Ethical Sourcing Roadmap

Build | Embed | Improve | Lead

An 18-month plan to guide the company on its ethical sourcing journey.
The Roadmap is framed by 5 goals and 40 activities.

March 2016

Compiled by:
Laura McManus

Ethical Supply Chain Management
Konica Minolta Business Solutions Australia

Laura.McManus@konicaminolta.com.au

Introduction

"We invite you to join us on this journey."

With great enthusiasm I am proud to introduce Konica Minolta Australia's Ethical Sourcing Roadmap.

In November 2015, we commenced our ethical sourcing journey to understand more about how goods and services in our supply chain are managed and produced. To date, we have undertaken a thorough review of our policies and procedures as they relate to ethical sourcing, compared our current actions against best practices, liaised with Konica Minolta offices globally to share learning, completed an initial supplier risk assessment and prepared a stakeholder engagement strategy. These efforts have informed our Ethical Sourcing Roadmap.

Konica Minolta Inc. (KMI), our parent company, is leading the Group's overall CSR Procurement strategy. KMI is a member of the Electronic Industry Citizenship Coalition and a signatory to the United Nations Global Compact. KMI regularly reports using the Global Reporting Initiative's 'GRI 4 Guidelines'.

At Konica Minolta Business Solutions Australia (KMBAU) we have a strong record of corporate citizenship by building genuine engagement with charity partners. These are not just one-off donations, rather a commitment to apply the tools of our business to benefit others. But CSR is not just philanthropy. Truly living CSR is ensuring too that our business operations and supply chains do no harm and reflect the values and ethics we espouse.

We want to do business differently. Recognising that to be fully successful, ethical sourcing commitments require a whole of industry and in many cases, a multi-stakeholder response, we seek to work in partnership with peers in a pre-commercial space. We want to foster collaborative relationships with suppliers; train our staff on the basics of ethical sourcing including how human rights fits in; help our clients meet their own responsible sourcing targets; and take bold action above bold commitments.

The process may not always be perfect and it is a long road ahead, but we are committed to identifying, preventing and working to remedy cases where people involved in our business operations are denied the right to live and work with dignity.

We invite you to join us on this journey.

Managing Director

Konica Minolta Business Solutions Australia

Understanding risk in electronic industry supply chains

The hundreds of thousands of supply chains that make up electronics manufacturing are highly complex and intricate, just like the component parts they are producing. Yet, simply put, there are three main steps in electronics production before items are shipped for sale[1]:

Extraction: Raw mineral extraction predominantly occurs in 30 countries around the world, including Australia, where there are a number of deferent human rights challenges. For instance, 19 countries are identified as using forced labour in the extraction of the 7 main minerals used in electronics manufacturing. The 7 minerals are gold, tin, tungsten, cobalt, copper, iron and tantalum. Major brands do not yet have full visibility over this process.

Smelting/component manufacturing: Following extraction and trading ownership a number of times, minerals from different locations are smelted and refined before being traded to component manufacturers. The vast majority of component manufacturers are located in Asia, notably China, Japan, South Korea, Taiwan, Thailand, the Philippines, Singapore and Malaysia. This process is often outsourced and major companies have less visibility over production.

Final manufacturing: Once components are assembled, they are purchased by brands and sent to final manufacturing facilities where our favourite electronic products are made. These facilities may be directly owned and managed by the brand itself, or a major first tier supplier. Companies generally have oversight as to how these factories are operated. Different labour rights issues, including forced labour, can occur during both component and final manufacturing phases.

Electronics manufacturing in Malaysia

In 2014 leading business and human rights organisation, Verité, released a report on the situation of forced labour in the electronics sector in Malaysia. The report found that migrant workers were at particular risk of exploitation, especially through the payments of excessive recruitment fess, deceptive contracting and withholding of personal identity documents. Major findings include:

$\frac{1}{3}$ of foreign workers in sample size (501) were in a situation of forced labour.

