



# **SUPPLY CHAIN MANAGEMENT POLICY AND GUIDELINES**



## Contents

1. Intent	3
2. Objective	3
3. Roles and Responsibilities	3
4. Guidelines	4
Appendix: Standard Clauses on Human Rights in Supply Agreements	11



# Supply Chain Management Policy and Guidelines

## 1. Intent

Charoen Pokphand Group is committed into following sustainable business practices, by prioritizing the entire production process from upstream to downstream operations, in conjunction with promoting best practices in all business operations using the Responsible Supply Chain Management Framework.

## 2. Objective

To hold management and staff accountable in ensuring sustainable development with suppliers in its supply chains, for the maximum benefit of stakeholders from all sectors.

## 3. Roles and Responsibilities

### 3.1. Board of Directors

Ensure the Supply Chain Management Policy and Guidelines (“Policy and Guidelines”) are in place, to assure the management of all supply chains responsibly.

### 3.2. Management

3.2.1. Establish rules and procedures to suit the nature of business, while remaining consistent with the Policy and Guidelines of Charoen Pokphand Group.

3.2.2. Ensure there is an organizational structure and related functions in place, including the Supply Engagement Team or the responsible department/persons to proceed with operations.

3.2.3. Monitor the implementation to ensure compliance of policy, guidelines, and regulations, while finding new measures to improve performance.

### 3.3. Supply Engagement Team (SET)/Responsible department or persons

3.3.1. Communicate and advise people on policy, guidelines and procedures.



3.3.2. Monitor operations in accordance with regulations, including being responsive to the needs of concerning stakeholders and external organizations.

3.3.3. Regularly report operational performance related to the Policy and Guidelines to the Board of Directors or management.

### **3.4. Supplier Relationship Officer**

3.4.1. Collaborate with new and existing suppliers to ensure they complete their sustainability self-assessment within the specified period.

3.4.2. Work with audit teams and suppliers to audit and correct supplier deficiencies.

3.4.3. Report results of supplier audits to the SET/responsible department or persons.

### **3.5. Purchasing department/officer**

3.5.1. Communicate with suppliers and disseminate the Supplier Code of Conduct.

3.5.2. Coordinate with the Supplier Relationship Officer when initiating an evaluation for new suppliers.

3.5.3. Coordinate with suppliers

### **3.6. Audit Team**

3.6.1. Work with the supplier relationship officer and the supplier to perform audits and correct ethical issues

3.6.2. Report results of supplier audits to the SET/responsible department.

## **4. Guidelines**

### **4.1. Assessment of supply chain risks within the specified period**

The risk assessment of direct or indirect suppliers against the following relevant "supply chain risk factors", by taking into consideration trusted publicly-available information, including reports from governments and non-governmental organizations. For high-risk suppliers or materials, the business unit should collaborate with the concerning supplier to create a supporting plan.

### **4.2. Determining Critical Tier 1 Suppliers**



- 4.2.1. Prepare all supplier lists, including direct and indirect suppliers
- 4.2.2. Prepare the Critical Tier 1 Supplier list for suppliers directly procuring product or service for Charoen Pokphand Group or the business unit. Suppliers that fit this scope can be identified by suppliers with high volume or net purchases, as well as suppliers that procure key components or are indispensable to Charoen Pokphand Group or its business units.
- 4.2.3. The Supplier Relationship Officer coordinates with the suppliers in the Critical Tier 1 Supplier lists.
- 4.2.4. Suppliers in Critical Tier 1 Supplier list perform a self-assessment, of which the results can be separated into 3 grades in order of risk levels: A (being the lowest), B and C (being the highest).

Risk Grade	Risk Score	Operational Guidelines
A	0-20.9	The SET must have suppliers with this grade complete a self-assessment every 2 years, to ensure that their efficiency remains aligned with the Supplier Code of Conduct.
B	21.0 – 70.9	The SET must have suppliers with this grade complete a self-assessment annually, to ensure that their efficiency remains aligned with the Supplier Code of Conduct.
C	71.0 – 100	Suppliers with this rating must be fully audited by the SET or a hired Audit Team. The suppliers are then required to estimate time to make any corrective actions or improvements, in order to improvements of compliance with the Supplier Code of Conduct. Suppliers are also required to complete a self-assessment within a year after the audit to track improvements of compliance with the Supplier Code of Conduct.

