

Conflict minerals survey

How companies are preparing

July 2013

Introduction

On May 31, 2014, public companies will have to comply for the first time with the SEC's Conflict Minerals Rule ("the rule") filing requirement. The rule is one of several SEC rules mandated by the Dodd-Frank Act that are intended to provide transparency into corporate practices. Specifically for the conflict minerals rule, the ultimate intent is to reduce funding for armed groups involved in human rights violations in the Democratic Republic of the Congo and surrounding countries (collectively, "covered countries"). The rule compels corporate disclosures around whether the conflict minerals used in a company's products originated in the covered countries, and whether the conflict minerals are "conflict-free" or not.

The rule identifies four conflict minerals—tantalum, tin, tungsten and gold (or "3TG"). They are found in thousands of products ranging from cell phones and laptop computers to jewelry, golf clubs, drill bits and hearing aids. It is estimated that 6,000 SEC issuers will have to provide new disclosures under the rule. Moreover, approximately 275,000 private companies that are part of the issuers' supply chains will also be affected.

For most companies, complying with the rule will not be straightforward, and will likely take considerable time. Determining which products may be subject to the rule, and engaging with suppliers to identify the sources of the conflict minerals in those products, could weigh heavily on corporate resources. As a result, some companies may choose to leverage the effort and look beyond mere compliance to identify possible opportunities. For example, supplier due diligence may reveal significant price differentials for the same materials, and an opportunity to renegotiate price agreements. Likewise, a company that concludes that its products are conflict-free could potentially leverage that status to achieve a competitive advantage in the marketplace.

In the spring of 2013, PwC surveyed companies online to determine their level of understanding of the rule, as well as their progress towards compliance. Results from nearly 900 individual respondents also shed light on some of the more significant hurdles companies are, or are expecting, to encounter, as well as which industries seem to be furthest ahead with their compliance efforts.

We hope you find the results helpful as your company assesses its compliance requirements, level of progress, and next steps.

*Overview of respondents
and highlights*

Respondents to our survey came from 16 different industries. Slightly more than 30% of respondents were in two industries—technology and industrial products & manufacturing. Financial services and retail & consumer each accounted for about 9% of the respondents, while energy and mining accounted for just over 8%. All other industry groups each accounted for less than 5% of the respondents.

Approximately 30% of the respondents came from companies that have revenues of \$5 billion or more, 28% have revenues ranging between \$1 and \$5 billion, while almost 24% of the companies have revenues of less than \$500 million.

More than half of the respondents completing the survey have roles in an SEC reporting and finance function, while approximately 15% came from internal audit. The remaining participants came from legal, supply chain, sustainability, accounting and auditing, or other backgrounds.

The single most challenging task for companies is getting accurate information from their suppliers.

Main findings:

- Almost half of companies are still in the initial stages of their compliance efforts: 16% haven't started gathering information, while 32% are still in the process of determining the applicability of the rule to their products.
- The automotive, technology, and industrial products & manufacturing industries have made the most progress with respect to gathering information from their suppliers and completing the reasonable country of origin inquiry (RCOI) required by the rule. This may be, in part, due to trade associations in these industries that are actively involved in the conflict minerals process. Respondents in these industries scored highest relative to their engagement with their respective trade associations.
- The single most challenging task for companies is getting accurate information from their suppliers.
- More than half of the companies (58%) view their conflict minerals efforts as a compliance exercise only, while approximately 6% of companies are willing to use this as an opportunity to undertake supply chain changes. Eleven percent of respondents believe that their conflict minerals efforts are the right thing to do from a social responsibility perspective in addition to it being a compliance imperative.

- On several questions, a number of those surveyed responded "not sure/not applicable", likely reflecting both the complexity of the rule as well as how many companies are still in the early stages of their compliance efforts.

More detailed information about the rule and its impact on issuers and companies in their supply chain can be found at www.pwc.com/us/conflictminerals, including:

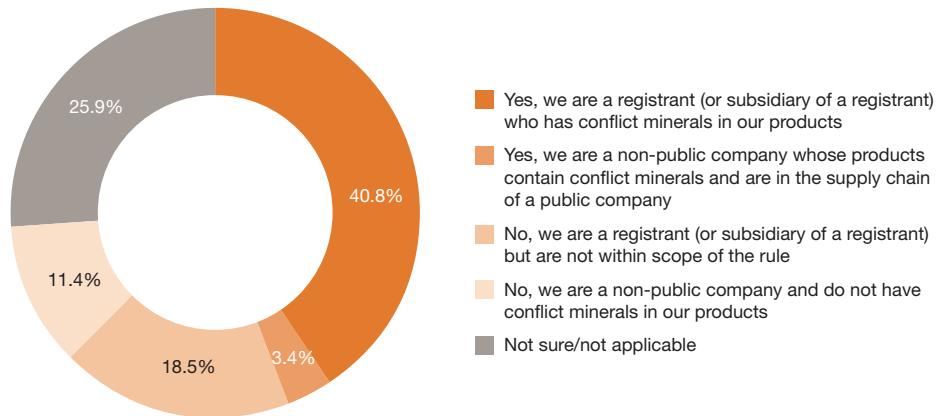
- 10Minutes on conflict minerals
- Conflict minerals: Time to get started
- Dataline 2012-10: SEC adopts conflict minerals rule
- Webcast, April 9, 2013—Conflict minerals: An auditor's perspective
- Webcast, September 11, 2012—Conflict minerals: What does Dodd-Frank Section 1502 mean for you?

Focus Areas: 2013 Conflict Minerals Survey

1. General questions on the rule and its impact
2. Supply chain/Reasonable country of origin inquiry
3. Reporting and audit
4. Governance and stakeholder concerns

***Focus area 1:
General questions on the
rule and its impact***

Do you anticipate that the SEC's conflict mineral rule will affect your company?



Forty-four percent of respondents expect to be directly or indirectly within the scope of the SEC's conflict minerals rule because they are either a registrant, a subsidiary of a registrant or a nonpublic company who has conflict minerals in their products. Responses indicated that four industries expect to be most heavily impacted by the conflict minerals rule: industrial products & manufacturing, technology, retail & consumer, and automotive.

