



## Strengthening of supply chain management that delivers safe and reliable products

We continue to be a company group trusted by customers by exercising thorough supply chain management.

### Key Issues

Retail business operators are responsible for providing safe and reliable products and are required to implement thorough and consistent supply chain management throughout stages from the procurement of raw materials, production and processing to selling in response to suppliers who have spread across the world due to globalization of the supply chain. Therefore, indirect management is required not only for traceability but also for the environmental, human rights, and labor issues at the upstream of the supply chain.

In Japan, as a result of the revision of the Food Sanitation Act in June 2018, food business operators are now required to implement hygiene control in accordance with HACCP to enhance food safety and respond to globalization. Moreover, for the food supply networks that retailers have as social and lifestyle infrastructure, expectations are increasing for them to have stronger resilience against natural disasters.

### Opportunities and Risks

In an effort to provide safe and reliable products, the Group in collaboration with business partners ensures thorough quality control throughout the entire supply chain. Particularly for food, we control quality based on strict standards in light of the prospect that the HACCP will become mandatory in the near future in Japan. Moreover, the traceability of raw materials is secured on a global basis to ensure our prompt response in case anything should happen and minimize impact on consumers.

Since in Japan, business continuity in the event of natural disaster is a big issue, we make efforts to build a system that enables us to receive products from different regions and deliver products through alternate routes and improve employees' awareness of emergency response.

Since these efforts with our business partners may lead to the creation of business opportunities, we maintain and

consolidate a good partnership with them through close communication.

### Strategies for strengthening supply chain management

The Group, as a retailer that conducts global business, recognizes the significance of supply chain management and assesses risks through regular monitoring of suppliers. We address supply chain management in close collaboration with suppliers, such as requesting them to make improvements if necessary.

In order to meet changing consumer needs, our parent company, ITOCHU Corporation, shares its business resources for our procurement of raw materials, product development, and purchasing. We also have built a system that enhances the network capabilities among related departments at FamilyMart and UNY to achieve prompt decision-making based on quick communication.

### Value creation

Since most products that are produced under thorough quality control throughout the entire supply chain are essential for our daily lives, we have a system in place that enables us to minimize impact on customers in case products that do not fulfill the quality control standards are found, such as stopping the sale of such products at stores through our centralized management system.

Moreover, our supply chain management also indirectly contributes to the enhancement of employee satisfaction at suppliers.

Providing products and services at stores that are supported by these supply chain management efforts also works to enhance trust in the Group as a whole.

### Key Performance



FamilyMart UNY Holdings Co., Ltd.

● Number of companies to which a supplier questionnaire is sent

Approx. **1,000** companies



FamilyMart Co., Ltd.

● Number of business partners related to traceability


Approx. **200** companies

## Basic Approach


In order for a retail business operator to provide safe and reliable products, it is essential to have centralized management based on a comprehensive perspective in each stage of procurement of raw materials, production, logistics, and sales. In light of the current situation where the procurement network expands globally along with the expansion of business activities, we believe that it is critical to manage the supply chain in a more sophisticated manner while giving due consideration to the global environment and human rights issues in order to contribute to the realization of a sustainable society.

To that end, trust-based long-term cooperation with suppliers is essential. In February 2018, the Group established the Sustainability Procurement Principles and the Supply Chain CSR Code of Conduct based on the Sustainability Policy toward the realization of a sustainable society with suppliers. These principles define our relationships with suppliers and our approach to business with them to build and maintain good partnerships through fair and equitable business. By developing such a trust relationship-based solid system, we aim to continue delivering safe and reliable products to customers.

