EXECUTIVE SUMMARY

Mining the Disclosures 2016

An Investor Guide to Conflict Minerals Reporting in Year Three

RESPONSIBLE sourcing network

COMPARE SCORES ONLINE WITH RSN'S INTERACTIVE GRAPH

Full report at: www.sourcingnetwork.org/mining-the-disclosures

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Executive Summary

In the third year of analyzing companies' conflict minerals activities and reporting, Responsible Sourcing Network (RSN) found the results varied widely among companies and industries. In general, high performers demonstrate an understanding that conflict minerals reporting is critically important reporting for human rights risk mitigation, whereas low performers emphasize compliance only. Encouragingly, more companies are conducting due diligence intended to mitigate risk to the people at the heart of global supply chains, a change that has come about due to public scrutiny, collaboration, and alignment with global principles.

The demand for natural resources continues to fuel human rights abuses in the Democratic Republic of Congo (DRC) and surrounding countries (DRC region), as well as in places like Colombia, perpetuating some of the most challenging and prolonged human rights crises in the world. Actions by downstream companies, spurred by human rights advocates and broadened by reporting requirements in the U.S. and Europe, are creating more demand for conflict-free minerals, and leading companies like Intel, Philips, Microsoft, Apple, and EMC are helping to prevent an embargo of the region and to increase the supply of conflict-free minerals originating in the DRC region.

Signatories of the United Nations Principles for Responsible Investment (PRI) manage over $60 trillion in assets; have committed to seek disclosure on environmental, social, and governance (ESG) issues; and use this information for investment analysis and decisionmaking. Thanks to the mandatory requirement of conflict minerals disclosures, sustainable, responsible, and impact (SRI) investors have gained insight into the way companies respond to a salient human rights risk, many of which had previously never reported on social performance. For almost all of the companies RSN reviewed, reporting on conflict minerals was by far the most detailed for a human rights issue.

How can investors be confident a company is sourcing conflict-free minerals?

Conflict-Free is not a status or a label; the OECD states risk management is an ongoing, proactive, and continuously improving process. Following the letter but not the spirit of risk guidance means a company's reporting is simply a checked box, not genuine risk reduction, which may indicate weakness in other core business areas. **Investors should look for three key attributes in a conflict-free company**:

1: Conducts risk-based due diligence. (60 pts)

2: Responds to salient human rights risk. (20 pts)

3: Reports effectively. (20 pts)

Findings in 2016

Out of over 1,2000 companies that filed, RSN analyzed 230 across over 25 industries. As in the previous two years, IT and electronics industries outperformed other industries, with laggard companies split across a wide cross section of industries.

1: Leaders are focused on risk-based due diligence while laggards maintain a compliance-only focus.

- Company policies set the tone for all activities and reporting. Companies with a conflict-free commitment or a commitment to avoid embargoing the region showed indicators of stronger programs overall.
- More companies reported increased supplier ability to track minerals to the product-level, to improve the accuracy of their own supply chain mapping, and to disclose their chains of custody. However, about two-thirds of companies in the sample group failed to name the processing facilities in their supply chain, and less than a fifth identified all possible countries of origin for minerals.
- Some companies avoid conducting full risk-based due diligence by filing a Reasonable Country of Origin Inquiry in which they rely on certifications from direct suppliers that minerals were not sourced from the DRC region, which is information most direct suppliers would not typically have, and at worse sends a signal that sourcing from the DRC is to be avoided.

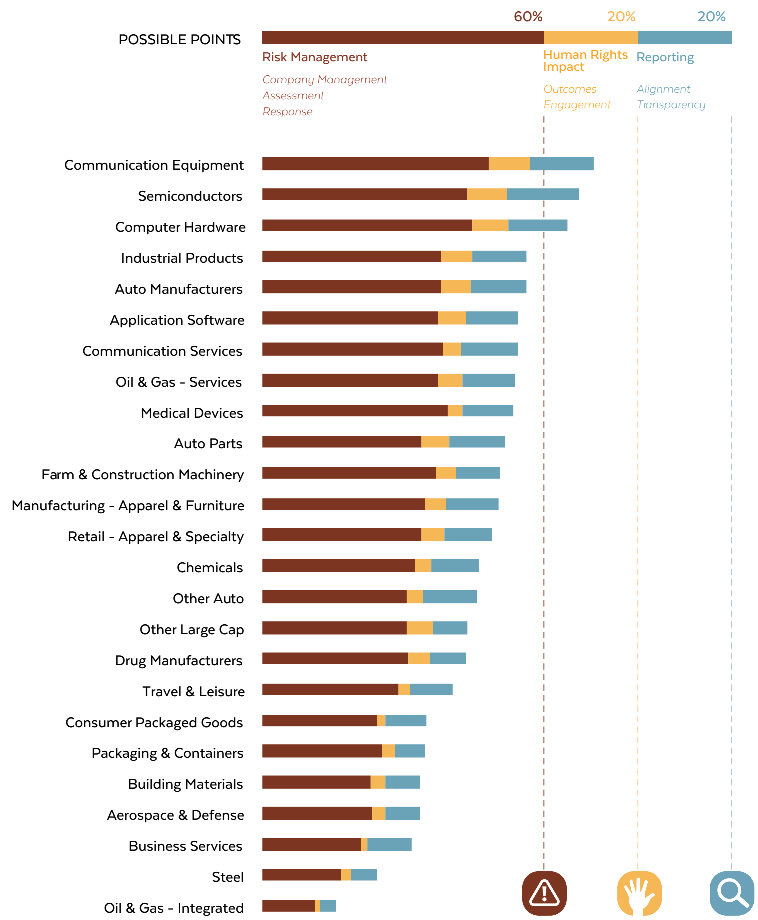
2: Companies must go further to directly mitigate adverse human rights impacts.

