

Materiality

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Working with Suppliers to Pursue a Sustainable Supply Chain



Social Background and Issues to Recognize

As the economy becomes increasingly globalized and borderless, enterprises are increasingly procuring goods from all over the globe. This expansion is having an impact on a variety of social issues, including global environmental problems, poverty and inequality, and labor and human rights issues. The expansion of the supply chain not only improves corporate competitiveness, but can also be a major risk factor, as contractors are held responsible for managing unethical behavior of their suppliers. International standards like ISO 26000 and ISO 20400* have arisen in response, meaning that enterprises are expected to practice responsible procurement on a global scale, based on fair trade with their suppliers and extended throughout their entire supply chains.

As we handle an extremely diverse range of products, we recognize the importance of further supply chain management to deliver safe and secure products to all of our customers. We consider it our social responsibility to practice more sophisticated supply chain management to make positive impacts like working for human rights, good labor practices, the environment, and the elimination of corruption.

*ISO 26000: an international standard on the social responsibility of organizations. ISO20400: an international standard on sustainable procurement.

Vision

Strong systems based on trusting relationships with our business partners are indispensable if we are to continue growing sustainably with society. We will strive to establish and maintain good long-term relationships with our business partners through fair and transparent business practices. Since the international community demands corporate social responsibility for the entire supply chain, we will continue to improve our efforts to contribute to the formation of a sustainable society together with our suppliers based on our Sustainability Procurement Principles, Sustainability Action Guidelines for Supply Chain, and FamilyMart's Human Rights Policy.

Measures Taken

- Fair and transparent business / Building good relationships with our partners
- Building responsible supply chain management / Promoting sustainable ingredient sourcing
- Taking responsibility to provide safe and reliable products

Fair and Transparent Business / Building Good Relationships with Our Partners

Issues to Recognize

Achieving a sustainable society requires the sound development of a healthy market economy. Enterprises are expected to fulfill valuable roles in society and profit accordingly through fair and free competition. However, in our relationships with suppliers, we are expected to make efforts to ensure fair transactions and to mutually improve transaction conditions.

Management Approach

To ensure fair and transparent business with our partners, we have established our Basic Ethics and Compliance Policy. We will ensure compliance with competition laws, including the Anti-Monopoly Act and the Subcontract Act, prohibition of all forms of corruption, including bribery, and other related laws and regulations.

Our aim is to build good partnerships through two-way communication with business partners and to grow with them.

Key Accomplishments and Performance in FY2020

■ Expanded scope of business supplier surveys:
 Number sent out: **562** companies
 Year-on-year change: **165%**

Targets and KPIs

- 100% awareness of the Business Partner Helpline among producers of ready-to-eat products
- 100%
- Expanded the number of industries and domains for which we survey suppliers (ongoing)

Future Activities

- Expand awareness of the Business Partner Helpline to eliminate illegal business violations (ongoing)
- Review how survey questions are posed to reduce time needed to respond and improve the response rate (ongoing)

Training to Ensure Fair, Transparent Business

For employees in procurement, purchasing, and other related departments, we provide regular compliance and legal training based on our Basic Ethics and Legal Compliance Policy. In addition, we regularly provide training on sustainable procurement and other topics. In addition, we developed our company-wide 'fair trade manual', that allows all employees to check the contents of the Anti-Monopoly Act and the Subcontract Act at any time. We also created a guidebook that outlines bribery related to entertainment and gifts by business partners which are in principle prohibited business practices.

Building Solid Partnerships with Business Partners

Strong partnerships with our business partners, founded on mutual understanding and relationships of trust, are essential for our sustained growth. We regularly share information with our business partners on trends in the convenience store industry, our product strategies, and our efforts to contribute to SDGs and ESG issues.

Business Partner Helpline / Business Partner Surveys

We have established a Business Partner Helpline with an external specialist as a contact point for consultation and reporting on the safety and security of products handled by our company, business violations of laws and regulations related with our company, human rights, and inappropriate employee behavior. In addition, we periodically send out our Business Partner Surveys to survey business partner compliance.

For each consultation or survey response, we confirm the facts in cooperation with our business partners and related departments. We then take appropriate measures such as corrective and remedial actions and preventive measures to help form a sound and good partnership with our business partners.



Building Responsible Supply Chain Management / Promoting Sustainable Ingredient Sourcing

Issues to Recognize

As we continue to globalize our supply chain, we are required not only to provide safe and reliable products, but also to consider various aspects of the entire supply chain that supports our business. These include reducing GHG and waste, preventing environmental pollution, preserving biodiversity, respecting human rights and labor practices, employee health and safety, and addressing labor shortages in logistics. In addition, as natural disasters, which are thought to be caused by climate change, become more frequent and severe with each passing year, businesses that are expected to continue their operations in times of emergency are required to strengthen their resilience by building sustainable procurement and product supply networks that can withstand disruptions to daily business due to disasters.

Management Approach

Our company is promoting supply chain management guided by our Sustainability Procurement Principles, Sustainability Action Guidelines for Supply Chain, and FamilyMart's Human Rights Policy, which were established based on our Sustainability Policy. We will promote sustainable procurement throughout the supply chain toward the realization of a sustainable society in cooperation with marine and agricultural suppliers, as well as producers and importers of ready-to-eat products and *Famimaru* (our private brand) products.

