

February 2010

1. Introduction

Ethical sourcing is a commitment to the purchase of goods and services that are manufactured and provided in a way that does not involve exploitation, or represent a danger to health, safety or the environment. Coles Supermarkets (Coles) regard non-conformances relating to child labour and forced/ bonded labour unacceptable and in such circumstances will not proceed with suppliers until improvements are made. As a leading Australian Retailer, Coles is committed to the communities in which we live and operate and to ensuring we integrate responsible corporate behaviour into every aspect of our operations. Corporate social responsibility is an important consideration for our stakeholders, including shareholders, customers, and team members.

2. Scope & Purpose

This policy is for Coles team members and suppliers to Coles. The purpose of this policy is to ensure:

- Coles are sourcing products in an ethical and responsible manner;
- there is clear guidance to our team members, most importantly our buying, quality and development staff;
- Coles is working with our suppliers to continually improve social conditions;
- There is an ethical sourcing strategy that will protect the Coles brand.

3. Policy Requirements

Coles is committed to the safe and ethical manufacture and supply of goods and services. Coles reserve the right not to do business with suppliers that do not share and demonstrate this commitment. Suppliers must ensure that the production processes they use do not involve exploitation or represent a danger to health, safety or the environment.

3.1 Employment Practices

Coles expects its suppliers to comply with all local laws and regulations regarding labour and employment. Illegal labour is not permitted, and Coles will only do business with suppliers who adhere to the following requirements:



3.1.1 Child Labour (Coles have a zero tolerance)

Suppliers shall not use child labour. A 'child' is a person who is younger than the local legal age for completing compulsory education. Coles supports the development of legitimate apprenticeship programs for the education and benefit of young people under the age of 15 years, provided the child is not being exploited or given jobs that are dangerous to their health or safety.

3.1.2 Illegal Labour (Coles have a zero tolerance)

Suppliers shall not use illegal labour. Suppliers must be able to verify the right of their employees' legal eligibility and entitlement to work in the country of employment.

3.1.3 Wages and Benefits

Wages and benefits paid for a standard working week must meet as a minimum, any applicable local laws or industry practices, whichever is the higher. All workers must be provided with written and understandable information about their employment conditions in respect to wages, before they enter employment, and about the particulars of their wages for the pay period concerned each time they are paid.

3.1.4 Working Hours

Working hours shall comply with applicable local laws. Workers shall not work more hours in one week than allowable under local laws. Overtime shall be voluntary and shall be compensated as prescribed by local laws.

3.1.5 Forced/Bonded Labour (Coles have a zero tolerance)

Suppliers shall not use forced, bonded or involuntary labour. Workers will not be required to lodge 'deposits' or their identity papers with the supplier, they are free to leave once their shift ends, or to leave their employment after giving their employer reasonable notice.

3.1.6 Discrimination

All conditions of employment must be based on an individual's ability to do the job, not on the basis of personal characteristics, such as gender, ethnic origin, religion, or personal beliefs. Suppliers must ensure that they provide an environment where their employees can work without distress or interference caused by harassment, discrimination or any other inappropriate workplace behaviour.

3.1.7 Discipline

Workers shall be treated with dignity and respect. In particular, suppliers will not use (either directly or indirectly) any physical abuse or discipline, the threat of physical abuse, sexual or other harassment, verbal abuse or other forms of intimidation in any of its premises.

3.1.8 Freedom of Association

Suppliers acknowledge that workers have the right to join or form trade unions of their own choosing and to bargain collectively. Suppliers are required to adopt an open attitude toward the activities of trade unions and their organisation activities. Where the right to freedom of association and collective bargaining are restricted under the local laws, suppliers will not hinder the development of alternative means of independent and free association and bargaining.

3.2 The Workplace

Coles expects its suppliers to comply with all local laws and regulations regarding health and safety in the workplace. In addition, Coles will only do business with suppliers who adhere to the following requirements:

3.2.1 Health and Safety

Suppliers will provide workers with a safe and clean working environment, taking into account the prevailing knowledge of the industry and of any specific hazards and will provide plant and systems of work that are safe and without risks to health. This will include an adequate number of unlocked, freely accessible and clearly marked exits for emergency evacuations, and properly maintained fire fighting equipment. Workers must be appropriately supervised and trained to perform their jobs safely.

