



Kmart Group Ethical Sourcing Program

Supplier Manual

(Suppliers of Retail Merchandise)

March 2021



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1. Introduction

- 1.1 As businesses within the Wesfarmers' Kmart Group¹, Kmart Australia and Target Australia, are committed to conducting business with the highest standards of integrity, in accordance with our international obligations and in compliance with all applicable laws. We work with suppliers who share and follow our high standards of conduct in whichever country they operate.
- 1.2 To support and implement this commitment, Kmart Group has established an Ethical Sourcing (ES) Program. This Supplier Manual will assist Suppliers of retail merchandise to Kmart Group in understanding and complying with the different elements of the ES Program.
- 1.3 Suppliers are reminded that compliance with the Kmart Group Ethical Sourcing Code and wider ES Program is mandatory.

¹ For the purposes of this Supplier Manual, the Kmart Group refers collectively to the businesses trading as Kmart Australia Limited, Target Australia Pty Ltd and their sourcing entities, including KAS Group Asia. It excludes Catch, which is subject to a separate but consistent ES manual.

2. Kmart Group Ethical Sourcing Code

2.1 The Kmart Group Ethical Sourcing Code (ESC) includes minimum requirements and expectations that all suppliers must meet as a condition of doing business with any business within the Kmart Group. The ESC applies to all vendors, factories or authorised sub-contractors (“Suppliers”) of the Kmart Group. This includes Suppliers of:

- retail merchandise;
- goods not for resale (GNFR); and
- services



Ethical Sourcing Code



2.2 The ESC is divided in two parts. Part 1 contains the core Ethical Sourcing Principles that form the basis of our ESC and is applicable to all Suppliers (goods and services). Part 2 includes more detailed supporting standards that Suppliers of goods (including retail merchandise and GNFR) must follow in their factories. The ESC is available in multiple languages and can be accessed at:

- Kmart: <https://www.kmart.com.au/sourcingethically>
- Target: <https://www.target.com.au/company/better-together/people/human-rights/sourcing-ethically>

2.3 We expect our Suppliers to be honest and transparent in their dealings with us and to commit to making continual improvements in their operations. In the event of a non-compliance with the ESC, we expect the Supplier to develop an action plan to address and remediate it. We also reserve the right to discontinue business with the supplier.

3. Code Poster and Worker Hotline

3.1 A summary of the ESC has been formatted into an A3 Poster. Suppliers are required to display a copy of the Poster in their factories in a location that can be seen by all factory workers. Checks on poster compliance are part of the Kmart Group Audit checklist.

3.2 The poster is available in the following languages:

- English
- Simplified Chinese
- Hindi
- Khmer
- Bengali
- Bahasa

<http://www.kmart.com.au/ethical-sourcing>

<http://supplier.target.com.au/Ethical-Sourcing/default.aspx>.

3.3 The poster includes details of the Kmart Group factory worker grievance mechanism. Each report made using the mechanism is investigated and followed up in accordance with an investigation procedure designed to ensure a speedy and adequate response (objective 30 days), as well as procedural fairness to the parties involved. Where the complainant's identity is disclosed, they will be notified of the investigation outcome. All reports are escalated to at least GM level.

Reporting Violations

Any actual or suspected violations of the ESC can be reported as follows:



By Phone:

China	(86) 21 23122777
India	(91) 124 4915177
Bangladesh	(880) 96 10127977
Other regions	(852) 27323477



By email: Lets.Talk@kasasia.com

All reports will be followed up. The identity of anyone who makes a report will be kept strictly confidential, unless requested otherwise. Any form of retaliation against a person making a report in good faith will not be tolerated.

4. Factory Registration & ES Assessment

4.1 The rules around factory registration and the different level of Ethical Sourcing Assessment are described below.

Factory* Registration and ES Assessment Requirements

**This applies to any factory which is the final or finished product manufacturer. Kmart Group reserves the right to nominate Supplier factories/facilities at other levels in the production process for factory registration and ethical sourcing audits.*

The Factory registration process will be initiated by Kmart Group sourcing/buying teams when onboarding a new Supplier. However, existing Suppliers must notify Kmart Group when engaging a new factory in final or finished production. Failure to do so will be deemed unauthorised sub-contracting.

