

Transform SR Holding Management LLC



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A graphic for the Global Compliance Program. It features a 3D globe of the Earth on the left side, showing the Americas. The background is a light gray with abstract, flowing lines and a grid pattern that suggests global connectivity and technology. The text 'Global Compliance Program' is centered in a bold, gray, sans-serif font.

**Global
Compliance
Program**

GUIDEBOOK
to Program Requirements

October 2019

Transform SR Holding Management LLC

Dear Vendor or Factory Partner:

The Sears and Kmart Global Compliance Program for merchandise vendors and factories is designed to help ensure that Transform SR Holding Management LLC's suppliers operate according to the Program requirements and all applicable local legal laws governing such issues as child labor, wages, benefits, working hours, harassment, health and safety, and factory security.

The Program was established to protect the integrity of the Transform SR Holding's brands, and to hold all suppliers accountable to a set of generally accepted employment standards and workplace practices that we refer to as the Global Compliance Program Requirements.

One of the benefits of the Global Compliance Program is fewer or less frequent audits for factories with high compliance performance levels and effective internal systems to manage labor and social issues. Additionally, we place a strong emphasis on ways that we can support remediation and continuous improvement within the Sears and Kmart supply chain.

This GUIDEBOOK to Program Requirements was developed to help suppliers understand our requirements and what will be reviewed during a Transform SR Holding audit. The manual provides indicators of compliance and non-compliance, and outlines good management practices for factories. It is available in English, Simplified Chinese, and Traditional Chinese.

While we expect adherence to the Sears and Kmart Global Compliance Program requirements as outlined in the GUIDEBOOK, we understand that full compliance can be challenging for some factories. Therefore, our goal is to work with factories that are honest and transparent, and committed to making continuous improvements. However, factories that fail to be honest and transparent or show limited response to outstanding compliance issues will be terminated.

Please review this GUIDEBOOK to learn more about how the Program is interpreted and how your company can improve factory compliance levels. If you have any questions or concerns regarding our Program, please contact us at laborc@searshc.com.

Sincerely,

The Global Compliance Department

Transform SR Holding Management LLC

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Audit Policies and Procedures

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Unapproved Countries

Vendors may not produce merchandise for Transform SR Holding in countries which have been sanctioned or embargoed by the Office of Foreign Assets Control (OFAC). In addition, vendors may not procure goods or engage in transactions with select people or entities that have been sanctioned by OFAC. Vendors should reference the US Department of the Treasury website (<http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>) to confirm the list of OFAC sanctioned countries, as well as sanctioned individuals or entities within a country.

Vendors, factories, and all supply chain partners are prohibited from using cotton harvested in Uzbekistan or Turkmenistan in any phase of the production process for merchandise sold in any Sears or Kmart retail channels. Transform SR Holding also prohibits our suppliers from doing business with companies that are either invested in the cotton sector in Uzbekistan or Turkmenistan, or using their cotton for any production.

Audit Exemptions

Worldwide Responsible Apparel Production (WRAP) or **SA8000** certifications may exempt a factory from a STANDARD audit if the factory has been audited by Transform SR Holding within the last 12 months and it received an Acceptable or Acceptable with Issues rating. If at any time the Global Compliance Department does not have a valid WRAP or SA8000 certificate on file, the factory will be audited by Transform SR Holding. A WRAP application or letter of acceptance from WRAP is not a substitute for the actual certificate.

To learn more about WRAP certification, please go to www.wrapcompliance.org.

We will also consider an **International Council of Toy Industries (ICTI)** exemption for factories producing toys, or infant/baby hardlines. We will also exempt factories producing sporting goods with the exception of: exercise equipment, camping, hunting, and fishing equipment and luggage and backpacks.

All factories must reflect a “Certified” or “On Probation” status on the ICTI website to be exempted from a Transform SR Holding audit. Once a factory is exempt, it is the vendor’s responsibility to ensure that the certificate has been renewed prior to the expiration date. If at any time the ICTI website does not reflect a “Certified” or “On Probation”, the factory will be audited by Transform SR Holding. We no longer exempt factories that only have an ICTI audit report or an intent-to-renew the ICTI certification.

We also reserve the right to audit any ICTI factory, at our expense, to ensure consistent results between the Sears and Kmart audit program and the ICTI certification program.

Please contact laborc@searshc.com for any questions related to our acceptance of ICTI certification. For more information about the ICTI program please contact www.toy-icti.org.

China factories which are having difficulties meeting the requirements of our audit program, and are looking for additional support should consider participating in the Sears and Kmart **Factory Engagement Program (FEP)**. This program supports the concept of transparency, capacity building, and gradual improvements on wage and overtime violations. The FEP will support factories in creating tailor-made remediation programs designed to address complicated business, human resource, production, environmental, worker’s benefit, health and safety issues.

To learn more, please contact laborc@searshc.com.

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Audit Notifications

All audit notifications will be sent to the factory contact person with a copy to the vendor. Please note that vendors who are exempt from our audit program will receive the audit notification when they are producing in a factory that is shared with vendors who are in-scope for an audit.

The audit notification includes a request to confirm via e-mail the factory name, location, and contact information in the local language. All audit notifications will also include a list of documents that will be needed for the auditor to review on the day of the audit, and an anti-bribery letter for factory management to sign before the audit begins.

Notifications for a STANDARD social compliance audit will include a 15-day audit window, and will be sent to the vendor and factory at least 7 calendar days before the start of the audit window. Only notifications for C-TPAT-ONLY audits will specify an audit date.

If the factory does not respond to the audit notification after a reminder has been sent, we will proceed with the audit per the audit window or audit date provided. If the auditor is unable to find the factory based on inaccurate information, or the auditor is not provided access to the factory and all necessary documents, it will be considered an access-denied audit, and the vendor will be charged for the denied audit as well as the re-scheduled audit.

Please keep in mind that we do not delay any audit for reasons which may include the factory not being “ready” or the factory management not being available. If there is a valid reason why the audit cannot be conducted during the given timeframe (e.g. official power outage notice from power station provided, national holiday), it is the responsibility of the vendor to contact the Global Compliance Department at laborc@searshc.com at least 4 calendar days before the start of the 15-day audit window for a STANDARD audit, and 7 calendar days before a C-TPAT-ONLY audit.

Vendors should ensure that the factory is prepared with the required documents specified in the audit notification and factory personnel who can provide access to necessary documents and records, and facilitate private worker interviews.

There are certain situations when an audit will be totally unannounced. For instance, the previous audit cited a serious violation, attendance or payroll records were not complete, or there were indications of inconsistent records. In these cases, no advanced warning will be provided to the vendor or the factory of an upcoming audit.

The STANDARD Social Compliance Audit

A STANDARD social compliance audit assesses the level of compliance compared with all applicable local legal requirements including compliance with the law, health and safety, child labor, forced/slave labor, human trafficking, harassment/abuse, discrimination, working hours, wages and benefits, freedom of association, environmental compliance, and notice and record keeping. Please refer to the Requirements outlined on **A-21** of the Appendix for a description of each of these.

Most STANDARD audits will last one day. An additional day may also be needed for initial or annual audits in large factories, those with several buildings or units, or when there were significant issues cited on the previous audit. Please note that all production areas will be audited even if there is no current production for Transform SR Holding in those areas.

Questions that assess factory security as part of the Customs-Trade Partnership Against Terrorism (C-TPAT) program are included as part of a STANDARD social compliance audit when the importer of record for the

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merchandise being produced is a Transform SR Holding company, and the factory is located outside of the US. Although a factory may have a social compliance audit conducted twice a year, please note that we only include C-TPAT questions as part of an audit once a year. And, the cost of a STANDARD social compliance audit is the same whether or not the C-TPAT questions are included.

A STANDARD social compliance audit will generally include an opening meeting with factory management, a factory tour including dormitory (if applicable), a review of factory records and documents, private and confidential interviews with selected employees, and finally, a closing meeting with factory management to discuss preliminary audit findings. The audit may be conducted by either a Transform SR Holding internal auditor, or an approved 3rd party auditor who audits on behalf of Transform SR Holding. All auditors assess the factory based on the same requirements and program philosophy.

There are several types of STANDARD audits including: Initial, Follow-up, Annual, Annual+, and Pre-approval. Here is a brief description of each:

Initial audits are scheduled when a factory is registered for the first time on the Global Compliance website, and is in-scope for our audit program. The initial audit will take place within 60 days of factory registration.

Follow-up audits are scheduled when the most recent audit received a rating of Probationary, Needs Improvement, or Pending Termination based on the specific violations cited. Transform SR Holding will conduct a follow-up audit in 3-10 months (see page 4 for follow-up schedule), depending on the rating, to ensure that the outstanding violations have been addressed. An immediate audit will be scheduled for factories where access was denied to the auditor on the previous audit.

An **Annual** audit will be scheduled after a factory receives an Acceptable with Issues rating, or when an inactive factory with previous audit history is re-activated. The next audit for factories that receive an Acceptable with Issues rating will be conducted in 12 months.

An **Annual+** audit indicates that the audit received an Acceptable rating based on no or very minor violations in the factory and the next audit will be conducted in 18 months.

Pre-approval social compliance audits are conducted prior to the start of production in all factories when the last Global Compliance audit conducted resulted in termination.

- Vendors who want to use a factory for production that is currently in a terminated status for Transform SR Holding must send a request for a Pre-approval audit to be conducted to laborc@searshc.com
- Production can begin as soon as the audit is conducted, and the vendor and factory receive a “Production Permitted” letter from the manager in the region.
- Reasons for “Production Denied” include inconsistent/falsified records, child labor, forced labor, harassment, abuse, discrimination, bribery, or refusal to allow the auditors access to the factory.
- Insufficient wage and excessive working hour issues cited on a Pre-approval audit will not prevent a factory from producing for Transform SR Holding. Factories that are transparent with wages and working hours will be provided time to make continuous improvements on these difficult issues.
- To ensure the best results on a Pre-approval audit, we require that a key representative from the factory meet directly with a Global Compliance manager before the audit to review the audit history, and discuss what is required for the factory to be approved for production. We will not allow a follow-up Pre-approval audit to take place if production was denied on the first Pre-approval audit unless it is authorized by the local Global Compliance Manager.

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Audit Ratings & Follow-Up Schedule (STANDARD Audits)

The rating for a STANDARD audit will be determined based on the level of transparency with wages and hours, and the level of compliance relative to the Requirements listed on A-21.

Rating	Sample Violations	Next audit will be scheduled in:	Production Impact
Acceptable	No violations	18 months	No impact
Acceptable with Issues	Minor violations such as Health & Safety, Recordkeeping, or excessive working hours.	12 months	No impact
Probationary	Multiple violations including at least one that is major such as insufficient overtime payments for a small percentage of workers.	10 months	No impact
Needs Improvement or Pending Termination	Multiple and major violations such as underpayment of minimum wage, delayed wages, incomplete time or attendance records, inconsistent/falsified records, fire safety risk, missing environmental documents, missing building construction certificates	6 months	Future orders may be at risk
Needs Improvement or Pending Termination	Multiple and major violations including access-denied, harassment, abuse, holding of passports, downgrading, loss-of-life risk, missing environmental documents, missing building construction certificates	3 months	Future orders at risk
Termination	<ul style="list-style-type: none"> • Egregious violations such as bribery, child labor, forced labor, discrimination, or harassment. • Factory receives three consecutive “Needs Improvement” ratings and is not committed to correcting repeated violations. • Denied access to factory on 2 consecutive audits • Threaten, harass, or retain auditors • Failure to provide attendance or payroll records • Missing environmental documents 	N/A	No new production permitted

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C-TPAT – ONLY Audit (Customs-Trade Partnership Against Terrorism)

Factories that are exempt from a Global Compliance STANDARD audit for other reasons in Pakistan, Egypt, or Turkey will be subject to a C-TPAT-ONLY audit once a year. This audit will last half a day, and will be conducted by a Transform SR Holding internal auditor. The audit focuses on questions related to factory security based on recommendations developed as a result of the Customs-Trade Partnership Against Terrorism (C-TPAT) initiative with US importers. The general areas assessed during the audit include General Security, Personnel Security, Physical Security, Information Access Controls, Shipment Information Controls, Storage and Information Disbursement Controls, Contractor Controls, and Education and Awareness.

