

# Compliance and Risk Management

## Policy

As a company engaged in the social solutions business, NEC believes earning and sustaining the trust of customers and society are the most important things. In its Principles, NEC subscribes to “Uncompromising Integrity and Respect for Human Rights,” and conducts continuous companywide activities involving everyone from officers to employees with management firmly based on compliance. In addition, our risk management activities include properly understanding risks that have an impact on our business, and taking preventive measures efficiently and effectively, including against compliance violations.

NEC Corporation received notification of a violation of the Antimonopoly Act from the Japan Fair Trade Commission in July 2016 regarding a deal concerning telecommunications equipment for electrical power security systems with Tokyo Electric Power Co., Inc. (current Tokyo Electric Power Company Holdings, Inc.). A further notification relating to a violation of the same act was received in February 2017 regarding (i) transactions for wireless digital emergency firefighting equipment and (ii) a deal concerning telecommunications equipment for electrical power security systems with Chubu Electric Power Co., Inc.

In order to keep these events fresh in mind and use them as a basis for reflection, we established NEC Compliance Day on November 18, being the date on which we received an on-site inspection by the Japan Fair Trade Commission, as an annual event for reconfirming the importance of compliance.

### <Compliance>

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.

In line with the key concepts of “awareness” and “information sharing,” our basic approach to implementing compliance is to foster awareness so that irregularities are recognized as “being not in conformance.” In addition, we encourage consultation with and reporting to managers, related departments, or the “Compliance Hotline” and sharing information with a view to resolving those issues and improving our practices systematically as an organization.

Furthermore, NEC aims to establish compliance within its corporate culture by ensuring that each officer and

employee treats compliance as his or her own responsibility and practices conduct in accordance with the “NEC Group Code of Conduct.” We recognize the need to revise the Code regularly, and in October 2019 we undertook a major overhaul through deliberation by the Board of Directors and the Executive Committee to reflect recent heightened social awareness of ESG, the SDGs, and other themes. The Code has been translated into multiple languages (Japanese, English, Chinese, Portuguese, and Spanish), and we are working to create a corporate culture that prioritizes compliance throughout the Group.

In order to realize effective compliance measures, the general managers of every NEC Corporation division have taken leadership and responsibility for discussing and implementing the optimal measures for their divisions with support from the corporate divisions.

### <Risk Management>

Moreover, as part of our risk management activities, we manage risk so as to avoid oversights and overlap of measures, under NEC’s “Rules of Basic Risk Management.” Every year, we identify risks whose materialization would have a particularly large impact on NEC Corporation’s business and sales targets. Among these, we select certain risks that require priority measures as “Priority Risks” for Companywide management. We then 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 Code of Conduct](#)
- ▶ [Priority Management Themes from an ESG Perspective - Materiality](#)

## Promotion Framework

NEC Corporation enforces and implements compliance with top management and conducts activities led by the Risk Control and Compliance Committee, the Compliance Division, and the Corporate Auditing Bureau. The meeting bodies and management structure are as follows:

### 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 measures taken for the Priority Risks. In addition, the Board regularly confirms the effectiveness of risk management, including prevention of corruption and fraud and the operation status of internal control systems.

### 2. Executive Committee

The Executive Committee discusses important NEC management issues such as policies and strategies, 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 NEC Corporation by regularly discussing reports of audit results received from the Corporate Auditing Bureau, or reports on the status of operations of the Compliance Hotline, the internal reporting system pertaining to business ethics and violations of laws and regulations.

### 4. Chief Legal & Compliance Officer (CLCO)

The Chief Legal & Compliance Officer chairs the Risk Control and Compliance Committee and oversees Companywide compliance promotion activities.

### 5. 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 of and countermeasures to the Priority Risks. The committee executes a supervisory function in Companywide 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 for improving and enhancing measures as needed.

The committee is chaired by the CLCO, who reports on important matters within the proceedings and results of the committee meetings to the Executive Committee and the Business Progress Committee and other meetings, which are attended by the CEO.

### 6. Compliance Division

The Compliance Division formulates and implements various initiatives designed to enforce compliance, including instilling knowledge of the 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 Compliance Hotline, the internal reporting system pertaining to business ethics and violations of laws and regulations.

