

Materiality 4

Working with Suppliers to Pursue a Sustainable Supply Chain



Social Background and Issues to Recognize: Significance

As the world economy develops and becomes more borderless, enterprises are increasingly procuring goods from all over the globe. Globalization helps enterprises be more competitive and enriches people's lives, but it is also a factor in a variety of social issues: environmental problems, economic disparity and poverty, labor and human rights problems, and more. In addition, when suppliers act in ways that run counter to corporate ethics, it becomes a problem for the companies contracted to buy their goods. Often, those companies lose the trust of society. These are ways in which the expansion of supply chains can be a big risk factor for enterprises.

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.

We handle an extremely diverse range of products, and as our business has grown, our supply chains have expanded globally. We understand that, for that reason, it is critical to step up supply chain management to ensure a flow of safe and reliable products to our customers. We consider it our social responsibility to practice more sophisticated supply chain management, not just for safety and reliability but also in order 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. ISO 20400: an international standard on sustainable procurement.

Vision: Approach to Our Initiatives

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.

In light of the fact that the international community expects social responsibility to extend throughout supply chains, we will also continue our initiatives to contribute with our business partners to the formation of a sustainable society based on the Sustainability Procurement Principles and Supply Chain CSR Code of Conduct that we established in February 2018.

Measures Taken

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



Fair and Transparent Business / Building Good Relationships with Our Partners

Issues to Recognize

Achieving a prosperous society requires the sound development of a market economy, which is the foundation of enterprise growth. Enterprises are required to provide society with added value and make an appropriate profit by competing in a free and fair market economy. In particular, when enterprises use a position of superiority over suppliers to force improper transactions, it interferes with the virtuous cycle of the economy. For that reason, enterprises are expected to trade under better business conditions with suppliers like small and medium-sized enterprises.

Achievements and Performance

- Response rate for business partner surveys: 44.4%
- Participation in a Supply Chain Working Session in the United Nations Global Compact Network Japan

Management Approach

We have established basic principles to ensure fair and transparent business with our partners. We also strictly comply with the Antimonopoly Act, the Subcontract Act, laws and regulations designed to suppress all types of corruption including bribery, and other relevant legislation, along with the Japan Fair Trade Commission's notification (Designation of Specific Unfair Trade Practices by Large-Scale Retailers Relating to Trade with Suppliers).

Our aim is to build good partnerships through two-way communication with our business partners and to enjoy mutual development with them.

Training to Ensure Fair and Transparent Business

We periodically conduct basic education and CSR procurement training for employees in the procurement and purchasing-related departments. We also post a "fair trade manual" on company bulletin boards so that all employees can check the rules in the Antimonopoly Act, Subcontract Act, and other such regulation whenever they need to.

Finally, the Risk Management & Compliance Committee performs rigorous reviews of compliance with the basic principles as well as laws and regulations.

Business Partner Helpline

A third-party organization hosts our business partner helpline, which gives advice and takes reports in the event that business partners know or suspect that our employees have committed compliance violations in our procurement activities, etc. This service helps us rapidly discover and correct any issues that come up. In fiscal 2018, there were no calls to the helpline.

Business Partner Surveys

We send compliance surveys (business partner surveys) to our business partners. Periodically, we check to make sure our employees are not putting unreasonable pressure on our partners such as during negotiations. This helps us build sound, good relationships with our business partners. In fiscal 2018, we sent surveys to 266 product and construction-related business partners, receiving responses from 118 (44.4%) of them.

Going forward, we aim to implement measures to increase that response rate such as the introduction of a web-based survey.

Statistics on Business Partner Surveys

| | Number of partners surveyed | Number returned | Response rate |
|----------------------|-----------------------------|-----------------|---------------|
| Product-related | 92 | 49 | 53.3% |
| Construction-related | 174 | 69 | 39.7% |
| Total | 266 | 118 | 44.4% |

Building Solid Partnerships with Business Partners

Strong partnerships with our business partners, founded on mutual understanding and relations of trust, are essential for our sustained growth. Twice a year, we hold briefings on our product policies. At these events, we share information on industry trends and our business strategy, ESG initiatives, and more with our business partners.

