduct.

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 the fortnightly Compliance News email 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 160 case studies. These materials are used for a wide range of purposes, such as for distribution to new employees and use as educational materials during promotion of managers.

#### Addressing Global Business Expansion

Enforcement of compliance at overseas business sites has become an ever more urgent priority. In response, starting from 2015, Web-based training programs related to compliance designed for NEC and domestic subsidiaries have been made available in multiple languages (English, Spanish, Portuguese, and Chinese) and used also for overseas subsidiaries. NEC also provides guidance to executives posted to overseas subsidiaries and ongoing training locally to executives to reinforce compliance management functions, and shares information with compliance officers around the world.

#### 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 any concerns or issues related to compliance in the workplace with their superiors, colleagues, and people 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 NEC Group companies and suppliers in Japan.

Awareness of this system within the Group has remained above 90%. In fiscal 2016, the number of consultations to the Compliance Hotline contact points reached 85. 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.

#### Survey on Corporate Ethics Initiatives

NEC Corporation conducts online surveys as part of 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 the survey conducted in fiscal 2016, we received many comments that the survey served as an opportunity to reevaluate oneself and that it reminded them of the importance of compliance. We also fed back some of the survey results to share information to NEC Group officers and employees by posting results on the NEC intranet.

### 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 countermeasures and magnitude of impact on corporate management and on society, on the basis of risk assessments for each organization. These are obtained through a questionnaire-based risk management survey and interviews, the risk management effectiveness evaluation by the Corporate Auditing Bureau, findings of audit & supervisory board members (Kansayaku) and 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 devises, with other divisions, countermeasures for all Group companies.

#### Risk Management Activities

The Risk Control and Compliance Committee regularly receives reports on the status of examining the above specific priority risk countermeasures and progress of implementation from each division in charge. Through these reports, the committee supervises the Group-wide implementation of risk management by verifying results and issues from activities, activity plans, and other matters. It issues instructions as necessary on the directions for improvement and reinforcement measures.

The Internal Control Division gathers external information, conducts risk management surveys, and interviews subsidiaries around the world. It shares know-how accumulated from these processes as part of ongoing support for the risk management activities of divisions, including their subsidiaries, to reinforce the overall risk management capabilities of the NEC Group.

#### Addressing Inherent Fraud Risks

In fiscal 2016, as with fiscal 2015, NEC instituted compliance self-assessments for all general managers and executives of domestic unlisted subsidiaries. The goal was to encourage swift identification of compliance weaknesses within business units and the deployment of fast countermeasures. NEC feeds back analysis results and best practices information to respondents, so they can leverage them for the daily compliance activities within their departments.

### Participation in Activities of External Organizations

#### Business Ethics Research Center (BERC)

NEC Corporation has been a member since the center was established in 2000. We have utilized information on examples of initiatives in other companies obtained through the Center in the planning of measures to promote corporate social responsibility within the company.

[Business Ethics Research Center](#)
Objectives and Achievements

Objectives for the Medium Term (From fiscal 2014 to fiscal 2016)

1. NEC aims to achieve a uniform level of internal control across the NEC Group by working to increase efficiency while raising employee awareness by enhancing internal control systems and their operation globally.
2. To continuously develop and operate internal control systems
3. To continuously implement compliance promotion measures and improve the Group-wide implementation level
4. To continuously operate the Compliance Hotline and improve awareness Group-wide
5. To continuously implement risk management activities

Fiscal 2016 Objectives, Achievements and Progress, and Degree of Completion

(Degree of completion: achieved ☐/mostly achieved ○/some progress △/no progress ×)

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<tr>
<th>Objectives</th>
<th>Achievements and Progress</th>
<th>Degree of Completion</th>
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<tr>
<td>1. To review the internal control system based on the revised Companies Act and strengthen internal control functions through restructuring of the system.</td>
<td>• We reinforced our internal control system primarily by enhancing Group control through the reporting of important matters from subsidiaries and the creation of guidance and support mechanisms based on those reports.</td>
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<td>2. To continue risk management activities, such as addressing the priority risks, to overcome issues facing the NEC Group</td>
<td>• We selected the priority risks based on the Rules of Basic Risk Management and ensured execution of countermeasures by managing the progress status of countermeasures.</td>
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<td>3. To continue compliance training in Japan and overseas and gain employee acceptance of compliance awareness.</td>
<td>• We conducted web-based compliance training for almost all employees of NEC and domestic subsidiaries, with 98% completing it. • We held the NEC Business Ethics Forum, at which the president spoke about the importance of compliance. • We implemented training for new recruits and rank-specific training programs (including those for new managers, new general managers, and new executives). • We translated web-based training programs on compliance into multiple languages and conducted the training also for overseas subsidiaries. • We provided guidance to executives posted to overseas subsidiaries, and provided training locally to executives.</td>
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<td>4. To continue activities to popularize and inform about the Compliance Hotline, and promote early discovery and solution of problems and issues.</td>
<td>• Internal awareness of the Compliance Hotline remained at above 90% for three consecutive years (it was 91.5% in fiscal 2016).</td>
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Objectives for the New 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

1. To continue compliance training in Japan and overseas and gain employee acceptance of compliance awareness
2. To continue risk management activities, such as addressing the priority risks, to overcome issues facing the NEC Group
3. To continue activities to popularize and inform about the Compliance Hotline, and promote early discovery and solution of problems and issues