

Compliance and Risk Management

Policy

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.

Compliance

NEC aims to establish compliance within its corporate culture by ensuring that each officer and employee treats compliance as their own responsibility and practices conduct in accordance with the NEC Group Code of Conduct. Moreover, the Code has been translated into Japanese, English, Chinese, Portuguese, and Spanish. By promoting the Code at consolidated subsidiaries abroad, we are creating a corporate culture in Japan and abroad that gives first priority to compliance. Also, we recognize that the Code should be revised regularly. If a violation is found, the person or persons associated with the infraction will be dealt with according to employee regulations, and consideration will be given toward reflecting the violation in the performance evaluation of the relevant department.

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. Further, identifying compliance as one of NEC’s priority management themes from an ESG perspective—materiality—the Mid-term Management Plan 2025 sets as a goal zero cases of serious involvement with cartels and/or bid-rigging.

Risk Management

Moreover, as part of our risk management activities, we manage risk in order to avoid oversights and overlap of measures, under NEC’s “Rules of Basic Risk Management.” Every year, we evaluate risks in terms of their urgency and impact on the NEC Group and create a risk map that visualizes the importance of each risk. Using this map, we identify risks whose materialization would have a particularly large impact on the NEC Group’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

Periodic Rotation and Reengagement of Accounting Auditors

Pursuant with regulations such as those that are based on the Certified Public Accountants Act and which concern accounting auditors, the Company manages operations based on the following rules.

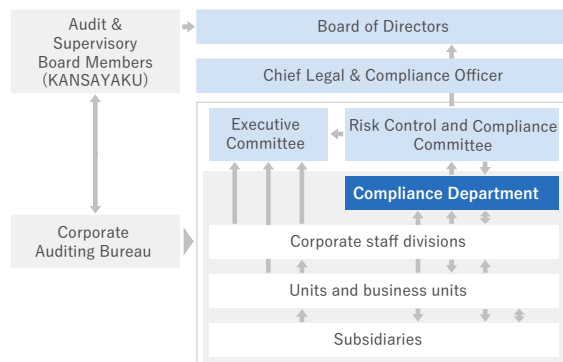
- Engagement partners may not be engaged for more than seven accounting periods in duties that entail conducting audits of the Company. Lead engagement partners may not be engaged for more than five accounting periods in duties that entail conducting audits of the Company.
- For two accounting periods after being replaced, engagement partners may not be engaged in duties that entail conducting audits of the Company. For five accounting periods after being replaced, lead engagement partners may not be engaged in duties that entail conducting audits of the Company.

Implementation Framework

NEC Corporation enforces and implements compliance with senior management.

Board of Directors	<ul style="list-style-type: none"> 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, it regularly confirms the effectiveness of risk management, including prevention of corruption and fraud and the operational status of internal control systems.
Executive Committee	<ul style="list-style-type: none"> 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.
Audit & Supervisory Board Members (KANSAYAKU)	<ul style="list-style-type: none"> The Audit & Supervisory Board Members (the “A&SBMs”) 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.
Chief Legal & Compliance Officer (CLCO)	<ul style="list-style-type: none"> The CLCO chairs the Risk Control and Compliance Committee and oversees Companywide compliance promotion activities.
Risk Control and Compliance Committee	<ul style="list-style-type: none"> The Risk Control and Compliance Committee, whose members are officers, investigates the underlying causes of serious compliance breaches, studies plans for the prevention of recurrence and preventive measures, and deliberates on 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 audits the management of Companywide risks. It 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.
Compliance Department	<ul style="list-style-type: none"> The Compliance Department formulates and implements various initiatives designed to enforce compliance, including instilling knowledge of the NEC Group Code of Conduct. In addition, the department provides the necessary support, coordination, and guidance to ensure that risk management in the business and corporate staff departments is implemented systematically and effectively. For example, the department 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 department regularly listens to 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.
Corporate Auditing Bureau	<ul style="list-style-type: none"> 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.
Compliance promotion at consolidated subsidiaries	<ul style="list-style-type: none"> The presidents of our consolidated subsidiaries in Japan take ownership of proposing and implementing compliance measures with guidance and support from the Compliance Department, corporate departments, units, and business units responsible for each subsidiary. In regard to consolidated subsidiaries abroad, the five Regional Headquarters (RHQ), 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 consolidated subsidiaries in Japan and abroad to the Headquarters in Japan.

