

Supplier Sustainability Audit Program Manual

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

Colophon

This Supplier Sustainability Audit Program Manual has been developed by the Philips Lighting Supplier Sustainability team.

We are continuously 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 Lighting.

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

<http://www.lighting.philips.com/main/company/about/suppliers/supplier-sustainability.html>

Philips Lighting BV. Eindhoven, Netherlands

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Dear Stakeholder,

At Philips Lighting, we are on a mission towards brighter lives and a better world. This goal extends beyond our innovative products, systems and services to our supply chain. We invest in relationships with suppliers who provide a safe working environment, treat workers with respect, and work in an environmentally sound way.

The journey towards supply chain sustainability is a challenging one, often requiring an industry-wide effort in collaboration with other stakeholders. That's why we are a member of the Electronic Industry Citizenship Coalition (EICC) and encourage our strategic suppliers to join the EICC too.

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 Lighting 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 Lighting 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 Lighting supply chain.

Paul van den Kerkhoff

Paul Van Den Kerkhoff
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1 Introduction

Philips Lighting's Mission

Philips Lighting is committed to create brighter lives and a better world. This is what drives Philips Lighting in the development and manufacturing of our products. Promoting acceptable working conditions, environmentally responsible management and ethical behavior is part of this commitment.

Philips Lighting's 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 [General Business Principles](#) (GBP). The Philips Lighting GBP sets out guiding principles on integrity and ethics in business conduct, including those that help create a sustainable supply chain.

In short, Philips Lighting 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.

In our Supplier Sustainability Audit program we work according to the approach pictured below, in which we start with creating commitment and building understanding with suppliers towards monitoring and managing identified risks, in cooperation with relevant stakeholders.

2 Declaration of Commitment

Philips Lighting 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 two documents:

- Philips Lighting Supplier Sustainability Declaration ('Declaration'), and
- Philips Lighting 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 Lighting, and Philips Lighting 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.

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 Coalition¹. 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](#).

2.1 Content

2.1.1 The Philips Lighting Supplier Sustainability Declaration

The Philips Lighting Supplier Sustainability Declaration ('Declaration') consists of five chapters and an Annex that provides for extra sources of information.

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.

¹ <http://www.eiccoalition.org/standards/code-of-conduct/>

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, housing, health and safety communication.

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, product content restrictions, storm water management and energy consumption and greenhouse gas emissions.

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 and privacy..

Chapter E defines 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 continuous 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 Lighting List of Regulated Substances in Products, Product Packaging and Transport Material

As part of Philips Lighting's commitment to health, safety and the environment, all products or parts, product packaging and transport material delivered to Philips Lighting as well as certain defined manufacturing processes that are used to make Philips Lighting parts must comply with all applicable requirements in the Philips Lighting 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 Lighting's 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 Lighting 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 Lighting 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 Lighting [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 Lighting provides and the monitoring Philips Lighting 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
- Commercial interests: Philips Lighting's spend with Supplier
- Incidents reported to Philips Lighting – directly or indirectly, e.g. via the media
- Type of product or service delivered to Philips Lighting

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 Lighting's Supplier base distribution and purchasing value, Philips Lighting 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.

Commercial interests: Philips Lighting's spend with Supplier

For monitoring purposes, Philips Lighting has determined a threshold based on an annual spend of € 1,000,000 in the specific risk countries. Any Supplier in these countries with a Philips Lighting 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 IMS Suppliers, if any Supplier is located in a risk country and under high risk CLOG, when the supplier's yearly spend is more than € 1,000,000, it will be included in the monitoring program.

For prospective Suppliers (e.g. potential Suppliers), Philips Lighting 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 Lighting Supplier base.

Incidents reported to Philips Lighting

Where environmental, health & safety, labor or ethics related incidents are brought to the attention of Philips Lighting, Philips Lighting 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 Lighting may conduct unannounced audits, in particular to substantiate specific Supplier-related allegations concerning unsustainable practices.

Audit selection criteria

The following table describes the audit approach for different types 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 blue are on the Philips Lighting list of active risk suppliers, which is used to calculate monthly / yearly compliance rates.

