

OUR APPROACH TO OUR SUPPLY CHAIN CONTINUED

Monitoring our supply chain

When we select any new footwear, apparel or accessories supplier, we assess their social and environmental sustainability performance against ASICS' standards before engaging in a business relationship.

Once we establish a formal business relationship with a supplier, we continually monitor the supplier's sustainability performance and periodically assess their facilities. We conduct three types of assessments within the ASICS supply chain: internal, commissioned and partner audits.

Internal audits

ASICS' compliance auditors conduct on-site inspections, verify documentation and interview supplier management and employees. They provide detailed explanations of ASICS' policies, identify issues and plan corrective actions through discussions with management.

Commissioned audits

Commissioned audits are carried out by specialized, accredited third-party monitors who are well versed in local laws, regulations, culture and languages as well as the ASICS Policy of Engagement and Code of Conduct. They can gather information that is otherwise hard to obtain through an internal audit, for example through worker interviews in their local language.

To ensure our auditing process is consistent and comparable, we use a standardized tool created by the Supplier Ethical Data Exchange (Sedex).

SMETA (Sedex Members Ethical Trade Audit) is an open-source audit methodology tool that encompass all aspects of responsible business practice, covering Sedex's four pillars of labor, health and safety, environment and business ethics.

Partner audits

These are audits conducted with ASICS' suppliers as part of our collaboration with multi-stakeholder initiatives. ILO Better Work has conducted our partner audits and improvement plan follow-ups since 2014.

In addition to the audits, suppliers and their subcontractors can demonstrate compliance levels through self-assessments. Information from these feeds into our other assessment forms and risk analysis.

Self-assessments increase supplier awareness of supply chain issues and ASICS' standards. In future, we will link supplier self-assessments to commitment-based self-management using industry collaborative tools such as those of the SAC Higg Index, in combination with external verification and validation of data.

SAC's Higg Facility Social Labor Module (Higg FSLM) is one of the main tools we use to gather social performance data from our suppliers. In 2018, SAC launched an updated version of the Higg FSLM that supports a more harmonized approach to data gathering across the apparel and footwear industry, using a framework developed by the Social and Labor Convergence Program.

As well as avoiding unnecessary duplication of audits, the updated tool enables better data comparison and frees up more resources for improvement programs.

The above tools allow us to align the self-assessments of our suppliers on a larger scale and benchmark their performance internally and with their industry peers in various countries. Together with the Higg Facility Environmental Module (Higg FEM), this will enable us to gather more data from our suppliers in the most efficient way.

For more about Higg FEM and Higg FSLM

→ See page 30

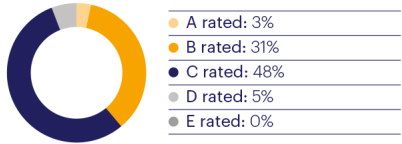
Audit criteria and supplier ratings

Our assessments and audits use 17 criteria to evaluate our Tier 1 suppliers' sustainability performance.

Each criterion is scored on a five-point scale, from 1 (below standard) to 5 (best practice). Audit criteria covering forced labor, child labor, abuse and harassment, wages, discrimination and hours of work are defined as zero tolerance criteria. Non-compliance within these areas is taken very seriously and can result in immediate business termination.

We award each supplier an overall rating from A to E, based on its performance against the 17 criteria. The graph shows how our suppliers rated in 2019.

Tier 1 supplier ratings 2019



The remaining 13% suppliers are members of the ILO's Better Work or Better Factories Cambodia factory improvement programs. The programs assess working conditions at these factories and provide guidance to them on how to improve them.

Year	Internal ASICS audit	Commissioned audits	Partner audits	Total
2016	62	46	14	122
2017	66	31	16	113
2018	23	46	24	93
2019	31	57	28	116

In 2020, we will prioritize mitigating higher-risks and ensuring factories take corrective action plans instead of repeating audits. Therefore, we will strategically reduce the number of audits. In addition, we make sure that we comply with the Sustainable Sourcing Code of The Tokyo Organising Committee of Olympic and Paralympic Games.



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Through the dialogue with suppliers, we are working together to improve their labor practices to comply with international labor standards. At the beginning, we raise questions on issues we may find on the initial audit. We spoke with factory management about global trends as well as our Code of Conduct and our attitude toward sustainability. Through the dialogue, management's consciousness changed, and they come to make decisions in compliance with international labor standards rather than factory benefits.

Addressing non-compliance

When our assessments identify non-compliance issues, we categorize them as major or minor according to the severity of the violation and the level of risk to workers, and take action as appropriate. These range from terminating the business relationship in the case of serious and persistent violations, to reviews of future orders, third-party investigations and formal warnings.

When minor non-compliance issues are identified, we begin a remediation period of three months, during which the relevant supplier is expected to take corrective measures. When necessary, ASICS' staff or partners support this remediation process, for example by providing training and resources.

Tools for transparency

We aim to continuously improve transparency regarding our supply chain impacts. To achieve this, we have introduced new tools and improved internal systems that provide insights into our supply chain management.

The main platform we use to provide supply chain transparency is the SAC's Higg Index suite of tools (see pages 24, 30 and 35). The information we gather from these tools will in the future be linked to product-based performance evaluation in the Higg Product Module as well as to our own performance in the Higg Brand & Retail Module. This will enable full transparency of our activities throughout our entire value chain, from manufacturing to retail and beyond.

As well as using technical tools, we also use our membership of and involvement in industry bodies e.g. SAC and NGO partners and ILO Better Work to gather information about our supply chain performance and best practices.

2020 factory disclosure

Transparency regarding our supply chain impacts is vital, both for ASICS and for our external stakeholders. We feel that sharing basic information on our supply base will enhance transparency for business partners, investors, labor organizations and our customers. We disclosed our list of Tier 1 factory suppliers for the first time in 2017, and we update the list on a regular basis to reflect changes in our supply base.

The current public supplier list contains key Tier 1 suppliers in 22 countries responsible for the manufacturing of ASICS, ASICS TIGER and Onitsuka Tiger products; footwear, apparel, accessories and equipment. Together, they account for more than 90% of our global volume of products manufactured annually.

Download the full list

→ https://assets.asics.com/page_types/3838/files/ASICS_Corporation_Primary_Supplier_List_2020_original.pdf

Expanding our audit scope

Since 2016, our audit scope has covered both Tier 1 and Tier 2 suppliers. As of 2018, we have covered 100% of footwear nominated Tier 2 suppliers.

The potential impact of Tier 2 suppliers is considerable, as this is the part of the supply chain responsible for fabric dyeing and other industrial processes involving potentially harmful chemicals and a relatively large water and energy use. Auditing Tier 2 suppliers also helps us ensure compliance around critical issues such as human rights throughout our supply chain.

In 2019, in addition to overseas factories, we checked the working environment of factories related to the Olympics and factories employing foreign trainees, and the legality of the supervising organization. We are working with the supervising organization to understand the issues surrounding the responsible recruitment of foreign workers and how this can be improved.

Actively managing these facilities is a crucial step toward understanding our overall impacts, and helping our business partners improve standards and performance.