

Ethical Sourcing

Supplier Program Requirements – Goods For Resale

1. Purpose

Our Ethical Sourcing Policy (**Policy**), together with our Ethical Sourcing Supplier Program Requirements (**Program Requirements**) set out our expectations of suppliers regarding labour rights, human rights, environment, health and safety, and business integrity.

We monitor supplier compliance with our Policy through our Ethical Sourcing Program (**Program**). Our Program is designed to help identify and mitigate human rights and labour risks that exist within our supply chain and remediate or address issues where they are found.

At Coles, we believe that if people are harmed, there is a duty of care on those involved to address the issue. Coles has a Remediation Framework which sets out the core principles Coles adheres to, and expects its suppliers to adhere to, for providing effective remediation of human rights and ethical sourcing issues.

2. Program Scope

Ethical Sourcing Program Scope

We have a complex supply chain with thousands of suppliers that have a direct trading relationship with us, and thousands more within our extended supply chain.

To ensure our work has impact we take a risk-based approach to supplier management. We focus our Program on suppliers where there is a higher likelihood of human rights and labour rights violations occurring and where we have greater leverage to influence change where required.

We use a supplier segmentation approach based on inherent risk and leverage to determine which suppliers and tiers of our supply chain are in scope for the Program. More information on this process is outlined in Appendix 1.

For the purpose of the Requirements, 'Supplier' is defined as:

- a direct Vendor to Coles; and/or
- a site involved in packaging or manufacturing a product to its final retail form

In-scope Suppliers are listed in **Table 1** below:

Table 1: Coles Ethical Sourcing Program Scope

Business Area	Category	Production Tier
Supermarkets and Coles Express	Own Brand	Direct vendors (Tier 1)
	Fresh Produce (unprocessed fruit, vegetables and flowers, including those bearing a proprietary brand label)	Packing / manufacturing to final retail form (Tier 2)
Liquor	Own Brand, Export	Direct vendors (Tier 1)
	Exclusive	Bottling sites (Tier 2)
Goods Not For Resale (GNFR)*	Suppliers of high-risk services (including but not limited to Trolley Collection, Cleaning, Security)	Direct vendors (Tier 1)
	Suppliers of goods branded with a Coles name, goods built to Coles customised specifications	Sub-contractors (Tier 2) (in selected circumstances)
	Suppliers with operations in high risk Countries	

* This document sets out program requirements for Goods For Resale suppliers only (i.e. Supermarkets, Coles Express and Liquor). Refer to the *Program Requirements – Goods Not For Resale* document for information specific to GNFR suppliers.

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3. Risk Assessment and Management