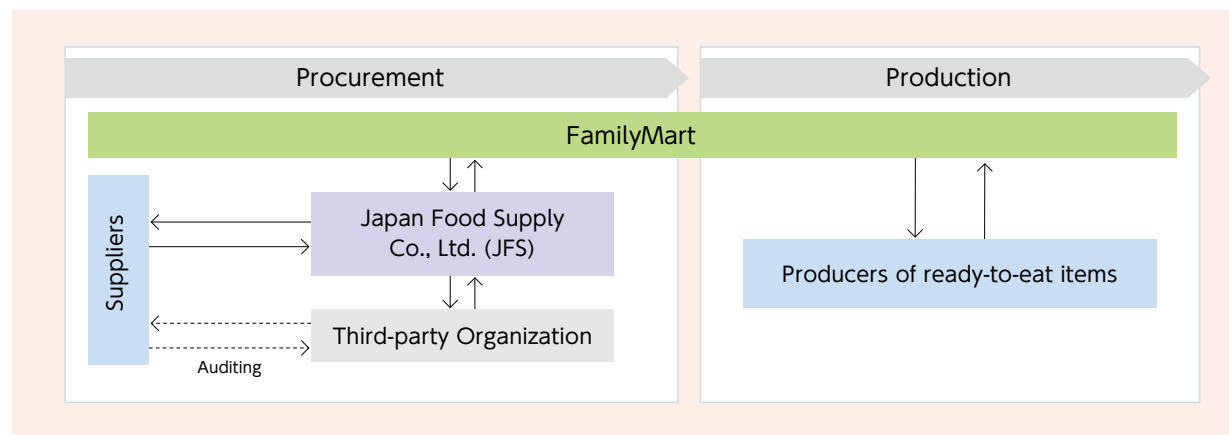
### Food Safety and Reliability (FamilyMart) (Japanese only)

 <http://www.family.co.jp/company/csr/safety.html>

### Efforts to ensure safe food (UNY) (Japanese only)

 <https://www.uny.co.jp/shopping/special/traceability/index.html>

## Structural Chart from the Procurement of Raw Materials to Production



## Operational Structure

By placing utmost priority on the delivery of safe and reliable products, the Group manages everything from the procurement of raw materials, production, and logistics to disposal and recycling in an integrated manner.

At FamilyMart, the Merchandising & Logistics & Quality Control Division takes the leadership in supply chain management, including the operational status of producers of ready-to-eat items (ready-to-eat items outsources), with the aim of building and improving supply chain management for ready-to-eats items, its original products. The Division checks if the products designed by persons in charge of merchandising are produced in an appropriate manner in plants, in addition to the streamlining of production lines. At FamilyMart that provides diverse products, in particular in the ready-to-eat items field, the Ready-to-eat Structural Reform Promotion Department acts as an interdepartmental coordinator that coordinates product category-based departments. The Department shares views and requests from customers and the ideas obtained through the product development process with producers of ready-to-eat items.

To ensure the stable supply of products in the event of disaster, FamilyMart shares information concerning the continuity of plant operation, discontinued production, and the operation of stores in the afflicted areas with the producers of ready-to-eat items. In recognition of the development of the disaster prevention and business continuity system, FamilyMart has been selected as one of good borrowers in the BCM (Business Continuity Management) ranking by the Development Bank of Japan.

For procurement management, the Group has been promoting it through a partnership with Japan Food Supply Co., Ltd. (JFS), a group company of ITOCHU Corporation. JFS renovated the management system in 2016 to make the display of raw materials and the centralized management of traceability available on the system and to secure browsing up to secondary raw materials. For the monitoring of the environmental, human right, and labor issues of suppliers, JFS implements it in an appropriate manner in collaboration with a third-party organization.

\*Japan Food Supply Co., Ltd. (JFS): After it was established as a wholly owned subsidiary of Nippon Access Inc., the company has been engaged in the procurement, joint delivery, and quality control for producers of ready-to-eat items, centering on the ready-to-eat items of FamilyMart.

## Efforts to secure safety and reliability in supply chain

In order to deliver safe and reliable products, FamilyMart in collaboration with JFS makes every effort to ensure from management of raw materials. We ask about 200 registered supplier companies to disclose information concerning ingredients and packaging materials.

### Considerations and efforts concerning supply chain management of FamilyMart



## Streamlining and securing of safety of the supply chain

FamilyMart conducts plant inspections centering on those suppliers involved in the production of its private brand (PB) products while considering the results of preliminary voluntary inspections in a comprehensive manner. The plant inspection includes the inspection of ingredients over 50 items. In particular, in plants in China, strict rules are established, and a plant inspection is conducted, in principle, once a year to assess each plant on a four-point scale. The inspection items include human rights, fair trade, food safety, environment, and labor issues. For plants other than those in China, JFS or a third-party organization visits them to implement a plant inspection on an as-needed basis. For findings during the inspections, improvement ideas are provided, and the results of corrective action taken are confirmed.

