

Supply Chain (Society)

Approach to Materials Procurement

■ Our basic approach and strategy

Unicharm has established and operated the “Unicharm Group CSR Procurement Guidelines” in 2009 for the purpose of maintaining fair and impartial relationships with all suppliers. The guidelines incorporate provisions relating to applicable laws, human rights, industrial relations, environment and product safety such as the “abolition of child labor”, “elimination of discrimination” and “promotion of measures against global warming” as stated in the U.N. Global Compact.

By working closely together through mutual communication with suppliers, we are sharing and establishing an understanding of Unicharm’s responsible procurement approach, philosophy, specific activities and requests for cooperation towards safety and the environment.

Regulations on safety and the environment at our overseas locations vary by country and region, as does local awareness. Therefore, simply rolling out best practices from Japan is not sufficiently effective. We also gather information from the local market and promote materials procurement closely in tune with local market conditions as well, aiming to build business relationships that fulfill the quality, functionality, safety, environmental and service requirements of product lines in overseas markets. In addition, we are promoting procurement activities with a particular emphasis on crisis management and, when starting new business transactions overseas, we conduct environmental and ethical risk assessments to establish a sound understanding and dissemination of Unicharm’s stance and approach

toward procurement, including compliance with laws and social imperatives, and give due consideration to human rights and labor matters.

In October 2017, we established the “Basic Policy of Procurement” upgraded from the “Unicharm Group CSR Procurement Guidelines” in response to increased expectations towards the sustainability initiatives of global companies and to prevent human rights and labor problems throughout the supply chain. At the same time, the “Unicharm Group Sustainable Procurement Guidelines” were established as a subdivision of this Basic Policy of Procurement to express our intentions towards the prevention of child labor and forced labor, the prohibition of discrimination, right to the freedom of association, the right to collective bargaining, reductions in excessive working hours, minimum wages, health and safety standards and the prevention of corruption. Additionally, in terms of working hours in proper employment, we comply with the working hours stipulated by the local laws and regulations in each country and region and reduce overwork. In terms of the minimum wage, we exceed the local minimum wage, with a basic policy of paying a salary above the living wage. The policy and guidelines cover all business partners around the world that conduct business with us and we are working to ensure awareness, primarily through the ESG Promotion Group established at our production subsidiary, Unicharm Products Co., Ltd. We will continue promoting initiatives in order to fulfill our social responsibilities throughout the supply chain.

We will work towards safe and secure procurement based on legal compliance going forward so that suppliers can understand the intent of these policy and guidelines.

Basic Policy of Procurement

Basic Policy of Procurement

The Unicharm Group will make efforts to fulfill its corporate social responsibility and implement its fair and equitable corporate activities.

1. Compliance with Laws and Regulations and Social Norms

- (1) Comply with related laws and regulations and social norms in purchasing activities.
- (2) Provide business partners with fair and equitable opportunities for competition in purchasing activities regardless of nationality, size or track record.
- (3) Require business partners to implement appropriate management of information obtained in purchasing activities.

2. Giving Due Consideration to Human Rights and Labor

- (1) Engage in purchasing activities with corporations which place importance on respect for human rights.
- (2) Engage in purchasing activities with corporations which give due consideration to the appropriateness of labor practices.
- (3) Respect the importance of engaging in purchasing activities with corporations which promote appropriate employment practices.

3. Environmental Responsibility

- (1) Value corporations which understand the importance of, and promote, environmental conservation in purchasing activities.
- (2) Emphasize environmentally friendly raw materials in purchasing activities in an effort to achieve a recycling-oriented society.

4. Procurement of Safe and Secure Products and Materials that Provide Peace of Mind

- (1) Choose products and materials for which safety has been confirmed in purchasing activities.
- (2) Choose economical and high quality materials and products in purchasing activities.
- (3) Emphasize the ability to manufacture and supply products that meet requirements in purchasing activities.

5. Development of Relationships of Mutual Trust

- (1) Cultivate a relationship and trust with business partners within the scope of social norms.
- (2) Strive to enhance business performance mutually through exchange of essential information with business partners.

Sustainable Procurement Guidelines

Unicharm Group Sustainable Procurement Guidelines

These guidelines define the ethical standards that Unicharm wants all of its suppliers to adhere to, in order to help realize sustainable procurement. We expect all of our suppliers to understand and comply with the intent of these guidelines.

1. Compliance with laws and social imperatives

1) Legal compliance

- Comply with laws and regulations (antitrust laws, personal information protection laws, subcontracting laws, etc.) as well as social imperatives related to individual country and region.

2) Fairness in transactions and prohibition of bribery

- Comply with laws related to fair trading, fair competition and antitrust.
- Prohibit all stakeholders from offering or accepting bribes (monetary or non-monetary benefits) and from abusing superior bargaining position.