461 foreign workers had paid recruitment fees:

92% paid excessive fees in home country,

99% paid excessive fees in Malaysia, and

77% had to borrow money to pay fees resulting in debt bondage.

94% reported passports were held:

71% were held at a level that was impossible or extremely difficult to access, indicating restrictions on freedom of movement.

57% of workers could not terminate contract without serious and often illegal penalties.

See: www.verite.org/sites/default/files/images/VeriteForcedLaborMalaysianElectronics2014.pdf

[1] *Baptist World Aid Australia, Electronic Industry Trends, February 2016; www.baptistworldaid.org.au/assets/BehindtheBarcode/Electronics-Industry-Trends-Report-Australia.pdf*

Objectives

The purpose of this Roadmap is threefold:

- To create a vision for the company to achieve its ethical sourcing goals.
- To be transparent to our clients, suppliers and wider stakeholders on our commitments and intent.
- To create policies and processes that respect the rights of workers and other relevant stakeholders in our business operations and supply chains.

Our Business

KMBAU is a market-leading provider of integrated information management, focused on enterprise content and technology optimisation. Our traditional business is selling multi-function printing devices. The vast majority of these are Konica Minolta branded and supplied by our parent company KMI. We are also a distributor of 3D and wide format printers as well as a growing suite of software and services to complement our hardware business solutions.

Our Ethical Sourcing Roadmap considers those contractual suppliers based on risk, where we can assert influence and where the most gains can be made to benefit a larger number of people. Therefore, we consider our suppliers in two groups:

- **Stock:** Both KMI and third-party hardware providers as well as software solutions partners.
- **Operations:** Including logistics, facilities, and other non-essential but risk commodities.

What is the Electronic Industry Citizenship Coalition?

'The EICC is a nonprofit coalition of electronics companies committed to supporting the rights and wellbeing of workers and communities worldwide affected by the global electronics supply chain. EICC members commit and are held accountable to a common Code of Conduct and utilize a range of EICC training and assessment tools to support continuous improvement in the social, environmental and ethical responsibility of their supply chains.'

