

VI. Supply Chain

Supply Chain Initiatives

Our Basic Approach

Fulfilling social responsibilities together with customers and partners

Based on its Group philosophy and Code of Conduct, the azbil Group is proactive in its efforts to achieve a sustainable society, including conservation of the environment, through its business activity. In particular, addressing climate change and human rights issues has become increasingly important in recent years.

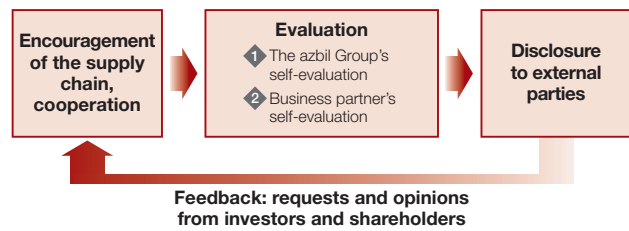
For this reason, in our procurement activities, we continue to strengthen our supply chain initiatives to fulfill our responsibilities to society more proactively in response to growing demand from the international community, including the SDGs, based on the principle of building long-term relationships of trust with our business partners and enhancing added value for both the azbil Group and our business partners.

The azbil Group's Essential Goal III for the SDGs (for FY2030)

Supply Chain

Working with our business partners on achieving the SDGs as a common goal and creating shared CSR value across the supply chain

PDCA cycle



Focus areas in the supply chain

To fulfill our responsibilities to society across the supply chain, in 2021 the azbil Group reviewed and amended its essential goals of the azbil Group for the SDGs and established 10 target areas (intermediate categories), making reference to the way in which ESG initiatives are evaluated by external institutions.

We are encouraging our business partners in these areas, utilizing the knowledge the Group has built up over many years concerning the environment, quality, compliance, and health and well-being management. We are proceeding with CSR initiatives concerned with evaluating the initiatives of the azbil Group and its business partners.

By working together with our business partners on initiatives that comply with the four actions below, we aim to steadily improve the entire supply chain socially and environmentally.



Evaluation

The azbil Group carries out a self-evaluation based on four items in 10 target areas (intermediate categories). Self-evaluations from business partners are added to this to create a comprehensive evaluation based on a total of five items.

Based on the results of this evaluation, we visualize the strengths and weaknesses of the azbil Group's initiatives and of our business partners and feed that into planning measures for the following fiscal year.

Broad category	Intermediate category	Subcategory
E (Environmental supply chain)	Climate change (GHG, energy)	◆ Initiatives to address CO ₂ /GHG emissions and other climate change issues
	Pollution & resources (Air pollution, water pollution, hazardous waste, waste reduction, raw materials, etc.)	◆ Green procurement ◆ Management of chemical substances in products ◆ Less use of resources ◆ Less industrial waste ◆ Reuse of resources ◆ Use of renewable energy
	Water security & water risks	◆ Less use of water, less wastewater
	Biodiversity	◆ Biodiversity conservation
	Environmental management	◆ Environmental management in conformity with ISO 14001
S (Social supply chain)	Labor practices	◆ Elimination of child labor and forced labor, reduction of overwork ◆ Prohibition of discrimination, equal opportunity ◆ Promotion of diversity
	Health and safety	◆ Health and safety management ◆ New ways of working, work-life balance
	Human rights	◆ Respect for fundamental human rights (including rejection of antisocial forces and dealing with conflict minerals)
	Community (local communities)	◆ Action that encourages local development or contributes to society
	Quality & customers	◆ Fair trade (including legal compliance) ◆ Quality management

Broad category	Intermediate category	The azbil Group's self-evaluation				Business partners' self-evaluation
		Policies & strategies	Systems & structures	Initiatives	Evaluation of effectiveness	
E (Environmental supply chain)	Climate change (GHG, energy)	□	□	□	□	□
	Pollution & resources (Air pollution, water pollution, hazardous waste, waste reduction, raw materials, etc.)	□	□	□	□	□
	Water security & water risks	□	□	□	□	□
Other, omitted						

(Notes) 1. Evaluation is performed on a 10-point scale for each red frame.
2. See p. 83 for the results of business partners' self-evaluation (FY2022).

Priority Themes for FY2022 and Beyond

The azbil Group, in response to demand from society to act through the supply chain, has selected human rights due diligence from a societal perspective and CO₂ emissions reduction from an environmental perspective as priority themes for FY2022 and beyond, and has begun working with its business partners.

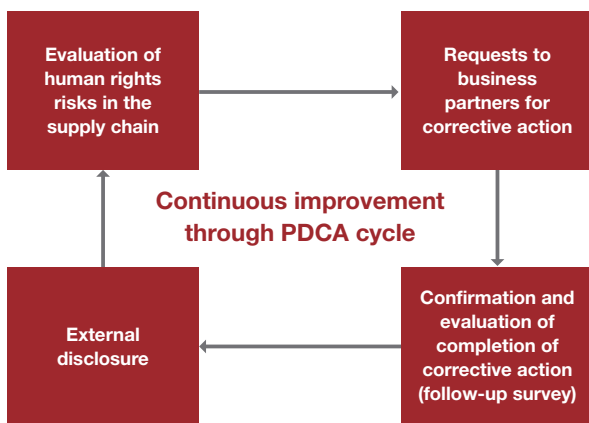
Human rights due diligence in the supply chain: Strategies to solidify “defense”

To ensure appropriate corporate conduct from a human rights perspective within our supply chain, the azbil Group conducts risk assessments related to human rights violations and strives to promptly correct any risks that may have occurred.