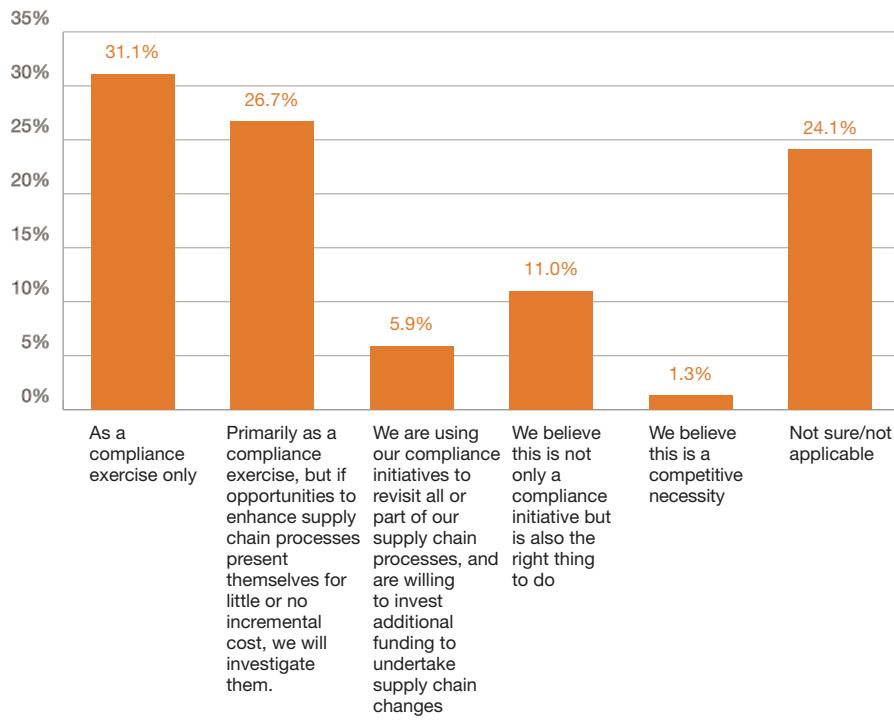
Thirty percent of the companies surveyed believe that they will not be affected by the SEC's rule because they either are a nonpublic company whose products do not contain conflict minerals, or they are a registrant but outside the scope of the rule.

This group consisted primarily of:

- Service providers (48%);
- Manufacturers whose products do not contain conflict minerals (35%);
- Retailers or distributors who do not have influence over the manufacturing of the products they sell (6%).

Approximately twenty-six percent of companies were not sure whether the rule will affect them. The rule is already in effect, so it is important that companies determine the rule's applicability immediately.

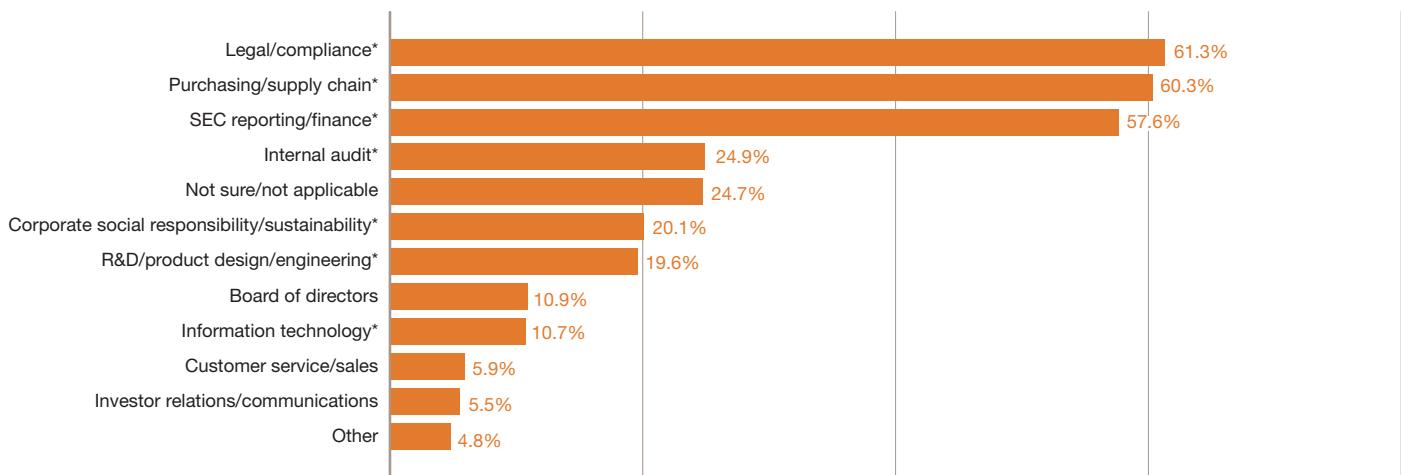
How does your company view its efforts related to the conflict minerals rule?



Fifty-eight percent of companies view the rule as primarily a compliance exercise. However, 33% of respondents are willing to look into opportunities to enhance supply chain in the process of compliance, mostly provided that the incremental costs are low. Only 1.3% of

respondents viewed compliance with the rule as a competitive necessity. Though this is a small percentage, respondents who answered in this fashion came from the technology, retail & consumer, and industrial products & manufacturing industries.

What departments or functions are engaged in the conflict minerals compliance effort?

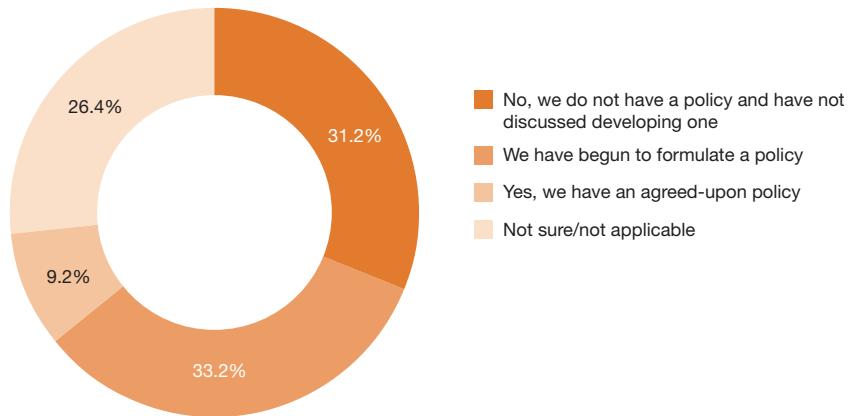


Respondents indicated that most often, legal/compliance and purchasing/supply chain departments are leading the compliance efforts, followed closely by the SEC reporting/finance department. This is a compliance requirement, so the involvement of legal/compliance is certainly not a surprise. Many other departments are involved as well, including internal audit, corporate social responsibility/sustainability, research and development and information technology. The fact that 25% were

not sure who was engaged may indicate those respondents' companies have not yet organized their conflict minerals compliance efforts.

