

# Supplier Sustainability Audit Program Manual

## **Supplier Sustainability Audit Program Manual**

**This guide is intended to help Suppliers understand Philips' expectations with respect to their performance in the field of social, ethical and environmental management.**

## Colophon

This Supplier Sustainability Audit Program Manual has been developed by Philips Supplier Sustainability Management.

We are continually looking for relevant examples from business practice to enhance the content of the manual and to ensure all relevant issues are covered.

If you can provide us with such examples or if you need further information or have any comments or questions about the content of this manual, please do not hesitate to contact Philips.

To find out more about our audit programs and results visit our Sustainability website at:

<http://www.philips.com/about/sustainability/oursustainabilityfocus/suppliersustainability.page>

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Dear Stakeholder,

Philips is committed to improving the quality of people's lives. This is what drives Philips in the development and manufacturing of our products. Promoting acceptable working conditions, environmentally responsible management and ethical behavior is all part and parcel of our commitment.

These days our products are not just the result of a Philips effort. More and more, our products are being created and manufactured in close cooperation with a wide range of business partners, both in the electronics industry and in other industries as well. If we are to deliver on our commitment to promote a sustainable future, we need our business partners to share our commitment, and not just in the development and manufacturing of products but also in the way they conduct their business.

One of the actions we have taken towards achieving this common goal is to become a member of the Electronics Industry Citizenship Coalition (EICC) in 2006. The EICC provides the electronics industry with a platform from which to develop standardized tools and processes, helping to develop a uniform standard as well as to measure performance against this standard.

Using this platform as a basis, Philips has created the Supplier Sustainability Program. As explained in this manual, this program defines what we expect of our Suppliers. In search of mutually beneficial relationships, we will award business to those Suppliers who are committed to living up to these expectations. As part of this joint approach, we will be there to support our Suppliers in cases where they need to improve their performance. Together we will strive for continued improvement.

This Supplier Sustainability Audit Program Manual aims to provide transparency to our Suppliers, business partners and other stakeholders about the Philips Supplier Sustainability Audit Program, its contents and the related tools, processes and procedures.

I trust that this Supplier Sustainability Audit Program Manual will prove a useful tool in helping you to contribute to the creation of a sustainable Philips supply chain.

I firmly believe that this is the only way forward, as it will improve the efficiency, productivity and product quality whilst also reducing waste-related costs, minimizing health & safety concerns, and improving employee satisfaction, etc. Moreover, in a world where sustainability is increasingly becoming a condition of sale, a sustainable business approach is one way to ensure business continuity and to create business opportunities.



Marco Baren  
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## References

## 1 Introduction

### Philips' Suppliers and the Philips Mission

Philips is committed to improving the quality of people’s lives. This is what drives Philips in the development and manufacturing of our products. Promoting acceptable working conditions, environmentally responsible management and ethical behavior is all part and parcel of this commitment.

Philips' commitment to responsible corporate citizenship and the pursuit of a sustainable future – in economic, social and environmental terms – is reflected in its mission as well as in the [Philips General Business Principles \(GBP\)](#). The Philips GBP set out guiding principles on integrity and ethics in business conduct, including those that help create a sustainable supply chain.

In short, Philips pursues mutually beneficial relationships with its Suppliers and seeks to award business to those Suppliers who are committed to acting fairly and with integrity towards their stakeholders, to observing the applicable rules of law and to supporting and respecting internationally proclaimed human rights.

### The Supplier Sustainability Audit Program

Given our commitment, Philips aims to work with Suppliers and business partners who show as much dedication to improving people's quality of life as they do to improving the quality of their products. A Supplier Sustainability Audit Program (‘Program’) has been put in place for this purpose. The Program is based on Philips' expectations of Suppliers, as set out in following two documents:

- Philips Supplier Sustainability Declaration (‘Declaration’) and
- Philips List of Regulated Substances in Products, Product Packaging and Transport Material (‘RSL’)

Both the Declaration and RSL constitute an integral part of our General Purchasing Agreements.

The Declaration incorporates the Electronics Industry Code of Conduct (EICC Code), a code developed within the electronics industry as convened in the Electronics Industry Citizenship Coalition<sup>1</sup>. The Declaration contains an annex covering freedom of association and the right of collective bargaining in accordance with the relevant ILO Core Conventions. The Declaration will be updated on a regular basis. For the latest version please visit [our website](#).

Create commitment	Build understanding	Monitor identified risk suppliers	Manage risk	Work with stakeholders
Supplier Sustainability Declaration Regulated Substance List	Training and capability building	Risk assessment Self assessment Audit	Resolving NC Consequence management Repeat audit cycle every 3 years	Transparency Constructive dialogue

*The Philips Supplier Sustainability Audit Program*

<sup>1</sup> For current member list visit: <http://www.eicc.info/MEMBERSHIP.htm>

## 2 Declaration of Commitment

Philips requires every Supplier to share its commitment to promoting acceptable working conditions, environmentally responsible management and ethical behavior. The basis for this is laid down in:

- the Philips Supplier Sustainability Declaration ('Declaration'), and
- the Philips List of Regulated Substances in Products, Product Packaging and Transport Material ('RSL').

