

Social Compliance Audit

Social Compliance Chargebacks

Summary :

Chargebacks that will apply if vendors do not meet Social Compliance expectations.

We expect our vendors will meet all of our requirements and perform strongly in our program, and as a result chargebacks will not be necessary. However, the following chargebacks apply if vendors do not meet our expectations. Chargeback amounts for factories producing product strictly intended for sale in the U.S. are listed below in parenthesis. Please reference "Intended Country of Sale – Chargeback Information" at the bottom of this page for chargeback information on products intended for sale in Canada.

- **At Risk Factory Audit Results (US\$5,000)*:** If a factory receives "At Risk" audit results, the audit is conducted at the vendor's expense. "At Risk" audit results indicate that during the second audit of the factory, the auditor identified one or more serious compliance issues. The factory has only one more audit to be found "Acceptable" or it will be deactivated for non-compliance. To avoid this chargeback, partner with factories to ensure compliance on an ongoing basis.
- **Strike 3 Non-Compliant Factory Audit Results (US\$5,000)*:** If a factory receives Strike 3 "Non-Compliant" audit results during the third and final audit, the audit is conducted at the vendor's expense. These results indicate the auditor identified one or more serious compliance issues and the factory has been deactivated for non-compliance. This factory cannot be used for Target production for at least 1 year. To avoid this chargeback, partner with factories to ensure compliance on an ongoing basis.
- **Inaccurate Information (US\$10,000):** Target will issue a chargeback if Social Compliance attempts to audit a Registered factory and:
 - o Social Compliance is unable to locate the facility where production takes place based on the information you provided in BPM or on the Authorization for Unannounced Audits (AUCA) form, OR
 - o Without prior notice to Social Compliance, the factory stopped production completely (of all orders, not just Target's orders). A factory might stop production completely because it is under construction, moving, is between orders, is on a holiday outside of official national holidays, or for some other reason.
 To avoid this chargeback, verify all address information prior to registration, submit legible AUCAs, and communicate with Social Compliance in advance about any expected complete stop in production.
- **Denied Audit (US\$10,000):** Target will issue a chargeback if a Social Compliance auditor or our representative is denied access to conduct a full compliance audit. To avoid this chargeback, ensure the complete management staff of all Registered factories fully understands the unannounced audit process. Remember, Social Compliance requires full, unimpeded access to the factory, dormitory, workers, and records at all times.
- **Production in an Unregistered Factory (US\$10,000 – US\$30,000):** Target will issue a chargeback for each occurrence of production of Target product in any factory which does not have "Registered" status on your Facility Matrix. The chargeback is US\$10,000 for the first occurrence, US\$20,000 for the second occurrence, or US\$30,000 for the third occurrence or any occurrence thereafter. To avoid this chargeback, designate a staff member responsible for frequent, systematic reviews of your facility matrix to ensure accuracy. Remember to allow enough time to register new factories prior to the start of production.
- **Production in a Non-Compliant Factory (US\$20,000):** Target will issue a chargeback for production in a factory that has been designated "Non-Compliant." To help avoid this chargeback, do not produce in any factory which does not have a "Registered" status on your facility matrix.

Note: In addition to the amounts noted above, Target reserves the right to issue a chargeback for travel expenses.

*If audit results are "Non-Compliant High Issue Count," a chargeback will be issued for "At Risk" Factory Audit Results if it was the second audit or "Strike 3 Non-Compliant" if it was the third audit.

Intended Country of Sale - Chargebacks:

Variation in Import Tax Laws require chargebacks be accurately reflected by Country of Sale. Effective February 1st, 2014, Social Compliance will follow the below applicable scenario when issuing chargebacks:

- U.S. Only: Where the U.S. is the only intended Country of Sale for the product/factory affected - full U.S. amount will be issued.
- Canada Only: Where Canada is the only intended Country of Sale for the product/factory affected - 20% of the U.S. amount will be issued.
- Split: Where both the U.S. and Canada are the intended Countries of Sale for the product/factory affected - full U.S. amount will be issued, but split 95% / 5% between U.S. and Canada Vendor IDs.

For additional information please also see:

Factory Registration	Review information about the factory selection and registration process.
Factory Status Definitions	Explanation of the factory status in Business Partner Management (BPM). Vendors may only produce in a "Registered" factory.

Modified: 5/16/2014