

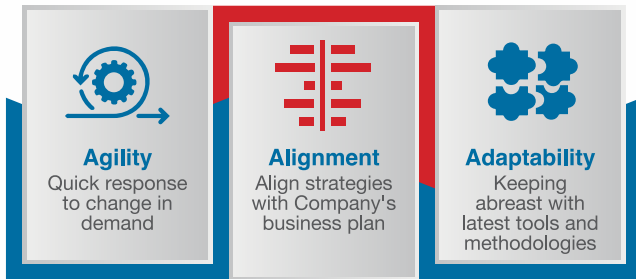
Vendor Management



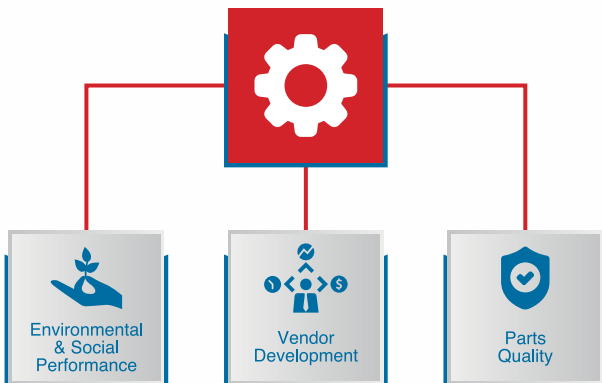
Management Approach

Vendor interaction is a significant source of value development for the company. As a result, collaborating closely with them on matters such as sustainability is critical to achieving the Company's long-term objectives. The Company's supply chain comprises a large number of vendors, and it understands how difficult it is to meet sustainability requirements. Simultaneously, the Company sees tremendous potential in utilizing its knowledge and know-how to assist vendors in improving their performance.

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



We strive for sustainable growth based on mutual trust with our vendors. We work openly and transparently as an equal partner with our vendors to build and maintain collaborative and competitive relationships that enable the implementation of best practices. Vendor-related policies are continually reviewed and analysed in the light of industry best practices to ensure that vendor's meet the Company's core focus areas i.e. parts quality, vendor development & social and environmental health and safety.



The Company's relevant divisions, including Coordination & Planning, Procurement, Quality Assurance, and Logistics, are jointly responsible for guaranteeing long-term supply chain management. In order to maintain sustainability and ongoing progress, the Company focuses on controlling and mitigating vendor risks and maximizing vendor potential. To guarantee that the Company and its business partners are aware of local environmental, health, safety, and Labour laws, as well as legal obligations and worldwide sustainability principles, a variety of company-specific rules and policies have been established. These policies and guidelines allow the Company to go forward with its sustainability goals and ensure that they are met. Company frequently updates its policies and procedures based on inputs and shares the same with relevant stakeholders.

As far as it is qualitatively compatible, technically viable, and economically justified, the Company procures most of its essential materials from Pakistan, where its working facilities are located. Except for certain raw materials and parts that are not readily available in Pakistan, all raw materials and parts are sourced locally. However, it is ensured that all materials and parts are strictly aligned with Honda quality standards and are cost effective.

Vendor Induction and Communication

Vendor Selection

The Company's vendor selection and approval procedure is based on a set of criteria that includes not only their capacity to deliver high-quality parts at reasonable rates, but also their commitment to environmental values. Decisions on sourcing are made in consultation with appropriate departments. The Company also seeks out and collaborates with businesses who have procurement and production standards that are similar to or identical to its own. All company's vendors must recognize and sign the company's Vendor Policy and Vendor CSR Guidelines.

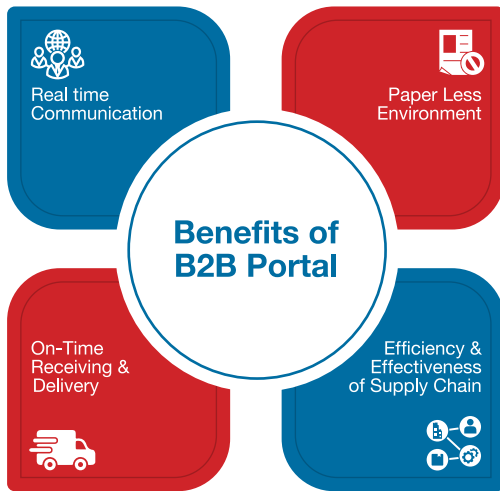
In line with the Company's selection criteria, all new vendors are screened and inducted only if they comply with sustainability principles detailed in 'environmental and social performance' section.