We will allow an audit exemption if a GSV audit has been conducted in the factory within the last 12 months, and the audit received a rating of “Low Risk” or “Medium Risk”. Please send a copy of the GSV audit to laborc@searshc.com for consideration.

Audit Ratings and Follow-Up Schedule (C-TPAT-ONLY Audits)

The rating for a C-TPAT-ONLY audit will be determined based on how effective the security practices in a factory mitigate the risk of loss, theft, and contraband smuggling which could potentially introduce acts of terrorism into the supply chain.

Rating	Sample Violations	Next audit will be scheduled in:	Production Impact
Low Risk	No procedures to address unauthorized entry, awareness training does not include recognition of internal conspiracies.	12 months	No Impact
Medium Risk	Periodic unannounced security checks are not conducted.	12 months	No Impact
High Risk	No screening policy / background checks on applicants for sensitive roles, no system to control unauthorized entry to restricted areas.	12 months	Future orders at risk

Corrective Action Plans

All vendors and factories producing merchandise for a Transform SR Holding company at the time of the audit will receive an e-mail providing the results of the audit and access to the actual audit report.

The link in the e-mail will take you directly to the Audit Results and Corrective Action page. Each violation will have a “+” sign next to it. Please click on the “+”, and document the specific steps, in English, that the factory will take to remedy each violation. It is important to provide adequate corrective action details for each violation, and ensure that each plan and date listed is pragmatic and achievable. In our experience, a lack of detail (e.g. “Done” or “Will do”) or an overly aggressive Corrective Action Plan suggests that the factory is not serious about addressing the noted deficiencies. These plans may be rejected by the Global Compliance Department. Please just close the document when you are done (No not click “Submit Cap”), and notify the vendor that the CAP is complete. The vendor can then review the CAP responses using the same link in the Audit Results letter, modify as needed, and then send to the Global Compliance Department by clicking the “Submit CAP” button.

Questions or comments related to an audit or sending photos as evidence of completion for the CAP should be directed to laborc@searshc.com, or the manager who signed the Audit Results letter.

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Continuous Improvement

It is common for a factory to have a number of deficiencies to correct in order to comply with local law and the Sears and Kmart Global Compliance Program. In some instances, in order to strengthen long-term compliance levels, it may be necessary to provide factories additional time and support to address deficiencies unique to their business, industry, or location.

As an example, additional time and support may be extended to help factories reduce excessive working hours during peak production months. Other factories may need help in developing a piece rate pay plan that ensures that new/unskilled workers meet the legally required wage rates, without reducing productivity rates of the skilled workers. And, we can support factories that employ migrant workers in addressing compliance issues related to communication and cultural differences between management and the workers.

It is important that you contact laborc@searshc.com when you receive an Audit Results letter with a “Warning” message. We will put you in touch with the regional manager who will provide you with the steps necessary to continue to produce for Transform SR Holding.

Factory Termination/Three Strikes Policy

Factories that receive three consecutive “Needs Improvement” ratings on a STANDARD social compliance audit, and are not committed to correcting repeated violations may be terminated. Immediate termination may occur for the following reasons:

- any egregious violations are found such as bribery, child labor, forced labor, harassment, or discrimination
- failure to provide attendance or payroll records
- failure to provide all legally required environment documents
- denied access on two consecutive audits (special considerations will be made in access denied situations which are unavoidable)

Transform SR Holding also reserves the right to a one or two strike/s policy, depending on the factory’s history and severity of violations. Please note that no merchandise for Transform SR Holding can be produced in a terminated factory, even if a vendor was not required to share in the cost of the audit due to an exemption such as low volume, or a social compliance program that has been approved by Global Compliance.

Termination Policy and Acknowledgement

If a factory is terminated due to denied access, failure to provide attendance and payroll records, an egregious violation, or the Three Strikes Policy, the vendor and factory must adhere to the following policies and procedures:

- In most cases, orders that are in production can be completed if the merchandise is shipped within 90 days from the date of the termination letter. The vendor must confirm with laborc@searshc.com when all merchandise has shipped.
- An immediate cancellation of all outstanding orders may be required for factories that have threatened, harassed, or retained auditors, forced auditor to amend audit findings, or offered a bribe to the auditor.
- All outstanding orders that are not in production, and all future orders must be moved to another factory.
- The factory must remove and discard all posted *Sears and Kmart Global Compliance Program Expectations* posters.

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We retain the right to permanently terminate a factory, and never again consider it for production. However in most cases a factory which has been terminated will not be considered for production until at least 12 months from the termination letter date, and only after a Pre-approval audit has been conducted, and a Global Compliance manager has approved new production.

Partnering With Global Compliance

The goal of the Global Compliance department is to improve working conditions in your factory, and extend the production life in factories that are taking the initiative to improve compliance with local laws and the Global Compliance Program.

It is critical to contact Global Compliance (labor@searshc.com) when you receive an Audit Result letter with a “Warning” message, indicating the possibility of termination on the next audit. This is especially important if the factory is a key production facility for Transform SR Holding merchandise, and critical to the business. We can review the audit history with you, and recommend next steps which may result in the factory reaching the compliance level needed to continue production for Transform SR Holding. One recommendation may be for the factory management to meet directly with a Global Compliance Regional Manager to discuss what the factory must do before the next audit. But you must take the initiative to contact us when the “Warning” letter is received, and BEFORE the factory is terminated. This is important as it is our policy not to reverse a termination decision.

If at any point you have concern about the professionalism or conduct of any social compliance auditor working on behalf of Transform SR Holding (including a request by the auditor for money or gifts), please contact labor@searshc.com.

Please note: If a consulting company contacts you with a promise to provide an **exact audit date** for a pending Global Compliance audit, please send all relevant information, including the correspondence received from the consulting firm, to labor@searshc.com (in English or your local language). Information provided will be treated as confidential, and we will contact you for further information if needed.

Requirements

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REQUIREMENT 1: COMPLIANCE WITH THE LAW

Transform SR Holding will only produce merchandise in facilities that we consider reputable and whose business and labor practices conform to the requirements of applicable law and our Program Requirements. Where our Program sets a higher standard, it will prevail. Transform SR Holding will not do business with companies that violate the law, and will terminate factories that do.

KEY REQUIREMENTS

Compliance with the Law requires that all vendor and factory partners:

- Know all applicable legal requirements and the requirements of this Program.
- Track legal and regulatory changes specifically relating to minimum wage, working hours, holidays, benefits, child labor, health and safety, forced labor, harassment or abuse, discrimination, freedom of association, environment, and factory security.
- Ensure that the factory operate in compliance with the law and the requirements of this Program.

INDICATORS OF NONCOMPLIANCE

- Willful violation of the law or requirements of the Global Compliance Program.
- Systemic violations of the law or requirements of this Program.
- Unfamiliarity with legal or Program requirements.
- Isolated or technical legal violations.

GOOD MANAGEMENT PRACTICES

- The factory identifies and maintains copies or summaries of all applicable local laws.
- Factory maintains all necessary records and required permits related to the operation of the factory.
- Factory designates management representative(s) to have responsibility for ensuring that the factory complies with its legal obligations and the requirements of the Global Compliance Program.
- The factory cooperates with enforcement officials responsible for reviewing compliance practices.
- The factory periodically reviews work rules and employment handbook to ensure that they comply with current law.

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- The vendor/factory periodically monitors compliance.
- The factory conducts training on legal as well as the Global Compliance Program requirements with appropriate staff.
- The factory ensures that its rules and employee handbook comply with the law and the Global Compliance Program.
- Finally, the factory promptly takes remedial and disciplinary action for any unethical/illegal conduct.

QUESTIONS AND ANSWERS

<p>Q: A factory in China has received an exemption from the government permitting the factory to extend its working hours from 40 to 60 per week, exceeding Chinese law. Is this acceptable?</p>	<p>A: <i>This complies with the Global Compliance Program, so long as the factory has the appropriate government documentation to support an exemption from the law and the factory adheres to the Working Hours Supplemental Guidelines (See A-12).</i></p>
<p>Q: A factory manager claims that he was unaware of the legal requirement regarding payment of a premium for all hours worked in excess of the legally prescribed workweek. Would this result in a violation to the Global Compliance Program?</p>	<p>A: <i>Yes. This is a violation of the Program requirement as all factories should understand and comply with all applicable legal requirements.</i></p>

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REQUIREMENT 2: HEALTH AND SAFETY

Conditions in all production and residential facilities must be safe, clean, and consistent with all applicable laws and regulations, and the requirements of this Global Compliance Program.

KEY REQUIREMENTS

Health and Safety requires that all vendor and factory partners:

- Take all necessary precautions to ensure that workers under the age of 18 are protected from working conditions likely to endanger their health, safety or welfare.
- Provide workers with a safe and healthy work environment and effectively manage such risk areas as toxic substances and dangerous machinery.
- Prevent accidents or injuries in the workplace and provide appropriate protective equipment.
- Routinely arrange for the factory building to be inspected by an engineer to ensure structural integrity.
- Comply with all local legal regulations and the requirements of the Global Compliance Program.
- Provide a safe living environment for workers, and comply with all legal regulations regarding residential facilities, where provided.
- Adhere to the specific requirements spelled out in the Health and Safety Supplemental Guidelines (see A-1).

INDICATORS OF NONCOMPLIANCE

- Critical health and safety risks are poorly managed.
- Clear worker endangerment.
- Denial of appropriate medical care.
- Structurally unsafe buildings.
- Unsafe worker exposure to hazardous chemicals or substances.
- Worker dormitories located above production building.
- Failure to have adequate machine guards or personal protective equipment.
- Poor or inadequate ventilation, lighting and temperature controls.
- Missing or inadequate first aid supplies.
- Unsanitary or insufficient toilets or canteen areas.
- Routine building and machine maintenance not performed.
- No drinking water, or unsafe drinking water
- Additional building construction was not approved by the appropriate local government agency.

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GOOD MANAGEMENT PRACTICES

- The factory has a written Health and Safety plan that indicates how all health and safety issues are being managed at the factory. The plan includes what steps the factory is taking to ensure that health and safety risk areas are being identified and addressed.
- The factory has a health and safety manager to oversee compliance.
- Health and safety education is provided to all workers during initial orientation and on an ongoing basis.
- Workers are trained on how to operate machinery in a safe and effective manner.
- Emergency evacuation drills are conducted regularly.
- A sufficient number of workers are trained in administering first aid and in handling fire emergency equipment.
- Outside health and safety professionals are consulted for guidance and evaluation on existing practices and performance.
- Factory provides on-site medical assistance.
- The factory follows the specific advice outlined in the Health and Safety Supplemental Guidelines document **(see A-1)**.
- Workers who have removed themselves from a work situation that they reasonably believe presents an imminent and serious danger to their health are protected from undue consequences.
- The factory provides workers with adequate information, in the language of the workers, on measures taken by the factory to manage health and safety.
- The factory consults with workers periodically on health and safety issues and how best to effectively manage them.
- There is supervision, at suitable intervals, of the health of workers exposed or liable to be exposed to occupational hazards due to air pollution, noise or vibration in the working environment. Such supervisions could include periodic medical examinations.
- All workers concerned are adequately and suitably informed by the factory of potential occupational hazards in the working environment due to air pollution, noise and vibration, and are instructed in the measures available for the prevention and control of, and protection against those hazards.

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QUESTIONS AND ANSWERS

<p>Q: In one factory, there are several machines that use very strong chemicals. It is not clear whether these chemicals are hazardous. Does this violate the Global Compliance Program?</p>	<p>A: <i>More information is needed. Hazardous chemicals need to be handled appropriately and in accordance with the Material Safety Data Sheets (MSDS) guidelines on storage, labeling, protection and ventilation.</i></p>
<p>Q: One factory has a small first-aid kit with bandages and other basic equipment. Would a first-aid kit with limited equipment violate the Global Compliance Program?</p>	<p>A: <i>Yes, factories should have sufficient first-aid kits that are kept well stocked. First-aid supplies in each factory should be adequate to respond to common workplace injuries. Please see the First Aid Kit guidelines found in the Health and Safety Supplemental Guidelines (See A-4).</i></p>

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REQUIREMENT 3: FIRE SAFETY RISK

All production and residential facilities must take all possible precautions to reduce the risk of fire, and have adequate plans to protect the lives of the workers in the event of a fire. Facilities must adhere to all applicable fire safety laws and regulations in the counties where they operate, as well as the Fire Safety Program Requirements and Guidelines.