Both the Declaration and the RSL will therefore constitute an integral part of any purchasing agreement between the Supplier and Philips, and Philips expects Suppliers to integrate the content of both documents into their internal policies, processes and procedures, and to roll out both the Declaration and the RSL to their next-tier Suppliers.

### 2.1 Content

#### 2.1.1 The Philips Supplier Sustainability Declaration

The Philips Supplier Sustainability Declaration ('Declaration') consists of five chapters and an Annex.

Chapter A formulates the human rights of workers. The labor standards comprise rules relating to freely chosen employment, child labor avoidance, working hours, wages and benefits, humane treatment, non-discrimination, and freedom of association. This latter aspect is elaborated in the Annex to the Declaration, which sets out clearly employees' rights relating to freedom of association and collective bargaining in accordance with the relevant ILO Core Conventions.

Chapter B defines the workers' right to a safe and healthy working environment. The health and safety standards comprise rules regarding occupational safety, emergency preparedness, occupational injury and illness, industrial hygiene, physically demanding work, machine safeguarding, sanitation, food, and housing.

Chapter C reflects the environmental responsibility of EICC member companies. The environmental standards consist of rules relating to environmental permits and reporting, pollution prevention and resource reduction, hazardous substances, wastewater and solid waste, air emissions, and product content restrictions.

Chapter D defines the standards of ethics that are required to meet social responsibilities, including rules relating to business integrity, no improper advantage, disclosure of information, intellectual property, fair business, advertising and competition, protection of identity, responsible sourcing of minerals, privacy, and non-retaliation.

Chapter E imposes upon Suppliers a management system designed to ensure (a) conformance with the applicable laws, regulations and customer requirements relating to the participant's operations and products; (b) conformance with the Declaration; and (c) identification and mitigation of operational risks related to the Declaration. It also aims to facilitate continual improvement. The management system must contain the following elements: company commitment, management accountability and responsibility, legal and customer requirements, risk assessment and risk management, improvement objectives, training, communication, worker

feedback and participation, audits and assessments, corrective action process, documentation and records, supplier responsibility.

## **2.1.2 The Philips List of Regulated Substances in Products, Product Packaging and Transport Material**

As part of Philips' commitment to health, safety and the environment, all products or parts, product packaging and transport material delivered to Philips as well as certain defined manufacturing processes that are used to make Philips parts must comply with all applicable requirements in the Philips List of Regulated Substances in Products, Product Packaging and Transport Material (RSL). The RSL contains minimum requirements relating to:

- federal, state, county or municipal laws, regulations, ordinances or codes, and
- Philips' own requirements.

The RSL constitutes an integral part of the General Purchasing Agreement.

The RSL is updated regularly so as to ensure alignment with regulatory and industry developments. Compliance to the RSL is monitored in a tool called 'BOMcheck'. Philips and a number of other large electronics companies have developed BOMcheck as an industry-wide platform that standardizes the way in which companies collect chemical composition information from their Suppliers. Philips requires Suppliers to provide declarations of compliance with the RSL via BOMcheck. BOMcheck can be found at <http://www.bomcheck.net/>

The latest version of the RSL is available on the Philips [website](#).

## **3 Selective Monitoring**

Suppliers are expected to implement internal controls to ensure they are able to live up to their commitment of compliance. The type of support Philips provides and the monitoring Philips carries out will depend on the risk profile of the Supplier.

### **3.1 Sustainability risk profile**

The Supplier's risk profile is determined by criteria relating to:

- Country in which production sites are located
- Substances used in the product and manufacturing process
- Commercial interests: Philips' spend with Supplier
- Incidents reported to Philips – directly or indirectly, e.g. via the media
- Type of product or service delivered to Philips

### **3.2 Sustainability risk criteria**

#### **Country in which production sites are located**

All countries that fall into the 'extreme' or 'high' risk category in the Maplecroft Human Rights Risk Index and the Maplecroft 'Legal and Regulatory Environment Risk Atlas' are deemed risk countries. Based on Philips' Supplier base distribution and purchasing value, Philips determines a

number of risk countries for its audit program. This list of risk countries will be reviewed regularly and, where necessary, changes will be made. The latest list of risk countries can be found on the following Philips website:

<http://www.philips.com/about/sustainability/oursustainabilityfocus/suppliersustainability.page>

## **Substances used in the product and manufacturing process**

The use of hazardous substances or processes, e.g. mercury, volatile organic solvents, metal plating, acid washing, or radiation sources, may lead to a Supplier being classified as a high-risk Supplier. Such Suppliers are categorized as “high-risk” Suppliers in our database.

For IMS Suppliers: there are specific criteria for identifying high risk Suppliers, which is different from BOM Suppliers. IMS Suppliers with yearly spend between 200 K – 1 M Euro under high risk CLOG are high risk Suppliers.

