

# **IWATSU Group**

## **Sustainability Procurement Guidelines**

Ver 1.0  
March 2024

## Introduction

In the IWATSU Group, under the four-year medium-term management plan "REBORN" starting from the fiscal year 2022, we have declared the promotion of ESG management and established a sustainability basic policy. We are promoting initiatives to enhance corporate value and solve social issues, aiming to realize a sustainable society. Meanwhile, amidst the further globalization and complexity of supply chains in recent years, appropriately addressing recurring corporate misconduct, as well as global-scale issues such as disasters, pandemics, environment, human rights, and security, has become an important challenge. In this context, we have established the "IWATSU Group Sustainability Procurement Guidelines" (hereinafter referred to as the Guidelines) regarding the stance and responsibilities as a supply chain. We aim to achieve a sustainable supply chain and, ultimately, contribute to the realization of a sustainable society by requesting compliance from our suppliers.

### **Basic Policy on Sustainability**

**Based on our corporate philosophy, we will support the growth and development of companies and the people working at companies through the provision of communication technology that connects people and things, and aim to achieve a sustainable society and enhance corporate value.**

The Guidelines outline the issues that suppliers should actively address towards realizing a sustainable society. While the requirements outlined in the Guidelines apply to suppliers with whom direct transactions are conducted, these suppliers also have the responsibility to communicate the contents of the Guidelines and encourage compliance with upstream suppliers. They are also responsible for assessing the situation and ensuring compliance.

Furthermore, audits or similar measures may be conducted to verify the status of compliance with the requirements outlined in the Guidelines. We ask that suppliers understand and support our group's efforts while actively cooperating with the promotion of these Guidelines.

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## **Section 1: Code of Conduct**

### **1 Respecting the Laws and Internationally Recognized Standards**

Companies must respect internationally recognized standards in addition to complying with the laws and regulations of their home country as well as countries and regions where they conduct business.

#### **【Code Interpretation】**

In recent years, various laws, regulations, and policies regarding the environment, human rights, and bribery and corruption have been introduced and adopted around the world.

Companies must understand and comply with them. Some laws and regulations also apply beyond the country where companies are doing their operations. With the globalization of supply chains and markets, companies are required to ensure compliance with laws and regulations not only in their own company but throughout the supply chain, while also respecting international standards.

#### **【Description of Terms】**

Internationally Recognized standards refer to expectations in the behavior of a socially responsible organization, guided by customary international law, generally-accepted principles of international law, and intergovernmental agreements that are universally or near-universally accepted (including conventions and treaties).

For example, this corresponds to documents such as the Guiding Principles on Business and Human Rights and Sustainable Development Goals (SDGs) of the United Nations, the Guidelines for Multinational Enterprises of the Organization for Economic Co-operation and Development (OECD), and the MNE Declaration (Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy) of the International Labour Organization (ILO).

### **2 Human Rights and Labor**

Companies must respect the rights of workers in line with international human rights standards including the ILO core labor standards in addition to complying with relevant laws and regulations.

#### **【Code Interpretation】**

Worker(s) refers to anyone that works, regardless of the form of employment, including regular employees, temporary employees, migrant workers, students, contract employees, and directly hired employees.

International human rights standards to refer include the Universal Declaration of Human Rights and International Bill of Human Rights of the United Nations and the Core Labor Standards of the ILO.

## **(2-1) Prohibiting Forced Labor**

Companies must not use labor obtained by forced, bonded, exploitative prison labor, slavery, or human trafficking.

Companies also must not force to work, and must keep the right of workers to terminate employment.

### **【Background】**

In 2021, 50 million people were estimated to be victims of modern-day slavery, including 27.6 million people that were victims of forced labor in the private sector. \*

Freedom from forced labor is a basic human right associated with the right to freely choose one's work. Work should meet with individual expectations and ability, and should be decent.

(\*Source: Global Estimates of Modern Slavery: Forced Labour and Forced Marriage, ILO, 2021)

### **【Code Interpretation】**

Companies are prohibited from transporting, concealing, employing, transferring, and receiving people by means of threat, coercion, abduction, or deceit. Having workers pay fees for employment may also lead to forced labor. Forced work to pay off such a fee is also prohibited. In particular, there are many reports of migrant workers including foreign workers being forced to work. When employing foreign workers, those workers must be provided with an employment contract containing the employment conditions in a language that they can understand, before they leave their home country.

Other acts that lead to forced labor include hindering workers from using their government-issued identification, passport/visa, work permit, or immigration application (except when the law stipulates that someone other than the worker retain such documents) by means of concealment or confiscation, or imposing limitations on worker entry/exit to facilities or movement within facilities.

### **【Description of Terms】**

Forced labor refers to involuntary labor conducted under the threat of penalty, etc. Types of forced labor include the following.

- (1)Abusing vulnerabilities (such as employment contracts not in the native language of migrant workers)
- (2)Deception (such as employment/labor conditions not explained correctly, or replaced during employment process)
- (3)Isolation (such as having workers work in locations that are difficult to access or communicate with from the outside)
- (4)Threats and intimidation (such as penalizing workers for workplace complaints or demanding that workers pay a fine when they want to terminate employment)
- (5)Withholding wages (such as delaying wage payments or forcibly storing or putting aside part of wages)

- (6)Debt coercion (such as workers having debt in order to pay off recruitment fee)
- (7)Excessive overtime (such as making workers work overtime in excess of what is allowed by the law or the labor-management agreement)
- (8)Prohibiting movement (such as restrictions on movement not based on a reason such as information security or health and safety, or constant monitoring of a dormitory via surveillance camera)
- (9)Physical or mental abuse (such as violence, yelling, or sexual harassment)
- (10)Withholding the original copies of identification (such as when the employer holds the passport of a worker)

Bonded labor refers to labor that workers cannot voluntarily terminate. This includes cases where workers are forced to incur debt in order to pay recruitment fee, and not allowing the workers to leave until that debt is paid.

Exploitation refers to unfair treatment based on the abuse of a superior bargaining position, and exploitative prison labor refers to the act of making prisoners work without paying adequate wages.

(Modern) Slavery is defined by the United States Department of State as umbrella terms with trafficking in persons and human trafficking to refer to both sex trafficking and compelled labor. It is also defined by Modern Slavery Act of 2015 in the United Kingdom as unfair exploitation of people in a forced labor circumstances.

## **(2-2) Prohibiting Child Labor and Respecting the Rights of Young Workers**

Companies must not employ children who have not reached the minimum working age. Furthermore, companies must not assign workers under the age of 18 to hazardous tasks that may compromise their health or safety, such as night shifts or overtime.

To ensure compliance with these regulations, companies must have appropriate mechanisms in place to verify workers' ages. Additionally, they must ensure proper maintenance of records for student workers, conduct rigorous due diligence on educational partners, and protect the rights of student workers. They must also ensure the proper management of student workers in accordance with applicable regulations and provide appropriate support and educational training to all student workers.

In the absence of local laws, the wages of student workers, interns, and apprentices must be at least equal to those of other entry-level workers performing similar or comparable work.

### **【Background】**

As of 2020, approximately 160 million children were engaged in child labor worldwide. Of these, about 79 million children were involved in hazardous work, accounting for nearly half of the total.

In Africa, 1 in 5 children, and in the Asia-Pacific region, 1 in 13 children, were engaged in child labor. This form of exploitation not only violates children's rights but also undermines economic growth and hinders equitable development.

(Source: ILO/UNICEF Child Labour: Global estimates 2020, trends and the road forward, 2021)

**【Code Interpretation】**

Child labor is prohibited in all circumstances by the ILO and national laws. In particular, there is a pressing need to immediately address the worst forms of child labor. The Worst Forms of Child Labour Convention, 1999 (No. 182) of the ILO defines these as the following four forms of child labor.

- (a) all forms of slavery or practices similar to slavery, such as the sale and trafficking of children, debt bondage and serfdom and forced or compulsory labour, including forced or compulsory recruitment of children for use in armed conflict;
- (b) the use, procuring or offering of a child for prostitution, for the production of pornography or for pornographic performances;
- (c) the use, procuring or offering of a child for illicit activities, in particular for the production and trafficking of drugs as defined in the relevant international treaties;
- (d) work which, by its nature or the circumstances in which it is carried out, is likely to harm the health, safety or morals of children.

Workers (including students etc.) under the age of 18 should be guaranteed satisfactory working conditions, and The Minimum Age Recommendation, 1973 (No. 146) of the ILO stipulates the following benefits in particular.