Compliance Implementation Framework



 Basic Policy on Internal Control Systems

Measures and Main Fiscal 2022 Activities

Compliance

For the third consecutive fiscal year, in fiscal 2022 there were no cases of serious involvement with cartels and/or bid-rigging in the NEC Group, thanks to implementation of the following measures.

Conducting Various Initiatives for NEC Compliance Day

Every November 18, NEC holds its NEC Compliance Day, marking the date on which we received an on-site inspection by the Japan Fair Trade Commission in connection with sales of firefighting emergency radio systems. On this day, NEC reaffirms the importance of compliance with a variety of activities meant to spread awareness and ingrain compliance as part of NEC's corporate culture.

Messages from senior management	<ul style="list-style-type: none"> Officers, including the president, CLCO, all department managers (about 140 people), and the presidents of consolidated subsidiaries in Japan and abroad, communicate messages to underscore the importance of compliance to all employees. This includes adherence to the NEC Group Code of Conduct.
Compliance Action Declaration	<ul style="list-style-type: none"> Each employee of NEC Corporation makes a "Compliance Action Declaration" to show initiative toward making compliance part of the corporate culture.
NEC Business Ethics Forum and award	<ul style="list-style-type: none"> NEC Corporation holds an annual forum for the Company and its consolidated subsidiaries in Japan. The forum features lectures from NEC's president and an external compliance expert. In addition, the Company presents the Compliance Excellence 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.
Lectures	<ul style="list-style-type: none"> NEC Corporation holds online lectures as a way to recollect and reflect upon the three Antimonopoly Act violations committed by the Company in the past.
Compliance quiz	<ul style="list-style-type: none"> We conduct activities using a quiz format to increase employee understanding of relevant compliance topics.
Online NEC Compliance Day portal	<ul style="list-style-type: none"> An online NEC Compliance Day portal is set up on the company intranet to enable employees to browse activities and information related to the event at any time.

 Promoting Fair Commercial Transactions

Education and Awareness-raising Activities throughout the World

NEC Corporation and its subsidiaries in Japan conduct web-based training regarding compliance for all officers and employees (including dispatched employees) once a year (completion rates in the training period—NEC Corporation: 99.0%; consolidated subsidiaries in Japan: 98.5%). Those unable to take the course within the period must commit to taking it in the next round. Also, NEC Corporation is deploying training content for consolidated subsidiaries abroad translated into multiple languages (Japanese, English, Spanish, Portuguese, and Chinese). We collect 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 a 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 subsidiaries in Japan 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. In addition, whistleblowers will never suffer retaliation for having made a report. In the unlikely event that such retaliation takes place and is confirmed, necessary corrective measures will be taken.

As a response to the Amendment of the Whistleblower Protection Act, we have strengthened the system in place for protecting whistleblowers, which includes the designation of workers dedicated to responding to whistleblowing reports. Another response is the newly established "A&SBM Hotline," an internal reporting system that allows whistleblowers to report fraudulent officer activity to the A&SBMs. We will continue to ensure the protection of whistleblowers and work to establish a system that allows employees and other parties to make reports with peace of mind.

NEC 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. This is made known to employees through training programs and other means.

In fiscal 2022, the number of reported cases was 62. 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 of the measures taken are as follows.

- (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) In reports related to COVID-19, such as the handling of vaccination information and other similar situations, the facts were confirmed and attention was brought to the matter at hand in addition to other necessary actions.

For NEC's consolidated subsidiaries abroad, Regional Headquarters (RHQ) also set up multilingual 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 consolidated subsidiaries abroad are shared with NEC Corporation.

A new Global Hotline has also been established as an additional contact point, aimed at early detection and resolution of fraudulent activities involving executives at consolidated overseas subsidiaries. Accordingly, this hotline functions independent of these executives, and we are working to expand the number of companies that can take advantage of this new contact point.