3.2.2 Accommodation

Where suppliers provide worker accommodation, it shall be clean, safe and meet the basic needs of the workers.

3.2.3 Facilities

Suppliers will provide workers with access to clean toilet facilities, clean and drinkable water and, if appropriate, sanitary facilities for food storage and preparation.

3.2.4 Equipment

Suppliers will ensure that personal protective safety equipment is available and workers are trained in its use. Safeguards on machinery must meet or exceed local laws.



3.3 Management Controls

Coles expects its suppliers to comply with all local laws and regulations regarding management controls. In addition, Coles will only do business with suppliers who adhere to the following requirements:

3.3.1 Sub-Contractors

Suppliers must ensure that all its sub-contractors, and suppliers providing materials or labour in the manufacture of goods ordered by us comply with this Ethical Sourcing Policy.

3.3.2 Environment

Coles requires suppliers, as a minimum, to meet all relevant local and national environmental protection laws, and to strive to comply with international environment protection standards.

3.3.3 Ethical Standards

Suppliers must demonstrate a high degree of professionalism and have a close affinity with our business ethics. In particular, honesty, fair dealing and the proper treatment of workers are required at all times. Bribes, favours, benefits or other similar unlawful or improper payments, in cash or kind, are strictly prohibited, whether given to obtain business or otherwise.

3.3.4 Compliance with Local Laws

Coles requires all suppliers to comply fully with the legal requirements of the countries in which they operate. All requirements in this Ethical Sourcing Policy are in addition to compliance with applicable local laws.

4. Expectations and Compliance with this Ethical Sourcing Policy

4.1 Engagement

All suppliers are required to complete a Supplier Self-Assessment form and have it returned by email to the Coles Ethical Sourcing Co-ordinator at ethicalsourcing@coles.com.au within 30 days of it being communicated.

Additionally, 'high-risk' suppliers, within 12 months of being communicated, are expected to either:

1. Provide Coles with evidence of a mutually recognised audit (refer to Appendix B).
2. Undergo a social compliance audit for the facilities used in the production of Coles products.

"High Risk" Suppliers are those located in developing countries which excludes North America, Europe, Australia, New Zealand, Japan, and any other OECD member country.

In addition, Coles may request a supplier operating in non high-risk regions (i.e. Australia and other OECD member countries) to undergo a third-party ethical audit if an ethical issue has been identified. The supplier will be notified in such circumstances.

4.2 Supplier Status and Audit Results

Coles will categorise various breaches as either: Zero Tolerance, Critical, Major, Significant, or Minor. Categorisation will be determined upon receipt and review of the suppliers self assessment form, or in the case of 'high-risk' upon receipt of their ethical sourcing audit report and certificate. According to the results the supplier will be granted a status of either:

- **Approved** – the supplier has satisfied the requirements of the self assessment, audit, or has provided evidence of compliance from a recognised audit body (see Appendix B). The approval is for an 18 month period. Suppliers operating outside of 'high-risk' areas will be approved for a 2 year period on receipt of a satisfactory self assessment.
- **Conditionally Approved** – there are no zero tolerances or critical breaches. However, the supplier has major, significant, or minor breaches and corrective actions are required. To be conditionally approved the supplier and product technologist must agree on an action and time frame for close out. This action must be communicated to the ethical sourcing coordinator within 30 days and a follow up audit will be scheduled for completion within the following 12 months.
- **Not Approved** – there are zero tolerance or critical breaches. The supplier must propose corrective actions to the product technologist within 14 days. The quality manager, technologist and ethical sourcing coordinator must agree on action plan, and the buying team may suspend trade if deemed necessary. A re-audit will be scheduled within 3 months.

4.3 Corrective Action

Coles recognise some suppliers will not be fully compliant with the standards, but is committed to improve working conditions to gain compliance over time. Non-compliance with this Policy will require corrective action and this will be dependent upon the nature of the breach.

Contacts & Queries

For any queries regarding this policy contact your Coles Product Technologist and/or the Coles Ethical Sourcing Coordinator at ethicalsourcing@coles.com.au.

