RESPONSIBLE PROCUREMENT PRACTICES
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Suppliers are critical for businesses to succeed as they play a crucial role in implementation of business operations and processes. We consider working with our suppliers, involving and empowering them as the key for maintaining long term supplier relationship.

We have always extended support to our suppliers in the areas of safety and environment, cost, quality and productivity and human development [SQPCH]. We also communicate our corporate values, culture with our suppliers and set compliance targets to ensure conformance to all applicable laws and regulatory requirements. Regular assessments are conducted to ensure all suppliers are in line with TKM’s targets and vision.

PURCHASE POLICY

Toyota has established a purchasing policy ensuring a fair ground for all suppliers. The policy has a focus on the following elements:

- Fair competition based on open door policy
- Mutual benefit based on mutual trust
- Contributing to local economic vitality through localization and good corporate citizenship

SUPPLIER CSR GUIDELINE

In addition to these, TKM has formulated policies to cover aspects of climate change and social responsibility included as a part of ‘Supplier CSR guideline’ emphasizing on the following aspects:

- Respect for employees and stakeholders
- Safety, Quality, Productivity, Cost and Human Development
- Legal Compliance, Human Rights/Labor, Local or Global community

GENERAL PURCHASING AGREEMENT

Suppliers are provided with a General Purchasing Agreement which lays out principles of operation. These principles are a guiding tool for suppliers to effectively manage and prioritize their business.

The agreement outlines the following principles:

- ‘Customer Satisfaction’ is the primary objective
- Toyota Production System (TPS) and Just-In-Time (JIT) to be adopted
- Develop long standing business relationship based on mutual trust
- Comply with safety and environmental standards
- Contribute to the sustainable development of society
- Promote faithful and sound business activities

NEW SUPPLIER ESTABLISHMENT SYSTEM

We rely on our suppliers for the ever-changing market needs. As procurement is very crucial for our business, managing supplier relations to assure a continuous supply without any delay in the delivery of products becomes imperative. We have established a system to identify the right suppliers for procurement of raw materials called ‘New Supplier Establishment System’. Continuous engagement with suppliers through training and workshops help us maintain the synergy and manage risk and compliance to abide by organizational as well as industry specific regulations and compliances.
We align our suppliers with TKM’s interests to be more responsible in environment and social aspects. Toyota established ‘Environmental Purchasing guidelines’ in March 1999, which were further revised for improvement in March 2006 as ‘Green Purchasing Guidelines’ [GPG]. In accordance with Global Challenge 2050 and taking the changing environmental regulations into consideration, the GPG were revised in January 2016 with intent of reducing the environmental footprint throughout our supply chain.

### GREEN PURCHASING GUIDELINES

**AMENDMENT TO THE GPG 2016**

In order to make our business partners understand our intent behind this latest revision and to ensure their integration in daily activities, we hosted GPG training to all our supplier principals in February 2017 in four zones across India. Out of 165 suppliers, 122 suppliers attended the training program. However, the rest of the supplier principals and indirect suppliers will be trained on the latest revision of GPG.

The Green purchasing guidelines are aligned with Toyota’s Six Global Challenges.

**Major Change Points**

- Inclusion of promotion of ISO 14001 implementation to the Tier-2 and Tier-3 suppliers
- Promotion of environmental management of the entire supply chain with lifecycle approach

*Latest additions, 2016*
The GPG was implemented to the Part, Direct Material, Accessory Part and Service Part suppliers. Further, with the latest amendment, the scope of GPG implementation has expanded to the Indirect Material, Packaging Material and Facility suppliers.

ENSURING SAFE WORKPLACE AT SUPPLIERS

In order to ensure the safe work place at suppliers, Supplier Kaizen Department (SKD) continuously supports suppliers during manufacturing and construction.

RISK ASSESSMENT AND SUPPORT FOR RISK ELIMINATION

We assess our suppliers for risks pertaining to SQPCH on a regular basis and help them with countermeasures for risk elimination. 100% suppliers are assessed for risks and the audit calendar to eliminate the environmental risk through legal compliance and safety risks is rolled out.
ENSURING LEGAL COMPLIANCE AT SUPPLIERS

We ensure that our suppliers are legally compliant before engaging with them. We communicate the regulatory changes and also conduct regular audits to ensure all our suppliers are updated and compliant with the latest regulatory changes. Our SKD conducts Gemba confirmation for legal compliance at the shop floor to create an 'Environment Risk Free Supplier'.