Key Accomplishments and Performance in FY2020

- Implementation of self-assessment questionnaire (SAQ) on sustainable procurement: **34** companies

procurement: **34** companies

- Conducting third-party audits on sustainable procurement: **4** plants

procurement: **4** plants

Targets and KPIs

- SAQs on sustainable procurement and third-party auditors: **200%** (doubled)

from the previous year

- Increase business partner awareness of our company's sustainability policy by distributing it directly

Future Activities

- Promote understanding of our Sustainability Procurement Principles, Sustainability Action Guidelines for Supply Chain and FamilyMart's Human Rights Policy related to our sustainable procurement.

- Review the criteria for the SAQ on sustainable procurement and expand the number of survey targets

- Expand the number of third party auditors and tighten audit standards for sustainable procurement

- Promotion of SAQs on sustainable procurement for ingredient manufacturers



Supply Chain Audits

Our company conducts audits and monitoring of our supply chain on a regular basis.

Plant audits focus on quality and hygiene control at ingredient and packaging plants, covering about 60 items. In addition, we conduct audits in cooperation with a third-party review organization, including confirmation of the implementation of improvement measures, with reference

to a risk assessment based on the number of product-related complaints. We conduct factory inspections focusing on quality control and unannounced audits by a third-party organization at our producers of ready-to-eat products. In addition, as a responsibility of companies involved in the food industry, to solve issues related to food loss, we are requesting them to reduce food loss and we are monitoring monthly wastage.

In fiscal 2020, we conducted 34 self-assessment questionnaires (SAQ*) of producers of ready-to-eat products,

and both we and our business partners assessed their current status. Based on the results of the SAQ, we conducted audits and monitoring at four plants for improvement. Furthermore, to make more objective and rigorous judgments, we conducted a supply chain audit by external auditors from a third-party review organization. During the supply chain audit, we confirmed that there were no serious violations of laws and regulations or cases requiring urgent corrective action. In the future, we will expand the scope of the SAQ and auditing/monitoring.

*A CSR Procurement Self-Assessment Questionnaire developed by the Supply Chain Subcommittee of the United Nations Global Compact Network Japan. It consists of items related to sustainability, including human rights, labor, the environment, and fair corporate activities.

Sustainable Ingredient Sourcing

FamilyMart carries many original food products, especially ready-to-eat products. Stable procurement of the agricultural crops and livestock products in these items are essential. The impact of droughts and water damage from climate change on harvesting and cultivation of crops and livestock products was studied in our climate scenario analysis in the first half of fiscal 2020. Past measures have sought to establish an ingredient supply system less affected by changes in climate and weather, as through distributed procurement in multiple countries or regions and expanded procurement from vegetable plant factories. We will continue to build a supply chain that addresses future risks. Additionally, to protect animal welfare, a majority of the poultry in ready-to-eat meals is currently Genesis GAP certified. We recognize and are responding to the risk posed to sustainable procurement by external factors such as international standards and changes in consumer behavior relating to animal welfare, sustainable palm oil and coffee, marine products, and food containing GMOs.

Enhancing Logistics

We have been promoting structural reforms in ready-to-eat products to provide valuable and compelling products. In terms of logistics, we have overhauled work processes at our logistics centers and delivery routes, including our distribution network. We also use a Transportation Management System (TMS) to enhance our logistics.

To cope with the labor shortage in the logistics industry, we also endorsed the Ministry of Land, Infrastructure, Transport and Tourism "White Logistics" movement (encouraging a working environment more accommodating to senior and female drivers) as of September 2019 by submitting our own *Declaration of Voluntary Action*. In line with the Declaration of Voluntary Action, we are working to reduce cargo handling time as well as incidental non-driving work, and improve delivery efficiency. We will continue to aim for the establishment and implementation of a resilient logistics network, taking into consideration not only stable supply but also social issues such as environmental and occupational safety.



Kyushu NF Foods Co., Ltd.
Mr. Ken Wakabayashi,
Representative Director and President

Our company, which manufactures cooked noodles and prepared foods for sale in Kyushu, employs not only local residents but also many foreign nationals. Since we operate late at night and early in the morning to ship products to convenience stores, we are working on the appropriate management of daily labor management which we consider to be one of our most important management issues along with product quality and hygiene management.

In the supply chain audit conducted in fiscal 2020, external auditors pointed out a wide range of issues, from health and safety at workplaces to respect for human rights, in addition to compliance with environmental laws and regulations. Based on these suggestions, we were able to move forward with improvement and enhancement measures in various areas of the company. In addition, we are using this information to review our self-inspection items, and we will utilize it to create a safe and secure workplace environment and supply products going forward.



Taking Responsibility to Provide Safe and Reliable Products

Issues to Recognize

Amid growing concern regarding food safety and reliability, Japan revised its Food Sanitation Act in June 2018. To improve food safety and meet needs for globalization, operators of food businesses must practice hygiene control consistent with HACCP. Businesses with a broad product inventory are also expected to be responsible for clear and appropriate labeling and explanations about the content of products and services, handling, and the like.