### 7. Corporate Auditing Bureau

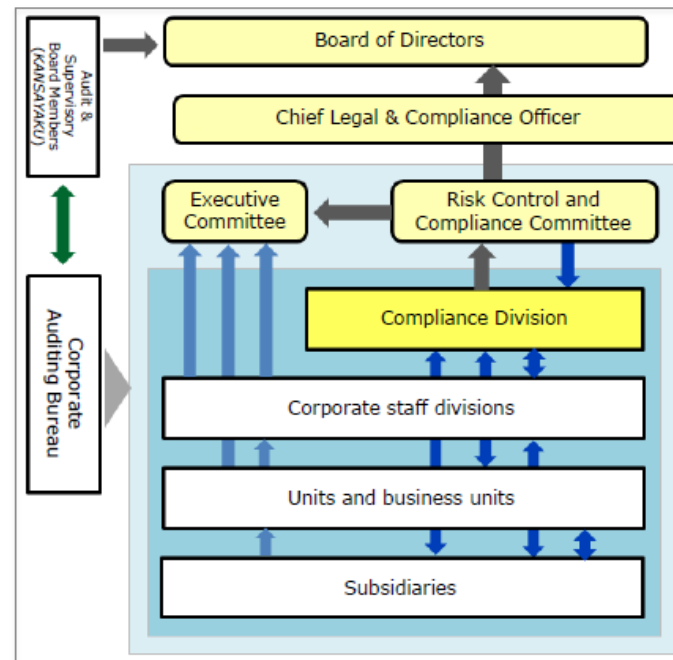
The Corporate Auditing Bureau functions as an internal auditing department directly under the supervision of the President and is composed of members who are experts in internal audits. The bureau carries out audits aimed at ensuring that NEC is operating lawfully, properly and efficiently, as well as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

### 8. Compliance Promotion at Consolidated Subsidiaries

The presidents of our domestic consolidated subsidiaries take ownership of proposing and implementing compliance measures with guidance and support from the Compliance Division, corporate divisions, units and business units responsible for each subsidiary.

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.



Compliance promotion framework

## Main Activities and Results for Fiscal 2020

### Compliance

#### Revision of the NEC Group Code of Conduct

In October 2019, NEC undertook a major overhaul of the NEC Group Code of Conduct to reflect recent social awareness of ESG and the SDGs. The revised Code of Conduct offers specific guidance to officers and employees about how we should adapt and the high sense of ethical standards and honesty required of us as a global company that provides solutions for social issues using ICT. The NEC Group Code of Conduct has been made available on the NEC Corporation website for anyone to view, and we also distribute it in booklet form to all officers and employees to ensure that all are familiar with its contents.

#### Conducting Various Initiatives for NEC Compliance Day

To establish compliance as part of NEC's corporate culture, we conduct various activities to spread information and raise awareness for NEC Compliance Day.

First, officers including the President and CLCO and all department managers (approximately 130 people), and the presidents of domestic and overseas consolidated subsidiaries communicate messages to underscore the importance of compliance to all employees. In addition, each employee of NEC Corporation makes a "Compliance Action Declaration" to show their own initiatives to make compliance part of the corporate culture.

At NEC Business Ethics, an annual corporate ethics forum for NEC Corporation and its domestic consolidated subsidiaries, lectures were given by NEC's President and an external lawyer with expertise in compliance. In addition, in fiscal 2020 we introduced a new initiative, the Compliance Excellent Award. The award is presented to divisions that have taken ownership for thoroughly implementing compliance. By introducing their specific initiatives, the award helps to improve the level of activities among all divisions.

Furthermore, we held face-to-face sessions for reflecting on three incidents of Antimonopoly Act violations caused by NEC Corporation to help prevent corruption and showed a film about the covering up of a recall to provide an opportunity to consider how we should act when we notice something improper. We also held workplace dialogues in which participants shared compliance issues in their own

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divisions with members of other divisions to think about them together.

A portal website for NEC Compliance Day was set up on our intranet to enable employees to browse activities and information related to the event at any time.

