

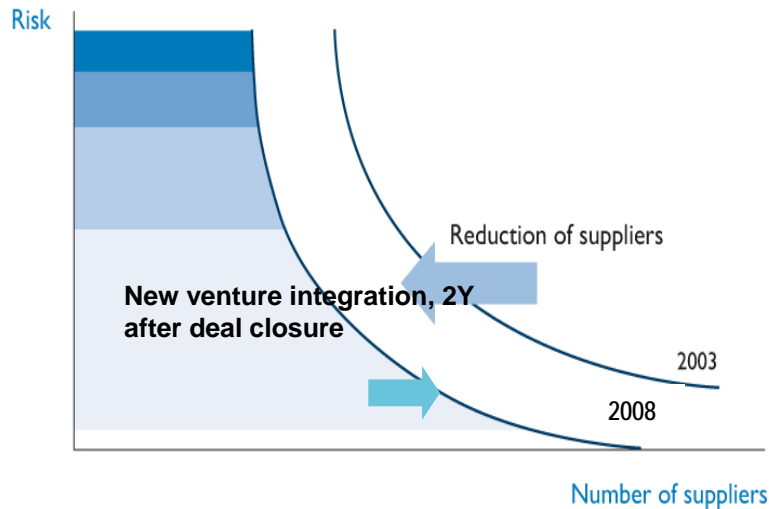
Philips Supply Sustainability Program Manual and Process

