



UNILEVER SUSTAINABLE SOURCING PROGRAMME FOR AGRICULTURAL RAW MATERIALS

Scheme Rules

1 January 2019 v.4.8

SAC 2010



BACKGROUND

By 2020 Unilever intends to buy all its agricultural raw materials from farms applying sustainable agricultural practices, so that:

- Farmers and farm workers can obtain a liveable income and improve living conditions
- Soil fertility of agricultural land is maintained and improved
- Water availability and quality are protected and enhanced
- Nature, biodiversity and climate are protected and enhanced.

This ambition has been the inspiration for the Unilever Sustainable Agriculture programme, which started in 1998. In 2010, this programme, in wide consultation with farmers, NGOs and academics, resulted in the publication of the Unilever Sustainable Agriculture Code. This, in turn, became the basis for the Unilever Sustainable Sourcing programme, one of the pillars of the Unilever Sustainable Living Plan, which was launched in November 2010.

Note: This version of the SAC 2010 scheme rules is designed for suppliers who have not yet transitioned to the new system of certification against SAC 2017, and is therefore relevant only to those suppliers who are already using verified self-assessment. All suppliers will transition to the new system (or accepted equivalent) by 2022.

PURPOSE OF THE SCHEME RULES

In order for Unilever to be able to report on progress in Sustainable Sourcing, the following scheme rules have been developed to determine whether a certain volume of raw material A, purchased from supplier X, qualifies to be included in the Unilever Sustainable Sourcing Metric, i.e. whether this material will classify as having been 'sustainably sourced'.

RULES RELATING TO THE USE OF THE UNILEVER SUSTAINABLE AGRICULTURE CODE 2010 (SAC 2010)

1. General Conditions

- a) The scope and responsibilities as per sections 0.3 and 0.4 of SAC 2010¹ are adhered to.

¹ 0.3 Scope

Unless otherwise stated in the text, the scope of this document is as below:

| <i>Practices referring to</i> | <i>Scope</i> |
|--|--|
| <i>Soils, soil management</i> | <i>Field on which Unilever crops are grown, including fields in rotation with other crops.</i> |
| <i>Crop husbandry</i> | <i>Unilever crops</i> |
| <i>Animal husbandry</i> | <i>Unilever animals. Animal slaughter and transport of animals off-farm is currently out of scope.</i> |
| <i>People, working conditions, health & safety, training</i> | <i>Whole farm</i> |
| <i>Activities stretching beyond the farm, such as some aspects of Biodiversity, Water or Value chain</i> | <i>Whole farm</i> |

0.4 Responsibilities

*This Code of Conduct is applicable to all Unilever **suppliers** of agricultural goods, the farmers producing them and contractors working on farm. We hold our suppliers responsible for implementing this Code. However, many good practices must be applied by farmers, not suppliers.*

- b) The units that need to do the farm assessments are the primary processing plants from which Unilever (or Unilever suppliers) buy raw material.
- c) A random sample of farms for self-assessment will be taken for each new assessment round from the full list of farmers supplying that processing plant with raw materials that are supplied to Unilever. The selection will be made automatically through the Greenlight Assessments software system, or, if the software is not being used, by a Unilever representative, but not by the supplier themselves. Point 6. in this document describes what is meant by a random sample.
- d) The number of farms to be sampled per processing plant is determined by the following rules:
 - i. If there are fewer than 30 farms, all the farmers are assessed.
 - ii. When the number of farms is >30 the sampling rule is the square root of N (where N = the number of farms) or 30, whichever is the higher. This means that >30 farms must be sampled only if there are more than 900 farmers for the processing plant.
 - iii. Suppliers may choose to sample >30 farms per processing plant, even if this is not required in ii.
- e) Where more than one processing plant, more than one crop, and/or more than one farmer group is involved, the sampling rules apply to every farmer group who fall under a separate management scheme or Internal Control System². For example:
 - i. Where one processing plant supplies more than one raw material to Unilever (e.g. different dried vegetables) the number of farms producing all the raw materials supplied to Unilever will be added together, and the total number used to determine how many farms need to be sampled, according to the rules under d). At least 2 farms must be sampled for each raw material. If a farm in the sample of 30 produces more than one raw material for Unilever, it may be asked to answer the metrics-related questions for each raw material separately.
 - ii. If a supplier has 3 plants in 3 locations (e.g. 1 plant per country), purchasing from different groups of farmers, each will be assessed separately. However, if different processing plants buy raw materials from the same group of farmers, or different groups of farmers under the same management system, the group need only be assessed once.
- f) When groups of farmers are located in different regions but are managed under the same management scheme or Internal Control System (i.e. are counted as one group for sampling purposes) documentary evidence of the common management system must be provided to Unilever.
- g) Assessments are carried out at the level of a particular raw material (farmer requirements) or product sold to Unilever (supplier requirements).

² A Management Scheme or Internal Control System is a documented and tested step-by-step method aimed at smooth functioning through standard practices. They generally include detailed information on topics such as (1) organising a programme, (2) setting and implementing corporate policies and targets, (3) establishing accounting, monitoring, and control procedures, (4) choosing and training employees, (5) evaluation procedures.

- h) The volume of material counted as 'sustainably sourced' is the volume of product purchased by Unilever, or produced in a Unilever primary processing plant, not the volume of the harvested product. For example, soybean oil not soy beans, black leaf tea, not fresh leaf, tomato paste, not tomatoes.

