

Industry insights: Life Sciences and Health Care Providers (LS&HC) Conflict Minerals Year 1 Reporting Trends

The 2014 Reporting Landscape

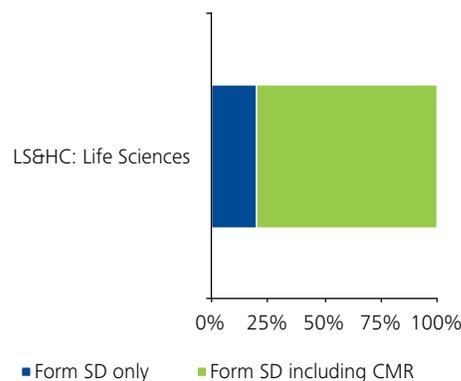
Registrants subject to the SEC's conflict minerals rule (the "Final Rule") were required to submit the Form SD, and in certain situations, a Conflict Minerals Report (CMR) attached as an exhibit by June 2, 2014. More than 1,300 registrants filed a Form SD for the calendar 2013 reporting year. This document examines trends for the LS&HC industry and its sectors based on our analysis of the filings¹. See our **Heads Up** for a further analysis of the 1,300+ conflict minerals filings for the calendar 2013 year.

The LS&HC industry represented approximately 11% of registrants filing a Form SD. Based on our analysis of the Year 1 filings submitted¹, we're sharing the following insights regarding trends among the LS&HC industry sectors:

The majority of registrants included specific reference to 'DRC conflict undeterminable' or stated they were not certain of the source of their minerals, and therefore included a CMR as an exhibit to the Form SD.

Registrants in the LS&HC industry sectors face continued challenges in improving supply chain transparency to enable determination of the source of necessary conflict minerals, including:

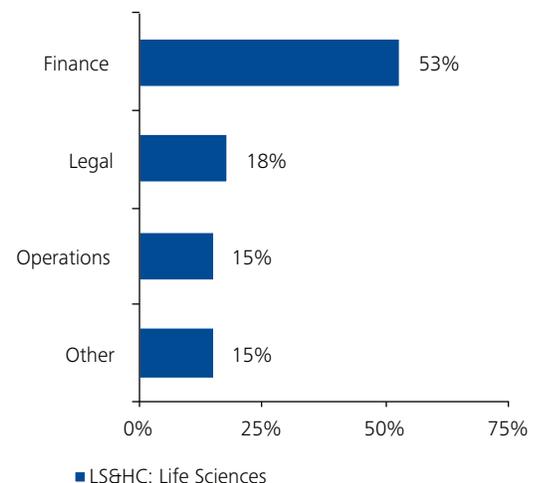
- Complex supply chains, in many cases multiple tiers removed from the smelter or refiner
- Lack of information from supply chain participants to determine source
- Lack of data quality with respect to the information received from suppliers, which requires steps to validate accuracy and completeness



Who Signed the Form SD?

Conflict minerals compliance and reporting processes comprised representatives across business units and departments for many registrants in the LS&HC sectors. The executive officer from finance signed the Form SD for the majority of registrants in the LS&HC industry sectors. This may be a result of their familiarity and responsibility in preparing other SEC filings. Executive officers from legal also comprised a significant number of Form SD signatories as many registrants tasked their legal department to lead the conflict minerals compliance efforts. Registrants should continue to evaluate the appropriate Form SD signatory in the context of the area of the business with ultimate responsibility for conflict minerals compliance.

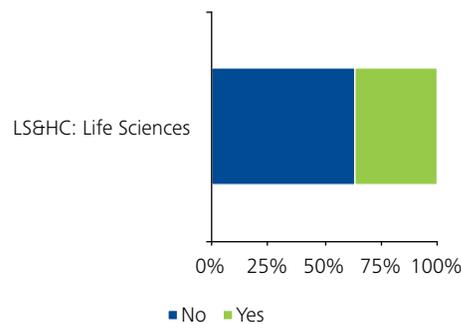
Form SD executive officer signatory



Due Diligence by OECD Step

The SEC did not prescribe a standard form of CMR and as a result, diversity in practice emerged around the content and organization of CMRs. Registrants within the LS&HC industry sectors identified the OECD Framework² as the framework used in designing their due diligence process and many disclosed their due diligence measures performed by OECD step.

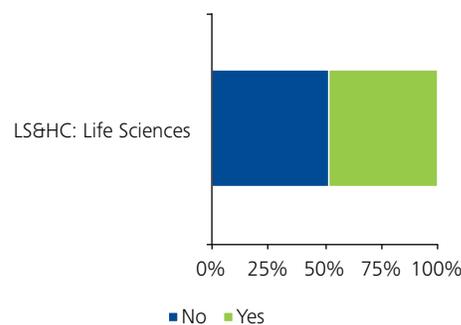
Due diligence measures disclosed by OECD step



RCOI versus Due Diligence

The OECD Framework covers both RCOI and due diligence, as defined by the Final Rule. We observed a variety of approaches by registrants within the LS&HC industry sectors as it relates to this distinction of RCOI versus due diligence in Year 1 CMRs, reflecting the challenge that registrants faced in Year 1. We believe it is important for registrants to consider establishing clearer definition in their conflict minerals compliance program between RCOI and due diligence measures performed, and the corresponding OECD steps to guide each, to enable the

Distinguishing RCOI and due diligence



¹The figures presented in this document are based on our analysis of the over 1,300 Form SDs and/or CMRs filed to date. The observations made are based on our assumptions and may differ from other conclusions if they reviewed the same information.

²OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict Minerals and High Risk Areas 2nd Edition

³As defined in the Final Rule, covered countries refers to the following: Angola, Burundi, Central African Republic, Democratic Republic of the Congo, the Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda, and Zambia.

registrant to draw a clear distinction between RCOI and due diligence in future CMRs.

Recommendations on RCOI and Due Diligence

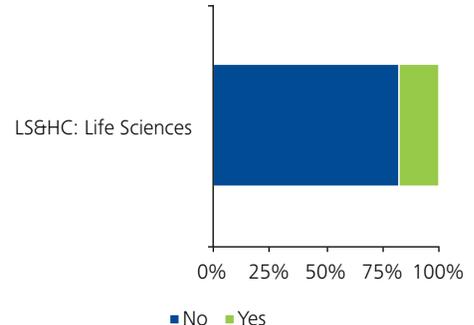
In light of SEC FAQ 18, we recommend LS&HC registrants consider the following for future CMRs when referring to the OECD Framework, as only due diligence design and due diligence measures performed are subject to the independent private sector audit (IPSA):

- Define the portions of the OECD Framework that represent RCOI and due diligence activities and separate disclosure of such activities with the use of section headings
- Clearly document due diligence design in accordance with the defined portions of the OECD Framework that the registrant has identified as relating to due diligence

Smelter Disclosure

A majority of registrants within the LS&HC industry sectors did not disclose a smelter or refiner list. Our experience indicates that registrants struggled with the completeness and accuracy of the information received from suppliers in determining whether to disclose the smelter or refiner information received. Registrants that disclosed a smelter or refiner list will likely be recognized by the marketplace for providing transparency. On the other hand, some fell victim to unintended consequences of the Final Rule related to disclosure of smelters or refiners from a country where U.S. sanctions are in place or from a country known to have poor labor and human rights practices but outside of the covered countries³, exposing the registrant to media scrutiny.

Smelter disclosures



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