	Unit: Euro	100k-1M	1-5 M (Medium Spend suppliers)	> 5 M (Large Spend Suppliers)
Risk countries	Active BOM / IMS		<ul style="list-style-type: none"> 3 year cycle audit: 3rd party 1st resolving audit: <ul style="list-style-type: none"> Philips experts or third party audit firm Failed 1st resolving: 3rd party 	<p>MEDIUM RISK</p> <ul style="list-style-type: none"> Self assessment by supplier, review by Philips experts or 3rd party 3 year cycle: 3rd party
	Potential Supplier	<ul style="list-style-type: none"> Assessment by 3rd party audit firm or Philips internal experts (depending on the business urgency) Sustainability audits maximally to be combined with SEAT / VDA assessment together 		

Note: Suppliers in blue color are used for compliance rate calculation

In addition to cycling monitoring methods, for high spend suppliers (annual spend more than € 5,000,000), there will be an annual risk evaluation based on below “Risk Assessment Matrix”. Suppliers which are classified as “high risk” will have an annual on-site verification audit by Philips Lighting’s sustainability expert, Suppliers classified as “medium risk” will be self-assessed annually.

Annual Spend Factor (A)		Employees Number Factor (B)		Performance of audit factor (C)		Management system factor --ISO14000, OHSAS1800, SA8000, etc.(D)		Negative exposure factor (E)	
Annual Spend (Euro)	Coefficient 1	Workers Nr.	Coefficient 2	Audit score	Risk level rate 1	Valid Certificates No.	Risk level rate 2	Negative Impact status	Risk Level Rate 3
> 5M	1	>=1000	2	90-100	0	>= 3 valid systems	0	No negative exposure	0
< 5M	0	100-1000	1.5	80-90	5	2 valid systems	2	Exposed with valid actions	2
		<100	1	70-80	10	1 valid systems	4	Exposed without valid actions	4
				60-70	15	0 valid systems	6		
				<60	20				

Total Supplier Sustainability Risk Level Score(R)= A*B*(C+D+E)

Risk Level (R)	Risk Criteria
>= 35	High Risk
< 35	Medium Risk

4 Knowing What to Do

The success of the Philips Lighting 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 Lighting 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 Lighting EICC training sessions in China, India and Mexico

Suppliers are encouraged to take part in the training sessions on the EICC Code of Conduct that are held on a regular basis in China, India and Mexico. These Philips Lighting EICC training sessions are organized by Philips Lighting. Philips Lighting sustainability experts provide trainings to our Suppliers, which cover various topics relating to the requirements of the EICC Code of Conduct, and can help to further develop supplier sustainability competences. In particular those persons in key positions at the Supplier's site, 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 Lighting.

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 Lighting 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 Philips Lighting Supplier Days that are held worldwide.

