

Ethical Sourcing Program Requirements - Products

1. Purpose

Our Ethical Sourcing Policy (**Policy**), together with our Ethical Sourcing 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. 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 areas of our supply chain 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 fall within scope of the Program. More information on this process is outlined in Appendix 1.

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

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

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

Table 1: Coles Ethical Sourcing Program Scope

Business Area	Category	Production Tier
Supermarkets	Own Brand	Direct suppliers (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 suppliers (Tier 1)
	Exclusive	Bottling sites (Tier 2)
Goods Not For Resale (GNFR)*	Suppliers of goods branded with a Coles name; goods built to Coles customised specifications	Direct suppliers (Tier 1)
	Suppliers with operations in high-risk countries	Packing / manufacturing to final form (Tier 2)

*** This document sets out program requirements for suppliers of Products only. Refer to *Ethical Sourcing Program Requirements –Services* for more information.**

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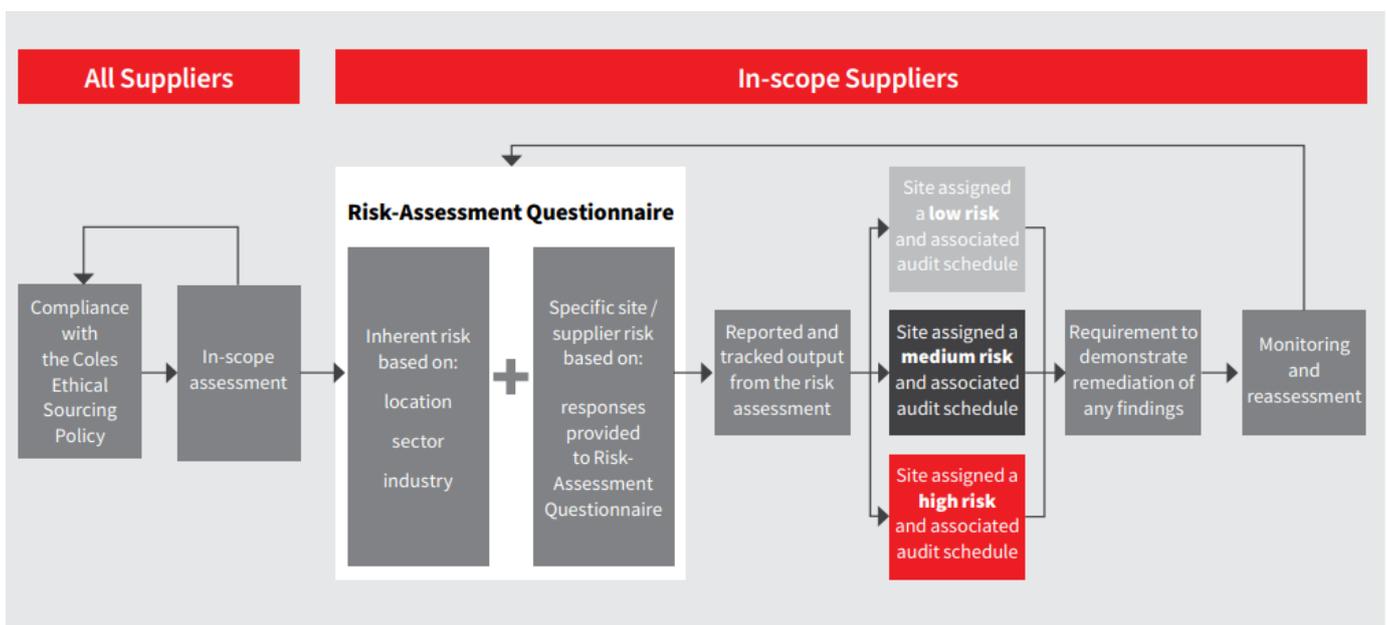
3. Risk Assessment and Management

Risk Assessment

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

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

Table 2: Coles' Risk Management integration with external platforms



* Completion of SEDEX and Fair Farms Risk-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, Fair Farms Certification Requirements, or seasonality of operations

Risk Classification

Suppliers who are part of the Program are required to update their supplier information on a regular basis (at least every 12 months or when there are relevant changes) to support the ongoing review of risk (for example by reviewing and updating their risk assessment questionnaire in one of the assigned platforms). A supplier's risk is classified according to 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 and is not shared externally.

Risk Management

Risk management activities will vary based on risk classification. In addition to completion of a risk assessment questionnaire, Coles may require an independent audit as a means of assessing compliance with the Ethical

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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 within the specified timeframe, 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.

