

Technical Guideline Responsible Supply Chain Management



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Introduction

Charoen Pokphand Group is aware that efficient supply chain management reduces the risk of business disruption which may produce direct impacts on the Group's image and business operations as well as affect other stakeholder groups across the supply chain. In order to avoid such risk, the Group has developed the Sustainable Procurement Policy and Guideline and the Supplier Code of Conduct to ensure that suppliers' operations conform with the economic, social and environmental dimensions of sustainability.

With a view to translate such principles into practice, the Group has formulated the Responsible Supply Chain Management Guideline as a parameter in designing and implementing an appropriate and adequate responsible supply chain management system for each company to accomplish the Group's targets under the concept of "think together, build together, towards sustainable growth together".

Sustainability Development Department,

Sustainability, Good Governance, and Corporate Communications Office

Charoen Pokphand Group



Responsible Supply Chain Management Framework

Charoen Pokphand Group is committed to managing environmental, social and economic impacts while striving to promote good governance throughout the life cycle of products and services. Accordingly, the Group operates within the framework of responsible supply chain management based on the UN Global Compact's guidelines which consist of :

COMMIT

Clearly define the vision and objectives of responsible supply chain management.

Formulate a supplier code of conduct that embraces social, environmental, and corporate governance issues to demonstrate the company's commitment in supporting suppliers who operate with ethics and social responsibility.

ASSESS

Identify the scope for responsible supply chain management to address risks from impacts related to human rights, the environment and good governance.

The UN Global Compact Management Model



DEFINE and IMPLEMENT

Identify the company's critical suppliers and sustainability high-risk suppliers. Communicate expectations and create supplier engagement to enhance and upgrade their capacity and competitiveness towards sustainability.

MEASURE and COMMUNICATE

Monitor and measure performance against targets. Report progress to the public with transparency.

Responsible Supply Chain Management Strategy, ESG Objectives and KPI

In order to achieve the Group's purpose and comply with the UN Global Compact's Responsible Supply Chain Management Framework, the Group has defined the following strategies, ESG objectives and KPI :



Strategy, ESG Objectives and KPI

1. To eradicate human rights violations, the Group encourages all tier 1 suppliers to strictly comply with the Supplier Code of Conduct, relevant laws, rules and regulations, and urges tier 1 suppliers to earnestly translate them into practice to non-tier 1 suppliers.

KPI 1.1

100% of tier 1 suppliers have signed acknowledgement and received training on the Supplier Code of Conduct.

KPI 1.2

100% of tier 1 suppliers have been assessed for human rights risk every three years.

KPI 1.3

100% of sustainability high-risk suppliers have a plan to mitigate and correct risks within 12 months.

KPI 1.4

100% of sustainability high-risk suppliers must undergo audits at scheduled intervals.

2. To promote sustainability practices to suppliers, especially in terms of environmental friendliness, the Group supports suppliers in GHG emissions reduction, waste disposal, water management, etc.

Responsible Supply Chain Management Strategy



KPI 2.1

100% of procurement expenditures should derive from suppliers with comprehensive environmental management.

KPI 2.2

50% of suppliers participate or collaborate with the company on environmental management.

KPI 2.3

100% of tier 1 suppliers comply with laws and regulations on water management and perform water consumption risk assessment.

3. To increase product safety for customers and consumers, the Group encourages the implementation of a traceability system which allows a product to be traced back to its raw material source and avoids purchasing from illegal or non-compliant sources.

KPI 3.3

100% of sustainability high-risk raw materials are traceable.

The organization must appoint a senior executive to oversee that business operations comply with relevant laws, rules, regulations and guidelines as well as to effectively translate policy into practice.

Responsible Supply Chain Management Guidelines



1 Management Overview

1.1 Comply with laws, rules, regulations, policies and guidelines as well as responsible supply chain management standards applicable in each country of operation.

1.2 Treat suppliers and business partners with equality; combat against all forms of fraud and corruption; and adhere to the principles of corporate governance, the Business Code of Conduct, human rights principles, fair competition, and sustainable development strategic framework.

1.3 Implement and support the upgrade of responsible supply chain management to meet international standards, e.g., ISO 20400: Sustainable Procurement Guidelines, or other equivalent standards.