To ensure safety and reliability, we also hold nationwide quality control meetings for our business partners' quality control supervisors. Meetings may include overviews of quality and hygiene control points, presentations on case studies from various plants, and seminars led by external instructors. These help us share expertise with our business partners and boost their independent quality control efforts.

Building Responsible Supply Chain Management / Promoting Sustainable Raw Material Sourcing

Issues to Recognize

At a time when our business is growing and our supply chains are expanding globally, we must ensure that business activities throughout our supply chains maintain an awareness of social concerns. These include providing safe and reliable products; environmental initiatives that focus on reducing GHGs and waste, preventing environmental pollution, and protecting biodiversity; respecting human rights and labor practices; ensuring employee safety and health; and dealing with the labor shortage in logistics.

In addition, natural disasters thought to be caused by climate change are increasing in both frequency and intensity. This means that there are greater expectations on businesses to reinforce their resilience through day-to-day efforts to build sustainable procurement and product supply networks that can withstand such disasters.

Achievements and Performance

- Audits conducted of production plants/bases for raw materials and ready-to-eat products: 109 plants and 92 bases
- Endorsement of the “White Logistics” movement by the Ministry of Land, Infrastructure, Transport and Tourism (September 2019)

Management Approach

Our Sustainability Procurement Principles and Supply Chain CSR (Corporate Social Responsibility) Code of Conduct, both of which we established based on our Sustainability Policy, guide our effort to promote CSR throughout our supply chains and thus help achieve a sustainable society. To this end, we do not focus only on our own Group, but collaborate with our marine and agricultural product suppliers, outsourcing contractors who manufacture our private brand and original products, importers, and other business partners.

Promoting CSR Procurement

In February 2018, we established our Sustainability Procurement Principles and Supply Chain CSR Code of Conduct to ensure that we and our business partners have a shared perception of sustainability and CSR. Through our business partner surveys, we encourage our suppliers to promote CSR based on the code of conduct and to apply the code to their own suppliers as well.

We ask our business partners to maintain awareness of environmental problems that demand global solutions, particularly efforts to combat climate change by using less energy and thereby reducing GHG emissions, reduction of the use of water and other resources, awareness of biodiversity, prevention of environmental pollution, and reduction of food wastage, a major issue for our industry. We also encourage business partners to pay attention to the safety, hygiene, and health of their working environments as well as the establishment of appropriate working hours through the reduction of excessively long shifts.

We will continue to work closely with our business partners to practice CSR throughout our supply chains.

CSR-Conscious Selection of Suppliers

In addition to quality, cost, and ability to meet deadlines, we consider CSR when choosing business partners. Specifically, we evaluate whether a business partner maintains awareness of CSR as outlined in our Sustainability Procurement Principles and Supply Chain CSR Code of Conduct, and then we select suppliers based on fair and appropriate procedures.

CSR Audits and Monitoring of Business Partners

We closely audit and monitor our existing business partners.

Plant audits focus on quality and hygiene control at ingredient and packaging-related plants. They cover about 60 items, including waste and wastewater. We also cooperate with third-party organizations to conduct audits that include checking the measures that business partners take to improve. These audits refer to risk assessments based on the number of complaints received concerning particular products. As for plants in China, Japan Food Supply Co., Ltd. (JFS)* performs on-site audits once a year in principle and conducts a four-level evaluation. If a plant audit finds problems, specific improvements are suggested and corrections are made and confirmed. Inspection points include human rights, fair trade, food safety, the environment, labor concerns, and more.

Production bases for ready-to-eat products undergo plant inspections with a focus on quality control once a month. They also undergo unannounced audits by a third-party organization. As a company involved in the food industry, we consider it our responsibility to find solutions to the problem of food wastage. We ask our business partners to reduce their food wastage and monitor monthly reports on the status of those efforts. We also bring together outsourced manufacturing contractors for ready-to-eat products in each region and share industry trends and exemplary case studies from individual companies. At these events, we work to build up our business partners' capabilities through the Nippon Fresh Foods Cooperative Association (NFF), for example studying how to prevent the spread of damage during disasters.