3) Management and protection of information

- Comprehensively manage and protect confidential information and build a structure that prevents information leakage.
- Use suppliers' intellectual property rights only after concluding appropriate contracts and do not use them illegally.
- Properly handle personal information.

2. Giving due consideration to human rights and labor (refer to the Unicharm Group Policy on Human Rights.)

1) Respecting the International Bill of Human Rights and the International Labour Organization (ILO) declaration

- Respect the International Bill of Human Rights (the Universal Declaration of Human rights, International Covenant on Economic, Social and Cultural Rights and International Covenant on Civil and Political Rights) and the ILO Declaration on Fundamental Principles and Rights at Work.

2) Respecting human rights

① Prohibition of child labor

- Do not employ children who do not meet the minimum age requirement. (A child is defined as any person younger than 16 years of age, unless local minimum age law stipulates a higher age for work or mandatory schooling in which case the higher age requirement applies.)

② Prohibition of forced labor

- Do not employ any form of forced or inhumane labor, hold a person in slavery or servitude or engage in human trafficking.
- Employ only people who voluntarily wish to be employed and do

not restrict their rights to freely leave their jobs.

③ Prohibition of discrimination

- In recruitment and employment, do not discriminate on the basis of race, national origin, ethnicity, gender, religion, physical impairment, etc.

3) Prohibition of inhumane treatment

- Respect the human rights of employees and do not subject them to inhumane treatment such as physical abuse, physical punishment, harassment, physical oppression or sexual abuse.

4) Fair employment

① Working hours

- Comply with the working hours set forth by the local laws and regulations of individual country and region (excluding crises and emergency situations).

② Proper compensation

- Pay employees in compliance with local compensation-related laws and regulations on minimum wage, overtime work, piecework pay, etc.
- For overtime work, pay a wage premium in accordance with the local laws and regulations of the individual country and region.

③ Ensuring health and safety

- Clearly identify potentially dangerous locations related to work and take preventive actions and implement workplace safety measures.
- To prepare for emergencies, take steps such as confirming the reporting requirements in the event of an emergency, establishing rules for notifying employees and installing fire detectors.

④ Respecting freedom of unionization and the right to collective bargaining

- Do not, in any way, obstruct employees' right to form a labor union using legal and peaceful means in accordance with applicable laws.

3. Responsibility to the environment

1) Environmental conservation

① Legal compliance

- Comply with the environment-related laws and regulations of the individual country and region.

- In accordance with local laws and regulations, submit the required administrative reports when necessary and retain records.

② Control of substances that are harmful to the environment

- Control discharge of harmful substances that can cause air pollution, water quality degradation, etc.

- Control discharge of harmful substances that can cause soil contamination.

- Control discharge of waste generated during manufacturing, product usage and end-of-life disposal.

③ Promotion of resource conservation and recycling

- Strive to conserve resources, manage waste and promote recycling.
- Improve usage efficiency of energy (such as electricity and fuel).
- Strive to consume sustainable resources such as alternative energy sources.

④ Promotion of global warming countermeasures

- Identify substances that contribute to global warming, assess their emissions and retain records.
- Control discharge of substances that contribute to global warming.

2) Promoting procurement of sustainable raw materials (refer to the Forest-derived Raw Materials Procurement Guidelines.)

- Prohibit use of illegally logged lumber.
- Do not consume natural-resource-derived raw materials such as lumber and water excessively but utilize resources in step with the cycling speed at which nature recovers.

4. Procurement of safe and secure products and materials (refer to the Unicharm Group Materials Safety Guidelines.)

1) Supplying safe materials

- Report component composition including the content of chemical substances deemed harmful by the Unicharm Group.

2) Supplying materials that are high in quality and for which the supplier has large supply capacity

- Submit safety data sheets (SDS) for materials.

Management Structure

Although Unicharm avoids various risks by closely communicating with business partners, we also implement procurement activities with a focus on crisis management in addition to communication in supply chains throughout the world in response to dramatic changes in regulations relating to human rights and the environment. In addition, we conduct a supplier risk assessment when starting new business transactions overseas to determine in advance whether it is an appropriate business partner in accordance with our “Basic Policy of Procurement” and “Sustainable Procurement Guidelines”. While regularly monitoring the labor environment after business transactions commence, we have a system in place to establish a sound understanding and dissemination of Unicharm’s stance and approach toward procurement including compliance with laws and social imperatives and due consideration to human rights and labor and thus call for the cooperation of the partners in environmental and ethical areas.

