

## [Important Issues]

# Environmental and Social Considerations in the Supply Chain

## Policy and Basic Approach

The Nippon Kayaku Group has formulated its Basic Procurement Principles and Basic Procurement Policies so that its purchasing activities will be consistent with sustainable management. We will work for the creation of a sustainable society in cooperation with all our suppliers.

## Basic Procurement Principles

In order to realize the **KAYAKU spirit**, Nippon Kayaku Group will pursue mutual and sustainable growth with suppliers based on the understanding they are important suppliers who help us produce products of the best quality. We will strive to conduct procurement transactions that are fair, honest, impartial, and in accordance with relevant laws, social norms, and our Basic Procurement Policies.

### Basic Procurement Policies

#### ◆ Compliance with relevant laws, social norms, and the Nippon Kayaku Group Charter of Conduct

1. We will comply with all relevant laws and regulations when conducting procurement operations.
2. We will judge the propriety of procurement activities based on Nippon Kayaku Group Charter of Conduct and the Nippon Kayaku Group Code of Conduct and Group Action Guidelines.

#### ◆ Open-door policy, fairness, impartiality, and transparency in business transactions

3. We will conduct procurement-related business transactions in a fair, impartial, and transparent manner, and follow an open-door policy with respect to businesses at home and abroad.
4. In order to ensure transparency in all our procurement activities, we will undertake due procedures based on written documentation or electronic purchasing systems in accordance with the procurement operations standards.

#### ◆ Partnerships with our business partners

5. We will build partnerships with suppliers based on mutual understanding and trust, and pursue mutual sustainable growth.

#### ◆ Protection of information

6. We will protect supplier-related information obtained in the course of our operations, and strive to prevent any information leakage.

#### ◆ Concern for the environment

7. We will promote the procurement of eco-friendly goods and materials.

### ◆ Basic criteria for selecting suppliers

8. When selecting goods and materials, we will give due consideration to economic factors such as quality, price, and date of delivery. We will also consider other factors such as the supplier's operating foundations, technological competitiveness, and stability of supply.
9. When selecting suppliers, we will give due consideration to their commitment to realization of a sustainable society, including their observance of relevant laws and regulations, respect for human rights, concern for the working environment, disaster preparedness and safety measures, efforts toward environmental conservation, and other efforts designed to fulfill their Sustainable.
10. In addition to the above, we will give due consideration to whether or not the potential supplier has a risk management system such as BCP (Business Continuity Plan).

## System

Following the instructions of the Sustainable Management Meeting, Nippon Kayaku promotes sustainable purchasing activities in accordance with the Basic Procurement Policies. As the driving force behind Nippon Kayaku's sustainable procurement, the head office's Purchasing Division works with the procurement divisions of plants and sites and strengthens initiatives.

## Indicators

Key sustainability issues	Corresponding SDGs	Action plans	Indicators (KPI)	FY2025 Targets	FY2022 Results	FY2022 Topics for initiatives
Environmental and Social Considerations in the Supply Chain		<ul style="list-style-type: none"> <li>Practice supply chain management with consideration for environmental and social aspects, based on the Sustainable Procurement Guidelines</li> </ul>	Response rate for confirmation of consent to Sustainable Procurement Guidelines	(Non-consolidated) 90% or higher	(Non-consolidated) 99%	<ul style="list-style-type: none"> <li>Sent questionnaires based on the details of sustainable procurement guidelines to roughly 300 companies ranked the highest in terms of purchase amounts, collected responses from 229 of them and statements confirming agreement from 226</li> </ul>
			Formulation and implementation of improvement plans using questionnaires to suppliers	(Non-consolidated) Disclose progress	-	<ul style="list-style-type: none"> <li>As no suppliers with human rights or environmental issues were identified based on the details of the sustainable procurement questionnaires that were retrieved, no requests to formulate improvement plans were issued. The details of responses will be checked at the suppliers we plan to audit in FY2023.</li> </ul>

## Initiatives

### Promotion of Sustainable Procurement

The Nippon Kayaku Group published the Sustainable Procurement Guidebook, which includes Nippon Kayaku Group Charter of Conduct and Code of Conduct, Basic Procurement Principles and Basic Procurement Policy, and is working to obtain the support of all our suppliers for sustainable procurement toward the creation of a sustainable society.

In line with the Guidebook, we are promoting sustainable procurement activities with all our suppliers across the supply chain, including those that we work with for R&D, the procurement of raw materials, manufacturing, sales, and logistics, while respecting human rights and giving consideration to environmental protection, occupational health and safety, legal compliance and fair business practices.

Our efforts to obtain our suppliers' understanding of our Sustainable Procurement Policy include briefings, daily communications and business meetings, and we also request each of them to sign an agreement stating that they will comply with the Sustainable Procurement Guidebook.