### 4.3. Auditing of suppliers within the specified period

- 4.3.1. The SET or responsible department/person assigns an Audit Team to perform the supplier audit. An audit team should comprise of the following:
  - 1) A representative from the Safety, Health and Environment department
  - 2) A representative from the Human Resources department
  - 3) A representative from Compliance Department



- 4) Where appropriate or necessary, an external consultant or auditor
- 4.3.2. The audit team should complete a full audit on all suppliers with a C-grade risk, in addition to randomly sample suppliers with a B-level risk.
- 4.3.3. The audit team is required to evaluate the supplier's compliance with the Supplier Code of Conduct, and promptly report the evaluation to SET/responsible department or persons.
- 4.3.4. The audit team informs the supplier of any issues that do not comply with the Supplier Code of Conduct.

#### **4.4. Corrective Action Requests**

- 4.4.1. Where a supplier is identified to be in non-compliance with the Supplier Code of Conduct, the Audit Team and SET may decide to issue a Minor or Major Corrective Action Request ("CAR") to the relevant supplier.
  - 1) A Minor CAR is issued for a shortcoming, which does not pose immediate or severe threats to the human rights of stakeholders and/or where the supplier has risk management procedures in place, but they could be improved to meet Charoen Pokphand Group's expectations.
  - 2) A Major CAR is issued where there is a risk of imminent or severe impact on the human rights of stakeholders and/or the supplier does not have any of the risk management procedures that can reasonably be expected of that supplier.
- 4.4.2. The audit team will meet with the supplier's management to discuss any CARs and, if necessary, amend the CAR to include any obstacles to implementation identified by supplier management.
- 4.4.3. The audit team must specify to the supplier the time period within which remedial action must be taken and that the supplier is expected to notify the audit team of any remedial measures so that, with their approval, the CAR will no longer be considered "outstanding".

#### **4.5. Encouraging General Improvement**

- 4.5.1. The Supplier Relationship Officer must explain the Supplier Audit Ratings to the supplier and identify what the supplier needs to do to progress to the next rating on the scale set out above. The Supplier Relationship Officer should offer training and other assistance, as appropriate, to the supplier.



4.5.2. For a supplier with an outstanding “C” Supplier Audit Rating, the Audit Team or the Supplier Relationship Officer must notify the SET when the supply agreement for that supplier is up for renewal. The executive must authorize clearance before Charoen Pokphand Group can renew, extend or sign a new agreement of any kind with a “C” risk-level supplier.

## 4.6. Management of Supplier Relationships

### 4.6.1. Communication of the Supplier Code of Conduct

- 1) The Purchasing department/officer is responsible for communicating and disseminating the Supplier Code of Conduct in relevant local language versions to all suppliers, including both direct suppliers and indirect suppliers (if possible), through the most appropriate method, e.g. email, post and/or face-to-face meeting.
- 2) In particular, the SET/responsible department or persons should ensure that the Supplier Code of Conduct reaches all suppliers on the Critical Tier 1 confirm the receipt.
- 3) The SET/responsible department or persons should also ensure that the Supplier Code of Conduct is published on the Charoen Pokphand Group website.

### 4.6.2. Selecting New Suppliers

- 1) The Purchasing department/officer informs and assigns Supplier Relationship Officer for all prospective suppliers. The Supplier Relationship Officer is responsible for all prospective suppliers to complete the sustainability Self-Assessment.
- 2) In addition to any other due diligence that the SET/responsible department or persons may wish to conduct on the prospective supplier, they may assign an audit team to carry out an audit following the same principles as for audits of existing suppliers.
- 3) On review of the audit, the audit team should communicate specific ethical issues to the Purchasing department, who shall act as follows:
  - a. If the ethical issue would merit a Major CAR in an existing supplier, the Purchasing department cannot execute a supply agreement until the supplier remedies the issue; or



- b. If the ethical issue would merit a Minor CAR in an existing supplier, the Purchasing department/officer should aim where possible to ensure that the supplier is contractually bound to remedy the issue within a reasonable time.
- 4) The Purchasing department and Compliance Department must include in any supply agreement with a new supplier the "Standard Clauses on Human Rights in Supply Agreements".