■ Effective use of global platform

Since 2019, we have made effective use of our global platform as a B member (Supplier) under Sedex*¹ at our factories in Japan, China, Taiwan-Greater China, Thailand, Indonesia, India and Saudi Arabia for initiatives that respect the human rights of our employees and improve the working environment. Based on these achievements, Unicharm became an AB member (Buyer/Supplier) on July 1, 2020, following deliberation and formal approval procedures at the advisory board meeting in order to strengthen its activities using the Sedex platform across the Group.

Ahead of joining Sedex, we have implemented regular SMETA audits*² at our own production sites and at some suppliers in efforts to respect the human rights of employees and improve the working environment.



*1 Sedex is a global membership organization, leading in responsible sourcing practices. Sedex provides companies with technology and insights to build a responsible business and supply chain, including the world’s largest platform for sharing supply chain data on labor standards, health and safety, the environment and business ethics. Over 60,000 business members in 180 countries use Sedex solutions to manage supply chain risk, meet compliance requirements and demonstrate measurable impact.



*2 SMETA (Sedex Members Ethical Trade Audit) is a social auditing methodology developed by Sedex. It enables businesses to assess their sites and suppliers to understand working conditions in their supply chain across the areas of labor standards, health and safety, the environment and business ethics.

■ Supplier risk assessment

New suppliers

For new suppliers, we ask that they understand the “Unicharm Group Policy on Human Rights” and “Unicharm Group Sustainable Procurement Guidelines” and conduct a risk assessment for them using our independently developed comprehensive anti-corruption risk assessment table. In high risk regions, we also carry out advance monitoring of the labor environment together with the risk assessment.

Existing suppliers

For existing suppliers, we conduct a regular supplier assessment in accordance with the annual plan. Based on the results, we commend outstanding suppliers through our Unicharm Supplier Award. Explaining the assessment items and standards at the awards ceremony also boosts the awareness of improvements among all suppliers.

■ Risk assessment of associate companies (contractors, etc.) on our plant premises

Such associate companies (contractors, etc.) are given corruption prevention briefing sessions and are monitored.

■ Global communication with suppliers

The “Sustainable Procurement Guidelines” are distributed to suppliers and their intent is explained in an aim to achieve a sustainable society throughout the supply chain.

Since 2016, we have held briefing sessions on procurement at distribution warehouses and the factories of suppliers at 53 locations in seven countries to disseminate our “Sustainable Procurement Guidelines” and share information on health and safety in the workplace.

■ Education for internal personnel

In order to promote sustainable procurement, we believe it is essential that everyone involved understands our basic procurement policy and guidelines for building a sustainable supply chain. We therefore hold briefing sessions for persons in charge at our plants to educate them about the necessity of sustainable procurement initiatives and the importance of building a sustainable supply chain.



A shot of the briefing session

■ Labor environment monitoring initiatives

Unicharm conducts monitoring of the labor environment while cooperating with our own plants and supplier factories. Through this monitoring, it is possible to identify issues related to long working hours, occupational safety, wages and building safety and encourage efforts towards improvement. Addressing an issue of long working hours at factories, if its point to note is discovered, the details are verified and appropriate measures are taken in cooperation with factories. In particular, monitoring of the labor environment is essential for achieving improvements in productivity and quality in an environment where the human rights of employees are respected and safety of employees is protected. Unicharm works towards these goals through strong partnership with suppliers. Monitoring is regularly conducted by external organizations before and after the commencement of new transactions. This monitoring program was consolidated into SMETA audits from October 2017, under which monitoring is conducted based on global standards for effective risk management.

 For details, see P.110 "Supply Chain (Society) > Initiatives."

■ Regular monitoring

External auditors visit our own plants and supplier factories that Unicharm has a direct contract with and conduct monitoring. Monitoring starts with an opening meeting and includes observation of related facilities such as the factory, cafeteria and dormitory, interviews with factory employees and the employees of associate companies on the premises, meetings with management and checks on the required documents. Lastly, a closing meeting is held and points to note identified in the monitoring are explained to management. At a later date, management will be requested to prepare an improvement report as well as their commitment to carry it out.