We will continue to fulfill our social responsibilities across the entire supply chain for the realization of a sustainable society, thereby gaining the confidence and admiration of our customers.

[Sustainable Procurement Guidebook](#)

#### List of Activities

Main activities	Activities	Frequency of evaluation
Sustainable procurement questionnaire	Self-evaluate compliance with the Nippon Kayaku Group's Sustainable Procurement Guidebook	Once per year
Audit of suppliers	Visit suppliers' manufacturing hubs and audit the suppliers with a focus on quality.	Once per year
BCP procurement	<ul style="list-style-type: none"> <li>Seek to obtain information about the occurrence of injuries and accidents in supply chains. Use an internal database to share the information obtained.</li> <li>Strengthen initiatives for purchasing from multiple suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>Conducted whenever necessary, for example, in the event of an injury or accident.</li> <li>Review procurement activities on a quarterly basis.</li> </ul>
Responsible procurement of minerals	Use the CMRT and EMRT provided by RMI to conduct research into relevant minerals (gold, tantalum, tungsten, tin, cobalt, natural mica).	Conducted when a new supplier is registered or on an as-needed basis.
Financial evaluation	Evaluate new suppliers' financial situation based on information from outside credit research institutions.	When a new supplier is registered

### ◆ Conducting Sustainable Procurement Questionnaire Surveys

Nippon Kayaku conducts sustainable procurement questionnaire surveys of new and existing suppliers to keep up to date on their efforts from environmental and social perspectives. In FY2022, we conducted a questionnaire survey with 300 suppliers with which we had a certain amount of or greater transaction for raw materials in line with Sustainable Procurement Guidebook. As a result, we confirmed that none of the 231 respondents had a socially negative impact on the environment, human rights, occupational safety and health or other matters.

From FY2022, a consent box has been added to the questionnaire so that suppliers can express their consent by checking the box. Working with suppliers, we will continue to pursue a sustainable society throughout the supply chain.

#### Major Items in Sustainable Procurement Questionnaires

Evaluation items	Details
Human rights and labor	Prohibition of forced labor, prohibition of child labor, proper management of work hours, proper payment of wages, humane treatment, non-discrimination and non-harassment, freedom of association
Health and safety	Occupational safety, emergency preparedness, prevention of occupational injury and illness, industrial hygiene, consideration for physically demanding work, machine safeguarding, provision of sanitation equipment, food, and housing, health and safety communication
Environment	Environmental permits and reporting, efficient use of resources and waste management, prevention of contamination and reduction of resources, management of hazardous substances, management and reduction of solid waste, pre-emission air treatment, materials restrictions, water management, reduction of energy consumption and greenhouse gas emissions
Ethics	Business integrity, no improper advantage, disclosure of accurate information, respect for intellectual property rights, fair business, advertising and competition, protection of identity and non-retaliation, responsible sourcing of minerals, privacy protection
Management system	Company commitment, management accountability and responsibility, legal and customer requirements, proper import and export control, risk assessment and risk management, improvement objectives, training, communication, worker feedback and participation, handling of worker complaints, audits and assessments, collective action process, documentation, creation and maintenance of records, supplier responsibility
Quality and product safety	Ensuring product safety, quality management, provision of accurate information on products and services
Information security	Defense against cyberattack, protection of personal information, prevention of leakage of confidential information
BCP	Formulating a business continuity plan

### ◆ Audit of Suppliers

Nippon Kayaku audits suppliers every year with the goal of promoting and ensuring the thorough implementation of sustainable procurement practices. Representatives from Nippon Kayaku's plants check a wide range of items such as facility management, process management, hygiene management and production management of suppliers' plants and conduct evaluations. In FY2022, 152 suppliers were audited. We reviewed findings from the audits and, in some cases, provided feedback to suppliers and requested improvements. However, no serious violations by any of the suppliers were identified.

The Fine Chemicals Business Unit checks suppliers' efforts in terms of labor (human rights), health and safety, environment, ethics and management system in compliance with RBA Code of Conduct. In FY2022, 81 suppliers were audited. (18 suppliers audited on site, four were audited via the Internet and 59 underwent document-based auditing)

### ◆ Initiatives for Procurement Based on Business Continuity Planning (BCP)

Nippon Kayaku is constantly working to obtain up-to-date information on disasters and accidents that have taken place in its supply chain. When we receive such information, we share it across the board by immediately entering it into our in-house database. We also promptly compile a list of the raw materials produced by the affected countries of origin and manufacturers and check the impact on our procurement and inventories, the status regarding resumption of operations at the afflicted manufacturing facilities, and the impact of the incident on our production. We have diversified our procurement sources for many items in line with our BCP and are working to further strengthen these efforts so that we will be able to deal with any contingencies.

