

(Key Sustainability Issues)

Environmental and Social Considerations in the Supply Chain

Policy and Basic Approach

To ensure that our purchasing activities conform to sustainable management practices, the Nippon Kayaku Group has fixed its Purchasing Principles and Basic Purchasing Policy. By utilizing these can we join forces with our suppliers to work towards realizing a sustainable society.

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.

◆ 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).

Policy on Responsible Mineral Procurement

There is a concern that profits from the mining and trade of gold, tin, tantalum, tungsten, and cobalt, natural mica (hereinafter, the "minerals") in CAHRAs* (hereinafter, the "target areas") provide a major source of funding for organizations involved in armed conflict, human rights violations including child labor and forced labor, environmental destruction, corruption, etc. In light of this concern, we take measures to avoid the use of minerals from the target areas (hereinafter, "conflict minerals") and any raw materials that contain conflict minerals so as to avoid providing support for armed conflicts and/or inhumane activities. In the event that any use by us of conflict minerals is identified, we will take corrective measures without delay. We ask our suppliers to abide by our policy and cooperate with us by avoiding the use of conflict minerals in raw materials used for our products.

* CAHRAs (Conflict-Affected and High-Risk Areas) stipulated by the EU Conflict Minerals Regulation

See the list: <https://www.cahraslist.net/cahras> 

System

On the instructions of its Sustainable Management Meeting, Nippon Kayaku is accelerating its sustainable purchasing activities in line with its Purchasing Principles, Basic Purchasing Policy, and Responsible Mineral Procurement Policy. Our Purchasing Division has the lead role in promoting sustainable procurement, and is forming links with every factor and business unit purchasing department in order to strengthen initiatives.

Indicators

Key sustainability issues	Corresponding SDGs	Action plans	Indicators (KPI)	FY2025 Targets	Results		FY2023 Initiative-related Topics
					FY2022	FY2023	
Environmental and Social Considerations in the Supply Chain	 	<ul style="list-style-type: none"> Practice supply chain management with consideration for environmental and social aspects, based on the Sustainable Procurement Guidelines 	Response rate for confirmation of consent to Sustainable Procurement Guidelines	(Non-consolidated) 90%	(Non-consolidated) 99%	(Non-consolidated) 91%	<ul style="list-style-type: none"> Sustainable Procurement Guidelines-based survey sent out to suppliers making up the top 90% of our purchases in FY2021 and all new suppliers in FY2022 and FY2023 (371 companies in total). 338 companies consented to the Guidelines. As the survey responses revealed no supplier problems with human rights and environmental issues, there was no need to send out Requests for Improvement.
			Formulation and implementation of improvement plans using questionnaires to suppliers	(Non-consolidated) Disclose progress	-	Published in Topics	

Initiatives

Promoting Sustainable Purchasing

Our efforts towards realizing a sustainable society have seen us weave together our Nippon Kayaku Charter of Conduct and Code of Conduct, our Purchasing Principles, our Basic Purchasing Policy and our Responsible Mineral Procurement Policy into a Sustainable Purchasing Guidebook, and promote affirmation of such guidelines from a large number of suppliers.

With consideration given to respect for human rights, environmental conservation, worker safety and health, legal compliance, and fair trading, we are teaming up with our suppliers to promote sustainable procurement across the entire supply chain, spanning R&D, raw material procurement, manufacturing, selling and distribution.

We use briefing sessions, everyday communication and regular business conversations to enhance supplier understanding of our sustainable procurement drives, and periodically ask suppliers to sign pledges to comply with the terms and conditions of our Sustainable Procurement Guidebook. FY2024 has seen us issue every new supplier (raw materials manufacturer) with a copy of our Sustainable Procurement Guidebook, along with a relevant survey, whose results we have now collated in order to confirm the situation on the ground. From now on, we will continue working towards achieving a sustainable society with a supply chain that fulfils its social responsibilities, and towards becoming a familiar, much-loved presence in the eyes of our customers.