- Encouragingly, companies are adding clearer language to policies and supplier communications that makes it clear suppliers may continue to source from the DRC. Four companies called out in last year's *Mining the Disclosures 2015* for using "DRC-free" language (embargoing all 3TG minerals from the DRC region) adjusted their statements to instead only prohibit minerals that were not conflict-free. However, companies like Symantec, Owens Corning, Alliance Data Systems, Exxon Mobil, Shell, Imperial Oil, and Tenaris continue to instruct suppliers not to source from the region at all.
- Most companies have failed to explain a procedure for escalating, resolving, or enforcing conflict-free requirements. In contrast, leaders like HP and Kyocera showed suppliers a bright line, and Apple reported removing dozens of SORs from its supply chain for failing to respond to offers to become third-party audit compliant.
- Only a few companies in the sample group, concentrated in the IT sector, carried the full burden of supporting in-region initiatives like artisanal or small-scale mining in the DRC region. For responsible mining to have a positive and significant impact on the region, many more companies must support and use legitimate, conflict-free minerals from the region. Phillips, for example, exercised its

leverage over suppliers to source tin from the DRC, despite not sourcing there previously, and Intel has created a public campaign around the importance of sourcing conflict-free minerals from within the DRC, rather than embargoing.

3: Reporting should be clearer and more consistent.

- Some companies conducted an independent private sector audit (IPSA) despite not being legally required to do so, including Baker Hughes, Canon, and Halliburton, a leading practice which give assurance a company is implementing what it claims.
- Companies like ArcelorMittal, General Electric, and Sony have made risk assessment and progress metrics, like an increase in the ratio of compliant smelters, easily accessible on their websites; however, these companies remain the exception.
- Most SEC disclosures also lack standardization or clarity, which makes them difficult for non-experts to read and use. EMC's report is an example of a readable, plain-language disclosure, while Nokia's format clearly shows how the OECD framework was followed.
- Investor Relations pages provided little context for the risk that human rights issues like conflict minerals pose to the company, despite the strong interest from investors in ESG reporting. Companies should provide a risk-based analysis for stakeholders and investors, i.e. an assessment that goes beyond minimal compliance.



Much progress has been spurred by mandatory disclosure guidelines from the United States Securities and Exchange Commission (SEC), which requires companies whose manufactured products contain certain high-risk minerals to use a nationally or internationally recognized framework to report on efforts to trace these minerals to their source. This creates a *de facto* requirement to follow the risk-based guidance for responsible sourcing of minerals created by the Organisation for Economic Co-operation and Development (OECD). While over 70% of companies in our sample group followed the OECD guidance, most did so superficially, and only a handful of companies utilized the guidance to its full extent.

The OECD guidance itself is aligned to the United Nations Guiding Principles on Business and Human Rights (UNGPs), the international standard for companies to understand, fulfill, and report on their responsibilities toward the people affected by their business. The recently released UNGP Reporting Framework helps companies differentiate between material risk to their business, such as liability or reputational harm, and salient risk to people, which helps companies determine the most serious and urgent issues to prioritize.

Encouragingly, more companies are considering the human rights impacts of their due diligence efforts, including the challenge of sourcing conflict-free minerals without sourcing "DRC-Free," which contributes to a devastating embargo of the entire DRC region, and sets an unsustainable precedent for managing risk in other geographical areas. These conflict-free leaders:

- **Demonstrate a long-term, good-faith commitment** to trace and source minerals responsibly;
- **Adopt global principles** and practices laid out by the OECD guidance and UNGPs;
- **Collaborate and engage** supply chain actors and stakeholders to create and measure human rights outcomes, including ensuring suppliers understand conflict-free does not mean DRC-free;
- **Report transparently, clearly, and frequently** on conflict-free efforts, including metrics.

