



Procurement

We value a trust-based relationship with our suppliers and collaborate together for mutual growth.

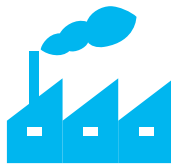
Manufacturing high value-added products is TEL's unwavering goal, achieved only if all components and materials function as planned to enhance overall product quality. We seek to be fair with our suppliers, and value mutual trust and growth.

Highlights



Percentage of suppliers who showed improvements in the supply chain CSR assessment

34%



Number of CFSP-certified smelters

204
companies



Percentage of suppliers who showed improvements in the supply chain BCP assessment

27%

Goals and results for fiscal year 2016

Theme	Goals	Results
Promotion of CSR program	<ul style="list-style-type: none"> Conduct the third Supplier CSR Survey with key suppliers, those suppliers that account for more than 80% of our procurement spend. 	<ul style="list-style-type: none"> Conducted Supply Chain CSR Assessment with key suppliers, those accounting for more than 80% of procurement spend. Improvements were observed in 34% of suppliers.
Conflict minerals	<ul style="list-style-type: none"> Conduct the second conflict minerals survey. Improve data accuracy. 	<ul style="list-style-type: none"> Conducted a conflict minerals survey with our principal suppliers using the CFSI¹ reporting template. Identified 204 CFSP²-certified smelters. Improved the percentage of known CFSP-certified smelters covered in our operations (99.5%).
BCP	<ul style="list-style-type: none"> Conduct the fifth procurement BCP survey with key suppliers, those accounting for more than 80% of our procurement spend. 	<ul style="list-style-type: none"> Conducted a Supply Chain BCP Assessment with key suppliers accounting for more than 80% of our procurement. Improvements were observed in 27% of suppliers. Implemented improvement activities at suppliers with low scores.

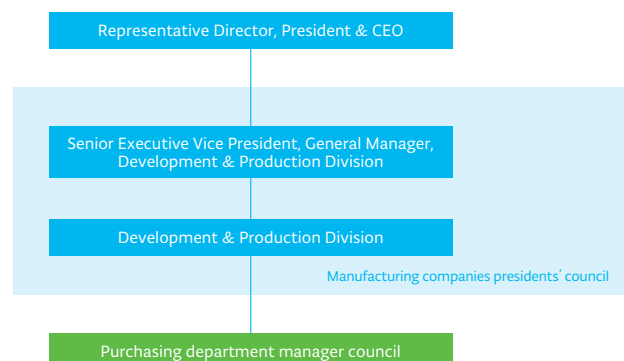
1 CFSI: Conflict-Free Sourcing Initiative. Founded by members of the EICC and GeSI (Global e-Sustainability Initiative), the CFSI inspects 3TG smelters to certify they do not have conflict minerals.

2 CFSP: Conflict-Free Smelter Program. The CFSP is promoted and led by the CFSI.

Framework

To maintain a robust supply chain capable of supporting streamlined product manufacturing, TEL has instituted a procurement policy and established a system for administering fair procurement practices based on mutual trust with suppliers. Under the TEL Representative Director and President as the top of the procurement system along with the Senior Executive Vice President in charge of development & production, the manufacturing companies presidents' council and the purchasing department manager council are convened to share information on various procurement issues.

The council also serves as a venue to address current problems and discuss approaches to improve partnership with suppliers.



Sustainable supply chain

BCP framework

As part of its business continuity plan (BCP), TEL collaborates with its suppliers for disaster preparation. When crises arise, a database of our suppliers' production sites plays a major role in our response. The database is updated annually to help promptly identify impacted suppliers and quickly take recovery steps following a disaster. The system was introduced in 2011 and is now firmly established with our suppliers. In fiscal year 2016, the database contained information about 14,000 locations. The information was used to assess the impact of six disasters that occurred during the year.

TEL also conducts an annual survey on our suppliers' business continuity plans. In fiscal year 2016, key suppliers, accounting for more than 80% of our procurement spend, were asked to participate in a procurement BCP survey. We found that 27% of suppliers showed improvement over the previous year. Survey results were shared with suppliers to promote further improvement.

