

Supply Chain Management

Sustainable Procurement

Our Basic Approach and Strategy

Unicharm 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, the 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 UN Global Compact.

By working closely together through mutual communication with suppliers, we have been sharing and seeking an understanding of Unicharm's approach to responsible procurement, philosophy, specific activities, and requests for cooperation toward safety and the environment. Regulations on safety and the environment vary by country and region, as does local awareness. Therefore, simply adopting the same initiatives that have been implemented in Japan overseas is not sufficiently effective. We also gather information from the local market and promote materials procurement closely in tune with local market conditions, 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, labor, and environmental matters.

In October 2017, we established the Basic Policy of Procurement, upgraded from the Unicharm Group CSR Procurement Guidelines, in response to increased expectations of 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 the Basic Policy of Procurement to express our intentions toward the prohibition of child labor, forced labor, and discrimination; the protection of the right to freedom of association and the right to collective bargaining; reductions in excessive working hours; compliance with minimum wage laws; consideration of health and safety; and the prevention of corruption. Additionally, in terms of working hours in proper employment, we strive to reduce the overtime work of our employees and comply with the working hours stipulated by the local laws and regulations in each country and region. 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. We will continue promoting initiatives in order to fulfill our social responsibilities throughout the supply chain.

We will work toward safe and secure procurement based on legal compliance going forward so that suppliers can understand the intent of these policies and guidelines. Unicharm's products and services are primarily consumables essential to a clean and healthy lifestyle. At the same time, they are closely associated with the global environment in terms of the use of natural resources and the generation of waste. Our role in and responsibilities for reducing environmental impact are significant and continue to increase each year in line with the expansion of our global network and business scale, mainly in Asia.

The pulp and paper that form the absorbent material used in our mainstay products are produced from coniferous trees while the palm oil added in small quantities to partner animal (pet) food is produced at tropical plantations. We value the importance of using sustainable certified materials for such forest-derived

resources and, based on this belief, we formulated the Forest-Derived Raw Materials Procurement Guidelines in 2015.

► Basic Policy of Procurement

2-23

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

1. Compliance with Laws, 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. Due Consideration to Human Rights and Labor

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

3. Environmental Responsibility

- (1) Value corporations that 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 the exchange of essential information with business partners.

2-24,407-1,408-1,409-1,412-1,412-2

308-1,308-2

► 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 nonmonetary benefits) and from abusing a 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. Due Consideration to Human Rights and Labor (Refer to the Unicharm Group Policy on Human Rights)

(1) Respecting of the International Bill of Human Rights and the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work

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

(2) Respecting of 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, or 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 by the local laws and regulations of the 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, and 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 of 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 of 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 and 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) Promotion of 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 of safe materials

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

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

- Submit safety data sheets (SDSs) for materials.

P.082 Unicharm Group Policy on Human Rights

► Forest-Derived Raw Materials Procurement Guidelines

Introduction

Recognizing the seriousness of the environmental issues that have emerged in recent years, including the impact of global warming and loss of biodiversity, etc., Unicharm aims to realize procurement of sustainable raw materials. Being fully aware that our business operations are dependent on natural resources, Unicharm supports procurement models that do not involve destruction of forests. We will also take initiative toward the current environmental issues regarding plantations of palm oil.

Strategy

With climate change-related risks having risen significantly in recent years, besides striving to reduce the burden placed on the environment and to safeguard the environment, Unicharm is also making a serious effort to promote supply chain management that takes biodiversity into account, in line with the goal of building a sustainable society.

Therefore, we are committed to environmental conservation through the operation of the Forest-Derived Raw Materials Procurement Guidelines, which make the Basic Environmental Policy*¹ and the Basic Policy of Procurement*² more specific with regard to biodiversity.

*¹ Basic Environmental Policy: As a company that engages in the manufacture and sale of disposable products, we recognize the extent of our responsibility to the environment. We are committed to providing goods and services that bring comfort, excitement, and joy to people throughout the world and are determined to realize the sustainable development of a society that achieves a balance between environmental conservation and economic growth.

*² Basic Policy of Procurement (excerpt from environmental themes):

- (1) Value corporations that 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.

Goals

By 2030, Unicharm aims to only procure raw materials that are sustainably sourced and recycled and achieve 100% supply chain traceability for the pulp and paper used in the absorbent materials of its products and the small quantities of palm oil used in its partner animal (pet) foods.