KEY REQUIREMENTS

Fire Safety Risk requires that all vendor and factory partners:

- Allow workers to safely exit the premises in the event of a fire.
- Comply with all local legal regulations and the requirements of the Global Compliance Program related to fire safety.
- Provide a safe living environment for workers, and comply with all legal regulations regarding residential facilities, where provided.
- Adhere to the specific requirements spelled out in the Fire Safety Risk Supplemental Guidelines (see A-7).

INDICATORS OF NONCOMPLIANCE

- Requirements related to fire safety are poorly managed.
- There is clear worker endangerment.
- The building and/or dormitories are structurally unsafe.
- Blocked, locked, or no emergency exits.
- No secondary exits.
- Immediate fire hazards (e.g. frayed electrical wiring, open flames, etc.).
- Firefighting equipment is not easily accessible.
- An insufficient number of fire extinguishers relative to the size of the factory.
- Fire extinguishers are expired or not working.
- Worker dormitories located above production building.
- Insufficient width of fire exits and evacuation routes.
- No evacuation plan or signage.
- Required number of fire drills are not conducted.
- Smoking indoors, or in other non-smoking areas.
- No easy access for fire department vehicles and fire equipment.
- Hazardous/flammable chemicals or combustible materials are kept on the roof of the facility.
- Use of high voltage electric appliance in the dormitory.
- Roof top is being utilized for purposes beyond emergency evacuation.

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GOOD MANAGEMENT PRACTICES

- The factory has a written Fire Awareness & Prevention plan that indicates how all fire safety issues are being managed at the factory.
- The factory has a manager to oversee health and compliance, including fire safety risks.
- The factory has a trained Fire Brigade committee.
- Health and safety education, including fire awareness & prevention, is provided to all workers during initial orientation and on an ongoing basis.
- Fire and emergency evacuation drills are conducted regularly.
- A sufficient number of workers are trained in administering first aid.
- Factory provides on-site medical assistance.
- A sufficient number of workers are trained in handling fire emergency equipment.
- Outside fire safety professionals are consulted for guidance and evaluation on existing practices and performance.
- The factory follows the specific expectations outlined in the Fire Safety Risk Supplemental Guidelines document (**see A-7**).
- Workers who have removed themselves from their work location when they reasonably believe there is imminent and serious fire danger are protected from undue consequences.
- The factory provides workers with adequate information, in the language of the workers, on measures taken by the factory to manage fire safety risks.
- The factory consults with workers periodically on fire safety issues and how to effectively manage them.

QUESTIONS AND ANSWERS

<p>Q: A factory conducts fire drills once a year. Does this meet the local law and the requirements of the Global Compliance Program?</p>	<p>A: <i>The Global Compliance Program requires factories to conduct, and have all workers participate in at least 2 fire drills each year. Whether it violates local law depends on the country where the factory is located.</i></p>
<p>Q: Fire exits are locked to prevent theft and ensure that workers are safe from intruders. Does this violate local law or the requirements of the Sears and Kmart Global Compliance Program?</p>	<p>A: <i>All emergency exits should be unlocked during working hours and should open out, to allow easy exit in an emergency. The factory should install proper fire exit doors with appropriate emergency alarms. If the factory must lock the exit (for security reasons), and the door pushes out, it must open easily from the inside.</i></p>

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REQUIREMENT 4: CHILD LABOR

No worker shall be employed under the age of 15, or under the age of completion of compulsory education, or under the minimum age for employment in the country of production, whichever is greater.

KEY REQUIREMENTS

Child Labor sets the expectation that all vendor and factory partners:

- Comply with all applicable laws governing minimum working age. If set at or below 15, then no one under 15 is permitted to work. If set above 15, then no one under the age established by law may work in the factory.
- Comply with all legal restrictions placed on “young workers.” In many countries, these restrictions include the number of overtime hours, hazardous work and/or night work, as well as a medical fitness certificate and/or annual medical checkup.
- Take all necessary precautions to ensure that workers under the age of 18 are protected from working conditions likely to endanger their health, safety or welfare.

INDICATORS OF NONCOMPLIANCE

- Use of workers under the host countries’ legal minimum age, or below the requirement in the Global Compliance Program, of 15, whichever is higher.
- Minors or “Young Workers” (workers under 18 years of age) working in hazardous positions, past legal limits or in violation of applicable law.
- Historical child labor (i.e., workers hired prior to legal working age).
- Children present in the factory but not working (except in approved separated childcare facilities).
- Insufficient hiring procedures to ensure compliance.
- Incomplete, false, or missing age documentation records verifying the age of all workers at the date of hire.

GOOD MANAGEMENT PRACTICES

- The factory has hiring policies and procedures that ensure that the minimum age of workers corresponds to all local laws and the Global Compliance Program.
- The age of each worker is verified prior to his or her employment, including a background check, whenever possible.

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- Updated personnel files are maintained for each worker. Such files have copies of basic worker information such as an identification card, birth certificate, passport or other documentation. In countries where official documents are not available, the factory must use an appropriate and reliable method of assessment, which must be documented. **(see A-15)**.
- Factory maintains a list of workers who by age are restricted to certain hours and operations. The factory ensures that these workers are not working beyond the restricted hours or in hazardous positions.
- The factory creates production line(s) with young workers with limited hours and non-hazardous duties.
- The factory encourages young workers to attend night classes and participate in educational programs.
- When employed at night, factory ensures safe transportation for young workers and provides opportunities for adequate rest.

QUESTIONS AND ANSWERS

<p>Q: I know that in Mexico 15 year-olds making products for Transform SR Holding would be acceptable because local law permits workers that age to work. However, many of these young workers are employed until 8:00 PM many nights. Does this violate the Global Compliance Program?</p>	<p>A: <i>While the factory is in compliance with the Global Compliance Program requirement with respect to the age of workers, the hours these workers work violates the Mexican law that forbids workers aged 15 – 18 to work past 6:00pm in the evening. This would therefore be a violation to the Program.</i></p>
<p>Q: In Indonesia, workers below the age of 18 cannot perform “hazardous” work. However, there is no widely agreed upon definition of what constitutes hazardous work. What is the Transform SR Holding’s standard on “hazardous” work?</p>	<p>A: <i>In the absence of an established legal definition, Transform SR Holding uses common sense and experience to determine hazardous work. A 15 year-old operating a sewing machine would be acceptable to Transform SR Holding while the same worker handling solvents, or applying adhesives would violate the Global Compliance Program requirement.</i></p>

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REQUIREMENT 5: FORCED/SLAVE LABOR, HUMAN TRAFFICKING

We will not allow forced or involuntary labor whether in the form of prison labor, indentured labor, or bonded labor. Overtime hours must be voluntary. Migrant workers should be provided with contracts, treatment, and wages that equal those of local workers.

KEY REQUIREMENTS

Forced/Slave Labor, Human Trafficking strictly prohibits the use of indentured, bonded, prison labor, or any other practices that create an unreasonable legal or practical limitation on a worker's ability to leave his/her employment. This requirement stipulates that vendor and factory partners adhere to the following:

- Factories may not create unreasonable legal or practical limitations on a worker's ability to leave his/her employment at their own discretion. Examples include 1) a labor contract that requires the payment of "excessive" fees upon entering employment, or 2) the payment of a penalty upon termination of a labor contract.
- Fees associated with a labor contract may not be in excess of the amount legally permitted by the applicable law of the host or home country. In the absence of such law, fees may not be substantially above the prevailing market rate.
- Bonded labor where work is done to pay off a debt is strictly prohibited. This is still prevalent in parts of South Asia where migrant workers are forced to take on the burden of repayment of debt through labor.
- Factories must provide an individual locker for each worker to store personal items which may include: original government-issued identification, passport, work permit or other personal documents.
- Compulsory overtime is considered forced labor (please refer to **REQUIREMENT 8: Working Hours**).
- The factory may not impose unreasonable restrictions on worker movement in the factory and, where applicable, the factory compound or worker dormitories.
- Workers are free to refuse to perform certain tasks that the worker believes to be hazardous without penalty of termination.

INDICATORS OF NONCOMPLIANCE

- Involuntary and/or uncompensated labor.
- Workers imprisoned/locked in factory.
- Use of bonded, indentured, or prison laborers.

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- Withholding a worker's original government-issued identification, passport or work permit, even if the worker has provided written consent.
- Required and excessive overtime hours. All overtime must be voluntary.
- Withholding worker wages or deposits until completion of the contract.
- Unreasonable restrictions on movement.
- Contracts for migrant workers are less favorable than those provided to local workers.
- Supervisors use their position of power to intimidate or threaten workers.
- Contracts originally signed by the workers are substituted for ones with less favorable conditions once employment commences.
- Female migrant workers are threatened with unfavorable contract terms unless they accept the sexual advances of a supervisor/manager.
- Use of migrant labor from countries subject to US sanctions, such as North Korea, regardless of where the factory is located.

GOOD MANAGEMENT PRACTICES

- The factory establishes a written set of instructions for all factories involved in secondary processes and labor recruiters which prohibits the use of forced labor, trafficked persons, or slave labor.
- Factory management eliminates all unreasonable restrictions on the movement of workers in the factory and dormitories.
- Labor contracts do not contain penalties for terminating employment.
- All workers are voluntarily present. No workers are imprisoned or locked in the factory.
- No policies exist which restrict the workers' right to leave – whether that is the end of shift or to terminate employment.
- No locked gates or doors are used which prevent workers from exiting.
- The factory should pay all costs related to hiring migrant workers, including recruitment and travel fees.
- Workers are not disciplined for refusing to work overtime.
- The factory provides lockers for each worker to store personal property, original government-issued identification, passport, or work permit.
- If migrant workers are part of the workforce, supervisors are provided training in professionally and fairly managing a culturally diverse workforce. Migrant workers are provided with basic needs including items for daily hygiene, and the ability to regularly communicate with their family in their home country.

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QUESTIONS AND ANSWERS

<p>Q: One of the benefits that one factory provides workers on a periodic basis is pay advances or loans. When workers take out these loans, the factory withholds from each paycheck an amount that allows the worker to pay off the advance or loan over an extended period of time. Does this practice comply with Global Compliance Program?</p>	<p>A: <i>Even though the worker is offering labor to pay off a loan, this is in compliance with the Global Compliance Program requirement, so long as the withholding amount does not violate local laws concerning payroll deductions. It is advisable for factory management to limit the loan amount extended to workers so that they do not find themselves required to work involuntarily or for extended periods of time to pay off the loan amount.</i></p>
<p>Q: A factory uses armed personnel wearing military-like uniforms to guard the factory and review the comings and goings of workers who live in the on-site dormitories. Would this comply with the Global Compliance Program?</p>	<p>A: <i>Using armed guards in a factory for security purposes complies with the Global Compliance Program requirement so long as the guards permit workers to come and go without unreasonable restrictions.</i></p>

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REQUIREMENT 6: HARASSMENT OR ABUSE

The factory shall ensure that no worker is subject to any physical, sexual, psychological, or verbal harassment or abuse.

KEY REQUIREMENTS

Harassment or Abuse strictly prohibits vendor and factory partners from:

- Physical contact intended to hurt or harm a worker.
- Any comments suggesting threats of behavior to harm a workers physical or psychological well- being.
- Discipline resulting in the withdrawal of basic physical comforts provided to other workers.
- Comments or behavior which is reasonably understood by the worker to be threatening or demeaning.
- Supervisors touching workers in any way that could be considered to have sexual implications.
- Sexual comments made to workers that would be considered to create a hostile work environment.
- Requiring any form of sexual favor in exchange for beneficial treatment in employment, or as a condition of maintaining employment.

INDICATORS OF NONCOMPLIANCE

- Physical punishment or abuse.
- Unreasonable security searches.
- Verbal harassment such as yelling.
- Restricting access to toilets/drinking water.
- A history of verified complaints involving physical, sexual, psychological or verbal abuse.

GOOD MANAGEMENT PRACTICES

- The factory has established and implemented a progressive disciplinary system that includes verbal warnings, written warnings, suspension, and finally, termination as a way of disciplining workers.
- The factory ensures that all disciplinary actions are clearly documented and recorded properly **(see A-15)**.
- Workers are not subject to corporal punishment or abusive disciplinary practices.
- Factory has a written policy, which defines rule infractions, and what the disciplinary actions are for each infraction.

