

Supply Chain Management

Basic Policy Concerning Sustainable Procurement

Corporations are required to conduct procurement activities that strongly emphasize sustainability throughout the entire global supply chain.

NEC endeavors to work not only within itself, but also through collaboration and co-creation with suppliers to conduct business while giving full attention to its impacts on the environment and society as a whole. We believe this will make us worthy of the trust given by society and enable us to contribute to sustainable social value creation. Based on this belief, as we learn together about critical social issues and the impact of business on society, we will continually engage in initiatives toward building a better supply chain.

Policy

NEC formulated the "NEC Group Procurement Policy" based on its concepts of sustainable management and on the ISO 26000 and ISO 20400 international guidance standards for social responsibility and sustainable procurement. We are developing the policy in internal control pertaining to Sustainable Procurement and among suppliers. 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, we have revised our CSR Procurement Guidelines to reflect changes in society's demands, also changing the name to "Guidelines for Responsible Business Conduct in Supply Chains."

The above policy and guidelines require our suppliers to implement responsible business conduct, identifying the following six priority risks:

- Human rights
- Occupational health and safety
- Fair trade
- Environment
- Information security
- Product quality and safety

With regard to human rights, the NEC Group Procurement Policy clearly rejects slavery and human trafficking, and the Guidelines for Responsible Business Conduct in Supply Chains prohibit forced labor and child labor, while respecting workers' right to organize. The policy and guidelines also require appropriate wages and management of work hours.

With regard to the environment, we have formulated the Green Procurement Guidelines, which call for a combined effort between NEC and its suppliers to realize environmental management. At the same time, we have also set out the "Environmental Specifications Pertaining to Procurement Restrictions for the Inclusion of Chemical Substances in Products," which require us to comply with industry regulations on chemicals in products.

With regard to information security, NEC sets out security measures to be observed by outsourcers in "Basic Rules for Customer-Related Work" and has them make a pledge to observe them in order to promote thorough implementation of countermeasures.

Based on this policy and guidelines, NEC will work to deepen mutual understanding with suppliers and promote procurement activities in close collaboration with them, while evaluating them comprehensively in terms of QCD* and sustainability, and continuing in efforts to nurture partnerships from a long-term perspective.

*QCD: Quality, Cost and Delivery

- ▶ [NEC Group Procurement Policy](#)
- ▶ [Guidelines for Responsible Business Conduct in Supply Chains](#)
- ▶ [Green Procurement Guidelines](#)
- ▶ [Environmental Specifications Pertaining to Procurement Restrictions for the Inclusion of Chemical Substances in Products](#)
- ▶ [Information Security and Cyber Security](#)

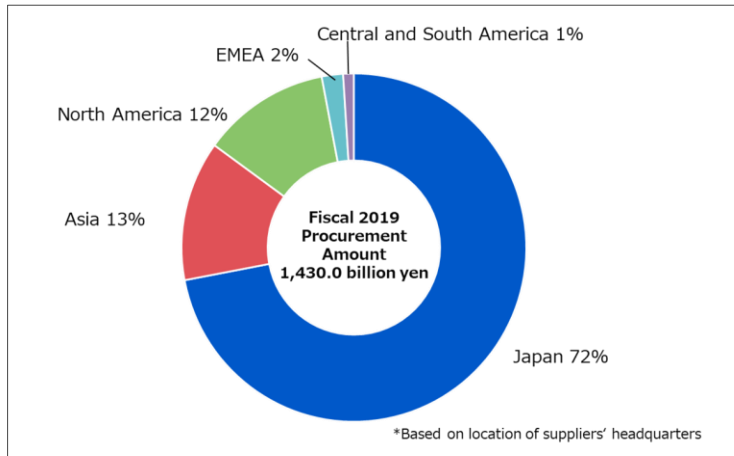
We implement measures to counter the above six priority risks at each stage of basic contracts, dissemination, document check, and on-site assessment.

