



TARGET

ETHICAL SOURCING PROGRAM

**PROCEDURAL GUIDELINES FOR VENDORS &
FACTORIES**

December 2011

TABLE OF CONTENTS

Introduction	3
Target Ethical Sourcing Code.....	3
Vendor/Factory Registration.....	3
Risk Assessment (Mutual Recognition, Industry Certifications).....	4
Audit Program.....	4
Pre-Approval Policy.....	5
“Traffic Light” Grading System.....	6
Four Strikes Policy	6
Corrective Action and Remediation.....	6
Continuous Improvement	7
De-Registering Vendors and/or factories.....	7
Vendor and Factory Training.....	7
Vendor Responsibilities	8
Contact List.....	9
APPENDIX	
A: Target Ethical Sourcing Code.....	10
B: Mutually Recognised Codes/Organizational Audits.....	12

Introduction

The Target Ethical Sourcing Program for merchandise vendors and factories is designed to help ensure Target vendors and factories operate according to the Target Ethical Sourcing Code (ESC). The Ethical Sourcing Program is also designed to ensure compliance with all applicable local legal requirements governing issues such as wages, benefits, working hours, child labour and health and safety.

The program has been established to protect the integrity of the Target brands, and to hold all vendors accountable to a set of generally accepted employment standards and workplace practices (codified in the adoption of the ESC). All vendors must agree to comply with our ESC and to register all applicable factories (see Vendor/Factory Registration below). Periodically, Target or designated representatives will perform factory audits to verify ongoing compliance and to identify areas that warrant corrective action.

Target is committed to working with vendors and factories by providing continuous education and support as we attempt to build capacity to better manage compliance on an ongoing basis.

Target Ethical Sourcing Code

The Target ESC (Appendix A) is a set of minimum requirements that Target vendors and factories are required to comply with as a condition of doing business. The ESC has evolved since it was first introduced. This updated Ethical Sourcing Code combines many of the provisions found in previous versions and is consistent with the policies of other leading retailers and manufacturers.

Each vendor that produces merchandise for Target agrees to comply with the Target ESC. Target reserves the right to cease doing business with vendors who fail to comply with the requirements of the ESC.

Vendor/Factory Registration

Vendors producing the following type of merchandise for Target must register their company and active factories via completion of the Ethical Sourcing/Quality Vendor and Factory Profile form. Active is defined as current OR planned (within the next 6 months) production.

- Any merchandise where Target is the importer of record (i.e. all Direct and Indirect Import vendors/factories);
- Target proprietary branded merchandise;
- Licensed branded merchandise sold exclusively at Target and
- Vendor Owned Brands (VOB) that are not generally recognised.

A factory is the physical location where the above-mentioned merchandise is produced. Addresses of trading companies, business agents, buying offices, showrooms, etc., are not required to be submitted. Subcontractors performing major or multiple operations (more than one function) must also be registered. The registration of subcontractors used to produce partial assembly, piece goods or component parts where there is an identifiable Target proprietary trademark/name may be requested at a later date.

Target reserves the right to cease doing business with vendor's who fail to provide active factory information.

Risk Assessment (Mutual Recognition, Industry Certifications)

While all registered factories may be audited, Target employs a risk assessment model to help prioritise which factories should be audited. The risk variables considered include the registered factory's country of origin, brand type, existing factory certification, existing current audit reports, and business volume.

Target may accept credible certifications from SA8000, WRAP, ICTI, FLA and others in lieu of a Target audit when the certification is current (in the next 3 months) and conducted by a reputable and independent 3rd party audit firm. For the most recent list of Mutually Recognised Audit Formats, see Appendix B. Target reserves the right to change this list from time to time.

Vendors are required to submit the industry certificate, accompanying audit report and completed factory profile form to Target. Target will notify the vendor whether or not it accepts the documentation provided in lieu of a Target audit.

Audit Program

If a factory is selected to be audited for compliance with Target's ESC, Target will notify the vendor and instruct a 3rd party audit firm to perform the audit, at the expense of the vendor. Vendors and factories should always be prepared for a Target audit, as in some instances audits may be unannounced. The full cooperation of the factory is required during the audit and Target expects unrestricted access be granted to all areas within a factory as well as documents, records and employees.