Other suppliers located in risk countries are identified as high risk by business.

## **Commercial interests: Philips' spend with Supplier**

For monitoring purposes, Philips has determined a threshold based on an annual spend of € 1,000,000 in a number of specific risk countries. Any Supplier in these countries with a Philips' spend higher than this amount will automatically be incorporated in the monitoring program (i.e. auditing as well as Supplier Sustainability Development Program). Audit prioritization will be based on the Supplier's individual risk profile. Those Suppliers with a high risk profile outside of this threshold or Suppliers who express a desire to be audited in order to have external confirmation of their sustainability status may be incorporated in the audit program.

For prospective Suppliers (e.g. potential Suppliers), Philips uses the lower threshold of an expected annual spend of more than € 100,000 for the audit program. This means we can ensure that our Suppliers are at an acceptable sustainability level before they enter the Philips Supplier base.

## **Incidents reported to Philips**

Where environmental, health & safety, labor or ethics-related incidents are brought to the attention of Philips, Philips will determine what course of action is most suitable. As a rule, Suppliers will be asked to give their reaction to the allegations, and asked what they have done or intend to do in order to make amends. Where appropriate, Philips may conduct unannounced audits, in particular to substantiate specific Supplier-related allegations concerning unsustainable practices.

The following table describes the audit approach to different kinds of Suppliers. Note, the actions listed in the table represent the minimum requirement. A business can always decide to take further action if necessary. Supplier sites shown in green are on Philips' list of active risk suppliers, which is used to calculate monthly / yearly compliance rates.



Unit: Euro	< 100 K	100-500 K	500 K-1 M	> 1 M
<b>Existing active suppliers</b>				> 1 M Suppliers pay initial / resolving audits Used for compliance rate calculation
<b>NVI suppliers</b>	NVI 100-500 K Perform intensive EICC training Use EICC audit tool for self assessment / no need 3rd party audit Optional (Business can decide): Initial and resolving audits done by 3rd party / suppliers will pay Not used for compliance rate calculation		NVI 500K-1M Suppliers pay initial / resolving audits Used for compliance rate calculation	> 1 M Suppliers pay initial / resolving audits Used for compliance rate calculation
<b>High risk suppliers</b>	High risk Initial audit done by 3rd party / suppliers pay 1 <sup>st</sup> resolving audit done by Philips experts / <u>2<sup>nd</sup> time by 3<sup>rd</sup> party and suppliers will pay</u> Used for compliance rate calculation			> 1 M Suppliers pay initial / resolving audits Used for compliance rate calculation
<b>Potential suppliers</b>	Potential Potential suppliers with expected spend > 100 K Initial audits are done by 3rd party and suppliers will pay 1st time resolving audits are done by Philips experts and 2nd time resolving audits are done by suppliers Close all red NCs before delivering to Philips Not used for compliance rate calculation / will be in monthly report and annual report in another category			

**Notes:**

Suppliers in blue color are used for compliance rate calculation

NVI: New Venture Integration; IMS: Indirect Materials & Services

All IMS suppliers with spend between 200 K – 1 M under risk category are identified as high risk suppliers

Our Philips internal experts are located in China, Brazil, India, Mexico. For suppliers located in other countries, full scope audit and resolving audit are done by 3<sup>rd</sup> party.

## 4 Knowing What to Do

As the success of the Philips Supplier Sustainability Audit Program will be largely determined by our Suppliers' ability to conduct business in a way that secures a healthy and safe working environment for their workers, recognizes workers' rights as well as the rights of others, and protects the environment, Philips has implemented a variety of capacity-related and capability-building initiatives and expects Suppliers to actively take part in these initiatives.

### 4.1 Getting together

#### Philips EICC training sessions in China, India and Brazil

Suppliers are encouraged to take part in the training sessions on EICC Code of Conduct that are held on a regular basis in China, India and Brazil. These Philips EICC training sessions are organized by Philips and Philips internal experts provide trainings to our suppliers, which cover various topics relating to the requirements of EICC Code of Conduct, and can help to further develop supplier sustainability competences. In particular those persons in key positions at the Supplier's, e.g. the HR manager, the health and safety officer, the environmental manager and the general management, are expected to attend one of these training sessions when invited to do so by Philips.

In these training sessions Suppliers learn about the need for a sustainable way of conducting business, as well as about how they are expected to address the social, environmental and ethical aspects of running a business. Attention will be devoted to the background, the rationale and the content of the Declaration and the RSL, and information will also be given on the auditing processes, tools, and best practices in general.

## EICC training sessions on various topics

Philips will inform Suppliers of training opportunities offered by EICC, e.g. worker management training, health and safety training, and will encourage suppliers to take part.

## Supplier Days

Furthermore, sustainability awareness elements are regularly incorporated into Supplier Days that are held worldwide.

