



Mining the Disclosures

An Investor Guide to Conflict Minerals Reporting



Authors

Andrew Arriaga, Research Analyst, Responsible Sourcing Network

Andrew received his MA in Global Affairs and Management, with honors, from Thunderbird School of Global Management in 2014. In his many leadership roles at Thunderbird, including Chair of the Thunderbird Honor Council and VP of Net Impact Thunderbird, he helped equip diverse business leaders for the challenges of global citizenship on campus and beyond. Andrew has studied Spanish, German, French, and Arabic. Andrew's work as an inner-city homeownership counselor, refugee advocate, and anti-labor-trafficking volunteer catalyzed his passion to help marginalized people access networks of economic prosperity. He is currently working as a Research Analyst at Responsible Sourcing Network.

Patricia Jurewicz, Director, Responsible Sourcing Network

Patricia is the founder and Director of the Responsible Sourcing Network, where she has worked with the shareholder community to address labor and human rights abuses since 2006. She sits on advisory committees for the Cotton Campaign, ICCR's Human Trafficking Group, and the Conflict-Free Smelter Program. She has 15 years of diverse experience related to supply chain management and corporate responsibility. Patricia has held positions with the Institute for Agriculture and Trade Policy (IATP), Gap Inc., and women's cooperatives in Latin America. Patricia has an International MBA from Thunderbird School of Global Management and degrees from Cornell University and the Fashion Institute of Technology.

Contributing Author | Kathleen Brophy, Minerals Program Manager, Responsible Sourcing Network

Kathleen is developing a career in resource extraction justice focused on promoting transparency and accountability in the global extractive industries. Kathleen is currently pursuing this work as the Extractive Industries Program Officer at Transparency International Uganda, where she is working on preventing corruption in the country's developing oil and minerals sectors. She graduated from the MPS program at Clinton School of Public Service. Kathleen holds a dual degree from Washington University in St. Louis in international studies and anthropology. At RSN, Kathleen is continuing prior work and research on the trade in conflict minerals from the Democratic Republic of the Congo (DRC) and surrounding countries as the Minerals Program Manager.

Publishing Organizations

Responsible Sourcing Network (RSN), a project of the non-profit organization As You Sow (www.asyousow.org), is dedicated to ending human rights abuses and forced labor associated with the raw materials found in products we use every day. RSN builds responsible supply chain coalitions of diverse stakeholders including investors, companies, and human rights advocates. Currently, RSN works with network participants to leverage their influence in the areas of forced labor in the cotton fields of Uzbekistan and conflict minerals from the DRC region to create positive change for brands, consumers, and impacted communities. For more information about RSN, please visit www.sourcingnetwork.org.

Sustainalytics is a leading independent environmental, social, and governance (ESG) research and analysis firm that supports investors around the world with the development and implementation of responsible investment strategies. In addition to its expertise in broad ESG research, Sustainalytics has published thought leadership on the issues surrounding Conflict Minerals, which include the reports *Regulating Conflict Minerals: Unpacking Section 1502 of Dodd-Frank*, published in 2012, and *Complicity in the Congo: Investor Risk in the Minerals Supply Chain*, published in 2010. Both reports can be found on the Sustainalytics website. As the selected research provider for RSN's pilot study, Sustainalytics supported the design of the research methodology for evaluating company filings and conducted the research.

With 13 offices globally, Sustainalytics has over 200 staff, including more than 100 analysts with varied multidisciplinary expertise of more than 40 industries. For the past three years, Sustainalytics was voted best independent responsible investment research firm in Extel's IRRRI survey. For more information about Sustainalytics, please visit www.sustainalytics.com.

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Schulte Roth & Zabel has not provided any input on the companies selected for review, the methodology used or any findings or statements made herein concerning industries, individual companies or their filings.

Contact Information

For more information about the report, contact:

Patricia Jurewicz, Director, Responsible Sourcing Network
patricia@sourcingnetwork.org

To inquire about the full data set, contact:

Azadeh Sabour, Associate Director, Advisory Services, Sustainalytics
azadeh.sabour@sustainalytics.com

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Executive Summary

Conflict minerals in global supply chains are a major source of risk for companies and investors, but also present a new opportunity to measure social value.

In 2014, four years after the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was originally passed, 1,315 companies from 58 industries first submitted their filings to the U.S. Securities and Exchange Commission (SEC) per the mandate of Section 1502 on conflict minerals. These filings, which represent some of the first mandated disclosures on social performance, generated a huge quantity of data without much standardization of language or format, posing a challenge for investors and analysts.

To develop a social performance research methodology and measurement tool for conflict minerals risk that is impartial, transparent, and scalable, [Responsible Sourcing Network](#) (RSN) partnered with [Sustainalytics](#), a leading independent environmental, social, and governance (ESG) research and analysis firm. RSN created **18 performance indicators**, which, weighted according to risk exposure, add up to **100 points**. To determine awarded points per indicator, Sustainalytics analysts evaluated companies' (filers') SEC conflict minerals disclosures and reviewed relevant websites and citizenship reports.

The pilot pool of **51 filers** was chosen for this study by identifying the **17 industries with the highest exposure to conflict minerals**, then analyzing the **three largest companies by market cap** in each. Our team compared the results by calculating the average score of these three filers within each industry. Although RSN expects to expand the number of filers selected from each high exposure industry in future studies, the results of the pilot study still reveal notable differences in the quality of reporting and implementation of activities. By developing this methodology and establishing the 18 indicators, we aspire to set a precedent for comparing social performance, encourage higher quality reporting, and incentivize companies to support in-region conflict-free certification efforts.

The 18 performance indicators are grouped into four Measurement Areas, which can be adapted for other social risks. The structure of the first three areas is based on the [OECD's Due Diligence Guidance](#).

The four Measurement Areas are:

- **Assessing Exposure and Responding to Risk**
- **Policies and Management Systems**
- **Transparency and Reporting**
- **Promoting a Conflict-Free Minerals Trade**

Industry Ranking with Score per Measurement Area

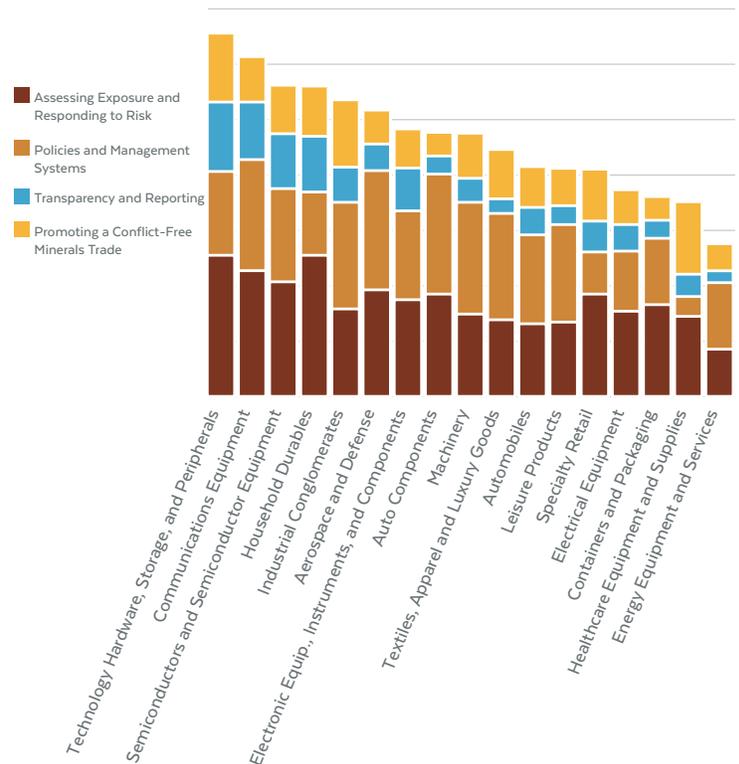


Figure 1: Industry Ranking, with Score per Measurement Area

Despite a low average score among companies in the pilot study, with most achieving less than 50 of 100 possible points, several companies in the information technology (IT) and industrials sectors set the bar higher. These filers have shown innovation and good faith in reporting, and in this report RSN has made a first effort to capture and share the best practices from their disclosures. Of the 51 companies evaluated, **Intel** scored the highest, followed by **Qualcomm**, then **Apple**.

Based on this pilot study, our team:

- Identified performance trends;
- Raised concerns about the quality of filing by companies that only submitted a Specialized Disclosure Report (Form SD) without a Conflict Minerals Report (CMR);
- Provided rankings of industries and companies;
- Listed leading practices for companies;
- Provided a step-by-step guide for investors; and
- Looked critically at our performance scoring system and opportunities for improvement.

The pilot study results support the following conclusions:

- **All industry averages fell short of the mark.** The average score in the pilot group was less than 50 out of 100 points. Strong scores from companies in leading industries were offset by very weak performance from certain companies, concentrated in laggard industries.
- **‘Leading’ companies show that high scores are attainable.** The average score of the three leading companies was 80 with the highest score in the 90s. However, the average of the IT sector, which all three leading companies are in, was 58, which demonstrates room for improvement even among higher performing industries.
- **‘Laggard’ industries scored below the 30th percentile, with companies in this group averaging below 35 points.** This group includes: Energy Equipment and Services, Containers and Packaging, and Healthcare Equipment and Supplies.
- **Most industries are ‘Lagging’ or ‘Laggard.’** Eleven of 17 high exposure industries in the pilot study received an average score of 50 points or less out of 100. We expect to see improvement once the companies in these industries begin to adopt more of the best practices of leading filers.
- **Many companies deserve praise for promoting a conflict-free minerals trade in the DRC region.** Many of the companies in RSN’s study group explicitly rejected divestment from the Democratic Republic of the Congo (DRC) or adjoining countries (DRC region), and several are measuring outcomes like number of conflict-free smelters or refiners (SORs) that source from the region.
- **Collaboration works.** Collaborative, industry-wide efforts like Conflict-Free Sourcing Initiative (CFSI), an initiative of the Electronics Industry Citizenship Coalition (EICC) and Global e-Sustainability Initiative (GeSI) have increased the private sector’s capacity to trace the origin of minerals through midstream audits and supplier survey templates. Companies not already part of an existing effort should join or initiate one.
- **Transparency is key.** To achieve a conflict-free minerals trade, more downstream companies must communicate SOR details, report on supplier engagement, and keep shareholders informed of progress. Any company that sources high exposure minerals, regardless of its obligation to file under the Dodd-Frank Act, should publicly report on its conflict minerals policy, exposure assessment, and readiness to respond to risk.

Recommendations for Companies:

Companies must disclose more details with their second reports. As performance expectations increase, companies should expect increased scrutiny. Among the leading practices set forth for companies:

- Use the legislation as an opportunity to discover operational benefits from greater supplier engagement.
- Be more transparent with product exposure, SOR, and country of origin information.
- Encourage suppliers to source only from conflict-free SORs, without pressuring suppliers into a destructive ‘embargo’ approach.

Recommendations for Investors:

- **Reduce material risk:** Expect companies to mitigate social risk in a holistic way.
- **Compare and collaborate:** Engage under-performing companies and industries, especially those that are indicated as low performers in industry and company rankings.
- **Measure performance:** Know the filing status of companies in your portfolio and what minimum expectations are. Review portfolios for companies in high exposure industries.

Every day consumers and businesses around the world use products containing minerals from the DRC region, where armed groups may benefit from the sale of conflict minerals. RSN advocates for an international, multi-stakeholder approach to ending the humanitarian crisis in the DRC region, including investors and companies.

Creating metrics for conflict minerals filing under the groundbreaking Section 1502 legislation is an important first step to address this human rights risk for companies and assist investors in assessing companies’ overall social performance. Companies and investors can use their downstream leverage to drive the market away from minerals that are contributing to human rights abuses. Together, we can help break the ties between minerals and conflict around the world.

Introduction

Mining the Data for Conflict-Free Minerals

The most specific corporate disclosure requirements required to date for ESG issues are buried in the last 10 pages of the nearly 850-page [Dodd-Frank Wall Street Reform and Consumer Protection Act](#) (Dodd-Frank) passed in 2010. Breaking new ground, Dodd-Frank Section 1502 on conflict minerals, along with Section 1503 on mine safety and Section 1504 on mandatory payment disclosures in extractive industries, spell out mandatory SEC disclosure requirements for publicly traded companies. These include adherence to the Organisation for Economic Co-operation and Development's (OECD's) [Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas](#). Now that investors are legally entitled to see a detailed accounting of how companies are incorporating safeguards against human rights abuses as a core business activity, investors need tools to evaluate what companies are doing to mitigate social risk more than ever.

Together with research provider Sustainalytics, a leading independent environmental, social and governance (ESG) research and analysis firm, RSN developed a methodology and measurement tool to track and compare activities and progress. Sustainalytics conducted research using this tool to evaluate the first filings under the SEC's Conflict Minerals Rule. In this report RSN has captured and shared leading practices, and identified indicators where performance is suboptimal. The results of the pilot study reveal that there are specific companies that are leading, and whole industries that are lagging behind.

RSN developed the social performance indicators to help investors measure companies' social performance and encourage companies to improve the quality of their reporting and activities regarding conflict minerals. We hope to inspire further progress in bringing peace to the people who live and work in the Democratic Republic of the Congo (DRC) and adjoining countries, who suffer ongoing human rights abuses associated with armed groups that benefit from the regional minerals trade. These minerals – tin, tantalum, tungsten, and gold (commonly referred to as 3TG) – are all around us, embedded in products and integral to services we consume every day. Conflict minerals are used by companies large and small across many varied sectors. Supply chains are complex and it is easy to lose the trail in a maze of suppliers, smelters, and middlemen. Nevertheless, leading companies are tracking minerals from mines to manufacturers and providing exemplary reporting on their efforts to source conflict-free minerals.

Social Performance Indicators

Social performance describes a company's success at mitigating social risks and creating social value. Formally evaluating SEC filings related to social performance creates a baseline for improvement, and incentivizes for companies to continuously improve. With over a thousand conflict minerals disclosures, each written in a different style, it is untenable for investors to get a sense of what success looks like without standards for evaluation.

In 2006, Michael Porter and Mark Kramer, writing in Harvard Business Review, [argued](#), "Measuring and publicizing social performance is a potentially powerful way to influence corporate behavior—assuming that the ratings are consistently measured and accurately reflect corporate social impact."¹ Porter and Kramer identified the key challenges of measuring social performance as: choosing the right indicators, weighting them, and above all, ensuring data is available and reliable. The conflict minerals legislation gives investors a powerful tool in answering both the lack of data availability and reliability since it requires companies to submit public disclosures to a regulatory body.

