

Supply Chain Management

Policy

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, with the intention of gaining the trust of society and helping to create sustainable social value.

Specifically, NEC formulated the NEC Group Procurement Policy based on its concepts of Management for Sustainability and on the ISO 26000 and ISO 20400 international guidance standards for social responsibility and sustainable procurement. We are developing a 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 and Labour Practices
- Health and Safety
- Environmental Requirements
- Fair Trading and Ethics
- Product Quality and Safety
- Information Security

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.

Moreover, we perform due diligence on human rights in accordance with the Guidance from the OECD, identify and evaluate risks, and take steps to mitigate risks.

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 compliance with industry regulations on chemicals in products.

Regarding 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.

*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

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 Senior Director of the Sourcing and Purchasing Department.

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. Regional headquarters in North America, Latin America, EMEA, China, and ASEAN 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 the qualitative improvement of CSR practices in corporations.

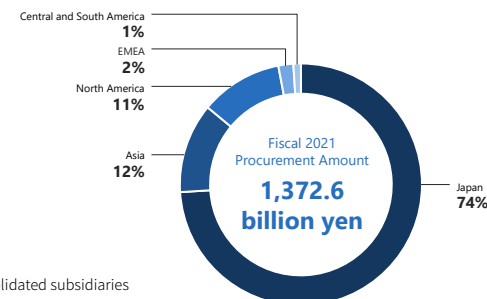
Measures and Main Fiscal 2022 Activities

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

Activities Based on Policy

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

We are strengthening initiatives to deal with identified risks in each region, sector, and procurement category.



Scope: NEC Corporation and consolidated subsidiaries

Basic Contracts

NEC enters into basic contracts and obtains declarations that demonstrate their commitment to responsible business conduct in supply chains. These declarations were 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. We ask our new suppliers to submit their declarations prior to the commencement of business transactions.

As of the end of fiscal 2022, NEC has received these declarations from approximately 10,000 suppliers in Japan and around the world (80% of the total procurement amount). We aim to keep this declaration ratio above 75% in the context of total procurement amounts.

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.

NEC disseminated information to suppliers about its sustainable procurement policies and measures at the Sustainability/Information Security Sessions, held in June 2021 with 1,792 companies participating, and at exchange meetings with strategic supply chain partners, held in December 2021 with 194 companies participating.

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 ethics, and information security.

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

In the sustainable procurement self-check sheets, in addition to the inspection themes for human rights, OH&S, the environment, and fair trade, we newly added important inspection themes for foreign national technical intern programs and COVID-19 countermeasures. We received responses from 956 companies out of the 1,015 companies we queried, 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 of 50% or below	Initiatives themselves are insufficient
Z	Unable to clear critical points	Risks expected

We plan to issue feedback sheets to all of the suppliers that responded, indicating their score for each inspection theme and comparison to the average score for each product type, and share the evaluation results with them. Furthermore, in this survey 39 suppliers received Z ratings, which determined the existence of potential risks.

We will implement support for suppliers that received Z ratings aimed at correcting these issues during the first half of fiscal 2023 through supplier engagement, such as understanding the conditions and providing correctional guidance.

NEC conducted document checks on 1,779 companies with the information security check sheet. Information security is an essential issue for us as a system integrator of information systems that serve as 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 level for the project when outsourcing tasks.

Information Security and Cyber Security

On-site Assessment

When the Procurement Division makes an inspection of sustainable procurement requirements during regular 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, it is important to disseminate instructions and requirements even to employees of suppliers. Information security incidents may occur if these are not followed by workers on the front line; therefore, NEC representatives visit supplier operation sites to conduct interviews, check supporting documents, and carry out inspections.

For both kinds of on-site assessment, NEC shares the items that require improvement with its suppliers and supports them in implementing improvement measures.

In fiscal 2022, we performed SVR assessments of primarily critical suppliers in areas that present high risks. We collected data on 79 on-site assessments to confirm that there were no issues.

For information security, 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 2022, we carried out online on-site assessments at 100 companies. We did not observe any major deficiencies during the on-site assessments; however, we gave improvement guidance to suppliers that 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).

Human Rights Due Diligence

In October 2020, the Japanese government formulated and published the National Action Plan on Business and Human Rights, and legal frameworks for preventing human rights abuses in supply chains have been updated abroad. With labour in supply chains being identified as a salient human rights issue, NEC improved its efforts at due diligence in human rights, in addition to its ongoing initiatives.

Topic: Respecting Human Rights

NEC is taking the following steps in accordance with OECD Due Diligence Guidance for Responsible Business Conduct.