1.4 Adopt and encourage the enhancement of responsible procurement to focus on reducing social and environmental impacts to ensure that raw materials were acquired from an appropriate source, e.g., being traceable throughout the supply chain and being certified with sustainability standards, e.g., organic farming, Marine trust, Roundtable on Sustainable Palm Oil (RSPO), Forest Stewardship Council (FSC), etc.



2 New Supplier Selection

When it is necessary to procure goods and services, the responsible procurement officer selects appropriate suppliers through the following process :

2.1 Communicate accurate, clear, sufficient and fair information about the need to procure goods and/or services to suppliers with suitable qualifications and provide them with equal opportunities to present their goods and/or services in an effort to promote and support fair competition.

2.2 Before being listed as a new supplier, the suppliers must undergo a preliminary screening which assesses essential information to ensure that they are qualified and equipped with an appropriate and adequate internal control system. The essential information should include business and sustainability information (as shown in the following example as appropriate).

The information may be acquired through a questionnaire, a site visit, a request for supporting documents, or others means as appropriate.



Example of Business and Sustainability Information

- Ownership information (e.g., registration information, beneficial ownership)
- Information on relationships with current and former public officials or political parties, including relationships of close family members
- Information on related organizations
- Risk assessment practices
- Use of subcontractors on work to be done for the organization
- Third-party risk management practices
- Ethics and compliance policy documentation
- Training program for the third party's employees
- Reporting requirement and mechanism
- Existence of ethics and compliance function
- Past misconduct (e.g., serial litigation; civil, criminal and regulatory issues; labor issues/problems, etc.)
- Sanctions and embargo lists
- General reputation



2.3 The scope of the preliminary screening (in 2.2) takes into account each supplier's risk level based on :

- 1) Geography
- 2) Industry
- 3) Contract value
- 4) Financial stability
- 5) Compensation structure
- 6) Supplier's crisis
- 7) Characteristics of goods and services
- 8) Referrals from other agencies
- 9) Whistleblowing and complaints from reliable sources

2.4 Consider selecting new suppliers based on the defined selection criteria, namely quality, price, delivery and sustainability. Assign a weight (%) to each criteria to ensure that the new suppliers have sufficient capacity to comply with relevant requirements. Accordingly, a minimum weight of 30% is required for sustainability.

Example of the Selection Criteria :

- Quality 30%
- Delivery 30%
- Sustainability 30%
- Price 10%



2.5 Specify the needs and expectations for the delivery of goods and services, human rights and labor treatment, environment, good corporate governance as well as compliance with the Supplier Code of Conduct, industry-specific requirements and other specific requirements in the procurement contract. Also, provide a copy of the Supplier Code of Conduct therewith.

2.6 Communicate the Supplier Code of Conduct and operational requirements to all new suppliers who are required to sign acknowledgement of the Supplier Code of Conduct to express their commitment and strict compliance.



3. Identification of Critical Suppliers

3.1 Analyze supplier criticality to business operations to identify critical tier 1 suppliers based on the following spending analysis criteria :

- 1) Suppliers with high spend value
- 2) Suppliers of critical goods and services
- 3) Suppliers of non-substitutable goods and services, or are among the few available suppliers
- 4) Other criteria as deemed appropriate, e.g., suppliers with strategic relationship

Note :

The above criteria can be combined to determine the definition of critical tier 1 suppliers as appropriate.

3.2 Consider the criticality of other suppliers along the supply chain to identify critical non-tier 1 suppliers based on business and sustainability factors.

3.3 Review the list of critical tier 1 suppliers and critical non-tier 1 suppliers on an annual basis or upon a significant change according to the organization's context.



Case Study

ABC Co., Ltd. is a donut manufacturer. The company orders several raw materials, e.g., wheat flour, butter, sugar, salt, yeast, paper boxes, consumables, office supplies, etc.

