

FY2023 Results of Factory Monitoring

Evaluation of Business Partner Factories

According to reports from international organizations and NGOs, some of our business partners' factories are in countries/regions with a high risk of human rights, health and safety and environment. We have implemented monitoring such as on-site audits in order to prevent and reduce the risks.

In addition to complying with laws and regulations related to human rights, labor, and the environment that apply in the countries and regions where the factories are located, we also review the development/implementation of policies related to these issues, assess their impacts, and verify the operations to prevent negative impacts.

In FY2023, we conducted on-site audits at total of 116 factories (73 Tier1 and 43 Tier2 factories).

During the audits conducted in FY2023, issues related to health and safety, as well as working hours, were identified among the items covered in our "Code of Conduct for Production Partners¹". In response, we will reinforce its efforts to prevent and address these issues.

Monitoring Results and Company Response

For FY2023, 4 factories were evaluated as A, 66 factories evaluated as B, 21 factories evaluated as C, 13 factories evaluated as D and 12 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 inadequate safety measures such as evacuation routes or fire extinguishers blocked with objects and locked emergency exits, discriminatory conditions in the hiring process, and improper management of working hours. Regarding factories with E ratings, we are evaluating the continuation of business and actively requesting improvements to prevent and reduce risks, especially for factories where we decide to continue. We have agreed on improvement plans and prevention measures with all 12 factories with E ratings, and are confirming the completion of improvements one by one. We plan to continue conducting follow-up audits to prevent and reduce risks in the future.

¹ https://www.ryohin-keikaku.jp/sustainability/pdf/coc_2024_en.pdf

| Rating | Description |
|----------|--|
| A | No violation |
| B | Relatively low-risk violations |
| C | Violations of occupational health and safety, wage and benefit, working hours, contract, etc. |
| D | Multiple violations of occupational health and safety, wage and benefit, working hours, contract, etc. |
| E | The existence of an important discrepancy that raises suspicions of a high level of risk. |

Health and Safety

Many occupational safety and health concerns relate to fire safety, machinery safety, personal protective equipment, and chemical substance management. Issues such as locked emergency exits, blocked evacuation routes, uncovered dangerous machinery parts, and lack of personal protective equipment, such as goggles and safety shoes, were brought to the attention of the factory and corrective actions were taken to ensure the safety of workers. To comply with local regulations and industry standards, the factory was provided 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 chemical names and MSDS (Material Safety Data Sheet) in the local language, and the lack of two-layer containers were addressed. We explain local laws and regulations, our occupational health and safety standards, and best practices. We also instruct them to conduct regular training sessions on the handling of chemical substances and the risks associated with their use.

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 that the work arrangements are being adjusted and rules are made to double-check overtime hours.