KMI has been a member of the EICC since 2013. KMBAU will adapt KMI's learnings and approaches from the EICC.
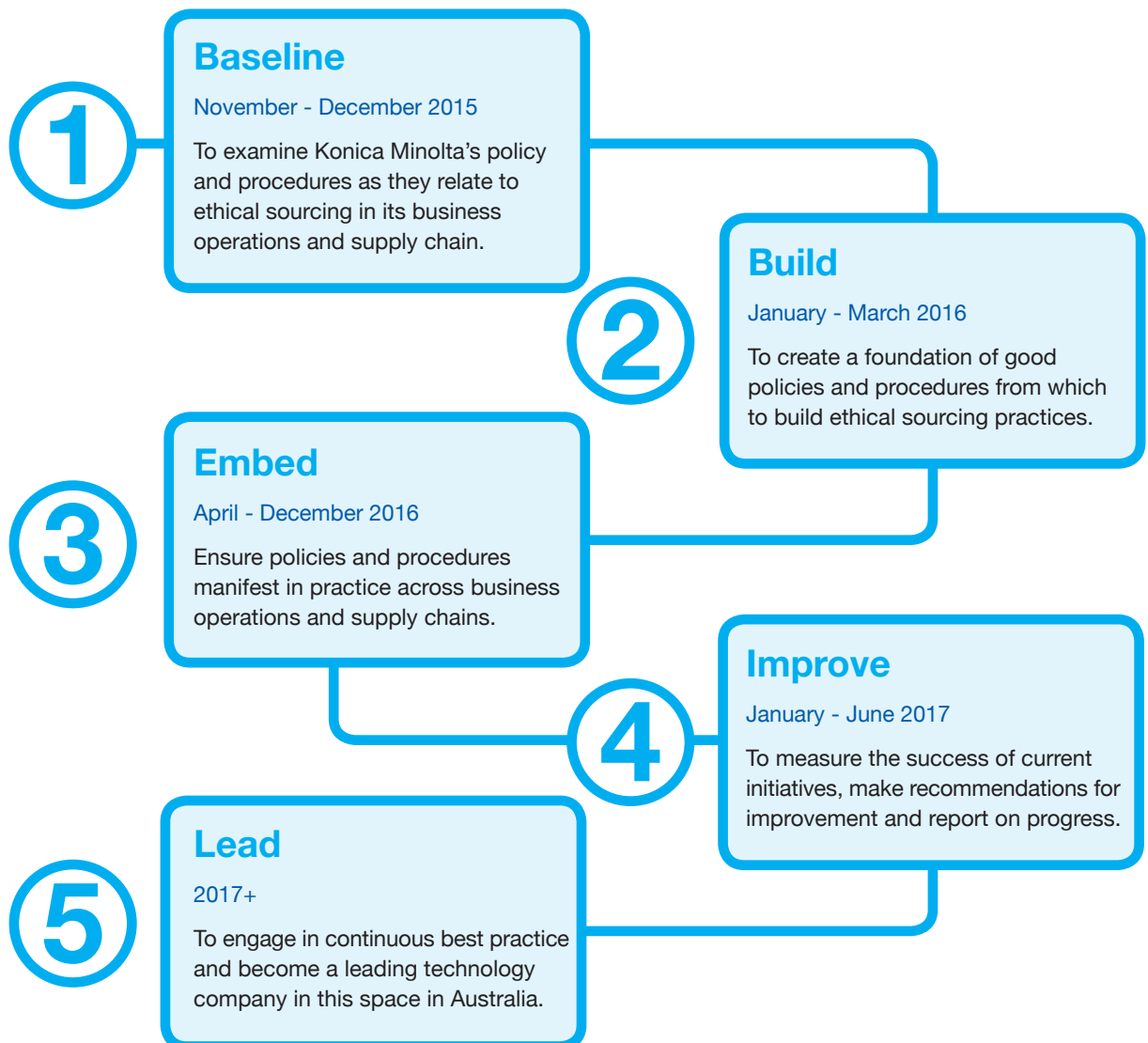
See: www.eiccoalition.org

MANAGEMENT SYSTEMS

| LABOR | HEALTH & SAFETY |
| ENVIRONMENT | ETHICS |

EICC Code of Conduct

Vision

This roadmap outlines an 18-month vision of how KMBAU can implement ethical sourcing throughout its business operations and supply chain. By first understanding where we are at now, 'the Baseline', the roadmap unfolds in three main phases – Build, Embed and Improve. Each phase is intended to achieve key milestones over time, creating a work plan that is both realistic and achievable. Recognising that success is not an end goal but rather genuine integration into core business, 'Lead' signifies a commitment to continuous improvement.

1

Baseline

November - December 2015

To examine Konica Minolta's policy and procedures as they relate to ethical sourcing in its business operations and supply chain.

2

Build

January - March 2016

To create a foundation of good policies and procedures from which to build ethical sourcing practices.

3

Embed

April - December 2016

Ensure policies and procedures manifest in practice across business operations and supply chains.

4

Improve

January - June 2017

To measure the success of current initiatives, make recommendations for improvement and report on progress.

5

Lead

2017+

To engage in continuous best practice and become a leading technology company in this space in Australia.

1 Baseline

In November 2015, KMBAU commenced an ethical sourcing policy and management systems gap analysis. The findings of this review have formed a baseline for improvement from which we will measure progress over time.