Step 1	<ul style="list-style-type: none"> Gather and evaluate information about risks specific to the ICT sector, regions, and NEC companies based on the ICT Sector Guide on Implementing the UN Guiding Principles on Business and Human Rights, the International Trade Union Confederation (ITUC)'s 2020 ITUC GLOBAL RIGHTS INDEX, other external research reports, and internal analysis of our procurement structure
Step 2	<ul style="list-style-type: none"> Identify high-priority business domains while referencing results of international NPO BSR's evaluations of human rights impact (human rights risks to workers in manufacturing processes at overseas plants of suppliers, including outsourced production, human rights risks to foreign national apprentice interns in technical trainee programs in manufacturing processes at domestic plants of suppliers, and overtime work risks in software development)
Step 3	<ul style="list-style-type: none"> Conduct third-party audits by an external auditing firm that specializes in human rights. We have selected three suppliers based on evaluation of scope and nature of potential impacts, while mapping the aforementioned risks across suppliers. Nonconformance incidents identified in these audits (i.e., foreign national employees have not received employment rule handbooks or explanations; no human rights policy) will be subject to risk mitigation measures based on assessments of the impact from such risks while seeking counsel from outside experts.

Stakeholder Engagement

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.

For personnel in charge of procurement	<ul style="list-style-type: none"> Implemented regular training programs In March 2022, we held an online lecture led by outside speakers about human rights in supply chains during global SCM manager meetings.
For all employees of NEC Corporation	<ul style="list-style-type: none"> Held online training in November 2021 to educate about the importance of sustainable procurement
For suppliers	<ul style="list-style-type: none"> NEC invited more than 900 suppliers to participate in seminars (in July 2021 and February 2022) for improving understanding of responsible corporate behavior sponsored by Japan Electronics and Information Technology Industries Association (JEITA), and an NEC employee participated as a presenter.

Dialogue for Strengthening Initiatives on Respecting Human Rights

NEC continued to engage in dialogue with stakeholders for the purpose of furthering initiatives to respect human rights in the supply chain, in accordance with the UN Guiding Principles on Business and Human Rights (UNGPs). We also engaged in dialogue with an NGO to work toward resolving human rights issues, as well as with another international organization and legal specialist in March 2022.

Toward Further Development of Human Rights Initiatives in Procurement

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, labour, OH&S, the environment, and information security. Moreover, during the meetings, NEC bestows Sustainability Awards on suppliers that make significant contributions to advancing sustainability initiatives.

The meeting in December 2021 was held online as a preventive measure against the spread of COVID-19, and 426 members of the management at 194 suppliers from around the world participated.

Recognized by CDP on Supplier Engagement Leaderboard

Through the CDP Supply Chain Program run by the CDP, an environmental NGO that NEC partnered with in 2019, NEC surveyed the climate change initiatives of 70 companies, mainly hardware suppliers, in fiscal 2022, and provided feedback on the results of the survey.

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

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.

*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.



External Ratings and Evaluation

Update to Grievance Mechanism


NEC has given access to its Compliance Hotline, a means of reporting incidents and seeking consultation, to suppliers since 2003. In August 2021, NEC changed the hotline to include consultations about responsible procurement, including human rights, labour, OH&S, and other topics. The privacy of the hotline users is protected by third-party involvement, while allowing for the voicing of grievances in business transactions and other consultations.

In fiscal 2022, a total of six reports were issued via the Compliance Hotline about procurement issues. After verifying the relevant facts, all six reports were dealt with appropriately.

Since fiscal 2018, with the objective of rapidly identifying and rectifying compliance violations by NEC employees, NEC has disseminated to its suppliers a "Request for Cooperation toward Thorough Compliance," seeking their cooperation in reporting any suspected violations in order to rapidly identify and rectify any problems. In fiscal 2022, we updated this to a "Request for Cooperation toward Thorough Compliance and Responsible Procurement," seeking the cooperation of suppliers, thereby clarifying that the hotline can be used for issues related to responsible procurement in addition to compliance issues.

From fiscal 2023, NEC is using an industry-wide initiative for a collective complaint-handling mechanism (JaCER) to increase the transparency of procedures and accept consultation requests from NGOs and labour unions, improving the effectiveness of the system in accordance with UNGP requirements.

Topic: Respecting Human Rights

 Compliance Hotline (Whistleblowing system for employees and business partners)

■ Addressing the Issue of Conflict Minerals

NEC seeks the understanding and cooperation of its suppliers for dealing with the problem of conflict minerals based on its Responsible Mineral Procurement Policy. Using CMRT and CRT,*⁴ NEC conducts surveys of its suppliers to verify information about smelters and their use of tin• tantalum• tungsten• gold (3TG), and cobalt. In fiscal 2022, CMRT surveys were conducted at 80% of the top-ranked suppliers in terms of procurement value in 2021 (excluding transactions with affiliates).

*4 CMRT and CRT: Survey and report templates of the Responsible Materials Initiative



The NEC Group's Responsible Mineral Procurement Policy

Note: 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 JEITA. NEC participates in the Working Group's Education and PR Team. In this capacity, we work to promote the understanding of conflict-mineral issues among our suppliers.

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.



Green Procurement Policy (Environment)



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



Scope 3