4.2 What can you do yourself?

The EICC risk assessment tools

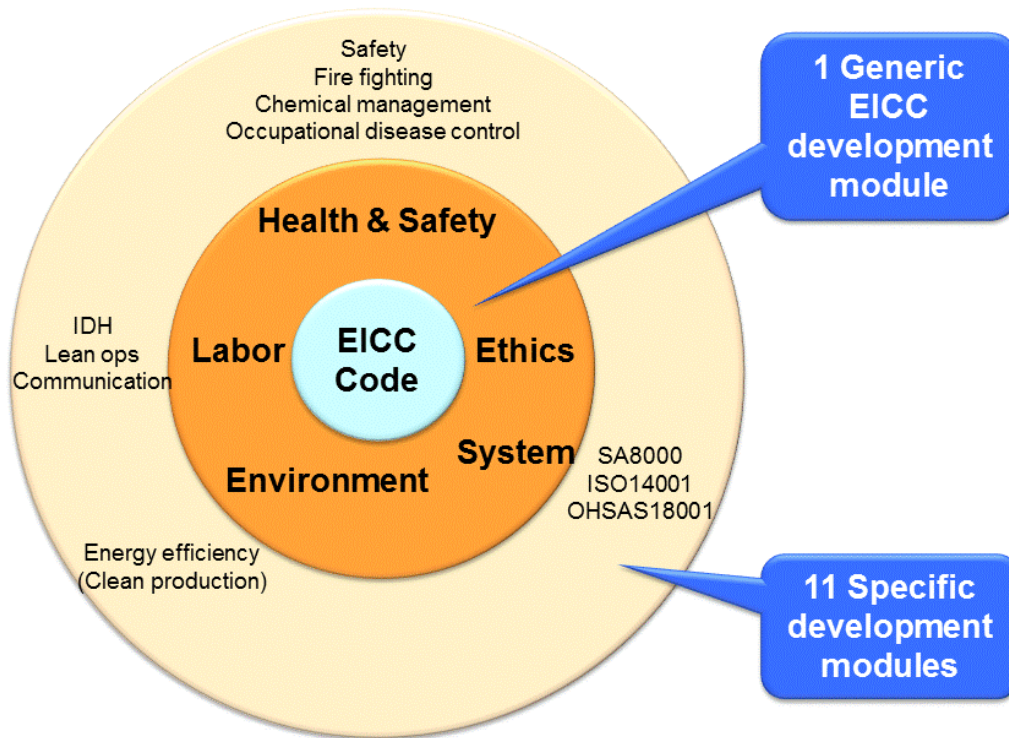
Philips Lighting considers the EICC risk assessment tools to be suitable instruments for building sustainability awareness among Suppliers, and encourages Suppliers to use these tools for training purposes. They provide a clear interpretation of the Declaration and give Suppliers the opportunity and 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 Lighting encourages businesses to carry out self-audits on a regular basis. One tool suitable for this purpose is the Philips Lighting Supplier Sustainability Self-Assessment Questionnaire, 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 Lighting Supplier Sustainability Development Program provided by Philips Lighting sustainability experts mainly located in China. The Supplier can indicate for which topics support is needed and, together with Philips Lighting, can decide how this support can best be arranged. In addition to that, the Philips Lighting sustainability experts can proactively engage with Suppliers to help resolve non-conformances (see Section 5), which is part of the Supplier Sustainability Development Program.



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Philips Lighting Supplier Sustainability Development Modules

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 Lighting and Suppliers with a regular status overview of Suppliers' conformance with the Declaration. The audit is the evaluation process conducted by a Philips Lighting-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 Lighting products but instead cover an entire Supplier site and the complete workforce.

The audit firms use the Philips Lighting Supplier Sustainability Audit List, which is available on our [website](#), and the Philips Lighting guidelines as a basis for conducting the audit. For the purpose of confidentiality, the results of audits are only shared with Philips Lighting and the Supplier. The audit results are not made public or shared with customers of Philips Lighting, 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 an EICC-approved audit firm, 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 Lighting has received access to the report in the EICC database, there is no need for a separate Philips Lighting Supplier audit.

EICC audits by other EICC member companies

If a supplier has been audited by EICC member companies via a qualified 3rd party (world-wide well known auditing firms, qualified by EICC), following the EICC Code of Conduct, the audit report is accepted by Philips if the audit is done no longer than 3 years ago. If the supplier is audited by internal auditors from EICC member companies, the audit report is not accepted by Philips Lighting.

5.2 Audit selection

The Suppliers to be included in the audit program are determined by their risk profile, which contributes to the evaluation type and frequency. 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 Lighting will treat any such absence of information as a Major Zero Tolerance non-conformance (see Section 6).

5.4 Audit scheduling and payment

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

For 3-year-cycle full-scope and initial full scope audit, the audits are scheduled by the Supplier in consultation with the audit firm within the timelines indicated by Philips Lighting. All audits done by a third party audit firm including any necessary 2nd time Resolution Audits done by 3rd party are to be paid by the Supplier. 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.

For annual evaluation to high spend (more than € 5,000,000 annual spend) Suppliers, the annual full scope verification audits and necessary 1st resolution verifying for high risk suppliers and self-assessment review on medium risk suppliers are done by Philips Lighting sustainability experts free of charge. If a 2nd resolution verification audit is needed, the audit will be done by a 3rd party audit firm and paid by suppliers. In practice, if the NC closure can be done on the basis of desk top review, then there is no need to perform the on-site check. When there are local Philips Lighting sustainability experts available, 2nd resolution audits can be done by Philips Lighting sustainability experts rather than 3rd party auditors, which is determined on resources availability of local Philips Lighting experts.