Two Rules	<ol style="list-style-type: none"> 1. Register <u>all</u> factories -except factories supplying national/international brands 2. Suppliers of national/international brands referred to ES team for vendor endorsement
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Rule 1: Register factory for Ethical Sourcing Assessment	
Factory supplying: <ul style="list-style-type: none"> • Kmart Group house brands • Brands licensed by Kmart Group (licensed brands) • Brands exclusive to Kmart Group • Supplier owned brands that do not qualify as national/international brands 	<ul style="list-style-type: none"> • Factories located in all countries, including Australia • All KAS/TAS and non-KAS/TAS factories • Including factories of local Suppliers <p>ES Assessment may include:</p> <ul style="list-style-type: none"> • Kmart Group factory audit (see Section 5); • Mutual recognition audit (see Section 6); or • Better Work program (see Section 8)

Rule 2:	
<ul style="list-style-type: none"> • Factory registration not required • Supplier referred to ES team for vendor endorsement 	
Factory supplying: <ul style="list-style-type: none"> • National brands • International brands 	<ul style="list-style-type: none"> • Supplier of third party brands nationally or internationally known and sold externally to Kmart Group • Vendor endorsement is not a factory audit. The process examines the adequacy of the ES program the Supplier has in place to ensure ES standards are followed in the production process. (see s.9 below)

5. Kmart Group ES Factory Audits

Audit Procedures

- 5.1 If a supplier factory is to be audited using the Kmart Group audit standard, Kmart Group will instruct the Supplier factory to contact an accredited 3rd party audit firm to perform the audit. The full cooperation of the Supplier factory is required during the audit and Kmart Group expects unrestricted access be granted to all areas within a factory as well as documents, records and employees.
- 5.2 A standard Kmart Group audit will take approximately one full day but may vary based on factory size and number of employees. Audits generally include an opening meeting with factory management, a factory tour, a review of selected factory records, private and confidential interviews with selected employees, and finally, a closing meeting with factory management to discuss audit findings and agree on a preliminary corrective action plan. Auditor(s) will sign a "Preliminary Corrective Action Plan" (Preliminary CAP) and then request a factory representative sign as agreement and acknowledgement of the findings and his/her comments, if any.
- 5.3 Supplier factory will be provided with copy of signed Preliminary CAP on the audit day. The Final CAP will be issued to the Supplier factory within 5 working days after the audit. The factory will then be required to complete the Final CAP indicating what actions the factory will or already has taken to address the noted audit deficiencies, corrective actions and the planned completion dates. The completed Final CAP must be submitted to Kmart Group within 5 working days of the factory having received the Final CAP. After review of the formal report from the auditor and the completed Final CAP from the factory, Kmart Group will assign a Grade (see Grading System in section 7) and send an Audit Rating Letter specifying the audit results and follow-up audit schedule to the Supplier factory.

Audit Types

- 5.4 Kmart Group has five types of audits that are part of its Ethical Sourcing Program. These include:
- **Initial audits** are scheduled when a factory is first registered with Kmart Group pursuant to the registration requirements outlined in section 4 above.
 - **Follow-up/remediation audits** are scheduled when, in the most recent audit, non-compliances were identified resulting in an Orange or Orange Critical grading and Kmart Group needs to verify that the outstanding non-compliance issues have been addressed (see section 7 below for Grading System).
 - **Renewal audit** is scheduled one year (in the case of Yellow) or two years (in the case of Green) after a factory has passed its last audit in order to renew the factory's Ethical Sourcing approval status.

- **Random unannounced audits (RUAs)** are unannounced Kmart Group ES audits targeting factories that have been mutually recognised, pursuant to section 6 below, to provide assurance around the findings of mutually recognised 3rd party ES audits.
- **Shadow audits** are undertaken in order to monitor the accuracy and conformance of Kmart Group ES audits conducted by authorised 3rd party audit firms.

Audit Payment

5.5 Audit fees are paid by Suppliers, except in the case of shadow and random unannounced audits. Suppliers will be invoiced by the audit firm upon receipt of a request from Kmart Group to schedule an audit. Kmart Group requires Suppliers to ensure receipt of payment by audit firm's accounts department within 10 working days of receiving the invoice. Non-payment can impact existing and future orders. Further, if a factory denies access to an auditor the Supplier is responsible for the associated audit costs.

