

### **Audit Approach**

Any facility disclosed to Walmart may be subject to a Responsible Sourcing audit at any time. However, our audit program allocates audit resources based on risk so we can drive the biggest impact in our broad and diverse supply chain.

We place disclosed facilities into one of three risk categories. The risk category of a facility determines the requirements of that facility under our RS Audit program. We currently use data compiled by the World Bank, the world's largest multi-nation political and economic development organization, to determine the risk category of a facility based on indicators of good governance in the country where the facility is located.

#### **Category 1 – Lower Risk**

Facilities located in Category 1 countries will not be required to complete a Responsible Sourcing audit on a regular schedule. Rather, each year Walmart will select a sample of facilities to receive an audit. Any facility in a Category 1 country may be selected as part of this annual sample.

- Facilities in Category 1 countries generally will not receive a regular follow-up audit but will be placed back in the pool for random audits after the following year.
- Facilities receiving a Red rating may be ineligible for Walmart production.
- Facilities that are not selected as part of the annual sample will remain in the pool of facilities and may be selected in a subsequent year.

#### **Category 2 – Medium Risk**

Facilities in Category 2 countries will be required to complete a Responsible Sourcing audit and follow-up audits based on the results.

- Green: minor to no violations; the facility is scheduled to be re-audited in 2 to 3 years.
- Yellow: medium-risk violations; the facility is scheduled to be re-audited in 1 to 2 years.
- Orange: higher-risk violations; the facility is scheduled to be re-audited in 6 to 12 months; if a facility receives three qualifying orange ratings in a two-year period, the facility may be disapproved and prohibited from doing business with Walmart for at least one year, after which it must pass a reactivation audit and receive a green or yellow rating before becoming reapproved for production.

#### **Category 3 – Higher Risk**

Facilities in Category 3 countries will be required to complete a Responsible Sourcing audit and follow-up audits based on the results as in Category 2 countries. In addition:

- Any new facilities in Category 3 countries will be required to prequalify by passing a Responsible Sourcing audit with a Green or Yellow rating prior to producing product for sale at Walmart.
- Facilities in Category 3 countries are not eligible for some disclosure exemptions.
- Walmart may require additional training or special programs to reduce the risk of non-compliance in facilities in Category 3 countries.

We are always looking for ways to refine our risk based audit program so we can better allocate our resources to higher-risk facilities and help increase overall compliance. In addition to a facility's country, we may look at other variables, including industry specific risks, supplier compliance management systems and other factors as we evaluate the risk of facilities over time.