

PARTNERING WITH OUR SUPPLY CHAIN

MANAGING OUR SUPPLY CHAIN

Through our Supply Chain Management Program, we seek to maintain and improve standards throughout our supply chain, in all areas where our business has both direct and indirect influence.

COMPLIANCE AND COMMITMENT

Our supply chain management program is based on the principle of compliance when needed, commitment where possible. This means that, as a minimum, our suppliers must comply with our own codes and policies as well as all relevant local and international regulations. But where possible, we encourage our suppliers to move beyond compliance and commit to continually raising standards through training and capacity building, in ongoing, open partnership with ASICS, labor organizations and other industry stakeholders.

The program consists of four building blocks: Monitoring and Risk Management; Governance and Transparency; Training and Capacity Building; and Stakeholder Engagement.

INFLUENCE AND RESPONSIBILITIES

More than 150 direct, Tier 1 suppliers in 21 countries provide us with the facilities, expertise and other resources that allow us to bring the best products to our customers.

Many of our Tier 1 suppliers themselves have an extensive supply chain, connecting the ASICS Group indirectly with many more operations and businesses worldwide.

At ASICS, we are aware of the influential role we play in our supply chain, and we recognize that this role and responsibility extends even to the areas where we have no direct relationship. Through our partnership approach, we aim to help improve standards not just among our direct suppliers, but in all areas where our business has influence.

150+

TIER 1 SUPPLIERS

21

TIER 1 (SOURCING) COUNTRIES

COMPLIANCE

1 

MONITORING AND RISK MANAGEMENT

- Country Risk Evaluation
- Supplier Assessment Tools
- Audit Follow Up/Corrective Action Plan (CAP)
- Supplier Monitoring
- Issue and Crisis Management

2 

GOVERNANCE AND TRANSPARENCY

- Supplier Contracts and Agreements
- Supplier Standards, Guidelines and Manuals
- Corporate Codes/Policies
- Data Management and Systems
- Internal/External Communication

COMMITMENT

3 

TRAINING AND CAPACITY BUILDING

- Supplier Training
- Collaboration around efficiency and productivity
- Business Integration

4 

STAKEHOLDER ENGAGEMENT

- Industry Collaboration (SAC, WFSGI, Better Work)
- Open and constructive stakeholder dialogue (unions, NGOs, media)
- Global (public) Sustainability Report

PARTNERING WITH OUR SUPPLY CHAIN

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.

COMPLIANCE AND COMMITMENT

Once a formal business relationship is established with a supplier, we continuously 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. They provide detailed explanations of ASICS' policies, identify issues and plan corrective actions through discussions with management.

Commissioned audits

We consign this type of audit to specialized, accredited third-party monitors. These are independent auditors well versed in local laws, regulations, culture and languages. They can gather information that is otherwise difficult to obtain through an internal audit, for example through worker interviews in their local language.

Partner audits

These are audits conducted with ASICS' suppliers as part of our collaboration with multi-stakeholder initiatives. Since January 2014, ASICS has been an official partner of ILO Better Work, and this organization has conducted our partner audits and improvement plan follow-ups from that time. Before that, partner audits were carried out by our previous official partner, the Fair Labor Association (FLA).

In addition to the audits, suppliers and their subcontractors can demonstrate compliance levels through self-assessments. Information from these feed 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 the SAC Higg Index, in combination with external validation of data. In 2016, 122 Tier 1 suppliers have been nominated to submit data and adopt the SAC's Higg Index facility module.

AUDIT CRITERIA AND SUPPLIER RATINGS

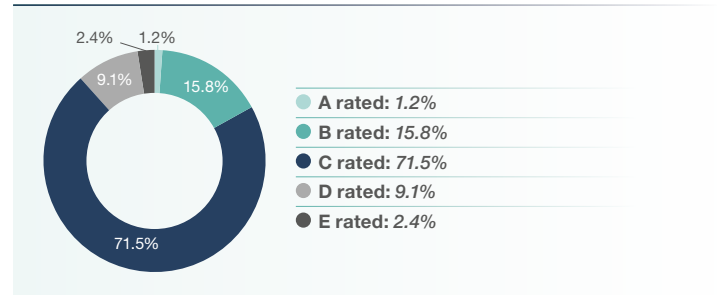
Our assessments and audits use 17 criteria to evaluate our Tier 1 suppliers' sustainability performance. Each criterion is scored on a five-point scale, from 1 (below standard) to 5 (best practice).