A normal audit for Target will last approximately one full day. The number of audit man-days will vary based on factory size and number of employees. Audits generally include an opening meeting with factory management, a factory tour, a review of selected factory records, private and confidential interviews with selected employees, and finally, a closing meeting with factory management to discuss audit findings and agree on a preliminary corrective action plan. Auditor(s) will sign a "Preliminary Corrective Action Plan" (Preliminary CAP) and then request the factory sign as agreement and acknowledgement of the findings and his/her comments, if any.

After an audit, vendor and factory will be provided with a document entitled “Final Corrective Action Plan (Final CAP)” which details all findings identified in the audit and the Corrective Action Plan agreed to between the auditor and factory and documented in the Preliminary CAP. Vendor is required to work with the factory to complete the Final CAP indicating what actions the factory will or already has taken to address the noted deficiencies and the planned completion date. The completed Final CAP must be submitted to Target within 10 working days of receipt of the Final CAP. After review of the formal report from the auditor and the completed Final CAP from the vendor/factory, Target will assign a Grade (see “Traffic Light” Grading System below) and send an Audit Rating Letter specifying the audit results and follow-up audit schedule to vendor and factory.

Audit Types (Initial, Follow-up, Renewal)

Target has three basic types of audits that are part of its Ethical Sourcing Program. These include an Initial Audit, Follow-up Audit and a Renewal Audit. Initial audits are scheduled when a factory is first registered with Target and it is determined that the factory will be audited based on Target risk methodology. Follow-up audits are scheduled when, in the most recent audit, a number of deficiencies were identified and Target needs to verify that the outstanding non-compliance issues have been addressed. Finally, a Renewal audit is scheduled two years after a factory has passed its last audit to verify the factory is still in good standing.

Pre-Approval Policy

In rare instances, Target will not permit production in a factory unless the factory has been pre-approved by the Ethical Sourcing department. Instances include: vendor and/or factory with a poor compliance record, vendors and factories previously de-registered by Target (after 12 month period) for ESC breaches and factories producing merchandise contractually requiring pre-approval.

Vendors/factories subject to the above pre-approval policy will be contacted by Target and informed of this requirement, when and where applicable.

Audit Payment

The costs incurred for audits are to be borne by Vendors. Vendors will be invoiced by the audit firm upon receipt of a request from Target to schedule an audit. Target requires vendors to ensure receipt of payment by audit firm’s accounts department within 10 working days of receiving the invoice. Nonpayment can impact existing and future orders. Further, if a factory denies access to an auditor the vendor is responsible for the associated audit costs.

“Traffic Light” Grading System

There are four possible ratings based on a “Traffic Light” grading system. The rating, follow-up audit schedule and impact on production is outlined in the following chart.

Audit Grading	Next Audit Timeline	Business Impact
GREEN: Approved	24 months	No Impact
YELLOW: Conditionally approved (Minor violations)	12 months	No Impact
ORANGE: Conditionally approved (Major and/or numerous Minor violations)	6 months	Future orders may be impacted.
RED: Not approved (Zero Tolerance violations)	N/A	No new production permitted. Cancellation of existing orders not yet fulfilled.

Four Strikes Policy

Target may cease doing business with vendors’ factories that receive 4 consecutive orange ratings. In addition, Zero Tolerance violations such as forced labour, bribery, etc., can be grounds to immediately de-register a vendor and factory. See below for information on de-registering vendors and factories.

Corrective Action and Remediation

After an audit, vendors are asked to work with their factories to ensure deficiencies are remedied within the designated timeframe specified in the Final CAP.

Target encourages vendors/factories to provide adequate detail to each corrective action step and to ensure that each step and date listed is pragmatic and achievable. In our experience, a lack of detail or an overly aggressive corrective action plan suggests that the vendor/factory is not taking this process seriously. Therefore, a corrective action plan that is overly aggressive or without sufficient detail may be rejected by Target.

Continuous Improvement

Target's goal is to work with vendors and factories that are honest and transparent and committed to making continuous improvements. On occasions it may therefore be necessary to provide factories additional time and support to address more problematic deficiencies unique to their business, industry or country of origin.