When using virgin pulp other than wastepaper or recycled pulp, we work with suppliers to fully ensure that it does not contribute to deforestation. More specifically, we confirm whether the pulp and paper used in our products have obtained third-party certification, including the Programme for the Endorsement of Forest Certification (PEFC), and certificates of origin other than high conservation value forests (HCVFs) or high carbon stock forests (HCSFs). As for palm oil, we are switching to the use of Roundtable on Sustainable Palm Oil (RSPO)-certified oil.

In addition, we will readily participate in the activities of industry organizations and strive to use sustainably sourced forest resources in our products.

Action Guidelines

- (1) Give priority to the use of waste paper, recycled pulp, and mill broke (paper trimmings and scrap generated during the paper manufacturing process).
- (2) Prioritize the use of forest resources certified by reputable third parties such as the PEFC.
- (3) In the case of forest resources for which third-party certification is not available, Unicharm will promote the establishment of supply chains that are verified for the following:
 - certificates of origin and tags, etc., to ensure that the resources in question are not logged from HCVFs or HCSFs
 - a guarantee that no damage is caused to forests
 - respect for the human rights of workers and indigenous residents and prohibition of forced and child labor
 - compliance with local laws and regulations

Management Structure

To address social issues such as employee health and safety and labor standards along the supply chain, quarterly meetings are held by the managers of the ESG Division, the Global Development Division, which manages the material suppliers and contract manufacturers, the Pet Care Manufacturing Division, and the Strategic Sourcing Division of Unicharm Products Co., Ltd., to discuss and determine the areas of foremost priority and specific courses of action while monitoring the progress of ongoing measures and seeking solutions to various issues.

In addition, the ESG Committee, chaired by the president & CEO, reports on social issues related to the supply chain and the policies and progress of environmental activities on a regular basis, reviewing our plans as necessary.

P010 ESG Promotion Structure

Effective Use of a Global Platform

At Unicharm, we utilize the Sedex* platform to manage our response to social issues along the supply chain. Our material suppliers and contract manufacturers are requested to become a member of Sedex and acknowledge their relationship with Unicharm on the Sedex platform. The information acquired by means of the Sedex platform is used to enhance our decision-making and progress management capabilities.

Sedex Member

* A global membership organization, leading in responsible sourcing practices, Sedex provides companies with technology and insight 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 74,000 business members in 170 countries and regions use Sedex solutions to manage supply chain risk, meet compliance requirements, and demonstrate measurable impact.

[Sedex's corporate website](https://www.sedex.com)
<https://www.sedex.com>

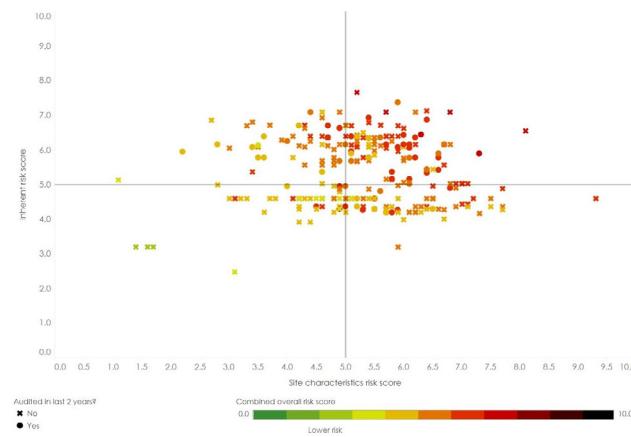
Initiatives and Results

412-1,412-3

Human Rights Risk Assessment at Supplier Factories

Unicharm conducts risk assessments at its suppliers' factories using Sedex's risk assessment tool. As of December 31, 2022, approximately 76% of our materials suppliers and contract manufacturers have agreed to use the Sedex platform, facilitating access to risk-related information. Of these factories, 88% have agreed to share their inherent risk scores while 68% have consented to sharing their site characteristic risk scores. Going forward, we will examine our approach to suppliers using these scores as a reference point.

► Risk Score of Supplier Factories



Note: The simple averages of risk scores on labor standards and on health and safety have been plotted above.

