



The azbil Group

SDG Supply Chain Annual Report 2023

Issued in September 2024

Azbil Corporation

Introduction

Based on its corporate philosophy, the azbil Group is actively working to realize a sustainable society and the preservation of the environment through its business activities. Our efforts include the Sustainable Development Goals (SDGs), which are a global initiative that includes Japanese.

In particular, we recognize that addressing climate change and respect for human rights are two very important issues required by society, and we are working together as a group to promote human rights due diligence in tandem with efforts to decarbonize our operations.

In order to achieve even greater results, the azbil Group and its entire supply chain are working to address the SDGs, including tackling climate change and respect for human rights. In our procurement activities, we are strengthening our commitment to a sustainable society. We are enhancing our supply chain to proactively fulfill our responsibilities in response to society's growing demands. Our efforts are based on the principle of building long-term relationships of trust with our business partners. We aim to enhance added value for both the azbil Group and our business partners.

Contents

1. Previous Developments and 2023 Objectives	P.4
2. Positioning of the SDG Supply Chain in the azbil Group	P.6
3. The azbil Group SDG Supply Chain Framework	
3-1. Framework for achieving goals	P.7
3-2. Target area	P.8
3-3. Promotion structure	P.9
3-4. Encouraging our business partners	P.11
3-5. Evaluation	P.12
3-6. Setting the scope of business partners	P.13
4. Results of Initiatives in FY2023	
4-1. Human rights initiative: Human rights due diligence	P.14
4-2. Climate change initiative: Reduction of CO ₂ emissions	P.17
4-3. Extension of activities to the azbil Group's overseas sales companies	P.19
4-4. Interviews with individual business partners to identify and extend best practices	P.20
4-5. Conducted self-evaluation questionnaires for business partners	P.23
4-6. Feedback of self-evaluation questionnaire results to business partners	P.26
5. The azbil Group's Comprehensive Evaluation	P.28
6. FY2023 Reflection on Activities and the FY2024 Plan	P.29

1. Previous Developments and 2023 Objectives

In FY2021, the first year of the actual SDG supply chain activities, we revised the azbil Group Basic Procurement Policy, created CSR Procurement Guidelines outlining items for our business partners to address, and distributed them to our business partners as a way to define the framework for our activities through 2030 and to demonstrate our fundamental principles.

In FY2022, we identified priority social and environmental themes that we would like them to strengthen, based on the intensity of social demands and the results of the fiscal 2021 business partner self-evaluation questionnaire.

Priority themes:

Social: Human rights due diligence

Environmental: Reduction of CO₂ emissions

For CO₂ emissions reduction, we focused on assessing Scope 1, 2, and 3 emissions among our business partners and tracking progress toward reduction targets. For human rights due diligence, our goal was to evaluate the risk of human rights violations among employees of our business partners and to prompt improvements if the risk appeared imminent.

In FY2023, the key objective was to delve deeper into these priority themes and advance progress. For CO₂ reduction, we encouraged our business partners to assess Scope 1, 2, and 3 emissions and increase their reduction targets from FY2022 levels. For human rights due diligence, our goal was to request that business partners with any remaining human rights violation risks make improvements and to confirm that their corrective actions are being steadily implemented. These two themes were adopted beyond Azbil and addressed by other Group companies.

In addition to these comprehensive initiatives, we visited and interviewed around 60 individual business partners to survey their perspectives and initiatives on the SDGs. Insights from these surveys were reflected in our activities to build a framework for encouraging our business partners and achieving significant outcomes.

Another goal was to discover best practices among business partners implementing advanced initiatives and to extend them to other business partners facing similar issues, amplifying the results across the supply chain.

●Yearly initiative changes

<FY2021 Implementation> **Educate and encourage business partners**

■ **Building a foundation for azbil Group initiatives**

- Revisions to the azbil Group Basic Procurement Policy
- CSR Procurement Guidelines established
- Promotion structure in each group company established

■ **Actions for business partners**

[Azbil] Implementation

- CSR Procurement Guidelines briefing sessions
- Business partners' self-evaluation questionnaire & response results analysis

[azbil Group companies] Implementation

- Business partners' self-evaluation questionnaire & response results analysis



<FY2022 Implementation> **Actions for business partners - Realization**

■ **Building a foundation for azbil Group initiatives**

- Social and environmental priority themes
(Human rights due diligence, reduction of CO₂ emissions)

■ **Actions for business partners**

[Azbil] Implementation

- Human rights due diligence
The first priority items for addressing human rights issues are initiated
- Reduction of CO₂ emissions
Grasping business partners' current statuses of emission volumes and levels of reduction efforts
- Feedback of the FY2021
- FY2022 business partners' self-evaluation questionnaire

[azbil Group companies] Implementation

- CSR Procurement Guidelines briefing sessions
- Business partners' self-evaluation questionnaire



<FY2023 Implementation> **Actions for business partners - Deepening and expanding**

■ **Building a foundation for azbil Group initiatives**

- Creating scenarios at Azbil for development of the Group's overseas sales companies
- Develop a system to promote human rights due diligence and reduction of CO₂ emissions at each Group company

■ **Actions for business partners**

[Azbil] Implementation

- Interviews with individual business partners to identify best practices
- Human rights due diligence
Request for improvement on the second priority items for addressing human rights issues
- Reduction of CO₂ emissions

[azbil Group companies] Implementation

- Human rights due diligence *1
- Reduction of CO₂ emissions *1
Grasping business partners' current statuses of emission volumes and levels of reduction efforts
- Initiating CSR level improvement measures and supply chain activities at the Group's overseas sales companies

*1: Azbil's FY2022 initiatives to be extended horizontally to other Group companies

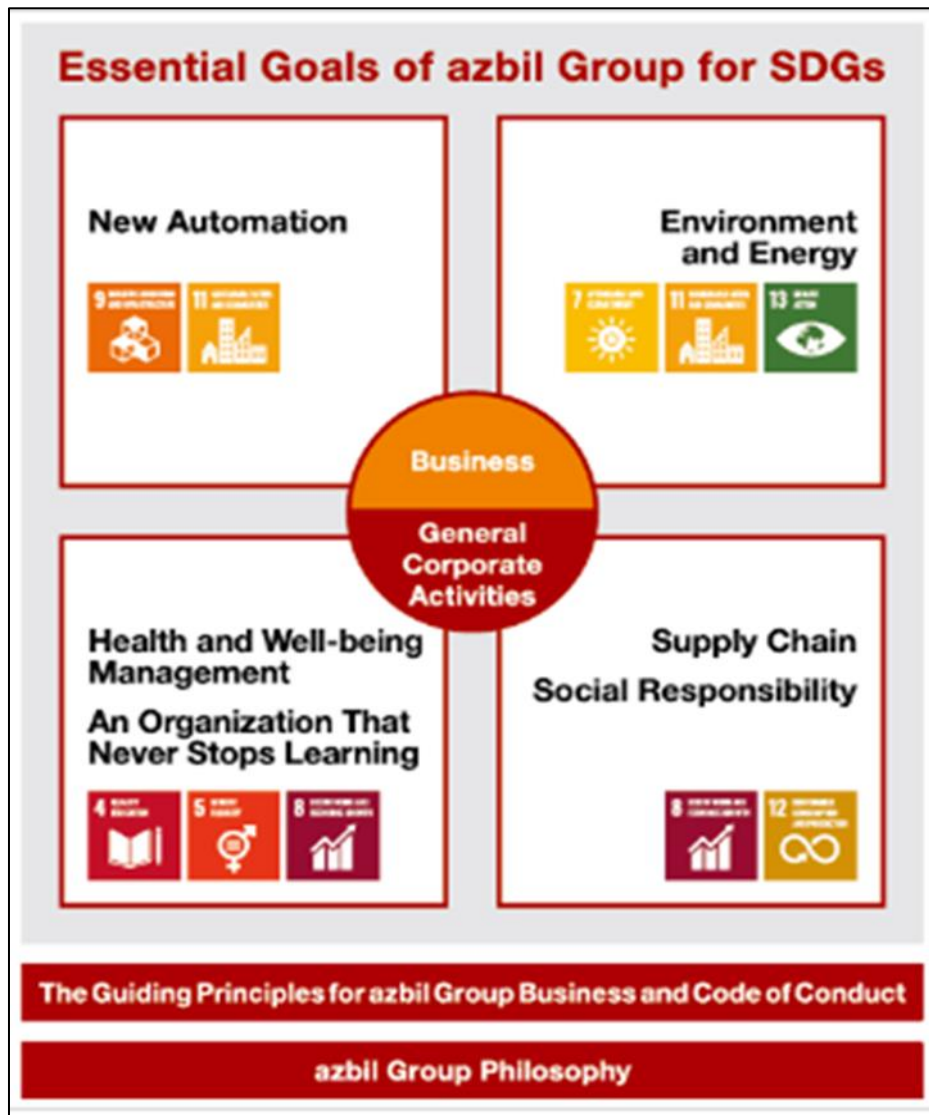
*2: The following are implemented annually at Azbil and azbil Group companies, starting from FY2023