We have established criteria for human rights due diligence in our supply chain with reference to the UN Guiding Principles on Business and Human Rights. We have also taken into consideration the frequency and impact of human rights violations in azbil Group’s operations, while referring to case studies of other leading companies.

As of the end of December 2022, we completed confirmation with about 300 of our major business partners that there is no risk of major human rights violations. At present, we are working to expand the scope of coverage.

Human rights due diligence process



Key human rights criteria

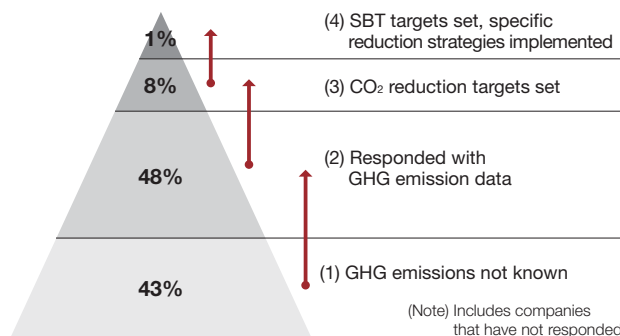
- Elimination of child labor
- Elimination of forced labor
- Reduction of overwork
- Wages (appropriate, duly paid)
- Migrant labor/foreign workers

CO₂ emissions reduction in the supply chain: Strategies to strengthen “offense”

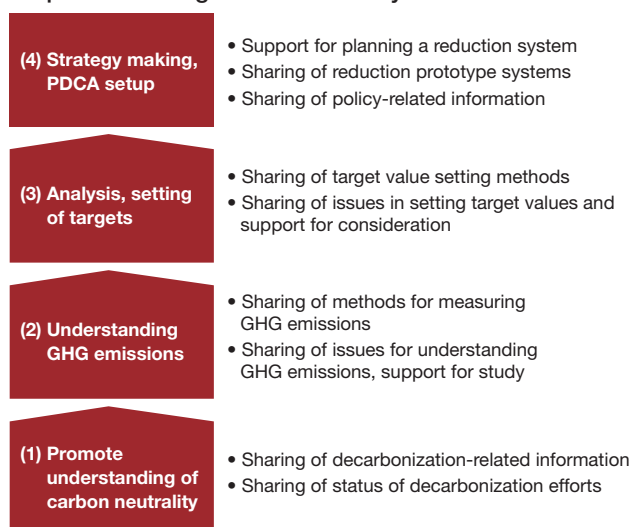
The azbil Group is working to reduce CO₂ emissions at its business partners to achieve a 20% GHG emission reduction across our entire supply chain (compared to FY2017). As of the end of December 2022, we have completed assessing the CO₂ emissions of approximately 300 major business partners and their current CO₂ reduction initiatives, and are implementing measures for further CO₂ emission reduction according to the status of each business partner.

Through communication with our business partners, we will share issues to be addressed, knowledge and know-how, and jointly promote initiatives to solve problems, thereby promoting independent initiatives toward carbon neutrality.

Status at about 300 business partners



Steps for realizing carbon neutrality



Supply Chain Initiatives

Encouraging our Business Partners

Based on the azbil Group Basic Policy on Procurement, we promote SDG initiatives in the supply chain. We also encourage our business partners through careful communication in order to build a foundation for effective collaboration.

The azbil Group Basic Policy on Procurement

In keeping with the azbil Group philosophy and the azbil Group Guiding Principles, the azbil Group undertakes fair and honest purchasing activities in Japan and abroad, understanding and complying with legal regulations and acting with consideration for human rights and the environment. We ensure that our business partners understand the azbil Group Basic Policy on Procurement as we endeavor to carry out purchasing throughout the supply chain with an awareness of our corporate social responsibilities.

1. The public nature of the company and the fulfillment of our responsibilities to society
2. Fairness in commercial transactions
3. Respect for human rights
4. Protection of the environment



The azbil Group Basic Policy on Procurement
<https://www.azbil.com/corporate/procurement/policy/>

Revisions to the azbil Group Basic Policy on Procurement

In June 2022, in light of internal and external requirements (such as the SDGs) the azbil Group Basic Policy on Procurement was revised based partly on policies of the United Nations Global Compact.

Points revised

- For supply chain management policy, items were added about climate change, prohibition of discrimination, elimination of excessive overtime, prohibition of forced labor, and saving water.
- An item about human rights was added in line with emphasis by the United Nations Global Compact, which we signed in April 2021.
- We added an item about environmentally conscious design, which is related to the azbil Group's SDG target of designing all new products to be 100% recyclable.
- An item on the management of chemical substances in products was added. This is an important means for conserving biodiversity, one of our environmental protection targets.
- An item was added about strengthened checking of compliance with laws and regulations regarding relationships with antisocial forces when selecting business partners and renewing contracts.