#### 4.6.3. Existing Suppliers

- 1) The Purchasing department or the Supplier Relationship Officer should procure from existing suppliers who voluntarily sign up to the Standard Clauses on Human Rights in Supply Agreements.
- 2) In the event of any renewal or renegotiation of a supply agreement:
  - a. The Supplier Relationship Officer must communicate any renewals to the SET/responsible department or persons.
  - b. The Supplier Relationship Officer must ensure that the renewing or renegotiating parties complete a sustainability self-assessment.
  - c. The SET/responsible department or persons shall (If the Risk Grade is C) request an audit as in 4.3: Auditing of Suppliers within the Specified Period, regarding procedures prior to contract renewal.
  - d. The Purchasing department shall include the "Standard Clauses on Human Rights in Supply Agreements" in any renewed or renegotiated agreement.

#### 4.6.4. CAR Remediation

- 1) If a supplier does not comply with a CAR by the identified deadline, the Supplier Relationship Officer will inform the SET, who is responsible for deciding whether Charoen Pokphand Group should use any contractual rights (e.g. of termination) it has against the supplier in the event of non-compliance, or whether there are other steps (e.g. sending reminder to the supplier) that are more appropriate.
- 2) If a supplier has consistently failed to comply with multiple Minor CARs, or does not comply with a Major CAR, by the relevant deadline(s), the Supplier Relationship Officer will inform the SET





at the earliest reasonable opportunity. The SET will decide whether to terminate and/or blacklist the supplier in accordance with the relevant contractual provisions. The SET will maintain and regularly distribute throughout Charoen Pokphand Group its list of blacklisted suppliers.

- 3) The SET may only terminate the contract or blacklist a supplier once it has exhausted all other avenues of remedying the problem. While terminating a contract with a supplier suspected of human rights abuses may lessen the risk for the procurer, Charoen Pokphand Group recognizes that it does not stop the abuse itself.
- 4) Before terminating a supplier, the SET is to offer the supplier training on relevant risk management to improve its performance and designate the individual(s) responsible for carrying out the training.
- 5) Furthermore, Charoen Pokphand Group recognizes that some risks may pervade throughout the supply chain, and there may not be any viable alternative suppliers who are free from the relevant risk. In these cases, the supervising executive will consult with high-level executives on steps to elevate the performance within that tier and encourage all suppliers to abide by relevant standards. It will consider whether to engage with local or national government, or with other industry players to develop wider solutions.

## **4.7. Grievance Mechanisms**

The SET must ensure that employees, suppliers and external stakeholders of Charoen Pokphand Group can give feedback on suppliers related to the Supplier Code of Conduct directly to Charoen Pokphand Group. The SET will advertise as appropriate a means by which stakeholders can raise concerns or provide feedback.

## **4.8. Communication of Supply Chain Management**

- 4.8.1. The SET is responsible for communicating the improvements made to risk management in its supply chain to stakeholders and to the public, while complying with the UN Guiding Principles requirement that companies should formally and publicly report risks of severe human rights impacts.
- 4.8.2. The SET shall work with senior management and/or the Executive Committee, along with Charoen Pokphand Group to establish a publication policy in respect of supply chain management. The



supervising executive shall endeavor to publish at least an annual report setting out:

- (a) steps taken in that year to scope and address supply chain risks;
- (b) particular issues the Charoen Pokphand Group has encountered, in addition to any remedial or preventative measures performed; and
- (c) next steps to improve Charoen Pokphand Group's procedures and reduce risks.



## Appendix: Standard Clauses on Human Rights in Supply Agreements

### NOTES

1. This Appendix sets out (i) mandatory and (ii) recommended wording for human rights clauses to be inserted by [Purchasing department/compliance department] into contracts with suppliers, to ensure compliance with the Supplier Code of Conduct.
2. The Mandatory Clauses are essential and should be inserted into all supply agreements. Further clauses, notably regarding change of control are available and are likely only suitable for sophisticated suppliers. [Purchasing department/compliance department] should use these clauses as a starting point for negotiation, but recognize that some suppliers may be unable or unwilling to sign up to them.
3. Footnotes indicate particular considerations for Purchasing department/compliance department when integrating these terms into a supply agreement.