Regardless of which department is taking the lead, the majority of respondents believe that the compliance team should be cross-functional. Based on our experience, we believe all of the areas marked with an asterisk in the above chart should be involved in the working group; all relevant business units should be actively involved as well.

Has your company established a conflict minerals policy?

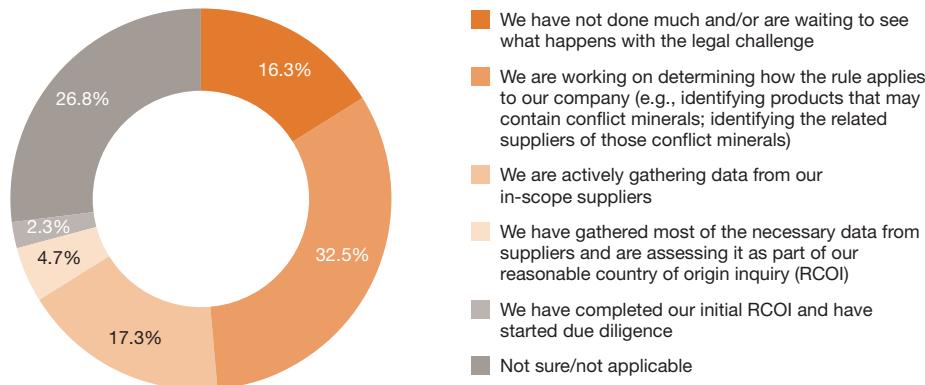


Approximately 42% of respondents have started to develop or already have an agreed-upon conflict minerals policy, while almost one-third of respondents have not yet discussed developing one. With the rule already in effect, and the first compliance deadline less than a year away, formulating a conflict minerals policy is a good first step for companies to take, as it helps provide the goals for the program, both near- and longer-term. Based on what we have seen, many companies are incorporating elements

of OECD-specific due diligence guidance in developing their policies. For now, however, most downstream companies are only addressing the risks pertaining to sourcing from armed groups; they are tackling risks inherent to other areas, such as money laundering and bribery risks, through other policies. At the same time, many have not yet set goals with regards to conflict-free or DRC-free sourcing, as they plan to wait and see what extent of change is reasonable and possible for their supply chain.

***Focus area 2:
Supply chain/Reasonable
country of origin inquiry***

How far along are you in gathering information about your conflict minerals supply chain?



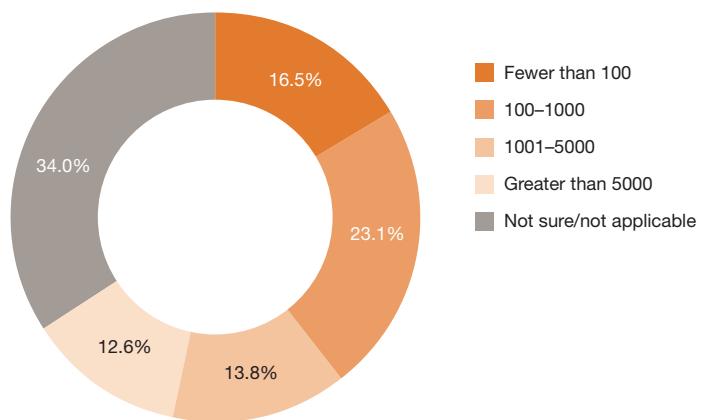
With regard to progress in their compliance efforts, only 2% of respondents have completed their RCOI and started due diligence. Over 20% of companies are in the process of actively gathering data from their in-scope suppliers, or have completed gathering the necessary information and are in the process of assessing it as part of their RCOI. Approximately one-third of respondents are still working on identifying the products that may contain conflict minerals and the suppliers of those minerals.

The remainder of companies—over 40%—have either not done much with respect to gathering information and performing RCOI and due diligence, or are not sure of their companies' progress.

Almost from the time the rule was announced, companies in three industries seemed to be well underway in gathering information about their supply chain -- industrial products & manufacturing, technology and automotive. Almost three quarters

(72%) of the companies who have at least started gathering some information on conflict minerals supply chain come from one of these three industries. Perhaps not coincidentally, responses to another question on companies' engagement with industry groups pointed to trade associations in these three industries as being heavily engaged in interpreting the rule and providing guidance to members.

How many direct material suppliers are in your supply chain? (materials used in products only)



Conducting the required RCOI and, in some instances, due diligence on the origin of the conflict minerals used in products will be a detailed and time-consuming part of the compliance effort due to the breadth and depth of most companies' supply chains. More than a quarter of the companies we surveyed indicated their supply chain contains over 1,000 suppliers. Less than 17% of companies have fewer than 100 suppliers. Multiply those by an often unknown number of

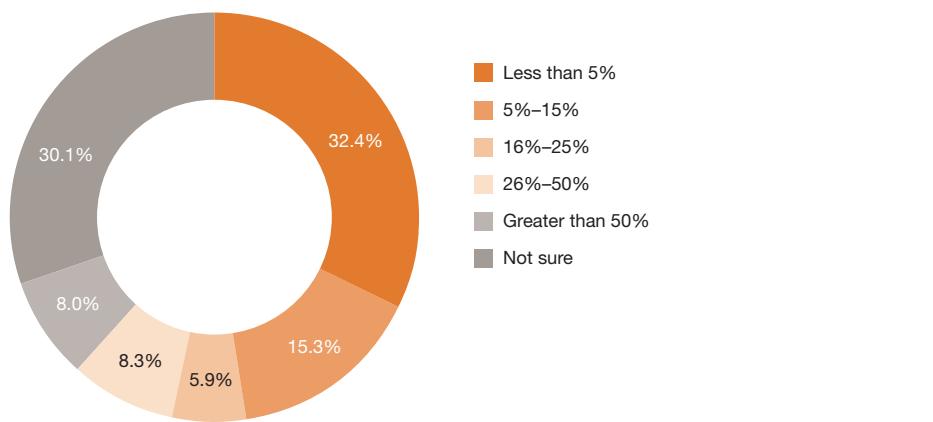
upstream suppliers, and the process of tracking conflict minerals becomes exponentially more complex.

