

IMPLEMENTING CSR 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 taking its efforts to build open business relationships and ensure fair and even-handed dealings with its suppliers both in Japan and overseas. In addition, Mazda is committed to promoting CSR initiatives and enhancing BCP aimed at building a sustainable society in full partnership with its suppliers. The Company 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 initiatives for environmental protection.

Measures Based on the Basic Purchasing Policy

- Mazda extends 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.
- Mazda requests that suppliers comply with Mazda Supplier CSR Guidelines and Mazda Green Purchasing Guidelines (see p. 61).

<Examples of Specific Measures>

- After holding briefing sessions for employees and suppliers based on the "Guidelines for Appropriate Transactions in the Automobile Industry" formulated by the Ministry of Economy, Trade and Industry (2008), continuous communication is held with related parties inside and outside the Company on every subsequent revision of the Guidelines.
- Clarification of the behavioral guidelines for appropriate transactions by formulating the "Promotion Manual for Appropriate Purchasing" (2008)
- Posted relative materials to exclusive access site for suppliers in order to continue supplier education (August 2011 -).
- Briefing sessions were held primarily for local suppliers to explain Mazda's future activities/action plan in line with the Voluntary Action Plan to Promote Appropriate Transactions and to Improve Productivity and Added Value prepared by the Japan Automobile Manufacturers Association (March 2017). In July 2017, briefing sessions were held to explain the specific activities/action plan to employees in purchasing division. In August and September, the sessions were subsequently held for employees in related divisions and consolidated subsidiaries.
- In the Mazda Supplier CSR Guidelines, the Company provided its clear policy toward its non-use of conflict materials*¹ and other raw materials that are the cause of serious social issues, and requested suppliers to comply with it.

Mazda Supplier CSR Guidelines

To promote CSR activities among Mazda suppliers, in July 2010 Mazda created the Mazda Supplier CSR Guidelines with reference to the CSR Guidelines of the Japan Automobile Manufacturers Association. In addition to requesting total compliance with the laws and regulations of all countries and regions, the Guidelines outline six areas such as respect for people including the prohibition of child labor and forced labor, environmental protection and information disclosure, and request that all Mazda suppliers comply with the guidelines in these areas. **a**

The Mazda Green Purchasing Guidelines, which indicate the details of the environmental protection area, are separately created, and Mazda requests that suppliers comply with these guidelines. **b**

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, 2017)

Automotive parts	527
Materials, etc.	152
Equipment and tools	392
Total	1,071

Purchasing Cooperative Organizations* (As of March 31, 2017)

Parts suppliers	Yokokai	171
Materials suppliers (Raw materials, equipment, molds, etc.)	Yoshinkai	80

* 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.

a Mazda Supplier CSR Guidelines

Japanese

http://www.mazda.com/globalassets/ja/assets/csr/csr_vision/distributor/supplier_csr_guideline_j.pdf

English

http://www.mazda.com/globalassets/en/assets/csr/csr_vision/distributor/supplier_csr_guideline_e.pdf

b Mazda Green Purchasing Guidelines

Japanese

http://www.mazda.com/globalassets/ja/assets/csr/csr_vision/distributor/greenpurchasing_guideline_j.pdf

English

http://www.mazda.com/globalassets/en/assets/csr/csr_vision/distributor/greenpurchasing_guideline_e.pdf

*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.

Activities to Address Problems regarding Conflict Minerals

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*¹, 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 2017, 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.

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 CSR implementation. The survey results confirm that these suppliers have appropriately implemented CSR initiatives and established their own CSR promotion systems. In FY March 2017, the Company analyzed the results of the surveys conducted over the past three years, and reviewed and revised the questionnaire items and methods, taking into account the changes in society's interest in CSR.

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 CSR 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 CSR 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 (274 suppliers in 2016) 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 CSR-based evaluation, giving special awards to suppliers that have made outstanding proposals on weight trimming, which greatly affects environmental performance such as fuel efficiency.

Handling of Business Continuity (BCP) in the Supply Chain

Mazda is presently upgrading and expanding its business continuity plan (BCP) to prepare for risks and avoid long-term suspension of business that would extensively impact society.

For procedures when suppliers are affected by disasters, the Company has compiled the Risk Management Procedures for Affected Suppliers. Assuming a large-scale disaster, risks for each supplier were identified in terms of substitutability, location, and business continuity. By sharing the identified risks, measures against them will be developed. To enable early recovery while placing the highest priority on human life, the Company has introduced the "SCRkeeper,"*² a supply chain risk management system, with the aim of enhancing its initial response and risk management. In FY March 2017, Mazda started operation of the system following the completion of the registration of data on suppliers in Japan, and worked with suppliers to establish alternative means for the production and procurement of high-risk parts and materials in preparation for the expected Nankai Trough Earthquake. The Company will continue to enhance its BCP in cooperation with its suppliers.

C

Evaluation items when starting business with a new supplier

Quality management system, research & development system, technological capacity, production and delivery capacity, financial conditions, CSR 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.121)

*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.

*2 Supply Chain Resiliency system
This is a system combining map data with the earthquakes information by the Meteorological Agency, with which the seismic intensity of the registered production sites can be found quickly in the event of an earthquake.

Communicating with Suppliers

To enable coexistence mutual growth and prosperity for all parties, along with the overarching goal of building high-quality vehicles, Mazda Group, seeing all the suppliers as its important business partners, 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 the exchange of information on a regular basis.

The Company also maintains close liaisons with supplier-managed purchasing cooperative organizations*¹. (see p. 121)

For example, staffs from member companies visit each other's offices in order to exchange examples of successful approaches and practices through subcommittee activities. In FY March 2017, 128 companies conducted a total of 90 activities.

d Lecture at Supplier Communication Meeting "Mazda's CSR initiatives" (September 2016)



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"> 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. This conference also deepens friendly ties between Mazda and its suppliers.
Supplier Meeting	Representatives of frontline business divisions and departments at major suppliers	Once a year	<ul style="list-style-type: none"> 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.
Supplier Communication Meeting	Representatives of frontline business divisions and departments at major suppliers	Once a month	<ul style="list-style-type: none"> To facilitate smoother collaboration with its suppliers, Mazda provides them with information such as topics concerning daily operations between Mazda and its suppliers (including CSR), production/sales status, quality status of purchased materials, pilot construction schedules for newly developed models, and mass-production implementation schedules for new models.
Other	—	As needed	<ul style="list-style-type: none"> Mazda also employs a range of other communication channels, by using the in-house "Mazda Technical Review", highlighting new technologies and research.

Other Measures for Supplier Support

- Change to 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. 75), in which Mazda trucks stop at multiple suppliers to collect parts.
This system reduces workload in logistical operations and contributes to reduced environmental impact.
- Mazda provides advice on joint subscription systems for product liability insurance, which reduces manufacturers' liability risks for parts.
- Mazda provides information on third-party exhibitions and conventions to showcase the latest technologies and manufacturing methods.
- Mazda ensures the proper return of logistic pallets/containers at suppliers, based on collaboration between the purchasing and logistics related departments.

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 fair transactions (including Subcontractors Act)
- Education on financial control
- Posting of guides and process rules regarding appropriate transactions and compliance on the Purchasing Division website on the Intranet
- Participation in the fair trade promotion seminar hosted by the Small and Medium Enterprise Agency

*¹ Yokokai member companies: 170 parts suppliers, Yoshinkai member companies: 81 material suppliers
The procurement amount from member companies of Yokokai and Yoshinkai accounts for about 90% of the whole.