

# IMPLEMENTING SOCIAL RESPONSIBILITY IN THE SUPPLY CHAIN

## Working with Mazda's Suppliers

Mazda carries out a wide variety of activities in order to achieve mutual growth and prosperity with suppliers and dealerships, both in Japan and overseas.

In line with its basic purchasing policy, Mazda is making efforts to build open business relationships and ensure fair and even-handed dealings with its suppliers both in Japan and overseas, while extending opportunities to businesses throughout the world, regardless of nationality, scale or history of transactions with the Company. Upon receiving a request to start business with Mazda, Mazda assesses the company in question in a fair and even-handed manner according to its in-house criteria for evaluation of suppliers, and determines the feasibility of a business partnership.

In addition, Mazda bases its assessments of business dealings with its suppliers on a comprehensive evaluation that covers not only quality, technical strengths, pricing, delivery time and management approach, but also the corporate compliance structure and sustainability initiatives, including environmental protection activities (see p. 116). Mazda has conducted questionnaire surveys of its suppliers on an as-needed basis, aiming to understand and evaluate the status of their implementation of sustainability initiatives in more detail (see p. 116). Also, concerted efforts are under way between Mazda and its suppliers to establish risk management systems that ensure business continuity and stable development, so as to avoid suspension of business that would extensively impact society (see p. 117).

In addition to proactively offering opportunities for communication, Mazda provides supports in various forms to suppliers to ensure that the Company can promote sustainability initiatives and risk management in close concert with them (see p. 117).

## Promoting Sustainability Initiatives in Partnership with Its Suppliers

### Promoting Suppliers' Sustainability Initiatives and Deployment of the Mazda Supplier CSR Guidelines

The Company stipulated the Mazda Supplier CSR Guidelines, based on Mazda's basic approach on CSR initiatives and with reference to the CSR Guidelines of the Japan Automobile Manufacturers Association. The Guidelines outline CSR areas and items that are closely related to the purchasing area. In the Guidelines, CSR activities are categorized into six areas: Customer Satisfaction (Safety/Quality), Environment, Social Contribution, Respect for People (Human Rights/Work), Compliance, and Information Disclosure. The Guidelines request that all Mazda suppliers comply with the guidelines in these areas. The Mazda Green Purchasing Guidelines (see p. 45) are separately created to indicate the Company's approach on the environmental protection area in more detail, and Mazda requests that suppliers observe these guidelines. The Company also conducts periodic surveys of suppliers to confirm their compliance status (see p. 116).

**Customer Satisfaction (Safety/Quality):** Suppliers are requested to abide by the guidelines regarding products and services that meet the needs of consumers and customers, sharing appropriate information about products and services, safe products and services, quality products and services, etc.

**Environment:** Suppliers are requested to abide by the guidelines regarding environmental management / greenhouse gas reduction / air, water and soil pollution prevention / resource conservation and waste reduction / chemical management / ecosystem conservation, etc.

**Social Contribution:** Suppliers are requested to make social contributions proactively and continuously at home and abroad to meet the needs of each region, thereby fulfilling their responsibilities as a good corporate citizen.

**Respect for People (Human Rights/Work):** Suppliers are requested to abide by the guidelines regarding abolition of discrimination / respect for people / prohibition of child labor / prohibition of forced labor / non-use of conflict materials\*<sup>1</sup> (see p. 116) / wages / working hours / dialogue with employees / safe and healthy working environment, etc.

**Compliance:** Suppliers are requested to abide by the guidelines regarding regulation compliance / competition law compliance / promotion of fair business practices (added in FY March 2019) / corruption prevention / confidential information management and protection / export management / intellectual property protection, etc.

**Information Disclosure:** Suppliers are requested to disclose information to their stakeholders in a timely and appropriate manner, and make efforts to maintain and develop mutual understanding and trustful relationships with stakeholders through open and fair-minded communication.

a

a

#### Basic Purchasing Policy

Mazda will, in the fullest sense of coexistence and mutual prosperity, engage in research and production for improved competitiveness. The Company will build open and fair business relationships to ensure sustainable growth and raise its level of contributions for social and economic development. (1994)

#### Number of Suppliers (As of March 31, 2021)

Automotive parts	534
Materials, etc.	144
Equipment and tools	383
Total	1,061

#### Measures for Supplier Support

- Co-creation and technology exchange with suppliers, aimed at improving their competitiveness
- Cooperating with suppliers in improving their product quality
- Adoption of the Milk-Run system (Mazda has shifted from the conventional system, with delivery of parts by each supplier, to the Milk-Run system (MRS) (see p.38), in which Mazda trucks stop at multiple suppliers to collect parts
- Provision of information on third-party exhibitions and conventions to showcase the latest technologies and manufacturing methods

### b Mazda Supplier CSR Guidelines and Mazda Green Purchasing Guidelines

<https://www.mazda.com/en/sustainability/policy/>

b

b

\*1 Conflict minerals: Minerals and their derivative metals designated by Financial Regulatory Reform Article 1502 that are sourced from and used as financial sources for armed groups in conflict-affected regions in the Democratic Republic of Congo or adjoining countries (Regulated minerals: tantalum, tin, tungsten, gold). Under this act, listed US companies are obliged to report that no conflict materials are used in their products.