- Business partners' self-evaluation questionnaire
- Feedback from the previous year's questionnaire

2. Positioning of the SDG Supply Chain in the azbil Group

Essential Goals of the azbil Group for the SDGs established in March 2020

The azbil Group has established four SDG essential goals and targets to contribute to the achievement of the SDGs. We will continue to make efforts throughout our business and corporate activities to achieve the SDGs. The SDG supply chain activities are one of the four activities.



3. The azbil Group SDG Supply Chain Framework

3-1. Framework for achieving goals

■ The azbil Group's PDCA cycle for evaluating CSR activities across our supply Chain

We will work together with our business partners to realize shared CSR values in the supply chain with the SDGs as a common goal.



*Note:

① The azbil Group self-evaluations

Based on the azbil Group's own evaluation criteria, we self-evaluate our encouragement to the supply chain from the following four perspectives:

1. Policies/strategies 2. Systems/structures 3. Initiatives 4. Effectiveness

② Business partner self-evaluations

We would ask business partners to self-evaluate their own activities through a questionnaire based on the United Nations Global Compact.

3-2. Target area

The azbil Group has set the areas to be addressed in the SDG supply chain activities, and is developing a system for azbil Group initiatives, encouraging our business partners, and evaluating both the azbil Group and business partners' initiatives in these areas.

- We have set target areas to ensure objectivity and to make them easier for external companies to evaluate and check. We have established the 10 target areas (intermediate categories) in the table below as target areas (target themes).
- We placed the azbil Group's initiatives in sub-categories that are linked to main categories and intermediate categories in the target area.



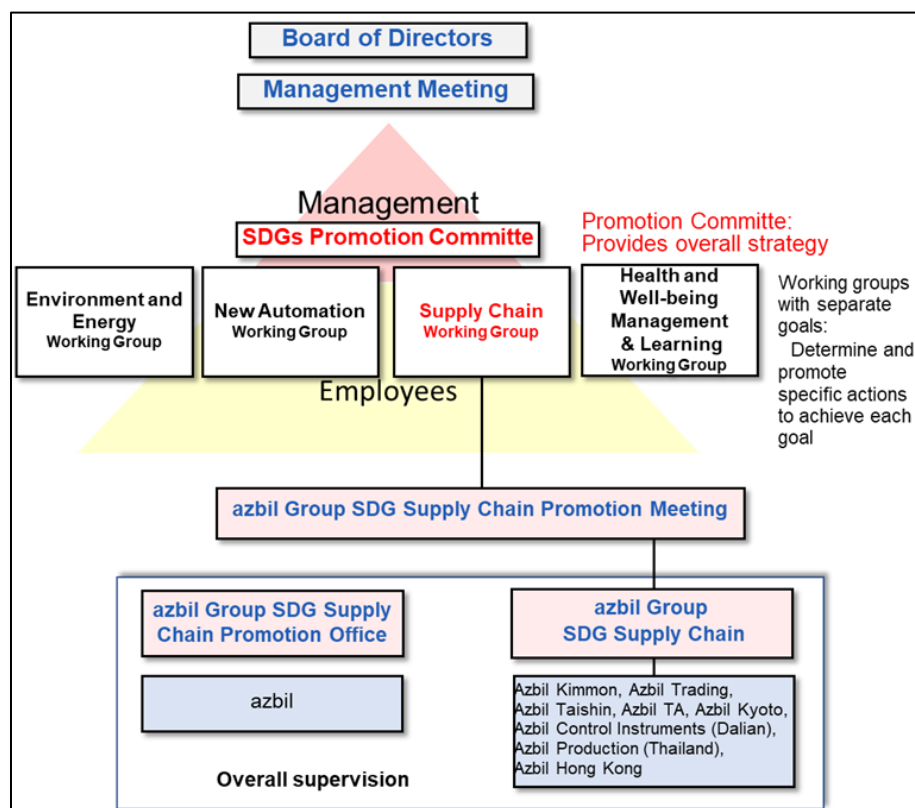
Areas to address in the supply chain for the SDGs

Main category	Intermediate category	Subcategory	Main category	Intermediate category	Subcategory
E (Environmental supply chain)	Climate change (GHG, energy)	Initiatives to address CO2/GHG emissions and other climate change issues	S (Social supply chain)	Labor practices	Elimination of child labor and forced labor, reduction of overwork
	Pollution & resources (Air pollution, water pollution, hazardous waste, waste reduction, raw materials, etc.)	- Green procurement - Management of chemical substances in products			- Prohibition of discrimination, equal opportunity - Promotion of diversity
		- Reduction of resources use - Reduction of industrial waste - Recycling - Use of renewable energy		Health and safety	Health and safety management
		Reduction of water use and wastewater emissions			New ways of working, work-life balance
	Biodiversity	Biodiversity conservation		Human rights	Respect for fundamental human rights (including rejection of antisocial forces and dealing with conflict minerals)
	Environmental management	Environmental management in conformity with ISO 14001		Community (local societies)	Regional promotion, activities tied to social contribution
				Quality & customers	- Observance of fair trade (including legal compliance) - Quality management

3-3. Promotion structure

The azbil Group SDG Supply Chain Activities will be managed by Azbil, with the executive in charge of the azbil Group's production and purchasing functions serving as the responsible party, and Azbil will oversee the entire Group.

Participating azbil Group companies are developing an appropriate framework that enables them to encourage their business partners and develop measures in target areas, led by their SDG managers in coordination with related functional departments.



Azbil and azbil Group companies will set a system to address the target themes.

Main category	Intermediate category	Key departments
E (Environmental supply chain)	Climate change	Department in charge of environment
	Pollution, resources	
	Water security, water risk	
	Biodiversity	
	Environmental management	
S (Social supply chain)	Labor practices	Human Resources Department
	Health and safety	Department in charge of health and safety
	Human rights	Department in charge of CSR, Human Resources Department
	Community	Department in charge of CSR
	Quality, customers	Department in charge of quality / procurement

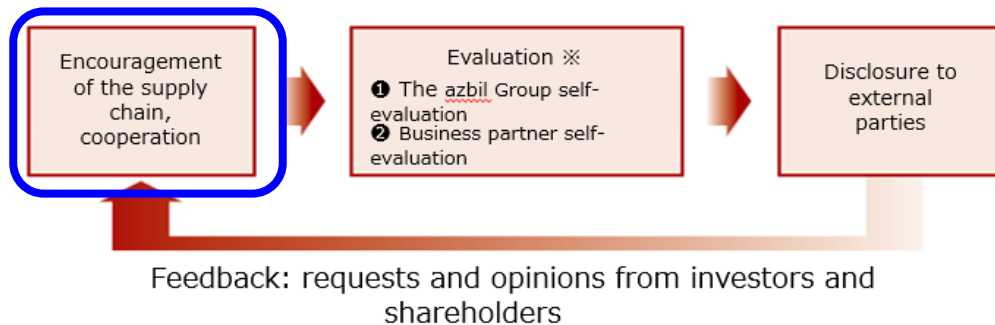
SDGs Promotion Committee:

Working groups report on the development, execution, and evaluation of SDG-related plans in the presence of the president and other relevant directors, ensuring the PDCA cycle is implemented to achieve FY2030 goals. Management is responsible for developing overall strategies and guiding the committee's direction.

azbil Group SDGs Supply Chain Promotion Committee:

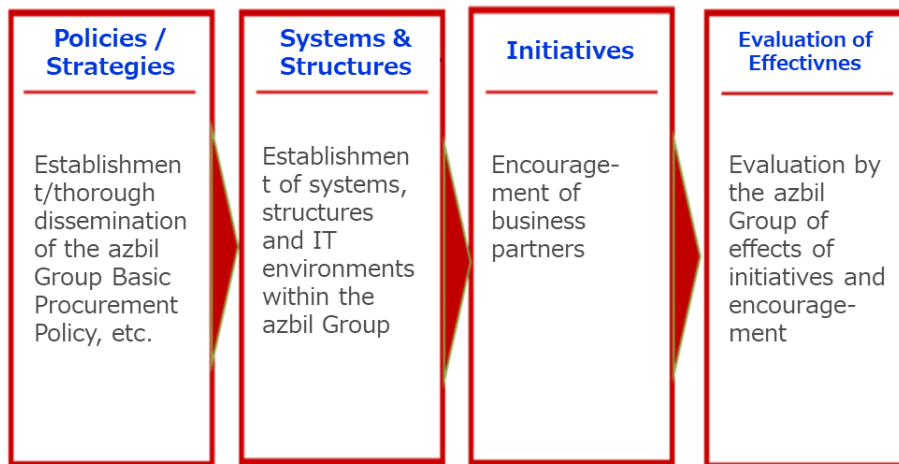
Led by the director of the supply chain working group, this committee brings together SDG managers from Azbil and other azbil Group companies to share communications with business partners, as well as plans and results of SDG supply chain measures, ensuring the effective implementation of the PDCA cycle.

3-4. Encouraging our 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.

『 Encouraging the supply chain』



Note: To verify the validity of the validity assessment, we also ask our business partners to conduct self-evaluation.

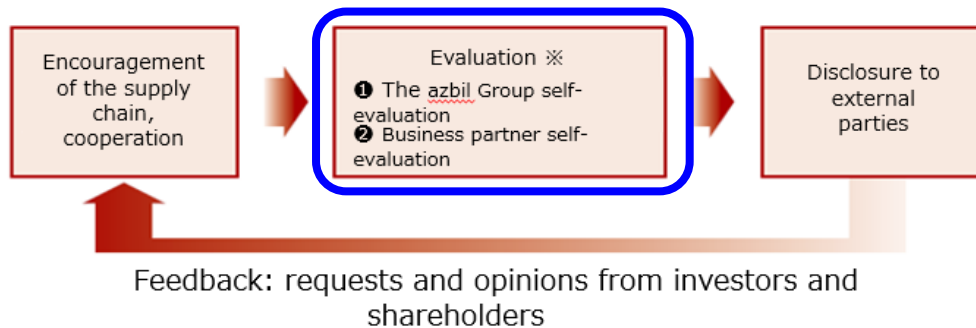
Policies/Strategies : We disclose the azbil Group Basic Procurement Policy to external parties and share it with our business partners as our supply chain management policy, which includes targets and plans.

Systems/Structures : We develop a system to promote measures at each azbil Group company and a structure for information sharing among Group companies and with business partners.

Initiatives : Each azbil Group company implements initiatives (i.e. measures) for business partners based on the azbil Group's policies above, utilizing systems and structures.

Evaluation : Each azbil Group company evaluates its own initiatives.

3-5. Evaluation



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

⇒ 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.

*Note: Questionnaires will also be sent to business partners to confirm the level of understanding, internal promotion structure, and status of initiatives in each of the 22 sub-categories of the target areas. We added the business partner self-evaluation to the scope of evaluation to verify the effectiveness of the azbil Group's initiatives, based on our hypothesis that if the azbil Group's initiatives work effectively, business partners will improve their self-assessments over time.

Main category	Intermediate category	← The azbil Group evaluation of encouraging to supply chain →				Understanding business partners' situation
		The azbil Group's self-evaluation				Business partners' self-evaluations
		Policies & Strategies	Systems & Structures	Initiatives	Evaluation of effectiveness	
E (Environmental supply chain)	Climate change (Greenhouse gases, energy)					
	Pollution and resources (Air/water pollution, hazardous waste, reduction of waste, raw materials, etc.)					
	Water security and water risks					
Other, omitted						

- Evaluation is performed on a 10-point scale for each blue frame.
- The evaluation criteria are set so that the evaluation will be consistent until 2030.

3-6. Setting the scope of business partners

The azbil Group as a whole has more than 4,000 business partners, and we select the partners for the SDGs after screening.

Specifically, based on the hypothesis that business partners with large transaction values (the azbil Group purchases) will have a greater impact on the azbil Group if SDG measures are successfully implemented, or a greater negative impact if risks materialize, we select business partners in order of transaction value to cover 80% of the azbil Group's total transaction value. These partners are considered important and are managed as business partners subject to the SDGs.

Since the number of transactions increases or decreases every year and some business partners are not cooperative with the azbil Group's SDG initiatives, we review the target partners once a year as necessary. The number of business partners covered by the azbil Group's SDG initiatives as of FY2023 is as follows.

azbil Group	Number of all business partners	Number of business partners subject to the SDGs (Number of "key" suppliers)
Azbil Corporation	2,575	319
Azbil Kimmon Co., Ltd.	267	80
Azbil Trading Co., Ltd.	817	30
Azbil TA Co., Ltd.	300	52
Azbil Taishin Co., Ltd.	265	28
Azbil Kyoto Co., Ltd.	4	3
Azbil Control Instruments (Dalian) Co., Ltd.	119	24
Azbil Production (Thailand) Co., Ltd.	36	11
Azbil Hong Kong Limited	50	9
Total	4,433	556

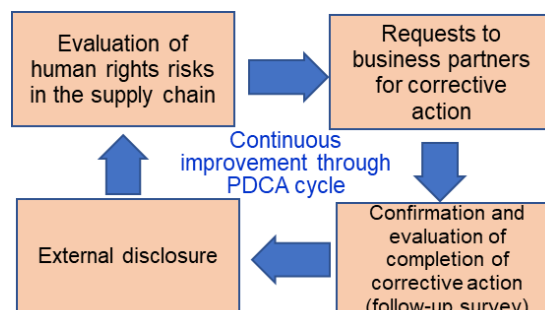
4. Results of Initiatives in FY2023

4-1. Human rights initiative: Human rights due diligence

What is "human rights due diligence?"

Activities to assess risks related to human rights violations among employees of our business partners across the supply chain and to promptly address such violations if they occur.

(Activity implementing the PDCA cycle, as shown in the image on the right)



Determining "human rights issues" to be covered in human rights due diligence

The following perspectives were considered in line with the azbil Group Human Rights Basic Policy:

- (1) UN Policy "Guiding Principles on Business and Human Rights"
- (2) Necessity of compliance with laws and regulations
- (3) Impact assessment in the azbil's business
- (4) Adopted by other leading companies (see table below)

Human Rights Issues	Manufacturing							
	Electronics							
	Company A	Company B	Company C	Company D	Company E	Company F	Company G	Company H
Initial Selection in the azbil								
Elimination of child labor	☐	☐	☐	☐	☐	☐	☐	☐
Elimination of forced labor	☐	☐	☐	☐	☐	☐	☐	☐
Reduction of overwork				☐	☐	☐	☐	☐
Prohibition of discrimination, Equal opportunity	☐	☐	☐	☐	☐	☐	☐	☐
Promotion of diversity	☐					☐	☐	
Health and safety management	☐	☐	☐	☐	☐	☐		☐
New ways of working, work-life balance						☐		
Rejection of antisocial forces				☐				
Dealing with conflict minerals	☐			☐			☐	
Others								
Wages(appropriate, duly paid)			☐		☐	☐	☐	☐
Freedom of association and collective bargaining			☐	☐	☐	☐ (+Basic labor rights)	☐	☐
Rights to privacy	☐	☐			☐	☐ Personal information		
Discriminatory expressions regarding dissemination of information				☐	☐			
Negative impact on the community			☐ *1		☐			
Migrant labor/Foreign workers				☐			☐	☐
Human Trafficking								☐
Consultation and reporting	☐ Access to relief			☐				