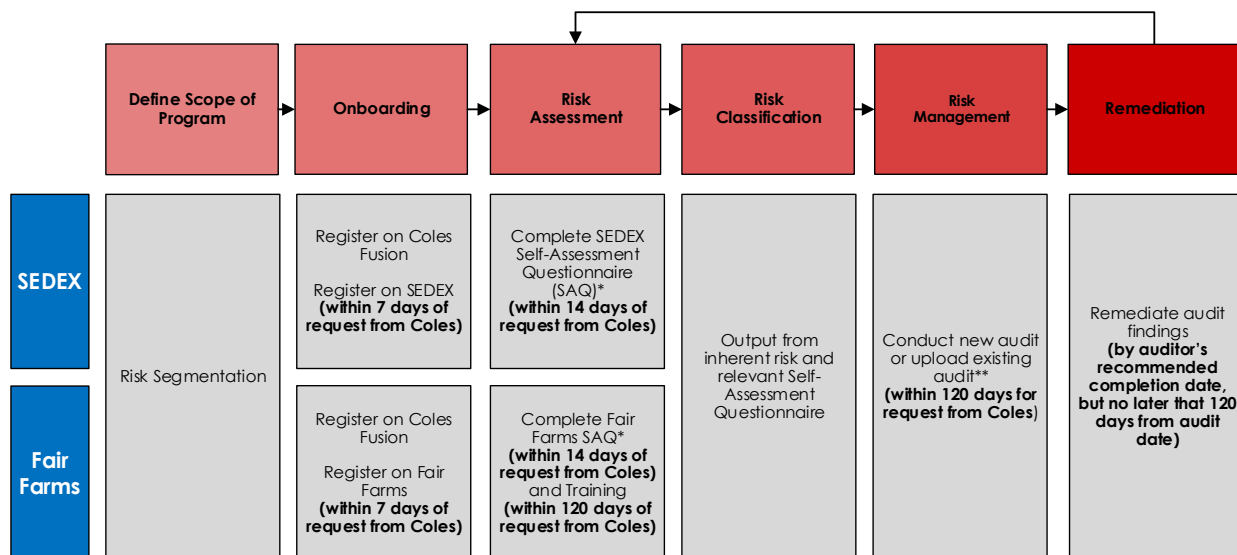
Assessing Risk

Coles assesses ethical sourcing risk by gathering information on company-specific practices, through site risk assessment questionnaires and inherent risk evaluation, and through external sources and supplier performance. The combination of company risk and inherent risk is used for classification of risk.

Risk is assessed and managed using specialised data sharing platforms such as SEDEX or Fair Farms. Suppliers are required to register to one platform, which will be determined depending on the type of good or service provided to Coles. Further information on platform alignment is detailed in **Appendix 1**.

The process for assessing risk under each platform is outlined in the diagram below.

Table 2: Coles' Risk Management integration with external platforms



* Completion of SEDEX and Fair Farms Self-Assessment Questionnaires are annual requirements, as is completion of Fair Farms training.

** Audit type and frequency will be determined according to Coles' risk classification and management process, or Fair Farms Certification Requirements.

Classifying Risk

Suppliers who are part of the Program are required to update their supplier information on a regular basis to support ongoing review of risk (for example by reviewing and updating their risk assessment questionnaire in one of the assigned platforms). Suppliers are assigned a risk rating based on factors such as:

- inherent country or sector risk;
- specific responses to the risk assessment questionnaire;
- substantiated labour or human rights violations;
- unsubstantiated but persistent claims of labour or human rights violations; and/or
- poor program compliance history.

Risk information is for Coles' internal reference only.

Managing Risk

Risk management activities will vary based on a supplier's risk rating. In addition to completion of a risk assessment questionnaire, Coles may, at its discretion, require an independent audit as a means of assessing compliance with

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the Ethical Sourcing Policy. The frequency of audits may vary between immediately unannounced and every 12 to 36 months at Coles' discretion. Coles will advise requirements in advance where relevant.

If a supplier is unwilling to work with Coles to address compliance issues under our Policy and Requirements, or refuses to participate in the program, we reserve the right to exercise any termination rights available and/or otherwise cease engagement with that supplier.

4. Program Compliance Requirements

Coles' Supplier Approval Process

Supply to Coles can only commence once the supplier is compliant with the Ethical Sourcing Program. Coles will determine whether a new supplier is Approved, Conditionally Approved or Not Approved based on the Risk and Audit Assessment metrics in **Table 3**.

Suppliers, both new and existing, will only be awarded business at Coles if their Ethical Sourcing Approval Status is either Approved or Conditionally Approved. Business will not be awarded to suppliers if their Ethical Sourcing Approval Status is Not Approved.

To be deemed compliant, suppliers must meet four key program requirements:

1. **Membership:** Supplier and associated sites are registered on SEDEX or Fair Farms, membership is current, and the supplier's account is linked to Coles to allow visibility.
2. **Risk assessment:** Risk assessment questionnaire has been fully completed within the last 12 months.
3. **Audit:** Audit has been booked and completed within required timeframes (if required).
4. **Remediation:** Audit non-conformances have been closed out by the auditor's deadline date, and no later than 120 days post-audit.

Fresh Produce suppliers on the Fair Farms Program must attain Fair Farms Certification to obtain an Approved status.

At its discretion, Coles may designate a supplier as Not Approved based on circumstances outside of the above criteria. Examples include:

- A supplier with the following types of non-conformances as identified in Coles or third-party audits:
 - Human rights violations
 - Labour rights violations
 - Health and safety violations
 - Environmental violations
- A supplier has substantiated human rights/labour violations
- A supplier has unsubstantiated but persistent claims of human rights/labour violations
- A supplier fails to remedy previously identified non-conformances

Coles, at its discretion, may make changes to a supplier's approval status based on the individual circumstances of the supplier.

Derogation of program requirements

In exceptional circumstances, Coles may agree to provide a supplier with additional time to complete a program requirement (e.g. remediate a non-conformance). This is referred to as derogation and permits the supplier to continue trade activity with Coles while the issue is being resolved.