Audit criteria covering forced labor, child labor, abuse and harassment, wages, discrimination and hours of work are defined as zero tolerance criteria, and we act strongly in cases of non-compliance within these areas.

We award each supplier an overall rating from A to E, based on its performance against the 17 criteria. The graphic below shows how our suppliers rated in 2016.

YEAR	INTERNAL ASICS AUDIT	COMMISSIONED AUDITS	PARTNER AUDITS	TOTAL
2014	93	34	5	132
2015	80	52	7	139
2016	62	46	14	122

TIER 1 SUPPLIER RATINGS 2016



RESPONDING TO NON-COMPLIANCE

When our assessments find issues of non-compliance, we categorize them as major or minor according to the severity of the violation and the level of risk to workers.

We impose sanctions of varying severity depending on the category of the non-compliance. 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. On a number of issue areas (child labor and juvenile workers, forced labor, abuse and harassment, discrimination, hours of work and wages) we operate a zero tolerance policy.

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.

PARTNERING WITH OUR SUPPLY CHAIN

EXPANDING OUR AUDIT SCOPE

In 2016, we expanded our audit scope to include Tier 2 suppliers, as well as Tier 1.

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. Auditing Tier 2 will also help us make sure that human rights are respected throughout our supply chain, and that they comply with legislation.

Actively managing these facilities is a major step forward in understanding our overall impacts, and helping our business partners improve standards.

TOOLS FOR TRANSPARENCY

Transparency regarding our supply chain impacts is vital, both for ASICS and for our external stakeholders. To improve transparency of information, we have introduced new tools and improved internal systems in order to give us more insights into our supply chain management.

One example is EcoStruxure™ Resource Advisor (RA), a cloud-based sustainability performance management system from Schneider Electric. We already use this tool to track global energy, water and waste data of our own operations, but in 2016 we expanded it to include our supply chain management information.

From 2016, the system tracks data from our Tier 1 footwear suppliers, including data related to their environmental performance and social compliance. In the coming years, we will further expand the system to include our upstream supply chain partners. At the same time, we will continue to use the system to improve our own performance and support our 2020 targets.

As well as using technical tools, we also gather information about our supply chain performance through industry bodies such as the Sustainable Apparel Coalition, and through NGO partners such as ILO Better Work.

COORDINATING OUR EFFORTS

Along with our global CSR and sustainability staff, many other departments and ASICS Group divisions play a vital role in making sure our operations are safe, ethical and sustainable.

ASICS Group divisions responsible for coordinating production and sourcing in our main production regions make a major contribution to building understanding of our supply chain situation and improving the performance of our manufacturing partners. Because these teams work closely with our supplier partners, they are ideally positioned to help with monitoring, raising issues, and identifying opportunities and training requirements.

To make sure our supply chain management work is as coordinated and effective as possible, we carry out regular cross-divisional training and awareness-raising sessions around supplier engagement and assessment. Sharing information in this way allows us to form joint action plans, mitigate challenges, improve future performance and make better business decisions regarding our suppliers.

As part of our continuous efforts to improve standards within our supply chain and manage Modern Slavery and Human Rights Risk, we have mapped our supply chains and operate a country risk assessment protocol prior to entering any new sourcing country. Analysis of human rights risks and particular industry/sector and geographical risks forms an integrated part of this risk analysis. All sourcing divisions within our Group are aware of policies that apply to product and material sourcing including respecting our restricted country list. Expanding business beyond our 21 approved sourcing countries is only possible after completion of a country risk assessment in collaboration with our CSR & Sustainability Division and relevant internal and external stakeholders.

Prior to entering any partnership agreement with a new footwear, apparel or accessories supplier, we assess their social and environmental sustainability performance against ASICS Human Rights and Safe and Ethical Standards. Only on proof of meeting a minimum standard will we enter into partnership. Suppliers then continue to be audited to ensure standards remain high and in line with ASICS' requirements.