It is surprising that so many respondents—slightly more than a third—did not know how many suppliers they had. This reflects, in our experience, two dynamics. As noted earlier, over one-half of respondents were from an SEC reporting/finance background; these individuals may not always have deep knowledge of the company's supply chain. This

reinforces the need for a diverse team with the right skills and capabilities. Secondly, since over 40% have either not done much with respect to gathering information and performing RCOI and due diligence, or are not sure of their companies' progress, they may not have the information readily available. Regardless, companies cannot fully plan their approach without at least a rough idea of how many relevant suppliers they have.

Only for those for whom the previous question is applicable:

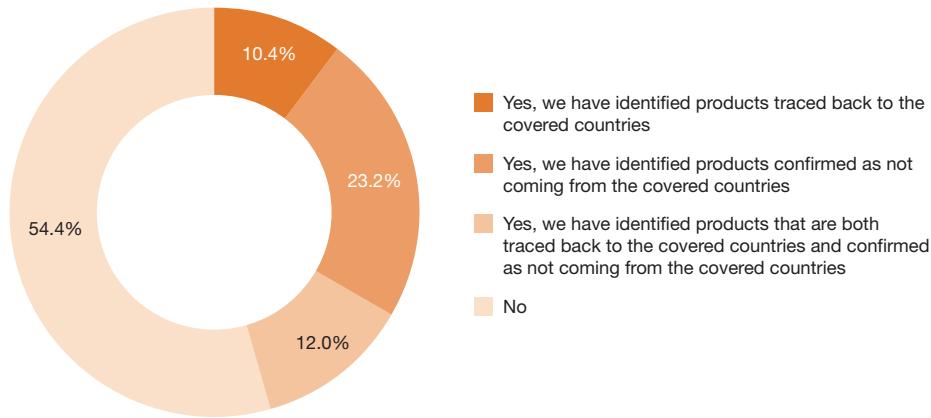
How many of your suppliers provide raw materials, products or components that contain one or more of the conflict minerals?



Many companies have a supply chain that is both wide and deep. The percentage of suppliers providing raw materials, components, sub-assemblies or processes containing conflict minerals ranges widely from less than 5% to greater than 50%. Whatever the amount is, companies

should be cognizant that they may have to gather information beyond their Tier 1 suppliers to understand whether the materials and components used in the manufacturing of their products contain conflict minerals, and the origin of those conflict minerals.

Only for those who have gathered most/some of the data on conflict mineral supply chain from their suppliers: **Have you identified any products within supply chain that contain conflict minerals that either trace back to the covered countries or confirm as not coming from the covered countries?**

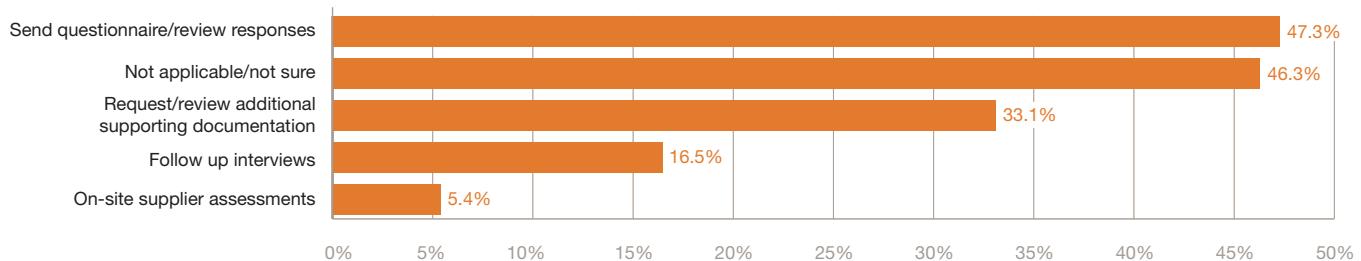


Almost half (45%) of the companies which gathered at least some data from their suppliers have already been able to obtain enough information to be able to conclude on their RCOI findings, while 54% of respondents have so far been unable to reach a conclusion. It's important to note that companies may reach different origin

conclusions for different products (due to sourcing different materials from different suppliers). Therefore it would not be unusual at all for companies to reach a "mixed" RCOI determination—meaning that they conclude that some of their conflict minerals are coming from the covered countries, while others are not.

What level of information gathering are you planning to perform on your supply chain?

(Respondents were asked to select all that apply)



Sending conflict minerals surveys to suppliers is the most popular method of gathering information on supply-chain activity, with approximately 47% of surveyed companies planning to take that route. An almost equal percentage, however, are not sure of how they plan to gather information from their supply chains. Of those using surveys, the EICC/GeSI questionnaire¹ is the most popular survey template being used by those sending surveys.

In addition, one-third of the companies who responded also expect to perform follow-up on the questionnaire by requesting and reviewing additional information. This was an interesting result, as it may indicate that those who do not expect to perform follow-up beyond survey review:

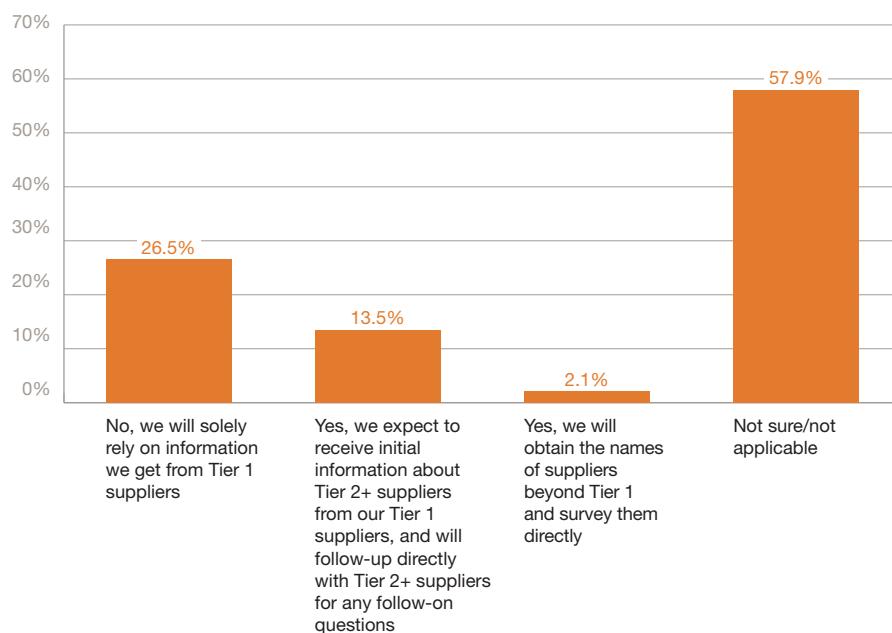
1. believe they will receive sufficient information from the initial survey, or
2. believe that surveying their Tier 1 suppliers is sufficient, regardless of the nature of the responses received.