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- The factory trains supervisors and production workers upon hiring and on an ongoing basis, (i.e. quarterly) regarding harassment and abuse issues.
- The factory keeps records of disciplinary actions taken, include the written acknowledgement from workers that they were informed of the disciplinary action and any consequences that may result from further rule infractions (**see A-15**).
- The factory has a written policy that outlines that harassment is unacceptable and what behaviors (such as those listed above) will not be tolerated.

QUESTIONS AND ANSWERS

<p>Q: I have heard that workers in an Indonesian factory operated by a foreign owner are threatened with physical harm if they do not complete an important order on time. The factory management has indicated to me that these threats are quite common where the factory manager is from and they are the only way to get workers to work harder. Doesn't threatening physical harm violate the Global Compliance Program?</p>	<p>A: <i>This violates the Global Compliance Program requirement. Moreover, the factory's statement that this is acceptable in the country of the factory manager does not change the conclusion – workers in Indonesia find these words to be threatening.</i></p>
<p>Q: Prior to work each day, a unit manager in one factory calls his workers together for chants about teamwork. He often shouts this chant during the course of the day. Does this violate the Global Compliance Program?</p>	<p>A: <i>This is in compliance with the Global Compliance Program requirement because shouting alone does not create problems unless it is abusive in nature, or if workers are required to participate without pay. It is not, however, a preferred form of discipline.</i></p>
<p>Q: A factory manager likes to show new female operators how to do their new jobs by sitting down behind them and guiding their arms. Some new workers grumble about this, but are told that that is the supervisor's habit. Is this a violation of the Global Compliance Program?</p>	<p>A: <i>This violates the Global Compliance Program requirement because there is no reason workers need to be trained in a way that has a male factory official touching female workers. It is inappropriate and a violation of the Program.</i></p>

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REQUIREMENT 7: DISCRIMINATION

Discrimination in employment, including recruitment, hiring, training, working conditions, job assignments, pay, benefits, promotions, discipline, termination, or retirement on the basis of gender, race, ethnicity, social origin, religion, age, disability, sexual orientation, national origin, or political opinion is prohibited.

KEY REQUIREMENTS

Discrimination ensures that each worker is treated with respect and dignity and is judged solely based on the worker's ability to perform the job. This requirement:

- Applies to all employment decisions, including recruitment, hiring, training, promotion, termination and retirement.
- Prohibits discrimination based on legally protected criteria such as gender, race, age, disability, nationality, or cultural beliefs.
- Requires that training, development, promotion and advancement of opportunities be provided to all workers, whether full time, part time, short-term, permanent, or with any other contracts of employment.
- Ensures factory does not question prospective workers about their pregnancy status and that pregnancy tests are not conducted before hiring or as a pre-condition to employment.

INDICATORS OF NONCOMPLIANCE

- Pregnancy testing.
- Hiring practices that require applicants to divulge maternity status.
- Termination or disciplinary procedures taken against workers for personal characteristics.
- Targeting groups for certain types of jobs.
- Variations in pay, benefits or advancement based on personal characteristics.
- Reduction in wages or pay for workers who return after pregnancy.

GOOD MANAGEMENT PRACTICES

- The factory actively recruits and employs qualified candidates from the local population at all levels of the factory.
- The factory has a written policy on discrimination that is consistent with the Global Compliance Program discrimination policy and ensures that it is followed.
- The factory creates written job descriptions that focus solely on “occupational qualifications,” not personal characteristics.

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- The factory periodically reviews hiring practices to ensure that all have the opportunity to apply and that they are in compliance with the Global Compliance Program and local law.
- Workers are not treated differently based on personal characteristics such as age, gender or pregnancy status.
- The factory ensures that workers are paid wages and benefits without regard to gender, nationality, race, color, religion, age, maternity or marital status.
- The factory provides equal support to all workers in promotions to supervisory positions.

QUESTIONS AND ANSWERS

<p>Q: One vendor contracts with three factories in a given region of China. Two of the three factories have two-thirds women workers and one has more than 90% women, with an exclusively male managerial staff. Does this violate the Global Compliance Program?</p>	<p>A: <i>More information is needed. If the third factory has fewer men because men are discouraged from applying, a violation exists.</i></p>
<p>Q: Women workers who are pregnant have been denied employment at one factory. The factory manager has indicated that every factory does this to ensure that they do not lose workers for the months that they are out on maternity leave. Does this violate the Global Compliance Program?</p>	<p>A: <i>This is a clear violation of the Program requirement.</i></p>
<p>Q: A hiring agent in China staffs open positions in an apparel factory by advertising to “young women seeking opportunity.” Is this a violation?</p>	<p>A: <i>This is a violation, because it appears that men, or workers over a certain age, are barred from applying or being hired for work.</i></p>
<p>Q: Men and women on a production line in a factory in Mexico are all paid a base salary of 835 pesos per month. Production bonuses vary, and the women tend to receive higher bonuses than the men do. Is this a violation of the Global Compliance Program?</p>	<p>A: <i>More information is needed to ensure that the production bonuses are based on production levels and not skewed towards female workers.</i></p>

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REQUIREMENT 8: WORKING HOURS

Except in extraordinary business circumstances, workers shall not be required to work (inclusive of overtime) more than the legally prescribed limits or 60 hours, whichever is less, and one day off in every seven day period shall be provided. Production facilities shall comply with applicable laws that entitle workers to vacation time, leave periods and holidays.

KEY REQUIREMENTS

Working Hours requires that all vendor and factory partners:

- Comply with the legal requirements and limitations on regular and overtime hours or obtain approval by the local labor bureau/ministry for an extension (not to exceed the limits specified in the Appendix) (see A-12) and maintain documentation to demonstrate compliance.
- Ensure one day off in seven is provided or workers are provided another day of rest during the next week.
- Ensure that workers are given advance notice that overtime hours may be necessary.
- Provide overtime compensation at the rate required by local law for all workers, including piece rate workers.

With respect to working hours during peak production seasons, Transform SR Holding permits factories to work more than 60 hours in a week so long as the factory complies with the following 5 supplemental requirements:

- It does not exceed 12 hours per day, 6 days per week for a total work week of 72 hours.
- One day off in seven is provided or workers are provided another day of rest during the next week. If work must be carried out on the rest day during peak season, it cannot occur more than once in a two week time period.
- Peak season is limited to no more than 4 months or 17 weeks distributed throughout a one-year period. The maximum 60-hour workweek for non-peak production should be employed for at least 8 months out of 12.
- Workers are compensated for regular and overtime hours in accordance with local law.
- Workers are educated on the standard workweek and the factory seeks their willingness to work overtime hours. For workers not interested in working overtime, the factory must be supportive of their decision and will not, in any way, force or coerce them to work overtime hours.

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INDICATORS OF NONCOMPLIANCE

- Inconsistent time records.
- Total working hours (regular and overtime) beyond 60 in a week during non-peak production seasons and beyond 72 in a week during peak production seasons.
- Denial of legally required holidays, rest days and vacation leave.
- Non-payment for actual time worked (work done off the clock).
- Systematic denial of mandated meal and rest breaks.
- No time records or system to track working hours (**see A-15**).
- Broken time clock or not capturing all hours worked (no time out records).

GOOD MANAGEMENT PRACTICES

- The factory maintains an accounting system that ensures that all workers are paid for overtime in accordance with the premium pay.
- The factory ensures that piece rate workers in particular are aware of the requirement that they be paid a premium rate for overtime work.
- Workers are provided with pay slips that clearly indicate overtime hours and overtime compensation (**see A-15**).
- Workers are not required to work in excess of the standard workweek established by law.
- The factory workweek is the same as that mandated by law.
- The factory provides a worker manual/work rules that define breaks, rest periods, and days off provided.
- The factory ensures that the workweek does not change from week to week and that all workers are aware of the work schedule.
- The factory defines, according to local law, the different types of overtime: workdays, weekends, holidays and corresponding pay rates.
- The factory finds good management solutions, such as hiring additional help during peak periods, to ensure that overtime hours are in accordance with the above standards.
- The factory includes in the personnel policy and labor contracts, if applicable, that workers have the right to refuse overtime, with no repercussions, and does not issue fines for refusing overtime.
- The factory implements a system, such as a sign-up sheet, for workers to volunteer for overtime.
- The factory ensures that working hours do not exceed 60 per week during non-peak production (8 months out of 12) and that working hours do not exceed 72 in a week for peak production months (no more than 4 months out of 12).
- The factory posts the operation breakdown and piece rate on the production floor so that workers are aware of pay rules and targets in advance.

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QUESTIONS AND ANSWERS

<p>Q: A factory in Indonesia has three peak production seasons per year. During these times, workers are required to work an average of 70 hours per week for up to two weeks at a time. The rest of the year, workers put in an average of 50 hours per week. Does this comply with the Global Compliance Program?</p>	<p>A: <i>This complies with the Program requirements, because the periods of overtime beyond 60 are limited to six weeks per year and do not exceed 72 hours per week.</i></p>
<p>Q: Several of the slower workers in a factory often do not take their daily breaks and can be found working through lunch to maintain their productivity levels. All of the workers work no more than local legal limits on working hours per week. Is this in compliance with the Global Compliance Program?</p>	<p>A: <i>Workers should take daily breaks as mandated by local law. This would be a violation of the Program requirements.</i></p>
<p>Q: A factory has to work on 2 rest days to meet the ship date. Does this comply with the Global Compliance Program?</p>	<p>A: <i>Yes, assuming that workers are paid properly, that they agreed to these working hours, and that rest day work is limited to twice per month during peak season.</i></p>

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REQUIREMENT 9: WAGES AND BENEFITS

Wages are essential for meeting the basic needs of workers. Workers will be compensated by wages, including overtime pay and benefits which satisfy all applicable laws and regulations.

KEY REQUIREMENTS

Wages and Benefits for factory workers clearly stipulates that:

- All workers are paid not less than the legal minimum wage applicable in the country of manufacturer.
- In addition to wages for the standard workweek, workers must be compensated for overtime hours at the legally or contracted mandated premium rates.
- All workers shall be provided with written and understandable information about their employment and about the particulars of their wages for the pay period concerned each time that they are paid.
- Although it is preferred that factories use a disciplinary process that does not include fines, fines may be used if all of the following conditions are met: permitted by local law, reasonable in nature, and part of a progressive disciplinary process.
- In addition, legally prescribed benefits are also provided in accordance with the law.
- For apprentice/trainee programs, factories are further required to adhere to any legal requirements governing specific limits on number of hours worked, duration of training period and the number of times the same worker can be classified as a trainee. Further, in some cases, apprentice programs provide for payment below minimum wages for the period of training. Limits on the duration of the training period must be strictly followed and wages must be raised to normal pay rates at the end of the training period.

INDICATORS OF NONCOMPLIANCE

- Inconsistent pay records.
- Non-payment of applicable wages.
- Minimum wage and overtime violations.
- Willful manipulation of payroll.
- Not providing legally required benefits.
- Illegal or unauthorized wage or benefit deductions.
- Compensation not paid directly to workers.
- No system to track hours worked.
- Failure to pay worker mandated withholdings to the appropriate government agency.
- No pay slips provided to workers (**see A-15**).

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- Isolated late payment of wages.
- Isolated miscalculation of wages (i.e. computer/human error).
- Incomplete payroll records.
- Deductions from wages for disciplinary infractions.

GOOD MANAGEMENT PRACTICES

- Workers are compensated for all hours worked in accordance with the law. All overtime hours are compensated at the premium wage rate established by law.
- The factory has a base wage that is at least the lawful minimum wage.
- All workers (regular, trainees, and contract) are paid at least this base wage.
- The factory has a system that shows wage rate increases based on seniority and productivity.
- The factory posts a simple written description of how pay is calculated and workers are given this description upon hiring.
- All workers receive pay slips that show gross and net wage calculations and applicable deductions **(see A-15)**.
- The factory has workers maintain their own time cards and wage slips.
- The factory has time clocks or other comparable automated method for tracking working time and calculating pay.
- The factory educates workers on their pay, production bonuses and what deductions are removed from workers' pay.
- The factory outlines what benefits are available to workers and instructs workers on how benefits are accessed.
- The factory ensures that workers know what paid leave is due them.
- The factory has an established pay schedule that is strictly adhered to.
- The factory maintains records of payroll, which show that workers are being paid the applicable overtime rate.