ABC Co., Ltd. conducted a spending analysis to identify

The spending analysis yielded the following list of critical tier 1 suppliers :

- 1) Companies A,M,L,G : manufacturers with high spend value
- 2) Company B : producer of special-formula wheat flour which is a key ingredient
- 3) Company C : high-spend value producer of sugar which is a key ingredient
- 4) Company D : producer of specific strain of yeast
- 5) Company E : packaging service provider

Supplier Name	Product Category	Sub-Category	Spend Value (M THB) (From top to small)	Accumulate Spend Value (M THB)	Accumulate Spend Value (%)	Critical Supplier (Y/N) * High spend (top 80%) * Single supplier * Critical component	Spend Value for Critical supplier (M THB)
Company C	Food Ingredient	Sugar	200	200	25%	Y (High spend top 80%, Critical component)	200
Company A	Food Ingredient	Butter	150	350	44%	Y (High spend top 80%)	150
Company M	Food Ingredient	Egg	100	450	56%	Y (High spend top 80%)	100
Company L	Packing	Plastic	80	530	66%	Y (High spend top 80%)	80
Company G	Food Ingredient	Icing Sugar	80	610	76%	Y (High spend top 80%)	80
Company H	Food Ingredient	Sugar	75	685	86%	N	
Company E	Service Provider	Packing	30	715	89%	Y (Single supplier)	30
Company D	Food Ingredient	Yeast	30	745	93%	Y (Single supplier)	30
Company F	Food Ingredient	Salt	20	765	96%		
Company B	Food Ingredient	Flour	20	785	98%	Y (Critical component)	20
Company I	Food Ingredient	Sugar	10	795	99%	N	
Company J	Food Ingredient	Sugar	5	800	100%	N	
	Total Spend(THB)		800		Total Spend(Critical Supplier) (THB)		690
Share of total spending in critical Supplier) (%)							86%

Note :

The scope of the spending analysis should cover both ingredient manufacturers and service providers associated with the production of strategic products. This case study did not include manufacturers of consumables, office suppliers and some suppliers with minimal spend value, except company policy



4. ESG Risk Assessment

4.1 Regularly assess ESG risks throughout the supply chain at least once every three years using appropriate methods :

- 1) Site visits
- 2) Questionnaires/self-assessment forms
- 3) Information from reliable third parties or stakeholders
- 4) News and others

In this regard, the Group recommends two methods:

Method 1 : Risk assessment by the company

Method 1 : Risk assessment by the company

1.1 Identify high-risk suppliers by performing ESG risk assessment across the supply chain, covering ingredients, packaging and service providers; this is not limited to tier 1 suppliers with direct transactions but also includes non-tier 1 suppliers.

1.2 Determine risk factors based on all three dimensions of sustainability, namely environmental, social and corporate governance (Table 1), and according to the Sustainable Procurement Policy and Guideline and the Supplier Code of Conduct.

Table 1 Risk Factors

Environment	Social	Governance
Material toxicity and chemicals	Child Labour	Conflict of interest
Forest Risk Commodity	Discrimination	Gifts, meal and entertainment
Waste disposal	Forced Labor and Abuse of Labor	Corruption
Greenhouse gas emission	Epidemic	Protecting information
Energy use	Occupational health and safety	Fair competition
Water use and waste water treatment	Working conditions	Intellectual property
Air pollution	Remuneration	
Biodiversity		
Deforestation		



1.3 Establish risk assessment criteria, comprising two dimensions :

- Impact measures potential consequences if the risk is realized, e.g., impact on financial conditions, image and reputation, environment and safety.

Table 2 Impact

Impact	Score
Very high impact on the achievement of goals	5
More than 50% negative impact and failure to achieve goals	4
Less than 50% negative impact on the achievement of goals	3
Low or indirect impact	2
Hardly no impact or minor resolvable problem	1

- Likelihood assesses the probability or frequency that is likely to occur if the risk is realized.

Table 3 Likelihood

Likelihood	Score
Occurring frequently in the past and present (every trimester or monthly)	5
Occurring frequently in the past and present (annually)	4
Occurring frequently in the past and present (2-3 times a year)	3
Occurring in the past but not during the past 3-5 years	2
Never occurred in the past and very unlikely to occur in the	1





1.4 Assess each risk factor (in 1.2) using the risk assessment criteria (in 1.3). The information used in the risk assessment can be obtained from :

- 1) News from trusted public sources
- 2) Past performance
- 3) Country / Sector / Commodity – specific risk
- 4) Potential future risk trends
- 5) Supplier self-assessment results

Example of Public Sources

TOOLS AND RESOURCES

Geographic risks:

- World Bank Worldwide Governance Indicator
- Amnesty International Country Reports
- US Department of State Country Reports
- Human Development Index
- Economic Freedom Index
- Corruption Perceptions Index
- Office of the High Commissioner for Human Rights website
- Business and Human Rights Resource Centre
- Guardian Sustainable Hub
- Freedom House website