The audit fees are set by Philips Lighting 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 Lighting reserves the right to conduct unannounced audits or to have these conducted on its behalf. Philips Lighting may conduct unannounced audits particularly to substantiate specific Supplier-related allegations concerning unsustainable practices. These audits are initially financed by Philips Lighting. Philips Lighting 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 Lighting will not be a member of the audit team. However, in a number of audits a Philips Lighting sustainability expert will be present as an observer, as part of the quality management of the audit firm. Furthermore, the Philips Lighting lead buyer or SQMs 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 Lighting and to the Supplier final audit results with a detailed overview of all audit findings, as discussed in the feedback session. These audit findings need to be approved by the Philips Lighting 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;
- Zero Tolerance report. A Zero Tolerance report can be issued based on the following circumstances:
 - Zero Tolerance findings are found during the audit
 - Audit process is aborted due to the information or operation are not available during the audit, or if the Supplier obstructs the performance of the audit in any manner

5.9 Audit frequency

Full-Scope Audit

A Full-Scope Audit is conducted with all Philips Lighting 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 Zero Tolerance (hereafter, ZT), Critical and 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 non-conformances that were found during the Full-Scope Audit.

Annual Evaluation

For High Spend Suppliers, annual evaluation will be arranged by Philips Lighting based on Supplier risk level. Annual verification audits will be conducted by Philips lighting sustainability experts with Suppliers classified as “high risk”. Annual self-assessments (hereafter, SAQ) will be required for Suppliers defined as “medium risk” and reviewed by Philips Lighting sustainability expert (Note: Currently SAQ is only applicable for Chinese suppliers).