Section 1502 and the accompanying SEC Rule compels companies to make social performance data available and reliable, making possible the pilot study in this report. In this report we evaluate filings in the light of rising investor expectations for companies to track social performance. The pilot study and accompanying analysis tackles the challenge of creating and implementing a standardized methodology to evaluate regulatory filings on social performance. The resulting tool could be adapted for future social performance regulations; company efforts to address in factory working conditions, community reinvestment, or privacy concerns could also be measured and evaluated.

For the pilot study, RSN translated several dimensions of conflict minerals reporting into actionable findings that will help investors, executives and other stakeholders understand the importance of social risk as a core business concern, and how to measure it. RSN's work with Sustainalytics has resulted in a scalable and replicable methodology that evaluates conflict minerals reporting from a multi-stakeholder perspective. The methodology reflects the feedback of a diverse cross-section of stakeholders and experts, such as analysts, companies, NGOs, public officials, and investors, with whom RSN has engaged. Over time, the methodology will be refined, as we continue our multi-stakeholder engagement efforts and solicit feedback.

Defining Success: Four Measurement Areas

RSN identified the following four areas of social risk a company must address in its conflict minerals reporting:

1. Contributing to human rights violations;
2. Demonstrating poor operations or weak management;
3. Harming a company's reputation and relationships; and
4. Loss of access to minerals.

Each of these dimensions of social risk presents an opportunity for a company to create shared social value: strengthening its brand, exhibiting operational excellence, building relationships with supplier and consumers through transparency, and increasing the long-term sustainability of 3TG sources for a minerals trade that benefits communities and companies alike.

RSN organized its performance indicators into four corresponding Measurement Areas:

1. Measurement Area 1: Assessing Exposure and Responding to Risk

To mitigate the risk of contributing to human rights abuses, a company must assess exposure and respond to that risk exposure appropriately.

2. Measurement Area 2: Policies and Management Systems

A company should incorporate its response to risk into a company-wide business strategy.

3. Measurement Area 3: Reporting and Transparency

Transparency increases investor and consumer confidence thereby improving relationships. In addition, shortcomings in reporting may lead to penalties for failing to comply with minimum obligations.

4. Measurement Area 4: Promoting a Conflict-Free Minerals Trade

A company should take a reasonable amount of responsibility for the consequences of its risk mitigation strategy. In regions of weak rule of law, a filer can do greater good by continuing to do business responsibly than by divesting from the region. A stable and peaceful region is needed for a vibrant economy that can provide a sustainable supply of raw materials.



From Clear Expectations to Precise Indicators

RSN's social performance evaluation builds on six years of bringing stakeholders together to promote a conflict-free minerals trade in the DRC region.

2009: RSN organized outreach to companies by the SRI community and hosted the first multi-stakeholder group (MSG) conference call.

2010-2011: RSN [coordinated](#) five consensus comments from diverse MSG members and submitted them to the SEC as part of the Section 1502 rule-making process. MSG comments were cited in the [final SEC rule](#) 48 times.

Jan 2013: RSN published the report [What's Needed: An Overview of Multi-Stakeholder and Industry Activities to Achieve Conflict-Free Minerals](#), which presents the expectation that companies go beyond SEC filings and promote a conflict-free minerals trade in the DRC region.

Sept 2013: RSN and the Enough Project released a white paper, [Expectations for Companies' Conflict Minerals Reporting](#) to inform companies of reporting issues important to the NGO and SRI communities.

2014: RSN published the [Expectations Shortlist](#) with endorsement by 26 NGOs and SRIs, featuring points to evaluate in the SEC filings or on the companies' websites regarding conflict minerals.

Present: RSN continues to convene monthly MSG calls and works with allies to improve supply chain transparency and accountability and encourage complimentary legislative regulation internationally.

A Framework to Assess a Company’s Exposure and Response

RSN used a combination of our previously published expectations lists, multi-stakeholder feedback, and industry standards to determine a uniform way to measure and evaluate companies’ social performance. This type of regulatory statement is so new, the SEC had to create a [new template](#), the Specialized Disclosure Report or Form SD. Minimum expectations for conflict minerals filings were set forth by [Dodd-Frank Section 1502](#) (page 838), and the SEC’s [Final Conflict Minerals Rule, a Specialized Disclosure \(Form SD\) template and Conflict Mineral Report \(CMR\) template](#), a [Fact Sheet](#) and [FAQs](#). The two documents to file with the SEC are:

- **Specialized Disclosure Report (Form SD):** All companies with in-scope products must file a Form SD. This document should include a determination as to whether its Reasonable Country of Origin Inquiry (RCOI) gave the filer any reason to believe its necessary 3TG originated in the covered countries and a link to the disclosure on its website.
- **Conflict Minerals Report (CMR):** If the filer has any reason to believe its 3TG came from the covered countries, it must file a CMR as an exhibit to its Form SD. In the CMR, the filer should follow a recognized framework to describe its due diligence efforts. The only recognized framework currently in existence is the *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas* (OECD Due Diligence Guidance).

Terminology and Resources

Filers that only submitted a Form SD to the SEC are referred to in this report as “SD-only filers” and filers that also submitted a CMR as an exhibit to the Form SD, are referred to as “CMR filers.”

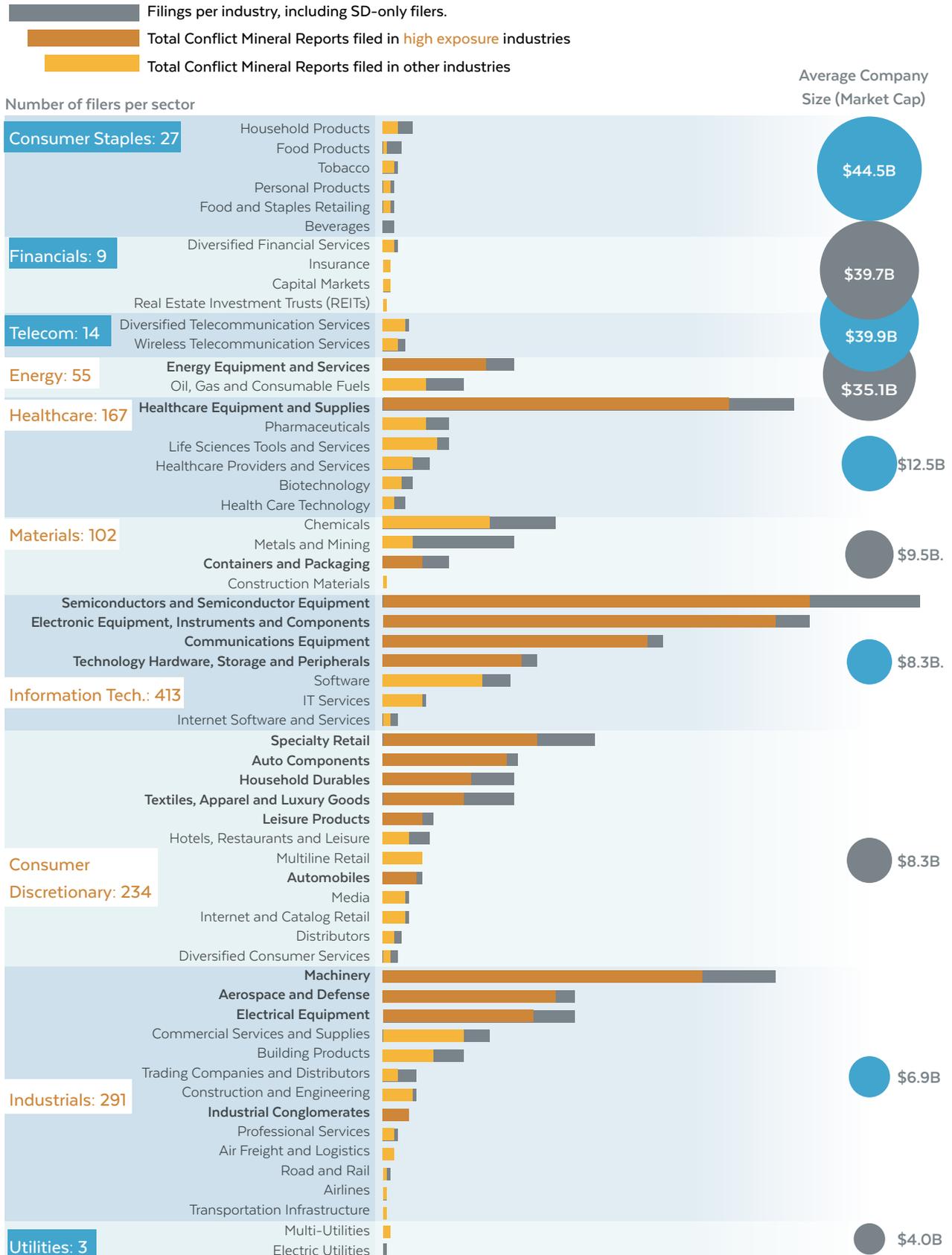
Alternate channels for reporting: RSN extended its evaluation outside of SEC filings because we recognize several indicators in the methodology fulfill due diligence requirements but are not explicitly required by the SEC rule, such as actions taken in the DRC region to promote a conflict-free minerals trade, and therefore may not be included in the SEC filing. The current evaluation and scoring system recognizes activities undertaken by filers that were reported in their web and citizenship report content. Over time we expect all information to be included in companies’ SEC filings.

- **Website:** RSN used information on the website linked in the disclosure, or relevant pages that were easily accessible.
- **Citizenship Report:** RSN referenced information included in a filer’s public report dedicated to Corporate Social Responsibility (CSR), Corporate Citizenship, or Sustainability.

Evaluation and Scoring

After stakeholder engagement and an analysis of a cross section of filings, RSN developed a social performance evaluation methodology with input from Sustainalytics. The performance evaluation consists of 18 indicators grouped into the four Measurement Areas and measures the quality and transparency of filers’ reporting. The scoring scheme is based on an overall maximum score of 100 points with the individual indicators weighted according to importance. (See Appendix C: Methodology.)

Which industries filed the most disclosures in 2014?



TOTAL: 1,315 Filers

Figure 2: Which industries filed the most disclosures in 2014?

Ranking Industries by Risk Exposure: Determining a Sample Group

Each of the four conflict minerals are found in a wide cross-section of products across a multitude of industries, as evidenced by the 58 industries represented in the SEC filings. Since the material risk applies to such a large variety of companies and industries, determining segmentation by exposure to risk is challenging.

RSN and Sustainalytics reviewed each industry that had filed a report with the SEC and assessed the overall risk exposure of that industry to conflict minerals. We defined risk exposure by looking at three factors:

- Large volume of any 3TG mineral used in production;
- Broad use of any 3TG mineral as a ratio of total products, i.e. many product categories or uses; and
- Heightened reputational risk due to past scrutiny or type of product.

Based on this evaluation, RSN and Sustainalytics determined 17 industries have high exposure to conflict minerals risk. This index of 17 high exposure industries is outlined in Figure 3 below. It is subject to revision as new information concerning risk exposure comes to light. These 17 industries fall into the six sectors that submitted the highest number of conflict minerals filings in 2014, as highlighted in Figure 2 above.

Total 2014 filings per high exposure industry, grouped by sector. The largest three companies by market cap from each industry were selected for this pilot study.

Information Technology		Industrials		Consumer Discretionary	
Communications Equipment,	111	Aerospace and Defense	50	Auto Components	35
Electronic Equipment, Instruments, and Components	73	Electrical Equipment	50	Automobiles	10
Semiconductors and Semiconductor Equipment	140	Industrial Conglomerates	7	Household Durables	34
Technology Hardware, Storage, and Peripherals	40	Machinery	102	Leisure Products	13
				Specialty Retail	55
				Textiles, Apparel, and Luxury Goods	34
Materials		Healthcare		Energy	
Containers and Packaging	17	Healthcare Equipment and Supplies	107	Energy Equipment and Services	34

Figure 3: High Exposure Industries Index

Pilot Study: Sample Group of 51 Companies

To determine the sample group for this report, RSN and Sustainalytics reviewed industry classification, filing data, and market capitalization data for all 1,315 companies in the 2014 filer population.² The sample group for our pilot study consists of the three largest companies by market capitalization from each of the 17 high exposure industries, for a total of 51 companies. Since large influential companies often face greater scrutiny and reputational risk, RSN and Sustainalytics felt that evaluating the largest companies in high exposure industries would be of interest to investors and produce valuable research insights. Other researchers generously shared some of their research data for the 1,315 filings, including Jerry Davis and Yong Kim Hyun at the University of Michigan's Ross School of Business and Michael Littenberg and his team at Schulte Roth & Zabel.

After reviewing individual company scores and overall results, it was determined that a ranking of the 17 high exposure industries in this report, grouped by the higher level sector classification, provided the greatest amount of clarity and usable information to investors.