*Japan Food Supply Co. Ltd. (JFS): Since its establishment as a wholly owned subsidiary of NIPPON ACCESS, INC. the company has worked in procurement, joint delivery, and quality control for outsourced manufacturing contractors of ready-to-eat products, especially those for FamilyMart.

Building responsible supply chain management / Promoting sustainable raw material sourcing

Sustainable Raw Material Sourcing

We handle a large number of original food products, especially ready-to-eat products. As such, stable procurement of those products' principle raw materials, agricultural crops and livestock products, is essential. There are a number of changes to the external environment that threaten sustainable procurement: the impact of droughts and water damage caused by climate change on the harvest and cultivation of agricultural crops and livestock products; child labor and other human rights problems; and changes in consumer behavior and laws and regulations relating to animal welfare and genetically modified food. We recognize these changes as risks and are studying how to respond going forward.

Fiscal 2018 Plant Audit and Third-Party Audit Results

| | Suppliers (about 3,500 plants) | Outsourced manufacturing contractors for ready-to-eat products (92 bases) |
|--------------------|--------------------------------|---|
| Plant audits | 109 plants | 92 bases |
| Third-party audits | 65 plants | 92 bases |

As a result of plant inspections and third-party audits conducted at suppliers' plants/production bases for ready-to-eat products, all sites received instructions for improvement of issues including inadequate document management, deviations from the production process, and minor items, and then re-inspections were carried out.

Enhancing Logistics

We have been promoting structural reforms in ready-to-eat products with the goal of providing attractive, high-value ready-to-eat products. Particularly on the logistics side, as we have integrated brands, we have dramatically revised work processes at our logistics centers and delivery routes, including both chains' logistics networks. The number of delivery centers has been consolidated to 160, down from 213 when integration began. We have also used our Transportation Management System (TMS) to manage total delivery routes and times between delivery centers and stores. Another way in which we are enhancing logistics is by revising the timing of orders, the number of times products are ordered, and the operations of delivery trucks.

To cope with the labor shortage in the logistics industry, we have also endorsed the "White Logistics" movement by the Ministry of Land, Infrastructure, Transport and Tourism by submitting our own "Declaration of Voluntary Action" which calls for a working environment that is more accommodating to senior and female drivers, including shortening of loading/unloading time by using pallets and reducing incidental work other than driving, such as unloading. As we move forward, we will continue to aim for the establishment of resilient logistics networks with an awareness of environmental issues and social aspects such as working conditions.

Sustainability Procurement Principles

In its business activities, FamilyMart accepts the social responsibility of working toward realizing a sustainable society such as preserving the global environment and protecting human rights. For this purpose, we are pursuing business activities that are based on the spirit of mutual development (CO-GROWING) in line with fair rules for producers and business partners, realizing sustainable growth and focusing on the principles below.

1. We preserve biodiversity, eliminate natural resource transactions, gathering, and fishing conducted illegally.
2. We reuse renewable resources to protect natural resources at extreme risk of depletion.
3. As the safety, security and health of customers is the highest priority, we work to secure the traceability of agricultural, livestock and marine products and disclose information to customers that is easy to understand.
4. We comply with laws and social norms and aim at a sustainable society together with producers and business partners who take social responsibility, including human rights, workers, health and safety, and global environmental preservation.

Supply Chain CSR Code of Conduct

1. Comply with laws and regulations

We comply with international norms as well as the laws and norms of countries and regions where we conduct business and engage in conscientious business activities.

2. Human rights

We respect individuals and their rights regardless of race, nationality, religion, sex, or any other status and we do not participate in human rights abuses.

3. Labor

Along with considering for the health and safety of employees and achieving a comfortable working environment, we treat workers without regard to sex, age, nationality and handicap and respect sexual diversity, and prohibit discrimination, inhumane treatment and forced labor.

4. Fair business

In accordance with sound business custom when doing business, we conduct business based on appropriate conditions and receive no private profit.