PARTNERING WITH OUR SUPPLY CHAIN

POLICIES AND GUIDELINES

We conduct our corporate activities on the basis of clear codes of conduct that are based on internationally recognized standards and conventions.

All of our material suppliers or manufacturing and assembly business partners must comply with our Code of Conduct and our Policy of Engagement. We also have a separate Environmental Policy that covers issues related to environmental management, and highlights how this is connected to human health and safety.

Suppliers have to understand and acknowledge these standards and are formally obliged to meet them. We seek to work only with business partners who share our commitment to sustainability and fair labor practices.

We seek to continuously improve the audit functions and internal controls of our corporate management. Our aim is to create a management approach that goes beyond compliance and reflects the perspectives of our stakeholders.

We encourage employees and business partners to report code or policy violations using our confidential, anonymous whistleblowing services. This allows us to detect the first signs of wrongdoing quickly and carry out corrective measures without delay.

For more information and to download our policies, visit our website <http://corp.asics.com/en/csr/our-approach/governance-and-policies>

DUE DILIGENCE AND ASSESSMENT OF MODERN SLAVERY RISK

Over the last decades, much has been achieved in the field of corporate social responsibility and sustainability. On the subject of Human Rights in supply chains, global efforts by businesses, legislators, NGO's and other stakeholders have led to greater transparency, increased awareness on issues and joint action on prevention and working toward safe and ethical supply chains.

Unfortunately, we continue to recognize a risk of Modern Slavery, slavery, servitude, forced labor and human trafficking occurring in supply chains. This, being a global issue with the rise of global migration, is occurring in regions across the entire globe, in every type of economy and at any country development level.

As part of our continuous efforts to improve standards within our supply chain and manage Modern Slavery and Human Rights Risk, we have mapped our supply chains and operate a country risk assessment protocol prior to entering any new sourcing country. Analysis of human rights risks and particular industry/sector and geographical risks forms an integrated part of this risk analysis. All sourcing divisions within our Group are aware of policies that apply to product and material sourcing including respecting our restricted country list; expanding business beyond our 21 approved sourcing countries is only possible after completion of a country risk assessment in collaboration with our CSR & Sustainability Division and relevant internal and external stakeholders.

Prior to entering any partnership agreement with a new footwear, apparel or accessories supplier, we assess their social and environmental sustainability performance against ASICS standards before engaging in a business relationship. Only if they meet our minimum standards on Human Rights and Safe and Ethical Standards, will ASICS consider entering a formal business relationship.

PARTNERING WITH OUR SUPPLY CHAIN

MANAGING MANUFACTURING ENVIRONMENTAL IMPACTS

We seek to source from suppliers that share our commitment to operating in an environmentally responsible manner.

Because we outsource the manufacturing of apparel, footwear and accessories, a considerable part of our overall environmental impacts exist in our supply chain.

Our product Life Cycle Assessment (LCA) research shows us that the largest environmental impacts for footwear relate to manufacturing processes, whereas for apparel the impacts are shared between fabric and garment manufacturing processes as well as consumers (due to washing). We recognize we have a responsibility to use our influence within our supply chain to help reduce these impacts.

ENVIRONMENTAL IMPACT AT DIRECT FOOTWEAR FACTORIES

Between 2011 and 2016 we worked closely with our footwear suppliers to improve the efficiency of our product design so that manufacturing environmental impacts could be reduced. We also encourage our suppliers to implement best practice environmental management systems. In 2016, CO₂ emissions per pair of shoes manufactured in our footwear Tier 1 suppliers decreased 16.2%, compared to a 2015 baseline. In addition, decrease of 12% for water use and increase of 65.3% for waste per pair of shoes were registered.

We remain committed to helping our suppliers measure their key environmental indicators and further reduce their impacts, thereby also reducing the environmental footprint of ASICS' products. In 2017, we will create a new environmental guideline to further support our suppliers in this direction. Although at present we track environmental impacts related solely to footwear manufacture, we intend to extend this to include our global apparel business in the near future.