Sample group observations:

- Fifteen of the 51 (29%) are non-U.S. companies, a similar proportion to the overall population of filers.
- Forty-seven of the 51 (92%) are CMR filers. In the population of 1,315 filers, a lower proportion (77%) submitted a CMR.
- The pilot group tends to have higher performing, larger, and more visible companies than the overall population of filers.³

Sample Group of 51 Filers		Pilot Study Sources Used by Analysts			
filer	Industry	Form SD	Conflict Mineral Report	Company Website	Other Public Reporting
3M Co.	Industrial Conglomerates	SD	CMR	Web	—
ABB Ltd.	Electrical Equipment	SD	CMR	Web	—
Abbott Laboratories	Healthcare Equipment and Supplies	SD	CMR	Web	Other
Apple, Inc.	Technology Hardware, Storage, and Peripherals	SD	CMR	Web	Other
Ball Corp.	Containers and Packaging	SD	CMR	Web	Other
Baxter International, Inc.	Healthcare Equipment and Supplies	SD	CMR	Web	Other
Boeing Co. (The)	Aerospace and Defense	SD	CMR	Web	Other
Caterpillar, Inc.	Machinery	SD	CMR	Web	Other
Cisco Systems, Inc.	Communications Equipment	SD	CMR	Web	Other
Corning, Inc.	Electronic Equipment, Instruments, and Components	SD	CMR	Web	Other
Danaher Corp.	Industrial Conglomerates	SD	CMR	Web	Other
Deere & Co.	Machinery	SD	CMR	—	Other
Delphi Automotive plc	Auto Components	SD	CMR	Web	Other
Eaton Corp. plc	Electrical Equipment	SD	CMR	Web	—
EMC Corp.	Technology Hardware, Storage, and Peripherals	SD	CMR	Web	Other
Emerson Electric Co.	Electrical Equipment	SD	CMR	Web	—
Ericsson	Communications Equipment	SD	CMR	Web	Other
Ford Motor Co.	Automobiles	SD	CMR	Web	Other
Garmin Ltd.	Household Durables	SD	CMR	Web	Other
General Electric Co.	Industrial Conglomerates	SD	CMR	Web	Other
Halliburton Co.	Energy Equipment and Services	SD	CMR	—	Other
Hasbro, Inc.	Leisure Products	SD	CMR	Web	—
Hewlett-Packard Co.	Technology Hardware, Storage, and Peripherals	SD	CMR	Web	Other
Home Depot, Inc. (The)	Specialty Retail	SD	CMR	Web	Other
Honda Motor Co., Ltd.	Automobiles	SD	CMR	Web	—
Honeywell International, Inc.	Aerospace and Defense	SD	CMR	Web	—
Illinois Tool Works, Inc.	Machinery	SD	CMR	Web	Other
Intel Corp.	Semiconductors and Semiconductor Equipment	SD	CMR	Web	Other
Johnson Controls, Inc.	Auto Components	SD	CMR	Web	Other
Kyocera Corp.	Electronic Equipment, Instruments, and Components	SD	CMR	Web	Other
Lowe's Companies, Inc.	Specialty Retail	SD	CMR	Web	Other
Luxottica Group SpA	Textiles, Apparel, and Luxury Goods	SD	CMR	Web	Other
Magna International, Inc.	Auto Components	SD	CMR	Web	Other
Mattel, Inc.	Leisure Products	SD	—	Web	Other
Medtronic plc	Healthcare Equipment and Supplies	SD	CMR	Web	Other
National Oilwell Varco, Inc.	Energy Equipment and Services	SD	CMR	Web	Other
Nike, Inc.	Textiles, Apparel, and Luxury Goods	SD	CMR	Web	Other
Polaris Industries, Inc.	Leisure Products	SD	CMR	Web	—
Qualcomm, Inc.	Communications Equipment	SD	CMR	Web	Other
Rock-Tenn Co.	Containers and Packaging	SD	—	—	Other
Schlumberger Ltd.	Energy Equipment and Services	SD	CMR	Web	Other
Sealed Air Corp.	Containers and Packaging	SD	—	—	Other
Sony Corp.	Household Durables	SD	CMR	Web	Other
Taiwan Semiconductor Mfg. Co., Ltd.	Semiconductors and Semiconductor Equipment	SD	—	Web	—
TE Connectivity Ltd.	Electronic Equipment, Instruments, and Components	SD	CMR	Web	—
Texas Instruments, Inc.	Semiconductors and Semiconductor Equipment	SD	CMR	Web	Other
TJX Companies, Inc. (The)	Specialty Retail	SD	CMR	Web	—
Toyota Motor Corp.	Automobiles	SD	CMR	Web	Other
United Technologies Corp.	Aerospace and Defense	SD	CMR	Web	Other
V.F. Corp.	Textiles, Apparel, and Luxury Goods	SD	CMR	Web	—
Whirlpool Corp.	Household Durables	SD	CMR	Web	—

Figure 4: Sample Group of 51 Filers, with Links to Pilot Study Sources



Evaluation of 2014 Conflict Minerals Reporting

Findings from the pilot study are presented by Measurement Area, based on the aggregate results of all 51 companies in the sample group. For weights assigned to each indicator, see Appendix C: Methodology.



Measurement Area 1

Assessing Exposure and Responding to Risk

Investors can be confident in the filer's risk assessment.



Measurement Area 2

Policies and Management Systems

There is internal buy-in and commitment throughout the company to engage in substantive conflict minerals supply chain due diligence.



Measurement Area 3

Transparency and Reporting

The filer is reporting thoroughly on its due diligence.



Measurement Area 4

Promoting a Conflict-Free Minerals Trade

The filer's approach to risk management is rounded out by an understanding of its impact on communities.

Measurement Area 1

Assessing Exposure and Responding to Risk

Can investors be confident in the filer's risk assessment?

The first step a company must take is to determine which products are in-scope and where the components were sourced. Filers must establish a robust process for assessing exposure and being able to successfully track the minerals supply chain upstream from finished product to country of origin.

Performance Indicators

- 1) Filer thoroughly described in-scope product(s) and mineral(s).
- 2) Quality of filer's Reasonable Country of Origin Inquiry (RCOI) process and attempt to identify location of origin with the 'greatest possible specificity.'
- 3) Filer used a template in its surveys/questionnaires to suppliers.
- 4) Filers engaged suppliers.
- 5) If surveys were sent to suppliers, filer verified survey responses.
- 6) Filer engaged smelters or refiners as a member of the Conflict-Free Sourcing Initiative (CFSI), an initiative of the Electronics Industry Citizenship Coalition (EICC), and Global e-Sustainability Initiative (GeSI), or other equivalent effort.
- 7) Filer used publicly available list to crosscheck list of SORs and determine which SORs were conflict-free. Note: No points were awarded to filers that only used a publicly available list.

High Scoring Industries: Technology Hardware, Storage and Peripherals; Semiconductors and Semiconductor Equipment; Communications Equipment

Low Scoring Industries: Energy Equipment and Services; Containers and Packaging; Specialty Retail

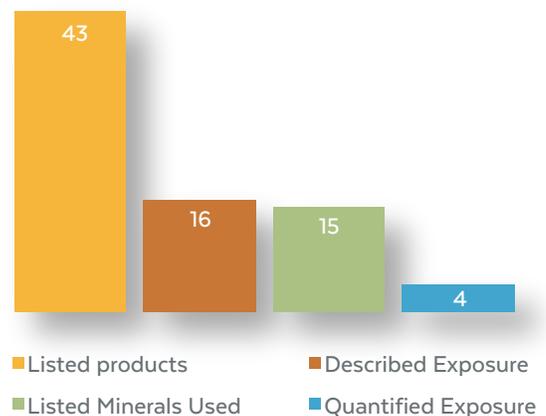
Leading Practices

Quantify exposure to conflict minerals. High scoring filers quantitatively described the extent to which their products pose risk of containing minerals that could be contributing to conflict in the DRC region. This demonstrates that the filer has undertaken a comprehensive internal assessment that has led it to evidence-based conclusions about its exposure. ABB Ltd. reported information on which types of products contain conflict minerals, which operational division oversees production, and how much of the filer's revenue is generated by each division. Mattel stated: "5,000, or 44%, of the parts and products covered by the survey responses may contain one or more of the 3TG minerals." This kind of quantitative detail helps investors assess risk exposure.

List products in detail so investors understand the breadth of risk, and provide data like percent of revenue or describe like the role of 3TG in a manufacturing process. Garmin provided a complete list of all its products that contain conflict minerals sorted by category. Some filers avoided listing their products in detail, but this level of disclosure contributes to a broader understanding of how conflict minerals are being used in which end products. Other companies, including Rock-Tenn., explained how a certain conflict mineral was used in a specific manufacturing process or product: "Specifically, a folding carton product manufactured by us to hold and dispense plastic wrap included a metal cutting edge component that contained tin." This type of detail is useful for investors in understanding conflict minerals exposure for both the specific company and the industry as a whole.

Indicator Results

1) How did the filer describe exposure?

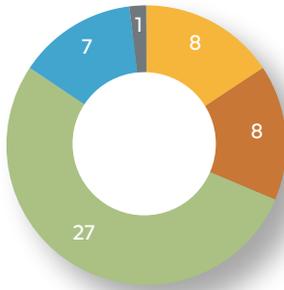


1) Filer thoroughly described in-scope product(s) and mineral(s).

Assessing exposure to risk starts with filtering or triaging all of the products a company manufactures or contracts to manufacture, and determining whether any of these are in-scope, or require 3TG to manufacture. The easiest way a filer can explain exposure to investors is it to describe its filtering process and list impacted product categories.

Section 1502 requires filers to list in-scope product categories, yet over 15% (8/51) of companies in our pilot study did not do so.

2) How well did the filer conduct the RCOI?



■ Exemplary ■ Thorough ■ Adequate ■ Minimal ■ No RCOI

2) Quality of filer's Reasonable Country of Origin Inquiry (RCOI) process and attempt to identify location of origin with the 'greatest possible specificity:'

Exemplary: Provided clear reasoning for its RCOI conclusion with the names of known countries of origin.

Thorough: Provided clear reasoning for its RCOI conclusion with at least partial reference to a specific country or countries of origin.

Adequate: Described the basic process it followed to arrive at its RCOI conclusion with little to no verifiable detail.

Minimal: Little to no description of its process.

None: No RCOI described and labeled.

Only five filers (9.8%) in the sample group provided a list of possible countries of origin: Apple, Garmin, General Electric, Intel, and Polaris Industries.

The mandate to identify specific countries of origin is only explicitly required of CMR filers, but SD-only filers also should identify all possible countries of origin in order to determine that they do not source from the covered countries to begin with. The exposure assessment process should not really be any less rigorous for SD-only filers than for CMR filers.

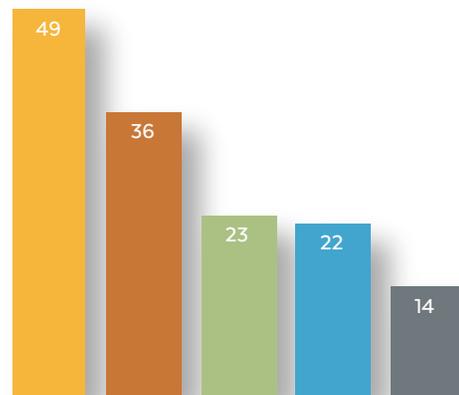
When Section 1502 created these two tiers of reporting, it inadvertently may have created a loophole for companies to conduct suboptimal reporting. An RCOI conclusion that the filer is not sourcing from the DRC region could mean:

- 1) The filer did not conduct its RCOI as thoroughly as it should have, in order to avoid the more time-intensive CMR due diligence requirement.
- 2) The filer has directed suppliers to avoid the DRC region, contributing to an embargo effect.

Careful supervision from investors can make sure that companies that file a Form SD with no CMR faces less exposure to minerals from the covered countries and not more risk. This may require more transparency from SD-only filers than the legal minimum.

In order to provide investors with the information they need to make this determination, RSN has chosen indicators that evaluate whether the exposure assessment and RCOI process are sufficiently robust for SD-only filers, and weighted these indicators more heavily for SD-only filers.

3) What strategies did the filer use to engage suppliers?

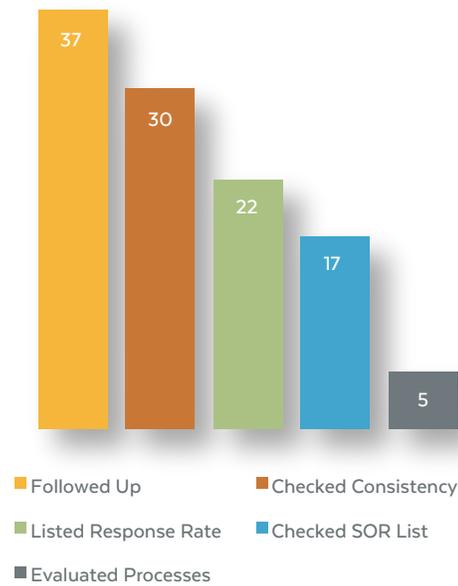


■ Sent out Surveys ■ Communicates Policy
 ■ Policy in Contracts ■ Provides Support
 ■ Enforcement Method

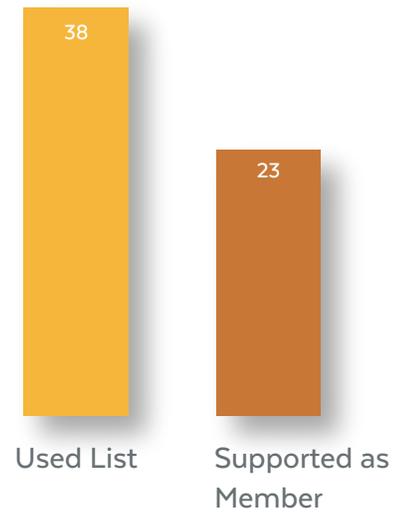
3) Filer engaged suppliers. Potential answers include:

- Sent out supplier surveys to gather information on sources of minerals
- Communicated conflict minerals policy to suppliers
- Included conflict minerals policy in supplier contracts
- Provided training or support in risk mitigation to suppliers
- Described method to enforce policy or take corrective actions

4) What strategies did the filer use to verify survey responses?



6 and 7) Did the filer use a public list from a conflict-free verification scheme? Did the filer also support such a scheme?



4) If surveys were sent to suppliers, filer verified survey responses.

Potential answers include:

- Followed up when needed
- Checked for survey completeness and accuracy against other data sources like website
- Listed survey response rate
- Checked SOR lists for accuracy against the U.S. Dept. of Commerce list or the Conflict-Free Sourcing Initiative (CFSI) list
- Evaluated suppliers' due diligence processes

5) Did the filer use a template in supplier surveys?

5) Filer used a template in its surveys/questionnaires to suppliers.

This indicator will be used to track trends over time. A total of 92% (47/51) of filers in the sample group used a template.

6) Filer engaged smelters or refiners as a member of the Conflict-Free Sourcing Initiative (CFSI) or other equivalent effort; and

7) Filer used a publicly available list to cross-check list of SORs and determine which SORs were conflict-free.

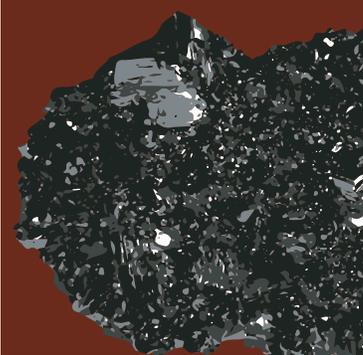
Most filers used a publicly available smelter list, but only a minority were members of a third-party audit scheme that generates a publicly available list such as CFSI (20/51 or 39% of the sample group). Member companies participating in a third-party audit scheme substantively contribute to its success compared to those that simply cite a publicly available list, an activity that requires little effort. Therefore, filers that supported one or more audit schemes received points for this indicator, while those that did not received a score of zero.

Vocabulary of Conflict Minerals Risk

Conflict Minerals

Section 1502 defines conflict minerals as “columbite-tantalite, also known as coltan (the metal ore from which tantalum is extracted); cassiterite (the metal ore from which tin is extracted); gold; wolframite (the metal ore from which tungsten is extracted); or their derivatives.” A shorthand way to refer to these four minerals is 3TG: tin, tantalum, tungsten, and gold. The term ‘conflict minerals’ is used interchangeably with 3TG but it is possible that one of these minerals may be removed or a new one added per the U.S. Secretary of State. In 2014, many filers referred to conflict minerals as ‘subject minerals’ which helps establish the correct understanding that not all ‘conflict minerals’ or 3TG actually contribute to conflict.