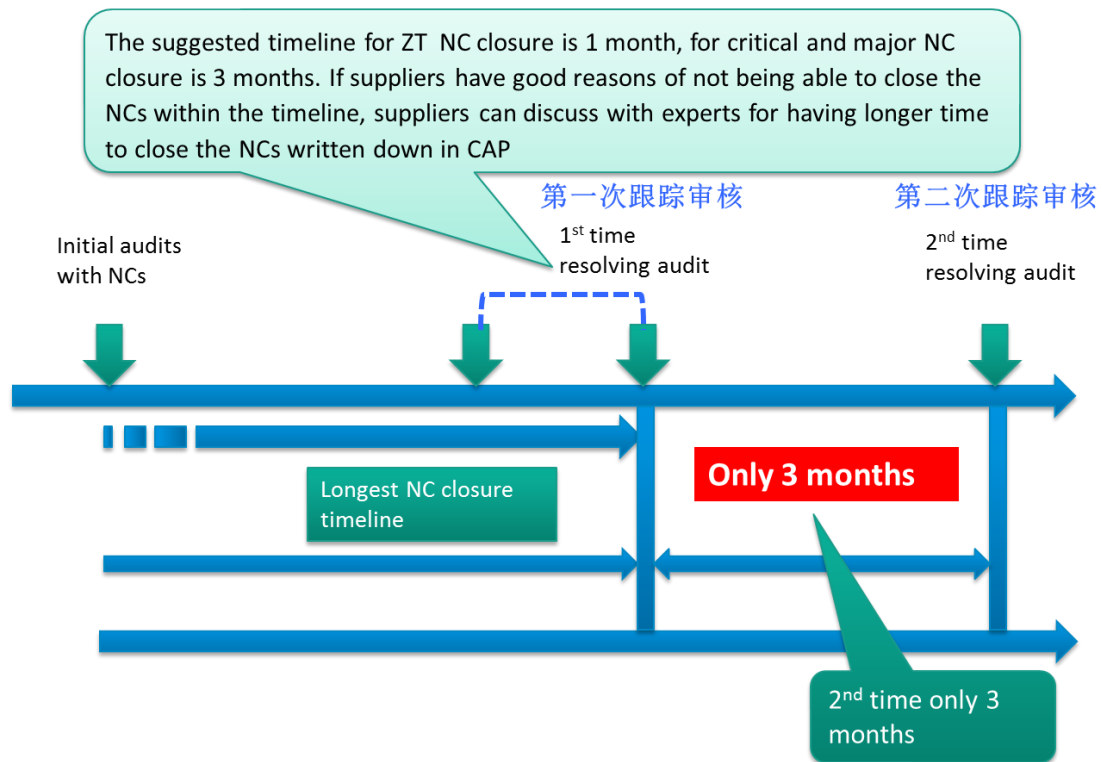
Timeline of Resolution Audit

In general, Philips Lighting wants to close ZT, Critical and Major NCs as quickly as possible. In the Philips Lighting Audit Tool, we suggest to close ZT non-conformances as soon as possible (normally limited to 1 month), while for Critical and Major non-conformances, the timeline is suggested to be 3 months. Note, the timeline is the guideline and is not mandatory. This can be longer if necessary due to the nature of the NC. If a Supplier cannot close NCs within the suggested timelines, the Supplier will discuss this with the Philips Lighting sustainability experts and agree upon the amount of time required to close the NCs. In this case, the Supplier shall provide sufficient evidence to show that closure of the NC will indeed take this amount of time, which should be no more than 12 months normally. In the end, the timeline for each NC closure will be documented in the CAP. Normally, the longest NC closure timeline is used to determine when the 1st Resolution Audit will take place. The 2nd Resolution Audit will take place 3 months after the 1st Resolution Audit. If Suppliers are able to close 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 Lighting 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 Lighting buyers can use this information during their business review meetings with the Suppliers.

Table: Audit Frequency

	Progress check against milestones	Resolution Audit 1	Resolution Audit 2
ZT, Critical and Major Non-conformances	According to milestones determined in CAP (1 month suggested for ZT, 3 months suggested to critical and major NCs)	Before end of the longest timeline agreed in the CAP	3 months after the 1 st Resolution Audit if necessary
Minor Non-conformances	Monitoring takes place in supplier development program if applicable. No official follow up by Philips Lighting.	N/A	N/A



Audit Frequency

For all suppliers covered in the audit program, the next 3rd Party Full-Scope Audit is to be conducted at most three years after the date of the previous Full-Scope Audit. For high spend and high risk suppliers, Annual verification audits are to be conducted by Philips Lighting sustainability experts every year.

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 ZT, Critical, 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 Non-conformances Category and Resolution Time

Zero Tolerance non-conformances

- Zero-tolerance non-conformances are the most serious and zero tolerant NCs, including below points:
 - Falsified and non-transparent information, documents, records (including dishonest attitude, obstruct the audit, etc.)
 - Child labor
 - Forced and bonded labor
 - Severe environmental pollution
 - Severe health and safety issues

- ZT 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 Lighting and the Supplier will agree a feasible resolution period to be documented in the CAP, with defined progress milestones.

Critical and Major non-conformances

- Critical non-conformances are serious health & safety, environmental, ethic and labor issues, which will cause serious impacts to people’s safe working conditions and environment containment;
- Major non-conformances are limited tolerated non-conformances that influence workers’ safety, environmental protection and people’s welfare to a certain extent;
- Critical and Major non-conformances must be resolved as soon as is reasonably possible. Philips Lighting and the Supplier will agree a feasible resolution period to be documented in the CAP with defined progress milestones.

6.2 Supplier Sustainability Color Rating

Supplier will be rated as “red”, “orange” or “green” color to reflect its sustainability audit performance based on audit findings and subsequent score calculation.

Scoring Methods

- To objectively reflect a Supplier’s sustainability performance, below scoring method is used for calculating sustainability score according to the number of ZT, Critical and Major Non-conformances found in the audit. Total score is 100. For each ZT NC 20 points will be deducted, 7 points will be deducted per Critical NC, and 4 points will be deducted per Major NC respectively. Please see below table.

Overall Score=100-20*ZTs-7*CRs.-4*MA. Nr.		
NC Rating	Items	Item Scoring
Zero tolerance	A1.1, A2.1,..., D3.2	20 points per NC will be deducted
Critical Items	A3.1, A4.1,..., C3.1	7 points per NC will be deducted
Major Items	A1.2, A1.3,..., D9.1, G1.1	4 points per NC will be deducted

Color Rating on Sustainability Score

- Supplier will be categorized in a three color rating reflecting different levels of sustainability
 - Green-- If the audit score is above 90 points, Supplier will be rated green, which means the sustainability status is “acceptable”
 - Orange-- If the audit score is between 80 and 90 points, Supplier will be rated in orange, which means the sustainability status is “improvement required”
 - Red-- If the audit score 80 points or less, Supplier will be rated in red, which means the sustainability status is “not acceptable”

The below table reflects the color rating method.