### Education and Awareness-Raising Activities throughout the World

NEC Corporation and its domestic subsidiaries conduct web-based training regarding compliance for all officers and employees once a year (completion rates in the training period were – NEC Corporation: 98.8%; domestic consolidated subsidiaries: 98.9% – and those unable to take the course within the period are committed to taking it in the next round). Also, NEC Corporation is deploying training content for overseas consolidated subsidiaries translated into multiple languages (Japanese, English, Spanish, Portuguese, and Chinese). We collected from officers and employees pledges to follow the NEC Group Code of Conduct and other internal policies. Furthermore, NEC Corporation emphasizes the importance of conduct that complies with the NEC Group Code of Conduct using the opportunities of training and education for new employees, and stratified education programs for new corporate officers and new department managers.

### Compliance Hotline (Whistleblowing System for Employees and Business Partners)

The Compliance Hotline is NEC's whistleblowing system for preventing corruption, fraud and other compliance matters in general. We have also established an additional contact point for the hotline at a third-party agency as an additional contact point in order to enhance convenience and to address a broader range of risks at an early stage. This contact point receives whistleblower reports from not only employees of NEC Corporation but also its domestic subsidiaries and business partners. The identity of whistleblowers who contact the hotline and the nature of their reports are guaranteed confidentiality by the personnel in charge. Whistleblowers will never suffer retaliation because of having made a report. NEC Corporation and its consolidated subsidiaries in Japan have taken steps to ensure the protection of confidentiality and prevention of retaliation by establishing the Compliance Hotline Regulations as internal regulations in November 2019. This is made known to employees through the intranet web portal, and training programs.

In fiscal 2020, the number of reported cases was 90, down by 31 from the previous year. The reported cases included ethical behavior violations, fraud or violations

against the NEC Group Code of Conduct or company rules, and other possible violations. These cases have been appropriately handled. (Examples: 1) In a report of harassment, the facts were confirmed and the offender was given guidance and transferred, giving consideration to the whistleblower's wishes. 2) On receiving a report pointing out that sharing rooms in an accommodation facility during a training program that required participants to stay overnight lacked consideration for LGBT people, the accommodation was changed to individual rooms accordingly.)

For NEC's overseas consolidated subsidiaries, Regional Headquarters (RHQ) also set up whistleblowing systems operated by third parties in each region, which are available for local officers and employees to use in the native local language (English, Spanish, Portuguese, and Chinese). The consulted/reported cases and their handling by overseas consolidated subsidiaries are shared with NEC Corporation.

The status of Compliance Hotline implementation and operation (including the internal reporting systems of NEC Corporation subsidiaries) is regularly reported by the Corporate Auditing Bureau to the Board of Directors and the Audit & Supervisory Board members.

### Survey on Compliance Promotion Initiatives

We conducted a survey of all officers and employees in conjunction with web-based training regarding compliance in order to evaluate the status of their initiatives on compliance promotion and their awareness of compliance. Furthermore, in a survey conducted after NEC Compliance Day, we asked division employees to evaluate the messages delivered by their division's department managers. The results of the surveys were posted as feedback on the intranet portal website, and will be useful for proposing and implementing measures to further enforce compliance going forward.

### Exchanges of Opinion with Business Divisions

To further increase each division general manager's ownership of ensuring compliance, in fiscal 2020, the Compliance Division held a face-to-face exchange of opinions with approximately 60 business divisions. Through active discussions on the latest compliance related topics, the Compliance Division was able to understand the situations of each division, and they all are working together to improve compliance activities companywide.

## Risk Management

### Selecting Priority Risks and Countermeasures

NEC Corporation 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. Important risks that are evaluated as having a particularly large impact are selected as Priority Risks and reported to the Board of Directors, which puts countermeasures in place for them.

In fiscal 2020, we selected the following Priority Risks: "risks regarding labor management," "risks regarding human rights issues arising from new technology," "risks regarding bribery," and "risks regarding information security." The respective divisions responsible for each of the risks are taking the necessary countermeasures.

## Participation in Activities of External Organizations

### Business Ethics Research Center (BERC)

NEC Corporation has been a BERC member since its establishment in 1997. BERC collects worldwide information relating to business ethics, does research on ethics, offers consulting on business activities and educates businesspersons 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](#)