

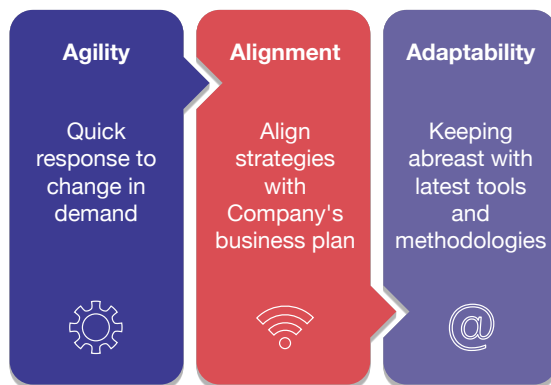


# Vendor Management

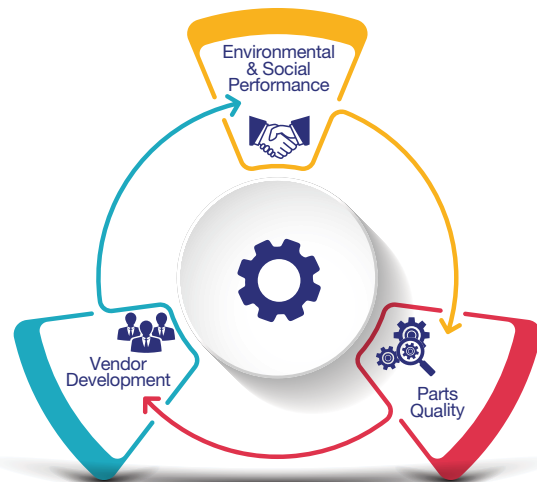
## Management Approach

The Company's engagement with vendors is a major source of value creation. Therefore, working closely with them on issues, including sustainability is key for achievement of the Company's long-term goals. The Company's supply chain has a wide network of vendors and it recognizes the complexity of maintaining sustainability standards within it. At the same time, the Company sees great opportunities in leveraging its expertise and know-how to help vendors improve their performance.

The Company's supply chain is based on the philosophy of 3As which are:



The Company aims to achieve sustainable growth built on a foundation of mutual trust with its vendors. We work in an open and transparent manner with our vendors as equal partners, developing and maintaining cooperative and competitive relations that enable us to implement best practices. During engagement with vendors, challenges and opportunities are discussed and in-depth analysis is carried out. Solutions to key issues are arrived at mutually. Policies relating to vendors are continuously reviewed and analysed with industry best practices to ensure our vendors meet the Company's core focus areas i.e. parts quality, vendor development & social and environmental health and safety.



All relevant departments at the Company, including Coordination & Planning, Procurement, Quality Assurance and Logistics are jointly responsible for ensuring sustainable supply chain management. The Company's focus is on managing and minimizing vendor risks and leveraging vendor potential, in order to ensure sustainability and continuous improvement. A number of company-specific guidelines and policies have been implemented to ensure that the Company and its business partners are aware of local environmental, health, safety, and labour laws, as well as legal requirements and international sustainability principles. These guidelines and policies enable the Company to drive forward the sustainability goals and ensure their compliance.

The Company procures most of its required materials from Pakistan i.e. where its operating facilities are located as far as the same is qualitatively compatible, technically feasible and economically justifiable. The raw materials and parts which are easily available in Pakistan are procured locally, except for those which are not available in Pakistan. However, it is ensured that all materials and parts are strictly aligned with Honda quality standards and are cost effective.

## COVID-19 – Challenges for Supply Chain

COVID-19 pandemic transformed supply chain in its entirety as lockdowns were imposed globally to prevent the outbreak. Production halts, movement restrictions of people and goods, border closures, logistical constraints, as well as the slowdown of business activities were the fall-outs of the COVID-19 lockdown

measures. In Pakistan, the economic activity was suspended during lockdowns and was subsequently allowed to resume work with strict SOPs directly impacting the availability of materials and components. Accordingly, the Company aligned its supply chain strategies to operate in compliance with government directives and ensured implementation of safety measures at vendors' premises. These include restricting factory access to essential workers only, temperature screening at entry points, enhancing cleaning and sanitization protocols, implementing social distancing, working from home to reduce attendance and providing personal protective equipment where necessary.

Reacting to the effect of pandemic on the supply chain industry, participants across the value-chain have adopted efficient measures geared at sustaining production and delivery to final consumers. Some of these innovative measures include the use of technology to take up orders from customers, strategic partnerships between producers, intermediaries and delivery companies, innovative management of inventory to avoid stock-outs, etc. These alterations to supply chain methodologies have proved to be effective and have transformed future outlook of the function.