- International Trade Union Confederation website and reports
- Human Rights Watch website

Commodity-specific risks:

- Industry & issue-specific reports from various international research institutions (e.g. US Dept' of Labor, Human Rights Watch, Oxfam, Anti-Slavery International)
- The Human Rights and Business Dilemma Forum

Supplier performance:

- Supplier self-assessment
- Audit results

Source : Supply Chain Sustainability
A Practical Guide for Continuous Improvement

1.5 Classify suppliers associated with risk issues in red or orange zone as high-risk suppliers in order to plan audits and determine control measures to reduce risks and impacts. Some risks may have very high impact

combined with low likelihood score as a result of an adequate control system. In such cases, the risk issues should be considered as high-risk.

Example of a sustainability risk assessment

ระดับความรุนแรงของผลกระทบ (Impact)	Critical 5	1	2	3	4	5
		Rare	Unlikely	Possible	Likely	Almost Certain
		ระดับความรุนแรงของโอกาสเกิด (Likelihood)				
		1	2	3	4	5
		Rare	Unlikely	Possible	Likely	Almost Certain
		Medium	Medium+	Medium+	High	High
	Serious 4	Medium	Medium	Medium+	Medium+	High
	Moderate 3	Low	Medium	Medium	Medium+	Medium+
	Minor 2	Low	Low	Medium	Medium	Medium+
	Insignificant 1	Low	Low	Low	Medium	Medium

matrix where the X-axis represents impact, and the Y-axis represents likelihood. Based on the assessment results, risk factors that fall in high-risk areas (high-risk areas are determined by the company, e.g., orange or red) will be assigned as the supplier's key sustainability risks.



Method 2 : ESG Supplier Self-Assessment

2.1 Require Tier-1 suppliers to carry out ESG Supplier Self-Assessment at least once every three years to assess their compliance with the Supplier Code of Conduct and create awareness of sustainability direction among the suppliers.

2.2 Analyze the suppliers' self-assessment results and classify their risk level, which can be divided into three levels as shown in Table 4.

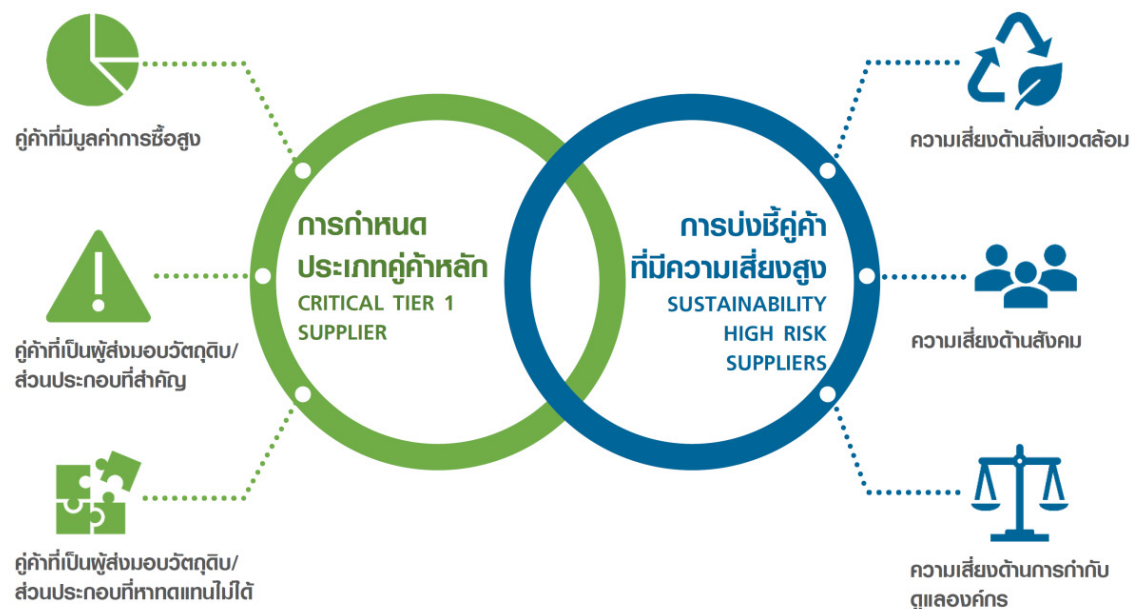
The results of the Supplier ESG Self-Assessment will be used to consider the following activities:

- Planning for on-site supplier audit in section 5.
- Planning for supplier capacity building in section 7.