5. Environment

We take responsible attitude toward the global environment, nature and biodiversity, prevent environmental pollution and prevent global warming such as restricting greenhouse gas emissions. We also pursue creation of a sustainable society by including reducing, properly disposing of and recycling waste.

6. Product quality & safety

We provide products and services that are safe, reliable and healthy for customers, and in the case of accidents or defects, respond by quickly disclosing information and notifying competent authorities.

7. Synergy with local communities

We connect with activities related to development of local communities, we contribute to a better regional life through being environmentally responsible for impacts around business sites and plants.

8. Supply chain system maintenance

Based on social norms and in response to social demands, we are working to build a CSR promotion system and internal control systems, as well as maintain risk control systems. We are also increasing CSR awareness of and dissemination in our own supply chain.

Our 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. It is now obligatory for operators of food businesses to practice hygiene control consistent with HACCP in order to enhance food safety. Businesses that handle a wide range of products are also expected to be responsible for labelling and explaining information about the content of products and services, handling, and the like in a manner that is appropriate and understandable to customers.

Achievements and Performance

- Promotion in compliance with HACCP being made obligatory
- JFS food ingredient claims: 95.6% YOY
- Claims for manufacturers of ready-to-eat products: 85% YOY

Management Approach

We cooperate with our business partners to practice thorough quality control throughout our supply chains, making it our highest priority to provide safe and reliable products. With ready-to-eat products in particular, we have long applied our own HACCP-based quality control standards. We work to improve quality control and ensure traceability in all processes, from raw material sourcing to production, delivery, and sales. We appropriately display product and service information in keeping with relevant laws and regulations and practice responsible marketing, collaborating with stakeholders and working to raise consumer awareness.

Initiatives for Safety and Reliability throughout Supply Chains

We practice integrated management, covering entire supply chains from raw material sourcing to production, logistics, sales, and even disposal and recycling. Our highest priority is safety and reliability. Our Merchandising & Logistics & Quality Control Division plays a central role when it comes to the quality of ready-to-eat products, which are unique to FamilyMart. It practices rigorous quality control that includes monitoring the operating status of production bases for ready-to-eat products in order to continually improve supply chain management.

The Merchandising Infrastructure Development Department has a company-wide role that spans many departments with different product categories. When customers voice opinions or requests, or when the development of a product in an individual department generates a new idea, the Merchandising Infrastructure Development Department makes sure that the information gets shared both within our company and with outsourced manufacturing contractors for ready-to-eat products in order to enhance product quality and value.

Quality Control System and Main Initiatives at Each Stage

Management of Raw Materials



- Checking plant inspection certificates
- Advance inspections of plants
- Assessing raw materials based on quality and hygiene control standards

Production Management



- Food ingredient receiving inspections
- Plant inspections at all production bases for ready-to-eat products (monthly)
- Bacteriological examinations (monthly)
- Holding periodic nationwide quality control meetings (once a quarter)

Logistics Management



- Managing logistics center facilities
- Temperature-specific (frozen, chilled, fixed-temperature) product storage and delivery

Store Management



- Distributing educational tools for in-store hygiene management
- Quality control and proper sales status checked by a store manager/supervisor

Our responsibility to provide safe and reliable products

Management of Raw Materials



Ensuring Traceability of Raw Materials

To ensure a safe and reliable supply of products for our customers, we practice thorough quality control, starting from raw material sourcing, in collaboration with JFS, a Group company of ITOCHU Corporation. JFS uses its system to centrally manage ingredient and packaging information provided by about 200 business partners who manufacture raw materials. This way, we can ensure ingredient traceability of raw materials on a global scale.

Quality Management System for Raw Materials

Inspection certificates for the raw materials used in ready-to-eat products are checked and inspections are carried out at plants in advance. Under our system, we only purchase raw materials for food from suppliers who meet our standards. During plant inspections, we conduct a check of raw materials that considers about 50 items. We also look to see if there are any risks associated with human rights or labor problems as part of food defense, which means the prevention of human-caused, intentional contamination of food.