## ◆ Initiatives in Each Business Unit

### Mobility & Imaging Business Unit

#### Annual Purchasing Conference

The Safety Systems Group annually organizes a purchasing briefing session for the suppliers we usually work with.

In cooperation with its suppliers, the Nippon Kayaku Group must continue to provide high-quality, low-cost products without causing deliveries to customers to be delayed throughout the supply chains of the automotive industry while quickly adapting to the rapidly changing domestic and international environment, the market prices of raw materials, the fluctuation of exchange rates and other external environmental conditions. The goals of the purchasing briefing session are to explain the Nippon Kayaku Group's performance forecasts, business plan for the next year and following years, the status of our production structure at the time of the briefing, our development plan, medium and long-term vision, quality policy and purchasing policy to aid suppliers in their formulation of their business plans.

Furthermore, the suppliers that are good examples in terms of quality, cost and meeting deadlines are recognized as "excellent partners."

To fulfill the demand generated by society for the achievement of a sustainable society in cooperation with our suppliers, the purchasing briefing session shares the Group's understanding of environmental and social issues and explains its policies and initiatives regarding sustainability issues.

We will continue to strive to provide beneficial information so that the purchasing briefing sessions are valuable opportunities for the Nippon Kayaku Group and its suppliers to exchange information.



### Fine Chemicals Business Unit

#### RBA Audit Actions

The RBA (Responsible Business Alliance) is a coalition of businesses that promote corporate social responsibility throughout global supply chains. The RBA Code of Conduct specifies the standards necessary for guaranteeing that labor conditions in the supply chains are safe, that workers are treated with respect and dignity and that our business activities are environmentally friendly.

The Fukuyama Plant received an RBA third-party audit (VAP auditing) in January 2022. The plant was shown to be properly managing itself in terms of the audit items including labor, safety and health, environment, ethics and management systems, and it acquired silver certification. As a result of the implementation of initiatives for sincere improvement in accordance with corrective action plans (CAPs), all of them were approved in January 2023.

An internal audit will be held once a year to maintain the RBA audit standards. The internal audit conducted in January 2023 showed that the plant continues to satisfy the RBA audit criteria.

## Educating Procurement Representatives

Nippon Kayaku provides representatives who have been newly assigned to a Purchasing Division with introductory training to enable them to sufficiently understand the Basic Procurement Principles, Basic Procurement Policies and Sustainable Procurement Guidelines in relation to our procurement activities.

To ensure healthy supply chain management practices, we have focused on the education and training of Purchasing Division representatives on the issues of sustainable procurement, our efforts regarding conflict minerals and other issues.

We also provide support in other forms such as the buying of books to acquire purchasing-related qualifications at the Company's own expense to encourage representatives to acquire more knowledge. We encourage the acquisition of Certified Procurement Professional (CPP) and Certified Professional in Supply Management (CPSM) qualifications.

## Involvement in Initiatives

### ◆ UN Global Compact Supply Chain Subcommittee

Since 2022, the Nippon Kayaku Group has been involved in the supply chain subcommittee of UN Global Compact Network Japan. The knowledge obtained by the supply chain subcommittee is shared by the people in the Company involved in procurement and is utilized in purposes such as review of questionnaire items for use in supplier surveys.

### ◆ Declaration of Partnership Building

Nippon Kayaku announced the Declaration of Partnership Building based on its support for the goals of the Council on Promoting Partnership Building which consists of the chairperson of the Keidanren, the chairperson of the Japan Chamber of Commerce and Industry, the president of Japanese Trade Union Confederation and the ministers of the Cabinet Office, Ministry of Economy, Trade and Industry, Ministry of Health, Labour and Welfare, Ministry of Agriculture, Forestry and Fisheries and Ministry of Land, Infrastructure, Transport and Tourism.

The goal of the Declaration of Partnership Building is to express our determination to build new partnerships through cooperation and the pursuit of co-existence and co-prosperity with our suppliers in supply chains and business operators in pursuit of value creation.

We will build sustainable relationships to facilitate co-existence and co-prosperity with suppliers through our participation in the Declaration of Partnership Building.

> [Nippon Kayaku's Declaration of Partnership Building \(Japanese\)](#) 

## Compliance Hotline for Suppliers

The Nippon Kayaku Group has established a Compliance Hotline for Suppliers to collect information about actions such as the violation of laws.

The Compliance Hotline for Suppliers is available to all executives and employees of the suppliers of the companies of the Nippon Kayaku Group in Japan. The point of contact for reports and consultations is the Ethics Committee administration office (Compliance Department, Internal Control Management Division).

It functions as a system that ensures confidentiality and anonymity, and whistleblowers will not be treated disadvantageously due to their reporting to or consulting the hotline.

> [Compliance Hotline for Suppliers](#)