As an example, additional time and support may be extended to help seasonal factories reduce working hours during peak production months. Another common example would be to help a factory on a piece rate pay plan ensure new/unskilled workers meet the legally required wage rates without reducing productivity rates of skilled workers. Finally, another example would be to help a factory with communication and cultural differences between management and workers.

De-Registering Vendors and/or factories

Target can de-register vendors and factories who fail to demonstrate a commitment to the ESC. This may become evident through a lack of cooperation and participation during the registration process, ESC audit results, or a failure to address identified breaches within agreed timeframes.

If a vendor and/or factory is de-registered, Target will direct the factory to cease production immediately. Outstanding orders will either be cancelled or moved to an alternative factory that has been approved under Target's ESC. Target reserves the right to reject and return goods that have been delivered but not yet paid for and goods that have been delivered and paid for but not yet sold. Vendors will provide Target a full refund for any such goods returned under Target's Supply Terms and Conditions.

Vendor and Factory Training

Periodically, Target Ethical Sourcing department will conduct compliance-training seminars directly or indirectly (via a nominated 3rd party). Training sessions are conducted in the local language of participants and are intended to educate participants on the Target Ethical Sourcing Program as well as highlight common deficiencies and best practices by country or industry.

When a Target training session is scheduled at a location near Target vendors/factories, the Ethical Sourcing department will send an invitation. Target expects your attendance at these training sessions.

Vendor Responsibilities

To ensure that your company understands and can effectively adhere to the requirements of the Target Ethical Sourcing Program, please follow the instructions below:

- Identify a person at your company responsible for compliance who has sufficient experience and adequate support to ensure your Company's compliance efforts are managed properly. This individual should be the primary vendor contact for ESC related aspects.
- Register your company via the Ethical Sourcing/Quality Vendor Profile form and register each factory/subcontractor employed to produce merchandise for Target via the Factory Profile form. Refer to Vendor and Factory Registration section above, to understand which factories need to be registered.
- Review a copy of the Target ESC Guidebook, which includes Supplemental Guidelines to the ESC and explains in more detail Target expectations.
- Conduct internal audits of your factories and subcontractors to identify and address non-compliance issues before a Target ESC audit.
- Communicate Target expectations with each factory employed to produce merchandise for Target.
- When contacted by Target or a nominated 3rd party audit firm for audit payment, submit payment within 10 working days.
- When a Target auditor or a nominated 3rd party auditor presents himself or herself at your factory for an audit, ensure they are treated with respect and provide them with access to the factory, employees, key management, and all documentation/records deemed relevant to the audit process.
- Immediately following an audit, work with the factory to ensure they submit a detailed and pragmatic corrective action plan which demonstrates a true commitment to making progress on each noted deficiency.
- When you receive the Final CAP, commit to working with the factories to ensure continuous improvement in their level of compliance.

Contact List

For general inquiries, please email TargetEthicalSourcingProgram@target.com.au or contact:

Hong Kong Office:

Contact	Karvis Fong
Email	Karvis.Fong@tgasourcing.com
Address	Units 1009-1023A, 10/F, Trade Square, 681 Cheung Sha Wan Rd, Cheung Sha Wan, Kowloon, Hong Kong

Shanghai Office:

Contact	Justin Zhao
Email	Justin.Zhao@tgasourcing.com
Address	Level 2 & 3, Platinum Building, 233 Taicang Rd, Luwan District, Shanghai, China

Geelong Office:

Contact	Diana Sarcevic
Email	Diana.Sarcevic@target.com.au
Address	12 – 14 Thompson Road, North Geelong 3215

APPENDIX A: Target Ethical Sourcing Code

Target Ethical Sourcing Code

Target is committed to conducting and managing our business in a manner that reflects our high ethical and moral values. We expect our vendors to respect and adhere to the same philosophy in the operation and management of their businesses and reserve the right not to do business with vendors that do not share and demonstrate our commitment.

Our Ethical Sourcing Code (“Code”) sets out our minimum requirements and expectations that all vendors, including sub-contractors engaged by vendors, must comply with in order to do business with Target and its subsidiaries. In addition to complying with local laws and regulations, vendors and their sub-contractors (“factories”) must demonstrate continuous improvement towards the following standards.