In our experience, some degree of follow-up (e.g., direct conversations, emails) is beneficial in order to clarify questions or review red flags identified in the survey process (e.g., if a supplier indicates that they are sourcing from a conflict-free smelter but their smelter is not listed on a conflict-free list; or if a supplier indicates they are sourcing from a country where there is no known source of the minerals).

¹ The EICC/GeSI template is a widely-accepted survey template used by companies to gather conflict mineral sourcing information from their suppliers. It is available to the general public for use, and can be obtained by visiting: <http://www.conflictfreesmelter.org/ConflictMineralsReportingTemplateDashboard.htm>

Experience to date indicates that Tier 1 suppliers often do not have sufficient information about their own supply chain to be able to respond to customers' conflict minerals surveys in a complete or accurate fashion. Absent thorough due diligence processes by suppliers over their supply chain's conflict mineral sourcing, issuers may find it challenging to conclude that their supplier responses are "reasonably reliable."

Do you intend to perform due diligence beyond your Tier 1 suppliers?



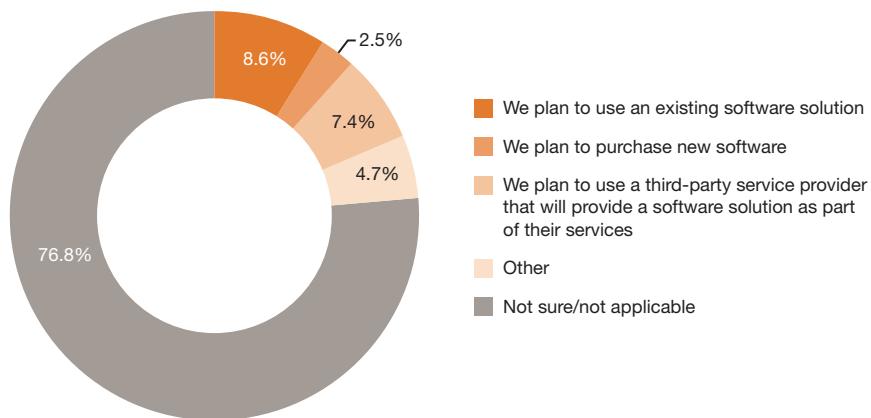
Almost 58% of companies have not yet determined how deep in their supply chain they will go to gather the necessary information to comply with the rule. Nearly 27% of respondents plan to rely solely on information given by the Tier 1 suppliers, while approximately 16% intend to directly survey or follow up with their Tier 2+ suppliers.

Often, confidentiality provisions between a company and its suppliers

can limit a manufacturing entity's ability to gain direct access Tier 2+ suppliers. This could explain why some companies only plan to survey Tier 1 suppliers. Alternately, companies may also believe that they can get full information from their Tier 1 suppliers, eliminating the need to dive any deeper into the supply chain. In reality, these companies may encounter significant challenges in the initial years of compliance if their

direct suppliers do not have conflict minerals reporting mechanisms in place farther upstream. Ultimately, companies will have to assess the reliability and completeness of the data they receive from their Tier 1 suppliers to conclude on what additional steps may be necessary, if any, with regard to Tier 2 and beyond.

Do you have/intend to implement an IT solution specific to your conflict minerals compliance efforts?



More than three-quarters of respondents are not yet sure which IT solution they will use to support their conflict minerals compliance efforts. Of those who have concluded on an IT solution, 8.6% plan to use an existing software solution, while slightly fewer (7.4%) plan to use a service provider that will include a software solution as part of their service.

At this time, there does not appear to be a software solution that supports end-to-end compliance requirements for the conflict minerals rule. We advise companies to evaluate the IT solutions they already have across the organization (e.g., existing governance, risk and compliance tools,

product lifecycle management, product data management and supplier management tools) to understand the extent to which the existing suite of technology solutions can support the conflict minerals compliance process.

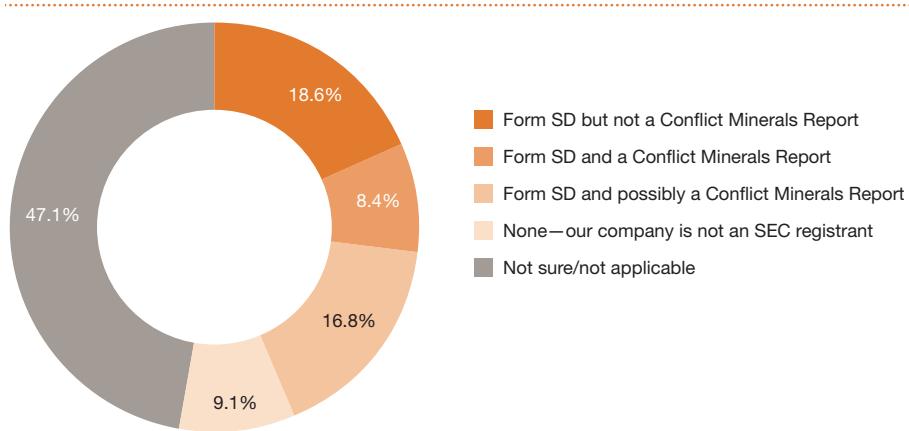
If companies choose to implement new IT solutions to support their compliance efforts or turn to a third-party service provider who will provide IT as part of their service, they should consider how those decisions fit in with their IT strategy, compliance architecture and the extent of integration required with existing IT systems. For example, some tools focus on the “front end” 3TG content or scoping determinations. Others focus primarily on the

supplier engagement and outreach process and records documentation related to supplier conflict status determination. Still others assist with reporting and ongoing supplier relationship management dimensions.