The excuses made by low-performing companies (skepticism toward materiality, weak leverage, or communication with suppliers; lack of knowledge over the supply chain; lack of confidence in existing conflict-free initiatives) have already been answered by leading practices of conflict-free leaders, including innovation, alignment with global frameworks, and collaboration with peers and stakeholders.

Investors and the public must continue to demand genuinely conflict-free supply chains, which promote good business for investors and peace and prosperity in conflict-affected areas. Conflict minerals leaders continue to prove this goal is attainable, while laggards must step up to fulfill their responsibilities under international principles. When companies adopt a risk-based approach to human rights risk, investors and miners alike have less to fear, and can look forward to a more prosperous future.

Superior (90+)

Intel	Qualcomm

Leading (80+)

ABB	Apple	Ford Motor	HP	Royal Philips
Alcatel-Lucent	Canon	General Electric	Microsoft	Sony
Alphabet	EMC	Hewlett Packard Enterprise	Nokia	Verizon Communications

Strong (70+)

3M	Halliburton	Intuit	Kyocera	NXP Semiconductors
Baker Hughes	Hasbro	Johnson & Johnson	Mattel	Rockwell Automation
Bed Bath & Beyond	IBM	Johnson Controls	Micron Technology	Schlumberger
Flextronics International	Illinois Tool Works	Juniper Networks	Motorola Solutions	Stryker
				Western Digital

Good (60+)

Amphenol	Ecolab	Icahn Enterprises	Roper Technologies	Tesla Motors
Boeing	Eni	LG Display	Seagate Technology	Texas Instruments
Broadcom	F5 Networks	Lowe's Companies	Sherwin-Williams	Tiffany
Caterpillar	Goodyear Tire & Rubber	Masco	Stanley Black & Decker	VF
China Mobile	Hanesbrands	MDU Resources Group	Taiwan Semiconductor	Vodafone Group
Eaton	Home Depot	Philip Morris Int'l	TE Connectivity	Walt Disney

Adequate (50+)

Abbott Laboratories	Coach	General Motors	Magna International	Sealed Air
ArcelorMittal	Corning	Harman Intl Indus	Medtronic	St Jude Medical
ASML Holding	Cummins	Ingersoll-Rand	Merck & Co	Symantec
Autoliv	Deere	Intuitive Surgical	Michael Kors Holdings	TJX Companies
Ball	Delphi Automotive	Joy Global	Nike	Trimble Navigation
Cadence Design Syst.	FMC Technologies	Lear	Palo Alto Networks	Under Armour
Cisco Systems	Fortinet	Leggett & Platt	Pfizer	United Technologies
CNH Industrial	Garmin	Lockheed Martin	PPG Industries	Whirlpool

Minimal (40+)

Acuity Brands	Cintas	Harley-Davidson	Nippon Telegraph	Thor Industries
AGCO	Colgate-Palmolive	Honda Motor	NTT DOCOMO	Toyota Motor
Amazon	CRH	Kimberly-Clark	Polaris Industries	Tyco International
Applied Materials	Danaher	LM Ericsson Telephone	Procter & Gamble	Vista Outdoor
Boston Scientific	Emerson Electric	LyondellBasell Inds.	Sensata Technologies	WestRock
Brunswick	First Data	Newell Brands	Tata Motors	Windstream Holdings
BT Group	Gap	Nidec	Tenaris	Zimmer Biomet Hldgs.

Weak (<40)

Adobe Systems	Callaway Golf	Honeywell International	Nucor	Sanofi
Albemarle	Carlisle Companies	Imperial Oil	Oracle	SeaWorld Entertainment
Alliance Data Systems	Chevron	James Hardie Industries	Owens-Corning	Smith & Wesson Holding
AMETEK	Constellium	L Brands	Parker Hannifin	Sonoco Products
Anheuser-Busch InBev	Core Laboratories	Luxottica Group	Pool	Steel Dynamics
AptarGroup	Crown Holdings	Mohawk Industries	POSCO	Sturm Ruger & Co
Autodesk	DST Systems	National Oilwell Varco	Praxair	Terex
Avery Dennison	Erickson	Nautilus	Ralph Lauren	The Estee Lauder
Avnet	Exxon Mobil	Nielsen Holdings	Raven Industries	Total
Berkshire Hathaway	Fastenal	Northrop Grumman	Raytheon	Unilever
Booz Allen Hamilton Hldg	General Dynamics	Novartis	Reliance Steel & Aluminum	USG
BorgWarner	Graphic Packaging Holding	Novo-Nordisk	Ross Stores	Wal-Mart Stores
			Royal Dutch Shell	

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