Audit Timelines

ES Approval Process	Normal lead-time (working days)
ES teams engage Supplier factory for ES approval	2 days
Booking and scheduling ES audit with 3 rd party audit firm	10 days
Audit report preparation and submission by 3 rd party audit firm	5 days
Audit report and CAP review by ES team	5 days
Audit result upload and factory approval in DSS+/GBSS	1 day

6. Mutual Recognition

- 6.1 Supplier factories that are required to be audited under section 5 above, may instead seek to have a pre-existing 3rd party audit mutually recognised by Kmart Group.
- 6.2 Approved mutually recognised audit programs include the following: BSCI, SMETA, ICTI, SA8000, and WRAP. Better Work will also be mutually recognised in participating countries (see section 8 below).
- 6.3 There will be no mutual recognition in Bangladesh (except for Better Work).
- 6.4 Before a factory audit is mutually recognised, the Supplier must provide:
 - a) a full copy of the original audit report;
 - b) any accompanying facility photos;
 - c) any accompanying CAP plan;
 - d) related audit certificate or rating letter confirming original audit result; and
 - e) any additional proofs or information to validate the audit result as requested by Kmart/Target.
- 6.5 Audits older than 12 months will not be mutually recognised to ensure the factory audit provides a current picture of the ES standards in the Supplier factory.
- 6.6 Based on the findings outlined in the mutually recognised audit report, the Supplier factory will be allocated a grading in accordance with the audit gradings set out in section 7 below.
- 6.7 Factories that are mutually recognised could be subject to a random unannounced audit to provide assurance around the findings of their mutually recognised 3rd party audit.

7. Ethical Sourcing Grading System

7.1 The Table below sets out the Ethical Sourcing traffic light grading system used for the purposes of the Supplier factory ES audits and mutual recognition. The grading system determines the factory approval status and the period of time for which the approval is valid before the next audit becomes due.

Kmart Group ES Grading

Rating	Description
Green	Approved: No issue or small number of minor issues [e.g. less than 10]; Renewal audit 24 months
Yellow	Conditionally approved: Numerous minor issues [e.g. more than 10] or one or more moderate issues; Renewal audit 12 months <i>*A new factory must obtain a minimum of a Yellow rating before it can be approved for registration.</i>
Orange	Conditionally approved: Numerous moderate issues [e.g. more than 10] or one or more major issues; Follow-up audit 6 months.
Orange critical	Conditionally approved: Numerous major issues [e.g. more than 10] or one or more critical-2 issues; Remediation audit 3 months.
Red non-ZT	Not approved: 3 consecutive orange/orange-critical ratings or 2 consecutive orange-critical ratings. No new order placed. Current order may be cancelled. Deactivate factory after last shipment.
Red	Not approved: one or more Critical-1 issues identified. No new order placed. Current order may be cancelled. Deactivate factory after last shipment.
Blue	Conditionally approved: Factory failed to maintain approval status within specific timelines. No new orders can be placed. Existing orders can be shipped. Factory will be deregistered after last shipment.

7.2 Refer to section 10 below for a list of Critical-1 and Critical -2 non-compliances which may result in a Red grading.

8. Better Work

- 8.1 Kmart and Target are buyer partners in the Better Work program. Better Work is a joint program of the International Labour Organization (ILO) and the International Finance Corporation (IFC), which brings governments, global brands, factory owners, and unions and workers – to improve working conditions in the garment industry. <https://betterwork.org/>
- 8.2 Supplier factories will be asked to register and participate in Better Work when they are eligible and located in a Better Work participating country, which currently includes:
- Bangladesh
 - Cambodia
 - Egypt
 - Ethiopia
 - Haiti
 - Indonesia
 - Jordan
 - Nicaragua
 - Vietnam
- 8.3 Supplier factories registered by Kmart Group through Better Work are not subject to Kmart Group ES Audits. Instead, they are subject to compliance assessments conducted under the Better Work program using a Compliance Assessment Tool to assess compliance with core international labour standards and national labour laws. The costs of Better work compliance assessments and factory registration will be paid by the factory.
- 8.4 Compliance assessments are conducted annually by Better Work enterprise advisors and form the basis of a comprehensive improvement plan for each factory. The detailed findings of these factory-level assessments are shared with the factory owner and Kmart/Target. Better Work also produces national compliance synthesis reports, which include aggregate data from compliance assessments on non-compliance findings and compliance efforts.
- 8.5 Kmart Group factories registered in the Better Work Program will be allocated a Yellow grading for internal reporting purposes. In some cases, factories that obtain stage 2 in the Better Work program may be allocated a Green rating.