Remediation

For product suppliers, it is expected that any issues that arise are to be addressed by the supplier within agreed timeframes as stipulated by the auditor or otherwise agreed with Coles Ethical Sourcing team.

At Coles, we believe that if people are harmed as a result of something we caused or to which we contributed, we have a duty of care in addressing these issues and implementing mechanisms for control.

For more information, please refer to Coles Group website for Coles Ethical Sourcing – Child Labour Remediation Requirements, Coles Ethical Sourcing – Forced / Bonded Labour Remediation Requirements and Coles Ethical Sourcing – Wages and Benefits Remediation Requirements – Australia documents which outline Coles' expectations on remediation if practices inconsistent with these standards are identified.

4. Program Compliance Requirements

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.

Coles may not approve suppliers should any of the following be identified:

- A supplier with the following types of non-conformances as identified in Coles or third-party audits:
 - **Human rights violations.** For example, workers are coerced to work through the use of exploitative contracts, unlawful retention of or high deductions of wages, compulsory overtime or other means.
 - **Labour rights violations.** For example, workers do not have the right to join or form trade unions of their own choosing and to bargain collectively. Where the right to freedom of association and collective bargaining is restricted under law, the employer does not facilitate but hinders the development of parallel means for independent and free association and bargaining.
 - **Health and safety violations.** For example, findings of fire risks, including any locked or barred exits/emergency exits, or PPE is not used, as PPE is not free of charge and workers are not fully trained in correct usage and benefits.
 - **Environmental violations.** For example, violations of laws intended to protect the environment that result in harm occurring to the environment such as illegal dumping of pollutants, improper waste disposals, illegal wildlife trade, smuggling of ozone depleting substances, illegal logging, dumping in rivers/oceans.
- 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 a 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:</p> <ul style="list-style-type: none"> • Suppliers that meet all Program requirements and are Certified by Fair Farms
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 and publish it to Coles on Sedex or Fair Farms
	<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 an 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) and request a quote to get an indication of costs.

The audit must:

- be conducted in accordance with the audit schedule communicated by Coles;
- be conducted by Coles or a third-party APSCA certified auditor (A list of member firms can be found on the APSCA website at <https://www.theapsca.org/apsca-member-firms/>);
- 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*

Mutual recognition of audits (new suppliers)

Coles may accept specific alternative audit formats under a mutual recognition agreement for new suppliers that have already completed an ethical audit prior to being awarded business by Coles. Mutual recognition is only permissible for new suppliers, existing suppliers will need to address before proposing new sites.

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 (unless otherwise agreed upon by Coles) 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 the audit and are only accepted for a site's first audit with Coles. After 12 months, a SMETA 4-Pillar Audit or Fair Farms Audit must be conducted.

Where requirements are not met, Coles will advise of next steps which may mean a SMETA 4-Pillar audit may need to take place before future activities can comment.

Program Transitions

Coles may only transition between Sedex and FairFarms once all activities under Sedex or FairFarms have been met or by approval from Coles as described in **Table 3**.

Where a site is not approved, a transition to another program must be requested and approved by Coles or may impact the ability to supply until an approval status has been granted. Any questions on transitioning from one program to another should be discussed with Coles Ethical Sourcing team directly.

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5. Consultation and feedback

The Ethical Sourcing Policy and Ethical Sourcing 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 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 effect 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 and Ariba.

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	Own Brand	Direct suppliers (Tier 1)	Leverage: high, brand ownership	SEDEX	Ethical Audit
		Packing / manufacturing to final retail form (Tier 2)	Inherent exposure: manufacturing operations are largely in medium risk countries		
	Fresh Produce (Unprocessed fruit, vegetables and flowers, including those bearing a proprietary brand label)		Leverage: high level of association with the Coles Brand	SEDEX Fair Farms	Ethical Audit Fair Farms
			Inherent exposure: labour hire structure, increased risk of forced labour due to high use of migrant labour, product and country risk.		
Liquor	Own Brand, Export	Direct suppliers (Tier 1)	Leverage: high, brand ownership	SEDEX	Ethical Audit
		Bottling sites (Tier 2)	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 suppliers (Tier 1)	Leverage: ownership of commercial relationship	Ariba SEDEX (pending initial risk assessment)	Ethical Audit
	Suppliers of goods branded with a Coles name; goods built to Coles customised specifications	Packing / manufacturing to final form (Tier 2)	Inherent exposure: high risk activities and/or Countries.		Labour Hire Licensing Scheme (State requirement)
	Suppliers with operations in high-risk Countries	Sub-contractors (Tier 2) (in selected circumstances)			