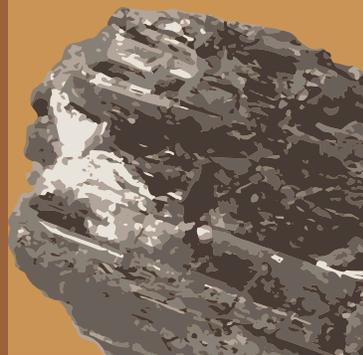
Tin (Cassiterite)



Tantalum (Coltan)



Tungsten (Wolframite)



Gold



DRC Conflict-Free

The SEC’s official term for 3TG conflict minerals that did not contribute to conflict in the DRC is “DRC Conflict Free.” It may be misleading because this term can be applied to 3TG minerals that do not originate in the region at all, or come from scrap/recycled sources. Responsible investors should instead encourage companies to commit to sourcing ‘Conflict-free *from* the DRC’ and covered countries.

Originated vs. May Have Originated

The decision whether to file a CMR hinges on the filer’s interpretation of having “reason to believe (or not) minerals *may* have come from the covered countries.” Because of the complexity and opaqueness of supply chains, a filer that receives less than 100% supplier response should not declare it ‘has no reason to believe’ its necessary conflict minerals *may* have originated in the covered countries. Unless a filer has a reasonable explanation for knowing where 100% of its 3TG minerals came from, it should interpret any lack of survey response as a reasonable possibility that minerals *may* have come from the covered countries.

Figure 5: Vocabulary of Conflict Minerals Risk

Measurement Area 2

Policies and Management Systems

Is there internal buy-in and commitment throughout the company to engage in substantive conflict minerals supply chain due diligence?

As a filer continually assesses its level of exposure, it should devote a corresponding level of resources to building company management and risk-detection systems into the organization and culture of the company.

Performance Indicators

8) Filer explicitly stated it has followed the Organisation for Economic Cooperation and Development (OECD) Due Diligence Framework and each section was clearly labeled or substantiated in some way.

9) The internal risk-management steps the filer took were given with sufficient detail.

10) Filer obtained an independent, private-sector audit of its CMR and named the auditor, including contact information, and provided the assurance standard used, and the level of assurance designated by the auditor.

High Scoring Industries: Auto Components; Machinery; Aerospace and Defense; Communications Equipment.

Low Scoring Industries: Containers and Packaging; Leisure Products; Energy Equipment and Services

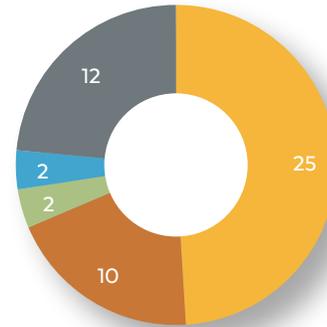
Leading Practice

Vertically integrate conflict minerals strategy as a core business practice. Intel was the only filer to obtain an independent audit of its CMR in the sample group as well as receive a full score for both implementing the OECD framework across its company and creating internal management systems.

- Intel described its policy in detail within the Form SD, included a link to the full publicly available policy, and fully integrated its policy into its organizational strategy.
- Intel integrated a Conflict Minerals team into its existing Global Sourcing and Procurement organization that provides monthly due diligence progress reports to senior management. The team also regularly met with the CEO, indicating that this issue is receiving the highest level of attention.
- In addition, any employee of the company is able to raise concerns about conflict minerals risk through a company-wide grievance system.

Indicator Results

8a) Did the filer follow all 5 OECD steps?



■ All 5 Steps ■ 4 Steps ■ 3 Steps ■ 1 Step ■ None

8) Filer explicitly stated it has followed the OECD Due Diligence Framework and each section was clearly labeled or substantiated in some way.

The SEC requires the CMR to follow a “nationally or internationally recognized framework.” The OECD is the only such framework currently in existence, thus the de facto required framework. It is not sufficient to simply mention the five OECD steps.

Step 1: Establish strong company management systems.

Step 2: Identify and assess risk.

Step 3: Design and implement a strategy to respond to identified risks.

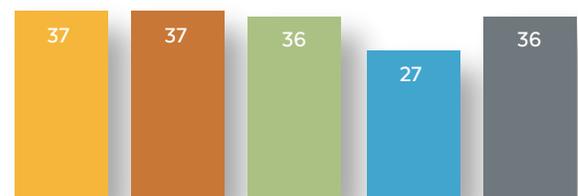
Step 4: Carry out an independent third-party audit of supply chain due diligence.

Step 5: Report on supply chain due diligence.

Despite the clear requirement of the rule, a large number of companies (11 of 51, or 22%) in the sample group did not describe using a single one of the five OECD due diligence steps.

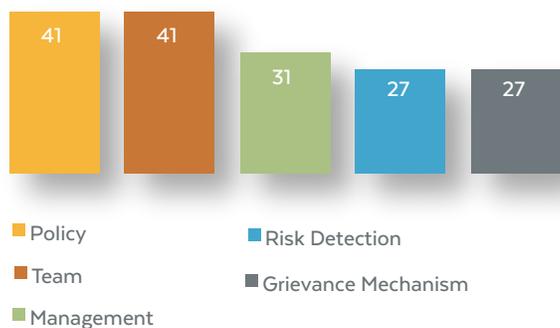
Step four, carry out independent third-party audit at selected points in the supply chain, was only described by 53% (27 of 51) of the sample group. To meet the step four requirement of the OECD due diligence, filers may join a mid-stream audit like CFSI.

8b) Which OECD steps did the filer follow?



■ Step 1 ■ Step 2 ■ Step 3 ■ Step 4 ■ Step 5

9) Which internal risk management strategies did the filer employ?



9) The internal risk-management steps the filer took were given with sufficient detail.

The OECD guidance requires filers to create company management systems, identify and assess risk, and design a strategy to respond to risk. Potential answers include:

- Public, company-wide policy
- Responsibility assigned to a team or specific entity
- Upper management engaged
- Ongoing risk-detection system
- Grievance mechanism

Most filers had a policy and assigned responsibility for the company’s conflict minerals response to a team, and these two categories largely overlapped. Almost half of the companies analyzed did not mention an ongoing risk detection system or grievance mechanism. These two measures demonstrate how companies can integrate key due diligence activities into daily business practices that will alert management of any violations. RSN recommends more companies adopt these strategies.

10) Did the filer obtain an independent, private sector audit?

10) Filer obtained an independent, private-sector audit (IPSA) of its CMR and named the auditor, including contact information, and provided the assurance standard used, and the level of assurance designated by the auditor.

In order to declare a product or product line ‘DRC Conflict-Free,’ a CMR filer must obtain an IPSA of its SEC filing. Per the SEC 1502 final rule, filers do not have to obtain an IPSA until 2016 or 2018 submissions (2018 for smaller companies). However, in the sample group, Intel obtained such an audit and included the level of assurance designated by the auditor (‘Reasonable, Limited’).⁴

This SEC requirement has not yet come into effect, and therefore it was not weighted in a company’s final score.



Bill Millman/AVX

Transparency and Reporting

How thoroughly is the filer reporting on its due diligence?

Most filers in the sample group fell short on indicators related to transparency and reporting. Although the actions taken by companies are arguably the most important aspect of social performance, investors and the public can only evaluate these actions if the filer reports on its findings and outlines its steps for improvement.

Performance Indicators

- 11) Filer provided a hyperlink within the 1502 filing that shows the filer made its 1502 conflict minerals filing publicly available.
- 12) The quantity of verified conflict-free smelters the filer has in its supply chain was referenced.
- 13) Level of detail and completeness with which filer identified SOR sources.
- 14) Filer described plans for continuous improvement of conflict minerals supply chain risk management and due diligence under a clear headline.

High Scoring Industries: Technology Hardware; Storage and Peripherals; Communications Equipment; Semiconductors and Semiconductor Equipment

Low Scoring Industries: Energy Equipment and Services; Automobiles; Healthcare Equipment and Supplies

Leading Practices

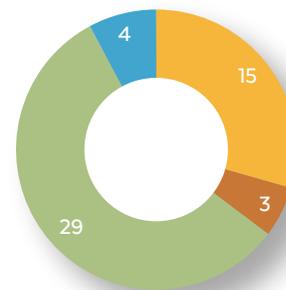
Sort conflict-free SOR charts by mineral. The majority of filers did not provide charts at all. However, Nike and Texas Instruments provided easy to read charts that broke down percentage of conflict-free smelters by mineral and provided specific metrics. (See Figure 5 below). With this approach analysts can easily see a company’s accomplishments and know what the baseline is for the following year’s filing. RSN recommends this approach for all CMRs.

Report progress toward conflict-free by product category. Intel reported which specific product categories are conflict-free, demonstrating a strong ability to assess and report company exposure. Although we understand that nearly all filers have undeterminable minerals in their supply chains, we applaud commitments for even small portions of products or product categories to be conflict-free. Over time we hope to see conflict-free products expand.

Include complete SOR and country of origin data. Only 10 of 51 companies listed SOR names, with half of these in the IT sector. For example, Apple disclosed 200 smelter names with their country locations and the minerals processed at each. Apple also named 80 countries as possible points of origin for 3TG. Some companies sorted SOR country location by mineral instead, for example: a list of all countries with refiners that provided gold to suppliers. Note that SOR location is not the same as country of origin of the raw materials.

Indicator Results

11) Did the filer provide a link to an appropriate webpage?



11) Filer provided a hyperlink within the 1502 filing that shows the filer made its 1502 conflict minerals filing publicly available.

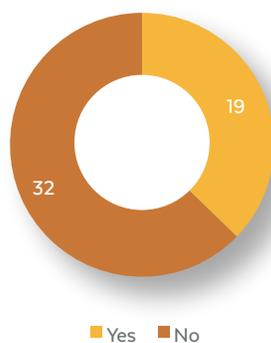
Exemplary: Link leads to a relevant page of the filer’s company website and the page includes a link to the disclosure or link leads to a page where the full text of the SD/CMR is incorporated into the page.

Adequate: Link leads directly to the conflict minerals disclosure on the filer’s website.

Minimal: Link leads to a page that does not clearly show a direct link to the SD/CMR. For example, a page with a large number of links (e.g. all SEC filings) or to a homepage.

None: No link or broken link. Section 1502 explicitly requires a filer to include a link to its company website, yet four filers in the sample group neglected to include links.

12) Did the filer list the quantity of conflict-free SORs?



12) The quantity of verified conflict-free smelters the filer has in its supply chain was referenced.

The 32 filers that referenced a number of verified conflict-free smelters include those that found no reason to believe they were sourcing from the covered countries. However, any filer that cannot rule out the covered countries as a country of origin should still list the proportion of unverified SORs.

Many filers provided these numbers in charts that make it easy to understand the evidence the filer gathered. Sharing this evidence is just as important as a conflict-free determination. EMC Corporation broke down numbers of conflict-free SORs per mineral, Texas Instruments provided percentages, and Nike provided both. (See Figure 5 below.)

Table 1: Facilities Used to Process Covered Conflict Minerals

	Column 1	Column 2		Column 3	
	Total Smelters or Refiners Identified	Conflict-Free Sourcing Initiative Standard Smelters or Refiners		Conflict-Free Smelter Program Compliant Smelters or Refiners	
		Total	% of Smelters Identified	Total	% of Smelters Identified
Gold	88	83	94%	38	43%
Tantalum	16	15	94%	15	94%
Tin	57	40	70%	13	23%
Tungsten	19	16	84%	1	5%
TOTAL	180	154	86%	67	37%

Table 2: Country of Origin of Conflict Minerals

	Originates in the DRC or Covered Countries?	
	Total	% of Smelters or Refiners Identified
Gold	0	0%
Tantalum	3*	19%
Tin	0	0%
Tungsten	0	0%
TOTAL	3*	2%

Source: Nike, Inc., 2014 Form SD for the Year Ending December 31, 2013 (filed May 1, 2014), Exhibit A, p. 8, from Nike website, <http://investors.nike.com/investors/news-events-and-reports>, accessed May 2, 2015.

Figure 6: Nike's Conflict-Free SOR Chart

13) Did the filer describe SOR sources?

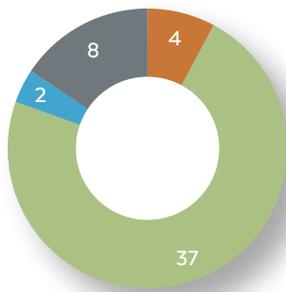
Filer	SOR Names	SOR Locations	Minerals Processed by SORs
Apple	Complete	Complete	Complete
Baxter International	Complete	-	-
Cisco Systems	-	Partial	Partial
Deere	Partial	Partial	Partial
Garmin	Complete	-	Complete
General Electric	Complete	Complete	Complete
Hewlett-Packard	Partial	-	-
Polaris Industries,	Complete	Partial	-
Qualcomm	Partial	Partial	Partial
Texas Instruments.	Complete	Complete	Complete

Figure 7: Completeness of SOR Lists

13) Level of detail and completeness with which filer identified SOR sources.

There are many different ways of counting SORs and the study revealed a wide variance in total number of SORs identified. A filer should strive to report a complete SOR list as proof that it is able to trace minerals back to a point in the supply chain at which they can be verified as conflict-free. Naming companies and providing locations helps create a clearer picture of 3TG supply chains, which is essential to promoting a conflict-free minerals trade.

14) How thoroughly did the filer describe plans for improvement?



■ Exemplary
 ■ Thorough
 ■ Adequate
 ■ Minimal
 ■ None

14) Filer described plans for continuous improvement of conflict minerals supply chain risk management and due diligence under a clear headline.

Steps for improvement must be clearly headlined as such, not peppered in throughout the filing.

Exemplary: No filer committed to publicly report on progress toward its continuous improvement goals.

Thorough: Few companies set clear goals with both metrics *and* steps or strategy. A good example would be a timeline and a specific percent increase for supplier responses to surveys.

Adequate: Most filers received this rating by setting general goals with either metrics *or* steps.

Minimal or None: Twelve filers only acknowledged a vague need to improve, or completely skipped this requirement. Four of the eight filers that skipped the requirement were also the four SD-only filers in the sample group. Every filer should assure investors of its ongoing efforts to improve.