## **4.2 What can you do yourself?**

### The EICC risk assessment tools

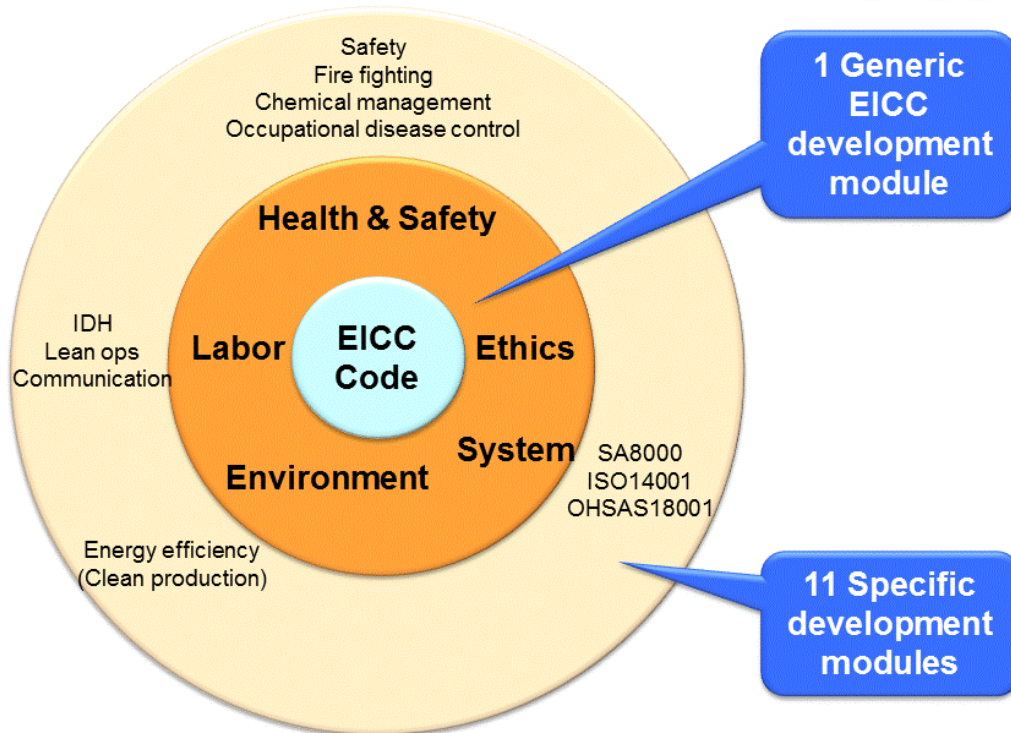
Philips considers the EICC risk assessment tools to be suitable instruments for building sustainability awareness among Suppliers, and encourages Suppliers to use these tools for training purposes. They provide a clear interpretation of the Declaration and give Suppliers the opportunity and the means to review and, where necessary, to amend their performance. The EICC risk assessment tools can be found on the EICC [website](#).

### Self-audits

Philips encourages businesses to carry out self-audits on a regular basis. One tool suitable for this purpose is the Philips Supplier Sustainability audit tool, which is available on our [website](#).

## **4.3 Supplier sustainability development**

If Suppliers require further assistance in addition to the training provided, there is the possibility for Suppliers in the Audit program to participate in the Philips Supplier Sustainability Development Program provided by Philips sustainability experts mainly located in China. The Supplier can indicate for which topics support is needed and, together with Philips, can decide how this support can best be arranged. In addition to that, the Philips sustainability experts can proactively engage with Suppliers to help resolve non-conformances (see Section 5), which is part of supplier sustainability development program.



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## Supplier Sustainability Development Modules

### IDH ‘Sustainable Trade Initiative’ program

IDH is the Sustainable Trade Initiative geared to accelerating and up-scaling sustainable trade by forming impact-oriented coalitions of leading multinationals, civil society organizations, governments and other stakeholders. IDH's Electronics Program has been developed by leading electronics companies and civil society organizations – Philips, Hewlett-Packard, Dell, the Dutch trade union federation FNV, SOMO, and the GoodElectronics Network – in close collaboration with local Chinese stakeholders. Its main objective is to improve working conditions and environmental performance at electronics factories in China, covering 500,000 workers. The IDH Electronics Program targets Chinese Suppliers producing in the Pearl River Delta, and focuses on topics relating to worker/management communication, health and safety and the environment. Philips encourages its Suppliers to participate. For more information contact Philips or visit the IDH website: (<http://www.idhsustainabletrade.com/electronics>). Note, IDH is part of supplier sustainability development program.

## 5 Demonstration of Compliance

### 5.1 Audit content and process

The Supplier Sustainability Audit Program includes an audit cycle in order to provide both Philips and Suppliers with a regular status overview of Suppliers' conformance with the Declaration. The audit is the evaluation process conducted by a Philips-approved audit firm in order to determine the Supplier's level of conformance and the critical areas of improvement. In order to give a representative picture of a Supplier's overall sustainability performance, audits are not restricted to production lines that are set up exclusively for Philips products but instead cover an entire Supplier site and the complete workforce.