- (a) the provision of fair remuneration and its protection, bearing in mind the principle of equal pay for equal work;
- (b) the strict limitation of the hours spent at work in a day and in a week, and the prohibition of overtime, so as to allow enough time for education and training (including the time needed for homework related thereto), for rest during the day and for leisure activities;
- (c) the granting, without possibility of exception save in genuine emergency, of a minimum consecutive period of 12 hours' night rest, and of customary weekly rest days;
- (d) the granting of an annual holiday with pay of at least four weeks and, in any case, not shorter than that granted to adults;
- (e) coverage by social security schemes, including employment injury, medical care and sickness benefit schemes, whatever the conditions of employment or work may be;
- (f) the maintenance of satisfactory standards of safety and health and appropriate instruction and supervision.

(Source (Translation from Japanese original): International Labour Standards and Sustainable Sourcing Handbook Towards the Realisation of Decent Work through the Tokyo 2020 Olympic and Paralympic Games, ILO 2019)

Due diligence is also required to protect the rights of children.



**【Description of Terms】**

Child labor refers to any kind of activity or work which, by its nature or the circumstances in which it is carried out, is harmful to the intellectual, physical, social and moral development of young people and undermines their education, preventing them from going to school, constraining them to abandon schooling too soon or requesting them to work and study at the same time.

(Source (Translation from Japanese original): International Labour Standards and Sustainable Sourcing Handbook Towards the Realisation of Decent Work through the Tokyo 2020 Olympic and Paralympic Games, ILO 2019)

Minimum age for employment shall not be less than the age of completion of compulsory schooling and, in any case, shall not be less than 15 years according to the Minimum Age Convention, 1973 (No. 138) of the ILO (during the transitional period, a country whose economy and educational facilities are insufficiently developed may initially specify a minimum age of 14 years). The age at which employment is allowed also differs according to the nature of labor. In regard to hazardous work, all countries must set a minimum working age of 18 years. However, such work may be allowed from the age of 16 years in cases where:

- National organizations of employers and workers concerned have been consulted beforehand;
  - The health, safety and morals of the young persons concerned are fully protected;
- and
- The young persons have received adequate specific instruction or vocational training in the relevant field of activity.

Minimum age for employment		
	Developed countries	Developing countries
Regular work	15 years	14 years
Hazardous work	18 years	18 years
Light work	13 years	12 years

(Source (Translation from Japanese original): International Labour Standards and Sustainable Sourcing Handbook Towards the Realisation of Decent Work through the Tokyo 2020 Olympic and Paralympic Games, ILO 2019)

Hazardous work refers to the following.

- (a)work which exposes children to physical, psychological or sexual abuse;
- (b)work underground, under water, at dangerous heights or in confined spaces;
- (c)work with dangerous machinery, equipment and tools, or which involves the manual handling or transport of heavy loads;
- (d)work in an unhealthy environment which may, for example, expose children to hazardous substances, agents or processes, or to temperatures, noise levels, or vibrations damaging to their health;

(e)work under particularly difficult conditions such as work for long hours or during the night or work where the child is unreasonably confined to the premises of the employer.

(Source: Worst Forms of Child Labour Recommendation, 1999 (No. 190))

### **(2-3) Decent Working Hours**

Companies must not allow workers to work exceeding the maximum working hours set by local laws and regulations, and appropriately manage working hours and days off in consideration of internationally recognized standards.

#### **【Background】**

Studies of business practices clearly link worker strain to reduced productivity, increased turnover and increased injury and illness.

#### **【Code Interpretation】**

Companies are required to assign work hours and grant leave and rest period based on applicable laws and regulations. They should also consider internationally recognized standards. For example, as in the Hours of Work (Industry) Convention, 1919 (No. 1) and Hours of Work (Commerce and Offices) Convention, 1930 (No. 30), international standards of the ILO (not ratified by Japan) stipulate that weekly work hours must not exceed 48 hours including overtime, except in emergency or unusual situations. The Weekly Rest (Industry) Convention, 1921 (No. 14) and Weekly Rest (Commerce and Offices) Convention, 1957 (No. 106) (not ratified by Japan) stipulate that workers must be granted at least one full day (24 hours or longer) off or longer weekly rest period each week (work must not exceed six consecutive days). Although the Hours of Work (Industry) Convention, 1919 (No.1) and Hours of Work (Commerce and Offices) Convention, 1930 (No. 30) are important conventions, they are not the up-to-date instrument. The ILO has also issued Reduction of Hours of Work Recommendation, 1962 (No.116), which promotes the ratification of Forty- Hour Week Convention, 1935 (No. 47) as the social standards to achieve (not ratified by Japan).

Several industry standards also set a weekly limit on work hours at 60 hours including overtime.

#### **【Description of Terms】**

Appropriate management refers to the following:

- Annual working days shall not exceed the maximum set by law.
- Weekly work hours including overtime shall not exceed the maximum set by law (excluding unavoidable times of disaster or emergency).
- Workers shall be allowed the right to paid annual leave, maternity leave, and childcare leave as stipulated by the law.
- Workers shall be allowed the break time stipulated by the law.
- Physical and mental health checks shall be conducted to ensure the health of workers.

#### **(2-4) Adequate Wages and Allowances**

Companies must comply with all applicable laws and regulations regarding payments of work (including minimum wage, overtime payments, and allowances and deductions required by law). Furthermore, it is expected that companies pay wages at a level that allows workers to support their basic needs (a living wage).

##### **【Code Interpretation】**

Minimum wage refers to the minimum wage stipulated by laws regarding wages in the country where the company is doing its operation, and employees must be paid wages at or above the minimum wage. In addition to the legally-binding minimum wage, it is also desirable that companies voluntarily consider a living wage calculated as the wages required to maintain a minimum living standard.

Unfair wage deductions may be deemed to be a non-payment of wages. For example, in the SA8000 international standard regarding labor and human rights, pay cuts must not be made for the purpose of discipline, but as an exception, companies are allowed to do so when (1) it is allowed by domestic law and (2) doing so is agreed upon in a collective agreement that was freely negotiated.

Furthermore, compensation for overtime work must be paid to workers at a rate higher than the standard pay rate by hour, according to the laws and regulations of the corresponding region. Upon payments, companies must provide a wage slip that includes information that enables the breakdown of payments to be checked.

##### **【Description of Terms】**

Minimum wage refers to the minimum wage stipulated by laws regarding wages in the country where the company is doing its operation. This must be paid to workers at the appropriate time without delay, based on the law where the company is doing its operation.

Living wage refers to a level of wages that meets the needs of a worker and their family and satisfies the dignity of that worker, according to international standards.

Unfair wage deductions refer to wage deductions that violate laws regarding labor, etc. For example, companies cannot deduct the cost of uniforms, personal protective equipment required for work, or the cost of cleaning uniforms from wages. However, this does not include nonpayment of wages corresponding to time not worked due to worker's late to work or absence.

#### **(2-5) Prohibiting Inhumane Treatment**

Companies must respect the human rights of workers and must not treat workers in a manner that is or may be construed inhumane, including physical and psychological abuse, coercion, or harassment. Companies must also provide workers with individually secured accommodations for storing their personal and valuable items, and a reasonable personal space along with reasonable entry and exit privilege.

### 【Background】

Inhumane treatment such as sexual harassment and verbal abuse may exacerbate in the working environment without other people around realizing.

### 【Code Interpretation】

Companies are required to establish, notify workers and operate a disciplinary policy and handling procedures, and an internal reporting system (grievance mechanism) for identifying the facts of inhumane treatment.

Appropriate worker living conditions are required both in terms of human rights and health and safety, and are explained separately in Item (3-7).

### 【Description of Terms】

Psychological abuse refers to the act of causing mental or emotional harm through psychological violence to others by means, for example, of inhumane expressions or harassment, neglect, or words that damage one's self-esteem.

Physical abuse refers to violence and work under harsh circumstances.

Coercion refers to the act of forcing others to do something against their will through intimidation, etc. For example, forcing workers to work overtime.

Harassment refers to the act of making others feel unpleasant due to pestering or bullying. This includes sexual harassment, sexual abuse, physical punishment, physical or mental oppression, verbal abuse, and the withdrawal of basic physical comfort (such as chairs or personal protective equipment).

In addition, it also includes abuse of authority, or pregnancy discrimination and maternity harassment.

The Violence and Harassment Convention, 2019 (No. 190) of the ILO defines violence and harassment as indicated below.