Smelters and Refiners (SORs) of Conflict Minerals

2014 data from the U.S. Department of Commerce

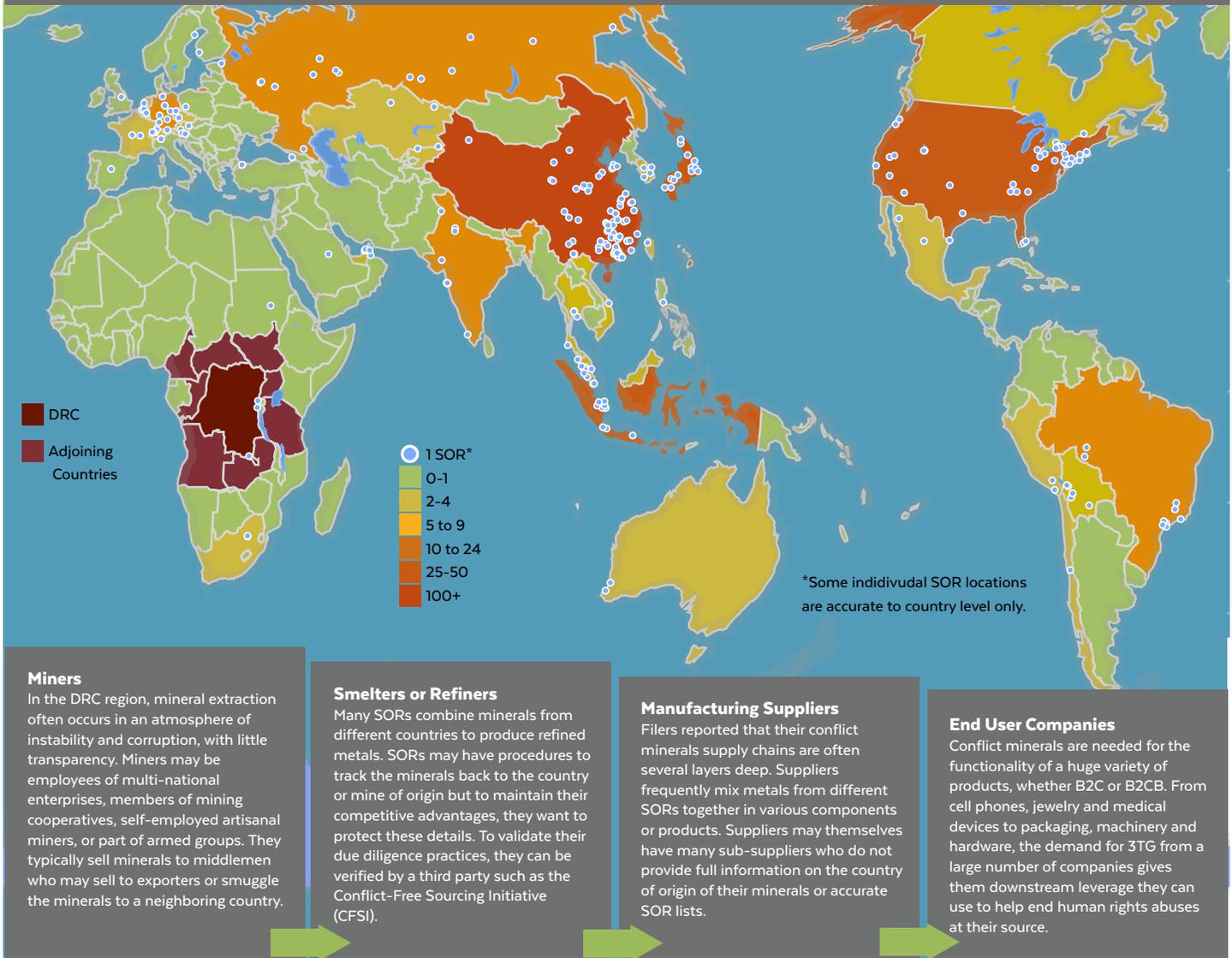


Figure 8: Map: Smelters and Refiners (SORs) of Conflict Minerals

Filling in the Gaps in Conflict Minerals Supply Chains

Almost 80% of all filers declared that their in-scope products were ‘conflict undeterminable.’⁵ Section 1502 requires the U.S. Dept. of State to periodically publish a detailed [map of armed groups at 3TG mining sites](#) and the U.S. Department of Commerce has to release a [list of the known facilities](#) that process conflict minerals. In the document, the Commerce Department observed that there is a “considerable lack of publicly available information on processing facilities...” Out of 433 known SORs that process 3TG, only three are in covered countries (Burundi, DRC, and Rwanda), which means that the large majority of minerals mined in the covered countries are exported to be processed in Asia and elsewhere. The Department of Commerce list, combined with the constant updates to the CFSI conflict-free smelter list, and more companies listing their complete SOR lists each year, will progressively lead to a clearer picture of the complete conflict minerals supply chain.

No single company can fix what is broken in conflict minerals supply chains. Tracking minerals in obscure and largely unregulated supply chains of raw minerals originating in a conflict zone on the other side of the world is a task that crosses sectors and continents. This challenge has fueled unprecedented cooperation between local and international governments, private sector interests, and civil society groups. When engagement with suppliers is industry-wide, it removes the risks associated with a single company acting alone, and increases overall pressure on suppliers. Public reporting of supplier responses forces them to be truthful and credible in their reporting. In-region initiatives help suppliers access a wider pool of conflict-free SORs.

Promoting a Conflict-Free Minerals Trade

Is the filer's approach to risk management rounded out by an understanding of its impact on communities?

Measuring social outcomes and engaging with partners are critical to ensuring that the response to conflict minerals risk is effectively addressing the root problems, and not creating new ones.

Performance Indicators

15) Filer requires (or explicitly expects) suppliers to source only from verified conflict-free SORs.

16) Filer took leadership in engaging SORs or in-region mining efforts.

17) Filer committed to supporting a conflict-free minerals trade within the DRC region and described participation.

18) Filer does not have a policy to avoid sourcing from the DRC and covered countries.

High Scoring Industries: Containers and Packaging; Tech. Hardware, Storage and Peripherals; Industrial Conglomerates

Low Scoring Industries: Healthcare Equipment and Supplies; Auto Components; Energy Equipment and Services

Leading Practices

Explicitly promote conflict-free sourcing from the DRC and surrounding region. In complying with conflict minerals disclosure requirements high scoring companies committed to support conflict-free sourcing from the DRC and surrounding countries, as is the intention of Section 1502. Such support signals a key decision to substantively contribute to market change in the minerals sector in the DRC region as well as an understanding and commitment to the idea that 'conflict-free' does not have to mean 'Congo-free.'

Measure outcomes in creating social value. Apple and Intel measure outcomes in terms of the number of SORs that it has encouraged to go through the [Conflict-Free Smelter Program](#) (CFSP) audit process to become verified as conflict-free. Encouraging more SORs to become conflict-free certified creates a ripple effect that helps stimulate significant market change. Apple also reports on measurable goals related to how many SORs achieve conflict-free verification in specific product lines. Reporting quantifiable metrics makes it easy for investors to track progress over time, and adds credibility to reporting. Other social outcomes leading companies can use might include quality of life indicators for people in the DRC region or rule of law indicators.

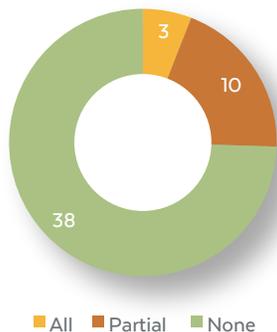
Engage with partners on the ground. Direct engagement with upstream actors past even the smelter level signals a deep level of commitment to supply chain due diligence. Many companies do this by participating and contributing to upstream conflict-free sourcing initiatives in the covered countries focused on the mine to smelter section of the supply chain. These schemes operationally prove that it is possible to responsibly source conflict-free minerals from the DRC region through the direct export of conflict-free minerals from the region.

- The Solutions for Hope tantalum program started by Motorola Solutions and AVX has created a closed-pipe tantalum supply line with a defined set of key suppliers. To date, the project has successfully sourced 165 metric tons of verified conflict-free tantalum from the DRC.
- Started in 2008, the ITRI Tin Supply Chain Initiative (ITSCI) assembles economic actors in the upstream supply chain from mine to smelter level to coordinate a unified traceability system. ITRI created a 'tagging and bagging' system which provides assurance to downstream users on the exact source of certified conflict-free 3TG minerals. The initiative is currently operating in more than 500 mines in Rwanda and Eastern DRC. As associate members, downstream companies such as Boeing, Qualcomm, and Apple contribute to the financing of the program.

Market 'Conflict-Free from the DRC.' Intel created a full ["In pursuit of conflict free"](#) campaign with multimedia. It produced educational materials that break new ground in explaining conflict minerals to the public. For the [2014 keynote address](#) (see minute 57) at the annual Consumer Electronics Show (CES), Intel CEO, Brian Krzanich highlights the issue of conflict minerals, announces Intel's achievement of only manufacturing conflict-free micro-processors in 2014, and invites the industry to join Intel in addressing the challenges.

Indicator Results

15) Did the filer require suppliers to source only from conflict-free SORs?

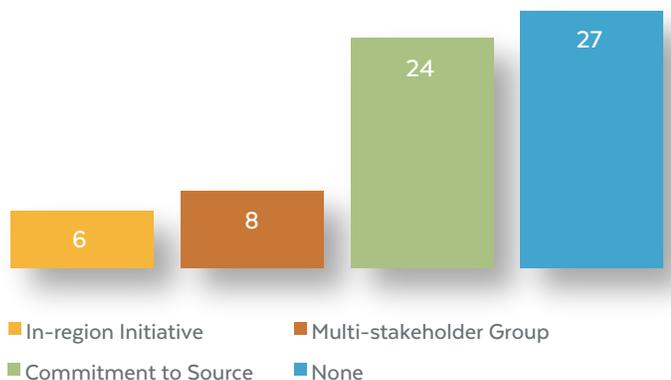


15) Filer requires (or explicitly expects) suppliers to source only from verified conflict-free SORs.

For the first year of implementation, RSN did not weight this indicator very heavily because we want to place the emphasis on creating due diligence systems, collecting data, and increasing transparency. It would be premature to apply pressure on companies to declare their supply chains conflict-free.

Nevertheless, the driving purpose of Section 1502 and the OECD due diligence guidance is to create a conflict-free minerals trade. Evaluation of this indicator must therefore be linked closely with other company activities to increase support for conflict-free minerals in the DRC region, not embargo the region.

17) What did the filer do to support a conflict-free minerals trade?



16) Did filer take leadership in engaging SORs or in-region mining efforts?

Filer	In-kind support for an in-region effort	Filer sent staff to visit mines or SORs	Financial support of an in-region effort	Financial support of a midstream audit
3M	-	-	-	Yes
Apple	Yes	Yes	Yes	Yes
Boeing	Yes	-	Yes	-
Ford Motor	Yes	-	Yes	-
General Electric	Yes	Yes	Yes	Yes
Hewlett-Packard	Yes	Yes	Yes	Yes
Intel	Yes	Yes	Yes	Yes
Kyocera	Yes	Yes	Yes	-
Qualcomm	Yes	Yes	Yes	-
Sony	Yes	-	Yes	-
Toyota	Yes	-	Yes	-

Figure 9: Leading Filers in Engaging Mid-stream and In-region Stakeholders

16) Filer took leadership in engaging SORs or in-region mining efforts.

RSN awarded points to companies that go directly to the source of the risk, providing financial or in-kind support for in-region or mid-stream efforts, and/or visiting smelters, refiners, or mines.

17) Filer committed to supporting a conflict-free minerals trade within the DRC region and described participation.

At a minimum, the filer should state its willingness to support a clean minerals trade by proactively sourcing from the DRC region.

Investors should encourage filers to participate in in-region efforts: International Conference of the Great Lakes Region (ICGLR) Audit Committee, Solutions for Hope, Conflict-Free Tin Initiative (CFTI), ITRI Tin Supply Chain Initiative (ITSCI), or membership activities in a multi-stakeholder effort: RSN’s Multi-Stakeholder Group (MSG), Public Private Alliance for Responsible Minerals Trade (PPA), or OECD Working Group.

18) Filer does not have a policy to avoid sourcing from the DRC and covered countries.

Each filer is encouraged to contribute to a conflict-free minerals trade in the DRC and to not avoid the DRC altogether, which could contribute to a de facto embargo. Investors and consumers should be mindful of the impact that a filer can have by sourcing responsibly, and be concerned if a filer appears to respond to 1502 (or any other transparency initiative) by moving to source from geographic regions where there is less transparency.

Two filers from the sample group of 51 included reporting language that could encourage divestment from the region:

- **Taiwan Semiconductor:** “All of our Suppliers provided signed representation letters indicating that no Covered Minerals from the Covered Countries have been supplied to TSMC or

its affiliates during the Reporting Period.” Although Taiwan Semiconductor states that its “Green Procurement Policy encourages our suppliers and contractors to source from smelters or refineries validated under the CFS Program,” the above language sends the message to suppliers that they may jeopardize their relationship with the filer if they source from a covered country.

- **Corning:** “As of the date of this filing, we have found no instances where it was necessary to terminate a contract or find a replacement supplier due to 3TG sourced from the Covered Countries.” Note: Whether this is an embargo policy or just a poor choice of words, this is an example of a statement that may reasonably be read by a supplier to imply suppliers can lose a contract for sourcing from the covered countries.

That’s What We Want to Hear!

Many filers communicated awareness of the need to avoid adverse social outcomes in responding to conflict minerals risk, as seen below.

- **National Oilwell Varco (NOV):** “This does not mean NOV bans the use of minerals sourced from any mine or smelter in the region as such a policy may harm legitimate miners in the region. NOV encourages its vendors to only use responsible sources in the region.”
- **Hewlett Packard:** “Efforts to avoid sourcing African minerals have effectively led to an embargo in the impoverished Great Lakes region of Central Africa. To mitigate these economic effects, we are committed to using conflict-free metals produced from “closed pipe” projects that directly benefit local communities in the DRC and its neighbors. In 2013, we identified that at least nine smelters reported by our suppliers sourced conflict-free minerals from the region.”
- **Baxter:** “Baxter’s goal is to source raw materials that require the use of tin, tantalum, tungsten, or gold (known as 3TG) from conflict-free sources... including those from the Democratic Republic of the Congo (DRC) and its surrounding areas.”

Sourcing Conflict-Free from the DRC

While the DRC is endowed with some of the world’s largest variety of minerals, in 2013 it was ranked second lowest on the [Human Development Index](#) because instead of benefiting Congolese citizens, much of the country’s mineral reserves fund armed group violence. According to the Enough Project, minerals generated up to \$185 million per year for armed groups and the army in the past.⁶ The conflict began in the 1990s in the eastern region of the DRC during the Congo wars, and is embedded in long-standing ethnic tensions and international disputes. It has gained the reputation as the deadliest war since World War II with over five million casualties to date. Armed groups engage in torture, sexual violence, and enslavement of local populations. The solution to ending the conflict lies in cutting off revenue streams from armed groups, encouraging earnest diplomatic negotiations among neighboring governments, and increasing rule of law.

While the demand for conflict-free certified minerals has increased, many artisanal miners not yet connected to a conflict-free sourcing program are faced with the loss of their livelihoods.⁸ Companies engaging in the region are helping to transform the minerals sector by expanding conflict-free sourcing initiatives through innovative supply chain efforts such as iTSCI. According to Enough Project, it is estimated that today 67% of mines in North Kivu, South Kivu, and Maniema provinces are free of any armed group or army presence.⁹ Through the Solutions for Hope Project, 21 companies source from 16 conflict-free mines in the DRC.¹⁰ These companies are helping secure a sustainable 3TG supply while supporting stable economic development in the region.