The audit firms use the Philips EICC audit tool, which is available on our [website](#), and the Philips guidelines as a basis for conducting the audit. For the purpose of confidentiality, the results of audits are only shared with Philips and the Supplier. The audit results are not made public or shared with customers of Philips, unless with the Supplier's consent.

### EICC Validated Audit Program (VAP)

Suppliers who have a lot of EICC members among their customers can opt for the EICC VAP process. This process is EICC driven and includes an audit carried out by EICC-approved audit firms, with tracking of non-conformance resolution by the EICC. The audit report is stored in the EICC audit database, and Suppliers can share the audit reports with the relevant EICC members of their choice. If a Supplier has a valid VAP audit report, and Philips has received access to the report in the EICC database, there is no need for a separate Philips Supplier audit.

## **5.2 Audit selection**

The Suppliers to be included in the audit program are determined by their risk profile. For further information, see Section 3.

## **5.3 Audit preparations**

The Supplier is encouraged to perform the EICC self-assessment as audit preparation. This will enable the Supplier to prepare the audit properly, to have the necessary documentation and relevant information available at the audit, and to take corrective action where necessary before the actual audit takes place.

The audit process may be aborted if the information required is not available during the audit or if the Supplier obstructs the performance of the audit in any other manner. Philips will treat any such absence of information as a Major non-conformance (see Section 6).

## **5.4 Audit scheduling and payment**

Suppliers will be informed by Philips when an audit is required and will be notified of the relevant timeline within which the audit is to take place.

The audits are scheduled by the Supplier in consultation with the audit firm within the timelines indicated by Philips. All audits for active Suppliers with a spend in excess of 1 million euros and for NVI Suppliers with a spend exceeding 500,000 euros, Full-Scope Audits and any necessary Resolution Audits are to be paid for by the Supplier. In practice, if the NC closure can be done on the basis of desk top review, then there is no need to ask suppliers to pay and also there is no need to perform the on-site check. For some cases, resolution audits can be done by Philips internal experts rather than 3<sup>rd</sup> party auditors, which is determined on the case by case basis.

For high-risk Suppliers and potential Suppliers with an expected spend greater than 100,000 Euros (Note, for IMS high risk Suppliers, the spend is greater than 200,000 Euros), Full-Scope Audits are to be paid for by the Suppliers and any necessary Resolution Audits are performed by the Philips sustainability experts for the first time resolution audit. For the second time resolution audit, the Supplier will pay. The Supplier is obliged to pay the relevant audit fee in advance. The planned audit date will only be confirmed after payment has been received.

The audit fees are set by Philips and the audit firm together, and form the basis for the fee to be charged by the audit firm. The audit fees vary according to the region/country and the size of the workforce, and are exclusive of travel expenses. Audit fees do not cover any Resolution Audits that may be necessary. The fees for Resolution Audits are dependent on the amount and type of non-conformances found during the Full-Scope Audit. Resolution Audits will take a maximum of 1 full man day.

## **5.5 Announced versus unannounced audits**

As a rule, audits are announced to the relevant Suppliers beforehand. However, Philips reserves the right to conduct unannounced audits or to have these conducted on its behalf. Philips may conduct unannounced audits particularly to substantiate specific Supplier-related allegations concerning unsustainable practices.

These audits are initially financed by Philips. Philips will claim back the audit costs from the Supplier if Major non-conformances are established during these audits (see Section 6).

## **5.6 Audit team**

The composition and qualifications of the audit team are to be determined by the audit firm. Philips will not be a member of the audit team. However, in a number of audits a Philips sustainability expert will be present as an observer, as part of the quality management of the audit firm. Furthermore, the Philips lead buyer may be present in an observational role and will limit his or her activities to the logistics arrangements.

## **5.7 Audit procedure**

Each audit will include the following standard elements:

- Introductory meeting
- Management interviews
- Evaluation of documentation
- Factory tour
- Employee interviews
- Feedback session (incl. submission of an initial on-site audit report).

This feedback session provides the Supplier with the basis for the Corrective Action Plan (CAP).

## **5.8 Audit deliverables**

The audit firm will submit to Philips and to the Supplier final audit results with a detailed overview of all audit findings, as discussed in the feedback session. This audit findings need to be approved by Philips sustainability experts before they are released to the Supplier. The audit deliverables are as follows:

- Audit report;
- CAP with improvement actions and time line to close NCs;
- Confidentiality report. A confidentiality report can be issued based on the following circumstances:
  - Supplier provides inconsistent records during the audit;

- Outcome from employee interviews does not match with the supplier current process;
- Auditors suspect the supplier might falsify records.

Note, confidentiality report will not communicate with the supplier.

## 5.9 Audit frequency

### Full-Scope Audit

A Full-Scope Audit is conducted with all Philips Suppliers who are eligible for such an audit (see Section 3) and who do not have a valid audit report. The validity is determined by the applicable audit frequency, as outlined in this Section.

During a Full-Scope Audit the Supplier’s business conduct is evaluated against all sections of the Declaration.