The following eight human rights issues have been selected for our human rights due diligence initiative:

< Human rights issues >

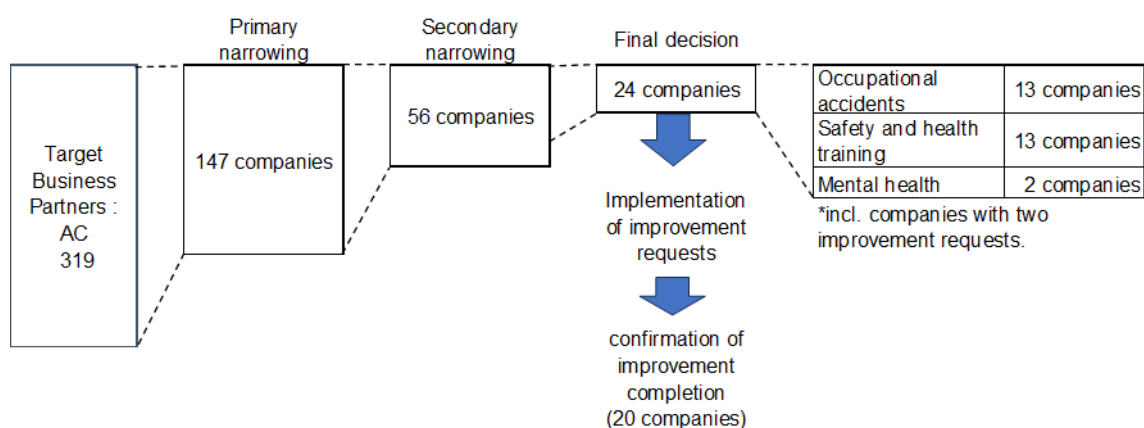
- Abolition of child labor
- Abolition of forced labor
- Reduction of excessive work hours
- Wages (correction, prevention of non-payment)
- Migrant labor /Foreign labor
- Prohibition of discrimination, equal opportunities
- Health and safety control
- Freedom of association and collective bargaining rights

The above list is intended for the employees of our business partners and includes women, children, and immigrant workers.

< Human rights due diligence: Implementation process >

Our business partners were screened through a two-stage questionnaire, followed by visits with those presenting ongoing potential risks. Multi-faceted interviews were conducted to deliver final assessments. As a result, 24 business partners were asked to make improvements, with 20 confirmed to have implemented them.

We will continue to support the remaining four companies in FY2024.



Other leading azbil Group companies are implementing this same process with their business partners.

azbil Group	Number of business partners subject to human rights DD
Azbil Kimmon Co., Ltd.	74
Azbil Trading Co., Ltd.	31
Azbil Taishin Co., Ltd.	24
Azbil TA Co., Ltd.	50
Azbil Kyoto Co., Ltd.	3
Azbil Production (Thailand) Co., Ltd	11
Total	193

< Major Correction Requests >

Our advice is not limited to rectifying legal violations, but also includes respecting the human rights of our business partners' employees and ensuring the viability of the company.

- We advise business partners to appoint a safety and health promoter (manager) and ensure that this legal obligation is communicated to all employees.
- Providing safety and health training for new and reassigned employees and maintaining records.
- Request for preparation of manuals for handling work-related accidents in case of emergencies (Azbil's preparation is introduced as an example).
- Request for measures to prevent similar occupational accidents and introduction of educational videos to encourage proper management of wearing protective equipment.
- Conducting stress checks appropriately, etc.

< Results >

Through this initiative, our business partners significantly reduced human rights violation risks. We also gathered a large volume of information related to human rights, including insights into procedures for reducing human rights violation risks and relevant legal and social trends, as well as common situations with a higher risk of violating human rights.

In FY2024, we will extend our human rights due diligence to our upstream business partners from the second-tier and above. Leveraging the insights gained, we aim to drive our human rights due diligence initiative thoroughly and efficiently.

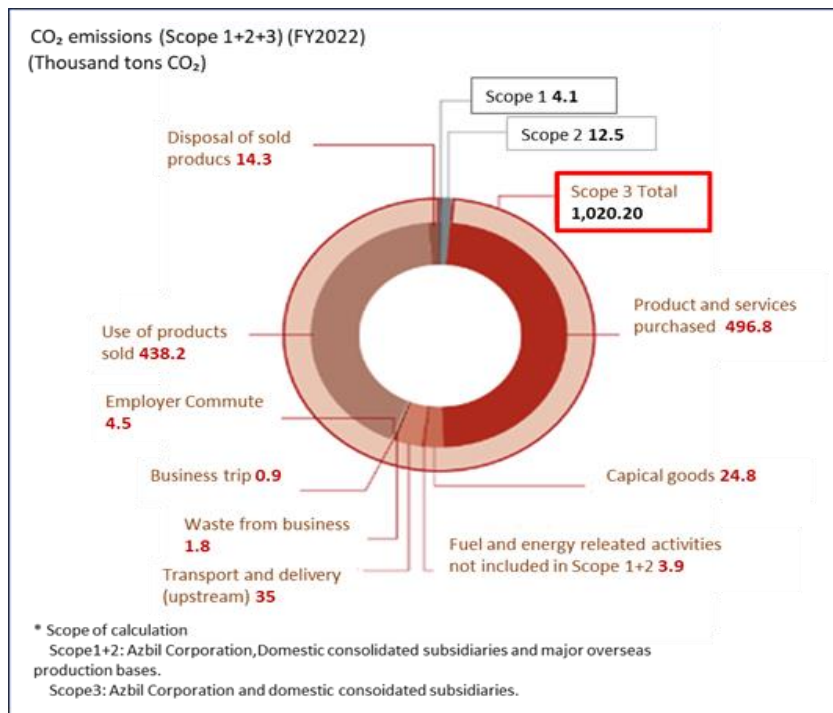
4-2. Climate change initiative: Reduction of CO₂ emissions

The azbil Group is working to reduce CO₂ emissions from our business partners to achieve a 20% reduction in greenhouse gas emissions across the supply chain by 2030 (compared to FY2017 levels).

According to calculations based on the Japanese Ministry of the Environment's emission factors and purchase volume, the azbil Group is in a situation where the ratio of CO₂ emissions related to Scope 3, particularly purchases of products and services from business partners, is high [Figure 1].

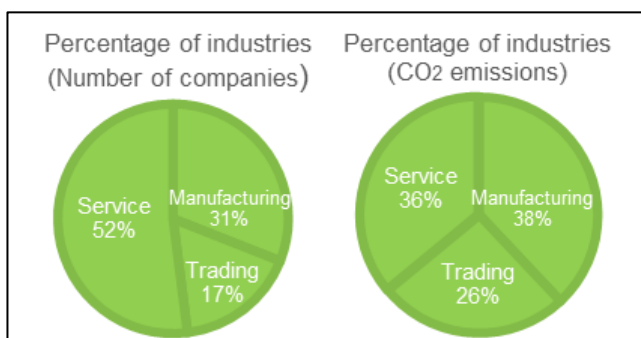
Looking at our business partners by industry sector, Figure 2 shows that the number of companies is dominated by service and service-related companies, while CO₂ emissions are almost equally divided among three industry sectors. This indicates that trading companies and manufacturing companies are responsible for the largest amount of CO₂ emissions per company.