[Sustainable Procurement Guidebook](#)

Initiatives Chart

Principal Activities	Activity Details	Assessment Frequency
Sustainable Procurement Survey	Sending Sustainable Procurement Questionnaires to domestic suppliers (specifically, suppliers in the top 90% of our raw materials purchases and new suppliers) to confirm how they are faring against the Nippon Kayaku Group Sustainable Procurement Guidebook.	<ul style="list-style-type: none"> As appropriate, for existing suppliers inside Japan Whenever a new domestic supplier registers
Supplier Audit	Conducting paper or field audits of supplier manufacturing bases (quality-centred supplier audits)	Yearly
BCP Procurement	<ul style="list-style-type: none"> Working towards gathering information on supply chain hazards and accidents, and sharing such information on internal company databases Strengthening moves towards multiple procurement 	<ul style="list-style-type: none"> As appropriate, whenever hazards or accidents occur Quarterly status confirmations
Responsible Mineral Procurement	Conducting surveys on applicable minerals (gold, tantalum, tungsten, tin, cobalt, natural mica) using CMRT and EMRT provided by RMI	Whenever a new supplier registers Also set up according to need
Financial Evaluation	Assessing new suppliers' finances based on information provided by external credit agencies	Whenever a new supplier registers

◆ Conducting Sustainable Procurement Questionnaire Surveys

Nippon Kayaku has conducted a Sustainable Procurement Survey of all new and existing suppliers to confirm the status of socially and environmentally-focused initiatives. FY2023 saw us survey the suppliers who made up the top 90% of our raw materials purchases in 2021, as well as new suppliers who registered in FY2022 and FY2023, a total of 371 companies. The survey was based on the contents of the Sustainable Procurement Guidebook, and saw us gain the consenting agreement of 338 companies (91%) over the two years spanning FY2022 and FY2023. The survey also enabled us to confirm that 353 company respondents (95%) were not causing negative environmental or social impacts with respect to human rights and worker safety and health. The future will see us continue our joint efforts with suppliers to aim for a sustainable society across the entire supply chain.

Number of Suppliers Evaluated over the Past Two Years, Response Rate and Consenting Rate

	Number of Suppliers	Response Rate	Consenting Rate
FY2022-2023	371 companies	95%	91%

Main Items on the Sustainable Procurement Survey

Assessment Points	Details
Human Rights & Labor	Banning of forced labor and child labor, appropriate management of working hours, appropriate payment of wages, humane treatment of employees, eradication of discrimination and harassment, freedom of association
Safety and Health	Workplace safety, emergency preparedness, prevention of industrial hazards and sicknesses, industrial hygiene, due consideration given to physically-challenging labor, machine safety measures, provision of sanitation facilities/food/dwellings, health and safety communication
Environment	Environmental permissions and reports, efficient use of resources and waste management, anti-pollution and resource reduction, management of hazardous materials, solid waste management and reduction, exhaust gas pre-processing, restrictions on materials, water management, reduced energy consumption and greenhouse gas emissions, biodiversity conservation
Ethics	Business integrity, eradication of unjustifiable profits, appropriate information disclosure, respect for intellectual property rights, fair business/fair advertising/fair competition, ID protection and prevention of retaliation, responsible mineral procurement, animal welfare, privacy protection
Management System	Corporate commitments, managerial accountability and responsibility, legal and customer requirements, appropriate import and export management, risk evaluation and management, improvement objectives, training, communication, worker feedback/participation/complaints responses, audits and assessments, processes for corrective measures, creation and maintenance of a documenting and registration system, supplier responsibility
Product Quality and Safety	Guaranteeing product safety, product quality management, provision of accurate product and service information
Information Security	Defense against cyber attacks, protection of personal information, prevention of confidential information leaks
BCP	Fixing a Business Continuity Plan

◆ Audits of our Suppliers

The Nippon Kayaku Group conducts annual audits of suppliers with the aim of promoting and properly achieving sustainable procurement. These audits see the manager of every Nippon Kayaku plant check and assess their suppliers against various management criteria with respect to plant facilities, processes, health and safety, production and more. We conducted 101 supplier audits in FY2023 (and, as of June 2024, are still awaiting document responses from four of them). Having confirmed information and points of concern in relation to these audits, we provided feedback and demanded improvements from the suppliers in question, but found no instances of serious violations.

Our Fine Chemicals Business Unit is referring to the RBA Code of Conduct when confirming the status of supplier initiatives in the five key areas of: Labor (Human Rights), Safety & Health, Environment, Ethics and Management Systems. FY2023 saw 71 supplier companies undergo such an audit (16 onsite, 1 online, and 54 via document submission as of June 30th 2024 – with 4 companies yet to respond).