- ▶ **Basic Contract**
NEC ensures implementation and compliance with 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. In fiscal 2020, we obtained declarations from 297 companies in Japan with whom we started new transactions. In fiscal 2021, we will formulate a new declaration that has a wider scope covering all of the Guidelines for Responsible Business Conduct in Supply Chains, and start activities for obtaining them.
- ▶ **Dissemination**
NEC presents the NEC Group Procurement Policy, Guidelines for Responsible Business Conduct in Supply Chains, and various other guidelines to its suppliers. We also hold exchange meetings with strategic supply chain partners and "CSR/Information Security Measures" where we explain our policies and guidelines directly to suppliers and ensure dissemination of the latest measures.
- ▶ **Document Check**
NEC conducts web-based self-assessments each year in order to assess the status of supplier compliance with requirements and initiatives relating to the fields of human rights, information security, and the environment.
- ▶ **On-site Assessment**
When the Procurement Division makes an inspection of sustainable procurement requirements during its ordinary visits to suppliers, we assess sustainable procurement requirements related to human rights, occupational health and safety, and the environment. In fiscal 2019, we started the "Supplier Visit Record" (SVR) initiative to compile records of these inspections.

With regard to information security, NEC visits its suppliers annually to conduct an on-site assessment. For both kinds of on-site assessment, NEC shares the items that require improvement with its suppliers and supports them in implementing improvement measures.

The graph below represents the amount of procurement by region.

Japan accounts for 72% of the total procurement amount. Asia accounts for 13%, North America 12%, EMEA (Europe, Middle East, and Africa) 2% and Central and South America 1%.



Suppliers who account for a large procurement amount, suppliers of rare products, and suppliers who cannot be easily replaced are designated as critical suppliers. NEC engages in the above sustainable procurement measures in Japan and Asia, where there are a large number of critical suppliers.

Promotion Framework

Sustainable Procurement activities of the entire NEC Group are under the responsibility of the Chief Supply Chain Officer (CSCO). Decisions related to sustainable procurement are discussed at the Procurement Steering Committee chaired by the General Manager of Purchasing Division.

NEC endeavors to gain a deeper understanding of global social issues, the latest initiative examples and so forth by conducting stakeholder engagement with international initiatives, civil society (NGO/NPO) and academia, to serve as a basis in drawing up sustainable procurement promotion plans, as well as plans for effective implementation and improvement of individual measures.

In the course of ensuring compliance with purchasing-related laws and regulations, NEC has appointed compliance promoters who specialize in purchasing-related laws and regulations at NEC Corporation and its major consolidated subsidiaries in Japan. These compliance promoters rigorously enforce legal compliance within their divisions and their companies. Compliance promoter conferences are held twice a year, during which they share recent information needed for promoting compliance, such as trends in reinforcement of control by competent authorities, training programs for procurement personnel, and online training materials.

Overseas subsidiaries conduct activities under the Global SCM Leaders Session, which meets annually, as the decision-making body. In Europe, China and East Asia, and APAC, Regional Headquarters and major local subsidiaries directly controlled by Headquarters promote sustainable procurement in accordance with the culture and business practices of each country, as well as with the basic policies and guidelines mandated by the Headquarters in Japan.

In cross-Company activities, we participate in the Supply Chain Working Group of Global Compact Network Japan's continuing discussions regarding the goals of sustainable procurement with various members coming from companies in different industries, NGOs, and so forth. We also conduct activities aimed at generating output that will contribute to improvement of CSR practices in corporations.

Measures and Results for Fiscal 2020

Monitoring

Document Check

NEC conducted document checks related to human rights and the environment at 192 critical suppliers in fiscal 2020.

For 25 of these suppliers providing hardware, NEC Corporation used the CDP Supply Chain Program run by the environmental NGO CDP, which enabled the Company to visualize and understand the suppliers' initiatives on climate change. In fiscal 2021, we will expand the scope of the CDP Supply Chain Program to cover 73 suppliers. Through the program, we will consolidate our engagement with the suppliers and further promote climate change countermeasures through the entire supply chain.