Table 4 Supplier Risk Classification

Results	Percentage Risk Score	Action
A	0-20.9	Follow up and evaluate performance according to regular scheduled intervals
B	21-70.9	Increase the ESG self-assessment cycle to every two years
C	71-100	Immediately perform on-site supplier audit

Figure depicting the identification of critical tier 1 suppliers and sustainability high-risk suppliers





5. On-site Supplier Audit

5.1 Develop an audit plan to assess suppliers' compliance with the Supplier Code of Conduct and the requirements of relevant rules and regulations on an annual basis or once every three years according to each supplier's criticality and risk level. The audit plan covers :

- All critical tier 1 suppliers
- All critical non-tier 1 suppliers
- All sustainability high-risk suppliers
- All suppliers with C-level rating in the Supplier ESG Self-Assessment

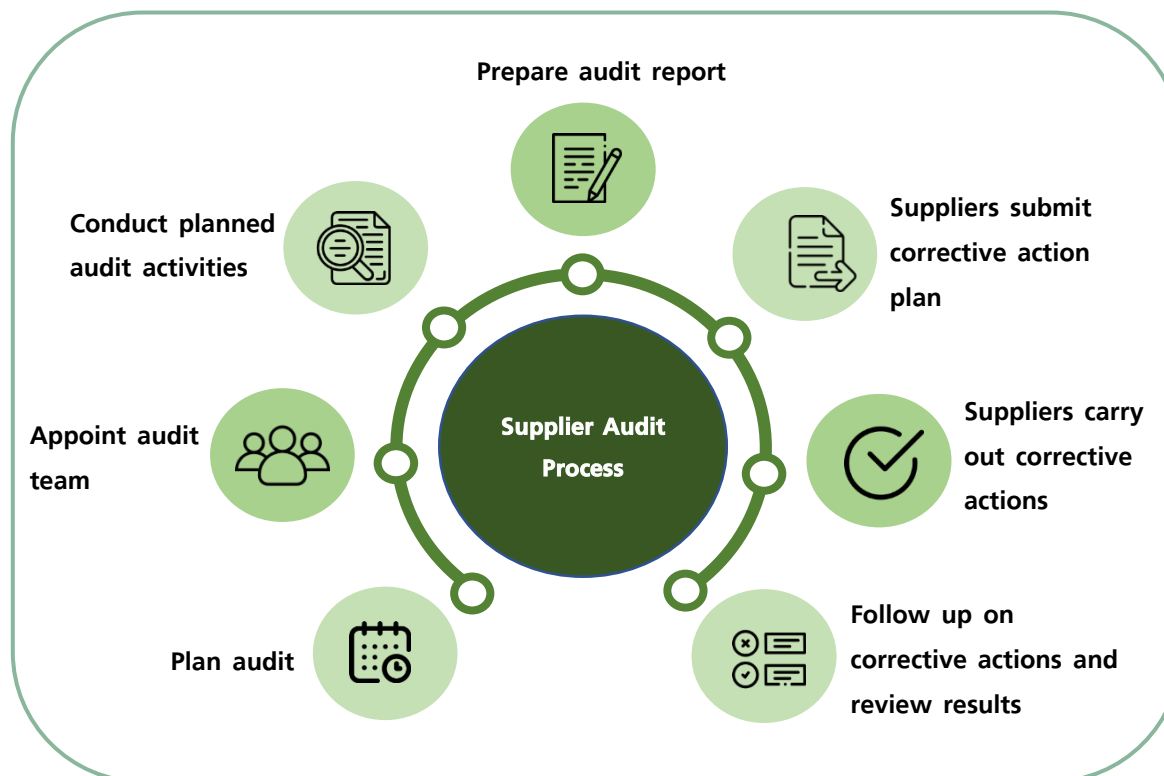
5.2 The Supply Chain Management Working Group, responsible agency or person in charge appoints a team of auditors to perform the supplier audit. The team should consist of:

- 1) Individuals with knowledge on occupational health, safety and environment
- 2) Individuals with knowledge on labor law and respect for human rights
- 3) Individuals with knowledge on compliance or employees with knowledge of sustainability
- 4) Consultants or third-party auditors as deemed necessary or appropriate

5.3 The audit team conducts an on-site audit using an off-line and/or on-line format as appropriate. The team also prepares the audit report and summary for the Supply Chain Management Working Group or the responsible

5.4 Suppliers are required to submit a corrective action plan within a specified time frame if non-conformities are found in the audit process. A follow-up of the corrective actions is also required until their completion.