## Vendor Induction and Communication

### Vendor Selection

The Company's vendor selection and approval process is based on a criteria comprising not only on their ability to provide quality parts at competitive terms but also their adherence to sustainability principles. Input for sourcing decisions is received from Supply Chain, Production, Coordination & Planning, Logistics and Finance departments. The Company also identifies and works with companies that have standards aligned or consistent with its own procurement and production practices. The Company also ensures that its Vendor Policy and Vendor CSR Guidelines are acknowledged and signed by all of its vendors.

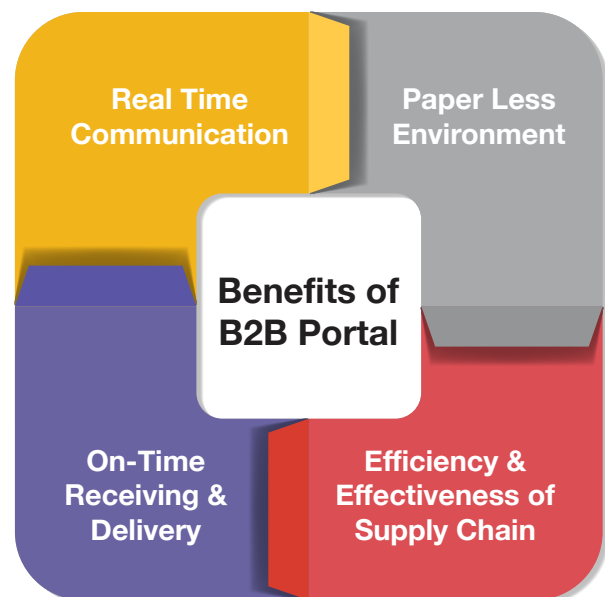
In line with the Company's selection criteria, all new vendors are screened and inducted only if they comply with sustainability principles detailed in 'environmental and social performance' section.

### Vendor Diversity

The Company recognizes that a diverse supply base is an integral part of growth and success. It is crucial to deliver the promise of providing the best mobility solutions. The Company is committed to work with and developing businesses by creating opportunities and initiatives that enable diverse vendors to grow into profitable and sustainable enterprises. The Company continues to foster productive relationships with entrepreneurs from a wide range of backgrounds to meet its customers' needs and expectations.

### Business to Business Communication Portal

Open and transparent communication with fair and consistent behaviours is a key component in establishing strong and lasting relationships with the Company's vendors. The Company has made available various forums for engagement at different levels, including regional vendor meetings, business unit reviews, quarterly business update calls and participation in events organized by vendors and industry associations. In addition, Business to Business link has been established which allows the Company's supply chain department and vendors to communicate without delays. It has helped to achieve:



Further, this portal enables evaluation and appraisal of vendors on the basis of standardized quality and timely deliveries.

### Parts Quality

The Company aims to keep its customers' trust by emphasizing on importance of quality throughout its supply chain. To achieve this objective, the Company binds its vendors to establish and operate within a quality assurance system. Apart

from the Company's objective of procuring inspection free parts, its vendors validate that parts delivered through their manufacturing processes meet the drawings accurately and achieve target of 0.1% rejection for incoming parts. Following measures were taken to achieve these quality objectives:

### Vendor Improvement Program (VIP)

The Company assists its vendors in improving quality and operations through various initiatives especially the Company's VIP program launched few years ago. This program focuses on following six core areas:

- Drawing & Specification Control
- Dies & Tool Management
- In Process Inspection System
- Incoming Inspection
- Final Inspection System
- Warranty Analysis system

Certificates are awarded to vendors at the time of completion of the program. Further, they are reviewed and audited each year for recertification. Continuous follow up is carried out by VIP designated team which comprises of the Company's employees from Supply Chain and Quality Assurance department. This year, 18 vendors were analysed and assessed under this program.

### Vendor Development

The Company encourages its vendors to invest in their facilities including enhancing their manufacturing capacity and adapting new technology. The idea is to ensure that the Company's vendors remain well-equipped to meet the demands of business while earning attractive returns on their investments.

The Company also believes in developing and strengthening competencies and skills of its vendors apart from their manufacturing capacities. For the purpose, the Company has been providing major technological assistance to its vendors, resulting in enhancement of their engineering skills and creation of employment opportunities. On-site visits to our vendors assist in identifying production bottlenecks and devising process improvements measures.

### Environmental and Social Performance

The Company applies the same level of scrutiny to its suppliers with regards to labour rights, human rights, and health, social and environmental requirements as it does to its own operations. The Company's goal is to follow best practices and enable its vendors to replicate the same and be accountable for their sustainability performance.