Companies should make technology and process decisions hand-in-hand to avoid selecting a technology product that forces a business process which may not fit the needs of the organization. Having a clear understanding and definition of program objectives and key business requirements will assist in conducting the right technology conversations and result in a long-term sustainable IT strategy and, ultimately, the most appropriate enabling technologies.

***Focus area 3:
Reporting and audit***

For calendar year 2013, what type of filing do you expect to submit to the SEC?



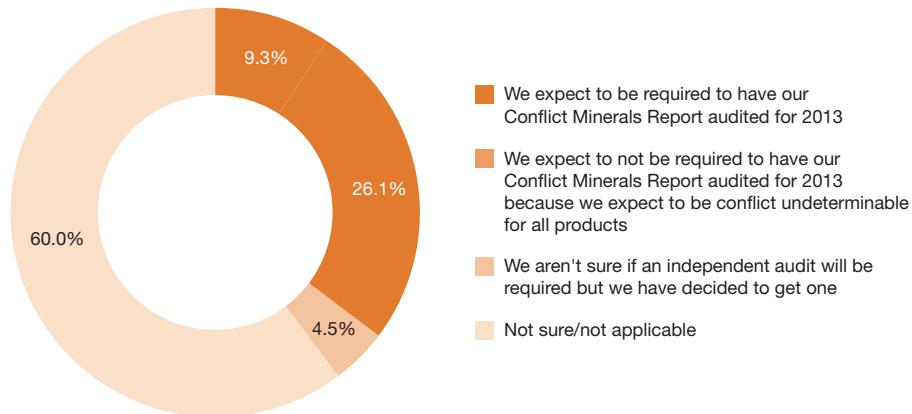
Approximately 44% of companies expect to file Form SD, meaning that these companies believe they are within the scope of the rule because they manufacture products containing conflict minerals. However, only 8.4% of respondents responded that they definitely expect to file a Conflict Minerals Report along with Form SD. This indicates that a fairly small percentage of respondents expect to find, or have reason to believe, that their conflict minerals are sourced from the covered countries. Early SEC estimates had suggested that

more than 50% of registrants would likely need to file a Conflict Minerals Report. The difference between these expectations and the survey results could be attributed to almost half of our respondents being unsure as to whether they will need to file a Form SD or a Conflict Minerals Report.

Companies filing a Form SD must designate one executive to sign the form. Ideally, companies should determine which executive will sign the form early in the compliance process so that the individual will be involved in the many judgment calls

that are necessary when complying with this rule. Of those respondents who anticipate filing a Form SD, 30% have already determined which corporate officer will be signing, with the CFO being the most popular choice, followed by general counsel. Companies' thoughts as to which executive officers will sign the SEC filings may change as they develop more insight on their compliance efforts. The executive signing the Form SD can be different from the signer of other SEC filings.

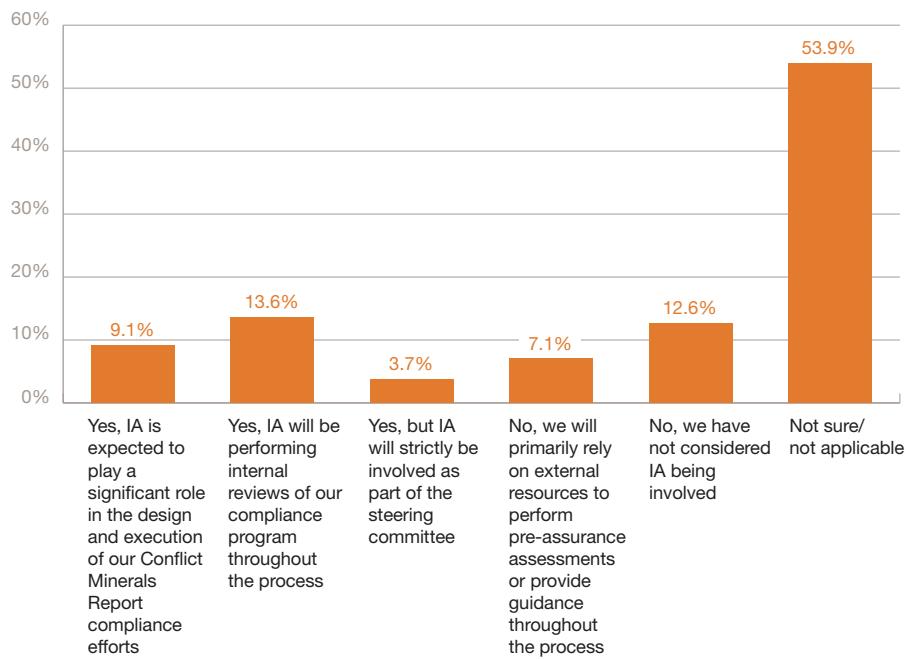
What is your expectation regarding the independent audit requirement?



About a quarter of the respondents expect that they will not be able to determine the conflict status of their products in the first year, and therefore will be undeterminable and not required to obtain an audit of their Conflict Minerals Report. Another 14% of respondents plan to obtain an independent audit in their first year of compliance, either because they believe it will be required of them

or because they want to obtain one on a voluntary basis. Regardless, many companies will want to work closely with their auditors in a “pre-assurance” capacity as they develop their due diligence procedures to gain additional confidence that the processes put in place are audit able. However, the majority (60%) are not yet sure of whether they will need an audit in year one.