## Example of Sustainability Initiatives in Cooperation with Suppliers

### Respect for People: Activities to Address Problems regarding Conflict Minerals<sup>\*1</sup>

Mazda considers that among crucial social problems in the supply chain are human rights violations and illegal extraction in disputed regions and issues regarding conflict minerals, which may be used as financial sources by armed groups. To ensure that conflict minerals and other materials that may cause social problems are not used, the Mazda Supplier CSR Guidelines clearly state Mazda's policy, and the Company requires all suppliers to comply with it. In FY March 2021, Mazda conducted a survey on conflict minerals, targeting about 300 suppliers of the parts and materials of vehicles to be supplied to companies to which Mazda vehicles are delivered, in response to the request. The survey was carried out using the format designated by the Electronic Industry Citizenship Coalition (EICC) (now the Responsible Business Alliance [RBA]).

### Compliance: Promotion of Fair Business Practices

Mazda promotes fair business practices to ensure that both the Company and its suppliers have fair dealings under clear standards with a common recognition to strengthen their global competitiveness through mutual collaboration. Based on the Guidelines for Appropriate Transactions in the Automobile Industry, which was formulated at the initiative of the Ministry of Economy, Trade and Industry, Mazda carries out various activities, including the formulation of the Promotion Manual for Appropriate Purchasing, education for those engaged in procurement operations at Mazda, and information provision to suppliers through the website and briefing sessions.

## The Supplier Evaluation System

When starting business with a new supplier, related departments coordinate together to confirm the supplier's quality control system, research & development system, technological capabilities, financial conditions, and sustainability initiatives, in order to evaluate whether or not the supplier is compliant with the procurement/selection policies of the Mazda Group. For each long-term supplier, Mazda conducts not only an evaluation based on the quality, cost and delivery time of the procured goods or services, but also a comprehensive evaluation of the entire business including the quality control system, research & development system, technological capabilities, and the status of its sustainability initiatives. For the supplier quality control system, Mazda employs a system that enables continuous grasping of issues, evaluation of the situation, and provision of guidance for improvement by receiving daily reports on product quality as well as voluntary audit results, and when a supplier is in need of quality improvement, conducts quality auditing that involves on-site confirmation of actual products at both domestic and overseas sites. Also, Mazda comprehensively evaluates its suppliers every year (295 suppliers in 2020) from the perspectives of quality, pricing, delivery time, etc., in order to build more positive business relationships with them, and passes the results of these evaluations back to the suppliers. Outstanding suppliers are recognized with awards. The Company has also introduced sustainability-based evaluation, giving special awards to suppliers that have made outstanding proposals on weight trimming, which greatly affects environmental performance such as fuel efficiency.

## Questionnaire Survey for Suppliers

Mazda has conducted questionnaire surveys of its suppliers since FY March 2014, aiming to understand and evaluate the status of their implementation of sustainability initiatives. The survey results confirm that these suppliers have appropriately implemented sustainability initiatives and established their own sustainability promotion systems. In FY March 2021, a questionnaire survey was carried out about fair business practices, which attracted a lot of social interest. The survey was targeted at 114 suppliers, a major percentage of whose sales consisted of products delivered to Mazda. The survey results showed that progress has been made since FY March 2020. After analyzing these results, the Company held individual hearings with companies deemed to be in need of further improvement, in order to offer them cooperation in devising improvement methods. Using these surveys, the Company also checks each supplier's recognition of the Mazda Supplier CSR Guideline.

### C In-House Education to Ensure Fair Transactions

The following educational initiatives are conducted for those engaging in procurement operations in order to realize fair and equal transactions.

- Administering comprehension tests on promotion of fair business practices (including Subcontractors Act)
- Education on financial control
- Posting of guides and process rules regarding fair business practices and compliance on the Purchasing Division website on the Intranet
- Holding a course on promotion of fair business practices for employees who were newly assigned to the relevant sections

### d Evaluation System

Evaluation items when starting business with a new supplier

Quality management system, research & development system, technological capacity, production and delivery capacity, financial conditions, sustainability initiatives, etc.

Evaluation items for long-term suppliers

Quality management system, research & development system, technological capacity, production and delivery capacity, financial conditions; quality, pricing, delivery time of goods or services procured, and other items in the Supplier CSR Guidelines (see p. 115)

<sup>\*1</sup> Conflict minerals: Minerals and their derivative metals designated by Financial Regulatory Reform Article 1502 that are sourced from and used as financial sources for armed groups in conflict-affected regions in the Democratic Republic of Congo or adjoining countries (Regulated minerals: tantalum, tin, tungsten, gold). Under this act, listed US companies are obliged to report that no conflict materials are used in their products.