If a supplier neglects to deliver a corrective action plan or fails to implement the plan within the specified time frame, the Group will suspend trading until the supplier complies with the requirements and resolves the issue completely.





6. Supplier Performance Evaluation

6.1 Evaluate suppliers' performance at least once a year to assess their ability to comply with the terms of the contract, namely quality, price, delivery and sustainability. A score (%) should be assigned to each selection criteria. Accordingly, a minimum score of 30% is required for sustainability. Inform the suppliers on any improvements required. The evaluation frequency may increase according to each supplier's risk level.

Example of the Assessment Criteria :

- Quality 30%
- Delivery 30%
- Sustainability 30%
- Price 10%



7. Supplier Capacity Building

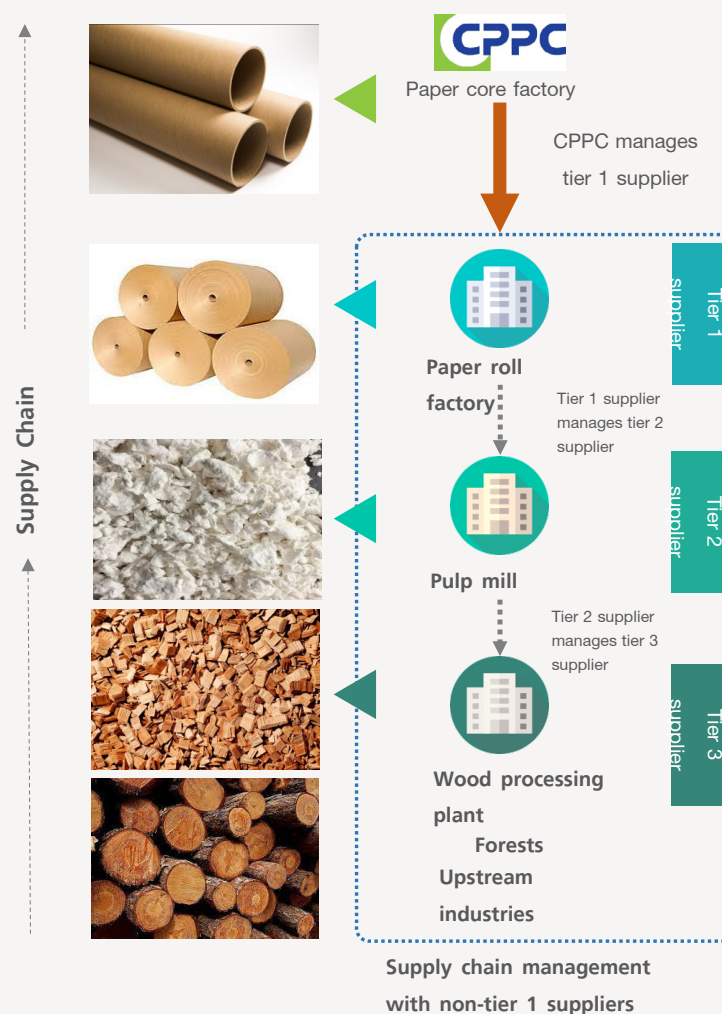
7.1 Encourage and support suppliers to upgrade their management system to meet international sustainability standards with credible third-party certifications, e.g., quality management system, environmental management system, safety management system, good corporate governance system, as well as undertake sustainability assessments based on economic, social and environmental indicators.

7.2 Encourage and support suppliers to formulate and implement their own sustainable procurement policy to create concrete results for employees/workers and subcontractors to enable an ethical business environment across the value chain.