[Figure 1]



[Figure 2]

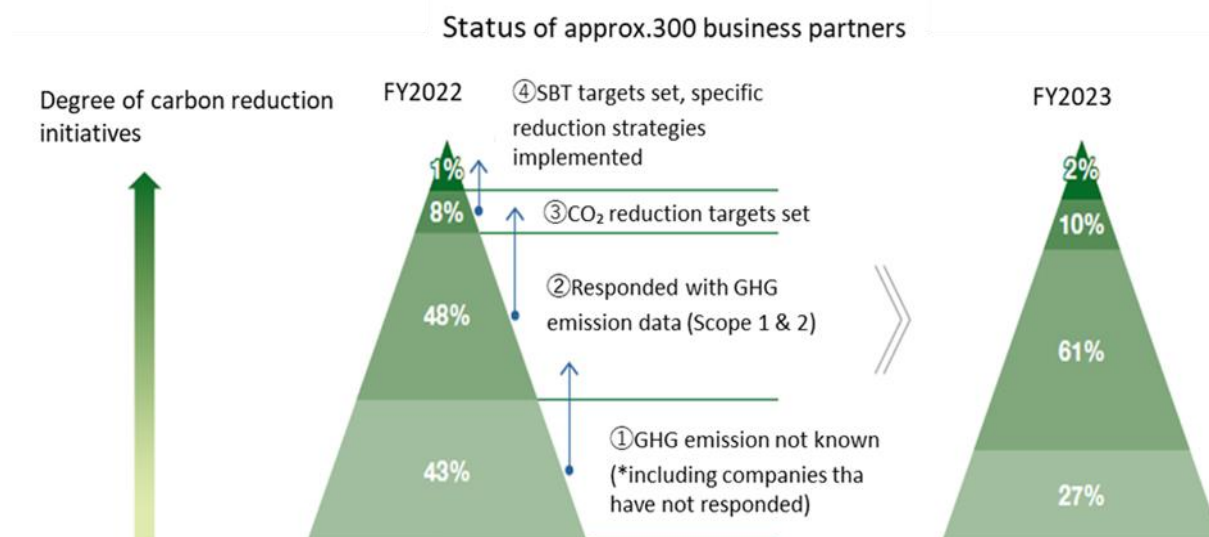
CO₂ emissions by industry sector for our 300 major business partners (as a percentage)



We conducted a survey on CO₂ emissions reduction efforts among our 320 major business partners. The response rate for the questionnaire was 86.3% (276 out of 320 companies).

The status for the fiscal years 2022 and 2023 is as follows.

[Figure 3] CO₂ emissions reduction progress at our 300 major business partners



In light of these conditions, in FY2023, we implemented the following measures with our business partners:

- ① To highlight that CO₂ emissions reduction must be addressed across the supply chain, we revised and distributed decarbonization awareness materials to all business partners.
- ② To simplify Scope 3 emissions calculations* for our business partners, we improved the current survey form to focus on their primary purchases.
- ③ We conducted individual visits and interviews with 62 high-emission business partners for discussions on CO₂ emissions reduction.

*Note: Simplified Scope 3 emissions calculations limited to Category 1

These measures yielded the following results and the FY2023 status improved, as shown in the right half of [Figure 3].

- More business partners are now aware of their CO₂ emissions, as indicated by ②, ③, and ④ in the image above, with awareness increasing from 57% to 73%.

While an increasing number of business partners understand the importance of tracking energy usage and calculating CO₂ emissions, we realized that setting reduction targets remains a challenge for them. Going forward, we will select candidates for best practices from among our business partners to support them in setting CO₂ reduction targets and provide management tools, thereby advancing emissions reduction activities.

4-3. Extension of activities to the azbil Group's overseas sales companies

In alignment with the SDGs principle of "Leave no one behind," the azbil Group has extended its supply chain activities to overseas sales companies since FY2023. The number of these overseas companies has reached 15, with significant variations in size, experience, and performance. To facilitate the execution of our SDG supply chain activities, we divided these companies into four groups based on performance levels and defined a desired state for each group to reach.

Groups 1 and 2 consist of companies that should increase their internal CSR levels, while Groups 3 and 4 focus on proactively encouraging improvements among their business partners.

Target				
	Group 1	Group 2	Group 3	Group 4
Definitions	The target level for procurement operations is to meet the minimum requirements for legal compliance and operation	The target level for purchasing operations is to ensure effective internal controls, making it difficult for fraud to occur.	The target level for SDG activities is to understand the state of the supply chain and complete "defense" initiatives.	The target level for SDG activities is to carry out "offense" initiatives and strive for high recognition from society and local
Details of initiatives Conditions for completion	① An organization in charge of procurement operations that is different from the ordering source ② Establishment of anagement regulations for procurement operations ③ Training for the person in charge of procurement operations	① Favorable evaluations from third-party organizations (Group audit, comprehensive assessment) ② Correction of points raised in the past by overseas audit (conducted by the Group Audit Department) regarding procurement-related items	【SDGs "Defense" Initiatives】 Implementation of initiatives with their own business partners ★Dissemination of the azbil Group Basic Procurement Policy ★Human rights due diligence * Observance of fair commercial transactions, etc.	【SDGs "Offense" initiatives】 Implementation of initiatives with their own business partners ★Reduction of CO2 emissions * Promotion of diversity * New ways of working, work-life balance etc.
Overseas sales companies	AEU AMY	ACN/ASG/ANA SACN/ABID/AIN/APH AMX/ASAL/AVN/ATW	AKR ATH	N/A

For each group, we developed a roadmap for achieving its desired state along with associated measures. We prioritized implementing measures with the two companies in Group 1 and the overseas sales companies in Group 2, based on the idea that mitigating risks by moving more companies from lower to higher groups is an effective start.

For these overseas sales companies, we began by holding briefings to increase the level of understanding of our supply chain activities.

Recognizing that Group 1 and 2 companies should improve legal compliance and internal controls, we focused on helping them develop business workflows from a J-SOX perspective. Once workflows were established, we verified their effectiveness through ledger sampling and other methods. As a result, two companies from Group 1 qualified to advance to Group 2 and three companies from Group 2 qualified to advance to Group 3.

In FY2024, we will implement measures with four companies from Group 2 and the two companies from Group 3.

4-4. Interviews with individual business partners to identify and extend best practices

Until FY2022, we implemented measures targeting all major business partners due to generally low levels of SDG awareness and effort. However, since each individual business partner operates with its own unique management policies, goals, and resources, we recognized the need to understand their thinking, needs, and progress individually to make Azbil's measures more effective.

To gain insights into business partners' perspectives and detailed progress on the SDGs that questionnaires fail to capture, we conducted on-site visits for in-person interviews and exchanges of opinions. We selected a total of 62 companies from among our major business partners: 30 with high CO₂ emissions and 32 with potential social issues. These visits and interviews yielded the following results:

- Most of them stated that Azbil was the only company to visit them to promote the SDGs. We were able not only to convey our commitment but also to raise awareness and motivate them to engage in themes extending beyond human rights due diligence and CO₂ emissions reduction. Additionally, we were able to align our perspectives with those of our business partners. As a result, the business partners we visited achieved higher scores on the self-evaluation questionnaire than those we did not visit, demonstrating the effectiveness of these visits.
- The interviews revealed that our business partners lacked appropriate means of learning about the practices of similarly-sized industry peers. To address this, we compiled the practices gathered during these interviews and listed them on our website. We also provided feedback to the business partners we visited.