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Table 3: Coles Ethical Sourcing Supplier Approval Criteria

Approval Status	Criteria
Approved	<p>SEDEX suppliers: Suppliers that meet all program requirements:</p> <ul style="list-style-type: none"> • Supplier and associated sites are registered on SEDEX and membership is current • Supplier and site accounts are linked to Coles to allow visibility • Risk assessment questionnaire has been completed to 100% within the last 12 months • Audit has been booked and completed within required timeframes (if required) • Audit non-conformances have been closed out by the auditor's deadline date, and no later than 120 days post-audit
	<p>Fair Farms suppliers: Suppliers that meet all program requirements and are Certified by Fair Farms</p>
Not Approved	<p>Membership / registration:</p> <ul style="list-style-type: none"> • Suppliers who are not registered on SEDEX or Fair Farms • Suppliers with a lapsed SEDEX membership • Suppliers who have not linked their SEDEX account to Coles • Suppliers whose Fair Farms Certification has lapsed • Suppliers who do not meet the required timelines to obtain their Fair Farms Certification
	<p>Risk assessment questionnaire:</p> <ul style="list-style-type: none"> • Suppliers who have not renewed their risk assessment questionnaire within the last 12 months
	<p>Audit:</p> <ul style="list-style-type: none"> • Suppliers who do not complete an audit in accordance with the audit cycle stipulated by Coles
	<p>Audit non-conformances:</p> <ul style="list-style-type: none"> • Suppliers with overdue Major, Critical or Business Critical non-conformances
Conditionally Approved	<p>Membership / registration:</p> <ul style="list-style-type: none"> • Fresh Produce suppliers in the process of obtaining their Fair Farms certification in accordance with specified timelines
	<p>Audit:</p> <ul style="list-style-type: none"> • Suppliers with an audit booking confirmed by the certification body, within 120 days of their risk assessment questionnaire completion
	<p>Audit non-conformances:</p> <ul style="list-style-type: none"> • Suppliers with open Major, Critical or Business Critical non-conformances • Suppliers with approved and communicated derogation on findings
	<p>Other:</p> <ul style="list-style-type: none"> • Suppliers with an approved extension to resolve outstanding actions

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Coles' Ethical Audit Standards

Based on Coles' assessment of risk, suppliers may be required to conduct an onsite audit. In this case, Coles will assign the supplier to an audit schedule, requiring an audit to be completed at regular intervals. Typically, a supplier should expect to be audited at a frequency ranging from 12 to 36 months. Audits will be conducted by Coles or a third party, are to be paid for by the supplier and should be budgeted to occur on an annual basis. Costs will vary based on factors such as the location of the site or number of employees, however suppliers can contact an Association of Professional Social Compliance Auditors (APSCA) member firm (see Auditor qualifications section for link) to get an indication of costs.

The audit must:

- be conducted in accordance with the audit schedule communicated by Coles;
- be conducted by a third-party auditor;
- be in a format approved by Coles; and
- be uploaded to SEDEX or Fair Farms by the auditor within two weeks of completion with visibility granted to Coles.

The below table identifies the audit formats that are approved by Coles for new and existing suppliers:

The below audit formats are approved by Coles

- SEDEX SMETA 4-Pillar
- Fair Farms*

* Fair Farms acceptance is contingent upon the supplier granting visibility to the full audit report.

Auditor qualifications

To ensure the highest level of quality and to uphold best practice standards, audits must be carried out by a qualified representative of a third-party audit firm who is a member of the Association of Professional Social Compliance Auditors (APSCA) program. A list of member firms can be found on the APSCA website at <https://www.theapsca.org/apsca-member-firms/>

Mutual recognition of audits (new suppliers)

For new suppliers that have already completed an ethical audit prior to being awarded business by Coles, Coles may accept specific audit formats as compliant under a mutual recognition agreement.

The audit must:

- have been conducted or certified within the last 12 months;
- as a minimum, cover Labour Standards and Health and Safety Standards;
- be uploaded to SEDEX by a qualified auditor (if the supplier is using SEDEX) and have all non-conformances listed as findings on the SEDEX platform; and
- have all Business Critical, Critical and Major non-conformances verified by an auditor and closed within the auditor-given deadline (which must not exceed 120 days from the date of the audit).

Mutually accepted audit formats are valid for 12 months from the original date of being conducted and are only accepted for a site's first audit with Coles. At the point of expiration, a SMETA 4-Pillar Audit or Fair Farms Audit must be conducted.