Vendor Diversity

A varied vendor base is an important aspect of the Company's growth and success. It is crucial to deliver the promise of providing the best mobility solutions. The Company is dedicated to partnering with and growing businesses by providing opportunities and initiatives that help a wide range of vendors become viable and long-term businesses. To meet the demands and expectations of its consumers, the Company continues to cultivate beneficial ties with entrepreneurs from various backgrounds.

Business to Business Communication Portal

Establishing good and lasting relationships with the Company's vendors requires open and transparent communication as well as fair and consistent behavior. 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. Furthermore, a Business to Business link has been established, allowing the Company's supply chain department and vendors to communicate with each other without delay. It has helped to achieve:



Parts Quality

The Company aims to keep its customers' trust by emphasizing the importance of quality throughout its supply chain. To accomplish this, the Company requires its vendors to set up and operate a quality assurance system. In addition to the Company's goal of sourcing inspection-free components, its vendors ensure that parts delivered through their manufacturing processes properly match the drawings and meet the 653 ppm rejection thresholds for incoming parts. To attain these quality goals, the following steps were taken:

Vendor Improvement Program (VIP)

Through numerous efforts, including the Company's VIP program, which was introduced a few years ago, the Company aids its vendors in enhancing quality and operations. This program focuses on the six core areas listed below:



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, 16 vendors were analysed and assessed under this Program.

Vendor Development

The Company encourages its vendors to invest in their facilities, including boosting manufacturing capacity and implementing new technology. The goal is to keep the Company's vendors well-equipped to satisfy business demands while also generating a good return on their investment.

On-site visits to our vendors assist in the identification of production bottlenecks and the formulation of process improvement strategies. We assure timely implementation of recommended actions through formal feedback and follow-up visits, resulting in improved engineering skills and job possibilities.

Environmental and Social Performance

The Company applies the same level of scrutiny to its vendors with regards to labor 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 clearly and practically integrated into the Company's day-to-day activities. All products and services are regularly assessed for their social and environmental impact. Given the rising demand for sustainability, the Company realizes the importance of sharing its sustainability strategy with its vendors. Vendors have been given the following guidelines in this regard. 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.

- Create and maintain a social management system for the entire firm;
- Reduce GHG emissions to prevent climate change;
- Reduce waste disposal and transportation emissions by optimizing packaging and establishing efficient logistics operations.
- Prevent pollution and contamination of air, water, soil, etc;
- Reduce water consumption in manufacturing processes;
- 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 principles on a continuous basis. During the year 38 vendors were evaluated for compliance and the Company has not found any major actual or potential negative impact of its supply chain or vendors on labour practices, human rights, or society that requires relationship termination.

Emission Reduction Caravan

In 2014, the Company launched an effort for its vendors called "Emissions Reduction Caravan." Since then, the Company's supply chain associates have been working closely with significant vendors to reduce their environmental footprint as part of this

strategy. Process innovations that focus on production efficiency, energy conservation, material recycling, reuse, and CO₂ emission reduction are given technical assistance. 38 vendors from both plants participated, contributing for 78% of total purchases, and the goal of reducing CO₂ emissions by 1% was met.



1 "Pakistan Springs & Engineering Co." was awarded Best Performance award in CO₂ Reduction activity

Logistics Operations

The Company's supply chain operations oversee the delivery of parts and components from vendors to manufacturing facilities ("inbound"), while logistics operations oversee the transfer of finished motorcycles from the Company's factories to dealerships ("outbound" freight). Designing and operating the transportation network, as well as creating high-quality and efficient packaging to safeguard products in transit, are all duties that are coordinated regionally. 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 more environmentally friendly means of transportation, such as the rail network

Environmental Impact Assessment Survey

Every year, the Company takes part in a Honda Motor Japan-developed environmental impact assessment survey. The following criteria were used to evaluate 35 vendors this year:

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

- Biodiversity Guidelines
 - Waste reduction and waste management 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 strives to guarantee that everything it creates or has made for it complies with local laws and the Company's commitment to human rights protection. To preserve employee rights, the Company has adopted strict requirements inside its operations and for vendors, as described in the following guidelines:

- 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 using forced Labour. Ensure that all Labour is voluntary and that employees have the freedom to leave their jobs;
- To comply with the laws & regulations regarding minimum wages, overtime, wage deductions, performance-based pay and other remuneration;
- To comply 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 neighboring 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 vendors and their upstream vendors are obtaining material free from conflict minerals. Furthermore, the Company provides clear guidelines for vendors 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.

