

Monitoring Results of Business Partner Factories

Evaluation of Business Partner Factories

According to reports from international organizations and NGOs, some of our business partners' factories are in countries/regions with high risks to human rights, labor and the environment. We have implemented monitoring such as on-site audits in order to prevent and reduce those risks. Further, in addition to monitoring the business partners' compliance with laws and regulations related to human rights, labor, and the environment that apply to the countries and regions where their factories are located, we also review the development/implementation of policies related to these issues, assess their impacts, and verify the operations to prevent adverse impacts.

In FY2022, we conducted onsite audits of 27 factories.

During the audits conducted in fiscal year 2022, issues related to health and safety (occupational safety and health), as well as working hours, were identified among the items covered in our "Code of Conduct for Production Partners" (https://www.ryohin-keikaku.jp/csr/code_of_conduct/coc_2020_en.pdf) .

In response, Ryohin Keikaku will reinforce its efforts to prevent and address these issues.

Monitoring Results and Our Response

For FY 2022, as described below, no factory was evaluated as A, while 18 factories evaluated as B, 2 factories evaluated as C, 3 factories evaluated as D and 4 factories evaluated as E. From the factories with B, C, and D ratings, we received reports of improvement, and for those with D ratings, we plan to conduct follow-up audits. The main issues found at the factories with E ratings were lack of registration for employee health check records, non-payment of pre-employment health examination fees, and lack of policies and insufficient education programs regarding the working environment and human rights. Regarding factories with E ratings, we are evaluating whether to continue business with them and actively requesting improvements to prevent and reduce risks, for the factories with which we decide to continue business. We have already confirmed the completion of improvement for all four factories that were rated E, but we plan to continue conducting follow-up audits to prevent and reduce risks in the future.

Rating	Description
A	No violation
B	Relatively low-risk violations
C	Violations on occupational safety and health, wage and benefit, working hours, contract, environment, etc.

D	Multiple violations on occupational safety and health, wage and benefit, working hours, contract, environment, etc.
E	The existence of an important discrepancy that raises suspicions of a high level of risk.

Occupational Safety and Health

Many occupational safety and health concerns relate to fire safety, machinery safety, personal protective equipment, and chemical substance management. Issues such as extinguished exit sign lights, blocked evacuation routes, uncovered dangerous machinery parts, and lack of personal protective equipment, such as goggles and safety shoes, extending to the risk to human life in the event of fire or accident, were brought to the attention of the business partners' factory, and we urged the business partner to take corrective actions and confirmed the improvement. Furthermore, for companies that were unable to conduct fire drills due to the COVID-19 pandemic, we explained the importance of fire drills and urged the business partners' factories to conduct the training in accordance with the local laws and regulations. To comply with local laws and regulations our occupational safety and health standards, and the best practice, the business partners' factories were provided with explanation or guidance including guidance on the proper installation of machinery covers and the inclusion of personal protective equipment in their training program.

In the management of chemical substances, inadequate labeling of chemicals and MSDS (Material Safety Data Sheets) in the local language, and lack of two-layer containers were found. To ensure that management work takes root, we hold regular sessions regarding handling and dangers in use of chemical substances for those in charge of handling chemical substances. In the training sessions, we lecture local laws and regulations, our occupational safety and health standards, and the best practice. Additionally, lack of emergency eye wash stations in the storage and work area of chemical substances was found but resolved within three months upon its installation.

Environment

We acknowledged that several business partners' factories were found to have not undergone surveys, including energy surveys/evaluations (covering aspects such as electricity, gas, and water) or emission surveys on wastewater, gas, and noise. We urged them to conducting an environmental impact analysis and surveys in accordance with local laws and regulations and introduce a system of minimizing adverse impacts on the environment.

Working Hours

To reduce working hours, our business partner factories are working to improve productivity by adjusting work systems and implementing training to improve employees' skills. We also confirm they ensure that the work arrangements are being adjusted and a performance-based rewards system is being established.

Raw Materials Management

At some of our partner factories, we found some cases in which raw materials were not properly labeled. For these factories, we are guiding them on the importance of inventory management to enable traceability of the raw materials and parts used in the products as a measure to minimize recall in case of serious defects in the products.