Updated: Oct.2008

Supplier Risk assessment 2009

Managing sustainability risk in the supply chain

■ Issues resolution ■ Audits ■ Self-assessments ■ Sustainability Declarations

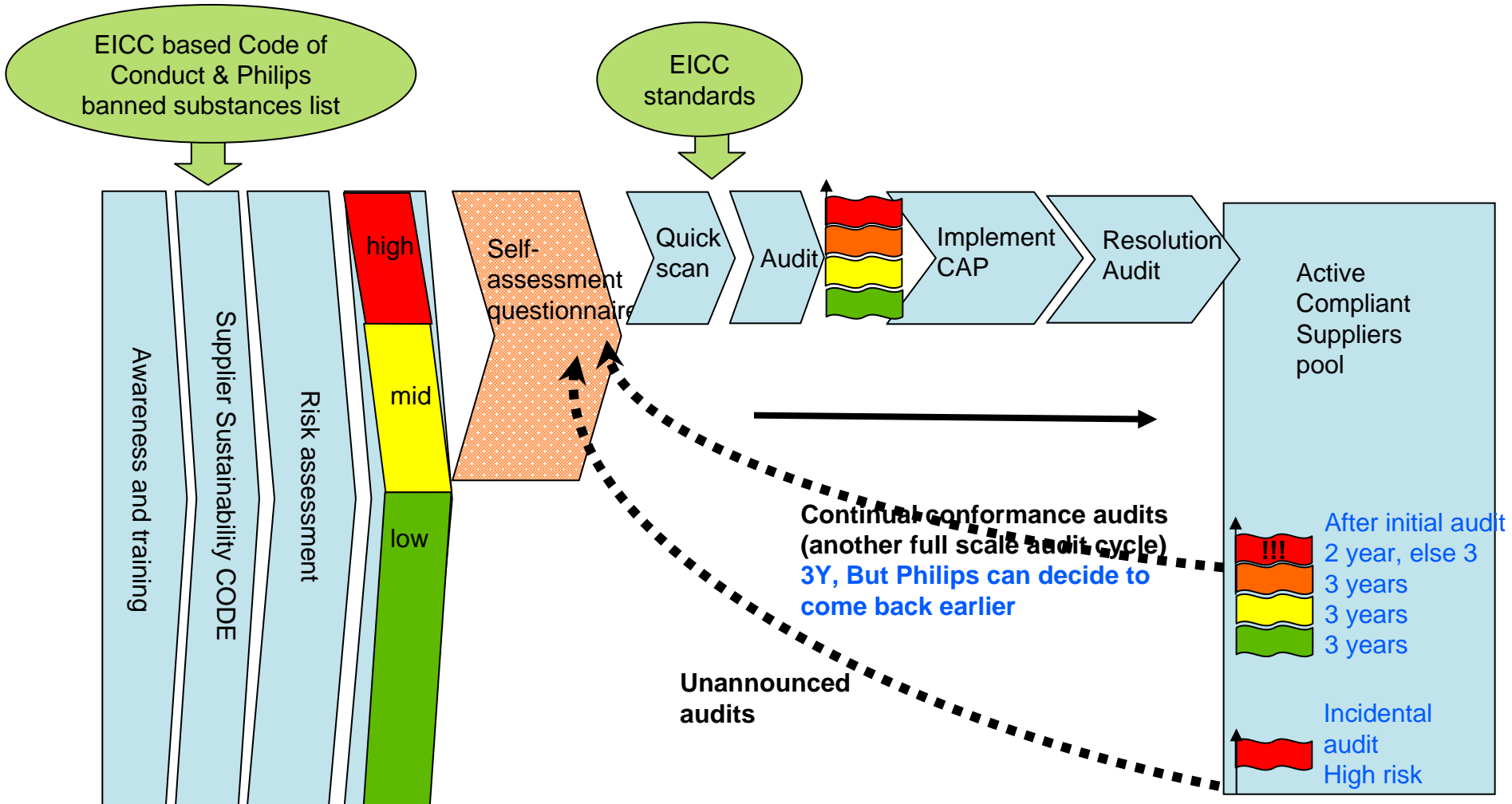


Risk assessment criterion:

- Philips spend with supplier
 - ▣ Audit threshold is 100,000 Euros
 - ▣ SAQ threshold is 10,000 Euros
- Social specific risk determined by country of production (site specific):
 - Belarus, Brazil, **Greater China (including Hong Kong, Taiwan, Macao)**, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, the Philippines, Russia, Thailand, Vietnam, Ukraine
- Environmental risk criteria (defined by RoHS; REACH) product/ material-specific to pass SAQ on ENV; H&S; related MS
- Manufacturing process risk criteria specific to the commodity to pass SAQ on ENV; H&S; related MS
- Top 10 risk commodity suppliers to be audited as Shared EICC audits

Risk threshold will be reviewed at annual basis by PSSP

Philips Supply Sustainability Program Process Overview



Resolution-Timeframe

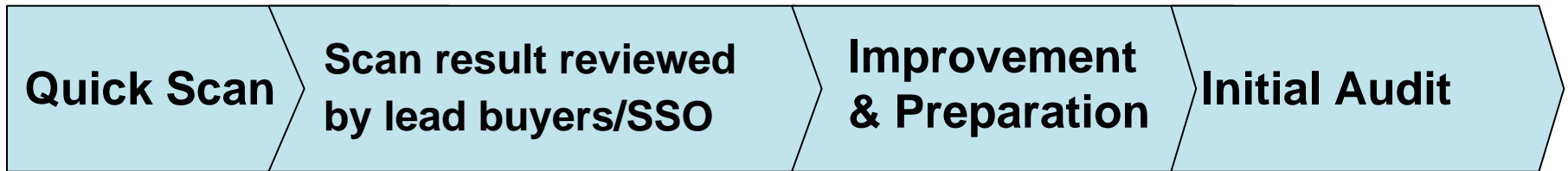
CAP to be fixed within 30 days after initial audit

	Lead time to resolution	Resolution Audits	Continuing Conformance Audits
Red NC	CAP implemented within 90 days <u>after the audit date</u> , if not applicable, then according to milestones determined in CAP	1 months after the longest resolution time laid down in the CAP	24 months after the initial audit date.
Orange NC	CAP implemented within 180 days <u>after the audit date</u> , if not applicable, then according to milestones determined in CAP	1 months after the longest resolution time laid down in the CAP	36 months after the initial audit date.
Yellow NC		No Resolution Audit, monitoring takes place in QBRs.	36 months after the initial audit date.

Objective 2009: resolve all major non-compliances with agreed resolution times unless specifically agreed differently in the CAP agreed.