- (a) the term violence and harassment in the world of work refers to a range of unacceptable behaviours and practices, or threats thereof, whether a single occurrence or repeated, that aim at, result in, or are likely to result in physical, psychological, sexual or economic harm, and includes gender-based violence and harassment;
- (b) the term gender-based violence and harassment means violence and harassment directed at persons because of their sex or gender, or affecting persons of a particular sex or gender disproportionately, and includes sexual harassment.

### **(2-6) Prohibiting Discrimination**

Companies must refrain from engaging in discrimination and harassment. Additionally, they need to consider requests related to religious practices from workers within a reasonable scope.

- They must ensure that their decision-making processes, business activities, as well as products and services, do not contribute to or facilitate human rights violations among

consumers or members of the local community.

- When conducting business in areas where indigenous peoples or minority groups reside, they must respect their unique cultures and histories and adequately consider the rights of indigenous peoples.
- Respect for the traditions and customs of each country or region, as well as the religious traditions and customs of employees, must be upheld, and measures should be taken to avoid hindering them with uniform employment rules, etc.

#### **【Code Interpretation】**

Behavior that may lead to discrimination is not allowed in wages, promotions, rewards, access to training, hiring, and employment practices, including discrimination based on race, color, age, gender, sexual orientation, gender identify and expression, ethnicity or national origin, disability, pregnancy, religion, political affiliation, union membership, veteran status, protected genetic information, or marital status.

Furthermore, health checks and pregnancy tests are also regarded as discrimination if they could harm equal opportunity or the fairness of treatment.

The grounds of discrimination are diverse.

- Race and color: Discrimination made on the basis of belonging to a specific ethnic group, which may affect ethnic minorities, indigenous peoples, or tribal populations.
- Sex: Discrimination on the basis of biological characteristics and functions that distinguish men and women and of social differences between men and women.  
It also includes discrimination on the basis of marital status, family structure, or motherhood.
- Religion: Discrimination on the basis of membership to a certain religion or expression of religious belief. It also includes discrimination against atheists.
- Political opinion: Discrimination on the basis of different opinions with respect to established political principles, membership to a particular political party, political or sociopolitical attitudes, civic commitment, or moral qualities.
- National extraction: Discrimination on the basis of a person's birthplace, ancestry or foreign origin. It may target national or linguistic minorities, nationals who have acquired their citizenship by naturalization, and the descendants of migrants from other countries, etc.
- Social origin: Discrimination on the basis of social class, occupational category, or caste. Social origin may affect one's career.

(Source (Translation from Japanese original): International Labour Standards and Sustainable Sourcing Handbook Towards the Realisation of Decent Work through the Tokyo 2020 Olympic and Paralympic Games, ILO 2019)

The principle of non-discrimination in respect of employment and occupation comprises the principle of equal remuneration for men and women who accomplish work of equal value. According to the Equal Remuneration Convention, 1951 (No. 100) of the ILO, the principle refers to all the elements of remunerations, such as salary or ordinary wage and other basic fees,

directly or indirectly paid, in cash or in kind, by the employer to the worker arising out of the employment (Convention No. 100). Objectively determining the value of work requires the consideration of the elements such as work components, responsibilities, skills, efforts, working conditions, and major achievements.

(Source (Translation from Japanese original): International Labour Standards and Sustainable Sourcing Handbook Towards the Realisation of Decent Work through the Tokyo 2020 Olympic and Paralympic Games, ILO 2019)

Discrimination can also be based on factors such as age or disability, health (in particular HIV/AIDS), membership of a labor union, and sexual orientation. In the United States, the following factors must also be considered.

- Veteran status: United States law defines the covered veteran status as a veteran of the Vietnam war, and defines employment measures, consideration, and protection.

This is because veterans are thought to face discrimination based on inability to communicate with other workers due to being treated as a murderer, as well as disorders due to military service (such as post-traumatic stress disorder (PTSD)).

\*Information on covered veteran status: <https://www.dol.gov/ofccp/regs/statutes/4212.htm>

- Protected genetic information: In the United States, GINA (Genetic Information Nondiscrimination Act of 2008) defines genetic information as the results of genetic diagnosis. Genetic information is given as a factor for discrimination due to the possibility of discrimination based on genetic information such as the latent risk of disease.

\*Information regarding the Genetic Information Nondiscrimination Act of 2008: <https://www.eeoc.gov/laws/types/genetic.cfm>

## **(2-7) Freedom of Association and Right to Collective Bargaining**

In conformance with local laws and regulations, companies shall respect the right to collective bargaining of workers and openly communicate with workers for improving working environments and wage conditions.

### **【Code Interpretation】**

Companies are also required to respect the right of workers to establish and join trade unions of their own choosing, and at the same time respect the rights of workers not to join a trade union or refrain from such activities. Furthermore, workers and their representatives must be able to engage in collective bargaining to formally gain mutual understanding with management regarding concerns about working conditions and management practices, without fear of discrimination, retaliation, intimidation, or harassment.

### **【Description of Terms】**

In regard to Collective Bargaining, the Right to Organise and Collective Bargaining Convention, 1949 (No. 98) of the ILO requires that companies recognize representative organizations of the

workers for the purpose of collective bargaining, promote bona fide negotiations between both sides, and incorporate provisions for dispute resolution into collective agreements. The following items are recommended as concrete examples of relevant corporate activities.

- Provide such facilities as may be necessary to establish effective collective agreements.
- Enable duly authorized representatives of workers to negotiate with representatives of management who are authorized to take decisions on the matters under negotiation.
- Not threaten or suggest retribution to influence unfairly negotiations or hinder the exercise of the right to organize.
- Provide information required for meaningful negotiations.
- When requested by the government, respond constructively with relevant information on their operations.

(Source: The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (Paragraph 47 to 63))

### **3 Health and Safety**

In addition to complying with relevant laws and regulations, Companies must take consideration of standards such as ILO health and safety guidelines to minimize injury and illness in the workplace and maintain a safe and healthy working conditions.

#### **【Code Interpretation】**

Minimizing work-related injury and illness and maintaining a safe and healthy working environment leads to quality of products and services, consistency of production, and worker retention, and morale. Moreover, it is essential for companies to have worker input and provide workers with training in order to identify and resolve safety and health problems in the workplace. The Guidelines on occupational safety and health management systems (ILO-OSH 2001) of the ILO and recognized management systems such as OHSAS18001 and ISO45001 were referred to when establishing these guidelines and may contain additional useful information.

#### **(3-1) Occupational Safety**

Companies must identify and assess risks regarding occupational safety and maintain safety through proper design, engineering and administrative controls. Taking reasonable steps must also be taken to protect pregnant women and nursing mothers.

#### **【Code Interpretation】**

Companies must identify safety hazards in the workplace and their risk of occurrence, and implement safety measures for workers. Examples of safety hazards in the workplace include contact with chemical substances, electricity, or other energy sources, fire, vehicular accidents, and fall hazards.

Example safety measures are indicated below. Companies must systematically promote such

measures.

- Identifying and assessing safety hazards, including their risk of occurrence
- Designing an appropriate workplace that eliminates safety hazards and considers safety
- Implementing safety communications (including the handling of personal protective equipment)

It is also necessary to take reasonable measures to protect pregnant women and nursing mothers from conditions with high hazards.

### **【Description of Terms】**

Risks regarding occupational safety refer to the potential risk of health problems and accidents that occur during work, due to factors such as electricity or other energy, fire, vehicles or moving objects, floors that are slippery or prone to tripping, and falling objects.

Proper design, engineering, and administrative controls refer to the elimination or reduction of risks according to the hierarchical control of (1) Elimination of risk factors or substitution to safer options, (2) Engineering control (such as monitoring dangerous places using sensors and shutting down the power source of machinery or equipment (lock out)), (3) Administrative control (such as signs indicating prohibition of energy shutdown equipment operation during shutting down of the power source (tag out)), and (4) Providing personal protective equipment (safety gear such as protective goggles, helmets, and gloves).

Reasonable steps to protect pregnant women and nursing mothers from conditions with high hazards includes avoiding risks such as lifting/moving heavy objects, exposure to infectious diseases, exposure to lead, exposure to poisonous chemical substances, physically demanding work, exposure to radioactive substances, threats of violence, long work hours, extreme temperatures, and extreme noise.