YEAR	UNIT	2015	2016
CO ₂ emissions	kg/pair	2.29	1.92
Water	m ³ /pair	0.049	0.043
Waste	kg/pair	0.02	0.03
Recycled or recovered waste	tonnes	11,928	9,202

The data in this table is based on 25 factories in China, Vietnam, Indonesia, Cambodia and Thailand, which together produce over 95% of all our footwear.

The 2015 data is restated due to updated data and factors and improved estimates.

ENVIRONMENTAL COMPLIANCE IN OUR SUPPLY CHAIN

We apply a 'compliance where needed, commitment where possible' approach across our supply chain. We are open to collaborating with partners on this and their information and feedback are important is bringing issues to light and help us to be better.

In 2016, ASICS received a letter from the Institute of Public & Environmental Affairs (IPE), a non-profit environmental research organization based in China, drawing our attention to two subcontracted factories in China which had violated an air quality requirement.

Since 2006, IPE has collected more than 260,000 environmental supervision records from official sources, and posted these on a searchable pollution map database as well as contacting companies to implement corrective measures. Their mission is to promote information disclosure and advance multi-party participation, to bring back blue skies and clear waters in China.

ASICS engaged immediately with a third-party auditing agency to conduct on-site investigations into the two factories. ASICS committed to supporting the factories in improving their performance. ASICS also began using the Blue Map Database, the IPE platform, to comprehensively screen its suppliers in China. We concluded from our investigations that speed of reaction, clear internal communication and risk prevention processes are key.

As a result of our progress, we were listed for the first time and ranked at No. 33 in the Corporate Information Transparency Index (CITI) system, jointly developed by IPE and the Natural Resources Defense Council (NRDC). The Index evaluates brands' supply chain environmental performance based on information that is made public, such as government compliance data, online monitoring data and third-party environmental audits.

We are continuing to work on the environmental compliance project with the aim of creating a new supplier monitoring system and guidelines, which would drive forward our commitment and responsibility in environment management and protection. ASICS will also maintain a partnership with IPE to further align our environmental compliance program.

21,130 tonnes

WASTE RECYCLED OR RECOVERED AT
FOOTWEAR TIER 1 SUPPLIERS SINCE 2015

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TRAINING AND CAPACITY BUILDING

We provide training for our Tier 1 and Tier 2 suppliers to that they can continuously improve labor and environmental performance over time.

Training and capacity building is vital for supporting our supply chain partners to improve their performance. Training gives our suppliers the knowledge and understanding necessary to implement new standards, legal requirements and structured management systems, as well as raising awareness of industry best practice – all necessary for continuous improvement.

Training also helps suppliers avoid compliance issues, and develops better communication between workers and employers. This ultimately improves both the wellbeing of staff and the suppliers' quality and productivity.

Our supply chain monitoring and rating system identifies training needs in the different regions where our products are manufactured. We carry out training in collaboration and consultation with independent stakeholder partners such as ILO Better Work.

In 2016, ASICS provided 4 capacity building sessions for suppliers. The training covered a wide range of subjects including supervisory skills, fire safety, compensation and benefits, social compliance, and the rights and responsibilities of workers and unions. Additional capacity building sessions were also available to suppliers as part of their participation to the ILO Better Factories Cambodia program or ILO Better Work (Vietnam, Indonesia).



“ Thanks to ASICS’ training and capacity building, awareness of workers’ rights and about the importance of environment, health and safety has never been higher. The training was also very useful for us in management, because it raised our awareness of the latest developments in laws, regulations and government policies.

Through the audit conducted by ASICS, workers’ understanding of personal protective equipment and workplace ergonomics has also improved.

We hope such training will be held regularly.”