Sustainability Quick scan

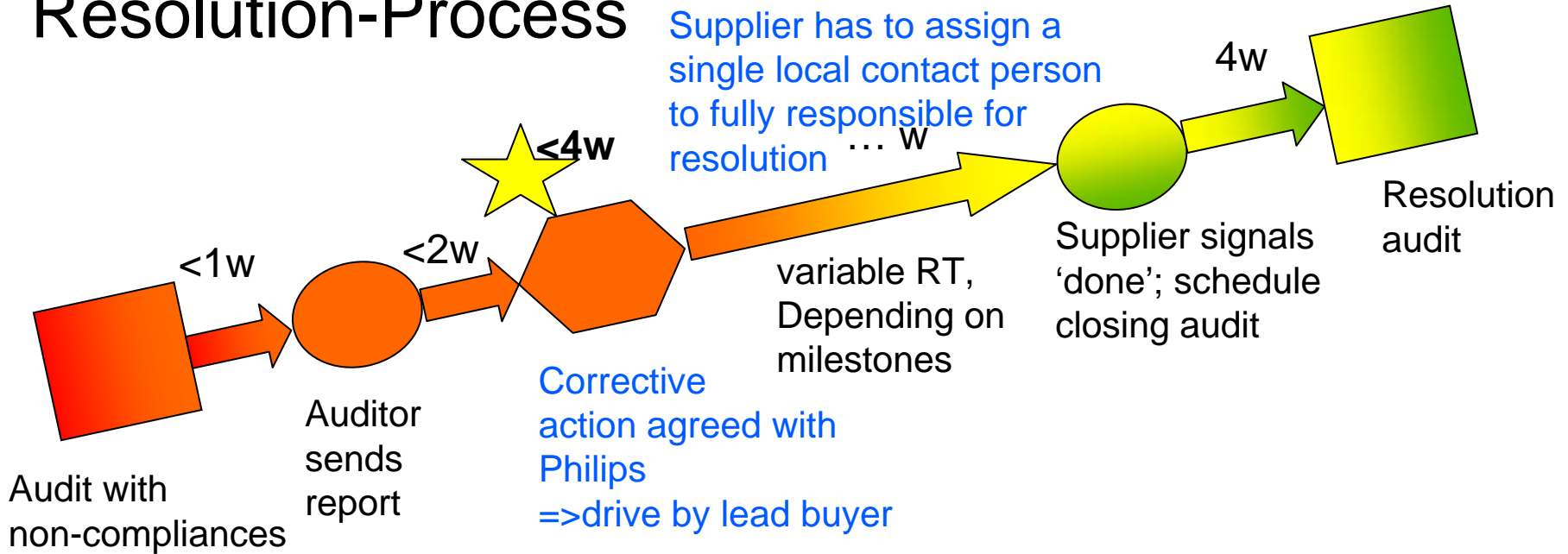
- The purpose of Quick scan (pre-audit) is two-fold: education and NC prevention
- Quick scan (pre-audit) is a one-man day factory visit done by internal or external auditors to prepare high risk suppliers for full-scale audits.
- The criteria for supplier eligible for Quick scan is they will undergo an initial audit, the preparation for quick scan=>sending SAQ to supplier first



Check Items	Red	Org	EICC sub-category	Color	EICC Ref	Description	Quick scan result: NC identified yes or no?	For red NCs, include a short description
Labor	✓	✓	A1.1	Red	A1	-The facility does not use any type of forced, prison, indentured, or bonded labor.	no	
			A1.2	Orange	A1	-Workers are not required to pay a deposit upon being hired.	no	
H&S	✓	✓	A1.3	Orange	A1	-The facility does not withhold workers' government-issued identification (passports or work permits) upon hire.	yes	
			A1.4	Orange	A1	-labor contracts are signed with the workers where legally required	no	
Environ.	✓		A1.5	Orange	A1	-The facility assures that its workers are free to enter and exit the facility and housing during their non-work hours except as required by law.	no	
Mgt sys.	✓		A1.6	Orange	A1	The facility assures that its workers are free to quit their job and leave upon reasonable notice, with no penalty.	no	
Ethics	✓		A2.1	Red	A2	-Workers working at the facility are equal to or above the minimum legal age.	yes	identified 1 worker with falsified age documentation
			A2.2	Orange	A2	-The facility reviews, validates and keeps on file legal proof of age documentation upon hire for all potential workers.	no	

•Initial audit will take place 2 months after the quick scan

Resolution-Process



Content for CAP should include:

- 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
- Resolution period for each non-conformance to be resolved. Where the resolution periods (Red-90 days, Orange-180 days) are not feasible due to the nature of the non-conformance, the CAP will document the agreement reached between Philips and Supplier concerning an alternative resolution period.