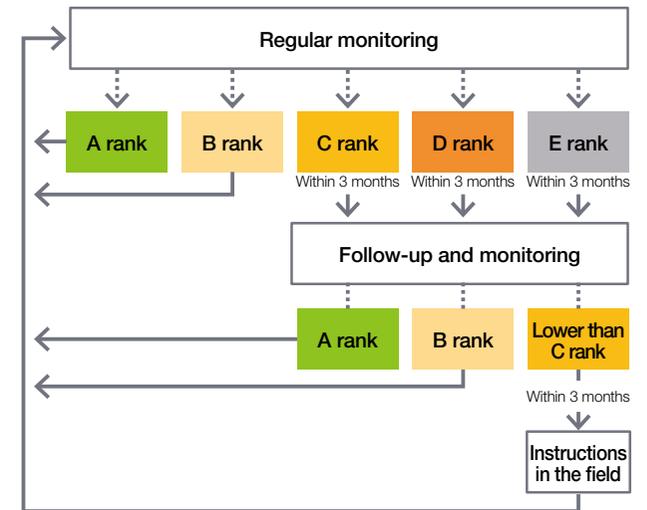
The monitoring results are scored on a 5-level ranking from A to E. If a point to note is confirmed to be rank B to E in monitoring, Unicharm will conduct an analysis on the root cause of the problem, cause to formulate an appropriate improvement plan and provide support for resolution of the problem. If improvements at the factory are not made within the prescribed deadline, a visit is made to the factory and instructions are provided so that a rank of B or above is achieved.

If a point to note is identified in the monitoring, efforts are made to improve together with the factory.



A shot of monitoring

Monitoring assessment framework



- A rank** No point to note
- B rank** Minor violation: There is a gap with requirements, but it has no clear impact on occupational safety, health and environmental performance.
- C rank** Serious violation: There is a gap with requirements of laws and regulations and it has a clear impact on occupational safety, health and environmental performance.
- D rank** Critical violation: There is a serious violation of requirements of laws and regulations and it may possibly and immediately threaten to human health and lives.
- E rank** Denial of supervision, child labour, forced labour

Initiatives

Supply chain monitoring

Unicharm regularly conducts suppliers monitoring on suppliers regarding ESG using the “Sustainable Procurement Guidelines” for the purpose of identifying risks. It assesses the status of compliance, labor environment (safety and health, fire safety, harassment and discrimination), working hours, wages and employment, child labor and environmental protection. When monitoring identifies any violations or risks, we request the supplier to correct the issue and work toward improvement.

In July 2020, Unicharm also became a Sedex AB member (Buyer/Supplier). Going forward, the entire Group will make use of the Sedex platform to monitor suppliers.

Supplier audits: Number and evaluation grade

Year	Number of audits	Number of evaluations					Incidents cited
		A	B	C	D	E	
2018	116	4	97	1	14	0	431
2019	142	1	123	3	12	3	386
2020	12	1	9	0	2	0	42

Case 1: Supplier facility (Japan)

	February 28, 2020	Rank D
Regular monitoring	Safety Data Sheets (SDS) were not stored with chemicals nor known to workers (Article 101 of the Industrial Health and Safety Act).	
	March 18, 2020	
Improvement confirmed	SDS for solvents were laminated and posted in the solvent warehouse and plant locations where the solvents are used. This improvement was confirmed by the ESG Promotion Group of Unicharm Products Co. Ltd.	

Case 2: Supplier facility (Indonesia)

	March 16, 2020	Rank D
Regular monitoring	Fire evacuation drills were not conducted every six months.	
	April 22, 2020	
Improvement confirmed	Follow-up monitoring was conducted by asking to see records of fire evacuation drills and improvement was confirmed.	

 For information about the implementation of environmental monitoring, see P.054 “Environment > Supply Chain (Environment) > Implementing environmental monitoring”

Implementation of Quality Policy Briefing Session

Quality Policy Briefing Session is regularly held for suppliers. The briefing session is held to provide explanations on Unicharm’s management philosophy, approach towards ESG efforts, materials quality and distribution, safety, environmental consideration, approach towards supply chain management, the revised Basic Policy of Procurement, Sustainable Procurement Guidelines and the newly established Policy on Human Rights and share information to foster a mutual understanding of sustainable procurement and to strengthen cooperative efforts.

Additionally, we are promoting quality improvement activities together with our local suppliers related to a broad range of themes involving materials through meetings with overseas subsidiaries and suppliers from various countries, including quality policy briefing in China.



Quality Policy Briefing Session (Japan)



Quality Policy Briefing Session (China)

Initiatives to improve quality

The Quality Policy Briefing Session has established “Unicharm Supplier Award” to raise the motivation of suppliers towards improvement under which they are evaluated from five perspectives (stable quality, stable supply, safety, environmental burden and deliveries) with excellent suppliers recognized for their outstanding contributions.

For the stability of materials quality, we narrow down priority themes and conduct intensive improvement with suppliers, resulting in acceleration of improvements. We will continue to expand these efforts going forward as we work towards even further improvements in materials quality.

In addition, we regularly conduct quality audits on suppliers. In the audits, we confirm whether suppliers are in compliance with our requirements in all processes from raw materials management to shipment. If a non-complying item is discovered, we ask for the proposal of a rectification method, confirm the contents of proposal and implementation of improvements and confirm the instilling of improvements in the next audit. We will make the ongoing quality improvements of materials by repeating this cycle from auditing to the instilling of improvements.