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QUESTIONS AND ANSWERS

<p>Q: Operators are paid a base salary set at the local minimum wage rate. Most of the time, operators exceed their targets and are paid a bonus that increases their salary more than 50% above the minimum. However, for short periods of time, workers fall below their target, and at such times their pay is 25% below the minimum wage. Does this comply with the Global Compliance Program?</p>	<p>A: <i>This violates the Program requirement, because all workers must receive at least the minimum wage for each pay period.</i></p>
<p>Q: All new workers in a factory in Indonesia are paid a sub-minimum training wage for three months. Line supervisors recommend which workers should advance to the higher minimum wage and which workers need more training. Does this comply with the Global Compliance Program?</p>	<p>A: <i>This violates the Program requirement, assuming that the workers who “need more training” are kept at the sub-minimum rate longer than the law permits.</i></p>
<p>Q: I know that apprentices are sometimes kept working at the apprentice wage rates beyond the training period established by law because they have not reached the skill level of a “regular” or trained worker. Is this a violation of the Global Compliance Program?</p>	<p>A: <i>Where there are local legal limits on the duration of the apprenticeship program, keeping workers at apprentice wage rates beyond this limit is a violation of the Program requirement.</i></p>

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REQUIREMENT 10: FREEDOM OF ASSOCIATION

All workers must have the right to establish and join a legal organization of their own choosing, without being penalized for the non-violent exercise of these rights.

KEY REQUIREMENTS

Freedom of Association ensures workers are free to organize and join legal workers' organization without discrimination or interference and to engage freely in collective negotiations to regulate the terms and conditions of employment.

This Program requirement prohibits vendor and factory partners from:

- Worker discrimination for engaging in collecting bargaining activities and other worker committees.
- Unlawfully interfering with workers' ability to exercise their right to associate or join legal organizations of their own choosing.
- Threatening, disciplining, punishing, or firing workers because they exercise this right.
- Refusing to hire workers because of their associations.
- Affirmatively seeking the assistance of state entities to interfere with this right.
- Participating in "blacklisting" of union organizers by providing their names and details of their activities to other employers, or to employers' associations.

When attempting to form a union, workers are not permitted to:

- Coerce other workers to join a union and/or participate in organizing activities.
- Advocate union organization in a time, place or manner that interferes with individual workers' rights not to participate in union activities.
- Coerce management to accept agreements advocated by workers or unions.
- Engage in organizing efforts in a manner that interferes with other workers' ability to perform their duties, except under a legally recognized work stoppage.
- Engage in organizing efforts that intimidate other workers.

In countries where only state-approved workers' organizations are permitted, vendors and factories:

- Are not required to recognize illegal workers' organizations.
- Should not, to the greatest degree possible, permit direct government interference in workers' right to associate.
- Should seek to find appropriate and legal mechanisms through which workers can effectively express workplace concerns to management. These include: developing labor-management committees, making space for informal workers' groups to meet, or conducting employee surveys to promote harmonious, productive workplace conditions.

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INDICATORS OF NONCOMPLIANCE

- Actively interfering with worker attempts to organize.
- Policy of refusing employment to union members.

GOOD MANAGEMENT PRACTICES

- Providing workers the right to associate freely and to bargain collectively.
- The factory has a written policy which states that workers have the right to lawfully form unions or similar organizations which give them the opportunity to address worker grievances and workplace issues collectively.
- The factory does not discriminate, penalize, threaten, restrict or interfere with workers choosing to lawfully form or join unions or associations.
- The factory recognizes and bargains in good faith with legally formed unions.
- The factory implements systems to establish better worker and management relations such as Health and Safety Committees.
- The factory has formal communication channels such as suggestion boxes so that workers have opportunities to raise issues of concern and to have those issues addressed by management.

QUESTIONS AND ANSWERS

<p>Q: Workers trying to organize a union by passing out leaflets during the work shift are asked not to offer this information except after hours, and during the lunch hour and scheduled breaks. Does this violate the Global Compliance Program?</p>	<p>A: <i>Employers may place reasonable, lawful restrictions on union organizing efforts by their workers during the workday. Unless local laws prohibit the restrictions described here, this does not violate the Program requirement.</i></p>
<p>Q: A worker who is a member of her trade union's committee is transferred to a lower-paying job because of poor performance. Other workers with similar performance records are not disciplined.</p>	<p>A: <i>This is a potential violation of the Program requirement. More investigation is needed to determine if the worker was transferred solely because of membership in the union.</i></p>

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REQUIREMENT 11: ENVIRONMENTAL COMPLIANCE

Adherence to all local laws protecting the environment is required. Factories must conduct business so as to minimize the impact on the environment, including reducing waste and maximizing recycling initiatives.

KEY REQUIREMENTS

Environmental Compliance specifically attempts to ensure that Transform SR Holding vendor and factory partners do not violate any local environmental regulations. To ensure that environmental legal compliance is maintained, Transform SR Holding encourages vendor and factory partners to:

- Appoint an employee who is responsible for implementing and maintaining the factory's environmental management system.
- Provide periodic environmental training to the workers.
- Periodically review existing environmental management systems by performing a factory walk-through looking for potential environmental hazards and how they are being managed.
- Ensure that waste is disposed of properly and that waste disposal systems effectively manage environmental risk.
- Ensure that all applicable environmental certificates are up to date.
- Develop environmental management practices with respect to water and air quality, water and energy efficiency and waste reduction.

INDICATORS OF NONCOMPLIANCE

- Willful violation of environmental legal requirements.
- Dangerous pollutants exposed to workers and/or local community.
- Inappropriate storing/handling of chemicals (see A-3 and A-11).

GOOD MANAGEMENT PRACTICES

- The factory complies with all environmental legal requirements.
- All applicable environmental regulations are identified and kept on file.
- All required permits and necessary records including wastewater permits, emission permits, water testing records, waste disposal records, factory inspections, and any other records which relate to environmental concerns are maintained on site.
- The factory appoints a designated worker with responsibility for overseeing compliance with environmental regulations.
- The factory has a written environmental management plan that details how these issues are addressed. The plan includes items such as description of worker responsible for implementing, a description of the environmental impact of the production processes, governmental permits and records necessary, government agencies responsible.

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- The factory's management staff attend environmental management conferences and speak with other contractors to learn of ways to minimize the use of materials and reduce impact on environment.

QUESTIONS AND ANSWERS

<p>Q: In China, a factory burns all of its waste, including various rubber and solvent products. Is this a violation to the Global Compliance Program?</p>	<p>A: <i>While this practice is in compliance with Chinese law on waste disposal and therefore the Program requirement, the factory should dispose the waste from the factory in a more appropriate manner. The factory should segregate all chemicals, rubbers and solvents from the general waste and dispose of them through appropriate means.</i></p>
<p>Q: A factory stores toxic and flammable materials in open containers near machinery. Is this a violation to the Global Compliance Program?</p>	<p>A: <i>This practice likely violates the Program requirement as it is both a health and safety hazard and an environmental hazard. The factory should keep these materials in a nonflammable container and store them separately.</i></p>

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REQUIREMENT 12: NOTICE AND RECORDKEEPING

The Global Compliance Program Requirements must be posted in a location accessible to the workers in the appropriate local language. Factories must also maintain current and sufficiently detailed records that enable Transform SR Holding to determine their compliance with the Program, and make records available to Transform SR Holding representatives upon request.

KEY REQUIREMENTS

Notice and Recordkeeping is intended to ensure that vendor and factory partners educate their workers about the Program and the rights that it extends to all workers. This Global Compliance Program requirement attempts to:

- Ensure that all business partners post the Global Compliance Program Requirements poster in the local languages of its workers in an area where workers are likely to read it and provide a copy upon request (**see A-21**).
- Ensure that all business partners also educate workers on the Program.
- Maintain all necessary documentation to support compliance.
- Obtain generator operator certificates from the proper local authority.
- Require factories involved in any processes related to the assembly, construction, partial production, packing, or storing of merchandise including: cutting, sewing, dyeing, washing, tufting, pressing, finishing, binding, clipping, plating, latexing, embossing, silk-screening, or embroidery to be registered. For direct business, we also require the registration of fabric mills, tanneries, packaging/hanger factories, and trims/accessories factories.
- Provide Transform SR Holding representatives with access to employment records.
- Allow Transform SR Holding representatives to conduct confidential interviews with workers.
- Respond promptly to reasonable inquiries from Transform SR Holding representatives regarding implementation of the Global Compliance Program.
- Comply with the requirements specified in the Appendix: Recordkeeping Supplemental Guidelines (**see A-15**).

INDICATORS OF NONCOMPLIANCE

- Denying auditors access to the factory.
- Denying access to factory records requested by the auditor.
- Willfully inaccurate record keeping.
- No records or documentation maintained at the factory site.
- Systematic missing documentation (e.g. employment contracts, personnel files, payroll records, time records, etc.).
- Not posting legally required notices.
- Expired permits / certificates.

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GOOD MANAGEMENT PRACTICES

- Factory records are complete and accurately maintained.
- Transform SR Holding representative or third party agents are granted access to factory to review applicable worker and payroll records and to interview factory workers and management.
- Factory does not discourage or coach workers' responses to auditor questions.
- Auditors are provided with a private office for worker interviews providing an environment that encourages workers to speak freely.
- Legally required notices are posted.
- Global Compliance Program Requirements poster is posted in the local language of workers and management in a location accessible to workers.
- Communicate to managers, supervisors, and workers that auditors are able to speak with whoever needed at the factory and that they are to be provided information requested in a cooperative manner.
- The factory maintains all of the records listed in the Appendix: Recordkeeping Supplemental Guidelines (**see A-15**).
- The factory provides training for management and workers during orientation and periodically on the subject areas covered by the Global Compliance Program.
- The factory has established an upstream communication system or suggestion box where workers can raise issues of concern, including treatment by their supervisors

QUESTIONS AND ANSWERS

<p>Q: A factory refuses to allow Transform SR Holding auditors to review shipment and production records as well as speak with workers. Does this violate the Global Compliance Program?</p>	<p>A: <i>This violates the Program because the Global Compliance Program requirement clearly states that our staff or agents may review this information to determine factory compliance.</i></p>
<p>Q: A factory allows a Transform SR Holding auditor to interview workers but is unwilling to let the auditor review the wage and hour documents because they are being updated.</p>	<p>A: <i>This is a possible violation. It will depend upon what other wage and hour documentation is available for review and how much time the factory needs to produce the appropriate documentation.</i></p>

Transform SR Holding Management LLC

REQUIREMENT 13: FACTORY SECURITY (C-TPAT)

Factories must implement minimum security criteria and best practices to help secure our supply chain from terrorist activity. The criteria are based on a set of recommendations developed as a result of the Customs-Trade Partnership Against Terrorism (C-TPAT) initiative with US importers.

KEY REQUIREMENTS

Factory Security requires that all vendor and factory partners producing merchandise for Sears or Kmart.:

- Take all necessary precautions to ensure against the introduction of unauthorized material and/or persons into containers and trailers.
- Prevent unauthorized entry to facilities, maintain control of employees and visitors, and protect company assets.
- Have processes in place to screen prospective employees, and to periodically check current employees.
- Create procedures to ensure the integrity and security of processes relevant to the transportation, handling, and storage of cargo in the supply chain.
- Have IT security policies, procedures and standards in place.
- Offer employees specific training in how to maintain cargo integrity, recognize internal conspiracies, and protect access controls.
- Have a documented and verifiable process for determining risk throughout their supply chain.

INDICATORS OF NONCOMPLIANCE

- Lack of perimeter fencing, guard stations, or security personnel to prevent unauthorized entry to the cargo handling and storage area of the facility.
- Lack of locking mechanisms on containers and trailers, facility windows and doors, or perimeter fencing.
- Ability to enter production facility without proper documentation, and visit without an escort.
- Employees are hired without verification of employment history, or background checks.
- No controls exist to identify shortages, overages, or other significant cargo discrepancies.

GOOD MANAGEMENT PRACTICES

- Before a prospective employee is hired a background check is conducted, and employment history and references are verified.