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 A&SBMs.

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 divisions' department managers. The results of the surveys were posted as feedback on the intranet portal 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 2022 the Compliance Department held an exchange of opinions with approximately 60 business divisions and subsidiaries. Through active discussions on the latest compliance-related topics, the Compliance Department was able to understand the situations of each division and subsidiary, and they are all 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 results of risk assessment for each division, which were obtained through a questionnaire-based risk management survey, and findings in the internal audit by the Corporate Auditing Bureau, among others. 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.

Response to Emerging Risks

NEC minimizes emerging risks—namely, risks that could arise in the near future and have a long-term effect on corporate management—by predicting their potential impact on businesses and taking countermeasures accordingly.

The following are examples of responses to emerging risks.

Risks Related to the Prevalence of COVID-19

Description	The spread of COVID-19 or the emergence and unexpected spread of a novel, unknown infectious disease could lead to volatile social, economic, financial, and working conditions. The extent of the impact on NEC is both extremely unclear and difficult to predict, as much depends on how the situation unfolds going forward.
Impact on business	If customers such as governments shift their focus to addressing COVID-19, it could cause orders from these customers to fall below expectations. The spread of the infection could also cause a drop in IT-related investment from customers, a rise in the prices of procured items due to customer and supplier factory closures, as well as a drop in supply. These factors could have a negative impact on the NEC Group's business, performance, and financial condition. Furthermore, the act of working from home, a measure to prevent infection and protect employees, may increase the risk of unauthorized access, cyberattacks, and leaks of personal and confidential information related to the NEC Group, customers, and third parties.
Countermeasures	The NEC Group has taken great care to ensure that all Group employees adopt behavior that prevents infection and the spread of the pandemic and has issued in-house guidelines on measures to prevent such risk. These measures include rigorous implementation of temperature checks for all employees each morning, enforcing handwashing and mouth rinsing, staggering shifts and encouraging teleworking, utilizing web conferencing, and ensuring that people do not come to work when feeling unwell. Furthermore, the Group has established rigorous reporting rules for when employees are feeling unwell and has quickly developed systems and measures for infection prevention as a company. In addition to providing employees with work-sponsored vaccinations, we also provide the use of company facilities as a large-scale inoculation venue to facilitate a smooth vaccination process for local communities.

Risks Related to Climate Change

Description	Climate change has brought with it an increase in unexpected natural disasters that could cause difficulties with business continuity for NEC, its customers, and their supply chains. The introduction and expansion of carbon pricing worldwide, aimed at reducing CO ₂ emissions, could lead to higher costs as NEC works to reduce the emissions produced through its business activities.
Impact on business	If customers experience trouble with business continuity, it could cause orders from these customers to fall below expectations. In addition, carbon pricing may have an adverse effect on NEC's business, performance, and financial position. For example, if NEC achieves its SBT for fiscal 2031, it would see higher costs of ¥2.3 billion per year (using ¥110/\$), assuming carbon pricing (\$100/t-CO ₂) was applied to its Scope 1 and Scope 2 emissions (about 210,000 tons).
Mitigation measures	We conduct scenario analyses that envision 2030 and 2050 and cover the entire supply chain and the future of our lifestyles and government. We have also joined RE100 and are working to expand renewable energy use. Moreover, we have set an internal carbon price with the aim of improving energy efficiency and promoting the introduction of low-carbon facilities and equipment. This price allows us to convert the CO ₂ reduction that would result from a given capital investment into a monetary value, which we can then use as a reference when making investment decisions. This mechanism will drive our initiatives going forward with an eye on potential increases in carbon taxes and emissions trading in a future carbon-free society. In addition, we provide customers with a variety of ICT solutions to help them reduce their CO ₂ emissions while setting environmental management goals aimed at reducing overall CO ₂ emissions and improve business succession measures.

■ Participation in the 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, undertakes research on ethics, offers consulting on business activities, and educates businesspersons while promoting ethics. We have utilized information on examples of initiatives at other companies obtained through BERC in the enforcement and planning of measures to promote compliance.