



# Responsible Sourcing

At Best Buy, we partner with more than 140 factories, mainly in China, to produce our private label products. We work with these suppliers on the design, production and testing of these products – and partner with them to ensure they meet our expectations for safe workplaces where workers are treated fairly.



Through our Supply Chain Sustainability (SCS) program, we seek to control risk, enhance the partnership with our suppliers by building their capacity for responsible business practices, and create value for all stakeholders. Through our leadership in the Electronic Industry Citizenship Coalition (EICC), including participating on their Board of Directors, we partner with many of the national brands we sell, including Apple, Intel, Microsoft and Samsung. Collectively, we embrace a common supplier code of conduct and audit methodology that creates business value by improving working and environmental conditions in the supply chain.



## Part 1 – Code Introduction and Adoption

Before working with new suppliers, we provide an in-depth training on our code and program and conduct a third-party audit of their facilities, which includes environmental and human rights screening criteria. In fiscal 2015, we screened 100 percent of our new suppliers utilizing environmental and human rights criteria and provided these suppliers with an on-site training focused on the EICC code. When conducting pre-contract screenings, we identify nonconformance and require the supplier to take corrective action. If there is a critical non-conformance, it must be addressed immediately and suppliers that are unwilling or unable to address critical violations are rejected. In the past fiscal year, we rejected 15 potential new suppliers based on our initial screening.

## Part 2 – Self-Reporting

Existing suppliers assess their performance against the code by completing an annual self-assessment questionnaire (SAQ) and by submitting quarterly key performance indicator (KPI) reports. The SAQ help us better understand our suppliers’ policies and management systems, while KPI reports provide insight into their sustainability practices and performance. In fiscal 2015, we achieved a 100 percent completion rate for SAQs and a 99 percent completion rate for KPIs. Any supplier that does not provide either an SAQ or a KPI report is automatically considered a high-risk supplier and will be audited.

## Part 3 – Risk Assessment

We evaluate our suppliers’ ability to meet our code, which guides how we monitor their performance and build their capacity. Our evaluation takes into consideration several dimensions of business and social risk. Based on the results of our assessment, suppliers are classified by risk level. We focus our audits and capacity-building on those suppliers identified as medium or high risk. By focusing our efforts, we believe we can more effectively improve environmental practices, better protect worker rights and build a more reliable supply chain.

## Part 4 – Monitoring

For suppliers identified as high-risk, Best Buy conducts an audit and for medium-risk suppliers a third party conducts an audit, in order to identify any gaps between suppliers’ performance and the code. We not only assess their social and environmental performance, referred to as “**practices compliance**,” we also review the management system they have in place to drive code compliance, which is known as “**management compliance**.”

Fiscal Year 2015 Audits	Amount
Factory Count	147
Number of Third Party-led Audits	92
Number of Best Buy-led Audits	33
Total Number of Audits	125

When non-conformance is discovered, we classify them by level of severity.

- Minor violations: isolated incidents with little to no impact on worker rights or the environment
- Major violations: incidents with a short-term impact on worker rights or the environment for which the factories are given 90-180 days to implement a corrective action plan
- Critical violations: those that directly infringe on the rights of workers or have an immediate, detrimental impact on the environment; the critical non-compliance must be addressed immediately and a corrective action plan must be closed within 30 days or we stop placing orders with the factory

For all types of non-conformance, we conduct follow-up audits to ensure all violations – whether minor, major or critical – are resolved.

## Part 5 – Capacity-Building

We build our suppliers’ capacity so they can close any gap between their performance and the code. We periodically conduct trainings on the EICC code to ensure our suppliers have the tools to meet the code and fully understand our expectations.

In addition to code training, we collaborated with the EICC to address a common high-risk issue – employment of student workers. Due to a labor shortage in China, some factories partner with vocational schools to fill their labor needs while at the same time providing students with employment opportunities. While these students are of legal age, there are restrictions from the Chinese government on their employment, including the type and hours of work. We also set additional requirements regarding such topics as entering direct contracts with the students and ensuring direct payment is made to the students. Recognizing the potential risks, we take the following steps to improve management of student workers:

- Provide suppliers with specialized training focused on student worker management
- Send a letter prior to peak season for student workers to remind factories of our requirements
- Provide a toolkit developed in partnership with a Hong Kong-based NGO and other EICC member companies to help factories properly manage student workers
- Send the factories self-assessment questionnaire so they can identify gaps in their management practices
- Conduct unannounced audits of high-risk factories

## Part 6 – Reporting

Each year we publicly disclose our suppliers’ rates of compliance against the code. We refer to suppliers’ social and environmental performance as “practices compliance,” and we refer to the management system they have in place to drive code compliance as “management compliance.”