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- A closed circuit television camera (rotating and stationary) are utilized to monitor the activities outside/inside the factory.
- A high security seal is affixed to all loaded containers and trailers bound for the US.
- Employees have limited access to keys, key cards, and computer systems unless they have a job related to the need for such access.
- Visitors present photo identification upon arrival, and all visitors are escorted and display visible temporary identification.
- Arriving packages and mail is periodically screened before being disseminated.
- Departing cargo is reconciled against information on the cargo manifest and purchase order.
- Drivers delivering or receiving cargo are positively identified before cargo is received or released.
- Cargo handling and storage areas have physical barriers and deterrents that guard against unauthorized access
- A threat awareness program is established to foster employee education on the threat posed by terrorists and contraband smugglers at each point in the supply chain.
- The facility has adequate lighting inside and outside the facility, including parking areas.
- The factory has established procedures to conduct periodic unannounced checks related to personnel security, information access control, shipment information control, storage and distribution security, contractor controls, and education and awareness.

QUESTIONS AND ANSWERS

<p>Q: A factory does not have a fence around the perimeter of the facility, or the cargo loading/storage areas. Does this violate the Global Compliance Program?</p>	<p>A: <i>The cargo loading/ storage areas must have adequate security measures that prevent unauthorized access. This must either include a perimeter fence or security personnel who monitor the activity in this area.</i></p>
<p>Q: A factory manager performs background checks on only prospective foreign workers. Does this meet the Global Compliance Program with regard to factory security?</p>	<p>A: <i>No. Our factory security provision requires background checks on all prospective employees. And it is also a violation of our provision on discrimination since background checks are only performed on a certain category of employees.</i></p>

Appendix

Transform SR Holding Management LLC

Health and Safety Supplemental Guidelines

The bolded items below are minimum requirements based on international health and safety guidelines. In addition, all factories must comply with the specific legal requirements governing health and safety in the countries that they operate. All other items listed below are suggestions or good practices adopted by “model” factories.

1. HEALTH AND SAFETY PLAN:

- If legally required, factory has a written health and safety plan that indicates how the factory is managing safety and health issues. The plan, with a special attention to minors and pregnant workers, includes roles and responsibilities of personnel and on-going activities necessary to ensure that a safe and healthy workplace is provided. As well as the steps the factory is taking to ensure that health and safety risk areas are being identified and addressed.
- Factory has a written personal protective equipment (PPE) policy which describes workplace areas and what PPE should be used, worker responsible for PPE program, where the PPE is stored, how it is distributed, and how training is performed.
- Factory has a written policy on chemical usage at the factory that includes an inventory of what chemicals exist, quantities stored, where stored, how handled, and training of personnel. Material Safety Data Sheets (MSDS) exist for all chemicals used in the factory.
- Factories take all necessary precautions to ensure that workers under the age of 18 are protected from working conditions likely to endanger their health, safety or welfare.
- Factories provide workers with adequate information, in the language of the workers, on measures taken by the factory to secure occupational health and safety.
- Factory consults with workers periodically on health and safety issues and how best to effectively manage it.
- Workers who have removed themselves from a work situation that they reasonably believe present an imminent and serious danger to their health are protected from undue consequences.
- There is supervision, at suitable intervals, of the health of workers exposed or liable to be exposed to occupational hazards due to air pollution, noise or vibration in the working environment. Such supervisions could include periodic examination

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Health and Safety Supplemental Guidelines

2. PERSONAL PROTECTIVE EQUIPMENT (PPE):

- Where there is risk, all workers are provided with the appropriate PPE, trained on the use of the PPE, and why using it is important.
- Factory provides impact-resistant goggles or other eyewear to workers in areas where there is persistent glare, flying debris or dust, splashing of primers or cleaners.
- Factory provides gloves to workers that are handling/applying chemicals such as solvents, adhesives, and finishes. Gloves are resistant to these chemicals.
- Metal gloves are provided when working with sharp objects or cutting instruments.
- Proper respirators are worn in areas where vapors are present and are not sufficiently reduced by other methods such as ventilation.
- **Appropriate footwear is provided for workers working on wet surfaces. Reinforced shoes or boots for workers operating or moving heavy equipment.**
- Dust masks are provided to minimize exposure to particulate matter such as dust or textile particles.
- Factory has signs, with the appropriate international symbol, showing what personal protective equipment should be worn when in this area.
- All workers are adequately and suitably informed by the factory of potential occupational hazards in the working environment due to air pollution, noise and vibration, and are instructed in the measures available for the prevention and control of, and protection against, those hazards.
- Rubber mats are required in front of electrical switch boards and control panels to absorb potential electrical shock.

3. NOISE LEVELS:

- **In high noise level areas, ear protection (ear plugs) is provided, potential hazards are communicated, and worker usage is enforced in an appropriate manner.**
- Factory uses a sound meter to take periodic measurements of noise levels in the factory and keeps a record of sound levels in various work areas.

4. LIGHTING:

- **Factory has minimum illumination of 30 foot-candles (300 Lux) in work areas.**
- Factory has a minimum illumination of 5 foot-candles (50 Lux) in corridors utilized as emergency routes.
- Factory uses a light meter to take periodic measurements of light levels in the factory and keeps a record of light levels in various work areas.

Transform SR Holding Management LLC

Health and Safety Supplemental Guidelines

5. VENTILATION:

- **Factory has adequate ventilation system in work areas where chemicals are handled and where there is significant dust or material particles.**
- Factory ensures that the daily average temperatures inside the factory do not exceed a differential of 10 degrees F (5.6 degrees C), with ambient temperatures outside the workplace building.
- Factory has ventilation system present in enclosed spaces where heat-generating equipment is operated.

6. HAZARDOUS CHEMICALS OR MATERIALS:

- **Factory stores chemicals in a separate area which is equipped with appropriate fire extinguishers, safety signs, ventilation, instructions on handling and disposal, and personal protective equipment for personnel.**
- **Factory is familiar with all chemicals on site and the potential health effects (see list of commonly found hazardous chemicals in manufacturing facilities at the end of this document).**
- **All workers handling hazardous chemicals or materials have undergone training on appropriate handling, emergency procedures and personal protective equipment.**
- Explore opportunities for hazardous chemical/material minimization and document changes made.

7. MACHINE GUARDS:

- **Factory ensures that where there is risk (bar tack, button, overlock, grinding, snap machine, die cut, etc.) machines have the necessary safety devices and guards.**
- Workers are trained on how to operate machinery in a safe and effective manner.
- A written maintenance plan exists which outlines machine inspections.
- Factory keeps records of machine, equipment and wiring inspections and repairs.
- Factory maintains records of permits for equipment such as elevators and any other types of equipment requiring special permits.

8. MEDICAL CARE:

- **Factory has a medical clinic available on-site or in close proximity to address basic health and injury needs.**
- **Factory has a system in place to address severe injuries (such as an agreement with the local hospital, transportation arrangements, etc.).**

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Health and Safety Supplemental Guidelines

- A schedule for medical personnel (doctors or nurses) is established to ensure that trained medical personnel are available during all working hours.
- Factory maintains copies of licenses for all applicable medical personnel.
- Post the medical clinic service days/hours, the nearest hospital's names and full address, and the police and fire station phone number on the notice board.
- Included in the personnel policy is a description of what medical care is available and how to access it by workers.
- A record of injuries is maintained at the factory to focus on how injuries can be reduced.

9. FIRST AID:

General

- **Factory has one properly stocked first aid kit available for every 100 workers.**
- **At a minimum, factory maintains standard first aid kits that include basic supplies such as bandages, scissors, gloves, gauze, eyewash solution, antiseptic ointment, and an emergency log.**
- **In cases where first aid supplies are locked for security reasons, supplies must be accessible to the first aid trained staff within 3 minutes.**
- First aid stations are posted with a first aid sign and the names and photos of trained first aid personnel are posted.
- The first aid kit is inspected regularly and restocked when needed.
- Factory trains an adequate number of personnel (production workers and supervisors) in first aid procedures.
- Records are maintained for workers seeking first aid to track injury/illness as well as remedy.

Kit Maintenance

- Outside label lists staff members with certified first aid training (all shifts) and an emergency contact phone number.
- Inside label shows minimum contents and quantities.
- Contents periodically reviewed for relevance by designated staff.
- Box inspected regularly, written inspection record on file.
- Number of boxes: 1 per 100 workers, or a minimum of 1 box per production area.
- It is recommended that the first aid kit be unlocked during working hours.
- If locked, key must be within easy reach, and/or at least three workers with key are near the box.

Training

- Depending on the risk and size of the factory, each production area/shift has an adequate number of workers trained to treat common workplace injuries.
- Factory keeps written, clearly defined procedures for common workplace injuries.

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Health and Safety Supplemental Guidelines

10. TOILETS:

- **Factory has at least 1 toilet for the first 25 workers of a particular gender, with an additional toilet for each additional 40 workers of the same gender.**
- **Ventilation system exists to provide good circulation of air to reduce odors.**
- **Facilities provide adequate privacy (i.e. ability to lock doors, etc.).**
- Factory has a cleaning and maintenance schedule with adequate janitorial staff to ensure that the facilities are clean and working at all times.
- Factory does not unreasonably restrict access to toilet facilities.
- Factory provides wash basins with cleansing agents or hand soap and hand towels or dryers.

11. DRINKING WATER:

- **Factory has purified/potable drinking water for each worker that is available at all times.**
- Access to drinking water is not unreasonably restricted.
- Drinking water containers are kept clean and have adequate protections to restrict any type of contamination from getting into the water.
- Workers are provided separate drinking cups to prevent illness and contamination.
- Drinking water is tested periodically (i.e. every 6 months) to ensure that water is safe. Further, the test report is posted at the drinking water station.

12. CANTEENS:

- **Canteen staff ensures that any spoiled or questionable food is not utilized and properly disposed.**
- **Utensils, dishes and cookware are properly sanitized after use.**
- **If legally required, factory has the necessary inspections from government health officials and maintains records of these inspections.**
- Factory prepares meals that are high quality and nutritious.
- Factory holds training for kitchen personnel in areas of hygienic food preparation and nutrition.
- **If legally required, the canteen staff has a health check at least annually and obtains a health certificate.**

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Health and Safety Supplemental Guidelines

13. BOILER OPERATION:

- If applicable, steam boiler must have operation certificate and maintenance record endorsed by local labor authority or certified safety inspector.
- If legally required, the operator of the boiler should be trained on its use with proper occupation certificate.
- The steam boiler should be placed in a separate, well-ventilated room. The safety check certificate should be posted on wall in room.

14. DORMITORIES:

- All health and safety guidelines listed above are implemented in factory sponsored dormitory buildings.
- Factory provides a safe living environment for workers, and complies with all legal regulations regarding residential facilities, where provided.
- The minimum amount of square footage allocated per resident is 20 square feet per worker.
- Residents should have their own bed, an area for personal items and the ability to secure belongings.
- Toilets and showers provide adequate privacy.
- Water usage for showering and bathing should not be restricted and/or limited to unreasonable hours of operation.
- Dormitory has adequate lighting and ventilation to produce a comfortable living area.
- Male and Female workers are on separate floors.

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Fire Safety Risk Supplemental Guidelines

The bolded items below are minimum requirements based on international fire safety guidelines. In addition, all factories must comply with the specific legal requirements governing fire safety in the countries where they operate. All other items listed below are suggestions or good practices adopted by “model” factories.

1. FIRE SAFETY PLAN:

- Factory has **fire and emergency evacuation plans** and diagrams posted in local language in various locations around the factory. The plan illustrates critical information such as emergency evacuation routes, “you are here” mark, correct layout direction, location of fire extinguishers and hydrants, and instructions in local language of what to do in the event of an evacuation.
- Evacuation assembly point is not obstructed.
- Factory has a written fire safety plan that indicates how the factory is managing issues that support fire safety protocol as required legally or by the Sears and Kmart Global Compliance Program Requirements. The plan includes roles and responsibilities of personnel and on-going activities necessary to ensure that a safe workplace is provided. It also outlines the steps the factory is taking to ensure that Fire safety risks are being identified and addressed.
- Factory educates workers on how to identify a factory working environment that is properly managing fire safety risks, and reducing the risk of fire and worker injury.
- Factory educates workers on how to respond in the event of a fire, to reduce the chance of injury or death.
- Workers who have removed themselves from their work location when they reasonably believe there is imminent and serious fire danger are protected from undue consequences.