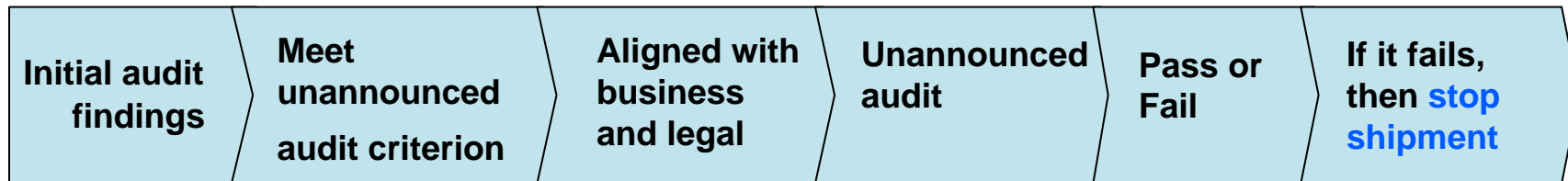
Supplier Audit Evaluation

- Supplier audit evaluation is based on three criterion: audit program cooperation, audit finding and progress for resolution
- The purpose for audit evaluation is to provide suppliers and PSSP team a crystal idea of what can they expect from Philips if necessary progress is not taken

	Criterion	During the resolution time	If Lack of progress after resolution time....
D rating	<ul style="list-style-type: none"> •Supplier obstruct the audit and resolution process •Supplier has one or more red NC •Lack of progress in realization of CAP 	<ul style="list-style-type: none"> •No new projects allocated. •Prepare and start implementing a contingency plan. 	Stop shipments, cancel all orders, Supplier will ultimately be phased out
C rating	<ul style="list-style-type: none"> •Supplier has one or more orange NC 		Prepare a contingency plan. Supplier will ultimately be phased out.
B rating	<ul style="list-style-type: none"> •Supplier has one or more yellow NC 	<ul style="list-style-type: none"> •Business as usual. Progress monitored in QBRs. 	Review new project allocation.
A rating	<ul style="list-style-type: none"> •No NC found •new Suppliers must have a green audit status in order to be certified as a Philips Supplier 		

Unannounced (Surprise) Audit

- The purpose of unannounced audit is to eliminate the high risk suppliers from our supply base
- Unannounced audit is limited scope audit on high risk non-compliances which were found in initial audits
- Philips “may” conduct surprise audit if the following criterion are met



2006 norm	2008 norm
A1.1 forced labor A2.1 child labor C3.1 banned substance B1.2 worker exposure to irreversible safety and health risk	A1.1 forced labor A2.1 child labor C6.1 banned substance B1.1 worker exposure to safety hazards

•Unannounced audit will take place max. 6 months after the initial audit, independent from the NC closure and/or closure date of the NC.

Escalation process of major non-compliances

(Internal procedure)

- Resolve major issues by Lead buyer within resolution time (RT) support by BG CPO and Commodity team leader
- Expert support from team of the PD Supply Sustainability Officer
- Escalate to PD CPO if not resolved within the resolution time
- Monthly review PD CPO, PD Compliance Officer, PD Supply Sustainability Officer
- Escalate to Executive Sponsor after double resolution time
- Inform GMC via GBP input after triple resolution time

Major non compliance	< 1 x RT	< 2 x RT	< 3 x RT	> 3 x RT
Red Open NCs	Lead-buyer	PD-CPO	PD-Exec sponsor	PD-CEO
Orange Open NCs	Lead-buyer	PD-CPO	PD-CPO	PD-Exec sponsor