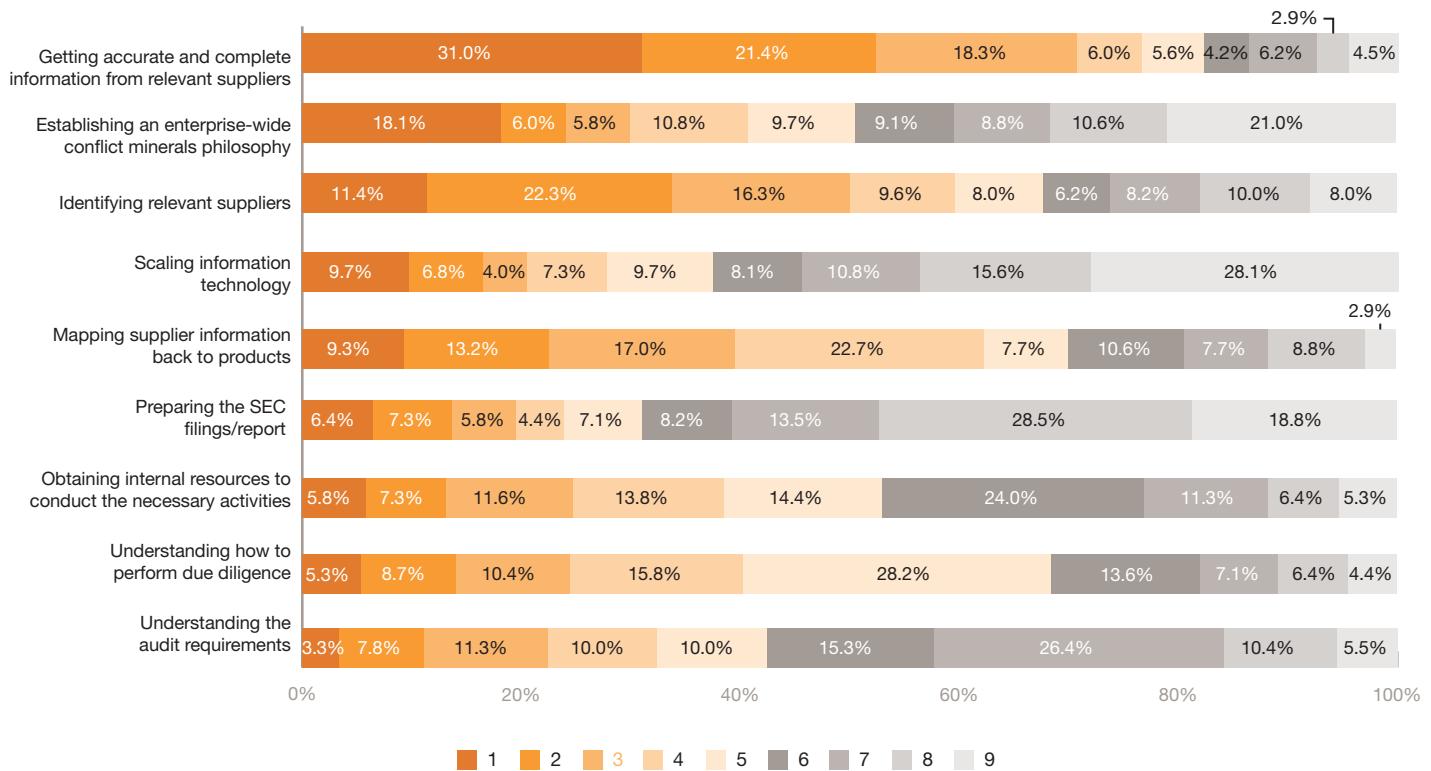
Do you plan to use your Internal Audit (IA) department to assist in your conflict minerals initiative?



As previously discussed, most companies will leverage a cross-functional team for steering conflict minerals compliance efforts. Twenty-six percent of companies plan to involve the internal audit department in the compliance process

in various capacities—performing internal reviews throughout the process (13.6%), designing and executing compliance efforts (9.1%) or strictly acting as part of the steering committee (3.7%).

Please rank the mentioned challenges to achieving conflict minerals compliance. (1=greatest challenge, 9=least challenge)

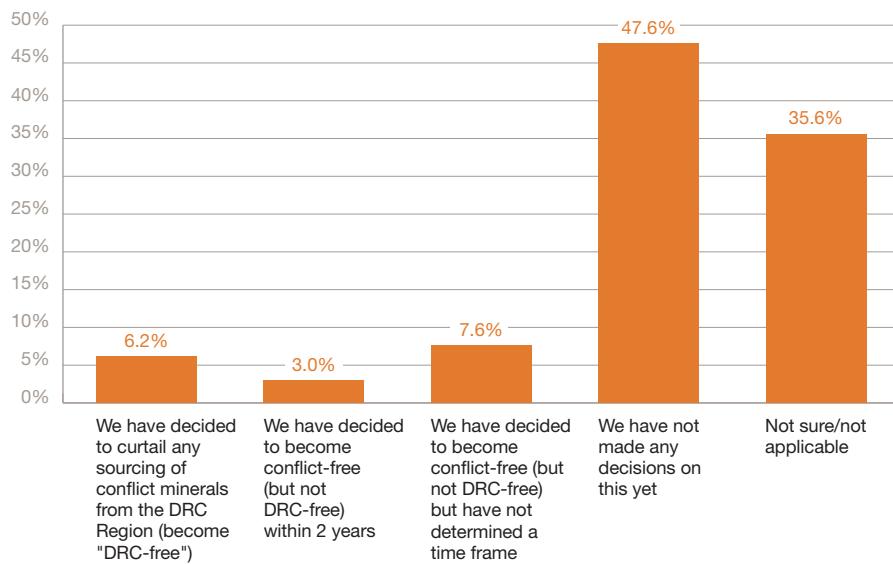


There are a number of challenges facing companies as they comply with the conflict minerals rule. Respondents expect that identifying relevant suppliers, getting accurate and relevant information from them and establishing an entity-wide conflict minerals philosophy will be the three most significant challenges they will face. These results point to the difficulty of scoping and mining the

supply chain for necessary information. Companies should take these potential challenges into account when assessing their compliance timeline and project plan, and designing their conflict minerals approach. Building sustainable compliance requirements/mechanisms/processes into supplier contracts for subsequent periods may ease the information gathering burden prospectively.

