

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. In May 2021, we newly designated “supply chain sustainability” as our materiality and will further reinforce initiatives, such as those relating to human rights and environmental due diligence.

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 Rules. 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, the NEC Group Procurement Policy and the “Guidelines for Responsible Business Conduct in Supply Chains” require our suppliers, including upstream business partners, to implement responsible business conduct and identify 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 labour and child labour, 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 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 ensure 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^{*1} and sustainability, and continuing in efforts to nurture partnerships from a long-term perspective.

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 utilize in drawing up and promoting procurement measures, as well as improvement of individual measures, based on the policy.

*1 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 various measures to counter the above six priority risks at each stage of basic contracts, dissemination, document check, and on-site assessment. Furthermore, in addition to these measures, we have also developed a mechanism for handling supplier complaints and carry out education and awareness-raising activities for NEC employees.

Basic Contracts

NEC ensures implementation and compliance with these initiatives by suppliers by entering into basic contracts and obtaining declarations that demonstrate their commitment to responsible business conduct in supply chains. These declarations were newly formulated in response to the Guidelines for Responsible Business Conduct in Supply Chains.

As an indicator for the materiality “supply chain sustainability,” we aim to acquire declarations from suppliers accounting for 75% of the total procurement amount by the end of fiscal 2026.

Dissemination

NEC presents the NEC Group Procurement Policy, the 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 Sustainability/Information Security Sessions, where we explain our policies and guidelines directly to suppliers and ensure dissemination of the latest measures.

Document Check

NEC conducts self-assessments in order to assess the status of supplier compliance with requirements and initiatives relating to the fields of human rights, occupational health and safety, the environment, fair trade, and information security.

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, OH&S, 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.

Establishment of Complaints-handling Mechanism

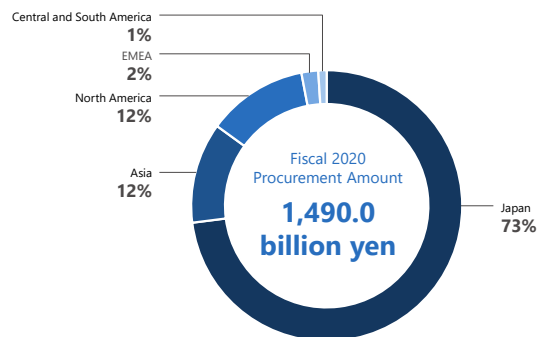
The Compliance Hotline, a point of contact for compliance consultation and reporting, has been made available also to suppliers since 2003. By providing an independent channel, we have established a mechanism for transaction-related complaints and consultation by suppliers that is considerate of the privacy of whistleblowers.

Education and Awareness-raising Activities

In accordance with internal procurement regulations, NEC Corporation and its subsidiaries conduct regular training for procurement personnel, as well as timely training on individual topics to address new laws and regulations and emerging risks, in order to maintain appropriate business operations.

The graph on the right represents the procurement amount by region and percentage by region.

Japan accounts for 73% of the total procurement amount. Asia accounts for 12%, North America 12%, EMEA (Europe, the Middle East, and Africa) 2%, and Central and South America 1%.



* Based on location of suppliers' headquarters

Scope: NEC Corporation and consolidated subsidiaries

NEC designates critical suppliers as suppliers who account for a large procurement amount, suppliers of rare products, and suppliers who cannot be easily replaced and focuses on engaging in sustainable procurement measures.

Implementation Framework

Sustainable procurement activities of the entire NEC Group are under the responsibility of the Chief Supply Chain Officer (CSCO). Decisions are made by the Procurement Steering Committee chaired by the general manager of the Purchasing Division.

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.

International subsidiaries conduct activities under the Global SCM Leaders Session, which meets annually, as the decision-making body. In North America, Latin America, EMEA, 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 Companywide 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 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 Main Fiscal 2021 Activities

In fiscal 2021, we implemented the following initiatives while we prioritized ensuring the health and safety of both our own employees and the employees of our suppliers during COVID-19.

● Activities Based on Policy

Basic Contracts

In July 2020, we revised the CSR Procurement Guidelines under the title “Guidelines for Responsible Business Conduct in Supply Chains” to reflect changes in society's demands, and began to acquire signed agreement of “Declarations of Responsible Business Conduct in Supply Chains” to require our suppliers to implement and comply with these guidelines. We have obtained declarations from over 7,000 suppliers in Japan and abroad, including existing suppliers (accounting for 68% of the total procurement amount), as we make it mandatory to acquire declarations at the start of new transactions.

Dissemination

In addition to the existing English and Japanese versions of the Guidelines for Responsible Business Conduct in Supply Chains, which NEC disseminates among suppliers, we have also created a Chinese version. Furthermore, we explained and disseminated policies and guidelines regarding sustainable procurement to suppliers at events including the Sustainability/Information Security Sessions (1,436 companies participated), which was held in May 2020, and the exchange meeting with strategic supply chain partners (181 companies participated), which was held remotely in January 2021.

Document Check

Document checks are implemented through two inspections: sustainable procurement self-check sheets (human rights, the environment, OH&S, and fair trade) and information security check-sheets, which utilize a special system.

In the sustainable procurement self-check sheets, we expanded inspection themes to a total of four by adding OH&S and fair trade to the existing themes of human rights and the environment, as well as expanding the number of questions from 69 to 151. We received responses from 696 companies, mainly critical suppliers, and evaluated the status of each supplier on a five-point scale of A, B, C, D, and Z for each theme in light of the following evaluation criteria: “score rate” and “critical points”^{*2}.