7.3 Encourage and support suppliers to enhance their quality, competitiveness, and sustainability performance with appropriate approaches such as trainings, joint ventures, synergies to eliminate limitations that exist in each area. Also support suppliers in implementing corrective or improvement actions to promote their performance and long-term partnership. The support programmes include, but not limited to, building a learning network, Supplier Award, incentives, etc.

7.4 Support the procurement of goods and services from local partners and within the country where the business is located to promote the economy, create jobs, generate income for local people, increase distribution channels for eco-friendly products and promote the stability of the local community as well as sustainable agriculture projects.

Example of Supply Chain

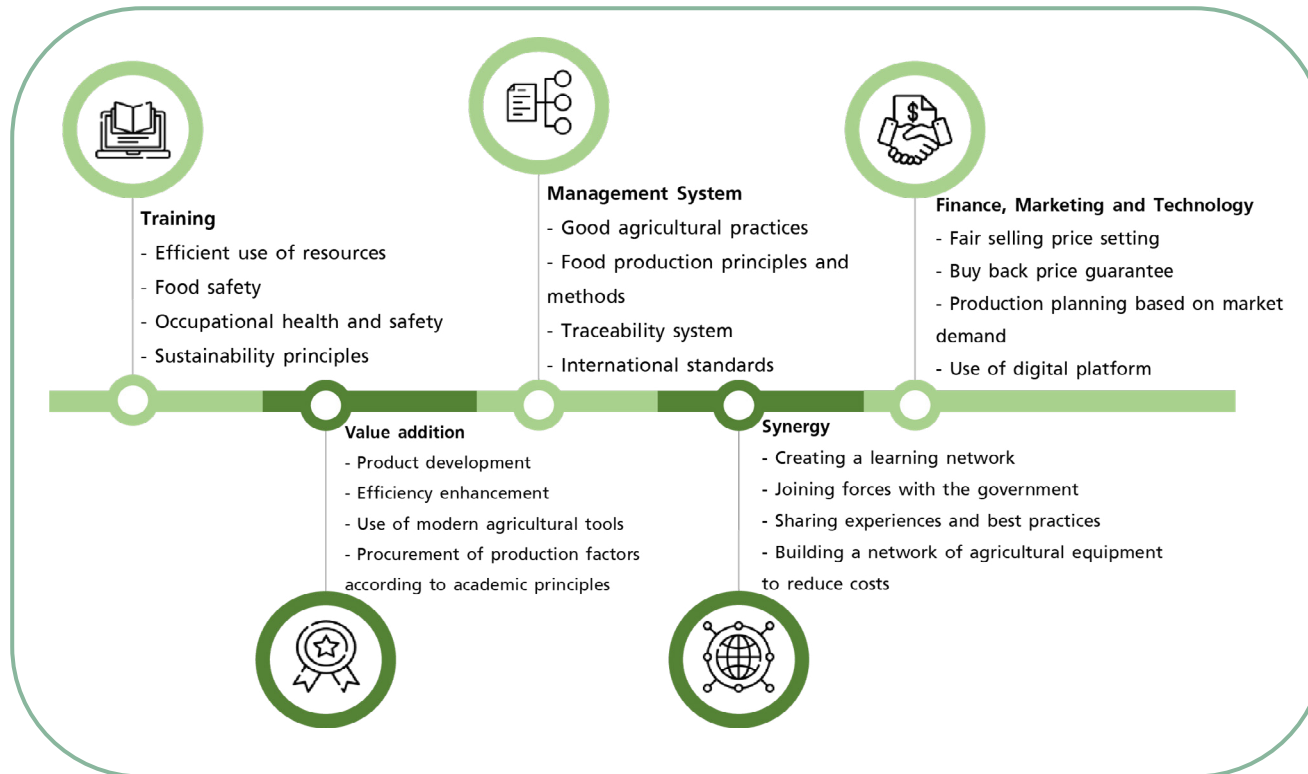


The Group encourages tier 1 suppliers to adopt sustainable procurement practices. Simultaneously, the Group also expects tier 1 suppliers to treat non-tier 1 suppliers with the same approach.

If such practice is continuously promoted to upstream industries, it will eventually lead to sustainable sourcing throughout the supply chain.



Example of Supplier Capacity Enhancement



7.5 Conduct a supplier opinion survey and arrange meetings with suppliers at least once a year to clarify sustainability directions and practices as well as create a learning network.