2. FIRE EXTINGUISHERS/SPRINKLER SYSTEM:

- Factory has the correct types of extinguishers for various types of materials present:
 - Class A for ordinary combustibles: wood, paper, and textile fires
 - Class B for flammable liquid, gas or grease: solvent, grease, oils, petroleum
 - Class C for electrical: electrical equipment fires
 - Class ABC for any of the above
 - Class D for combustible metals such as magnesium
- Factory has adequate number of extinguishers.
- All fire extinguishers have instructions in local language on front.
- Fire extinguishers are placed in accessible locations, mounted on wall or column, with clear, prominent markings.
- While no specific height guidelines are provided, fire extinguishers mounted on wall or column must be at a height that is “accessible” by workers in the factory.

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Fire Safety Risk Supplemental Guidelines

- Extinguishers should be in appropriate weight in order to ensure all workers can handle them.
- Extinguishers are inspected periodically (once per quarter).
- Qualified personnel service extinguishers once per year.
- There is either sufficient water supply for sprinklers and/or a nearby fire hydrant system.
- A water sprinkler system is installed based on national building code requirements.
- If fire hydrants are present, factory flushes them at least twice per year.
- If fire hydrants are present, hoses, standpipes and all water sources, including fire pumps, should be inspected during fire drills.
- Factory has a maximum travel distance to extinguishers for workers of 23 meters or 75 feet for Class A, C and D fires and 15 meters or 50 feet for Class B fires.

3. FIRE TRAINING:

- Factory personnel (workers and supervisors) are trained at regular intervals in fire safety, emergency evacuation and the use of fire extinguishers.
- Certificates and pictures of fire safety and emergency evacuation training are maintained (with proper dates).
- Factory holds fire emergency drills regularly (at least twice per year), Factory holds fire emergency drills regularly (at least twice per year).
- For factories with high turnover, fire drills are held more frequently.
- Factory trains new workers in fire drill procedures.
- Factory sets up a fire safety team to address any fire safety issues
- Factory personnel should inspect their designated area for each shift
- During a fire drill, all workers must be able to safely evacuate the factory building within 3 minutes.

4. FIRE ALARM/SMOKE DETECTORS:

- Factory has a fire alarm system that is audible throughout the entire facility.
- Fire alarm has a distinct sound from other notice systems.
- Alarm is tested regularly in coordination with fire drills.
- Factory trains all new workers about alarm system sound and procedures.
- Smoke detectors are installed based on the national building code requirements.

5. EMERGENCY EXITS:

- Factory has at least two emergency exits per floor in buildings with less than 1,000 workers.

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Fire Safety Risk Supplemental Guidelines

- At least three exits exist per floor in buildings with more than 1,000 workers.
- Factory ensures that the maximum travel distance to an emergency exit is 200 feet or 60 meters for un-sprinkled industrial buildings.
- Exit doors are on opposite sides of the building.
- Exit doors are well designated and have a width adequate for the number of workers it must accommodate.
- Exit doors are not locked and do not have locks that require special operation. If the door pushes out, the door must open easily from the inside. Doors should be push-bar operation.
- Emergency exit signs are visible from 30m and use letters at least 18cm high. Also, signs have bright colors are illuminated or have a photo-luminescent front panel.
- Battery-operated exit signs are checked regularly and batteries are replaced.
- Doors swing in the direction of exit travel and lead directly to the outside.
- Doors that are not exits are labeled such (e.g. Not-An-Exit).
- Doors to emergency exit staircases and fire escapes are unlocked.
- Barred windows have an internal release, and open in the direction of travel.

6. EMERGENCY EXIT ROUTES:

- Exit routes are not obstructed by equipment, materials, product, etc. and are regularly checked.
- Two exit routes exist on opposite sides of the factory.
- Factory marks on the floor with photo-luminescent paint or stripes the appropriate exit routes.
- All exit routes are at least 112cm wide.
- Factory should have a one hour fire rating on enclosed fire escapes.
- The building roof top must not be obstructed, so that it may be used for evacuation in the event of a fire or emergency.

7. EMERGENCY LIGHTING:

- Factory has emergency lighting for all stairways and exit routes.
- Emergency lights are fire grade industrial for use in smoke and fire conditions.
- Lighting will last for a reasonable period of time.
- Factory regularly checks test-button and replace batteries immediately if needed on emergency lighting systems.

Fire Safety Risk

Supplemental Guidelines

8. ELECTRICAL WIRING & ELECTRICAL SWITCH BOARDS/CIRCUIT BREAKER & CONTROL:

- Electrical cords in the factory and dormitories are in good condition and properly encased to prevent shorting or fire.
- Electrical equipment is grounded to prevent injury and/or fire where there is risk.
- Electrical cords are not found in damp areas or in standing water.

- Electrical wiring is not in the aisles unless they are securely taped to the floor in a manner that does not create additional hazard.
- Safety switches on electrical switch boards are properly labeled.

9. DORMITORIES:

- All fire safety guidelines listed above are implemented in factory sponsored dormitory buildings.
- Factory provides a safe living environment for workers, and complies with all legal regulations regarding residential facilities, where provided.
- Dormitories are not located above any production or warehouse buildings.
- Each dormitory floor has at least 2 accessible, unlocked, and clearly marked exits leading to the outside.

Transform SR Holding Management LLC

COMMON HAZARDOUS CHEMICALS IN MANUFACTURING FACILITIES SUPPLEMENTAL GUIDELINES

Chemical Name	Potential Uses	Target Organs/Health Hazards
1. Toluene	Solvent/Adhesive	Eyes, skin, respiratory system, Central Nervous System (CNS), liver, kidneys
2. Ethylene Oxide	Sterilizing Agent	Eyes, skin, respiratory system, liver, CNS, blood, kidneys, reproductive system (peritoneal cancer, leukemia)
3. Formaldehyde (Formalin Furan)	Preservative	Eyes, respiratory system (nasal cancer)
4. Methyl Chloride	Solvent	CNS, liver, kidneys, reproductive system (lung, kidney & stomach tumors in animals)
5. Methyl Isocyanate	Urethane mfg.	Eyes, skin, respiratory system
6. Trichloroethylene	Solvent	Eyes, skin, respiratory system, heart, liver, CNS (liver & kidney cancer in animals)
7. Ethylene Dichloride	Solvent/degreaser	Eyes, skin, kidneys, liver, CNS, Cardiovascular System, (stomach, mammary gland and circulatory system cancer in animals)
8. Perchloroethylene (Tetrachloroethylene)	Solvent/degreaser	Eyes, skin, respiratory system, liver, kidneys, CNS (liver tumors in animals)
9. Trichloroethane	Solvent/degreaser	Eyes, respiratory system, CNS, liver, kidneys (liver cancer in animals)
10. Benzene	Solvent	Eyes, skin, respiratory system, blood, CNS, bone marrow (leukemia)
11. Tetrahydrofuran	Solvent/vinyl adhesive	Eyes, respiratory system, CNS
12. Methyl ethyl ketone	Solvent	Eyes, skin, respiratory system, liver, kidneys
13. Acetone	Solvent/bonding	Eyes, skin, respiratory system, CNS
14. Alcohols (Ethyl, Isopropyl, Methyl)	Cleaning	Eyes, skin, respiratory system, CNS, liver, blood, reproductive system, Gastrointestinal tract
15. Methylchloroisoithiazolinone (Methylisothiazolinone)	Preservative	Eyes, skin, respiratory system
16. Phenoxyethanol	Preservative	Eyes, skin, respiratory system

If any of the above or other potentially hazardous chemicals are used at the facility, factory must carefully review all handling, storage and disposal procedures.

NOTE: The above list is not comprehensive—there are many other hazardous chemicals that may be used in various manufacturing processes.

Source: NIOSH Pocket Guide to Chemical Hazards, 2005

Transform SR Holding Management LLC

Working Hours Supplemental Guidelines

It is common for factories to encourage or require workers to work hours in excess of legal limits or to discourage or deny workers their right to a day of rest, vacation or sick leave.

To prevent this, the Global Compliance Program requirement on working hours prohibits: (1) work in excess of the legal limits; (2) not providing at least one day off out of seven; and (3) the practice of not providing workers with all vacation, sick and other leave required by law. Where the law permits working hours beyond 60 in a week, the Global Compliance Program also requests that factories work no more than 60 hours per week.

With respect to working hours during **peak** production seasons, Transform SR Holding permits factories to work more than 60 hours in a week (regular and overtime) so long as the factory complies with the following 5 supplemental requirements:

1. It does not exceed 12 hours per day, 6 days per week for a total workweek of 72 hours;
2. One day off in seven is provided or workers are provided another day of rest during the next week. If work must be carried out on the rest day during peak season, it cannot occur more than once in a two week time period.
3. Peak season is limited to no more than 4 months or 17 weeks distributed throughout a one-year period. The maximum 60-hour workweek for non-peak production should be employed for at least 8 months out of 12;
4. Workers are compensated for regular and overtime hours in accordance with local law
5. Workers are educated on the standard workweek and the factory seeks their willingness to work overtime hours. For workers not interested in working overtime, the factory must be supportive of their decision and will not, in any way, force or coerce them to work overtime hours.

Transform SR Holding Management LLC

Environmental Compliance Supplemental Guidelines

All factories must comply with the specific legal requirements governing environmental in the countries that they operate.

1. ENVIRONMENTAL MANAGEMENT SYSTEM:

- Implement and maintain a written Environmental Management System.
- Appoint an employee who is responsible for coordinating all aspects of the Environmental Management System.
- Be aware of changes in environmental laws and regulations, and alter Environmental Management System to satisfy these changes.
- Periodically review existing environmental management systems by performing a factory walk-through looking for potential environmental hazards and how they are being managed.
- Only use chemicals purchased from qualified suppliers who offer chemicals that have a reduced environmental impact.
- Reduce hazardous waste by using non-hazardous materials, and through the use of new recycling technologies.

2. WASTE MANAGEMENT:

Waste Storage

- Waste must be labeled correctly.
- Hazardous & Non Hazardous waste must be stored separately, and hazardous waste must be stored in a designated area away from the production areas.
- Factory is required to keep records regarding all aspects of waste management.

Waste Transport

- Factory must fill out duplicate forms for transferring wastes and apply to the environmental protection administrative departments of the local people's government, or above the level of city divided into districts where the hazardous waste is to be moved out.
- Illegal transport of waste is prohibited.

Waste Disposal

- Factory must only send hazardous waste to suppliers that have a relevant business permit for disposing waste.
- Factory must not discharge any waste into rivers, lakes, reservoirs, or water drainage systems.
- Factory must not bury or burn waste on the factory site.

Transform SR Holding Management LLC

Environmental Compliance Supplemental Guidelines

3. WASTEWATER TREATMENT:

- The wastewater from washing, dying operation or other hazardous liquid waste streams must be separated, analyzed and treated before disposal.
- The wastewater system must have an official inspection certificate from a recognized government authority, and the copy of the certificate must be posted near the facility.
- Drainage system is built and examined periodically for leakage.
- Wastewater is processed by an authorized wastewater treatment plant.

4. ENVIRONMENTAL IMPACT:

- Factory must compile Environmental Impact Report, Environmental Impact Report Form or fill out Environmental Impact Registration Form and send it to the local government prior to construction.
- Factory needs to receive approval before starting construction.
- Factory needs to resubmit all necessary documents to the local government after the construction is complete.
- During the construction the factory must make decisions that result in the least amount of damage to the environment.

5. AIR EMISSIONS:

- Factory air emissions must be below legal emission standards.
- Factory should routinely monitor their air emissions to make sure that they are following local law.
- Purification equipment should be installed in factory to ensure that legal emissions laws are met.

Transform SR Holding Management LLC

Recordkeeping Supplemental Guidelines

The items **bolded below** are minimum requirements. In addition, all factories must comply with the specific legal requirements governing notices and record keeping. All other items listed below are suggestions or good practices adopted by “model” factories.