CSR procurement

TEL aims to build and maintain a robust and sustainable supply chain. To achieve this goal, we have established a procurement policy that requires strict compliance with labor laws and regulations and respect for fundamental human rights (including prohibitions against child labor and forced labor). Suppliers are required to abide by this policy. Additional documents regarding our compliance with the EICC Code of Conduct are posted on the TEL website where information about our "green" procurement guideline-based environmental activities is also available.

In fiscal year 2016, we conducted a Supply Chain CSR Assessment for our key suppliers, who account for more than 80% of our procurement spending. The assessment, which evaluates the compliance with the EICC Code of Conduct, showed year-over-year improvements in 34% of suppliers. The assessment included a questionnaire on child labor, forced labor, bonded labor, inhumane treatment, false reports, falsification of records, and bribery. The answers we received indicated that none of our suppliers were engaged in these practices. Also, none of our suppliers had a sufficient number of employees* to be considered high risk in terms of compliance. As with the BCP survey, the assessment results were shared with suppliers to encourage additional improvement.

* 500 employees or more

Conflict minerals

TEL considers taking action against conflict minerals¹ an important part of its corporate social responsibility. Conflict minerals are illegally mined and give rise to poor working conditions and human rights violations. Our goal is to eliminate the use of raw materials and components containing conflict minerals.

In fiscal year 2016, we conducted our second annual survey on countries of origin and smelters of potential conflict minerals (3TG: tantalum, tin, tungsten, and gold), using the CFSI reporting template. As a result, we identified 204 CFSP-certified smelters, providing us confidence that 3TG sourced from these smelters were conflict-free. None of the materials that TEL procured were found to contain conflict 3TG. This survey will continue every year, with the cooperation of our suppliers, to further improve the quality and accuracy of the survey.

¹ Conflict minerals: Minerals mined in the Democratic Republic of the Congo (DRC) and neighboring countries used to finance armed groups or minerals mined in other conditions where human rights abuses and labor problems occur. The term commonly applies to four minerals: tantalum, tin, tungsten, and gold.

Supply chain communication

Cooperation with suppliers

In addition to daily communications, TEL holds Production Update Briefings and a TEL Partners Day to enhance relationships with suppliers. At these events, we present and exchange information on the management plans, market trends, business policies, and CSR initiatives. We also ask for continued cooperation in strengthening our supply chain, and honor outstanding suppliers to express our appreciation for their constant support.

Strong quality management at suppliers is essential to improve product quality. Since 2000, we have regularly conducted a Supplier Total Quality Assessment (STQA) to clarify what is expected of our suppliers in terms of maintaining and improving quality. Before starting business with new suppliers, an STQA is conducted to evaluate their handling of product quality, cost, information security, and CSR issues (including human rights, ethics, safety, and the environment). The entire management system is comprehensively assessed. After we have an existing business relationship with suppliers, they are asked for a similar self-assessment every three years. If the results do not meet TEL standards, TEL-certified auditors visit the supplier to explain the problems revealed by the assessment. Once the supplier understands the issues, they are asked to implement improvement measures in line with our written requests for improvement. TEL internally keeps track of all requests and improvement measures, offering continual support to suppliers until all necessary improvements have been made.

TEL is also partnering with our suppliers to implement a TPM program. The production of any piece of equipment involves a number of supplier processes. In the TPM program, supplier shop floor improvement teams collaborate with TEL employees to enhance productivity and product quality. In one example, the program led to a 30% reduction in the number of steps required to assemble modules and systems. The program also plays a key role in educating supplier improvement team members.



TEL Partners Day

Cooperation with industry organizations

In June 2015, TEL joined the EICC, an electronics industry coalition on CSR. EICC participation includes adopting the EICC Code of Conduct, a set of standards to improve labor practices, health and safety, environmental impact, and ethics in the electronics supply chain. TEL adheres to the EICC Code of Conduct to maintain and strengthen its supply chain, in cooperation with other EICC member companies.