Human Rights Risk Assessment at Unicharm Group Factories

P.084 Human Rights Risk Assessment at Unicharm Group Factories

Supplier Monitoring

414-2

We monitor the activities of suppliers using the results of SMETA audits* by means of the Sedex platform. In 2022, a SMETA audit was carried out in 31 different scenarios, serving as a source of information on 333 cases of violations.

The detected violations are classified according to four ratings, Business

Critical, Critical, Major, and Minor, subject to Sedex's SMETA Non-Compliance Guidance. For violations classified as either Business Critical or Critical that have yet to be amended three months after the date of audit, we contact the supplier to verify the status and course of action toward improvement. In 2022, of the 41 cases classified as Critical, 13 violations (nine suppliers) that were not confirmed as amended within three months were discussed with suppliers, 10 violations were confirmed as amended, and the remaining three were confirmed as being amended. In addition, we confirmed one Business Critical violation at a facility of a nonwoven fabric supplier, which we confirmed as amended after discussions with the supplier.



* 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 Audits: No. of Audits and Evaluations (Cases)

Year	No. of Audits	No. of Audits by Rating					No. of Issues Identified
		A	B	C	D	E	
2020	12	1	9	0	2	0	42

Year	No. of Audits	No. of Issues Identified				
		Business Critical	Critical	Major	Minor	Total
2021	50	0	29	181	95	305
2022	31	1	41	182	109	333

Note: In 2021, the evaluation method was changed from one that classifies the overall results of audits according to five ranks ranging from A to E, which was used until 2020, to one that classifies each identified issue according to four ratings: Business Critical, Critical, Major, and Minor.

Monitoring of Unicharm Group Factories

P.084 Audits of Unicharm Group Factories

Eliminating and Mitigating Risks

414-1

New Suppliers

When engaging in business with new suppliers, Unicharm requests that they act in accordance with the Unicharm Group Policy on Human Rights and the Unicharm Group Sustainable Procurement Guidelines. New suppliers are also asked to become a member of Sedex and acknowledge their relationship with Unicharm on the Sedex platform. Whenever a major issue related to labor standards, health and safety, or other matters arises in regard to suppliers, it will be taken into consideration when assessing the pros and cons of engaging in business with them. Moreover, suppliers are assessed on the basis of their environmental commitments by the Procurement Department, which held one such assessment in 2022.

Existing Suppliers

If a serious issue is found when monitoring the activities of existing suppliers, discussions are held with them to seek solutions toward improvement.

Also, our medium- to long-term policy briefing session was held in October 2022 to remind existing suppliers of Unicharm's various policies and guidelines, improve material quality, and request their cooperation in Sedex initiatives.

Medium- to Long-Term Policy Briefing Session for Suppliers

Unicharm had been holding regular quality policy briefing sessions with suppliers since 2002 with the aim of ensuring consistent quality of materials and raise awareness of its procurement policies and guidelines. These briefing sessions were put on hold from 2020 due to the COVID-19 pandemic but reconvened with the medium- to long-term policy briefing session in October 2022, which shared with suppliers the direction Unicharm aims to take going forward. Attended by 234 people from 69 companies, including online participants, the briefing session raised awareness of the Basic Policy of Procurement, the Unicharm Group Sustainable Procurement Guidelines, and the Unicharm Group Policy on Human Rights, which declare our stance on human rights, labor, and environmental issues relating to procurement and on ensuring consistent quality. Through this briefing, we also asked for greater cooperation from suppliers on the GHG Emissions

Visualization Project and Sedex as we proceed along the path to achieving Kyo-sei Life Vision 2030 and Environmental Targets 2030.



Medium- to long-term policy briefing session

P045 GHG Emissions Visualization Project

Global Communication with Suppliers

Unicharm works with suppliers to engage in improvement activities on a wide range of material-related themes through meetings between local subsidiaries and the suppliers of each country and region, including quality policy briefing sessions in China. Since 2016, briefing sessions on procurement themes have been held at distribution warehouses and supplier factories in 53 locations across seven countries to distribute copies of the Unicharm Group Sustainable Procurement Guidelines (available in Japanese and English) and explain the purpose of the guidelines so as to ensure the communication necessary for realizing a sustainable society through the efforts of the entire supply chain.