We also conduct assessments of raw materials based on quality and hygiene control standards when products are developed or improved. Only raw materials meeting those standards are sent to the outsourced manufacturing contractors for ready-to-eat products. Production bases for ready-to-eat products also rigorously confirm quality standards by inspecting raw materials when they are received.

Thorough Plant Audits

We audit plants, particularly those of business partners who handle our private brand (PB) products, selected based on the results of voluntary inspections conducted in advance. In principle, plants in China are audited once a year. JFS visits local sites and conducts a four-level evaluation of each. If a plant audit finds problems, specific improvements are suggested and corrections are made and confirmed. Inspection points include human rights, fair trade, food safety, the environment, labor problems, and more.

Even though the product development cycle is fast and new raw materials are registered at a dizzying pace, we conduct plant inspections appropriately and if any plant does not score high enough during the inspections, JFS conducts a follow-up audit at a later date. Any problems discovered are reported and shared with us through our control system, and we do follow-up checks of manufacturers as appropriate to see how they are responding.

Production Management



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

Our ready-to-eat products are made at about 90 production bases. The Nippon Fresh Foods Cooperative Association (NFF), organized by outsourced manufacturing contractors for ready-to-eat products, inspects all plants each month. Plant inspections primarily check quality and hygiene control. It also surveys the state of quality control and works to enhance it by conducting unannounced inspections of outsourcers about twice a year. If a plant inspection reveals that a contractor is not in conformity with standards or has other problems, we require them to make improvements to the plant and take corrective measures.



Plant inspection lists

Our responsibility to provide safe and reliable products

Cooperative System with Business Partners

To provide safe and reliable products, it is important that all employees working at production bases for ready-to-eat products understand our quality and hygiene control standards and have a strong and shared awareness of food safety and reliability. We hold nationwide quality control meetings for our business partners' quality control supervisors four times a year. We share the key points with them to enhancing quality and hygiene control initiatives. At these meetings, we share examples of improvements that can be made in light of the results of monthly plant inspections and bacteriological examinations, helping our business partners raise their self-directed control.

We have also organized a weekly meeting for ready-to-eat product manufacturers to share the latest industry trends and individual success stories. We give awards to business partners who have taken outstanding initiatives. In addition, we have a system in place through NFF that enables partners to cooperate efficiently.

TOPICS

Responding to HACCP* System

We are working to establish an HACCP-based hygiene control system at all production bases for ready-to-eat products by 2020. To that end, we are taking steps aimed at attaining Japan Food Safety Management Association certification of rank JFS-B or higher.

*HACCP: A food safety approach to ensure the safety of products by managing critical processes to avoid the risk of bacterial food contamination and product tampering. Since it can prevent problematic products from shipping, it is considered more effective than traditional quality control by sampling inspection.

Logistics Management



Logistics Center Safety and Reliability

We are strengthening security at our logistics centers, such as by installing security cameras to keep out suspicious people. Safety is also managed by using an auto lock function on trucks. The function works when the driver is away.

ITOCHU Group company NIPPON ACCESS, INC. conducts logistics center inspections as the controlling company of those facilities. The company also centrally manages the establishment and operation of a logistics network prepared for earthquakes and other disasters.

Dual Compartment Refrigerated Delivery Trucks

The forward and rear compartments can be separately set to appropriate temperatures for the loaded food products. The available space can also be adjusted according to the amount of product.



Thorough Temperature Control of Ingredients and Products

Our logistics centers practice comprehensive temperature control by separating food ingredients and products into temperature zones such as frozen, chilled, and fixed-temperature.

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.

Logistics Center Categorization and Storage System

| | |
|------------------------------|--|
| Fixed-temperature centers | Fixed temperature (18°C to 22°C) Chilled (3°C to 8°C) |
| Freezer centers | Freezing (−25°C or colder) |
| Ordinary-temperature centers | Ordinary temperature |



Temperature control at fixed-temperature centers

Our responsibility to provide safe and reliable products

Store Management



Thorough Training of Store Staff

Stores aim to provide tasty, safe, and reliable products by rigorously practicing three kinds of control: hygiene control, temperature control, and sell-by date control.