1. Labour

1.1 Child Labour

Vendor will comply with the minimum employment age limit defined by national law or by International Labour Organization (ILO) Convention 138, whichever is higher. The ILO Convention 138 minimum employment age is the local mandatory schooling age, but not less than 15 years of age, subject to exceptions allowed by the ILO and national law.

1.2 Wages, Benefits, Working Hours and Transparent Record Keeping

Vendors must comply with all laws regulating local wages, overtime compensation, and legally mandated benefits. Wage and benefit policies must satisfy all applicable laws and regulations. Under ordinary business circumstances, employees must not be required to work excessive working hours per week, including overtime, and have the option of at least one day off in seven. We expect that all record keeping will be accurate and transparent at all times.

1.3 Forced/Bonded Labour

Factories shall not use any type of forced labour, which means any work or service performed involuntarily under threat of physical or other penalty, such as prison, indentured or bonded labour. Further, they shall respect the freedom of movement of its workers and not restrict their movement by controlling identity papers, holding money deposits, or taking any other action to prevent workers from terminating their employment.

1.4 Discrimination

All conditions of employment must be based on an individual’s ability to do the job, not on the basis of personal characteristics, such as gender, ethnic origin, religion, or personal beliefs. Factories must ensure that they provide an environment where their employees can work without distress or interference caused by harassment, discrimination or any other inappropriate workplace behaviour.

1.5 Harassment and Abuse

Workers shall be treated with dignity and respect. In particular, factories will provide a workplace free from harassment, which can take many forms, including physical, sexual, verbal or visual behavior that creates an offensive, hostile, or intimidating environment.

1.6 Freedom of Association

Vendors should respect the rights of employees to lawfully associate or not to associate with groups of their choosing, as long as such groups are legal in the country where the merchandise is manufactured. Vendors should not interfere with, obstruct or prevent legitimate related activities.

1.7 Health and Safety

Conditions in all production and residential facilities must be safe, clean and consistent with all applicable laws and regulations or industry best practices, whichever is higher in order to avoid preventable work related accidents and injuries.

2. Environment

Factories, as a minimum, will meet all relevant local and national environmental protection laws, and will strive to comply with international environment protection standards.

3. Business Integrity

Vendors must demonstrate a high degree of professionalism and have a close affinity with our business ethics. In particular, honesty, fair dealing and the proper treatment of workers are required at all times. Bribes, favours, benefits or other similar unlawful or improper payments, in cash or kind, are strictly prohibited, whether given to obtain business or otherwise.

4. Compliance with the Law

Target requires all vendors and factories to comply fully with the legal requirements of the countries in which they operate. All requirements in this Code are in addition to compliance with applicable local laws.

5. Management Systems

With a scope related to the content of this Code, vendors shall adopt or establish a management system for all its factories and vendors providing materials or labour in the manufacture of goods ordered by Target. The management system shall be designed to ensure (a) compliance with applicable laws and regulations; (b) conformance with this Code; and (c) identification and mitigation of operational risks related to this Code. It should also facilitate continual improvement.

6. Compliance with our Ethical Sourcing Code

Target will monitor compliance with this Code, and we, or our representatives, may visit factories to ensure compliance with this policy. Any violations of our Code will be reported to the vendor for follow up and corrective action. Vendors are required to cooperate with the entire process. Where there are Zero Tolerance violations and/or the vendor/factory does not demonstrate a willingness to comply, Target reserves the right to discontinue business with the vendor/factory.

APPENDIX B: Mutually Recognised Codes/Organizational Audits

- BSCI – Business Social Compliance Initiative
- Coles Supermarkets
- EICC – Electronics Industry Citizenship Coalition
- ETI – Ethical Trading Initiative
- FLA – Fair Labor Association
- ICS – Initiative Clause Sociale
- ICTI – International Council of Toy Industries
- Kmart Australia Ltd
- SA 8000 – Social Accountability 8000
- WRAP- Worldwide Responsible Accredited Production

Target may consider other companies' audit reports as well, depending on the factory's country of origin, audit firm, audit results, and the brand's reputation in corporate social responsibility. Target reserves the right to change this list from time to time.