◆ Business Continuity Planning (BCP): Procurement Initiatives

Nippon Kayaku regularly works to gather information on supply chain hazards and accidents, and immediately share such information through internal company databases. It also seeks to promptly pick up the charts of the raw materials procured from the relevant country of origin or manufacturer, and thereby confirm the impact on stocks, procurement, factory operation restarts and manufacturing. Although one BCP measure has seen us switch to purchasing many items from multiple suppliers, we still need to strengthen initiatives in order to respond to all manner of situations.

◆ Each Business Unit's Initiatives

**Mobility & Imaging Business Unit
Purchasing Briefing Sessions**

The Safety Systems Group holds a yearly Purchasing Briefing Session for its regular suppliers. Within the automotive industry supply chain, Nippon Kayaku must, in tandem with its suppliers, rapidly respond to an external environment filled with dizzying changes in domestic and international affairs, and exchange rate fluctuations, all while ensuring that customers suffer no delays and that high-quality low-cost products continue to be supplied. Our Purchasing Briefing Sessions see us cover the Group's expected results, the business plan for the next financial year, production system status, development plans, medium-to-long-term visions, product quality policies and purchasing policies, with the aim of providing information which suppliers can feed into their own business plans. These sessions also allow us to hand out Outstanding Partner Company Awards to suppliers who are model examples in quality, cost and respecting of deadlines. We will work to ensure that future briefing sessions continue to serve as valuable information-sharing outlets for our Group and its suppliers, and that beneficial information continues to be presented.



**Fine Chemicals Business Unit
Response to an RBA Audit**

The Responsible Business Alliance (RBA) is a corporate alliance which promotes social responsibility within the global supply chain. The RBA Code of Conduct lays down the necessary standards for certifying that companies are providing safe supply chain working conditions, treating workers with dignity and respect, and showing consideration for the environment in their business activities. January 2022 saw our Fukuyama Factory undergo a Third-Party RBA Audit. Happily, the factory was recognized for its appropriate management in the five survey areas of Labor, Safety & Health, Environment, Ethics and Management Systems, and duly gained a Silver Certification. Points to improve have been earnestly tackled in line with Corrective Action Plans (CAP), all of which were approved in January 2023. Going forward, we will ensure that RBA audit standards are maintained by performing yearly internal audits, the most recent of which in October 2023 confirmed these standards are indeed being met.

Purchasing Division Members Education

Nippon Kayaku provides all members newly transferred to the Purchasing Division with induction training designed to give them a sufficient grounding in our Purchasing Principles, Basic Purchasing Policy, Responsible Mineral Procurement Policy, and Sustainable Procurement Guidelines. Furthermore, in order to guarantee robust supply chain management are we ploughing efforts into education and training sessions for Purchasing Division Members themed around Sustainable Procurement and Responsible Mineral Procurement. We are also promoting further knowledge-acquisition efforts from purchasing managers by buying them procurement qualification textbooks and supporting their efforts to study for CPP (Certified Procurement Professional) or CPSM (Certified Professional in Supply Management).

Participation in Initiatives

◆ UN Global Compact: Supply Chain Subcommittee

Since 2022, the Nippon Kayaku Group has sat on the Supply Chain Subcommittee of the UN Global Compact. The knowledge and information gained from such meetings has been shared with our internal purchasing managers and used to update the survey questions we ask of suppliers.

◆ Partnership-building Declaration

Nippon Kayaku has signed up to the Paving Our Future Partnership-Building Promotion Meeting, which counts among its members: the Chair of the Japan Federation of Economic Organizations, the Head of the Japan Chamber of Commerce and Industry, the Chair of the Pension Fund Association, and related ministers from the Cabinet Office, the Ministry of Economy, Trade and Industry, the Ministry of Labor, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Land, Infrastructure, Transport and Tourism. We released our own Partnership-building Declaration in 2023.

This Declaration constitutes a vow to build fresh partnerships through links and prosperous coexistence with all suppliers and value-creation-seeking businesspersons within our supply chain. Participation in this Declaration will help us build the sustainable relations which allow us to prosperously coexist with suppliers.

> [The Nippon Kayaku Partnership-building Declaration \(Japanese\)](#)

Compliance Hotline for Suppliers

The Nippon Kayaku Group has also set up a Compliance Hotline for Suppliers for the reporting of law violations, available to every executive and employee working for our Group's domestic suppliers. The Ethics Committee Staff Office (specifically, the Person in-charge of the Internal Control Management Division) serves as the reception desk for whistleblower reports and consultations. The system guarantees both confidentiality and anonymity, meaning that no report or consultation will result in blowback against the whistleblower.

> [Compliance Hotline for Suppliers](#)