### Resolution Audit

A Resolution Audit is performed to formally review and close any Major non-conformances that are raised in the Full-Scope Audit.

The Resolution Audit is a focused audit, which means that the audit focuses on the Major non-conformances that were found during the Full-Scope Audit.

### Timeline Resolution Audit

In general, Philips wants to close Major NCs as quickly as possible. In the Philips Audit Tool, we suggest the timeline for closing Major non-conformances is 3 months. Note, 3-month is the guideline and is not mandatory. This can be longer if necessary due to the nature of the NC (refer to the audit tool for details). If a Supplier cannot close Major NCs within the suggested timelines, the Supplier will discuss this with the Philips sustainability experts and agree upon the amount of time required to close the Major NCs. In this case, the Supplier shall provide sufficient evidence to show that closure of the Major NC will indeed take this amount of time. In the end, the timeline for each Major NC closure will be documented in the CAP. Normally, the longest NC closure timeline is used to determine when the 1<sup>st</sup> Resolution Audit will take place. The 2<sup>nd</sup> Resolution Audit will take place 3 months after the 1<sup>st</sup> Resolution Audit. If Suppliers are able to close Major NCs before the end of the suggested timeline, they are strongly encouraged to do so.

In the event of Minor non-conformances, no Resolution Audit is required. The Philips sustainability experts do not officially monitor the status of the closure of Minor NCs. However, Minor NCs should be used as improvement inputs for Suppliers to further improve their sustainability performance, and Philips buyers can use this information during their business review meetings with the Suppliers.

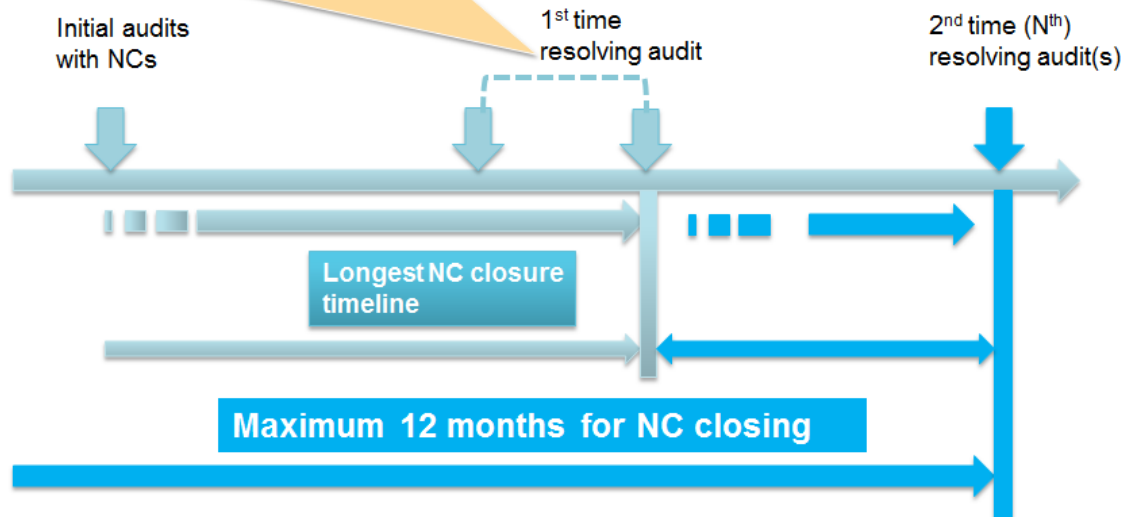
**Table: Audit Frequency**

	<b>Progress check against milestones</b>	<b>Resolution Audit 1</b>	<b>Resolution Audit 2</b>	<b>New audit cycle</b>
<b>Major Non-conformances</b>	According to milestones determined in CAP	Before end of the longest timeline agreed in the CAP	3 months after the 1 <sup>st</sup> Resolution Audit if necessary	3 years after the Full-Scope Audit date
<b>Minor Non-</b>	Monitoring takes place	N/A	N/A	3 years after the



<b>conformances</b>	in supplier development program if applicable. No official follow up by Philips.			Full-Scope Audit date
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The suggested timeline for major NC closure is 3 months. If suppliers have good reasons of not being able to close the NCs within 3 months, suppliers can discuss with experts for having longer time to close the NCs written down in CAP



### Three-year cycle

The next Full-Scope Audit is to be conducted at most three years after the date of the Full-Scope Audit.

## 6 Resolving Non-Conformances

Once an audit has been conducted and the parties have a good status overview of the Supplier's conformance with the Declaration, it is not necessarily easy to determine how the resolution should be handled. In order to provide guidance in this process, non-conformances have been categorized into Major and Minor non-conformances to help provide structure and focus in the resolution approach. The current categorization list is available on our [website](#).

### 6.1 Resolution time per category

#### Major non-conformances

Major non-conformances are divided into issues with zero tolerance and issues with limited tolerance.