These baseline findings relate to the national business of Konica Minolta Australia. KMI have comprehensive Group policies and procedures that govern the manufacturing of all Konica Minolta machines. More information is available on the CSR pages of the Group website.[2]

Goal
To examine Konica Minolta Australia's policy and procedures as they relate to ethical sourcing in its business operations and supply chain.
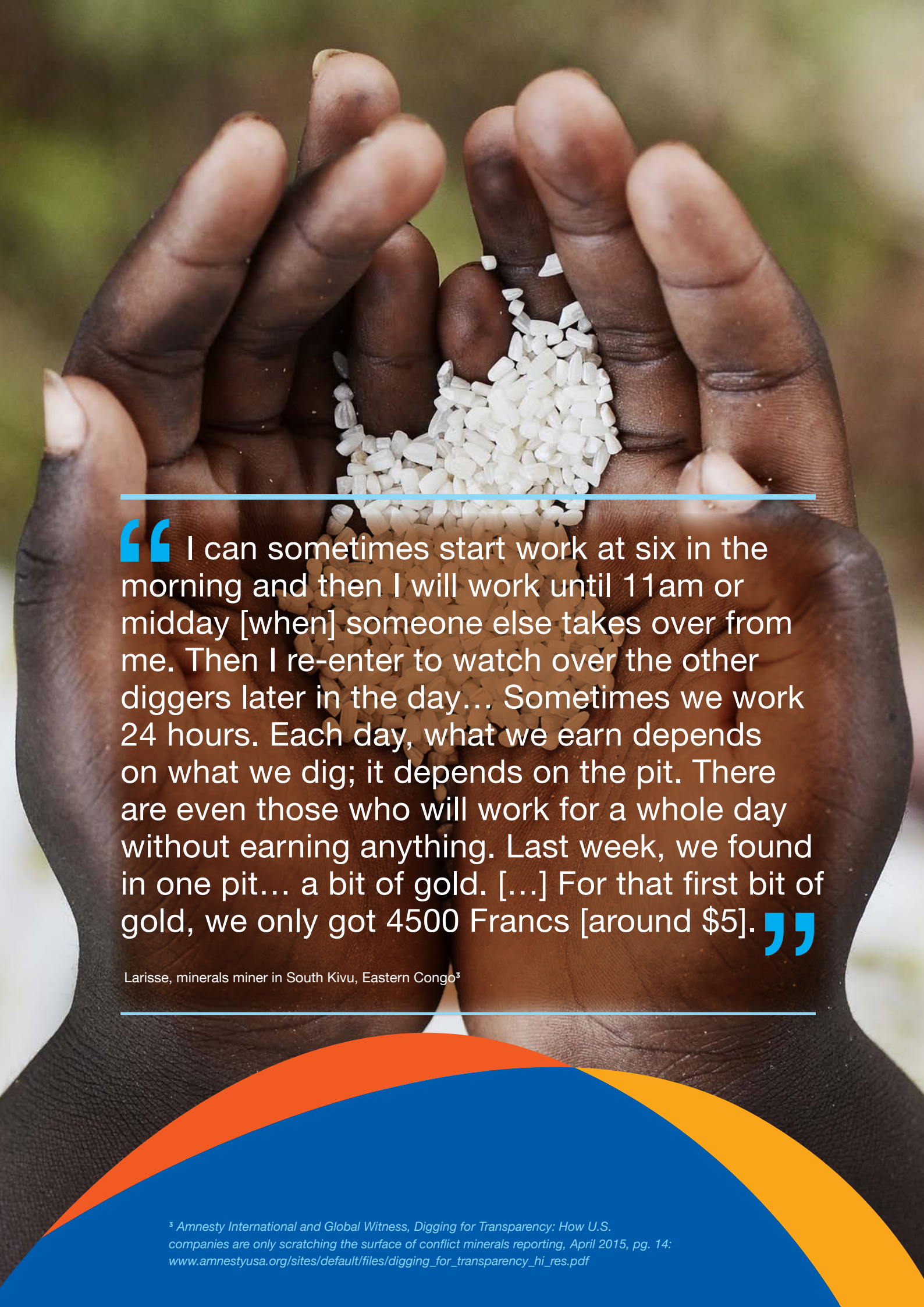
Timeframe
November - December 2015