7.6 Develop supplier capacity enhancement plans/programs with focus on dimensions that are necessary for product and service development in order to upgrade quality and boost competitiveness towards sustainability.

7.7 In case of supplier-related complaints or referrals from third parties, the supplier must undergo a fact-finding investigation process and carry out corrective or preventive actions to avoid recurrence. Increase the frequency of on-site audit to ensure that suppliers have defined appropriate and sufficient corrective and preventive measures.

7.8 Promote and apply digital technology and innovation to enhance capacity and improve supplier and business partner management on a continuous basis.

7.9 Set the following guidelines to manage risks related to information security and the storage, processing, transmission of and access to suppliers' personal data:

- Specify measures to control, protect and preserve material information before entering a joint procurement contract.
- Understand how and where (e.g., geographic location) material company information is stored.
- Indicate the person with full access to material information in the procurement contract.
- Identify procedures to protect and preserve material information in accordance with applicable laws, rules and regulations in the procurement contract.
- Identify processes and procedures that suppliers will take to prevent, detect and mitigate material data breaches in the procurement contract.
- Obtain third-party certification for supplier data security controls (if required).
- Assess data security in accessing, storing or processing material information.



7.10 Formulate the following guidelines to manage risks related to forced labor and human trafficking :

- Establish a communications program that promotes a zero-tolerance policy on forced labor and human trafficking, including the consequences for any violations found.
- Establish a communications program to inform reporting channels about forced labor and human trafficking (e.g., human trafficking hotlines).
- Maintain a procurement policy or plan that is consistent with International Labor Organization (ILO) conventions.
- Maintain a recruitment plan that only approves agencies with trained staff.
- Establish a recruitment policy or plan that prohibits recruitment fees or the seizure of passports or other identification documents.
- Develop a recruitment policy or plan that requires wages to be paid in accordance with the requirements of the country of operation.
- Prepare housing plans to meet the housing and safety standards of the country of operation in order to provide or arrange accommodation for employees (if required).
- Prohibit the employment of forced labor and human trafficking, including agents and subcontractors. If such violation is found, employment must be terminated immediately.
- Regularly audit suppliers to identify, detect and deter forced labor and human trafficking risks.
- Follow news on human rights violations, including forced labor and human trafficking, from external stakeholder sources at local, regional and global levels, e.g., media, NGOs, government agencies.

7.11 Encourage the use of the Asia Floor Wage Alliance's methodology to assess the living wage amounts of the suppliers' employees to enable self-support and support for their families to a good quality of life.

7.12 Encourage and support suppliers to establish a performance tracking system and report data on greenhouse gas emissions from the organization's direct activities (Scope 1), indirect activities as a result of energy consumption (Scope 2), and other indirect emissions (Scope 3) according to internationally recognized standards.

7.13 Provide appropriate complaint channels and processes for suppliers with a transparent, easy-to-understand process that protects suppliers from harassment. Inform such channels to suppliers. In this regard, the company can establish its own whistleblowing channels or implement the Group's : <https://grc.cpgroupsustainability.com/GRC/Whistleblower/WBForms/GlobalWB>



8. Performance Report

8.1 Follow up and measure performance against targets. Report progress to the public with transparency, e.g., through the annual Sustainability Report and the corporate website. Report results and progress to Charoen Pokphand Group according to the scheduled timeline.



Key Definitions

Definitions	Description
Tier 1 Suppliers	Tier 1 suppliers directly provide raw materials, goods or services to companies under Charoen Pokphand Group, e.g., raw material suppliers, raw material-processed goods manufacturers, original equipment manufacturers (OEM), service providers, subcontractors, delivery-distribution service providers, etc.
Critical Tier 1 Suppliers	Critical suppliers who are essential to the organization's business strategically, financially, competitively, etc.
Critical Non-Tier 1 Suppliers	Critical suppliers who do not directly provide raw materials, goods or services to the organization but to tier 1 and non-tier 1 suppliers.
Sustainability High-Risk Suppliers	Suppliers who are most likely to produce negative impacts as a result of improper practices in the social (e.g., human rights, employee and labor treatment), environmental (e.g., waste management) and governance (e.g., compliance) aspects. Example : Suppliers engaged in child labor, suppliers whose raw materials are sourced from illegitimate sources, e.g., illegal fishing vessels or forest encroachment, etc.



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