- Zero-tolerance non-conformances must be resolved immediately, given that the non-conformance relates to an urgent life-threatening situation or a severe violation of human rights which requires immediate attention. Philips and the Supplier will agree a feasible resolution period to be documented in the CAP, with defined progress milestones.
  - Zero-tolerance non-conformances are categorized as red NCs.

- Limited-tolerance non-conformances must be resolved as soon as is reasonably possible. Philips and the Supplier will agree a feasible resolution period to be documented in the CAP with defined progress milestones.
  - Limited-tolerance non-conformances are categorized as orange NCs.

Based on the nature of major NC closure time needed, major NCs are suggested to be closed within 3 months after the initial audits have taken place. The real time determination is agreed between the Suppliers and Philips sustainability experts based on the nature of major NCs. The maximum time to close major NCs is 12 months.

### **Minor non-conformances**

Minor non-conformances must be resolved as soon as possible, and within a maximum of 6 months after the Full-Scope Audit. If a Supplier needs longer to close Minor NCs, this must be discussed with the Philips sustainability experts. The Supplier will take responsibility for closing its Minor NCs. The Philips sustainability experts do not officially follow up on the closure status of Minor NCs. However, such info will be used as input by Philips and the Supplier at Business Review Meetings (BRM).

- Minor non-conformances are categorized as yellow NCs.

### **Priority issues**

The following 4 issues should be closed immediately:

- Child labor (refer to section 6.4)
- RoHS / REACH non-compliance
- Workers working in very un-safe environment
- Falsified records identified

### **6.2 Corrective Action Plan (CAP)**

In the event of Major non-conformances, Philips requires from the Supplier a written Corrective Action Plan (CAP), based on the recommendations of the external audit firm. This CAP is to be agreed with Philips within 1 month of the Full-Scope Audit date. The final CAP must include the following elements:

- a description of the non-conformance
- the planned corrective action
- progress milestones – including deliverables, such as documentation or other forms of underlying evidence
- the person(s) responsible for implementation agreed by General Manager
- the resolution period for each non-conformance to be resolved
- timing of Resolution Audit.

A pro forma outline of the CAP is attached to this document as Attachment C. See the following website for details:

<http://www.philips.com/about/sustainability/oursustainabilityfocus/suppliersustainability.page>

A Philips sustainability expert will review and approve the CAP received from the Supplier. The Supplier is responsible for realization of the CAP within the deadlines, and will inform Philips in the event of any delay. Where necessary, the Supplier can consult the Philips sustainability expert about the resolution of NCs.

### **6.3 Continued non-conformance**



If Philips notices that there is a delay in the realization of the CAP, the following situations may arise:

When	Philips action	Consequence
CAP off track	SAMs will give early warning to Supplier	Supplier submits CAP within 1 week
Failed 1 <sup>st</sup> Resolution Audit	SAMs will prepare contingency plan	New business will not be allocated to the supplier
Failed 2 <sup>nd</sup> Resolution Audit or NCs are open more than 1 year	SAMs will prepare phase-out plan	Supplier will be phased out based on the business decision

Potential Suppliers can only start to deliver their first shipments once all red non-conformances have been closed.

If a Supplier does not make sufficient progress in implementing the agreed corrective actions and fails both Resolution Audits or major NCs are more than 1 year, Philips will end its relationship with this Supplier as a last resort.

## 6.4 Issue-based resolution; cases of child labor

### EICC Chapter 2: Child Labor Avoidance

*'Child labor is not to be used in any stage of manufacturing. The term "child" refers to any person under the age of 15 (or 14 where the law of the country permits), or under the age for completing compulsory education, or under the minimum age for employment in the country, whichever is greatest. The use of legitimate workplace apprenticeship programs, which comply with all laws and regulations, is supported. Workers under the age of 18 shall not perform work that is likely to jeopardize the health or safety of young workers.'*

### Child labor

In the world today, an estimated 218 million boys and girls work as child laborers<sup>2</sup> Even though the activities in the electronics sector – which is higher up in the value chain – are not suitable for children, there are incidental cases in which young workers who have not yet reached the legal age of employment are found to be active in the workplace.

If evidence of child labor is found at a Supplier's site, Philips will use this policy as a basis for the definition of corrective action.

In cases where young workers below the minimum age of employment are active, Philips expects the Supplier to take immediate remedial action, taking into account the interests of the children employed.

<sup>2</sup> ILO guides for employers on child labor, guide one: introduction to the issue. The guides can be found at [www.ioe-emp.org/](http://www.ioe-emp.org/)

Philips expects the Supplier to follow the three Hs approach, as set out in the ILO guides for employers on child labor<sup>3</sup>:

- putting a stop to under-age **H**iring
- removing children from tasks where the risks from **H**azards are high
- reducing **H**ours to the legal level

#### Putting a stop to under-age **H**iring:

The Supplier is expected to stop hiring children immediately. In this regard, it is of importance to improve age verification mechanisms.