### Guidelines to Vendors

Corporate Social Responsibility is embedded in the Company's day to day operations in a clear and practical manner. All products and services are regularly monitored for their impact on society and the environment. Given the increased expectations regarding sustainability, the Company recognizes that it is essential to share its approach to sustainability with its vendors. In this regard, following guidelines have been issued

to vendors. The Company believes that these guidelines help its vendors in maintaining a shared understanding of sustainability, to carry out initiatives proactively and to continue growing together.

- Establish and monitor a company-wide social management system;
- Prevent climate change via reducing GHG emissions;
- Optimize packaging and establish efficient logistics operations in order to reduce waste disposal and transport emissions;
- Prevent pollution and contamination of air, water, soil, etc.;
- Enforce proper disposal of waste and implement optimum recycling of waste and disposals etc.; and
- Compliance with laws and regulations along with commitment to protect human rights.

All vendors are monitored and evaluated against these guidelines and based on such evaluation, the Company has not come across any significant actual or potential negative impact of its supply chain or vendors' on labour practices, human rights and society requiring termination of relationship.

### Emission Reduction Caravan

In 2014, the Company undertook an initiative called 'Emissions Reduction Caravan' for its vendors. Since then, under this initiative, the Company's supply chain associates are working in close coordination with major vendors to reduce their environmental footprint. Technical guidance is being provided for process improvements focused on production efficiency, energy conservation, material recycling, reuse and reduction in CO<sub>2</sub> emission. 34 vendors from both plants, covering 77% of total purchases have participated and achieved the target of reduction in CO<sub>2</sub> emission by 1%.



### Logistics Operations

The Company's supply chain operations manage the transportation of parts and components from its vendors to manufacturing facilities ("inbound" freight) while logistics operations ensure the same for finished motorcycles from the Company's plants to its dealerships ("outbound" freight). With activities coordinated regionally, the responsibilities include designing and operating the transportation network and devising high-quality and efficient packaging to protect materials in transit. Freight emissions are influenced by a wide and complex range of inter-related factors, including the mode of transportation, the efficiency of the equipment used and the

design of the freight network. The Company finds the most effective ways of achieving reductions through:

- Improving the design and operation of transportation networks
- Increasing vehicle utilization
- Increasing the use of greener modes of transport such as using rail network

### Environmental Impact Assessment Survey

Every year, the Company participates in environmental impact assessment survey developed by Honda Motor Japan. This year, 34 vendors were assessed on basis of following criteria:

- Direct & Indirect GHG Emissions
- Green Purchasing Guideline
- Chemical Substance Management
- Environmental Management System
- Energy Conservation Guidelines
- Water Resources Guidelines
- Pollution Prevention Guidelines
- Biodiversity Guidelines

None of the selected vendors were identified as having any significant actual and potential negative environmental impacts.

### Human Rights & Working Conditions

Respecting and protecting human rights - the fundamental and inalienable rights and freedoms to which all people are entitled - is at the core of the Company's labour practices. The Company aims to ensure that everything it makes or that others make for the Company is consistent with local laws and the Company's commitment to protecting human rights. The Company has implemented strict requirements within its operations and for suppliers to protect the rights of employees as detailed in following guidelines issued:

- Eliminate discrimination and ensure zero harassment at workplace in any aspect of employment based on race, ethnicity, nationality, religion, gender, or other characteristics;
- Avoid employment of workers who do not meet the legal minimum working age of each country and region;
- Avoid practising forced labour. Guarantee that all labour is voluntary and those employees are free to leave their jobs;
- To comply with the laws & regulations regarding minimum wages, overtime, wage deductions, performance-based pay and other remuneration;
- To obey with the laws & regulations regarding the setting of employees' working hours (including overtime) and granting of scheduled days off and paid annual vacation time etc.; and
- Ensure a safe and healthy working environment for all associates.

### Responsible Sourcing of Minerals

In procurement of certain raw materials, the Company has to comply with Dodd-Frank Act of United States which obligates companies to disclose the origin of certain raw materials to ensure that "conflict minerals", such as tin, tungsten, tantalum and gold from the Democratic Republic of Congo or neighbouring states, do not enter their products through their supply chain. The Company, therefore, monitors all vendors to make sure they do not source raw materials from the affected regions. Using a structured survey process and by working closely with vendors for increased supply chain transparency, the Company obtains confirmation that its suppliers and their upstream suppliers are obtaining material free from conflict minerals. Furthermore, the Company provides clear guidelines for suppliers and raises awareness on conflict mineral related issues through education and support. The Company also collaborates with a cross-industry group called Conflict-Free Sourcing Initiative (CFSI) in this regard. In order to be confirmed as conflict free, the smelters and refiners are required to pass an independent third-party audit. The results from this year's survey confirmed that our supply chain is based on conflict free sourcing.