9. Vendor Endorsement: National & International Brands

- 9.1 Suppliers of *National/International brands* are not subject to the Kmart Group factory registration and ES audit processes. National/International brands are third party owned brands available outside of Kmart Group stores, which are widely known to the public nationally or internationally.
- 9.2 Suppliers of national/international will be subject to a Vendor Endorsement process which examines the adequacy of the supplier's ES procedures as a prerequisite to Supplier registration. Suppliers of national/international brands will need to show evidence of the following to gain endorsement:
- An ethical sourcing policy or code setting out the Supplier's ethical sourcing standards; and
 - An adequate process for ensuring that factories producing the goods supplied to Kmart/Target have passed an internationally recognised ethical sourcing audit.
- 9.3 If a Supplier fails to qualify for Vendor Endorsement, it will be subject to the requirements for factory registration and ES engagement as set out in section 4 above.

10. Critical Non-Compliances

10.1 Certain non-compliances with the *Kmart Group Ethical Sourcing Code* are classified as a Critical Non-Compliance (CNC). A CNC, due to its severity, may result in a Supplier factory being given a red grading and deactivated. CNCs may be brought to the attention of Kmart Group via an ES audit (critical 1 and 2 issue finding) or other means, such as a Quality/technical audits, external audits by third parties or through factory worker reporting mechanisms.

10.2 The following issues qualify as a CNC:

Critical-1 issues (CNC immediately)

- Bribery
- Child Labour (worker under age of 14, or excessive number of “underage worker” with no mitigating reasons)
- Forced/Bonded/Prison Labour
- Physical Abuse
- Un-authorized Subcontracting

Critical-2 issues (CNC if not remedied before 3-month remediation audit)

- Underage worker (worker under local legal minimum work age -but 14 or above)
- Wage deficiency
- Excessive work hours (e.g. 84 hours and above)
- Record inconsistency
- Life threatening Health and Safety Issues
- Building Integrity Issues
- Severe environmental issues
- Illegal migrant workers
- Insufficient/locked emergency exits
- Restricted movement of workers