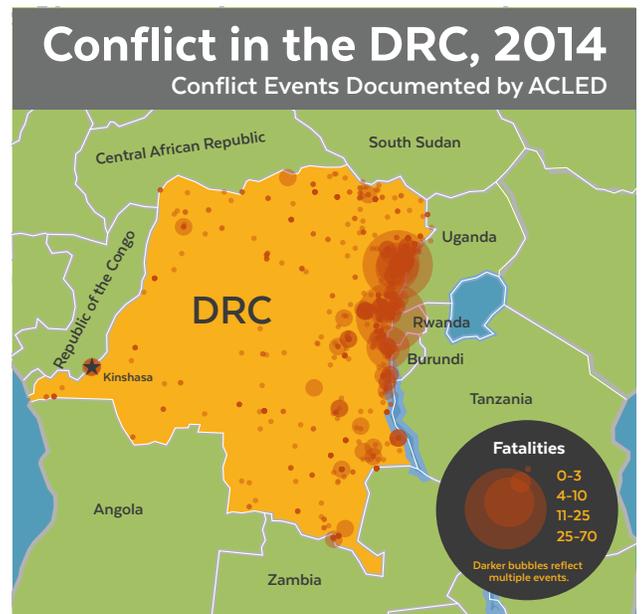


Figure 10: Map: Conflict in the DRC, 2014⁷

Performance Trends

This section presents some aggregate results from the pilot study: Trends by Industry, Measurement Area, and Indicator.

Trends by Industry

The average score of the companies in the sample group was 47 out of 100 points, and only two companies scored above 75 points. The industry percentile rather than each individual company score is disclosed in the study in part because we understand companies were responding in an atmosphere of uncertainty, and many were still on a steep learning curve in 2014. The expectation is that filers' scores will rise as they learn from one another's filings, adopt the best practices of high scoring filers, and find out what investors are looking for in reports.

Although most companies scored relatively low, the sample group included a high score of 92 and a low score of 15 which shows that our indicators capture strong performers while exposing room for improvement.

Figure 11 features the 11 companies that scored over 80th percentile, and highlights in orange and red the eight industries that fell below 65th percentile and the three industries that fell below 35th percentile respectively.

In the sample group, nearly two-thirds of industries (11 of 17) had an average of less than 50 points and were highlighted as orange or red. Some filers lost points for simply not explaining a process sufficiently. In other areas, companies cut corners.

In spite of the massive exposure to conflict minerals faced by the world economy, the conflict minerals supply chain remains opaque in many places and therefore opens companies up to risk.¹¹ Only three of the 51 filers in the sample group gave investors a clear idea of the extent to which their businesses are exposed to 3TG, describing how specific minerals are used. Less than 20% shared an SOR list. Many of the sample group companies reported confusion or difficulty in obtaining full results from suppliers.

Trends by Measurement Area

The following graph shows industries in order from greatest to lowest score. Bars are segmented by performance per Measurement Area.¹² A breakdown by Measurement Area shows that most companies performed most strongly in Measurement Area 2: Policies and Management Systems, but performance in this area was not closely aligned with the overall score.

Score per Measurement Area by Industry Ranking

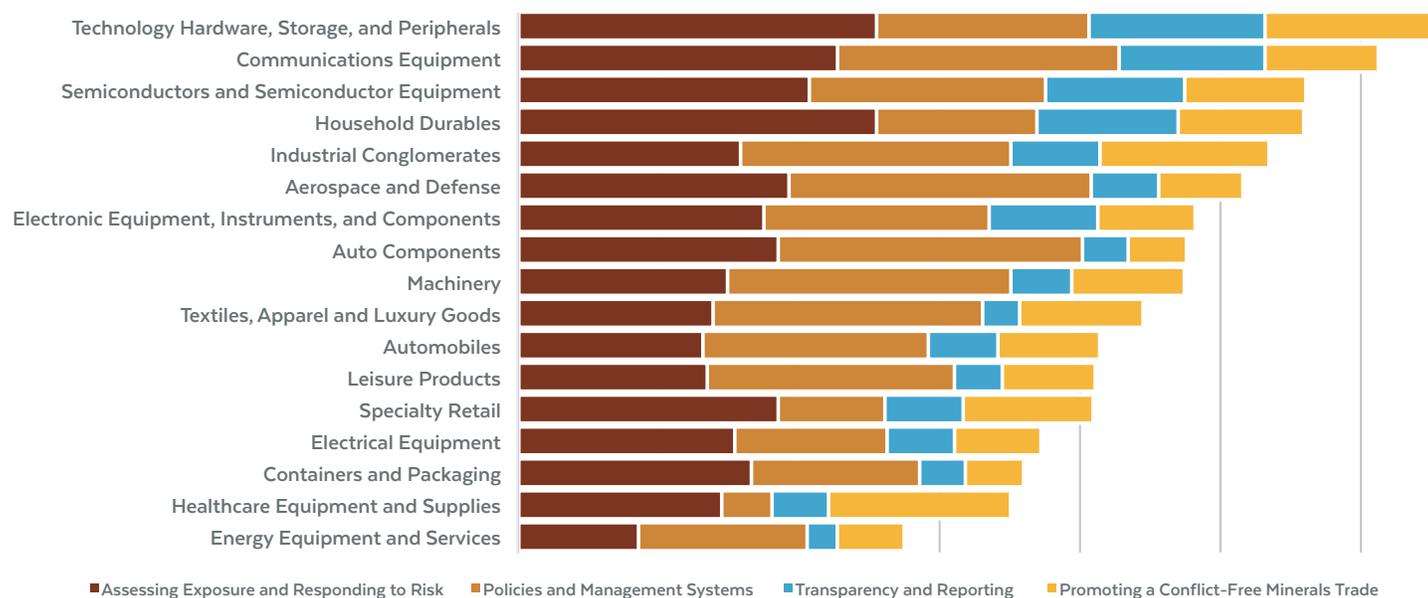


Figure 11: Score per Measurement Area, by Industry Ranking

The Measurement Area that correlated most closely with industry rank was Measurement Area 3: Transparency and Reporting, despite having the lowest weight of any of the other areas. Companies that report openly are telling a complete and accurate story of their due diligence efforts in their filings, and therefore may find it easier to assess their performance in other areas. Another explanation could be that companies that go above and beyond in transparency efforts have a more proactive approach to managing risk or creating value, including social risk and social value.

Scores in Measurement Area 4: Promoting a Conflict-Free Minerals Trade, were low across almost all industries.¹³ However, there was still significant variation between the top five industries in Measurement Area 4, which averaged 42% for promoting on-the-ground progress toward a clean minerals trade, as compared to the bottom five which only had an average of 31% in this Area.

Trends by Indicator

In the first year of reporting, no filer achieved a perfect score of 100. However, one filer scored 90 or higher, and two companies scored 70 or higher, which suggests that a high score is attainable.

Key Observations

- Multi-stakeholder and Industry Schemes provided valuable tools to filers, including third-party audit schemes and templates for supplier surveys.
- Ninety-one of the 51 filers in the sample group, or 96%, avoided the embargo effect, with many explicitly pledging not to divest from the region.
- No filer secured a rating of ‘Exemplary’ in Plans for Improvement. However 41 of 51 filers received a rating of ‘Adequate’ or ‘Thorough,’ which gives investors a means to measure progress.

Leading, Lagging, and Laggard Industries

The chart on the following page (see Figure 13 for detailed bar chart.)

Leading industries attained an average that fell into the 80th percentile or higher:

- Technology Hardware, Storage, and Peripherals (the only industry to attain an average above 60 points.)
- Communications Equipment

Lagging industries scored below 50 points – 65th percentile – and all eight are marked in orange to emphasize a need to improve:

- Auto Components
- Machinery
- Textiles, Apparel, and Luxury Goods
- Automobiles
- Leisure Products
- Specialty Retail
- Electrical Equipment
- Electronic Equipment, Instruments, and Components

Laggards scored below 40 points, or below the 35th percentile. These industries have been marked in red to underscore the highest priority for improvement:

- Containers and Packaging
- Healthcare Equipment and Supplies
- Energy Equipment and Services

Figure 12: Leading, Lagging, and Laggard Industries

Industry Score and Percentile Distribution by Sector

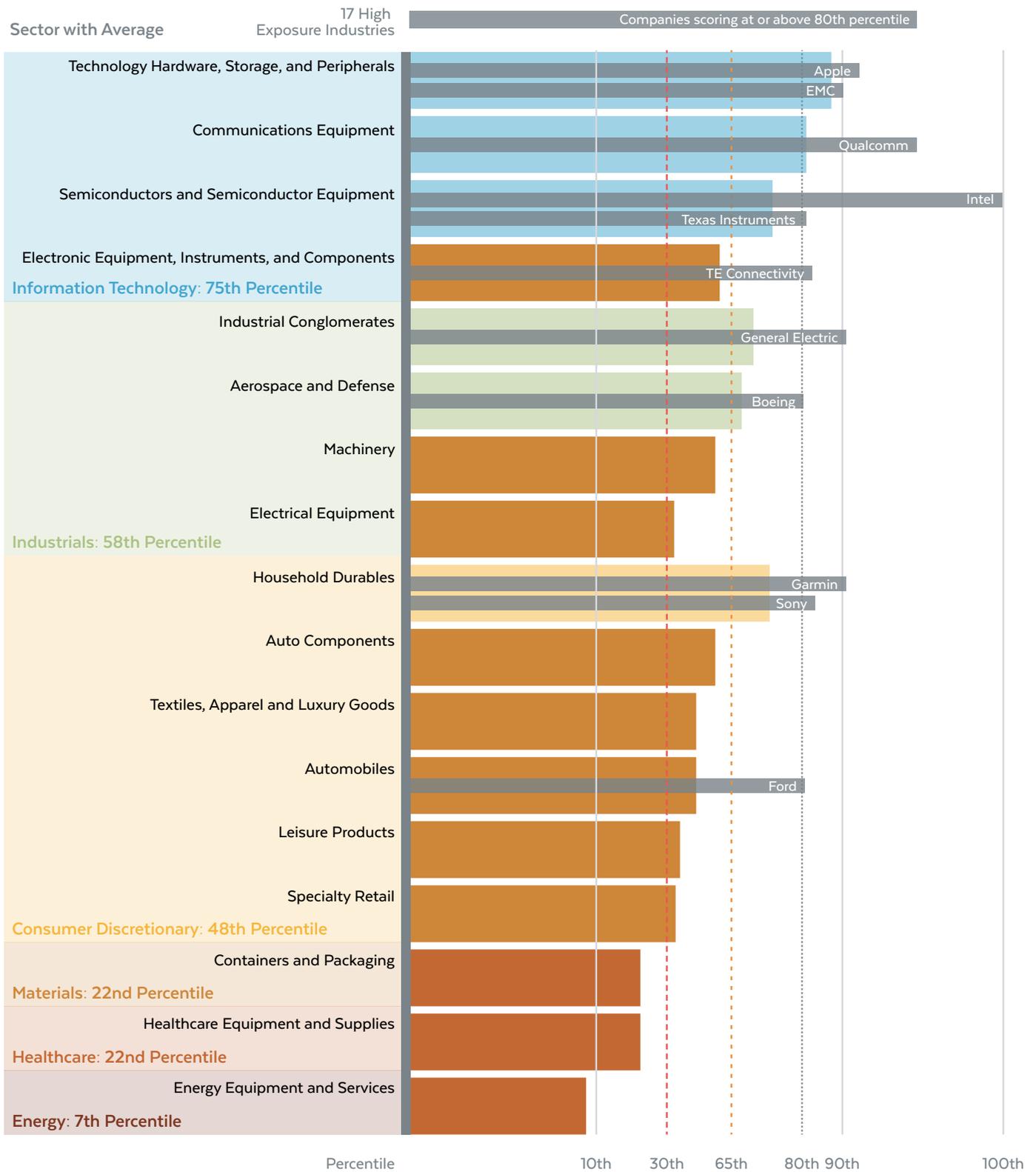


Figure 13: Industry Score and Percentile Distribution by Sector

Performance Trends (continued)

Gaps in Overall Performance

A comparison of the average performance per indicator, before weights, for the 10 high scoring and 10 low scoring companies helps explain what indicators separated these two performance categories.

- Filers that disclosed the number or ratio of certified conflict-free SORs of their total SOR list were among the highest scorers.
- Top scorers had more complete lists and descriptions of SORs in comparison to low scorers, which often omitted such a list.
- Leading companies participate as members in a mid-stream SOR audit scheme, whereas laggard companies do not.

Lost Points

After weighting was assigned, the indicators where companies lost the most points in scoring were:

- Low RCOI rating;
- Low overall score for Internal Risk Management;
- Not a participating member of a midstream audit scheme; and
- Filer did not follow the five OECD due diligence steps or did not describe how it followed one or more of the steps (not required for SD-only filers).¹⁴

Leading Practices

Many leading practices were identified, which are welcomed signs that some companies already have robust practices for tracking and reporting on social performance. Leading practices may be incorporated into RSN's performance indicators in future studies.

- Quantify the spend, revenue, or number of products exposed to conflict minerals.
- List products and manufacturing processes with reference to which mineral is used.
- Vertically integrate social risk response as a core business operation from the chief executive down.
- Sort conflict-free SOR charts by mineral.
- Describe progress toward conflict-free by product category.
- Provide complete SOR and country of origin data, sorted in tables.
- Work with partners to achieve and measure outcomes in terms of creating social value in the region.
- Proactively seek to source conflict-free from the DRC region.

Step-by-Step Guide for Companies

This list is a summary of leading practices, along with indicators where companies fell short in 2014. Companies that follow the recommendations in each Measurement Area can improve their ability to address conflict minerals risk and achieve a stronger performance evaluation.

Assess Exposure and Respond to Risk

- Participate as a member in a mid-stream SOR audit scheme like [CFSI](#).
- Empower suppliers through training and engagement. Rather than focusing solely on eliminating liability or minimal compliance, use the legislation as an opportunity to increase your knowledge of your suppliers and discover operational benefits from increased engagement.
- Tell investors how much conflict minerals are a part of your business model. How great is your exposure, as a percentage of spend, revenue, or number of product lines?
- List countries of origin by mineral.

Update Policy and Management Systems

- Involve employees from the CEO down and make social risk management a part of your brand.
- Make conflict minerals a part of your overall supply chain responsibility strategy.
- Clearly headline each of the OECD five steps and show how they are being implemented.