Examples of SDGs Initiatives by Business Partners

◎:40% or higher ○:20% or more but less than 40% △:Less than 20%

Main theme	Area	Subcategory	Examples of initiatives	Initiatives Ratio
Environment	CO ₂ emissions reduction	Company car	Company cars, forklifts, etc. switched to EVs or HVs, Downsized the engines of company cars	◎
			Carpooling with company cars	△
			There are no company cars, Transportation is limited to public transit only	△
		Implementation of standard program	Continued implementation of the ECO program(Azbil measures)	○
			Implementation of ECO Action 21 (Ministry of the Environment measures) or local government	△
		Air conditioning unit	Changed air conditioning units, compressors, etc. to energy-saving models to reduce electricity consumption	◎
		Lighting fixtures	Switched lighting fixtures to LED	◎
			Diligently turn off lighting fixtures and office automation equipment, or install motion sensors in certain areas for automatic shutoff	◎
			Thoroughly enforce and improve measures to prevent forgetting to turn off lights and machinery power sources at staff meetings	△
		Insulation	Shade windows and outdoor units	○
			Switch office windows to double-glazing	△
		Renewable energy	Solar panel installation	○
		Miscellaneous	When renewing production facilities, upgrade to models with higher energy-saving effects	△
			Consulting with and requesting assistance from consultants on environmental initiatives	△

Main theme	Area	Subcategory	Examples of initiatives	Initiatives Ratio
Environment	Pollution & Resources (Air and water pollution, Hazardous waste, Waste reduction, Raw materials, etc.)	Green Procurement	Purchase green products (e.g., Askul, etc.) for equipment	○
			Design products with green procurement awareness when designing	△
		Management of chemical substances in products	Confirmation of RoHS and REACH conformance	○
			Select manufacturers capable of managing chemical substances in products at the time of quotation	△
			Select Azbil-specified rust-preventive paint	○
		Reduction of resource use, Reduction of industrial waste, Resource reuse, Promotion of renewable energy use	Shred paper for reuse as cushioning material, Reuse cardboard boxes	○
			Recycle defective substrates, unused sheet metal, cardboard boxes, etc.	○
			Collect and reuse cables, discarded drums, and material scraps	○
			Utilize returnable containers, etc. for product delivery	△
	Use of recycled paper and backside of used paper		○	
Environmental Managemen	Environmental management activities	Acquisition of ISO14001	○	
Social	Labor Practices	Diversity	Employment of foreign nationals	◎
			Accept foreign technical intern trainees and subsequently hire them	△
			Have remote bases in Southeast Asia (e.g. Vietnam) and hire locals	△
			Promotion of women's active participation (such as increasing the number of female managers, etc.)	◎
			Extension of employment for the elderly (age 65 and over)	◎
			Employment of persons with disabilities	○
			Male employees take childcare leave and work reduced hours	◎
	Health & Safety	Health and Safety Management	Consider installing of AEDs, blood pressure monitors, and rest beds within the office	△
			Establish mental health consultation services both inside and outside the company	○
			Disseminate accident cases and near-miss incidents discussed at the Azbil Safety and Health Council within the company.	◎
		Work style reform, Work-life balance	Extend maternity leave for those who cannot enter nursery school within two years of childbirth	△
			Establishment of a system that allows for reduced working hours until their children reach the sixth grade of elementary school	△
			Consider increasing days off during months with many school events	△
			Introduction of "no overtime" days	△
			Due to the nature of the on-site work, which is likely to require attendance on Saturdays, the working hours are set at 6.5 hours per day, 6 days a week.	△
			As a measure against mental health issues, introduce a system that encourages taking a half-day paid leave before and after night shifts	△
			Establishment of work-from-home and teleworking environments, Introduction of staggered commuting hours	◎
			Improvement of paperwork efficiency (e.g., introduction of IT solutions, digitalization of blackboard functions, etc)	△
	Community (Local society)	Activities for regional development and social contribution	Donations to community events, festivals, shrines, schools and public organizations, etc.	◎
			Participation in community cleanups and neighborhood association activities	○
			Purchase of ESG Private Placement Bonds	△
	Quality/Customers	Observance of fair business practices	For new clients, ask them to submit a supplier survey form and review to ensure there are no issues	△
		Quality Management	Acquisition of ISO9001 or similar activities	◎
General	Peruse the CSR Procurement Guideline and incorporate SDGs topics into monthly meeting agendas			△

The focus is on specific initiatives to reduce CO2 emissions, excluding activities such as assessing current CO2 levels, setting targets, and creating environmental reports.

- The interviews also highlighted that many business partners are facing recruitment difficulties. Workforce shortages are increasingly hindering their core business activities and making it difficult to implement SDG initiatives. However, some of our business partners have developed successful practices to tackle this challenge, such as employing foreign workers in diverse forms and utilizing them on a long-term basis.
To promote diversity and make business contributions from recruitment perspectives through the employment and utilization of foreign workers, we developed a plan to extend these best practices horizontally to other business partners. This plan remains underway in FY2024.

4-5. Conducted self-evaluation questionnaires for business partners

At the azbil Group, we ask our business partners to complete annual self-evaluation questionnaires based on the principles of the Global Compact for the following purposes:

- To continue to motivate business partners and provide an opportunity for review, thereby encouraging their implementation of initiatives.
- To verify the effectiveness of Azbil's initiatives and business partners' progress over time.

Since FY2021, we have conducted three surveys, gathering enough data to analyze our business partners' characteristics, trends, and year-over-year changes.

The results of the FY2023 survey are shown below.

The response rate for the self-evaluation questionnaires from our business partners is 88.7% (493 out of 556 companies).

■ Self-evaluation questionnaires in six (6) aG domestic companies

Number: Number of business partners

	Number of companies		Type of business of the business partners			
	Covered	Rsponses	Manufacturing	Commercial firm	Installation / Service	Engineering / Software
Azbil Corporation	319	283	92	43	136	12
Azbil Kimmon Co., Ltd.	80	71	39	17	5	2
Azbil Trading Co., Ltd.	30	27	20	5	2	0
Azbil Taishin Co., Ltd.	28	20	8	12	0	0
Azbil TA Co., Ltd.	52	46	35	10	1	0
Azbil Kyoto Co., Ltd.	3	3	0	3	0	0
aG Domestic Total	512	450	194	90	144	14