Overall Audit Score	Acceptable	Audit Score > 90
100	Improvement required	Audit Score > 80 and ≤ 90
	Not Acceptable	Audit Score ≤ 80

By using this color rating method, Philips Lighting can drive systematic improvement on sustainability performance.

6.3 Corrective Action Plan (CAP)

In the event of ZT, Critical and Major non-conformances, Philips Lighting 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 Lighting 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 as 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.

A Philips Lighting 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 Lighting in the event of any delay. Where necessary, the Supplier can consult the Philips Lighting sustainability expert about the resolution of NCs.

6.4 Continued non-conformance

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

When	Philips Lighting action	Consequence
CAP off track 1 month after full scope audit	SAMs will give early warning to Supplier	Supplier submits CAP within 2 weeks
Supplier has been rated in red or orange status for more than 12 months	Head of Supplier Quality and Sustainability will issue warning letter SAMs will prepare phase-out plan	Supplier needs to provide corrective actions plan in 2 weeks
Supplier failed to turn to green status in the following 6 months	Phase out the Supplier	Supplier being phased out

Potential Suppliers can only start to deliver their first shipments once the red status has been closed.

If a Supplier does not make sufficient progress in implementing the agreed corrective actions and has “red” or “orange” NCs open for more than 1 year, a warning letter will be issued to Supplier by the Head of Supplier Quality and Sustainability. In case a Supplier still has no progress and keeps being in “red” or “orange” status for another 6 months, Philips Lighting will end its relationship with this Supplier as a last resort.

6.5 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 laborers². 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 Lighting 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 Lighting expects the Supplier to take immediate remedial action, taking into account the interests of the children employed.

Philips Lighting expects the Supplier to follow the three Hs approach, as set out in the ILO guides for employers on child labor³:

- 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 Lighting 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.

² ILO guides for employers on child labor, guide one: introduction to the issue. The guides can be found at www.ioe-emp.org/

³ The guides can be found at www.ioe-emp.org/

Supporting education

Philips Lighting 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 Lighting expects the Supplier to act in accordance with the guidelines set out in this Section, in consultation with Philips Lighting. In addition to that, Philips Lighting and the Supplier will agree a time period within which the Supplier must comply with the ILO norm. Philips Lighting policy towards Child Labor issue can be found [here](#).

References

The documents listed below are available via the following link:

<http://www.lighting.philips.com/main/company/about/suppliers/supplier-sustainability/our-programs/supplier-sustainability-assessment.html>

- The Philips Lighting Supplier Sustainability Declaration
- Philips Lighting Supplier Sustainability Audit Tool
- Corrective Action Plan (CAP)
- Child Labor Policy
- Risk Country List

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

www.philips.com/Lighting-RSL

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 Lighting 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 Lighting, Apple, HP, Intel, IBM, DELL, Flextronics, Jabil, RIM, etc. See: <http://www.eiccoalition.org/> for the full list of members and the EICC Code of Conduct.

Full-Scope Audit

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

IMS

Indirect Materials and Services

Zero Tolerance non-conformance

Zero-tolerance non-conformances are the most serious and zero tolerant NCs

Critical non-conformance

Critical non-conformances are serious health & safety, environmental, ethic and labor issues, which will cause serious impacts to people's safe working condition and environment containment

Major non-conformance

Major non-conformances are limit tolerant non-conformances that influence workers' safety, environmental protection and people's welfare to certain extent

Minor non-conformance

A case of minor non-conformance with the Declaration.

NC

Non-conformance

NVI

New Venture Integration

Philips Lighting 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 Lighting's business decisions and actions throughout the world and apply equally to corporate actions and to the behavior of individual employees when conducting Philips Lighting business. The Philips Lighting GBP can be found at: http://www.lighting.philips.com/b-dam/b2b-li/en_AA/investor/Philips%20Lighting%20GBP.pdf

Philips Lighting Sustainability Expert

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

Program

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

Purchasing Agreements

Purchasing agreements with Philips Lighting 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 Lighting-approved audit firm or a Philips Lighting Sustainability Expert. 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 Lighting Electronics List of Regulated Substances in Products, Product Packaging and Transport Material

Supplier

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