Fiscal Year 2015 Audit Category	Practices Compliance	Management System Compliance
Labor	93%	94%
Health and Safety	84%	94%
Environment	82%	89%
Ethics	100%	67%
Management System	100%	57%

In fiscal year 2015, we did not find child labor, forced labor or freedom of association violations in the factories we audited. If such a violation was to be found, it would be considered a critical violation – the highest severity audit finding – and would require escalation by the auditor and immediate attention by the vendor/factory. Best Buy suppliers are given remediation guidelines to ensure immediate corrective actions are taken, and sustained, to ensure the protection of workers and a continued business relationship with Best Buy.



Our supply chain program also includes the Customs-Trade Partnership Against Terrorism (C-TPAT), a safety and security protocol intended to protect ports and secure borders by eliminating tampering, the unlawful use of containers and unauthorized entrance into shipping facilities. This includes extensive audits of the methods used to store containers securely and conduct background checks on employees and the process of earning certification for the supply chain security program.

In fiscal year 2015, we participated in a joint China and U.S. Customs and Border Protection (CBP) C-TPAT validation. Through the validation, we demonstrated that our security profile is reliable, accurate and effective. In addition, we had the opportunity to share best practices and build our partnership with CBP. As a result of the validation process, we retained our C-TPAT Tier 3 status, which means Best Buy has been granted the highest benefits by CBP, including expedited importing.



The Democratic Republic of the Congo (DRC) and its adjoining countries have reserves of tin, tantalum, tungsten and gold (known as 3TG), all of which are commonly used in the manufacturing of many consumer products. Occasionally, these minerals are illegally sourced and traded in the eastern DRC and surrounding areas by armed groups who are responsible for human rights violations. As such, these minerals are known as “conflict minerals.”

In 2012, the United States passed into law Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which requires companies to disclose whether the 3TG used in their products originated from the DRC or covered countries, as defined by the law.

Historically, we have had very limited engagement with parties beyond the direct suppliers (those suppliers which we have a contractual agreement) in our private label supply chain. Consequently, identifying, with certainty, the smelters, refiners and recyclers and the source of the materials they process is a significant challenge. One way we address this challenge is by participating in and, in some cases, leading collaborative industry efforts that seek to gather accurate data about the sources of 3TG, encouraging smelters to be certified as conflict-free and ensure a supply chain in which human rights abuses do not exist.

## Due Diligence

To determine the source and chain of custody of 3TG used in our private label products, we conducted due diligence on our supply chain. Our due diligence process is based on the five-step Organization for Economic Cooperation and Development (OECD) Guidance, an internationally recognized due diligence framework.



## Performance of our Due Diligence Measures

We are working with consumer electronics and retail industry peers to maximize the efficiency and effectiveness of our efforts to identify relevant smelters and refiners, and encourage their participation in the Conflict Free Sourcing Initiative’s (CFSI) Conflict-Free Smelter Program (CFSP).

We have a Conflict Minerals Policy that established Exclusive Brands commitments regarding the sourcing of 3TG. Such commitments include aligning with the OECD Guidance, supporting industry efforts, and seeking to avoid sourcing 3TG that directly or indirectly benefit non-state armed groups. The policy also establishes expectations for our private label suppliers, including their application of relevant aspects of the OECD Guidance, supporting our efforts to identify smelters and refiners by completing an annual CMRT, and, when available, sourcing 3TG from smelters and refiners validated as conflict free. Our policy can be found at [Corporate.BestBuy.com/Sustainability](http://Corporate.BestBuy.com/Sustainability).

Fiscal Year 2015 Conflict Mineral Program Key Performance Indicator	Percentage
First-tier Exclusive Brands suppliers who attended face-to-face training	68%
Relevant first-tier Exclusive Brands suppliers who received training material	100%
3TG products that have had their supply chains surveyed	100%
Relevant first-tier ExB suppliers who returned a CMRT	100%

Given our position in the supply chain, we relied heavily on our direct suppliers to provide information about the smelters that provided the 3TG used in our products.

Since we do not have a direct relationship with any smelters in our supply chain, we do not conduct audits. Instead, we support the development and implementation of an effective smelter audit program through our membership in the CFSI, which administers smelter audits. Further, we support the CFSI through a monetary donation to their Initial Audit fund, which covers the audit costs for smelters and refiners who successfully complete their first audit.

The CFSI conducts independent, third-party audits to validate that smelters source conflict-free materials. We support many CFSI activities through our participation on work groups and task forces. In particular, we served as the Chair of the Smelter Engagement Team, which researches and validates alleged smelters and conducts coordinated outreach to known smelters to encourage them to be audited. We also conducted in-person visits at a total of 11 smelter facilities in 2014 and 2015 in order to provide an overview of CFSI, assess their sourcing practices and encourage their participation in the CFSI audit program.

Based on our due diligence process and the subsequent information we gathered, we are unable to determine the origin of the 3TG used in our products and whether non-state armed groups directly or indirectly benefitted. These results are not unexpected given the limited systems of transparency and control that have been developed thus far. As those systems mature and become more sophisticated, we anticipate increased clarity as to the source and chain of custody of the 3TG used in our private label supply chain.