Status
Completed

Stream	Baseline for improvement
Policy	• Update Procurement Policy to address elements of ethical sourcing • Adapt KMI's Supplier Code of Conduct at a national level • Adapt KMI's Conflict Minerals Policy at a national level • Develop a Human Rights Position Statement
Business Operations	• Join relevant industry or multi-stakeholder initiatives and participate in relevant policy discussions • Update supplier evaluation processes with minimum ethical sourcing requirements • Update risk register with ethical sourcing and human rights considerations • Develop staff education on ethical sourcing including human rights • Develop performance targets or incentives for procurement staff on ethical sourcing • Participate in a third party assessment of ethical sourcing practices
Supply chain	• Update preferred supplier list • Update supplier engagement processes to include ethical sourcing considerations • Update supplier contract templates with clauses that promote ethical sourcing, including the verification and resolution of ethical sourcing claims • Develop key performance indicators for suppliers which correlate with ethical sourcing

Outputs	• Ethical Sourcing Policy and Management Systems Gap Analysis. The results of this analysis have formed the baseline findings above.

[2] *Konica Minolta Sustainability: www.konicaminolta.com/about/csr*

> " I can sometimes start work at six in the morning and then I will work until 11am or midday [when] someone else takes over from me. Then I re-enter to watch over the other diggers later in the day… Sometimes we work 24 hours. Each day, what we earn depends on what we dig; it depends on the pit. There are even those who will work for a whole day without earning anything. Last week, we found in one pit… a bit of gold. […] For that first bit of gold, we only got 4500 Francs [around $5]. "

Larisse, minerals miner in South Kivu, Eastern Congo[3]

[3] *Amnesty International and Global Witness, Digging for Transparency: How U.S. companies are only scratching the surface of conflict minerals reporting, April 2015, pg. 14:* www.amnestyusa.org/sites/default/files/digging_for_transparency_hi_res.pdf

2

Build

Stream	Activities
Policy	• Update Procurement Policy • Apply KMI's Supplier CoC of Conduct to the Australian business context • Develop a Human Rights Position Statement
Business Operations	• Join the UN Global Compact Network Australia • Define risk ratings and categories for ethical sourcing • Develop a Stakeholder Engagement Matrix, including an internal cross-functional group to consider ethical sourcing • Define staff reporting requirements and responsibilities for progress against targets • Complete a third party audit
Supply chain	• Define supplier groups • Apply an initial supplier risk rating based on supplier status as well as spend, country and sector risk • Disseminate Supplier Self-Assessment Questionnaire (SAQ)

Outputs	
Outputs	• Ethical Sourcing Roadmap (this document) • Human Rights Position Statement • Updated Procurement Policy • Stakeholder Engagement Matrix • Results and corrective action plan from third party audit • Supplier Self-Assessment Questionnaire template

Goal
To create a foundation of good policies and procedures from which to build ethical sourcing practices.

Timeframe
January - March 2016

Status
In Progress

The United Nations Guiding Principles on Business and Human Rights

The Guiding Principles were unanimously endorsed in 2011 as global standard of how prevent and address business related adverse human rights impacts. They include guidance for State duties, business responsibilities and effective remedy involving all actors when things go wrong. Notably, principles 1 and 13 state that:

• States must protect against human rights abuse within their territory and/ or jurisdiction by third parties, including business enterprises.

• The responsibility to respect human rights requires that business enterprises:

  • Avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur;

  • Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.

We have adopted the Guiding Principles framework and seek to implement it throughout the course of the Roadmap. For human rights related impacts of ethical sourcing, including labour rights abuses, the UNGP's provide a framework for how to prevent and address those impacts.

> **"** If I do not pay my debt there will be more interest added every month. The debt total will increase and my family will lose some of our assets, like our land and gold. **"**

Male Nepalese worker in Penang, Malaysia in a situation of debt bondage[4]

[4] Verité, Forced Labour in the Production of Electronic Goods in Malaysia, September 2014, pg. 154: www.verite.org/sites/default/files/images/VeriteForcedLaborMalaysianElectronics2014.pdf

3

Embed

Goal
Ensure policies and procedures manifest in practice across business operations and supply chains.