2. Scoring system

A farmer starts to count as compliant if their assessment (farmer and supplier questions combined) achieves:

- 100 % of Mandatory requirements
- 80 % of Applicable Musts in total³
- 50 % of Applicable Musts per SAC Chapter

The volume counted as 'sustainably sourced' from a supplier is calculated as follows:

- a) If all farmers sampled and assessed (as defined in 1c.-e. above) are compliant then the total volume of product sold to Unilever is counted.
- b) If x/y farmers sampled are compliant then $(x/y) * 100\%$ of the total volume of product sold to Unilever can count. BUT all mandatory requirements must be achieved by all farmers sampled for any of the volume to count, i.e. if ANY of the sampled farmers fail ANY of the mandatory requirements, NONE of the volume of product sold to Unilever counts as sustainably sourced. *Note: it is the number of farmers that is used in the calculation, regardless of the volume of material those farmers supply.* This should be presented to Unilever as 'sustainably sourced (controlled mixing)'.
Note: if ANY of the sampled farmers fail ANY of the mandatory requirements, NONE of the volume of product sold to Unilever counts as sustainably sourced.
- c) If the conditions required for mass balance have been agreed with Unilever (see box 'Different Supply Chain Options'), the volume is calculated as $(x/y)*100\%$ (as in b), but the volume should be presented to Unilever as 'sustainably sourced (mass balance)'.
Note: if ANY of the sampled farmers fail ANY of the mandatory requirements, NONE of the volume of product sold to Unilever counts as sustainably sourced.

The calculation as under a), b) and c) above will apply to the volume purchased by Unilever after all assessments for a supplier have been submitted and closed in the software system and compliance confirmed ('compliant date').

3. Timing of Subsequent Assessments (Re-assessments)

Re-assessment of a supplier must take place in accordance with the following rules:

- a) For 'compliant dates' between 1 January and 30 June, all re-assessments must be submitted and closed before 30 June of the following year.
- b) For 'compliant dates' between 1 July and 31 December, all re-assessments must be submitted and closed before 31 December of the following year.

A new random sample will be used for each round of assessments.

4. Other Conditions

- a) Breaches of mandatory requirements that are listed under "Prohibitions" in SAC, must be stopped immediately on discovery as a condition for continuation as a supplier to Unilever. If a self-assessment is carried out and any mandatory requirement is failed, re-assessment can only take place during the next raw material production cycle. For seasonally-produced raw materials this will be the

³ This percentage is calculated by dividing the number of 'musts' complied with by the total number of applicable 'musts' in the assessment multiplied by 100.

next season, for non-seasonal raw materials re-assessment can take place as soon as the mandatory failure has been corrected.

- b) An improvement plan with interim goals and timelines must be agreed with suppliers and the respective Unilever representative, with the aim of ensuring that at the time of the next assessment all farmers in the sample meet the entry compliance level. The improvement plan must be implemented with all farmers supplying the processing plant, not just a sample of farmers.
- c) An improvement plan with interim goals and timelines must be agreed with suppliers and the respective Unilever representative with the aim of ensuring that at least 80% of musts per SAC Chapter are achieved at all farms within 3 assessment periods.
- d) If suppliers fail to comply with the jointly agreed improvement plan (for all farmers to achieve 80 % musts per SAC Chapter within 3 assessment periods), supplier’s volume loses its status as sustainably sourced.

This means that over time progress should look as follows:

| Requirements | Assessment 1 | Assessment 2/3 | Assessment 4 |
|--------------------------|--------------------|--------------------|--------------------|
| Mandatory | All farmers, 100 % | All farmers, 100 % | All farmers, 100 % |
| Musts on average | X farmers, 80 % | X farmers, 80 % | All farmers, 80 % |
| Musts per Chapter | X farmers, 50 % | X farmers, >50 % | All farmers, 80 % |

Table 1 - Continuous Improvement Requirements

5. Self-Assessment Verification

Unilever will commission an independent verification body to spot-audit a random sample of Unilever suppliers who use self-assessment, weighted by a sustainability risk assessment of the raw material origin. Based on a combination of sustainability risk indicators (e.g. risk of corruption, human rights abuses, child labour, illegal land clearing) countries are assigned a High Risk or Low Risk category. Sample size for verification in Low Risk countries is “square root of the number of suppliers who have done a self-assessment”, sample size in High Risk countries is twice that. Samples are random. For each supplier in the sample, three farmers are selected at random. The verification process checks whether the self-assessment, both at supplier and farmer level, were done correctly. If negative deviations are found, a pro-rata discount factor is calculated and applied to the total self-assessed volume for the year.

6. Random Sampling

In random sampling each farmer included in the sample is chosen entirely by chance and each member of the farmer group has an equal chance of being included in the sample. Every possible sample of a given size has the same chance of selection; i.e. each member of the farmer group is equally likely to be chosen at any stage in the sampling process. This reduces the chance of bias in the sample.

The random sample of farms for self-assessment is an automated part of the assessment set creation process in the Greenlight Assessments self-assessment

software. Prior to assessment set creation the full list of farmers supplying that processing plant with raw materials supplied to Unilever must be imported into Greenlight Assessments and the raw material assigned to each site.

In exceptional circumstances, where Greenlight Assessments cannot be used to generate the random sample, suppliers must provide a database of their farmers, with numbers allocated to each farmer e.g. 1-100. Random numbers are then generated to select the sample. Random numbers can be generated using a calculator, spreadsheet or printed tables of random numbers. The generation of the random sample must be made by a Unilever representative, not by the supplier themselves.