Further Information (available on Connect and the supplier website)

1. For Suppliers – Ethical Sourcing Supplier Fact Sheet, and the Ethical Sourcing Supplier Self Assessment Form.
2. For Merchandise Team Members – Ethical Sourcing Merchandise Fact Sheet
3. For Further detail & Background – Coles Supermarkets Ethical Sourcing Code Procedural Guidelines
4. For general ethical sourcing information:
 - www.ethicaltrade.org
 - Ethical Sourcing 'The Route to Social Compliance. SGS helping you to comply.'

Appendix A

Ethical Sourcing

The 4 Step Process

Step 1. Communication

Q	B			
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Buyers/developers to communicate the ethical sourcing policy, supplier fact sheet and supplier self assessment form in initial discussions with suppliers.

Step 2. Engagement

Q		S	CGA	R
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All suppliers are required to complete a Supplier Self-Assessment form and have it returned by email to the Coles Ethical Sourcing Co-ordinator at **ethicalsourcing@coles.com.au** within 30 days of it being communicated. 'High-risk' suppliers are engaged once they have undertaken a social compliance audit to Coles requirements. It is the supplier's responsibility to organise the audit. Alternatively, the supplier can provide evidence of compliance from a mutually recognised audit, by sending a copy of the current audit report and certificate to the Coles ethical sourcing coordinator at **ethicalsourcing@coles.com.au**.

Step 3. Outcome

Q	B	S	CGA	R
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The outcome of self assessment and audits are graded on three levels:

- Approved – the supplier has satisfied the requirements of the self assessment, audit, or has provided evidence of compliance from a recognised audit body. The approval is for an 18 month period. Suppliers operating outside of 'high-risk' areas will be approved for a 2 year period on receipt of a satisfactory self assessment.
- Conditionally Approved – the supplier has satisfied the self assessment/audit in that there are no zero tolerances or critical non-conformances. However, a corrective action(s) has arisen from the self assessment/audit, and the supplier and product technologist must agree on an action and time frame for close out. This action must be communicated to the ethical sourcing coordinator within 30 days. A follow up audit will be scheduled for completion within the following 12 months.
- Not Approved – The supplier has not satisfied the zero tolerances or critical non-conformances of the self assessment/audit. The supplier must propose corrective actions to the product technologist within 14 days. The quality manager, technologist and ethical sourcing coordinator must agree on action plan, and the buying team may suspend trade if deemed necessary. A re-audit will be scheduled within 3 months.

Step 4. Report

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Supplier status data is recorded and reported.

An annual status report is compiled for the Wesfarmers Sustainability Report, which is publically available.

Q	Quality
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B	Buyers & Developers
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S	Supplier
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CGA	CGA/CGI
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R	Recognised Audit Body
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Recognised Auditors

JAS-ANZ Accredited Auditors

> SGS

> Bureau Veritas Consumer Product-Services. (BV.CPS)

> Intertek Testing Services HK Ltd (ITS)

Third Party Auditors must be certified to ISO 9001 (QMS or EMS) by an independent accreditation body that are a signatory to IAF.

SGS Audit Contacts

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Potjana Keechanoda

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Email: potjana.keechanoda@sgs.com

Turkey

Pinar Alpaslan

Ph: 90 212 368 4314

Email: pinar.alpaslan@sgs.com

Vietnam

Tran Thanh Phong

Ph: (84) 8 395 1920 ext 135

Email: phong.tran@sgs.com

* Includes Botswana, Namibia, Mozambique, Lesotho, Swaziland, and Zimbabwe.

Recognised Audit Formats

- ICTI – International Council of Toy Industries
- Federated
- SGS
- ILO – International Labour Organisation
- SA8000
- ETI – Ethical Trading Initiative (Base Code)
- United Nations Global Compact
- WRAP – Worldwide Responsible Apparel Production
- FLA – Fair Labour Association
- ICS – Initiative Clause Sociale
- AVE Sector Model
- Business Social Compliance Initiative
- Disney
- Nike
- Sears Holding Corp
- Wal-Mart
- H&M Sweden
- Kmart Australia / New Zealand
- Target Australia
- Other Wesfarmers Businesses
- Macy's Inc.
- Tesco
- Sainsburys
- Marks & Spencer
- Waitrose
- ASDA

Coles will consider and assess other Audit Formats and will update this list accordingly.