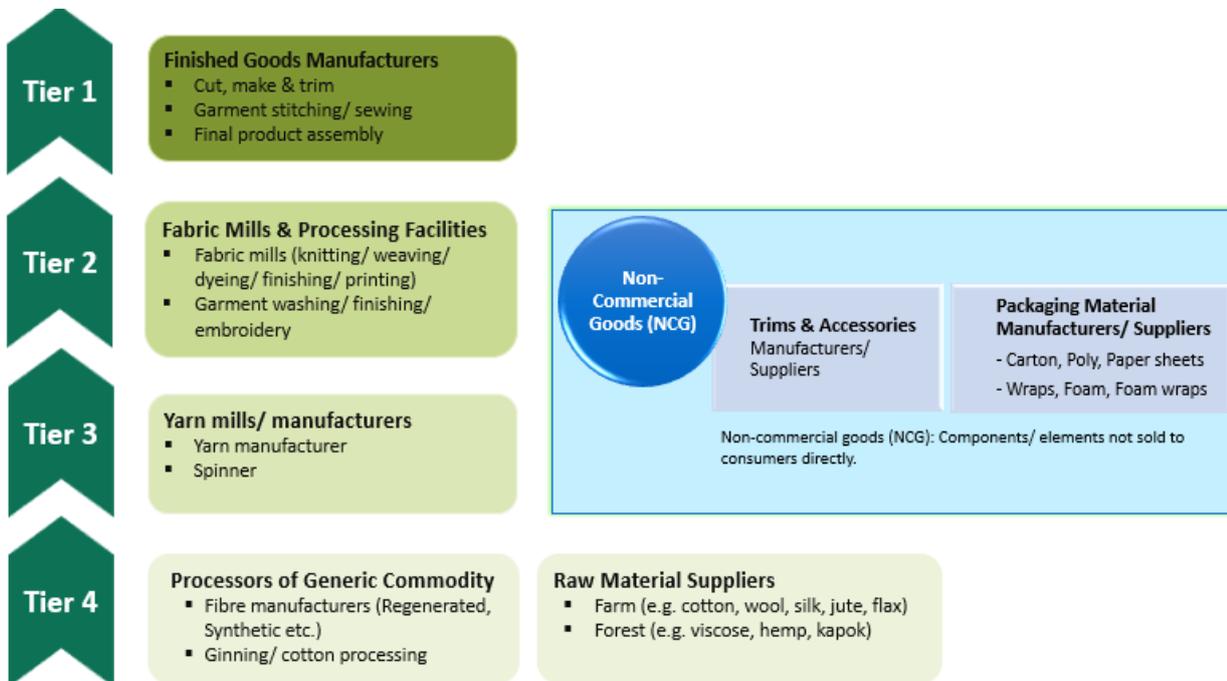
11. High Risk Designations

- 11.1 Section 16.9 of the Kmart Group Ethical Sourcing Code states that *Factories must comply with Kmart Group directions restricting or prohibiting sourcing activities designated as High Risk by Kmart Group.*
- 11.2 High Risk designations may apply to any sourcing activity which constitutes, or could result in, a significant breach of Kmart Group ethical sourcing standards. Kmart Group may issue a direction which restricts or prohibits Suppliers from engaging in a High Risk sourcing activity.
- 11.3 When a High Risk designation is made, Kmart Group will issue a communication to Suppliers impacted by the designation which outlines:
- The specific sourcing activity which is deemed High Risk;
 - Details on the ethical sourcing standards which are being breached, or are at risk of being breached;
 - Directions restricting or prohibiting the High Risk sourcing activity, or any other relevant actions Suppliers must take to mitigate the risk;
 - Details of any relevant compliance measures Kmart Group will be taking to enforce the designation; and
 - Relevant time period of the designation.

12. Ethical Sourcing Transparency Policy

- 12.1 Supply chain transparency is a cornerstone principle of our ES program and wider sustainability commitments. A fully transparent supply chain will assist Kmart Group to ensure that each Supplier in the supply chain meets our ethical sourcing and sustainability standards.
- 12.2 Kmart Group has established an Ethical Sourcing Transparency Policy, which sets out ethical sourcing transparency requirements that Suppliers must follow when supplying products to Kmart Group. The full policy can be viewed at:
- Kmart: <https://www.kmart.com.au/traceabilityandtransparency>
 - Target: <https://www.target.com.au/company/better-together/people/human-rights/traceability-and-transparency>
- 12.3 We sell a diverse range of products with complex and varying multi-tiered supply chains, ranging from finished goods manufacturers, processing facilities, component manufacturers, down to Suppliers of raw materials. Given that each category of product will have a different supply chain, we have provided an example of how an apparel product might fit into a Four Tier categorisation.

Apparel Supply Chain Example



12.4 Upon request and in the form requested by Kmart Group, Suppliers must disclose information about the supply chain through which it, or its approved Subcontractors, manufacture the goods supplied under any Kmart Group order. Such information may relate to any Tier in the supply chain and may include, among other things:

- Name and address of any Supplier in the production process (any Tier), including service providers.
- Processes and components used in the production process.
- Materials, including raw materials used in the production process and their country or region of origin.
- Information relating to work force composition, including number of workers, wages and benefits, age and gender, country or region of origin.
- Information relating to environmental impacts of the production process or materials used in production, such as GHG emissions, energy use, waste, water, chemicals, pollution, impacts on biodiversity.
- Information relating to product packaging.
- Information relating to any third-party service providers used during the production process or transportation of products.
- Information specifically required to be disclosed under the Kmart Group Ethical Sourcing Code.
- Information required as part of a High Risk designation (see section 11 above).

As part of its commitment to ethical sourcing and transparency, Kmart Group may make public or publish any of the above information, including the name and address of any supplier in the supply chain.

13. Ethical Sourcing Contacts

Contact the Kmart Group ES Team if You Have any Queries

- Via email: ES@kasasia.com

ES Website Links

- Kmart Corporate Website: <https://www.kmart.com.au/sourcingethically>
- Kmart Supplier website: <http://et.supplier.kmart.com.au/EthicalSourcingCodeProgram/EthicalSourcingCodeDocuments.aspx>
- Target Corporate Website: <https://www.target.com.au/company/better-together/people/human-rights/sourcing-ethically>
- Target Supplier Website: <https://supplier.target.com.au/Ethical-Sourcing>