For one year after childbirth, if it is necessary for a worker to nurse a child, it is desirable for a company to provide an appropriate break time for nursing or milking, and to implement measures such as providing a safe and clean place to do so, that colleagues and the general public cannot enter and cannot see.

### **(3-2) Emergency Preparedness**

Companies must prepare for emergencies such as disasters and accidents that endanger human lives and physical safety. This preparation includes identifying potential emergencies, including the possibility of their occurrence, creating action procedures for emergency response to minimize damage to workers and assets, installing necessary facilities, and providing education and training to ensure that actions can be taken during disasters.

Furthermore, any work-related accidents or occupational diseases that occur in the course of our group's business operations, and for which our group has a legal, moral, or ethical responsibility to fulfill, should be reported.



### **【Background】**

Evacuation routes are sometimes not accessible in times of emergency by locks and obstacles. Workers are dying by inhalation of flame and smoke or falling and jumping down in case of fire accident occurs because they cannot escape from a building. That is why it is important to ensure an evacuation route that enables workers to escape, to maintain systems that all workers surely can evacuate in safe and to conduct adequate evacuation drill.

### **【Code Interpretation】**

Emergency plans refer to, for example, emergency reporting, communication to employees, clarifying evacuation procedures, installing evacuation equipment, ensuring easily identifiable exits without obstruction, providing appropriate exit facilities, storing medical supplies for emergency, installing fire detection systems, installing fire extinguishers, fire shutters, and sprinklers, securing external communication methods, and maintaining recovery plans.

Dissemination of emergency plans within the workplace is also required. This involves, for example, providing emergency training (including evacuation drill) to workers, and placing/posting emergency procedures in the workplace in an easily accessible location.

### **(3-3) Occupational Injury and Illness**

Companies must identify, assess, record, and report the status of occupational injury and illness, and implement appropriate countermeasures and corrective actions.

### **【Background】**

Companies must prioritize worker health and safety and also consider occupational injury.

### **【Code Interpretation】**

Companies must record occupational injury and worker illness, provide necessary medical treatment, investigate cases, identify and eliminate causes, implement corrective actions including preventing, managing and reporting.

It is also necessary to define rules for promoting worker's return/restart to work and to report implementation thereof.

### **【Description of Terms】**

Appropriate countermeasures refer to systems and measures for promoting worker's reporting, classifying and recording injury and illnesses, providing medical treatment when necessary, investigating injury and illnesses, implementing corrective actions to eliminate causes, and facilitating worker's return to work. This also includes implementing the required administrative procedures stipulated by the law and taking out industrial accident insurance.

### **(3-4) Industrial Hygiene**

Companies must identify, assess, and appropriately control the risk of workers being exposed to hazardous biological, chemical, or physical agents in the workplace.

#### **【Code Interpretation】**

The possibilities of hazard must be eliminated or controlled according to the appropriate design and engineering and administrative control. When hazard cannot be adequately controlled through such methods, it is necessary for workers to be provided appropriate personal protective equipment that is well managed and maintained, and to use that equipment appropriately.

#### **【Description of Terms】**

Hazardous agents include substances that are poisonous, radioactive, or cause chronic illness (such as lead and asbestos). These substances may exist in smoke, steam, mist, or dust form. Noise and odors may be deemed hazardous to the human body if they are significantly strong. Appropriate control refers to the establishing and implementing management standards, and providing the appropriate training and personal protective equipment to workers.

### **(3-5) Physically Demanding Work**

Companies must identify and assess worker exposure to the hazards of physically demanding tasks and appropriately control such work so that it does not lead to occupational injury and illness.

#### **【Description of Terms】**

Physically demanding work includes long hours of work in an unnatural position, long hours of repetitive or continuous work such as data entry or assembly work that causes physical exertion, and heavy labor such as the manual handling of heavy raw materials or manual transport of heavy objects.

Appropriate management includes providing working circumstances based on human engineering, regular breaks, providing supportive tools, and the sharing and cooperating works among multiple workers. (It is also effective to maintain circumstances that enable people to move around properly and efficiently, and consider the reduction of accidents and mistakes.)

Ergonomics, or Human Factors is a field of research utilized in the actual design of objects and environments to ensure that humans can use them in as natural state as possible and with movements as naturally as possible. (This also includes the reduction of accidents and mistakes by maintaining circumstances that enable people to move around correctly and efficiently.)

### **(3-6) Machine Safeguarding**

Companies must evaluate the machinery used by workers for safety hazards and provide appropriate safeguarding.

### **【Description of Terms】**

Appropriate safeguarding refers to management for preventing injuries and accidents that occur during work, safety mechanisms such as failsafe, foolproof, interlock, and tagout, and protective barriers in place, as well as regular inspection and maintenance of machinery.

### **(3-7) Health and Safety at Facilities**

Companies must appropriately maintain the health and safety of facilities and accommodations provided to workers (such as dormitories, cafeterias, and toilets).

Dormitories also require appropriate emergency egress to be provided.

### **【Code Interpretation】**

Maintaining health and safety refers to maintaining the cleanliness and sanitation of facilities, and requires the following points to be considered.

- Drinking water: Water quality tests compliant with laws and regulations, and safe drinking water (provided by a water cooler, etc.)
- Sanitary food preparation: Clothing cleanliness and health checks for kitchen workers, pest control, temperature control of food storage, effective cafeteria business licenses, etc.
- Toilets: Clean toilet facilities of a sufficient number, providing toilet paper, etc.
- Dormitories: Fire response plan, emergency exit routes (egress), secured accommodations for storing personal items (providing lockable storage), adequate living space (3.3 m<sup>2</sup> or more per person), ventilation, temperature control, adequate lighting, etc.

### **(3-8) Health and Safety Communication**

Companies must provide training on appropriate health and safety information regarding various workplace hazards that workers are exposed to in the workplace in languages and methods that the workers can understand. A system that enables workers to provide feedback on safety is also required.

### **【Code Interpretation】**

Companies must provide appropriate workplace health and safety information and training regarding all the workplace hazards that workers will be exposed to (including but not limited to machinery, electricity, chemicals, fire, and physical hazards).

Occupational health and safety information should be clearly posted in facilities or placed in a location identifiable and accessible by workers. It also must be provided in a language that the workers can understand.

Training must be provided to all workers before starting work and regularly after that. It is also encouraged that safety concerns from workers are raised. Items for training include the correct use of personal protective equipment, emergency response measures, safe operation of machinery, and preparations before entering hazardous environments.

Paragraph 43 of the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy also contains information concerning the fostering of a preventative culture based on labor-management dialog.

### **(3-9) Worker Health Management**

Companies must conduct appropriate health management for all employees.

#### **【Description of Terms】**

Appropriate health management refers to conducting health checks at least at the level stipulated by law, and working on the prevention and early detection of worker illness.

It is also necessary to adequately consider treatment such as mental healthcare and the prevention of health problems due to overwork.

## **4 Environment**

Companies must actively address global environmental issues such as resource depletion, climate change, and environmental pollution, while also considering environmental issues in the regions where they operate, taking into account the health and safety of local communities.

In addition to the items listed below (4-1) to (4-12), detailed information regarding the environmental activities policy of our group and environmental considerations for suppliers can be found in the separate "IWATSU Group Green Procurement Standards". We kindly ask for your reference.

#### **【Code Interpretation】**

The responsibility to consider the environment refers to the promotion of measures for minimizing negative impacts on regional society, the environment, and natural resources, and prioritize maintaining the health and safety of not only workers, but all people in the local community.

Recognized management systems such as ISO14001 were referred to when establishing these guidelines, and may contain additional useful information.

### **(4-1) Environmental Permits and Reports**

Companies must obtain the permits and approvals required for conducting business as well as register and report according to local laws and regulations.

#### **【Code Interpretation】**

Examples in Japan include the obligation to assign a manager that has obtained the qualifications stipulated by the law, such as laws on waste disposal (a specially-controlled industrial waste manager), energy saving (an energy manager in plants that use a certain level

of energy), and the control of air pollution (a pollution prevention manager at plants that emit chemical substances, dust, or smoke).

Furthermore, companies may be obligated to assign a manager responsible for poisonous/deleterious substance management, designated chemical substance management, and hazardous substance management, depending on the chemical substances used in business.

It may also be necessary to receive permission for facilities that handle hazardous substances and environmental impact assessments, depending on the type of business conducted and the location of plants.

#### **(4-2) Reducing Energy Consumption and Greenhouse Gas Emissions**

Companies must strive to improve energy efficiency and engage in continuous activities to reduce energy consumption and greenhouse gas emissions. Furthermore, efforts should be made to use renewable energy sources wherever possible.