Commit to Reporting and Transparency

- List the smelter or refiner (SOR) information you receive, and break down the information by product line and mineral.
- Create a dedicated webpage for conflict minerals information, and link to it in your SEC filing.
- Communicate all of your risk management efforts in your filing. Increased information in the filing makes it easier to find and demonstrates your commitment to accountability.
- In particular, clearly headline continuous improvement activities.

Promote a Conflict-Free Minerals Trade

- Contribute to efforts to support certified conflict-free mining in the DRC region. Join efforts like the [Public-Private Alliance for Responsible Minerals Trade](#) (PPA), [Solutions for Hope](#), and the [ITRI Tin Supply Chain Initiative](#) (iTSCI).
- Encourage suppliers to source only from conflict-free SORs, without pressuring suppliers to discriminate against conflict-free sources in the DRC region. Failure to promote a conflict-free minerals trade in the DRC could encourage a devastating embargo effect in the region and create new social costs, on top of those already posed by armed groups.
- Track what percentage of your SORs are conflict-free and report the number/ratio of certified conflict-free SORs of the total SOR list.

Other Recommendations

1. Companies, including smaller businesses, may choose to join together with other industry members to improve supplier engagement, encourage SORs to go through the conflict-free verification process, or educate their customers.
2. Integrate conflict minerals activities into broader reporting on how your company takes responsibility for the social impact of its supply chain.
3. Provide the links in your conflict minerals filing to all documents you want RSN and investors to consider when evaluating the company's performance in mitigating conflict minerals risk.

Step-by-Step Guide for Investors

A congressional mandate is an important first step in improved social performance and reporting on the challenge of sourcing conflict-free minerals. Further action is needed before leading practices become commonplace, transparency increases, and minerals are sourced responsibly in the DRC region. Investors have a critical role to play to achieve these aspirations. Investors can encourage corporations to increase social value by reducing material risk, seeking collaborative solutions, and measuring continuous improvement.

Increasing Social Value

Reduce Material Risk

- Look for proactive efforts by the company to support the DRC region as a stable trading partner, not just ‘DRC Conflict-Free.’¹⁵ Keep an eye on risks in other geographic regions and in other extractive industries.
- Be wary of a ‘check-the-box’ approach which reflects a filer approaching this only as a compliance exercise and may be a sign of poor performance in other areas like operations or management.
- Indirectly contributing to human rights violations could harm a company’s reputation, as well as lead to loss of access to key raw materials.
- Addressing social risks are an opportunity for a filer to build social value by demonstrating its shared commitment, exhibiting operational competence, strengthening relationships through transparency, and increasing the long-term sustainability of tin, tantalum, tungsten, or gold (3TG).

Compare and Collaborate

- Although in some minds conflict minerals are an ‘electronics’ problem, realizing that companies from 58 different industries filed disclosures with SEC demonstrates the wide reach of this social risk. Although several companies are attaining scores well above their industry average, leading companies tend to be found in leading industries and sectors and lagging companies also tend to score in line with their industry peers.
- While seven industries attained well over 50% of possible points, far too many – 11 of 17, or almost two-thirds – are not even meeting this minimal threshold. Investors can encourage companies in the lower scoring industries to improve their conflict minerals engagement, activities, and quality of their reporting.
- RSN has introduced industry rankings in order to help investors target their advocacy on less engaged industries

and sectors. Companies in a low-scoring industry like Energy Equipment could collaborate within their industry and share solutions, or join an effort such as CFSI and learn from leading industries.

- Cross-industry comparisons can help spur action across very different sectors.

Measure Performance

- Investors can encourage more companies to report, even if they do not file conflict minerals disclosures with the SEC.
 - Many investors want to know why some major competitors of certain filers did not submit conflict minerals filings. Not all corporations are required to submit conflict minerals disclosures to the SEC. Investors should inquire specifically why companies didn’t report. (See ‘Non-filer’ in section below.)
 - Schulte Roth & Zabel and CFSI suggest in their [white paper reviewing the 2014 filings](#) that missing filers might be smaller companies that interpreted the filing requirement more narrowly or with less understanding of the scope of the rule.
 - RSN recommends investors inquire as to why a company did not file if its industry peers or competitors did so.
- Know the SEC filing status of companies in your portfolio and bring the quality of their reporting up during investor presentations/discussions (see below).
- If a company only reported minimally, question why.
- Compare SEC filings of companies in your portfolio to the indicators in this report. Search for ‘SD’ on the filer’s investor relations webpage or using the [SEC’s EDGAR](#) search tools. It will usually be submitted annually near the end of May. CMRs are located as exhibits inside the SD link.

Analyzing Filers’ SEC Submissions

As you review your portfolio to find out whether your investments are safe from risks associated with conflict minerals, refer to the below basic guidelines. To get started, first take note of the companies’ filing status for SEC conflict minerals submissions:

- **CMR filer:** Filer that does submit a Conflict Minerals Report (CMR) as an exhibit to its Specialized Disclosure Report (Form SD).
- **SD-only filer:** Filer that does *not* submit a CMR as an exhibit to its Form SD.
- **Non-filer:** A filer not required to file a Form SD or CMR because it is not an SEC filer (private; non-US) or that 3TG is not necessary to the functionality of the products it manufactures or contracts to manufacture.¹⁶

CMR Filers

- Scrutinize social performance across all four Measurement Areas.
- Do not rely on any unsupported assertion that minerals do not originate in the covered countries.
- Concluding a filer is higher risk for filing a CMR or being transparent about the limits of its due diligence could incentivize a company to avoid transparency or divest from conflict-affected regions.
- Applaud the filer for submitting a report and conducting due diligence.
- Hold the filer accountable to the steps for improvement it sets for itself from year to year, and look for specific metrics.

SD-only Filers

- Scrutinize SD-only filers to prove their methodology and conclusions were in good faith, and encourage them to include an explanation of the continuous improvement steps they are taking.¹⁷
- If percentage of supplier responses was not 100%, ask how filer could conclude it had ‘no reason to believe’ it was not sourcing from the covered countries.
- Ask filer to describe whether it has due diligence measures in place in the event that minerals in its products are found to be from the DRC region.
- Look for a list of which 3TG minerals are used for which in-scope products or product categories.
- Ask filer if it would be willing to commit to source conflict-free from the DRC.
- Regardless of whether a company had an obligation to file, investors should communicate their desire for transparent reporting on conflict minerals risk mitigation.

Minimal Filers

- For a filer that submits a 1502 filing that discloses information for fewer products than anticipated, only files a Form SD, or does not file, the reason may be related to the filer’s definition of ‘manufacture or contract to manufacture.’ Per its definition, the filer determined it did not have to file or only filed minimally.
- Check whether competitors are reporting on similar products.
- Have filer explain how it defines ‘contract to manufacture’ and report how 3TG minerals affect its products or services.
 - For example, Campbell [explains on its website](#) that while it does not have to file because its products are food rather than packaging, it engages with its suppliers to assess exposure, provides survey metrics, and shares plans for improvement.
- Ask for proof that the filer analyzes products sufficiently well to determine which products are ‘in-scope,’ meaning those

that contain 3TG, and explains in its filing (or on its website) how it defines ‘contract to manufacture.’

- Ask which product categories use 3TG even if they are not technically ‘contracted to manufacture’ directly by the filer.

Non-Filers

- Investors have the right to ask for disclosure because of the enormous social risk of contributing to egregious human rights abuses.
- A company that relies on 3TG to sell its products or as part of its business strategy but is not obligated to file with the SEC still bears a responsibility to use its downstream leverage.
- In addition to the points above regarding ‘contract to manufacture,’ ask a non-filer to take action and share the following on its website or in a public report:
 - Due diligence activities including a risk mitigation approach. See [Samsung’s Conflict Minerals Page](#) and [Dell’s Conflict Minerals Page](#).
 - Participate in an industry scheme.
 - Describe a plan in case its products come into scope, such as [AT&T’s policy](#).
- Investors should not assume that a filer does not have risk exposure if it did not submit a CMR. Therefore, be on the lookout for:
 - Lack of understanding of the requirements of the legislation;
 - Poor due diligence systems;
 - Lack of transparency; and
 - Short-term approach to managing risk.

In addition, check if a company is in a High Exposure Industry:

- **High Exposure:** RSN and Sustainalytics developed the High Exposure Industry Index as a starting point for understanding conflict minerals risk exposure to companies. Investors reviewing their portfolios for conflict minerals risk should pay close attention to companies in the 17 industries highlighted in the *Mining the Disclosures* Report.
- **Not High Exposure:** There are many companies that produce products containing 3TG, which are not included in the 17 high exposure industries. For example, Amazon is the only internet catalog retailer that [filed a conflict minerals report](#) because it manufactures the Kindle, which competes with several companies in high exposure industries. McDonald’s [filed a Form SD](#) due to the toys in its Happy Meals while few of its competitors filed at all. Investors should closely examine the conflict minerals reporting of prominent companies due to their volume of product sold and their ability to apply their downstream leverage.

Every Stakeholder Has Leverage

This report mainly focuses on providing guidance for investors and companies that use 3TG in their products. However, consumers also have a key role to play and can also use their leverage with their favorite brands. As a consumer, here are a few actions you can take:

- **Learn.** Supply chains are complex, but you can educate yourself with the resources in this report and on the RSN Conflict Minerals Resources [webpage](#). You can also go to the [SEC database](#) and look up a company's Form SD.
- **Communicate.** Visit the websites of your favorite brands. If it is hard to find conflict minerals information, email the webmaster or inquire via social media. When companies know you care, they care too.
- **Reward.** Support the higher scoring companies that are proactive on this issue by purchasing their products.

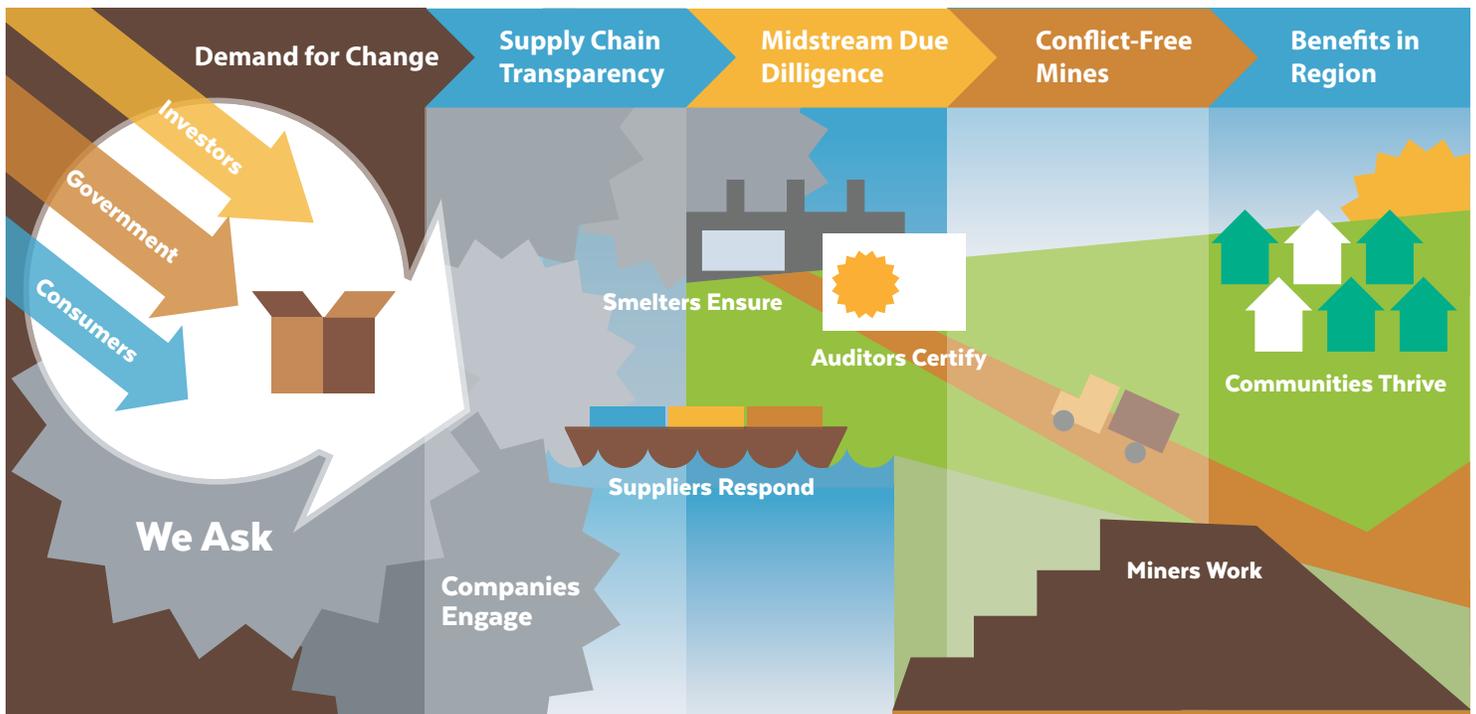


Figure 14: Every Stakeholder Has Leverage



Photo: Bill Millman/AVX

Conclusion

A number of sustainable and responsible investors have been monitoring and advocating for conflict minerals due diligence for many years. Normally, investors have relied on voluntary reporting on social issues; having access to a congressionally mandated social disclosure is a new and important development. Some companies were more prepared than others to provide robust data because they started measuring social risk well before Section 1502 was signed into law. While welcoming the conflict minerals legislation, investors are also asking for tools to compare and contrast the abundance of new data, much of it provided in an inconsistent and varied manner. This report is such a tool.

Together with Sustainalytics and other stakeholders, RSN developed 18 weighted performance indicators in four Measurement Areas: Assessing Exposure and Responding to Risk; Policies and Management Systems; Reporting and Transparency; and Promoting a Conflict-Free Minerals Trade. This methodology provides a structured approach that informs investors of companies' activities to address conflict minerals risk, and breaks new ground in measuring other areas of social performance beyond conflict minerals due diligence.

Understanding trends in the social performance data is just the beginning. Investors must use this information to engage with both leading companies and those that have only done the bare minimum. Investors are in a position to raise the bar and push downstream companies exposed to conflict minerals to respond until a critical mass is reached, and a conflict-free minerals trade becomes a reality. Investors can demand that companies go beyond transparency and improved reporting, to take action to promote a conflict-free minerals trade in the DRC region. All companies that rely on tin, tantalum, tungsten, or gold in their business model, not only companies obligated to file per the SEC Rule, bear some responsibility.

Industry by industry, indicator by indicator, investors and companies can work together for a conflict-free minerals trade, which will contribute to peace, stability, and economic prosperity in the DRC region and beyond.