■ Self-evaluation questionnaires in three (3) aG overseas companies

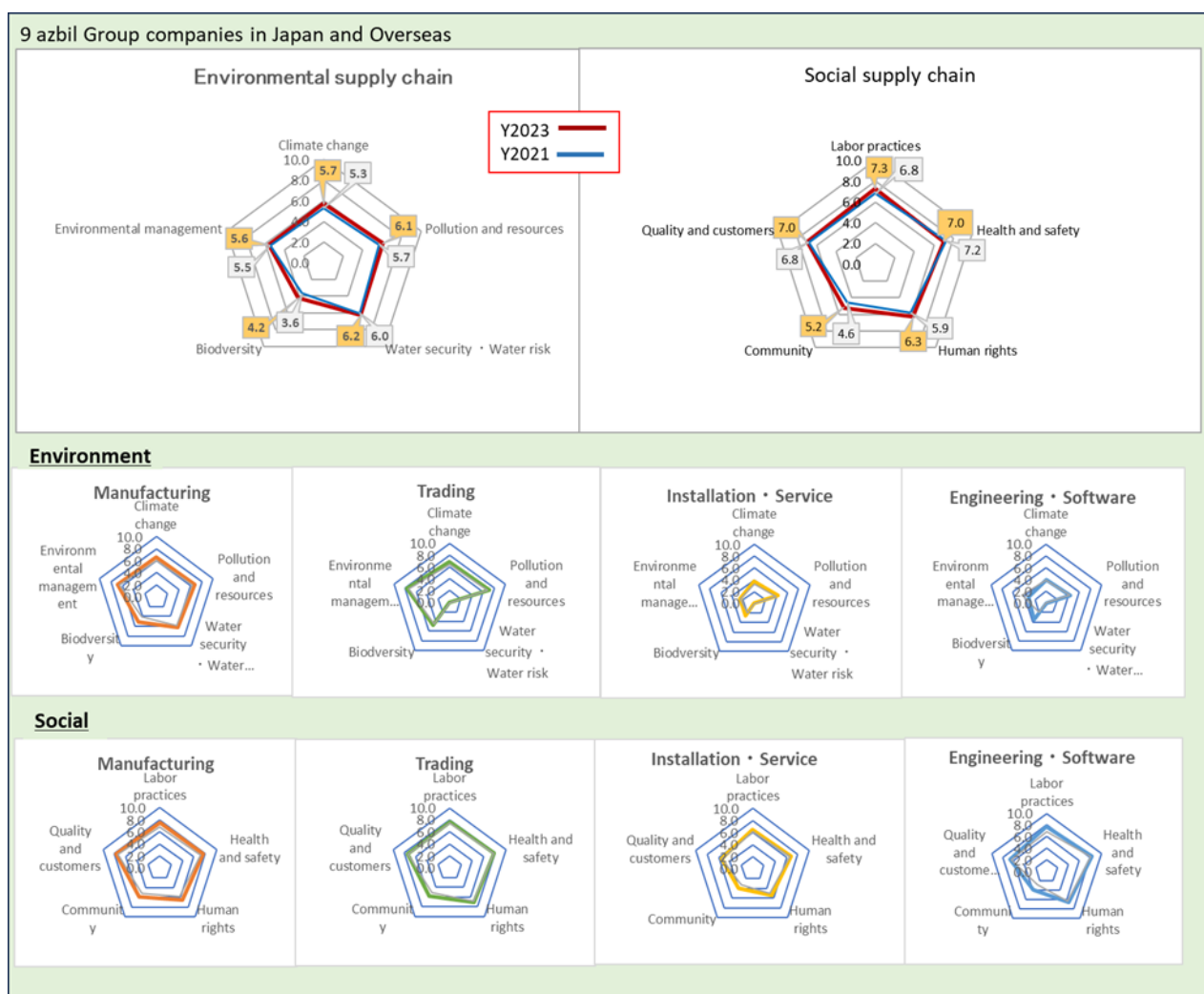
Number: Number of business partners

	Number of companies		Type of business of the business partners			
	Covered	Rsponses	Manufacturing	Commercial firm	Installation / Service	Engineering / Software
Azbil Control Instruments (Dalian)Co., Ltd	24	24	17	7	0	0
Azbil Production (Thailand) Co., Ltd.	11	11	8	3	0	0
Azbil Hong Kong Limited	9	8	5	3	0	0
aG Overseas Total	44	43	30	13	0	0

■ The azbil Group Domestic and Overseas Business Partner Self-Evaluation Aggregate Results

10 by target Area (intermediate category)

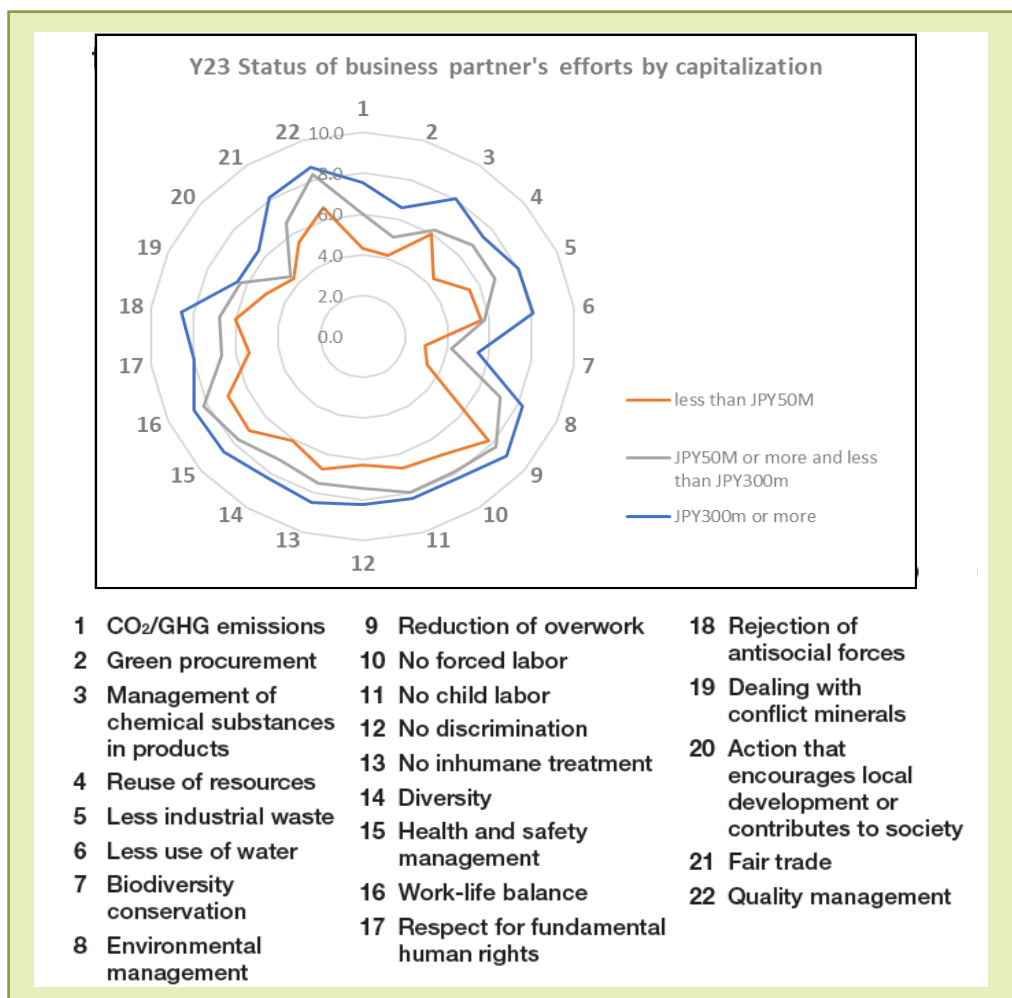
- Overall, evaluation scores increased consistently compared to the first questionnaire conducted in FY2021. In particular, domestic business partners gained significantly higher scores, demonstrating notable improvements (not shown in the image below).
- The same trend as in FY2021 is also observed by business type and industry. Manufacturing has a higher evaluation score than other business types and industries, while construction and services have a lower evaluation score. However, differences in social aspects between business types and industries have decreased.



*In the environmental supply chain concerning 'water security and water risk, apart from manufacturing, it is not applicable and therefore appears as 0 points.

■ Comparison by company size (capitalization) in the self-evaluation questionnaire

- A comparison of progress by company size shows that larger companies (in terms of capital) have advanced their efforts to a greater extent. This is likely due to their greater resources and responsiveness to social demands.
- However, although not shown in the graph below, when the progress from FY2021 is taken into account, it is noticeable that smaller companies have made more progress in their efforts since FY2021. Previous azbil Group CSR Procurement Guideline briefings, various encouragement efforts, and feedback have motivated even smaller companies to raise the level of their initiatives.



4-6. Feedback of self-evaluation questionnaire results to business partners

Using the results of the FY2022 business partners' self-evaluation questionnaire, we asked each of them to make voluntary improvements.

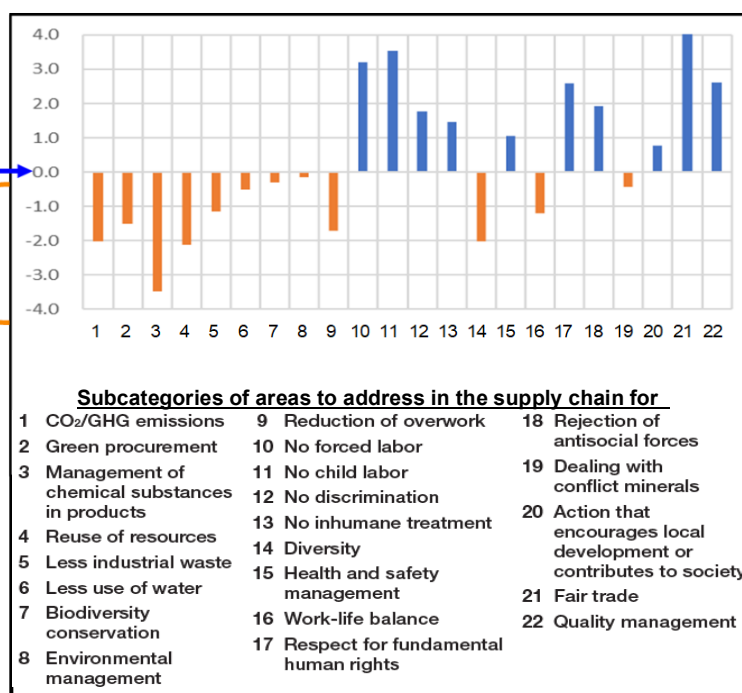
Specifically, we used the results of the FY2022 self-evaluation questionnaire to highlight the differences from the average scores of Azbil's business partners across each of the 22 sub-categories. We asked them to recognize their own strengths and weaknesses and to focus on making improvements, particularly in their areas of weakness.