To achieve this, energy consumption and all associated Scope 1 and 2 greenhouse gas emissions should be tracked, documented, and externally disclosed in comparison with reduction targets. Efforts should also be made to understand and disclose Scope 3 greenhouse gas emissions.

##### **【Code Interpretation】**

Improving energy efficiency involves minimizing energy consumption and associated Scope 1 and Scope 2 greenhouse gas (GHG) emissions, and it requires tracking and documenting these at the facility or site level. Moreover, mitigating global warming cannot be achieved solely through a company's own efforts. It is necessary to also understand and strive to reduce emissions from upstream and downstream activities of other companies related to one's own business operations.

##### **【Description of Terms】**

Greenhouse gases encompass various substances, but particularly refer to the six types specified in the Kyoto Protocol: carbon dioxide, methane, nitrous oxide, HFCs, PFCs, and SF6.

Continuous reduction efforts involve setting voluntary reduction targets, developing plans, and ensuring their execution for these six types of greenhouse gases.

Scope 1 refers to direct emissions of greenhouse gases by the operator themselves, while Scope 2 refers to indirect emissions associated with the use of electricity, heat, or steam supplied by other companies. Scope 3 refers to other indirect emissions beyond Scopes 1 and 2, including emissions from upstream and downstream activities of other companies related to the operator's own business operations.

#### **(4-3) Air Emissions**

Companies must comply with relevant laws and regulations and implement appropriate measures for reducing the emission of hazardous substances to the atmosphere.

##### **【Code Interpretation】**

Hazardous substances discharged to the atmosphere include volatile organic chemicals, aerosols, corrosives, microparticles, ozone depleting substances, and combustion byproducts. Companies must strive to analyze and monitor these substances prior to discharge, and only discharge them after conducting the required control and treatment based on the results of that analysis and monitoring. Program includes routine monitoring of treatment systems for the performance and the handling of substances to discharge.

#### **(4-4) Water Management**

Companies must comply with laws and regulations, monitor the source, usage, and discharge of water used, and save water. All wastewater must be tested as required, and monitored, controlled, and processed before discharge or disposal. Sources of pollution that may cause water pollution must also be identified and appropriately managed.

##### **【Code Interpretation】**

Water management requires monitoring water sources, use, and discharge, seeking opportunities to conserve water, and controlling channels of contamination. Controlling channels of contamination includes confirming that site water channels are free from contamination and are protected from contamination (such as confirming that there are no pools of standing water and grease/oil slicks near storm drains) and that the emergency response equipment is in place (shutoff valves and stopcocks must be installed to prevent outflow or leakage of clean water and sewage due to a plant accident or natural disaster, and street inlets/sewage inlets and storage reservoirs installed to contain leaks or overflows are deemed to be insufficient), etc.

#### **(4-5) Management of Other Environmental Impacts**

Companies must comply with the laws and regulations of the host country regarding sludge, noise, vibration, etc., and monitor the situation while making further improvements as needed based on voluntary standards.

Regarding sludge management, it is necessary to reduce the amount of sludge discharged and implement appropriate sludge treatment or resource utilization.

For noise and vibration management, efforts should be made to suppress the generation of noise and vibration and preserve the living environment.

#### **(4-6) Effective Utilization of Resources and Waste Management**

Companies must promote the principles of reduce, reuse, and recycle (3Rs) by complying with regulations and implementing appropriate management practices. This involves maximizing the efficient use of resources and minimizing waste generation.

To achieve this, companies should identify and quantify the waste generated by their business activities and strive to minimize it where possible. Additionally, they should prioritize reuse and recycling initiatives and work to understand disposal methods (such as material recycling, thermal recycling, final disposal, etc.) and recycling rates.

##### **【Code Interpretation】**

Companies must identify and manage wastes not identified to be hazardous even when disposing, implement a systematic approach for responsible disposal or recycling, and work for reducing waste.

Companies must implement measures for disposing substances according to local laws and regulations, and minimizing the disposing substances, and ensure that natural resources are not wasted.

Programs include changing the production equipment at the source, using alternative materials, and reusing and recycling resources. Companies should also settle voluntary targets for the help of complying with laws and regulations. Natural resources refer to water, fossil fuels, minerals, virgin forest, and the products of virgin forest, etc. The prevention of environmental pollution leads to the saving of natural resources and is closely related to the sustainability of the planet.

#### **(4-7) Chemical Substance Management**

Companies must comply with laws and regulations to identify, label, and manage chemical and other substances posing hazard to humans or the environment, and conduct management to ensure safe handling, transport, storage, use, recycling, reuse, or disposal of such substances.

##### **【Code Interpretation】**

In Japan, companies must perform management based on the Chemical Substance Control Law, Poisonous and Deleterious Substances Control Law, Industrial Safety and Health Act, Fire Service Act, and PRTR (Law Concerning Reporting, etc. of Releases to the Environment of Specific Chemical Substances and Promoting Improvements in Their Management). It is also necessary to consider chemical substance management in manufacturing processes.

#### **(4-8) Managing the Chemical Substances Contained in Products**

Companies must comply with all applicable regulations and customer requirements regarding the prohibition or restriction of specific substances in their products, as well as labeling related to recycling and waste disposal.

Our group recognizes compliance with environmental regulations as part of the product quality

when designing our products and services, considering that customers who purchase our products and services need to comply with environmental regulations as they conduct their business. Therefore, we may request necessary information from customers regarding the products they have purchased.

#### **【Code Interpretation】**

Companies must also consider customer demands regarding the chemical substances contained in products.

- Companies must follow the laws and regulations of the countries where the products are sold.
- Companies must take responsibility for the components included in the end products, and upstream companies must provide the required information to downstream companies.
- 

For example, when exporting to the EU, the relevant laws and regulations include the RoHS Directive and the REACH Regulation.

It is also necessary to consider the substances that are added, contaminated, or adhere during the manufacturing process.

#### **(4-9) Reducing environmental impact through product assessments**

Companies are required to conduct product assessments and voluntarily engage in design, manufacturing, and other activities aimed at reducing their environmental impact.

Product assessments may include, but are not limited to, the following:

- Material-related aspects (selecting recyclable materials, limiting the use of hazardous substances, etc.)
- Design-related aspects (energy efficiency, weight reduction, extended product lifespan, etc.)
- Labeling aspects (clearly stating material names, etc.)
- Packaging materials
- Recycling and disposal aspects

#### **(4-10) Biodiversity conservation**

Companies are required to consider biodiversity conservation in the materials they use and engage in conservation activities for ecosystems both within and outside their premises, including the conservation of rare flora and fauna. These efforts should be undertaken in collaboration with stakeholders such as employees, local authorities, and experts from NGOs. Additionally, efforts should be made to minimize damage to local water resources in the area.

#### **(4-11) Conducting environmental surveys in the supply chain**

Companies are required to conduct investigations if there are concerns about suppliers of raw materials, components, or service providers violating laws or causing serious environmental



damage. They should then implement appropriate corrective and preventive measures.

#### **(4-12) Engagement and contribution to local communities and society**

Companies are required to implement measures to eliminate harm to the health, safety, and hygiene of local communities and residents caused by their products or production processes. Additionally, they should strive to actively engage in activities that contribute to the development of local and international communities, such as nurturing the next generation, and contribute to the development of a sustainable society.

### **5 Fair Trading and Ethics**

Companies must conduct business activities based on high ethical standards in addition to compliance with the law.

#### **【Code Interpretation】**

Companies must comply with the laws and regulations not only of Japan but also of all the countries where they do business. Furthermore, all employees must conduct business with highest standards of integrity and obtain trust from all stakeholders, with senior management setting an example.

#### **(5-1) Preventing Corruption**

Companies must refrain from engaging in any form of bribery, corruption, extortion, embezzlement, and any other prohibited activities.

Furthermore, employees are not allowed to engage in prohibited actions or possess substances that are prohibited from ownership even outside of their corporate activities.

#### **【Code Interpretation】**

Companies must uphold a policy of prohibiting any and all forms of bribery, excessive entertainment or gifts, corruption, blackmail, or embezzlement, and maintain continuous compliance.

Continuous compliance requires not only establishing policy, but also appropriately training employees and continuing to ensure that policy is implemented.

#### **(5-2) Prohibiting Inappropriate Provision and Improper Benefit**

Companies must not provide or accept any promises, propositions, or approvals as a means of obtaining bribes or any other illicit or inappropriate benefit.