1. PERSONNEL FILES:

- Each factory must maintain a personnel file for each worker.
- The personnel file must include a copy of the best age verification documentation available in the country of manufacture (e.g. government, passport, travel document, social insurance card, etc.).
- Proof of the date of hire with the signature of the worker must be available for every employee.
- Employment contracts must include category of employment, fixed period of employment (if applicable), employment terms including wages and benefits, and hours of work.
- The original employment contract must be in the language of the worker and signed by the employer and employee.
- The original must be given to the employee, and a copy should be available in the personnel file.
- The personnel file should include a recent photo of the worker.
- Application for employment is available with basic information on the worker such as address, contact information, recommendations, experience and education.
- Written disciplinary actions taken against the worker, where applicable, including the signature from the worker acknowledging receipt of the disciplinary action should be included.

2. TIME CARDS:

- All factories use a time card, electronic bar card system, or attendance sheets to measure actual working hours for all production workers.
- If a time card or electronic bar card system is used, time measured must include in and out times at the start and end of each day.
- Attendance sheets may be used so long as they include time in and out each day, overtime hours, rest day hours, and the signatures of workers acknowledgement (on at least a weekly basis) confirming the accuracy and completeness of the attendance sheets.
- Time card records should be maintained for at least 1 year. Some countries require factories to maintain time card records for longer than 1 year.

3. PAYROLL RECORDS:

- Each factory must maintain a payroll register that proves proper payment of wages to each worker per hour, per day, per month or per piece.

Transform SR Holding Management LLC

Recordkeeping Supplemental Guidelines

- Payroll register should include regular working hours, overtime working hours, gross wages derived from pieces produced or working hours, applicable production bonuses, allowances, applicable deductions, and net wages.
- Original piece rate and other supporting documentation for the payroll register must also be maintained as proof.
- Payroll records must be maintained for at least 1 year. Some countries require factories to maintain payroll records for longer than 1 year.
- Detailed line items for things like holiday hours, top-up bonuses, overtime payment for piece rate work, loans, tardiness deductions, etc. are also encouraged.
- Signature on the payroll register from workers acknowledging the line items and receipt of net wages is also encouraged.

4. PAY SLIPS:

- Each factory must provide a pay slip to workers in the local language for each pay period that details items such as regular working hours/days, overtime hours, piece rate wages (if applicable), gross wages, deductions, and net wages.
- Workers' signature on the factory's copy of the pay slip is also encouraged to prove that workers have acknowledged the line items and have received the net wages.

Transform SR Holding Management LLC

Factory Security (C-TPAT) Supplemental Guidelines

The following questions are asked as part of a Global Compliance audit for factories producing for direct vendors (I.e. the importer of record on shipments to the US is Sears, or Kmart). All questions assess key security practices that help to mitigate the risk of loss, theft, and contraband smuggling that could potentially introduce acts of terrorism in the global supply chain. **The bolded items are additional questions that may be asked based on certain regions/countries that pose a higher security risk.**

1. GENERAL SECURITY:

- Does the factory have a written security policy plan?
- Does the factory have a designated security department / personnel?

2. PERSONNEL SECURITY:

- Does the factory have written personnel security guidelines for hiring, and are the guidelines evaluated periodically to ensure their effectiveness?
- Does the factory conduct employment screening and interviewing of prospective personnel (including temporary, part-time) that includes application verifications and periodic background checks?
- Does the factory have established policies and procedures for handling terminated employees including how they physically depart the premises, removal of access and IT IDs, the return of keys and IT equipment?
- **Does the factory examine and verify the job applicant's official identification?**
- **Is there an established procedure to conduct periodic unannounced personnel security checks to ensure that all personnel security procedures are being performed properly?**

3. PHYSICAL SECURITY:

- Is the factory constructed of materials which resist unlawful entry and protect against outside intrusion?
- Does the factory have security personnel present to prevent unauthorized entry?
- Does the factory have locking devices for external and internal doors, windows, gates and fences, while maintaining proper safety rules for employee egress in an emergency?
- Does the factory prevent unauthorized access to raw materials and finished cargo within warehouse?
- Does the factory have adequate lighting inside and outside facility, including parking areas?
- Are private vehicles not able to freely access shipping, loading and cargo areas?

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Factory Security (C-TPAT)

Supplemental Guidelines

- Does the factory have a communication plan with internal/external communication systems in place to contact factory security personnel or local law enforcement agencies, should the need arise?
- **Does the factory have intrusion detection or an alarm system, and is there a back-up power source for the alarm system?**
- **Are all buildings properly maintained and repaired?**
- **Are records kept of building infrastructure integrity (including inspection dates, reported damages, and completed repairs)?**
- **Are underground access points, culverts, utility tunnels, sewers, etc. secured to prevent unauthorized access?**
- **Are employees'/visitors' entries and exits recorded, and monitored for suspicious activity?**
- **Are closed circuit television cameras (CCTV) utilized to monitor the activity inside/outside the factory?**
- **Does an authorized employee escort visitors and vendors through the building?**
- **Is there an established procedure to conduct periodic unannounced physical security checks to ensure that all physical security procedures are being performed properly?**
- **Does the factory have identification badges, or similar visible identification for their employees?**

4. INFORMATION ACCESS CONTROLS:

- Does the factory have procedures in place to limit access to keys, key cards and computer systems to only those persons who have a job related need for such access? Are terminated employees immediately denied access to keys, computer system, etc.?
- Are information systems password protected, and are relevant employees provided with individually assigned IT system accounts?
- **Are passwords subject to regular forced changes?**
- **Is there an established procedure to conduct periodic unannounced information access control security checks to ensure that all information access control security procedures are being performed properly?**

5. SHIPMENT INFORMATION CONTROLS:

- Is there a designated company representative responsible for providing accurate information on the company products to the cargo broker/forwarder/carrier?
- Are records properly maintained on all shipments?
- **Has the designated company representative been trained on the information requirements for shipments to the United States?**

Transform SR Holding Management LLC

Factory Security (C-TPAT)

Supplemental Guidelines

- Is there an established procedure to conduct periodic unannounced shipment information controls security checks to ensure that all shipment information controls security procedures are being performed properly?

6. STORAGE AND INFORMATION DISBURSEMENT CONTROLS:

- Does the factory have procedures for handling incoming and outgoing goods to protect against introduction, exchange or loss of any legal or illegal material?
- Does the factory have a security officer to supervise the introduction or removal of cargo?
- Does the factory have procedures to properly mark, weigh, count, and document products?
- Does the factory use high security seals to place on departing containers/cargo conveyances?
- Does the factory have verification and reporting mechanism in the event a seal has been cut or compromised?
- Does the factory have procedures for detecting and reporting shortages/overages?
- Does the factory have procedures for tracking the timely local movement of incoming and outgoing goods?
- Does the factory properly store empty/full containers to prevent unauthorized access?
- Does the factory conduct inspection prior to loading container?
- Does the factory have procedures to notify Customs and other law enforcement agencies in cases where abnormal or illegal activities are detected or suspected?
- **Is dangerous cargo, including hazardous materials and munitions and explosives, secured and stores separately?**
- **Are international and domestic cargo segregated?**
- **Is the cargo moved directly from the storage facility/assembly line to the conveyance without intermediate staging?**
- **Is there a cargo verification procedure in place to prevent unmanifested cargo from being loaded?**
- **Are all containers and trucks checked for tampering, false compartments, and other evidence of unauthorized access before loading, and are relevant records properly maintained?**
- **Does the factory conduct tractor inspection which includes: fifth wheel area - check natural compartment/skid plate, bumper/tires/rims, doors/tool compartments, battery box, air breather, fuel tanks, interior cab compartments/sleeper and faring/roof?**
- **Does the factory have procedures for affixing, replacing, recording, tracking, and verifying seals on containers, trailers, and rail cars?**

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Factory Security (C-TPAT)

Supplemental Guidelines

- **Is there an established procedure to conduct periodic unannounced storage and distribution security checks to ensure that all storage and distribution security controls procedures are being performed properly?**
- **Does the driver report and document if any anomalies or unusual structural modifications are found?**

7. CONTRACTOR CONTROLS: (including export carrier/third party logistics)

- Does the factory select and hire contractors to perform services which require access to the factory?
- Does the factory select the land carriers, sea carriers, rail carriers, consolidators, freight forwarders, or other 3rd party logistics providers hired to transport goods destined to the US?
- **Is there a procedure for contractors to report security violations to the factory management?**
- **Where applicable, does the factory require C-TPAT enrollment of its contractors?**
- **Is there an established procedure to conduct periodic unannounced contractor controls checks to ensure that all contractor controls procedures are being performed properly?**

8. EDUCATION AND AWARENESS:

- Does the factory provide a security reporting mechanism for employees, including confidential reporting?
- Does the factory conduct security awareness training for management, supervision and employees to include recognition of internal conspiracies, maintenance of product integrity, and determination of unauthorized access and procedures to address unauthorized access?
- **Is there an established procedure to conduct periodic unannounced checks to ensure that the current security awareness and training program in place for all personnel is being delivered properly?**
- **Is security training documented for verification purposes?**



Transform SR Holding Management LLC



TRANSFORM SR HOLDING MANAGEMENT LLC **GLOBAL COMPLIANCE PROGRAM REQUIREMENTS**

Transform SR Holding Management LLC (all retail, catalog, and online formats operating under Sears or Kmart, including but not limited to: Sears, Kmart, Super K) is committed to conducting business with a high standard of business ethics, a regard for human rights, and in compliance with all applicable laws. Moreover, Transform SR Holding expects its vendors to demand similar standards in its entire supply chain including pre-assembly, and core and secondary facilities, whether owned or leased.

While Transform SR Holding recognizes that different cultural, legal and ethical systems exist in the countries which manufacture merchandise for Sears and Kmart, these Global Compliance Program Requirements set forth certain basic and fundamental requirements that all domestic and international facilities must satisfy as a condition of doing business with us. Where our Program sets a higher standard, it will prevail.

Compliance with the Law. Transform SR Holding will only produce merchandise in facilities that we consider reputable and whose business and labor practices conform to the requirements of applicable laws.

Health and Safety. All production and residential facilities must be structurally safe, and factory conditions must be consistent with all applicable laws, and regulations.

Fire Safety Risk. All production and residential facilities must take all possible precautions to reduce the risk of fire, and have adequate plans to protect the lives of the workers in the event of a fire. Facilities must adhere to all applicable fire safety laws and regulations in the counties where they operate.

Child Labor. No factory worker shall be employed under the age of 15, or under the age of completion of compulsory education, or under the minimum age for employment in the country of manufacture, whichever is greater.

Forced/Slave Labor, Human Trafficking. We will not allow forced labor whether in the form of prison labor, indentured labor, or bonded labor. Overtime hours must be voluntary. Migrant workers should be provided with contracts, treatment, and wages that equal those of local workers.

Harassment or Abuse. No worker shall be subject to any physical, sexual, psychological, or verbal harassment or abuse.

Discrimination. Discrimination in employment, including recruitment, hiring, training, working conditions, job assignments, pay, benefits, promotions, discipline, termination, or retirement on the basis of gender, race, ethnicity, social origin, religion, age, disability, sexual orientation, national origin, or political opinion is prohibited.

Working Hours. Except in extraordinary business circumstances, workers shall not be required to work (inclusive of overtime) more than the legally prescribed limits or 60 hours, whichever is less, and one day off in every seven day period shall be provided. Production facilities shall comply with applicable laws that entitle workers to vacation time, leave periods and holidays.

Wages and Benefits. Wages are essential for meeting the basic needs of workers. Workers will be compensated by wages, including overtime pay and benefits which satisfy all applicable laws and regulations.

Freedom of Association. All workers must have the right to establish and join a legal organization of their own choosing, without being penalized for the non-violent exercise of these rights.

Environmental Compliance. Adherence to all local laws protecting the environment is required. Factories must conduct business so as to minimize the impact on the environment, including reducing waste and maximizing recycling initiatives.

Notice and Record Keeping. The Global Compliance Program Requirements must be posted in a location accessible to the workers in the appropriate local language. Factories must also maintain and make available sufficiently detailed records that enable Transform SR Holding to determine their compliance with the Program.

Factory Security. Factories must implement minimum security criteria and best practices to help secure our supply chain from terrorist activity based on a set of recommendations developed as a result of the Customs-Trade Partnership Against Terrorism (C-TPAT) initiative with US importers.

Violations

To report suspected violations of our requirements please contact the Global Compliance Department by e-mailing laborc@searshc.com.