Briefings on the CSR Procurement Guidelines for the azbil Group

In order to motivate business partners to work toward achieving the SDGs and to promote specific initiatives, in 2022 briefing sessions were held by each azbil Group company for business partners on the Group's essential SDG goals and the CSR Procurement Guidelines for the azbil Group. After the briefings, we conducted a survey and 90% of our business partners responded that they would be willing to cooperate with the themes covered by the guidelines.



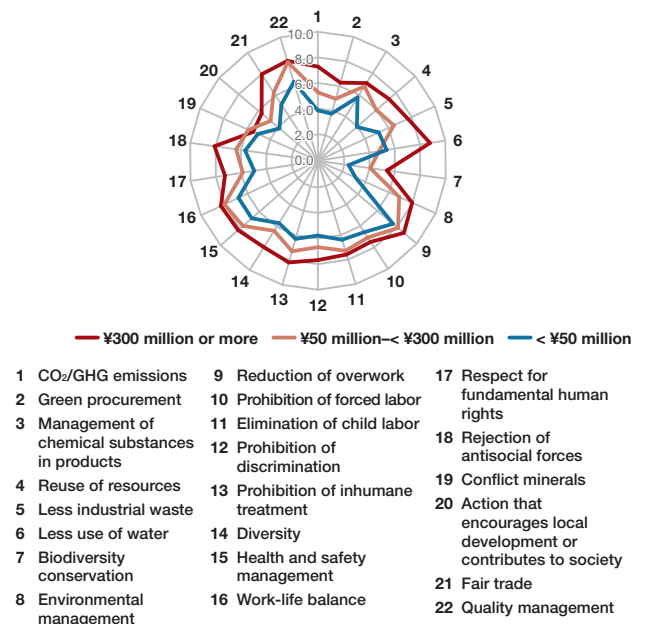
CSR Procurement Guidelines for the azbil Group
https://www.azbil.com/corporate/procurement/policy/csr_guideline/index.html

Business partner self-assessment and feedback to business partners

Every year, the azbil Group asks its business partners to carry out a self-evaluation of their organization's efforts from the perspective of the SDGs. Partners had been asked to make improvements at weak points as a result of the FY2021 evaluation, and the FY2022 self-evaluation showed that improvements had been made. This kind of feedback will be continued in the future.

Also, in the self-evaluation of business partners, when broken down by capitalization, the larger the size (capitalization) of the company, the more advanced the efforts. Accordingly, we will strengthen our efforts to reach out to small and medium-sized business partners.

Status of business partners' efforts by capitalization

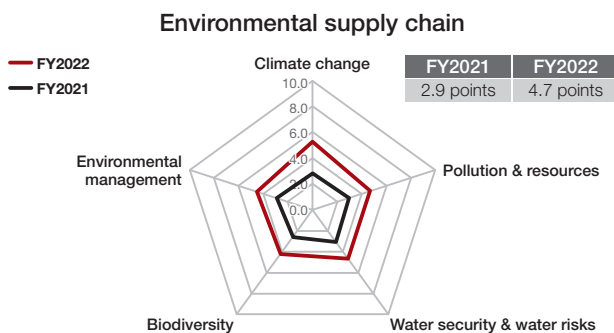


Evaluation for FY2022 and Future Plans

Overall evaluation of activities in FY2022

Based on the azbil Group's self-evaluation criteria, the azbil Group conducts an annual comprehensive evaluation of its initiatives in 10 target areas (intermediate categories), including self-evaluation by its business partners.

In FY2022, the various strategies were successful, with each criterion in the environmental/social supply chain generally increasing by about 2 points compared to the previous fiscal year.



Initiatives for FY2023

In FY2023, we will continue to pursue even greater results by focusing on human rights due diligence as a “defensive” strategy and CO₂ emissions reduction as an “offensive” strategy, with the entire azbil Group working together.

In FY2023, we will also expand our visits, interviews, and dialogues with individual business partners. By gathering information on a wide range of social and environmental topics other than human rights due diligence and CO₂ emission reduction, we plan to incorporate the intentions and requirements of our business partners and build a consensus to make our outreach and collaboration with them even more effective than ever before.



SDG Supply Chain Annual Report

<https://www.azbil.com/corporate/procurement/supplychain-annualreport/>

Message from a business partner

Yoshitaka Murata, Director, MURATA YOUHAKU & CO.,LTD



A trading company primarily engaged in sales and export of nonferrous metal materials and processed components. It delivers stainless steel and other materials to the azbil Group.

The azbil Group has established a medium- to long-term plan based on a solid promotion system for the advancement of SDG themes, and we have gained an in-depth understanding of the azbil Group's activities through a detailed explanation. Our company has also been aiming to add value to our core business in terms of the environment, and we are very much in agreement with the azbil Group's initiatives and will continue to cooperate with them as much as possible. We also received advice on initiatives for human rights from them, which we believe can be applied to our company's management, and we hope to continue to work on these issues going forward.