Timeframe
April - December 2016

Status
To be completed

Stream	Activities
Policy	• Publish Procurement Guidelines • Disseminate Supplier CoC • Apply KMI's Conflict Minerals Statement into business operations • Train purchasers across all departments on procurement policies and guidelines • Develop staff education on ethical sourcing including human rights
Business Operations	• Update IT procurement policies and procedures to address conflict minerals • Update tender process to include ethical sourcing requirements • Integrate Ethical Sourcing Roadmap in CSR strategy • Develop due diligence criteria for low, medium and high risk suppliers • Implement corrective actions from third party audit
Supply chain	• Analyse and publish results from Supplier SAQ • Host Supplier Sustainability Roundtable • Develop supplier information packs based upon any identified needs • Disseminate Supplier CoC and Acknowledgement of Compliance Form • Review supplier contracts and develop verification clauses on ethical sourcing • Engage two key suppliers in supply chain mapping at multiple tiers

Expected Outputs	
Expected Outputs	• Procurement Guidelines • Staff education modules on ethical sourcing • IT purchasing policies and procedures embedded with conflict mineral clauses • Tender process updated with ethical sourcing requirements • Report on results from Supplier SAQ • Supplier contracts updated with a right to verify clause • 15 key suppliers attend first Supplier Sustainability Roundtable

> " Future buyer-supplier relationship[s] does not just revolve around mere sourcing strategies; it must evolve... and must take into consideration the issues of workers' welfare, sustainable pricing structures and rewards for commendable corporate compliance strategies. "

Bangladeshi manufacturer and their vision for better buyer-supplier engagement[5]

[5] Sarach Labowitz and Dorothee Baumann-Pauly, Business as Usual is Not an Option: Supply Chains and Sourcing after Rana Plaza, NYU Stern Centre for Business and Human Rights, April 2014, pg. 29: www.stern.nyu.edu/sites/default/files/assets/documents/con_047408.pdf

4

Improve

Goal
To measure the success of current initiatives, make recommendations for improvement and report on progress.

Timeframe
January - June 2017

Status
To be completed

Stream	Activities
Policy	• Review implementation of Human Rights Position Statement • Review implementation of Procurement Policy • Review implementation of Supplier CoC • Review implementation of Conflict Minerals Statement • Review employee knowledge on ethical sourcing policies and targets
Business Operations	• Review the implementation of Ethical Sourcing Roadmap, setting goals and activities for continued improvement • Develop remediation guidelines based on findings / experiences from previous phases • Explore if procurement practices (price and lead time) impact supplier performance • Review and close out corrective actions from third party audit
Supply chain	• Conduct a supplier satisfaction survey on supplier engagement and ethical sourcing • Strategic suppliers have updated policies and procedures as they relate to ethical sourcing • First tier suppliers are allocated an ethical sourcing or ESG risk rating • Host second Supplier Sustainability Roundtable

Expected Outputs	
Expected Outputs	• 100% suppliers signed against Supplier CoC • 100% visibility of first tier suppliers • All third party stock suppliers completed basic Supplier SAQ • Remediation guidelines • Published supplier engagement Case-study • Published customer success story • Ethical Sourcing Roadmap II • Report on progress against Roadmap on the BAU website and, where appropriate, in the Group's annual Sustainability report

5

Lead

We recognise that ethical sourcing is not an 18-month project; ethical sourcing including human rights risks may change over time so the job is never really 'done'. To be truly successful, ethical sourcing will become a part of our new way of doing business and embedded in a process of continuous improvement in line with best practices.

By setting activities and targets over an 18-month period, Konica Minolta wants to demonstrate that change is possible over time and encourage others to start their journey. In doing so, we seek to become an industry leader driving ethical sourcing initiatives across the technology sector in Australia. It is not just about making good business sense, it is about living our values as a company that cares.

Goal

To engage in continuous best practice and become a leading technology company committed to ethical sourcing Australia.

> " To be truly successful, ethical sourcing will become a part of our new way of doing business and embedded in a process of continuous improvement in line with best practices. "