#### **【Code Interpretation】**

Companies are prohibited from directly or indirectly providing or receiving something valuable, or promising or proposing to do so, in order to gain business or obtain inappropriate benefit.

It is necessary to clarify policies and procedures and monitor in order to comply with laws regarding the preventing of corruption.

### **(5-3) Fair Information Disclosure**

Companies must disclose information regarding labor, health and safety, environmental activities, business activities, organizational structure, financial situation, and performance according to applicable laws and regulations and industry practices. Falsification of records or the disclosure of false information is not allowed.

#### **【Code Interpretation】**

Companies are required to actively provide and disclose information to stakeholders.

The information to provide and disclose to stakeholders includes the details of business activities, financial situation, ESG (environmental, social, and governance) information, risk information (such as damage due to large-scale disasters, adverse impacts on the environment and society, and the discovery of significant legal violations), and information regarding the supply chain. Disclosing information on critical risks in a timely manner, and communicating to customers are also one of the examples actively providing information.

Companies are not allowed to tamper records, misrepresent information, or disclose false information.

### **(5-4) Respecting Intellectual Property**

Companies must respect intellectual property rights and the transfer of technology and expertise must be performed in a manner where intellectual property is protected.

Companies must also protect the intellectual property of third parties such as customers and suppliers.

#### **【Code Interpretation】**

The protection of intellectual property applies not only to a company, but also to third parties such as customers and suppliers.

#### **【Description of Terms】**

Intellectual property includes trade secrets and technical know-how in addition to intellectual property rights.

Intellectual property rights are rights defined by law, and include patent rights, utility model rights, design rights, trademark rights, and copyrights.

### **(5-5) Conducting Fair Business**

Companies must conduct fair business, competition, and advertising while also establishing systems to prevent fraudulent activities and promptly detect and respond to them.

Additionally, employees are prohibited from engaging in insider trading, which involves trading company stocks or other securities using internal information obtained in the course of their duties. Furthermore, employees must refrain from actions that compromise the interests of the company for personal gain in situations where the interests of the individual and the company conflict (prohibition of conflicts of interest).

**【Code Interpretation】**

Companies must comply with laws regarding fair business, including fair competition and subcontract law, and must not conduct illegal acts such as cartel agreements to restrict competition, unfair business practices, or misleading representation.

It is also necessary to avoid forces that pose a threat to the order and safety of civil society, and comply with laws, regulations, and all social standards. In the catalog presentations and advertising of products and services, companies must not express untruths or mislead consumers and customers, and must also make sure not to include information that slanders or infringes the rights of other companies or individuals.

**【Description of Terms】**

Fair competition refers to complying with local laws regarding fair competition and fair trading and promoting free and fair competition while avoiding cartel agreements to restrict competition, unfair business practices, and misleading representation.

Fair advertising refers to advertising that provides factual information that is not for unfair purposes.

**(5-6) Protecting Whistleblowers**

Companies must protect the confidentiality of information regarding whistleblowing and the anonymity of whistleblowers, and avoid retaliations towards whistleblowers.

**【Code Interpretation】**

In a grievance mechanism available to related parties including employees of the company and its suppliers, the company must ensure the anonymity of the whistleblower such as the supplier or employee, and the confidentiality of what was reported, and whistleblowers must be protected from disadvantageous treatment by the company or an individual due to the act of whistleblowing.

**【Description of Terms】**

Whistleblowing refers to reporting or disclosing unfair practices in one's company or supply chain.

Whistleblower refers to a person who reports or discloses inappropriate activity by an employee or director of a company or a public official or public institution.

Disadvantageous treatment refers to acts that harm the working circumstances including harassment, as well as changes to working conditions such as unfair performance evaluation, rewards, dismissal, or reshuffling.

### **(5-7) Responsible Minerals Procurement**

Companies are required to conduct due diligence to ensure that minerals such as tantalum, tin, tungsten, and gold, which are contained in the products they manufacture, do not originate from conflict-affected or high-risk areas that may contribute to serious human rights violations, environmental destruction, corruption, conflict, etc.

The following steps must be taken:

- Implement initiatives based on the OECD Due Diligence Guidance.
- Conduct investigations in accordance with the Responsible Minerals Initiative (RMI) program.
- Establish policies for handling conflict minerals procurement.
- These policies must be publicly disclosed through HP and other means.
- Demand that sourced materials be conflict-free.
- Collect refinery information using the investigation forms specified by the RMI.
- Conduct due diligence on the collected information.
- Implement a conflict minerals management system, including corrective measures.
- Disclose the process and results of these activities according to customer requirements.
- Request the transmission of updated information from manufacturers and refining companies.

#### **【Code Interpretation】**

Due diligence regarding responsible minerals procurement refers to companies establishing policies, communicating expectations to suppliers (and incorporating them in contracts where possible), identifying and reviewing risks in the supply chain, and establishing and implementing strategies to handle the identified risks.

The following five steps are included in the internationally-recognized OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas document regarding due diligence for responsible mineral procurement.

Step1 : Establish strong company management systems

Step2 : Identify and assess risks in the supply chain

Step3 : Design and implement a strategy to respond to identified risks

Step4 : Carry out independent third-party audit of smelter/refiner's due diligence practices

Step5 : Report annually on supply chain due diligence

Related laws include Section 1502 of the Dodd-Frank Wall Street Reform & Consumer Protection Act in the United States and the Conflict Minerals Regulation of the European Union.

### **(5-8) Prohibition of abuse of dominant position**

Companies must not engage in practices that disadvantage suppliers by abusing their dominant position. Abusing a dominant position refers to using the position of a buyer or contractor to engage in actions such as:

- Unilaterally determining or changing the terms of trade with suppliers.
- Imposing unreasonable demands or obligations.

Procurement transactions should be conducted faithfully, fairly, and equitably based on contracts to prevent abusive behavior stemming from a dominant position. In countries where there are regulations regarding the abuse of a dominant position, it is necessary to comply with these laws.

### **(5-9) Prevention of misconduct**

Companies are required to conduct activities to prevent fraudulent behavior. These activities include educating and raising awareness among employees, as well as fostering an open and transparent workplace culture.

## **6 Quality and Safety**

Companies must ensure the safety and quality and provide correct and accurate information on provided products and services.

### **【Code Interpretation】**

The safety, quality, and accuracy of information on products and services may have a profound impact on not only customers but a wide variety of stakeholders.

Recognized management systems such as ISO9001 were referred to when establishing these guidelines, and may contain additional useful information.

### **(6-1) Ensuring Product Safety**

Companies must fulfill their responsibility as a supplier by ensuring that products meet safety standards stipulated by national laws and conduct design, manufacturing, and sales to ensure adequate product safety.

### **【Code Interpretation】**

When companies design products, they must ensure adequate product safety and consider their responsibility as a manufacturer when providing products. They must also consider the safety that the product should ordinarily provide, in addition to legal compliance.

Example Japanese laws regarding product safety include the Electrical Appliance and Material Safety Act, Consumer Product Safety Act, and Household Goods Quality Labeling Act. Safety standards are defined in bylaws and JIS standards, etc. Overseas safety standards include UL,

BSI, and CSA standards, etc.

Effective measures for ensuring product safety include management such as traceability (history of materials, components, and processes, etc.) and swift handling to solve problems.

### **(6-2) Quality Management**

Companies must comply with their own quality standards and customer requirements in addition to all laws and regulations applicable to the quality of products and services.

#### **【Code Interpretation】**

Companies must comply with all laws and regulations that apply to the quality of products and services, and are also required to establish appropriate frameworks and management systems for complying with their own quality standards and customer requirements.

### **(6-3) Providing Accurate Information on Products and Services**

Companies must provide correct and accurate information on products and services that will not cause misunderstandings.

#### **【Code Interpretation】**

Companies are required to provide information to customers and consumers that is correct, accurate and does not lead to misunderstandings. They must not provide false information or information that has been falsified.

#### **【Description of Terms】**

Accurate information refers to the following, for example.

- Accurate information regarding the specifications, quality, and handling method of products and services.
- Accurate information on the substances contained in the materials and components used in products, etc.

### **(6-4) Appropriate response to product accidents, defective product distribution, etc., when they occur**

Companies are required to establish measures for disclosing information, contacting relevant authorities, recalling products, and implementing safety measures for suppliers in the event of incidents related to their products or services.