In fiscal 2020, NEC also conducted document checks on 1,465 companies regarding information security, which is a priority issue for us as a system integrator of information systems that serve as critical social infrastructures. In our collaborations with business partners, we believe it is important to ensure that the technology capabilities and information security level of the business partners meet our required standards. To this end, NEC categorizes its suppliers by information security level according to the implementation status of their information security measures based on the results of document checks. We then select suppliers for a project appropriately in accordance with the required information security level for the project when outsourcing tasks.

Information Security and Cyber Security

On-site Assessment

In fiscal 2020, we performed SVR assessments of primarily critical suppliers in areas that present high risks in terms of human rights, occupational health and safety, and the environment. We collected data on 104 on-site assessments, to confirm that there were no issues.

For information security in particular, it is important to disseminate instructions and requirements even to employees of suppliers. This is because incidents may occur if these are not followed by workers on the front line. During on-site assessment, NEC representatives visit supplier operation sites to conduct interviews, check supporting documents, and carry out inspections. Suppliers are selected for on-site assessment based on comprehensive

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criteria that include not only the scale of transactions, but also the criticality of handled information, the level of confidentiality, and results of online self-assessment.

In fiscal 2020, we visited 28 suppliers and found no cases requiring significant improvements. However, we gave improvement guidance to suppliers who required improvements on minor issues, such as designation of confidential labeling (seven companies) and management of disposal and return of confidential items (six companies).

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

A Compliance Hotline, a point of contact for compliance consultation and reporting, has been made available also to suppliers since 2003. This provides an independent channel for transaction-related complaints and consultation by suppliers. The hotline can also be used outside of Japan. It 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" has been 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 \(Whistle-blowing system for employees and business partners\)](#)

Internal Training and Awareness Raising

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.

In fiscal 2020, we continued to conduct training focused on the Act against Delay in Payment of Subcontract Proceeds, etc., to Subcontractors and the Worker Dispatching Act in order to ensure procurement operations are executed appropriately with regard to sustainability, corporate ethics, and legal compliance.

Green Procurement Initiatives

NEC has been promoting 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. Also, to comply with chemical substances regulations around the world, notably the European RoHS (Restriction of Hazardous Substances) Directive and the European REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) Regulation, NEC continuously conducts surveys of the chemical substances incorporated into the procurement products. Furthermore, in measures against climate change, from fiscal 2013 we have been ascertaining CO₂ emissions related to procurement products. We disclose CO₂ emissions data for the entire supply chain, including procurement products, after third-party validation, and are making use of the data in developing measures to reduce CO₂ emissions.

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

Addressing the Issue of Conflict Minerals

The NEC Group has formulated the "NEC Group's Responsible Mineral Procurement Policy." We sought the understanding and cooperation of our suppliers on the issue of conflict minerals and conducted conflict mineral surveys from supplier to smelter. We also established a response structure drawing on a liaison between our internal sales and business units so we can swiftly respond to requests from customers based on the conflict minerals survey.

- ▶ [NEC Group's Responsible Mineral Procurement Policy \(Included within "Guidelines for Responsible Business Conduct in Supply Chains"\)](#)

NEC continues to collaborate with industry as a member of the "Responsible Mineral Trade Working Group" led by the Japan Electronics and Information Technology Industries Association (JEITA).

NEC participates in the Working Group's "Education and PR Team." In this capacity, we acted as a key presenter in a joint briefing for suppliers and worked to promote their understanding of conflict-mineral issues.

Dialogue for Strengthening Initiatives on Respecting Human Rights

NEC received a third-party impact assessment on human rights risks in its supply chain. The results of the assessment were used as the basis for a dialogue between NGOs and international organizations working on solving human rights issues and legal specialists.

- ▶ [Strengthening Initiatives for Respecting Human Rights in Procurement Activities](#)

Strategic Supply Chain Partners Meeting

NEC holds exchange meetings with strategic supply chain partners each year for its main strategically important suppliers. We require these suppliers to understand and cooperate with the NEC Group's sustainable procurement activities centered mainly on human rights, occupational health and safety, the environment, and information security. At the meeting held at the start of 2020, 444 members of the management at 188 suppliers from throughout the world participated.

We reported to the participating companies on the results of document checks covering human rights and the environment. We also presented awards to suppliers that had contributed to the NEC Group's business from an environmental perspective.