Training participant at Freewell Co., LTD. a footwear factory in Vietnam supplying ASICS

Shanghai and Guangzhou, China

- Occupational health and safety
- Latest China labor law updates
- Chemical safety and environmental management

Ho Chi Minh City, Vietnam

- Update on latest Vietnamese labor law changes
- Wages, benefits and compensation
- Grievance communication

Jakarta, Indonesia

- Grievance systems management
- Occupational health and safety
- Management, worker and workers representatives relations
- ASICS Compliance Guideline Training

96

PARTICIPANTS ATTENDED

66

SUPPLIERS

68

PARTICIPANTS ATTENDED

33

SUPPLIERS

34

PARTICIPANTS ATTENDED

10

SUPPLIERS

PARTNERING WITH OUR SUPPLY CHAIN

OUR PARTNERS

To help raise supply chain sustainability standards throughout our industry, ASICS engages and partners with a wide range of NGOs and other industry stakeholders.

By working in partnership with these organizations and contributing to an open debate, we play an active part in shaping the future of our industry. Our main NGO partners are visualized below.

Collaboration ranges from close partnerships on raising supplier standards and conduct training and capacity building to working together on integration of Human Rights responsibilities into the organization of large sports events. We partner with other brands in industry associations around industry alignment and joint standard development and keep in close contact with labor unions and NGO's in manufacturing regions.

NGOS	INTERACTIONS
Caux Round Table (CRT)	CRT is a global network of business leaders working to realize a fair, free and transparent society through sustainable and socially responsible business. In 2016, CRT Japan invited ASICS as one of their speakers and to share our approach to building effective grievance mechanisms during the annual Business and Human Rights conference.
ILO Better Work Program/ Better Factories Cambodia	The Better Work Programme is a unique partnership between the International Labour Organization (ILO) and the International Finance Corporation (IFC) and founded to improve labour standards and competitiveness in global supply chains. Since 2014, ASICS is a partner of Better Work (BW) and Better Factories Cambodia (BFC), collaborating on the continuous improvement in our supplier factories in Cambodia, Vietnam and Indonesia. In 2016, we participated in addition to our factory level work to several ILO activities such as a regional buyer forum, country buyer forum and exchanged thoughts and experiences regarding human right efforts in industry level.
The Sporting Change Forum	Towards Tokyo 2020, ASICS has been invited and involved on discussions with various international NGO, EU/UN government officers. During 'The Sporting Chance Forum: Collective Action on Mega-Sporting Events and Human Rights' organized in Washington DC USA in October 2016, a wide variety of stakeholder groups gathered to discuss human rights issues, impacts and strategies to prevent, mitigate, and remedy abuses of human rights and labor standards associated with the life cycle of major international sporting events.
Oxfam	ASICS has been a signatory of the Freedom Of Association (FOA) protocol in Indonesia since 2011. As part of this we continue to update and communicate with Oxfam in the region. In 2016 ASICS was part of the stakeholder meeting held by Oxfam in Jakarta. Brands, suppliers, union committees, trade union organization and various NGOs reviewed the five years since implementation of protocol.
Sustainable Apparel Coalition (SAC)	As a founding member of SAC, we have been closely involved in the organization's efforts to align industry sustainability standards at a global level. In 2016, ASICS continued to contribute as part of its working group on the SAC Social/Labor Convergence Project to help develop tools and improve stakeholder engagement to align supply chain standards.
Unions	ASICS manages close communication with several unions as part of our supply chain management work and being an employer of almost 8,000 employees worldwide. UA ZENSEN (UAZ), which is the largest industrial union in Japan, represents 1.64 million members from 2,448 affiliates (as of September 2016). Together with UAZ, we have joined several meetings held by UAZ. Our CSR & Sustainability team has provided continuous updates on status of management work, issue resolution and sharing views.
The World Federation of the Sporting Goods Industry (WFSGI)	ASICS is a gold member of the WFSGI, the authoritative global body for the sporting goods industry. As an active participant to its sustainability committee we joined several of its committee meetings and the WFSGI Manufacturing Forum where sustainability in manufacturing is a big focus area. In the course of 2016 and early 2017 we contributed our input on several of the sustainability position papers published by the WFSGI.

"We would like to express our gratitude for your great contribution to the Business and Human Rights conference in Tokyo.

We believe that your sharing was well-delivered to the participants, and became valuable assets for them to enhance their activities in the area of business and human rights."

Caux Round Table (CRT) Japan

From appreciation letter received after ASICS' contribution to CRT Business and Human Rights Conference held in September 2016