

## ESG Program for Business Partners

The azbil Group will identify and assess potential ESG risks among its suppliers throughout the supply chain, both to implement the azbil Group Basic Purchasing Policy and to ensure supply chain sustainability. Should risks be identified, corrective actions will be planned and implemented. We refer to this as our ESG program for business partners.

## ESG Program Structure for Business Partners

Our ESG program for business partners consists of the following process.

### ① Desktop Screening

Based on azbil's internal data and acquired external data, we identify high-risk areas within the supply chain according to the following conditions.

- Filter by Country/Region
- Filter by Industry/Business Type
- Filter by azbil product parts
- Filter by company size
- Filter by theme-based internal metrics

In implementing this, we will also consider the purchase volume at Azbil and the degree of dependence on azbil (\*1) to maximize the return on investment.

\*1 :The percentage of sales to Azbil Corporation relative to total sales of our business partners

### ② Risk assessment and prioritization for target business partners

For suppliers identified as high-risk areas within the supply chain, we will generally confirm the presence of potential risks and any materialized risks through dedicated questionnaires organized by theme (\*2). In cases where risk assessment is difficult based solely on responses to dedicated questionnaires, or when fact-checking is necessary for evaluation, we will contact our business partners to clarify details or arrange direct visits to receive explanations. For confirmed risks, we evaluate them based on frequency and impact and prioritize them accordingly.

\* 2 : Human Rights, Environment, Responsible Mineral Sourcing, Ethics and Risk Management, etc.

### ③ Risk mitigation measures

For high-risk regulatory violation cases, we will request corrective action from our business partners. At that time, we will explain the details of the violation and the necessary steps to eliminate the risk, such as creating required regulations and establishing systems. This approach aims to gain our business partners' understanding and increase their level of acceptance. azbil will generally support our business partners until corrective actions are completed. Upon completion, we will obtain evidence verifying the corrective actions and confirm their completion. Even for issues deemed low risk, we request improvements aligned with our Sustainable Procurement Guidelines, focusing on operational practices and system enhancements. While the implementation method is left to the discretion of our business partners, we will confirm the completion

of improvements through follow-up reports received from each company.

④ Measures when risk cannot be mitigated

Azbil's fundamental approach is to persistently support our business partners' corrective actions and maintain dialogue to ensure risk mitigation measures are completed. However, for partners unable to meet clear completion deadlines, we will take measures such as temporarily suspending transactions, based on other ESG evaluation results including our annual partner survey.

⑤ External Disclosure

We will document the results of ESG programs conducted for our business partners by theme in our Sustainable Procurement Activity Report and disclose them externally. However, as the activity report is published annually, themes initiated or ongoing during the fiscal year will be included in subsequent years' reports.

⑥ Gathering opinions from external stakeholders

We will collect feedback from external stakeholders who have read our activity reports through channels such as the "Inquiries Regarding Sustainability/SDGs/CSR Initiatives" page on our external website. While azbil may exercise discretion in selecting, prioritizing, or otherwise managing this feedback, we will strive to incorporate stakeholder opinions into activity plans for subsequent years.

- Suppliers with excellent ESG ratings in our annual supplier surveys and similar evaluations will be prioritized for selection.:

The implementation status, challenges, and countermeasures for our business partners' ESG programs are reported quarterly at the Supply Chain Promotion Meeting. The Executive Vice President attends this meeting and, including verification of alignment with the Basic Purchasing Policy, instructs any necessary course corrections. Instructed items are implemented through the Supply Chain Promotion team, and the results are reported at subsequent Supply Chain Promotion Meetings, thereby driving the PDCA cycle.

- Business partners with excellent ESG ratings will be prioritized for selection:

When selecting business partners and renewing contracts, we consider compliance with laws and regulations, management foundations, quality, price, stable supply, and technological development capabilities, along with ESG performance, to select sustainable business partners.

- Implementation of ESG program training for all members of the purchasing department:

To ensure purchasing personnel understand that their roles and daily actions and decisions in procurement are essential to achieving the company's ESG goals, we will conduct training on supplier ESG programs for all purchasing personnel (including department heads and GMs). By conducting this annually, we aim to establish it as a standard practice while also reducing the risk of potential conflicts between our ESG strategy and procurement practices.

•ESG Program Training for Business Partners:

We will conduct training aimed at making it easier for our business partners to adopt and implement the ESG program designed for them. The training content will be structured as follows.

- Education on ESG in general, including the latest trends and societal demands
- Overview of ESG Programs for Business Partners and the Underlying azbil Group Sustainable Procurement Guidelines

### **Examples of ESG Programs for Business Partners**

Next, we present an example of an ESG program for business partners focused on reducing human rights violation risks.

#### **① Desktop Screening**

We used the self-assessment questionnaires from business partners collected the previous year as the screening source data. We evaluated only the human rights-related items within the questionnaires and identified business partners scoring 4 points or below (out of 10 points) as those with potential human rights violation risks.

(Results) Through this desk screening, we narrowed down 147 companies from azbil's 319 major business partners as having potential human rights violation risks.

#### **② Risk assessment and prioritization for target business partners**

We created a separate human rights questionnaire specifically addressing human rights issues such as child labor and forced labor, with questions tailored to each issue.

We requested responses to this human rights questionnaire from the 147 suppliers identified in step ① and collected their answers. By extracting cases of legal violations (high risk) and violations of our Sustainable Procurement Guidelines (low risk) as risk events from the responses, we further narrowed down suppliers with potential risks.

(Results) We narrowed down the number of clients with potential risks from 147 to 56.

The final determination of whether human rights violations risks were materialized was conducted through visits to our business partners or face-to-face remote meetings. We assessed whether human rights violations risks were materialized by conducting Q&A sessions with multiple members and verifying evidence.

(Results)

We have identified 24 suppliers requiring corrective action from among 56 suppliers with potential risks. Among these 24 suppliers, cases involving high risks such as legal violations coexist with cases involving low risks that violate our Sustainable Procurement Guidelines.

#### **③ Risk mitigation measures**

We have requested corrective action from our business partners regarding high-risk cases of legal violations. At that time, we also provided detailed explanations of the violation content and supported our partners by explaining necessary steps such as creating required regulations and establishing systems to eliminate the risk.

azbil provided support to our business partners until corrective actions were completed.

Upon risk resolution, we obtained verifiable evidence and conducted confirmation checks. We also requested improvements for low-risk violations of our Sustainable Procurement Guidelines, leaving the implementation decisions to our business partners.

④ Measures when risk cannot be mitigated

In this case, all 24 companies where risks had materialized have completed corrective/improvement actions. Therefore, measures for cases where risks cannot be mitigated are no longer necessary.

⑤ External Disclosure

This matter is documented in the separately disclosed “Sustainable Procurement Activities Report,” taking into account the progress made each fiscal year, and we are soliciting opinions from our external stakeholders.

⑥ Gathering opinions from external stakeholders

We received the following feedback from institutional investors and others:

“Human rights due diligence is a preventive measure. We believe it is necessary to establish and publicize a complaint handling mechanism for external parties, including business partners, to enable early response when incidents occur.”

azbil has published a contact point on its website where business partners can also submit complaints. However, we have decided to once again urge thorough awareness among our business partners.