# Standard Clauses on Human Rights in Supply Agreements

## 1. Definitions

**The Company** means [name of C.P. Group Company];

**Code of Conduct** means the Charoen Pokphand Group Supplier Code of Conduct, as amended from time to time;

**Human Rights Due Diligence** means a due diligence exercise, of a scale appropriate to (i) the resources of Supplier and (ii) the level of risk involved in its operations and supply chain by reference to high risk sectors and jurisdictions, referable to principles and rights set out in the United Nations Guiding Principles on Business and Human Rights;

**CAR** means a corrective action request, whether identified major or minor ethical issues, issued by the Company and as discussed with Supplier's management upon the conclusion of an audit of Supplier, specifying issues identified during the audit which Supplier must address;

**Supplier** means [name of supplier] and any of its subsidiaries.

## 2. Code of Conduct: Performance of Obligations

- 2.1 Supplier shall conduct their businesses in compliance with all applicable laws and regulations and in accordance with ethical principles and fair business practice.
- 2.2 Supplier shall comply with the Code of Conduct.
- 2.3 Supplier shall use its best endeavors to procure that Supplier's suppliers shall, and shall in turn require that each of their respective suppliers shall, comply with the Company Code.
- 2.4 Supplier shall participate in training offered by the Company in connection with the Code of Conduct, and work with the Company to implement and improve the Code of Conduct.
- 2.5 Following the report of any actual or potential breach of the Code of Conduct arising in connection with the activities of Supplier, Supplier will take whatever actions are deemed necessary by the Company to ensure compliance with the Code of Conduct.

## 3. Representations and warranties [to be added to others in the contract]

- 3.1 Supplier represents and warrants:



- 3.1.1 neither Supplier nor any of its board members, executive officers, owners or employees has ever been the subject of a formal cause of action or regulatory complaint related to a violation of any matters referred to in the Code of Conduct
- 3.1.2 it has never been debarred from bidding for public or other contracts on the basis of violations of any matters referred to in the Code of Conduct;
- 3.1.3 so far as Supplier is aware, to the best of its knowledge and belief, there is no actual or potential breach of the Code of Conduct directly or indirectly linked to its business operations, products or services or its supply chains, other than those already disclosed in writing to the Company.

#### **4. Human Rights and Supply Chain policies and procedures**

Within a reasonable time after entering into this Agreement, Supplier shall (a) adopt a human rights policy and a supply chain policy, together with associated procedures, in order to respect internationally recognized human rights, such as the United Nations Guiding Principles on Business and Human Rights, and (b) conduct Human Rights Due Diligence in respect of its business operations and its supply chain. Supplier shall inform the Company of any areas of concern or risk issues identified and the Supplier's proposed response to address such risks.

#### **5. Reporting and cooperation obligations**

- 5.1 Supplier shall promptly inform the Company of any allegation or suspicion of any violations of the Code of Conduct linked to its business or that of its suppliers, or the instigation of any formal action or investigation related thereto.
- 5.2 Supplier shall maintain a complete set of records to trace the supply chains of all goods and services provided to the Company in connection with this Agreement, promptly provide the Company with any information that the Company may reasonably request in response to a reasonable concern about Supplier's compliance with its obligations under the Code of Conduct, and shall cooperate with any reasonable steps or investigation by the Company into compliance with the provisions of the Code of Conduct, and in particular shall permit the Company and its third party representatives, on reasonable notice to have access to Supplier's facilities, take copies of Supplier's relevant records and any other information, and to meet with the Supplier's personnel to audit the Supplier's compliance with the Code of Conduct.



## 6. Termination<sup>1</sup>

Without affecting any other right or remedy available to it, the Company shall have the right to terminate this Agreement upon the giving reasonable written notice to Supplier, without liability, if Supplier has:

- 6.1 committed a serious breach the Code of Conduct;
- 6.2 breached the representation and warranty regarding the Code of Conduct;
- 6.3 within a reasonable time, failed to remedy a shortcoming notified to Supplier in a Major CAR; or
- 6.4 failed to remedy a shortcoming notified to Supplier in three or more Minor CARs concerning that same shortcoming.

---

<sup>1</sup> The supply agreement negotiator should include these provisions in any existing termination clause. They are not intended to be a comprehensive termination clause and should not replace any existing provisions on termination.