***Focus area 4:
Governance and
stakeholder concerns***

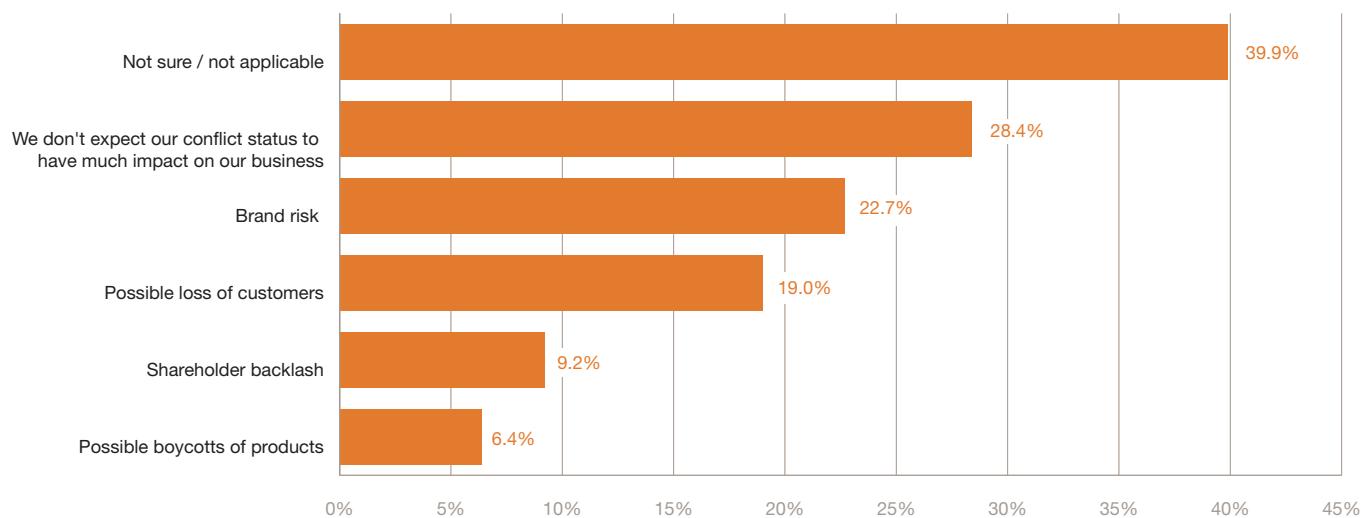
What decisions has your company made with respect to conflict minerals sourcing?



The conflict minerals rule does not force companies to be conflict-free, nor is it meant to dissuade companies from sourcing minerals from the Democratic Republic of Congo and surrounding countries. However, 6% of respondents indicated that their companies have decided to stop sourcing their conflict minerals from the covered countries; if companies

do so, it would eliminate the need to perform anything other than an RCOI and file a Form SD. However, that approach may not be practical or cost effective for many companies. Approximately 11% of companies plan to become conflict-free sometime in the future. Almost a third of surveyed companies also expect to require their suppliers to be conflict-free.

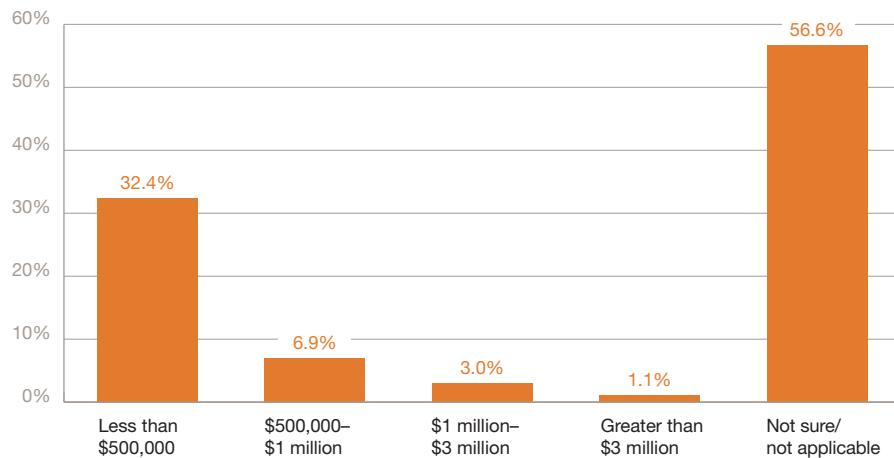
If your company's ultimate conclusion is that its conflict minerals are not conflict-free, what possible repercussions is your company most concerned about?



Over a quarter of those surveyed do not expect their conflict status to have a significant impact on their business. However, others indicated that there may be consequences if they are not conflict-free, including damage to the company's brand

(22.7%) or loss of customers (19.0%). Companies that are directly consumer-facing, or that sell to customers with conflict-free goals, may need to consider these risks more closely, particularly if social responsibility/sustainability is a differentiating market factor for their brand.

What is your company's total expected out-of-pocket cost in complying with the SEC conflict minerals rule for the first year? (internal/external/systems)



Various cost assessments (included in the SEC rule release) estimated that the cost of complying with the rule, including installing internal and external systems, establishing processes, designing and performing inquiries and performing due diligence will be significant. However, 32.4%

of the respondents believe that their first-year costs for complying will be less than \$500,000, which is lower than many average estimates. However, not unexpectedly, more than half of respondents are unsure of what the cost will be at this point.

Conclusion

Our survey results provide an early benchmark for companies working through their compliance efforts. Perhaps most telling is how many survey responses were “not sure/not applicable.” Though not surprising given the newness of the rule, the frequency of this response indicates just how much there is for companies to learn and interpret with this rule. While the SEC has released responses to some frequently asked questions², there are many other questions that remain unanswered. With the first compliance deadline quickly approaching, companies will need to interpret the rule as best they can since there are no assurances that additional guidance will be forthcoming.

The outstanding legal challenge against the rule also adds to companies’ uncertainty about how, and how quickly, to proceed with their compliance programs. Though an initial court decision will likely

come before the fourth quarter, the ruling could be appealed, delaying final resolution. As a result, companies should not wait for the legal challenge to be resolved to get started with their compliance efforts.

The complexity, time and resources necessary to comply can vary dramatically from company to company, even within the same industry. It is critical for companies to understand the population of products that are within scope, the number of suppliers that provide conflict minerals, and the depth of accessibility of information from suppliers in order to properly design their compliance program as a whole. And that’s just the beginning—then companies have to execute. There’s no time to waste.

*And that’s just the beginning—
then companies have to execute.
There’s no time to waste.*

² See the Frequently Asked Questions on Conflict Minerals on the SEC website. Note: These FAQs were released after we conducted our survey; some respondents may have answered differently had this guidance been available before taking the survey.

***To have a deeper conversation about
how this subject may affect your business,
please contact:***

Barbara (Bobby) Kipp
Conflict minerals leader
PwC LLP
(617) 530-4602
conflict.minerals@us.pwc.com

www.pwc.com/us/conflictminerals

© 2013 PricewaterhouseCoopers LLP, a Delaware limited liability partnership. All rights reserved. PwC refers to the United States member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors. MN-13-0064