## Management

## Risk Management in Collaboration with Suppliers

## Upgrading and Expanding the Business Continuity Plan (BCP)

In the light of risk management, Mazda works together with its suppliers to upgrade and expand its business continuity plan (BCP) in order to avoid suspension of business that would extensively impact society. The Company has introduced the "SCR Keeper,"<sup>\*1</sup> a supply chain risk management system, to accelerate its initial response in the event of a disaster by promptly and thoroughly grasping information on the situation of operation sites. Also, initiatives are under way to promote disaster prevention and mitigation activities. Mazda had already completed risk inspections and made provisions against the expected Nankai Trough Earthquake and other large earthquakes. In addition, beginning in FY March 2020, the Company has pushed forward with the inspection of supply chain risks with its scope of application broadened to cover risks from landslides and flooding. In accordance with the degree of risks, Mazda strives to further advance its disaster preparedness, including reinforcement of disaster prevention and mitigation measures. The Company will continue to enhance its BCP in cooperation with its suppliers.

## Communicating with Suppliers

## Information Exchange and Dialogues with Suppliers

Mazda proactively offers opportunities for communication with suppliers, to ensure that the Company can work in close concert with them. Seeing all the suppliers as its important business partners, the Company takes steps to promptly brief suppliers on medium- to long-term business strategies and on matters related to sales and production, and arranges opportunities for information exchange and dialogues on a regular basis. As part of such efforts, Mazda organizes an annual seminar with the aim of enhancing awareness of environmental and other sustainability initiatives. The Company also maintains close liaisons with supplier-managed purchasing cooperative organizations.<sup>\*2</sup> In FY March 2021, amid the COVID-19 pandemic, the Company held a total of 40 remote sessions of theme discussions and meetings for opinion exchange with 121 suppliers, instead of visiting them in person. From April 2020 to September 2020, with several COVID-19 waves, Mazda held monthly production adjustment briefing meetings with member companies of Toyukai Affiliated Corporation<sup>\*3</sup> to share the Company's views on changes in its sales due to the pandemic and on corresponding production adjustments and to provide related information with the aim of enhancing communication with suppliers. Moreover, in cooperation with Tier 1 suppliers, the Company conducted a cash management survey of about 700 suppliers throughout the entire supply chain. Based on the survey results, the Company provides suppliers that have faced difficulties in cash management with advice on the effective use of public assistance. With a strong determination to protect all suppliers from bankruptcy risks, Mazda will continue to support suppliers affected by the COVID-19 pandemic in cooperation with other suppliers.

## e Purchasing Cooperative Organizations (As of March 31, 2021)

Parts suppliers	Yokokai	167
Materials suppliers (Raw materials, equipment, molds, etc.)	Yoshinkai	78

## Major Channels of Communication with Supplier

Target participants		Frequency	Aims/content
Roundtable Conference with Supplier Management	Executive-level management at major suppliers	Once a year	<ul style="list-style-type: none"> <li>Mazda's president and CEO explains Mazda's current status, the problems the Company faces and its policies, after which the general manager of the Purchasing Division explains Mazda's purchasing policies in order to heighten participants' understanding of Mazda and gain their cooperation.</li> <li>This conference also deepens friendly ties between Mazda and its suppliers.</li> </ul>
Supplier Meeting	Representatives of frontline business divisions and departments at major suppliers	Once a year	<ul style="list-style-type: none"> <li>Mazda's specific purchasing policies are explained to representatives of frontline business divisions at suppliers, based on the explanation given at the roundtable conference by the general manager of the Purchasing Division. This helps to promote a better understanding of Mazda and provides useful input for the work that suppliers do.</li> </ul>
Supplier Communication Meeting	Representatives of frontline business divisions and departments at major suppliers	Once a month	<ul style="list-style-type: none"> <li>To facilitate smoother collaboration with its suppliers, Mazda provides them with information, such as topics concerning daily operations between Mazda and its suppliers (including the environment and other sustainability-related topics), production/sales status, quality status of purchased materials, pilot construction schedules for newly developed models, and mass-production implementation schedules for new models.</li> </ul>
Other	—	As needed	<ul style="list-style-type: none"> <li>Mazda also employs a range of other communication channels, by using the in-house "Mazda Technical Review", highlighting new technologies and research.</li> </ul>

<sup>\*1</sup> SCR stands for Supply Chain Resiliency. SCR Keeper is a system combining map data with earthquake information from the Meteorological Agency by which the seismic intensity at the registered production sites can be determined quickly in the event of an earthquake.

<sup>\*2</sup> An autonomous management organization, comprising suppliers that have a certain degree of transaction with Mazda, with the purpose of strengthening relationships between Mazda and its suppliers as well as promoting mutual growth and prosperity. The procurement amount from member companies of Yokokai and Yoshinkai accounts for about 90% of the whole.

<sup>\*3</sup> Established in 1952 as a voluntary organization by 20 collaborating companies having trading relationships with Mazda (then Toyo Kogyo). Currently its membership consists of 62 companies. While sharing information with one another and with Mazda and deepening cross-industrial exchange primarily through various committee activities, these member companies continue constant efforts to hone their skills.