^{*2} Critical points are questions that NEC has identified as potential risks, in light of the Guidelines for Responsible Business Conduct in Supply Chains, issued by NEC in July 2020, and other regulations, if initiatives remain unaddressed.

Evaluation Categories	Criteria	Description
A	Score rate between 80% and 100%	Implemented outstanding initiatives
B	Score rate between 60% and 80%	Implemented standard initiatives
C	Score rate between 50% and 60%	Implemented initiatives but only for some issues
D	Score rate below 50%	Initiatives themselves are insufficient
Z	Unable to clear critical points	Risks expected

We issued a feedback sheet to all of the suppliers who responded, indicating their score for each inspection theme and comparison to the average score for each product type, and shared the evaluation results with them.

Furthermore, in this survey 36 suppliers received Z ratings, which determined the existence of potential risks. (Main causes of risks: environmental management system that is a mandatory requirement for suppliers in hardware transactions is incomplete; appropriate management of chemical substances included in products is insufficient; etc.)

We will implement support for suppliers who received Z ratings aimed at correcting these issues during the first half of fiscal 2022 through supplier engagement, such as understanding the conditions and providing correctional guidance.

NEC conducted document checks on 1,456 companies with the information security check sheet. Information security 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

Despite a decrease in the frequency of visits to suppliers due to the COVID-19, we performed SVR assessments of primarily critical suppliers in areas that present high risks in terms of human rights, OH&S, and the environment. We collected data on 55 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. Incidents may occur if these are not followed by workers on the front line, therefore 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 criteria that include not only the scale of transactions but also the criticality of handled information, the level of confidentiality, and results of self-assessment. In fiscal 2021, we carried out remote on-site assessments at 38 companies due to COVID-19. We did not observe any major deficiencies during the on-site assessments; however, we gave improvement guidance to suppliers who required improvement on minor issues (main areas for improvement: regulation of private possessions, designation of confidential labeling, management of disposal and return of confidential items, and cyber security measures).

Establishment of Complaints-handling Mechanism

In fiscal 2021, we confirmed the facts and responded appropriately to four reports to the Compliance Hotline regarding procurement.

As part of efforts to eliminate compliance violations by NEC employees, starting in fiscal 2018, a “Request for Cooperation toward 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 (Whistleblowing system for employees and business partners)

Internal Training and Awareness Raising

In addition to regularly implementing various training programs for procurement personnel, we invited an outside instructor to hold a special online sustainable procurement lecture in July 2020 for about 600 procurement personnel in Japan and other parts of Asia.

Furthermore, we held awareness-raising online training for all NEC employees regarding the importance of sustainable procurement in November 2020.

● 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 that we can swiftly respond to requests from customers based on the conflict minerals survey.


 The NEC Group’s Responsible Mineral Procurement Policy
Note: Included within Guidelines for Responsible Business Conduct in Supply Chains

 FORM SD/Conflict Minerals Report

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 throughout its value chain. The results of the assessment were used as the basis for a dialogue between an NGO on working to resolve human rights issues, other international organizations, and legal specialists in March 2021.

 Working toward Robust and Resilient Human Rights Due Diligence throughout Supply Chains



● Green Procurement Initiatives

NEC has established a green certification system based on the Green Procurement Guidelines that cover the procurement of not only hardware but also software and services, and has been promoting procurement from green certified suppliers since fiscal 2007.

Regarding countermeasures for inclusion of chemical substances in procurement products, NEC continuously conducts surveys of the chemical substances incorporated into procurement products to comply with chemical substances regulations around the world, notably the EU RoHs Directive and the EU REACH regulations Regulation.

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 utilizing our supplier engagement activities to reduce CO₂ emissions.

Specifically, NEC used the CDP Supply Chain Program run by the environmental NGO CDP, which we joined in 2019, to expand the number of companies we surveyed from 25 to 73, mainly suppliers providing hardware, in order to understand suppliers' initiatives on climate change and conduct feedback on the evaluation results.

 Environmental Specifications Pertaining to Procurement Restrictions for the Inclusion of Chemical Substances in Products
 Scope 3

NEC Awarded the Highest Rating for Supplier Engagement by the CDP

NEC has been acknowledged on the Supplier Engagement Leaderboard, the highest rating in the Supplier Engagement Rating*³ conducted by the CDP, an environmental NGO.

NEC has received an A List rating for Climate Change and Water Security, which makes a total of three categories in 2020. We recognize that our various efforts to aim for zero CO₂ emissions from supply chains under NEC's long-term environmental goal, Course of Action for Climate Change Toward 2050, have been highly evaluated. Going forward, we will promote climate change action throughout the entire supply chain through cooperation and co-creation with suppliers.



*³ The Supplier Engagement Rating examines a company's initiatives for climate change and reduction of greenhouse gas emissions across the entire supply chain and gives a rating based on these efforts.

● 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, OH&S, the environment, and information security. The meeting in January 2021 was held online as a preventive measure against the spread of COVID-19, and 385 members of the management at 181 suppliers from around the world participated.

At this meeting, the supplier who significantly contributed to implementing sustainability initiatives received a Sustainability Award.



2021 Sustainability Award
Seiko Epson Corporation
Yasunori Ogawa, President
and CEO (left)