Education for Internal Personnel

In order to promote sustainable procurement, we believe it is essential that everyone involved understands the Basic Policy of Procurement and guidelines for building a sustainable supply chain. We therefore educate the managers of our factories about the necessity of sustainable procurement initiatives and the importance of building a sustainable supply chain. In 2022, we held training sessions in various countries and regions for factory managers in charge of material procurement to request cooperation from material suppliers overseas on the use of the Sedex platform.

Initiatives to Improve Material Quality

Unicharm is proceeding at full speed in enhancing the quality of materials by focusing on the key areas for improvement from a quality consistency point of view and working closely with suppliers. In addition, we "conduct quality audits on suppliers through which we confirm whether suppliers are in compliance with our requirements in all processes from raw materials management to shipment. If a noncomplying item is discovered, we will continue to check its progress until the issue is resolved and reconfirm its status in the next audit. We will make ongoing improvements to material quality by repeating this cycle from auditing to the instilling of improvements.

Responsible Procurement Initiatives Geared to Reducing Environmental Impact

We view the diminishing supply of forest-derived resources (including pulp, paper, and palm oil) stemming from forest destruction and water resource depletion along the upstream process as a risk to the Company. In light of this, Unicharm is working to reduce environmental impact and protect the environment with the aim of realizing a sustainable society while paying due consideration to biodiversity in our supply chain management. Specifically, we established the Forest-Derived Raw Materials Procurement Guidelines in 2015 and the Unicharm Group Sustainable Procurement Guidelines in 2017 in an effort to reduce risks by requesting the understanding and cooperation of suppliers.

On the other hand, that we are able to lower environmental impact and costs by procuring energy-efficient resources that generate minimal amounts of CO₂ emissions, reducing waste, and utilizing recycled materials and selling products made from these forest-derived resources by promoting them as environment-friendly products presents opportunities for the Company. Moving ahead, we will continue to step up our recycling efforts in-house while working to help ensure that resources are recycled and utilized more efficiently throughout society.

Sustainable Procurement of Pulp and Paper

In keeping with our commitment to Environmental Targets 2030, we are striving to ensure that only certified pulp and paper is used in our products by 2030 and, along that path, 72.3% of all pulp procured in 2022 was PEFC-certified. The absorbent materials of our products are made of pulp from coniferous trees grown in the FM (Forest Management)-certified forests of North and South America. The tissue covering these absorbent materials is made from timber felled in FM-certified forests of North America, China, and Indonesia. We also request our suppliers not to use raw materials harvested from HCVFs and HCSFs, which pose a significant impact on biodiversity. Since 2016, Unicharm has been expanding this request to local suppliers overseas as a part of its measures to promote the sustainable procurement of raw materials.

P057 Expanding the Use of Certified Pulp (PEFC- and CoC-certified)

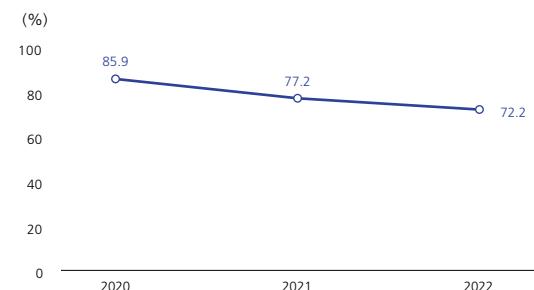
Sustainable Palm Oil Procurement

In 2017, Unicharm became a member of the Roundtable on Sustainable Palm Oil (RSPO), collecting information and ensuring supply chain traceability toward the sustainable procurement of palm oil.

To realize the goals of Environmental Targets 2030, we are working to ensure that only certified palm oil is used in our products by 2030.

As for the palm oil used in our partner animal (pet) foods, we use Fuji Oil Holdings Inc.'s RSPO-certified oil. Fuji Oil is working to improve the traceability of palm oil to the oil mills and plantations of its suppliers.

► Percentage of Certified Palm Oil Procured



web [Unicharm's palm oil initiatives](https://www.rspo.org)

<https://www.rspo.org>

web [Fuji Oil Holdings Inc. > Sustainability > Sustainable Procurement of Palm Oil](https://www.fujioilholdings.com/en/sustainability/palm_oil/)

https://www.fujioilholdings.com/en/sustainability/palm_oil/

P059 Ensuring the Traceability of Palm Oil to Its Origin and Expanding the Use of Certified Palm Oil (RSPO-Certified)