### **(6-5) Ensuring Quality, Cost, and Delivery (QCD) and enhancing technological development capabilities**

Companies must strive to provide competitive and high-value materials and services, considering optimal technologies, materials, and methods, and actively making proposals. Additionally, they should ensure that delivery deadlines for the provided materials and services

are reliably met, and establish and operate a system that can supply them stably. Furthermore, companies need to continuously improve their technological development capabilities.

## **7 Information Security**

Companies must prevent leaks of confidential information and personal information, and enhance information security.

### **【Code Interpretation】**

With the development of the advanced information technology society in recent years, information management is becoming more and more important. Problems with information management such as the leak of confidential information and personal information can have a profound effect on various stakeholders including the supply chain, in addition to the company itself and its customers.

Recognized management systems such as ISO27001 were referred to when establishing these guidelines, and may contain additional useful information.

### **(7-1) Defense from Cyber Attacks**

Companies must take measures to address threats such as cyberattacks on their information systems, networks, products, and services. These measures should include specific actions for identification, defense, detection, response, and recovery to ensure that neither the company nor others suffer harm. This management of cybersecurity risks should also encompass employee education and training.

Furthermore, companies should strive to establish and implement security policies aligned with international standards.

### **【Code Interpretation】**

Companies need to prevent troubles such as information leakage, tampering, and system downtime caused by cyberattacks. Attackers can expand their targets using customer information and information from business partners, meaning that the impact extends beyond the company itself. The scope of cyberattacks has expanded beyond traditional PCs and servers to include industrial systems and devices known as the Internet of Things (IoT). It's essential to implement measures for such devices as well. Additionally, it's crucial to have plans in place for swift recovery in the event of a cyberattack. Measures for this may include backing up critical data and duplicating servers or data centers.

When contracting cloud services or similar arrangements, it's vital to verify the feasibility of these plans and their execution based on contract terms and conditions.

### **【Description of Terms】**

Example of cyber attacks include targeted e-mail that leads to malware infections or malicious

sites, which can cause the leak of personal information, customer information, client information, and confidential information such as trade secrets, as well as other harm such as important files becoming encrypted and held for ransom.

### **(7-2) Protecting Personal Information**

Companies must comply with relevant laws and regulations and appropriately manage and protect all personal information of suppliers, customers, consumers, and employees.

#### **【Code Interpretation】**

Companies are required to comply with local laws and regulations to carefully handle the personal information of suppliers, customers, consumers, and employees. Personal information must only be collected, stored, processed, transmitted, and shared within the scope required to achieve the specified purpose it is used for.

#### **【Description of Terms】**

Personal information is information regarding a living individual, and contains information that enables that particular individual to be identified, such as name, date of birth, or other attributes (including information that can be easily matched with other information to identify a particular individual).

Appropriate management refers to establishing and implementing a general management framework for personal information, and includes establishing rules and policies that workers must comply with, establishing plans, and implementing of measures, as well as audits and reviews.

Appropriate protection includes preventing personal information from being wrongfully or unfairly retrieved, used, disclosed, or leaked.

### **(7-3) Preventing Leak of Confidential Information**

Companies must appropriately manage and protect the confidential information not only of their own but also received including from customers and third parties.

#### **【Code Interpretation】**

Companies are required to establish an appropriate framework and management system for managing the confidential information collected by the company or received from third parties. This includes defining information management levels and employee training.

#### **【Description of Terms】**

Confidential information generally refers to information disclosed through documents (including electronically or optically recorded data) that have been agreed upon as confidential or verbally disclosed with a prior notification of confidentiality.



Appropriate management entails establishing and implementing a comprehensive framework for managing confidential information, including creating norms and policies that workers must comply with, planning based on these guidelines, implementing measures (such as access control with appropriate levels of identification), and conducting audits and reviews.

Appropriate protection involves ensuring that confidential information is not illicitly or unfairly obtained, used, disclosed, or leaked throughout the entire data lifecycle. This requires implementing data protection measures such as proper encryption. Additionally, it's crucial to prevent unauthorized physical access by implementing adequate access control measures such as entry and exit management.

#### **(7-4) Respond to Security Incidents**

If a security incident occurs, companies must promptly notify stakeholders, identify the cause, prevent further damage, and implement measures to prevent recurrence. In the case of security incidents related to products, services provided to our group, or services entrusted to our group, or if there is suspicion of such incidents, it is necessary to promptly notify our group and report the details of the cause, response, and measures to prevent recurrence in response to requests from our group.

#### **(7-5) Provide products and services that take into consideration security and privacy**

Products or services provided by companies should be designed to ensure the confidentiality, integrity, availability, and authenticity of data.

- Policies and procedures should be established and implemented during the development of products or services to ensure that they do not contain backdoors, malware, or malicious code.
- Necessary support should be provided to ensure security during the support period, such as providing security patches based on risk.

Security and privacy-focused products or services require providing confidentiality, integrity, availability, and authenticity of data. When developing products or services, it is crucial to establish and implement policies and procedures that do not tolerate the inclusion of backdoors, malware, or malicious code. Regular security scanning, testing, and correction of products, services, and underlying infrastructure are effective measures to ensure products and services are genuine and identifiable.

Additionally, providers of products or services should offer guidelines for safe configuration, operation, and use, and during defined support periods, they should provide support including contact information, security advisories, vulnerability management, security patch provision, and support based on identified risks. Effective asset management, vulnerability management, and change management policies to mitigate risks to the service environment are prerequisites for

this.

## **8 Business Continuity Planning**

Companies need to be prepared to quickly resume production activities in the event of major natural disasters affecting themselves or their business partners to fulfill their supply responsibilities. Additionally, they should establish communication systems and channels to assess the impact on delivery schedules and promptly inform stakeholders, including customers, during such disasters.

Here are some key points related to Business Continuity Planning (BCP) and social responsibility:

- Social responsibility concerning BCP must be included in the overall corporate policies and codes of conduct.
- These corporate policies and codes of conduct must be publicly available, for example, on the company's website.
- Identification and assessment of underlying risks and critical business resources (personnel, facilities, materials, information) must be conducted, and target recovery periods should be established.
- Measures to address critical business resources (personnel, facilities, materials, information) that may become bottlenecks in achieving target recovery periods must be devised and implemented.
- Organizational structures during disasters and response procedures from initial response to recovery must be clearly defined.
- Regular training sessions based on response procedures during disasters must be conducted to ensure preparedness.

### **【Code Interpretation】**

The occurrence of large-scale natural disasters such as earthquakes and typhoons as well as terrorism, riots, infectious disease, and accidents may cause a major impact on business continuity. Companies must make appropriate preparations for such events to ensure that production operations can quickly resume, and thereby minimize impact on the supply chain.

Recognized management systems such as ISO22301 were referred to when establishing these guidelines and may contain additional useful information.

### **(8-1) Developing and Preparing a Business Continuity Plan**

Companies must identify and assess risks to business continuity, examine their impact on the business, and establish preparatory measures required in the medium to long term and a business continuity plan (BCP) that indicates the status of those initiatives.

### **【Code Interpretation】**

Business continuity risks include large-scale natural disasters (such as earthquakes, tsunamis, floods, heavy rainfall, heavy snowfall, and tornadoes) as subsequent power outages, water outages, and traffic obstructions, accidents (such as fires or explosions), the spread of infectious and contagious diseases, and terrorism or riots.

Advance countermeasures required include local recovery strategies indicating how to protect, mitigate, and recover the various elements of production sites from estimated damage. It is also important to secure alternative methods of recovery from damage when it takes longer than expected.

Companies must provide continuous training to employees so that they can act in the event of an actual disaster, and establish a manual for quickly recovering business according to a business continuity plan (BCP).

### **【Description of Terms】**

A business continuity plan (BCP) is a plan created in advance that enables production activities to be swiftly resumed so that a company can fulfill its responsibility of supply when the company or its suppliers are affected by a disaster such as a large-scale natural disaster.

Manual for quickly recovering business is documenting activities from establishing to recovery, and the process and procedures until recovery is complete.

## **Section 2: Commentary on Establishing a Management System**

### **A. Establishing a Management System**

Companies must establish a management system in order to comply with the code of conduct in Section 1.

#### **【Code Interpretation】**

The following points must be considered when establishing a management system for achieving the various items in Section 1: Code of Conduct.