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The below table sets out the types of audits that are accepted under mutual recognition for new suppliers:

The below audit formats are accepted under mutual recognition for new suppliers

- ICTI (International Council of Toy Industries)
- SA8000
- WRAP (Worldwide Responsible Apparel Production)
- BSCI (Business Social Compliance Initiative)*

* At the discretion of the Coles Ethical Sourcing team, additional audit formats may be recognised.

* A condition of consideration of BSCI under mutual recognition is that the report and audit findings must be uploaded onto the SEDEX platform.

5. Consultation and feedback

The Ethical Sourcing Policy and Ethical Sourcing Supplier Program Requirements are reviewed annually in consultation with stakeholders to align with changes in regulations and reflect best practice. Through these engagements, we seek feedback on how well the policies and procedures work in practice.

To provide feedback regarding Coles' Ethical Sourcing Program Policy or Supplier Program Requirements, please contact the Coles Ethical Sourcing team at EthicalSourcing@coles.com.au.

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Appendix 1: In-Scope Suppliers and Risk Assessment and Management Framework

Supplier Segmentation

We know that human rights and labour rights violations are more likely to be found in some areas of our supply chain than others. We take a risk-based approach to managing our supply chain, focusing our resources on areas with a greater likelihood of labour and human rights issues and where Coles has leverage to affect change.

The supplier segmentation approach determines which suppliers are in scope for the program for a selected business unit.

Inherent Exposure

Inherent exposure is the risk to people, or the likelihood of an adverse labour/human rights violation occurring within a given supplier's operations. There are two different dimensions that determine inherent exposure, Country and Category/Product.

Leverage

Leverage refers to the ability Coles has to influence change for a given supplier and is determined by ownership, spend, length of relationship and exclusivity.

Based on supplier segmentation, we have determined which suppliers are in scope for Coles Ethical Sourcing Program as listed in **Table 4**. Further suppliers within our supply chain will be included as our program progresses.

Risk Assessment and Management Framework

At Coles, we require in scope Suppliers to adopt a pre-defined Risk Assessment and Management Framework. These include but are not restricted to: SEDEX, Fair Farms, Ariba and StaffSure.

The external platforms chosen are targeted to specific goods and services. SEDEX (Supplier Ethical Data Exchange) is an international platform that can be used to conduct and store risk assessment and management activity, including audits, and it is used to determine some of the Inherent Risk metrics used by Coles.

Fair Farms is an Australian Ethical Sourcing Certification platform that includes risk assessment, training and auditing activity. This platform is accepted for Australian suppliers of Fresh Produce items as defined in **Table 4**.

For Goods Not For Resale (GNFR), the initial Risk Assessment is completed in Ariba during supplier registration. In selected instances, based on the initial risk assessment outcome, GNFR suppliers may be required to also register on SEDEX or an alternate third party platform.

Suppliers who are part of our Program will be subject to the following four principles: Assessment, Classification, Management and Remediation as part of Coles Risk Assessment and Management Framework.

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Table 4: Coles Ethical Sourcing Program Scope

Business Area	Category	Production Tier	Justification	Risk Assessment	Risk Management
Supermarkets and Coles Express	Own Brand	Direct vendors (Tier 1)	Leverage: high, brand ownership	SEDEX	Ethical Audit
	Fresh Produce (unprocessed fruit, vegetables and flowers, including those bearing a proprietary brand label)	Packing / manufacturing to final retail form (Tier 2)	Inherent exposure: manufacturing operations are largely in medium risk countries	SEDEX Fair Farms	Ethical Audit Fair Farms
Liquor	Own Brand, Export	Direct vendors (Tier 1)	Leverage: high, brand ownership	SEDEX	Ethical Audit
		Bottling sites (Tier 2)	Inherent exposure: manufacturing operations are largely in medium risk countries		
	Exclusive	Leverage: exclusivity	Inherent exposure: manufacturing operations are largely in medium risk countries		
Goods Not For Resale (GNFR)*	Suppliers of high-risk services (including but not limited to Trolley Collection, Cleaning, Security)	Direct vendors (Tier 1)	Leverage: ownership of commercial relationship	Ariba	Ethical Audit
	Suppliers of goods branded with a Coles name, goods built to Coles customised specifications	Sub-contractors (Tier 2) (in selected circumstances)	Inherent exposure: high risk activities and/or Countries.	SEDEX (pending initial risk assessment)	Labour Hire Licensing Scheme (State requirement)
	Suppliers with operations in high risk Countries				Staff Sure