Hygiene control, which consists of diligent and correct hand washing and cleaning, helps prevent food poisoning. For temperature control, stores check and record product and display case temperature settings, which vary by product characteristics, four times a day to maintain product freshness. Stores control the freshness of ready-to-eat products by checking sell-by dates four times a day (except for certain regions) and taking products off the shelves once they expire.

We distribute a training tool that compiles the key points about hygiene control to all stores and instruct store staff in quality and hygiene control. We are also working to translate this tool into multiple languages for non-Japanese staff.



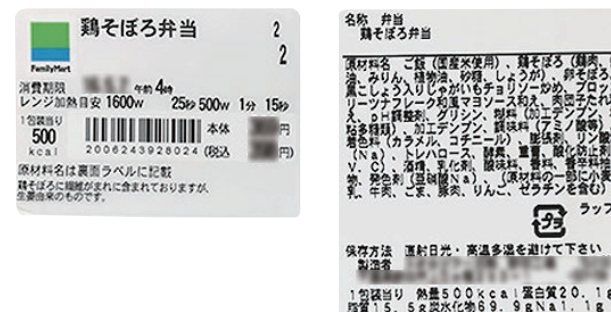
Sell-by date control information poster for store staff

Appropriate Product Labeling

To provide safe and reliable products and services, responsible marketing (appropriate labeling of products and promotional materials) is just as important as quality control. Producers and manufacturers of processed foods have to comply with the Food Labeling Act and other relevant laws and regulations. As a vendor of processed foods, we work to stay in strict compliance with these laws through our internal trainings. These include trainings on updates to relevant laws and regulations and periodic e-learning for employees of departments concerned.

We also strive to avoid product labeling that could mislead consumers or risk violating registered trademarks or relevant laws and regulations, such as Act against Unjustifiable Premiums and Misleading Representations. To do this, we have an internal monitoring system that includes a first check by the department developing the product and then a second check by the Legal Department and Quality Control Department. For promotional materials in stores, our store operations manual has a page with guidance on creating such materials. We also raise store staff awareness to avoid any material that is misleading or violates the law.

Another consideration is the growing number of visitors to Japan. As a member of the Japan Retailers Association, we label products in accordance with the association's manual on "Multilingual Considerations for Retail Businesses."



Examples of labels for delicatessen dishes

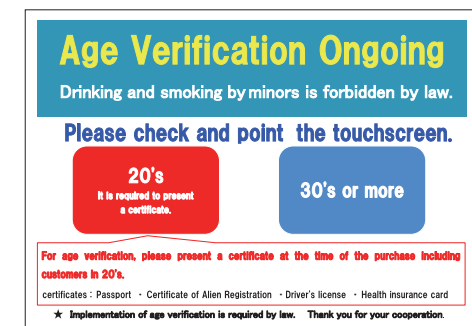
No Sales of Alcohol or Tobacco to Minors

As a responsible business, we ensure that our stores do not sell alcohol or tobacco to minors. Our response is based on the Japan Franchise Association's "safety station activities," an initiative for creating sound environments for young people. We understand that underage drinking puts youth at risk of acute alcohol intoxication and could develop into alcoholism in future, and our initiatives to avoid this are focused on the store.

In July 2017, we changed the program run on our cash registers. When an alcohol or tobacco product is scanned, a voice notification is generated, and simultaneously a message appears on the register screens facing the store staff and the customer. This reminds the store staff to check the customer's age.

In addition, when store staff members are hired, they are required to receive training on our alcohol and tobacco sales system. All store staff also receive periodic training twice a year.

Store managers and supervisors check the records of who has taken the periodic training, make sure that the alcohol sales area is marked and displayed separately as required by law, and confirm the correct placement of "Age Verification Ongoing" posters and other point-of-purchase materials that indicate the ban on alcohol and tobacco sales to minors.



English version of message about underage alcohol and tobacco use for non-Japanese customers