Appendices

Appendix A: Company Rankings of Pilot Study Sample Group

Leading	
(1) Intel Corp. (2) Qualcomm, Inc. (3) Apple, Inc.	
Strong	
3M Co. Boeing Co. (The) Cisco Systems, Inc. Deere & Co. Delphi Automotive plc EMC Corp. Ford Motor Co. Garmin Ltd. Hewlett-Packard Co.	General Electric Co. Illinois Tool Works, Inc. Magna International, Inc. Nike, Inc. Sony Corp. TE Connectivity Ltd. Texas Instruments, Inc. United Technologies Corp.
Adequate	
ABB Ltd. Abbott Laboratories Ball Corp. Caterpillar, Inc. Emerson Electric Co. Ericsson Hasbro, Inc.	Honeywell International, Inc. Kyocera Corp. Lowe's Companies, Inc. Luxottica Group SpA Mattel, Inc. Schlumberger Ltd. TJX Companies, Inc. (The)
Minimal	
Baxter International, Inc. Corning, Inc. Danaher Corp. Eaton Corp. plc Halliburton Co. Home Depot, Inc. (The) Honda Motor Co., Ltd. Johnson Controls, Inc. Medtronic plc	National Oilwell Varco, Inc. Polaris Industries, Inc. Rock-Tenn Co. Sealed Air Corp. Taiwan Semiconductor Mfg. Co., Ltd. Toyota Motor Corp. V.F. Corp. Whirlpool Corp.

Appendix B:

Sector and Industry Rank (High to Low)

Companies in alphabetical order.

Sector / Industry / Company Name	Industry Average	Sector Average
Information Technology		
Tech. Hardware, Storage, & Peripherals	65.3	57.8
Apple, Inc.		
EMC Corp.		
Hewlett-Packard Co.		
Communications Equipment	61.4	
Cisco Systems, Inc.		
Ericsson		
Qualcomm, Inc.		
Semiconductors and Sem. Equipment	53.6	
Intel Corp.		
Taiwan Semiconductor Mfg. Co., Ltd.		
Texas Instruments, Inc.		
Electronic Equip., Inst., & Components	48.0	
Corning, Inc.		
Kyocera Corp.		
TE Connectivity Ltd.		
Industrials		
Industrial Conglomerates	53.3	48.3
3M Co.		
Danaher Corp.		
General Electric Co.		
Aerospace and Defense	51.5	
Boeing Co. (The)		
Honeywell International, Inc.		
United Technologies Corp.		
Machinery	47.4	
Caterpillar, Inc.		
Deere & Co.		
Illinois Tool Works, Inc.		
Electrical Equipment	41.0	
ABB Ltd.		
Eaton Corp. plc		
Emerson Electric Co.		

Consumer Discretionary		45.9
Household Durables	55.9	
Garmin Ltd.		
Sony Corp.		
Whirlpool Corp.		
Auto Components	47.5	
Delphi Automotive plc		
Johnson Controls, Inc.		
Magna International, Inc.		
Textiles, Apparel, and Luxury Goods	44.5	
Luxottica Group SpA		
Nike, Inc.		
V.F. Corp.		
Automobiles	44.3	
Ford Motor Co.		
Honda Motor Co., Ltd.		
Toyota Motor Corp.		
Leisure Products	41.9	
Hasbro, Inc.		
Mattel, Inc.		
Polaris Industries, Inc.		
Specialty Retail	41.3	
Home Depot, Inc. (The)		
Lowe's Companies, Inc.		
TJX Companies, Inc. (The)		
Materials		35.9
Containers and Packaging	35.9	
Ball Corp.		
Rock-Tenn Co.		
Sealed Air Corp.		
Healthcare		35.8
Healthcare Equipment and Supplies	35.8	
Abbott Laboratories		
Baxter International, Inc.		
Medtronic plc		
Energy		27.4
Energy Equipment and Services	27.4	
Halliburton Co.		
National Oilwell Varco, Inc.		
Schlumberger Ltd.		

Appendix C: Methodology

Weights

The scoring scheme for this pilot study takes into consideration that filers which did not have to submit a CMR only submitted a Form SD, and were therefore not required by the SEC to conduct the full OECD due diligence. There are four such companies in the sample group of 51. The following table demonstrates the customized weight matrices used in the scoring scheme. Different weights were applied to different Measurement Areas, based on whether the filer was an SD-only filer or a CMR filer.

CMR Filers (Total weight: 100%)	SD-only Filers (Total weight: 100%)
1 - Assessing Exposure and Responding to Risk (34%)	1 - Assessing Exposure and Responding to Risk (45%)
2 - Policies and Management Systems (24%)	2 - Policies and Management Systems (15%)
3 - Reporting and Transparency (18%)	3 - Reporting and Transparency (20%)
4 - Promoting a Conflict-Free Minerals Trade (24%)	4 - Promoting a Conflict-Free Minerals Trade (20%)

How were weights assigned? Section 1502 places additional requirements on the companies that file CMRs. To account for this, the weight for Assessing Exposure and Responding to Risk for the SD-only filers was increased, but the weight of Policies and Management Systems was decreased because SD-only filers are not legally required to explicitly follow the five OECD steps. Certain other CMR-specific indicators were weighted at zero, but certain requirements for CMR filers, such as steps for improvement that go beyond the strict requirement of the law are considered non-negotiable by RSN for any company that uses conflict minerals and therefore were scored for SD-only filers.

Why evaluate SD-only filers at all? It was decided to include the SD-only filers because their actual exposure to 3TG does not materially differ from most CMR-filers, and their exposure to minerals from the DRC region could change from year to year, assuming the company does not institute a devastating embargo policy against the region. SD-only filers still have product lines that use 3TG and rely on supplier engagement to determine whether their necessary conflict minerals were sourced in the covered countries. Therefore, companies are expected to conduct and disclose a similar quality of due diligence regardless of the findings of their Reasonable Country of Origin Inquiry (RCOI). Regulators should be careful not to incentivize avoidance of filing a CMR by applying less scrutiny to companies that only filed a Form SD. (For expectations of SD-only filers, see section Step-by-Step Guide for Companies.)

Critical Evaluation of the Study

In the interest of transparency, RSN would like to share some of the findings from our preliminary evaluation of the pilot study and methodology. Our team is seeking ongoing feedback from outside sources in addition to adjusting our internal process of quality control. Some areas for improvement that the team has already identified include:

- Refine certain indicators, including quality of RCOI, to be more specific and objective.
- Increase the sample size. A large number of outlier companies outside sector or industry distributions may indicate a limitation of a smaller sample size. One filer in the semiconductor industry scored significantly lower than the other two companies in the same industry and against a trend in the IT sector. A larger sample would help us to be more certain of the trend. RSN and Sustainalytics will seek increased support for research with the hope of expanding the pool of filers to be analyzed in 2015.
- Improve the comparison of a SD-only filer to a CMR filer. Some SD-only filers may have scored disproportionately high in certain measurement areas because of the way indicators were weighted. The indicators and weighting for SD-only filers will be reevaluated to make sure all filers are held to the same level of scrutiny.
- Evaluate the most useful way to group and evaluate industries. Sector groupings provide easy reference but performance trends within sectors are not as strong as trends within individual industries.
- We welcome your response. Please send comments and questions to info@sourcingnetwork.org.

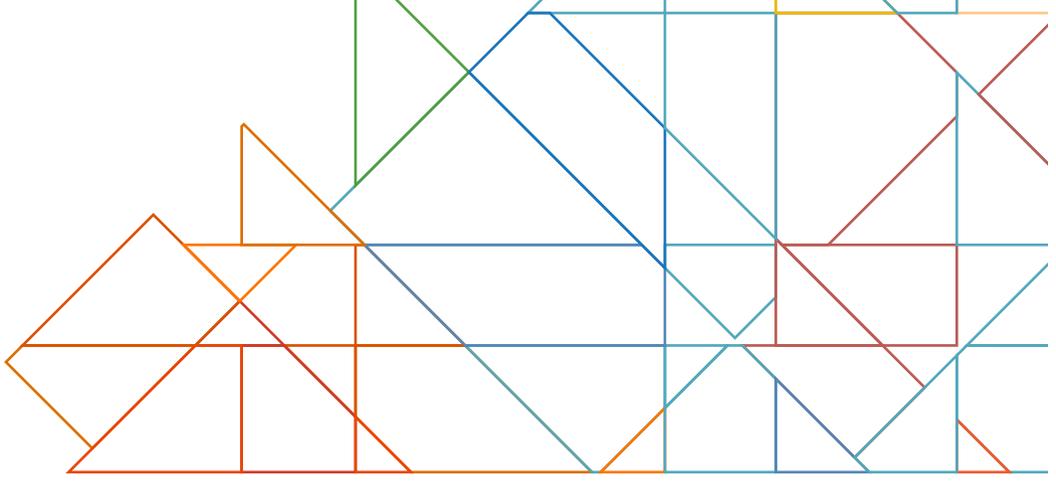
Glossary

1502	Specialized Disclosure Section of the Dodd-Frank Wall Street Reform and Consumer Protection Act that requires publicly traded companies in the U.S. to report on their use and origination of conflict minerals.
3TG	Tin (Cassiterite), Tantalum (Coltan), Tungsten (Wolframite), and Gold.
CFSI; CFSP; EICC-GeSI Extractives Working Group	CFSI (Conflict-Free Sourcing Initiative) was founded by major electronics manufacturers and manages the CFSP (Conflict-Free Smelter Program), which is a conflict-free auditing scheme for smelters and refiners. The original iteration of CFSI was the EICC (Electronic Industry Citizenship Coalition) and GeSI (Global e-Sustainability Initiative) Extractives Working Group.
Conflict Minerals	The four minerals currently defined in Section 1502 as contributing to conflict in the DRC region. Currently tin, tantalum, tungsten, or gold (3TG). Note that not all 3TG from the DRC region is contributing to conflict.
Conflict-Free	Certified as not having contributed revenue to armed groups.
Conflict-Free from the DRC Region	Sourced from the covered countries but certified as conflict-free.
Covered Countries	Democratic Republic of the Congo (DRC) and all adjoining countries: Angola, Burundi, Central African Republic, Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda, and Zambia.
DRC Conflict Free	Official Section 1502 term for 3TG minerals that are conflict-free from the covered countries, not sourced from the covered countries, or sourced from scrap or recycled sources.
DRC Region	Used in this report to refer to the Democratic Republic of the Congo and adjoining countries.
ESG	Environmental, Social, Governance. A subset of non-financial performance indicators used by investors to evaluate corporate behavior.
ICGLR	International Conference on the Great Lakes Region is an inter-governmental organization of the countries in the African Great Lakes Region established to address region political instability and conflicts. (Angola, Burundi, Central African Republic, Republic of the Congo, Democratic Republic of the Congo, Kenya, Uganda, Rwanda, Republic of South Sudan, Sudan, Tanzania, and Zambia.)
In-Region Certification or Sourcing Initiatives	Better Sourcing Program CFTI (Conflict-Free Tin Initiative) iTSCI (ITRI Tin Supply Chain Initiative) PPA (Public-Private Alliance for Responsible Minerals Trade) Solutions for Hope
OECD	Organisation for Economic Co-operation and Development is a forum for governments to promote policies that will improve the economic and social well-being of people around the world.
OECD Due Diligence Guidance	OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, 2011. < http://www.oecd.org/daf/inv/mne/GuidanceEdition2.pdf >
Other Mid-Stream Audit Initiatives	RJC (Responsible Jewellery Council) LBMA (London Bullion Market Association Responsible Gold Guidance) The audit schemes of RJC and LBMA are recognized by CFSI.
SEC	United States Securities and Exchange Commission.
SOR	Smelter or Refiner, where raw minerals are processed.
SRI	Sustainable and Responsible Investor.

Endnotes

- ¹ Michael E. Porter, Mark R. Kramer. "Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility." *Harvard Business Review*. December 2006. <https://hbr.org/2006/12/strategy-and-society-the-link-between-competitive-advantage-and-corporate-social-responsibility>.
- ² Global Industry Classification Standard (GICS).
- ³ Kim, Y. H., & Davis, G. F. 2015. "Challenges for Global Supply Chain Sustainability: Evidence from the Conflict Minerals Reports." Paper to be presented at the Academy of Management Meeting, Vancouver, BC, Canada.
- ⁴ Additionally, Schulte Roth & Zabel and CFSI identified Kemet, Philips, and Signet Jewelers as the other three filers to obtain an IPSA in 2014, out of all 1,315 filers. Schulte Roth & Zabel and the Conflict-Free Sourcing Initiative. *Conflict Minerals Reporting: A Review of Calendar Year 2013 Filings and Recommendations for Calendar Year 2014 Compliance*.
- ⁵ Kim & Davis, 2015.
- ⁶ Fidel Bafilemba, Timo Mueller, Sasha Lezhnev. "The Impact of Dodd-Frank and Conflict Minerals Reforms on Eastern Congo's Conflict." Enough Project. June 2014. <http://www.enoughproject.org/>.
- ⁷ Map created with data from ACLED (Armed Conflict Location and Event Data Project). Raleigh, Clionadh, Andrew Linke, Håvard Hegre, and Joakim Karlsen. 2010. Introducing ACLED-Armed Conflict Location and Event Data. *Journal of Peace Research* 47(5) 1-10.
- ⁸ Bafilemba, Mueller, and Lezhnev, Impact of Dodd-Frank.
- ⁹ Bafilemba, Mueller, and Lezhnev, Impact of Dodd-Frank.
- ¹⁰ Bafilemba, Mueller, and Lezhnev, Impact of Dodd-Frank.
- ¹¹ Despite being smaller than expected, the 2014 filing population of 1,315 reflected major exposure to investors, accounting for a combined market capitalization of over 14.5 trillion USD, or approximately 56% of U.S. (and 22% of world) market capitalization. (Calculations are aggregates based on June 2014 data from Capital IQ and public data from the World Federation of Exchanges.) This included some of the world's most recognizable brands, including over 200 Fortune 500 companies.
- ¹² Total performance is in relation to one another, but does not reflect an accurate total score because Measurement Areas were weighted differently to calculate the total score.
- ¹³ One obvious exception shows that Containers and Packaging earned the highest score in Measurement Area 4: Promoting a Conflict-Free Minerals Trade because two of the three companies were SD-only filers, and therefore had fewer indicators. We will continue to review the scoring to make sure it is fair to compare SD-only filers to CMR filers.
- ¹⁴ We controlled for the fact that two of the 10 lowest scoring filers were SD-only filers and were not expected to follow the OECD steps.
- ¹⁵ 'DRC Conflict-Free' may mean minerals came from recycled or scrap sources or from another geographical area, rather than being sourced conflict-free from the DRC region.
- ¹⁶ One hundred and ninety-one non-U.S. companies from 56 different countries filed under the SEC's Conflict Minerals Rule.
- ¹⁷ This recommendation for mitigating social risk goes beyond what the SEC recommends as minimal compliance.

Notes



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For more information, please contact:

Michael R. Littenberg, Partner

michael.littenberg@srz.com

+1 212.756.2524



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