ENVIRONMENT RISK AUDIT CLOSURE STATUS

The identified environment risks are classified as Rank A (high) and Rank B (low) based on the potential and severity of the issue.

ENSURING SAFE WORKPLACE AT SUPPLIERS

During the reporting year, safety audit with theme ‘No Fire, No Fatal’ was conducted at suppliers to ensure workplace safety from fire and fatal hazards. Based on the observances, a road map to enhance the safety knowledge/ awareness of supplier partners to manage safety at workplace was developed.

The audit is carried out in two approaches; firstly system audit is carried out to check if the systems are in place to ensure safety in man, machine and methods, followed by the Gemba audit to identify the risks pertaining to layout and storage area, equipment, fire and electrical risks.

SAFETY AUDIT CLOSURE STATUS

The identified safety risks are classified as Rank A (high) and Rank B (low) based on the potential and severity of the issue.

In the reporting year, we were successful in eliminating the safety risks up to 96%. We are continuously working with our suppliers to address the rest 4% of the issues by the end of this FY 2017-18.

SUPPLIER SAFETY SUPPORT DURING CONSTRUCTION

We have supported 13 Toyota group companies in India in the field of construction safety and equipment safety through human development from the construction stage till pre-commissioning stage.

During the reporting year, 26 safety leaders were trained at TMAP for equipment risk assessment and risk reduction during the equipment installation phase. The safety leaders in turn developed 261 sub leaders and 834 job leaders internally. The equipment risk assessment was carried out at each group company with cross function team supported by TKM and the risk elimination activity was carried out with periodic progress review.
Supplier Kaizen Department (SKD): To ensure sustainable business operations, SKD is continuously working to enhance the overall competitiveness of our suppliers for future sourcing at global level. Our supplier development model is based on a two pillar approach to ensure sustainable business operations. All the suppliers are trained in the fields of SQPCH.

Through overall supplier Gemba development, we aim to transform our suppliers as leaders in future Global sourcing platforms and become export worthy by 2020.

FOCUSED GEMBA SUPPORT

With the mission of ‘Make in India’, we aim to align our company’s interest to the country’s interest. If the current status of our Indian suppliers is considered, there is a wide scope of improvement in the fields of Safety, Quality and Delivery. With this background, we are working on increasing the supplier management focus on the ‘safety and built in quality’ to achieve stable and consistent performance at the supplier base.
The SPE program targets development of at least one window person (representative) from each supplier in the areas of SQPCH. The SPEs are trained at TKM premises to implement the Toyota way of manufacturing and to achieve and sustain the implemented system.

In order to realize the road map for supplier development, we are constantly engaging with our suppliers and working towards their overall development by carrying out evaluations, gap analysis and providing support for improvement.

In FY 16-17, 21 nos. of suppliers have been supported by SKD team and their score has been improved from <50% (unstable) to <70% (stable) where, quality and delivery performance have been improved.

**SKD Strategy for Supplier Development based on Evaluation Result**

**SUSTENANCE ACTIVITY:**
- Sustenance audit of suppliers to make it as a Culture < 6 Month support
- Production cost training to enhance supplier competitiveness
- Supporting suppliers to become Leaders
- Supplier top management training

**SUPPLIER PROJECT EXPERT (SPE)**

The SPE program targets development of at least one window person (representative) from each supplier in the areas of SQPCH. The SPEs are trained at TKM premises to implement the Toyota way of manufacturing and to achieve and sustain the implemented system.

The program helps the SPEs by improving their daily management capability by enhancing their problem solving skills and helps reduction of manufacturing cost by identification and periodization of wastes.
CUSTOMIZED CLASSROOM TRAINING

The customized training (short term) is provided in the field of SQPCH to develop strong shop floor leaders at suppliers. In the reporting year, 130 suppliers were trained.

SUPPLIER CONNECT

QUALITY CIRCLE COMPETITIONS [QCC]

Every year, regional level followed by National Level QCC is organized for our suppliers to exchange ideas and share experience. Our suppliers from Bengaluru, Delhi, Chennai and Pune regions actively participate in the event and the best performing circles are recognized.

ANNUAL SUPPLIER CONVENTION

The purchase department at TKM conducts supplier meets annually to communicate TMC’s expectation and targets. This year, the convention was held in April’ 2017 with the theme of “Rebuild capabilities to meet Dynamic technology Challenge”.

During the Annual supplier meet, we also released our vision of “Grow India and Grow with India”.

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