- Whether it complies with the laws, regulations, and customer requirements regarding business practices and products
- Whether it is according to the content of these guidelines
- Whether it identifies and reduces the risks regarding the content of these guidelines
- Whether continuous improvements can be expected based on the above

#### **【Description of Terms】**

A management system is establishing a framework for continuous improvements through the Plan-Do-Check-Action (PDCA) cycle regarding policy compliance, implementation systems, corrective actions, and stakeholder engagement. This is not necessarily for the purpose of acquiring certification. Furthermore, a management system includes the following.

- Company commitment
- Management accountability and responsibilities
- Legal and customer requests
- Risk identification and risk management
- Improvement objectives
- Training
- Communication
- Worker feedback, participation, and grievance
- Audits and assessments of identified risks
- Corrective Action Process
- Documentation and recording

Examples of well-known management systems are indicated below.

- Health and safety management systems such as ILO Guidelines on occupational safety and health management systems, OHSAS18001, and ISO 45001
- Environmental management systems such as ISO 14001 and Eco-Action 21
- Quality management systems such as the ISO 9000 family, IATF16949, and ISO13485
- Information security such as ISO/IEC 27001
- Business continuity such as ISO22301

Due diligence guidelines regarding all corporate conduct include the OECD Due Diligence Guidance for Responsible Business Conduct.

This guidance includes the following six processes.

- (1) Embed responsible business conduct into policies and management systems
- (2) Identify and assess actual and potential adverse impacts associated with the enterprise's operations, products or services
- (3) Cease, prevent and mitigate adverse impacts
- (4) Track implementation and results
- (5) Communicate how impacts are addressed
- (6) Provide for or cooperate in remediation when appropriate

Due diligence is the process enterprises should carry out to identify, prevent, mitigate and account for how they address these actual and potential adverse impacts in their own operations, their supply chain and other business relationships, as recommended in the OECD Guidelines for MNEs. Effective due diligence should be supported by efforts to embed RBC into policies and management systems, and aims to enable enterprises to remediate adverse impacts that they cause or to which they contribute.

(Source: OECD Due Diligence Guidance for Responsible Business Conduct)

The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy defines due diligence in the field of labor as indicated below, and emphasizes stakeholder engagement (the process for actively engaging with stakeholders via dialog, etc. in order to achieve mutually acceptable results as a company fulfills its social responsibility) and harmonization with host country development.

10. (e) In order to gauge human rights risks, enterprises - including multinational enterprises - should identify and assess any actual or potential adverse human rights impacts with which they may be involved either through their own activities or as a result of their business relationships. This process should involve meaningful consultation with potentially affected groups and other relevant stakeholders including workers' organizations, as appropriate to the size of the enterprise and the nature and context of the operation. For the purpose of achieving the aim of the MNE Declaration, this process should take account of the central role of freedom of association and collective bargaining as well as industrial relations and social dialogue as an ongoing process.
11. Multinational enterprises should take fully into account established general policy objectives of the countries in which they operate. Their activities should be consistent with national law and in harmony with the development priorities and social aims and structure of the country in which they operate. To this effect, consultations should be held between multinational enterprises, the government and, wherever appropriate, the national employers' and workers' organizations concerned.

(Source: The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy)

## **B Supplier Management**

Companies must establish a process for communicating the requirements of the code of conduct in Section 1 to suppliers and monitoring supplier compliance.

### **【Code Interpretation】**

In the Guiding Principles for Business and Human Rights of the United Nations and OECD guidelines, companies are required to take the same responsibility for CSR in their supply chain as they do at their own company. Therefore, it is necessary to communicate the requirements in Section 1: Code of Conduct to suppliers, monitor the status of compliance, and promote improvements.

Supply chain management is covered in Chapter 2 of International Labour Standards and Sustainable Sourcing Handbook Towards the Realisation of Decent Work through the Tokyo 2020 Olympic and Paralympic Games by the ILO. This handbook provides specific examples of recommended practices, points of attention for each process, and supply chain management process, in order to promote the implementation of sustainable supply management according to international labor standards, particularly regarding aspects of labor and human rights.

- Supply chain management process (role of in-house expertise, etc.)
- Human rights/labor due diligence process for new suppliers, etc.
  - Preliminary research → on-site due diligence → agreement on action plan → contracting and monitoring
- Assessing human rights and labor risks
  - Risk indices/factors, examples of questions to suppliers
- Dialogue/communication with suppliers
  - Content and method of discussions in dialogue process, interviewees and interviewing techniques
- On-site occupational safety and health check
- Consultation with third parties regarding labor issues
  - Things to keep in mind for consultation with trade unions, employers' organizations, and NGOs, sources of information, etc.

(Source (Translation from Japanese original): International Labour Standards and Sustainable Sourcing Handbook Towards the Realisation of Decent Work through the Tokyo 2020 Olympic and Paralympic Games, ILO 2019)

### **【Description of Terms】**

A supply chain refers not only to the process starting from raw materials and to the end when products and services arrive at the consumers, but all relationships including such as worker

dispatch agents and contractors, regardless of the individual roles of each company.

### **C. Proper Import/Export Control**

Companies must maintain a clear management system and conduct appropriate procedures for the import and export of technologies and goods regulated by law.

#### **【Code Interpretation】**

Companies must understand and comply with the various national laws and regulations for importing and exporting.

Technologies and goods regulated by law refer to components, products, technologies, equipment, and software subject to import/export control according to laws and regulations based on international agreements, etc. (such as the Wassenaar Arrangement).

It may be necessary to obtain permission, etc. from the competent authorities regarding importing and exporting.

### **D Establishing a Grievance Mechanism**

Companies must establish a grievance mechanism that can be used by stakeholders including workers and suppliers in order to prevent illicit behavior in their inside as well as throughout the supply chain.

#### **【Code Interpretation】**

In order to comply with Section 1: Code of Conduct, it is important to establish a mechanism for processing grievances from stakeholders including workers and suppliers, and enable treating problems as a continuous process. In order to ensure that the grievance mechanism functions effectively, it is useful to conduct awareness surveys to see the level of understanding, and continuous improvement through proposals.

#### **【Description of Terms】**

A grievance mechanism is a framework that enables related parties to report acts suspected to be in violation of Section 1: Code of Conduct to promote corrective action.

It is important that complaints can be lodged via anonymous reporting. Whistleblowers must not be treated disadvantageously due to their complaints.

Example of grievance mechanism include a suggestion box, telephone, e-mail, or hotline managed by an external organization.

### **Complaint reception desk for the IWATSU Group**

Customers and third parties of the IWATSU Group can report fraudulent activities by the Iwatsu Group through the reception desk indicated below.

**「Complaint reception desk from Suppliers that provide services to the IWATSU Group」**

**<https://www.iwatsu.co.jp/contact/cpl/>**

### **E Disclosing the Activities**

Companies must disclose information regarding their actions according to these guidelines and relevant laws and regulations.

#### **【Code Interpretation】**

Companies must not only disclose information as stipulated by the law, etc., but also disclose information regarding efforts for these guidelines to stakeholders including customers.

Examples types of information disclosure include CSR reports and sustainability reports via company websites and printed media.

Guidelines to refer to include GRI Standards and Environmental Reporting Guidelines from the Ministry of the Environment.



## **Section 3: Supplier Evaluation**

### **1. Supplier Evaluation**

Our group conducts evaluations through "Corporate Evaluation" and "Product Evaluation" concerning the business conduct of our suppliers and the products they procure.

- Corporate Evaluation: We assess the efforts of companies in terms of Environment (E), Social (S), and Governance (G).
- Product Evaluation: We evaluate primarily the environmental considerations of the products.

### **2. Evaluation Criteria**

This guideline and the IWATSU Group Green Procurement Standards.

### **3. Evaluation Method and Operation**

The evaluation will be conducted through written assessments using survey forms (questionnaires) and, if necessary, on-site evaluations. Regarding the submission of survey forms and the implementation of on-site evaluations, we will contact you through the respective contact departments of each company within our group as needed. Your cooperation is greatly appreciated. Additionally, each company within our group will prioritize the procurement of products from suppliers with excellent evaluation results, as a general rule.

## Section 4: Miscellaneous

### 1. Document History

Revision	Date	Description
1.0	March 2024	Initial release - The Guidelines are translated the Japanese version established in January 2013.

### 2. Inquiries

- Regarding the contents of this guideline:  
IWATSU ELECTRIC Co., Ltd. Compliance Office  
e-mail: iso@iwatsu.co.jp
- Matters concerning written assessment via survey forms (questionnaires) and on-site evaluations:  
Contact department for each supplier within our group