The results of the business partners' self-evaluation questionnaire for FY2023 indicate that the average scores for the sub-category themes, where improvements were requested, have improved, albeit slightly. This confirms that the feedback provided to business partners was effective.

Example feedback report:

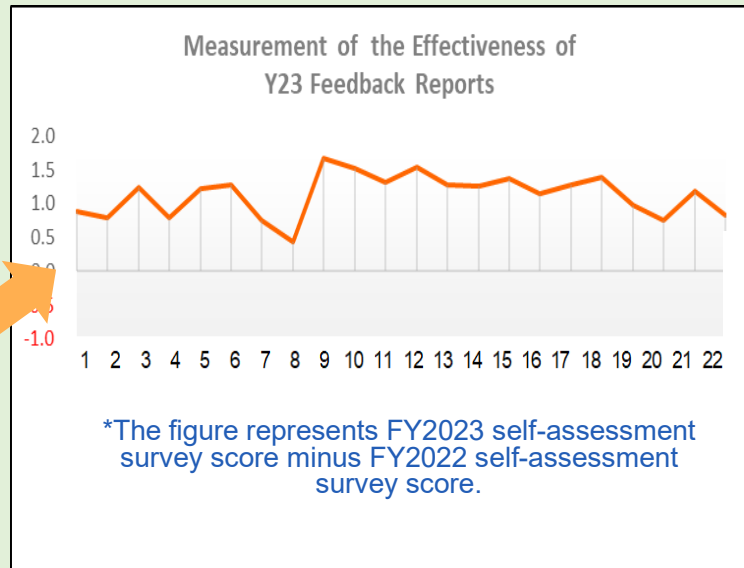
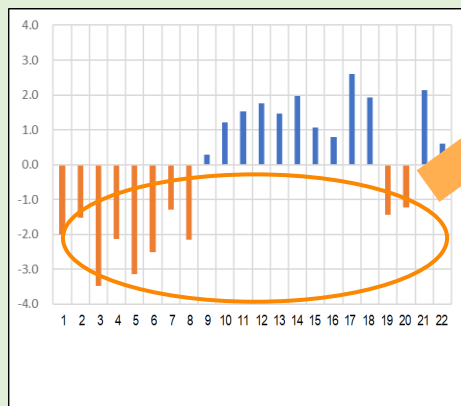
The average score of Azbil's business partners was 0.

The orange areas indicate areas where individual business partners' scores are below the average of the azbil Group's business partners.
→Each business partner was asked to improve the sub-category themes in this area.



Business partners who scored below the average in FY2022 showed improvement in their self-assessment surveys in FY2023.

(Shown on the positive side in the graph on the right.)



1 CO₂/GHG emissions
2 Green procurement
3 Management of chemical substances in products
4 Reuse of resources
5 Less industrial waste
6 Less use of water
7 Biodiversity conservation
8 Environmental management

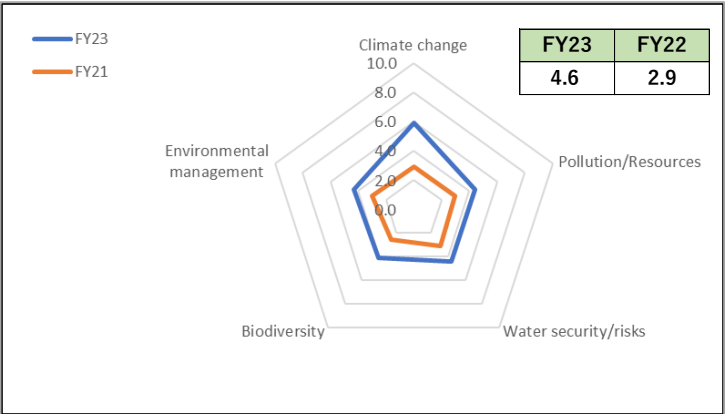
9 Reduction of overwork
10 No forced labor
11 No child labor
12 No discrimination
13 No inhumane treatment
14 Diversity
15 Health and safety management
16 Work-life balance
17 Respect for fundamental human rights

18 Rejection of antisocial forces
19 Dealing with conflict minerals
20 Action that encourages local development or contributes to society
21 Fair trade
22 Quality management

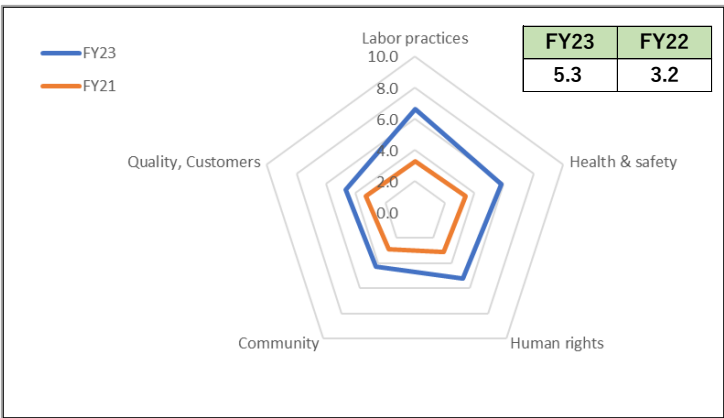
5. The azbil Group's Comprehensive Evaluation

Based on the azbil Group Self-Evaluation Standards, an evaluation was conducted for each target theme. Specifically, for a total of 10 target areas (5 environmental and 5 social), the overall evaluation is calculated as a simple average of five criteria : the azbil Group's approach to the supply chain (1. Policies/strategies, 2. Systems/structures, 3. Initiatives, 4. Evaluation) and 5. Business partner self-evaluation results, with a maximum score of 10 points. In FY2023, the various measures were successful, with each criterion in the environmental/social supply chain generally increasing by about 2 points compared to FY2021, the first fiscal year. Since our measures focused on human rights due diligence and CO₂ emissions reduction, scores in areas related to these two initiatives showed a slightly greater increase.

Environmental supply chain



Social supply chain



6. FY2023 Reflection on Activities and the FY2024 Plan

■ FY2023 Points that can be evaluated through the activities

- In FY2023, we were largely able to implement the plan set at the beginning of the term, in accordance with the Azbil SDG supply chain framework.
- In FY2023, we made progress in human rights due diligence and CO₂ emissions reduction, continuing themes from FY2022 one step further. This yielded positive results.

For Azbil's business partners, we identified existing risks of human rights violations and completed the process of requesting improvements. As they have nearly resolved the issue, the conclusion of our efforts to mitigate human rights violation risks is now within reach.

Another positive result was the application of insights from Azbil's past results to human rights due diligence activities across the azbil Group.

In CO₂ emissions reduction, we made significant improvements to the visualization of Scope 1 and 2 emissions of our business partners by improving the survey form for business partners.

- In alignment with the principle of "Leave no one behind," we completed developing plans to extend our supply chain activities to the Group's overseas sales companies, which were previously not involved. Based on these plans, we will implement the supply chain activities at the Group's overseas sales companies in FY2024.
- In FY2023, we conducted visits and interviews with more than 60 individual business partners. This not only allowed us to understand their own unique needs and circumstances and communicate Azbil's intentions, but also had the additional benefit of fostering cooperative relationships.

■ FY2024 plan

In FY2024, we will continue to engage and collaborate with our business partners on environmental and social issues, thereby maintaining and strengthening activities that ensure sustainability of the supply chain.

Furthermore, given that a significant number of business partners have shown interest in the best practices of similarly-sized industry peers, we will strengthen our efforts to share best practices, gained through the azbil Group's approaches and visits with business partners, with other business partners. Through these activities, we aim to increase added value for both our business partners and the azbil Group, building long-term relationships of trust.

For individual themes, we will encourage our business partners to improve governance* in addition to environmental and social initiatives, that have previously been addressed. In human rights due diligence, as assessments and improvements near completion at direct business partners, we plan to extend the initiative to more upstream business partners. For environment initiatives, we plan to strengthen themes other than CO₂ emissions reduction.

*Note: Severing ties with antisocial forces, anti-corruption measures, business continuity planning, etc.

azbil