Management Approach

We practice thorough quality control across supply chains, making it our highest priority to provide safe and reliable products. We have established our own quality control standards for ready-to-eat products that exceed legal and industry standards, and we are working to improve quality control and ensure traceability in all processes. We appropriately display product and service information in keeping with relevant laws and regulations and practice responsible marketing working to raise consumer awareness.

Key Accomplishments and Performance in FY2020

- Responding to HACCP Compliance: **100%** of stores certified (as of February 2021)
- Introduction of new production control systems: **12 plants**
- Complaint rate for ready-to-eat products: **78% YOY**

Targets and KPIs

- Improvement of food management at contract manufacturers of ready-to-eat products (main plants): **95% or more recycling rate management**
- Increase in the use of vegetables from vegetable plant factories

Future Activities

- Strengthen communication with ingredients suppliers, producers of ready-to-eat products, and logistics contractors (ongoing)
- Thorough food hygiene management in stores (ongoing)
- Expand the use of vegetables from vegetable plant factories to above 30%

Initiatives for Safety and Reliability throughout Supply Chains

We practice integrated management, covering entire supply chains from ingredient sourcing to production, logistics, sales, and even disposal and recycling. Our highest priority is safety and reliability. Our Supply Chain & Quality Management Division plays a central role in the quality of original FamilyMart ready-to-eat products. We conduct rigorous quality control to continually improve supply chain management.

The Manufacture Infrastructure Development

Department strives to improve the value of product quality by sharing information with relevant business partners on opinions or requests from customers regarding our ready-to-eat products. We are also making daily efforts to create a sales environment where customers can purchase our products with peace of mind, while introducing and utilizing traceability in logistics and product management at our stores.

Management of Ingredients

Quality Control System for Ingredients

Inspection certificates for ingredients in ready-to-eat products are checked and inspections are conducted at plants in advance. In this system, ingredients are only sourced from

suppliers who meet FamilyMart standards. Plant inspections involve a checklist of 50 items for the ingredients and any potential risks from human rights or labor problems at each plant are investigated. In product development and

improvement as well, we assess ingredients based on quality and hygiene control standards. We only provide ingredients meeting these standards to ready-to-eat product suppliers. In addition, we are working on procuring vegetables from vegetable plant factories, which are pesticide-free, free from harmful bacteria and insects, and that can provide a stable

supply regardless of weather conditions.

Main Initiatives

- Checking plant inspection certificates
- Plant inspections
- Assessing ingredients based on company quality and hygiene control standards



Production and Quality Management

Thorough Quality and Hygiene Control at Production Sites for Ready-to-Eat Products

Ready-to-eat products for FamilyMart are made at about 90 production plants. For suppliers affiliated with the Nippon Fresh Foods Cooperative Association (NFF), our Quality Control Department performs plant inspections on all targeted plants. Plant inspections primarily check quality and hygiene control. To survey quality control and encourage improvement, unannounced third-party audits are also conducted about twice a year. If plant inspection reveals non-conformance with standards or other problems, plants are required to make

improvements and take corrective measures.

Weekly meetings are also held to ensure product quality. Here we confirm new products and conduct spot-checks of products already at stores.

Main Initiatives

- Bacteriological examinations
- Plant inspections at all production sites for ready-to-eat products
- Meetings to ensure product quality
- Quality control meetings for supplier quality control supervisors



Logistics Management

Logistics Safety and Reliability

Logistics centers practice comprehensive temperature control by separating food ingredients and products into temperature zones such as fixed temperature, chilled, room temperature and frozen. To ensure that product temperature is closely controlled, we use freezer and ordinary-temperature delivery trucks, as well as dual compartment refrigerated trucks, with one fixed temperature compartment and one chilled compartment.

In addition, a logistics management company regularly inspects our centers to ensure safety management and develop and operate a logistics network in preparation for earthquakes and other disasters.

Main Initiatives

- Safety management of distribution center facilities
- Implementation of storage and delivery by three temperature zones (fixed-temperature, chilled/ room temperature/ frozen)



Temperature control at a fixed-temperature centers

Store Management

Thorough Training for Store Staff

In our stores, we have always been committed to providing delicious, safe, and reliable quality products, and have been instructing our store staff in quality control and food hygiene. We have been practicing frequent hand washing and cleaning to prevent food poisoning, as well as temperature control of display fixtures and other items to maintain freshness. Particularly in the case of ready-to-eat products, in addition to checking the sell-by date four times a day, we are also working to reduce food loss by promoting sales using a price reduction system we introduced in July 2021. We remove products that have reached their sell-by date from the sales floor.

To comply with hygiene management in line with HACCP,

which became mandatory in June 2020, our stores are using guidelines on planning hygiene control reflecting HACCP approaches (for convenience stores: basic cooking). This is based on one created the previous year. Through operations in line with the guidelines, we are practicing efficient, consistent food safety measures based on nationally unified industry standards.

Main Initiatives

- Thorough implementation and practice of hygiene management training
- Continuation of HACCP compliance