Despite the fast product development cycle and frequent registration of new ingredients, the Quality Control Department of FamilyMart and JFS implement plant inspections in an appropriate manner. The plants to visit for inspection are determined in a systematic manner each year and for unsatisfactory plants, JFS implements a follow-up audit later on.

Problems found are reported to the Quality Control Department of FamilyMart via management system and the Department checks with each producer regarding the situation as appropriate. In 2014 when a scandal of fake expiration date for chicken occurred in China, the company inspected all 67 local plants and allowed only about 30 plants where safety was confirmed to continue operation. Since then, the company has been reinforcing safety and quality control while reviewing the recurrence prevention system.

As of August 2018, 45 producers of ready-to-eat items and 94 plants are in operation across the country. The inspection of all 94 plants is conducted once a month centering on the quality management and labor management. An unannounced inspection is also conducted once every three months by an external contract organization to ensure thorough quality control.

Moreover, the company hosts meetings where producers of ready-to-eat items gather by district each week to share information on the latest industry trends and success cases. FamilyMart commends producers who have carried out excellent programs. Through the Nippon Fresh Foods Cooperative (NFF) organized by producers of ready-to-eat items, a system that facilitates efficient mutual collaboration among producers has been established.

Inspections of logistics centers are conducted by a management company, Nippon Access Inc., a group company of ITOCHU Corporation. Nippon Access Inc., also develops, operates, and manages the logistics network in an integrated manner in preparation for disasters, such as earthquakes.

## Dissemination and raising awareness of ethical consumption

Fair trade is an institutional arrangement to create a cycle that allows producers in developing countries to improve their living standards and become independent through continuous business based on fair prices. It will also lead to protecting the environment of living bases and production sites from soil contamination and environmental destruction by supporting local organic farming.

In an effort to deepen customers' understanding of the social meaning and significance of the fair trade efforts through ethical shopping, UNY has held the Fair Trade Festival since 2013 in collaboration with an incorporated NPO Fair Trade Nagoya Network, Nagoya City, and student volunteers. In 2018, as part of the Green Purchase Campaign organized by three prefectures and one city in the Tokai area, the company held a talk show and exhibited panels concerning fair trade.

Moreover, UNY also sells fair trade products, such as chocolate made from selected cacao beans grown by certified organic farmers, and promotes efforts that enable customers to become connected with the development of a sustainable society through daily shopping.



UNY's fair trade products



Flyer introducing the Fair Trade Festival

### ● Utilization of the Supplier Management Network

For the management of manufacturers of ingredients delivered to the company, Kanemi Co., Ltd. conducts a regular plant audit using own check sheet through a wholesale management company of a client company to check the quality, hygiene control, and financial health of the producers.

If defective products should be found, the company in collaboration with delivery destinations discontinues the sale of the products by lot or replaces them with different products. In collaboration with the wholesale management company, these defective products can be traced back to the cause, leading to the effective investigation into the cause and the development of recurrence prevention measures.

For food distribution, Kanemi Co., Ltd. has own information collection network in place. For example, when a hygiene hazard was found in chicken produced in Brazil, the company quickly obtained the information and prevented the use of such chicken before it became a serious issue.

Kanemi Co., Ltd. has own quality management standards and require its suppliers, such as ingredients and processed product producers, to comply with them.

The company visits producers' plants once a year and checks the conditions against the results of self-assessments that are conducted before the visits. In 2018, the company visited about 20 plants and checked the compliance status on the out-packed products (prepared food packed by suppliers).



Dishing-out line

In the past visits to plants, the company did not find cases that significantly deviated from its quality management standards. For minor areas of improvement (improvements that can be done easily to those that take several days), each producer took corrective action promptly. Moreover, self-imposed efforts are made to improve the quality and hygiene control conditions in its plants and the results are reported to FamilyMart UNY Holdings's Risk Management & Compliance Committee quarterly.



Strict hygiene control

### ■ Box lunch production process