#### Removing children from tasks where the risks from **H**azards are high

The Supplier is expected to immediately:

- Reduce the risk from hazards by improving health and safety in the workplace
- Remove adolescents from tasks and environments that are deemed hazardous for adolescents but not for adults (i.e. heavy loads, night work, heavy machinery)

These actions need to take place on a structural rather than on an incidental basis, and need to be monitored.

#### Reducing **H**ours to the legal level:

The Supplier is expected to have knowledge of local law, including the minimum age for leaving compulsory education. In cases where a child's hours are to be reduced, Philips expects the Supplier not to reduce the child's income, as this would harm the interests of the child. The Supplier must investigate alternatives, e.g. hiring a family member – siblings or parents – or increasing the wages of the parent if he or she also works for said Supplier. Furthermore, the Supplier is expected to offer the child a job as soon as he/she reaches the legal working age.

#### Supporting education

Philips expects the Supplier to transfer the children to school and to pay for their education until they reach the legal working age.

#### Child labor found in an audit

Should a case of child labor be identified during an audit, Philips expects the Supplier to act in accordance with the guidelines set out in this Section, in consultation with Philips. In addition to that, Philips and the Supplier will agree a time period within which the Supplier must comply with the ILO norm. Philips policy towards Child Labor issue can be found at this [website](#).

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<sup>3</sup> The guides can be found at [www.ioe-emp.org/](http://www.ioe-emp.org/)

## References

The documents listed below are available via the following link:

<http://www.philips.com/about/sustainability/oursustainabilityfocus/suppliersustainability.page>

The Philips Supplier Sustainability Declaration

Philips Supply Sustainability Audit Tool

Corrective Action Plan (CAP)

Child Labor Policy

Risk Country List

The Philips List of Regulated Substances is available via the following link:

<http://www.philips.com/shared/global/assets/Sustainability/rsl.pdf>

## Definitions

Definitions of terms used in the Supplier Sustainability Audit Program Manual.

### **Audit Frequency**

Refers to an audit cycle, and depends on the number and type of non-conformances and the number of Resolution Audits necessary.

### **Corrective Action Plan or CAP**

A corrective action plan, as set out in Section 6.2, which serves to resolve the non-conformances identified as a result of an audit.

### **CLOG**

A tool used by IMS buyers to identify high risk suppliers

### **Declaration**

The Philips Electronics Supplier Sustainability Declaration, latest version.

### **EICC**

The Electronics Industry Citizenship Coalition (EICC) promotes an industry code of conduct for global electronics supply chains to improve working and environmental conditions. The EICC code of conduct was established to ensure worker safety and fairness, environmental responsibility, and business efficiency. Development of the code of conduct was a multi-stakeholder effort, influenced by internationally-recognized standards.

EICC membership is available to electronics manufacturers, software firms, ICT firms and manufacturing service providers, including firms that design, manufacture or supply electronics goods under contract. At the time of writing, the EICC has 63 member companies, including Philips, Apple, HP, Intel, IBM, DELL, Flextronics, Jabil, RIM, etc. See [www.eicc.info](http://www.eicc.info) for the full list of members and the EICC Code of Conduct.

### **Full-Scope Audit**

The evaluation process conducted by a Philips-approved audit firm in order to determine the Supplier's level of conformance to the Declaration.

### **IMS**

Indirect Materials and Services

### **Major non-conformance**

A case of major non-conformance with the Declaration. Major non-conformances can be divided into zero-tolerance (red) or limited-tolerance (orange) non-conformances.

### **Minor non-conformance**

A case of minor non-conformance with the Declaration.

### **NC**

Non-conformance

### **NVI: New Venture Integration**

## **Philips General Business Principles or GBP**

The General Business Principles set out guiding principles on integrity and ethics in business conduct. These minimum requirements of behavior govern Philips' business decisions and actions throughout the world and apply equally to corporate actions and to the behavior of individual employees when conducting Philips business. The Philips GBP can be found at:

<http://www.philips.com/about/company/corporategovernanceandbusinessprinciples/index.page>

## **Philips Sustainability Expert**

The Philips sustainability expert has extensive knowledge of sustainability issues in the supply chain, and is engaged to provide training to identified Suppliers or to other Suppliers upon request.

## **Program**

The Philips Supplier Sustainability Audit Program, as set out in this manual.

## **Purchasing Agreements**

Purchasing agreements with Philips appear under a variety of different titles, e.g. General Purchasing Agreement (GPA) or Umbrella agreement, and also as Purchase Orders that relate to the General Conditions of Purchase.

## **Resolution Audit**

The Resolution Audit is performed by a Philips-approved audit firm. It is a focused audit, which means that it only verifies whether the non-conformances that were found during the Full-Scope Audit have been resolved by the Supplier.

**RSL:** Philips Electronics List of Regulated Substances in Products, Product Packaging and Transport Material

## **Supplier**

A first-tier Philips Supplier who produces and delivers Philips products, or any of a number of second-tier Suppliers who have been identified by Philips as key Suppliers and who are effectively managed by Philips.