

Philips' Position on Responsible Sourcing of Minerals

Philips' efforts to respect human rights extend to issues further down in our supply chain, for instance to prevent human rights abuses in the extractives sector, especially related to conflict minerals. We are committed not to purchase raw materials, subassemblies, or supplies, which we know contain conflict minerals, even though Philips does not directly source minerals from mines (these companies are typically several tiers removed from our direct suppliers). We recognize that from our position in the supply chain as a downstream company we can have an impact in addressing the sustainability issues related to mining of minerals through implementation of due diligence mechanism and a strong multi-stakeholder engagement.

Activities of Philips in Responsible Sourcing so far

Philips fully supports and complies with the **OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD Guidance)**. Furthermore, we have committed not to purchase raw materials, subassemblies, or supplies for which we know contain conflict minerals that directly or indirectly finance or benefit armed groups in the Democratic Republic of the Congo (DRC) or an adjoining country, per Section 1502 of the US Dodd Frank Act. We conduct due diligence to tungsten, tantalum, tin, gold (also known as 3TG), and cobalt.

Philips joined the **Responsible Business Alliance (RBA)**, in 2006, and has been an active member of the **Responsible Minerals Initiative (RMI)**, a cross-industry initiative, which provides companies with tools and resources to make sourcing decisions that improve regulatory compliance and support responsible sourcing of minerals from conflict-affected and high-risk areas¹ (CAHRAs), DRC and adjoining countries. The RMI has developed tools to increase transparency of the origin of conflict minerals, including an electronic due-diligence tool for companies and the **Responsible Minerals Assurance Process (RMAP)** to audit smelters, which are a key element in the supply chain for determining the origin of relevant minerals. These tools are consistent with the OECD guidance and are currently undergoing further alignment to the OECD standard.

In following the OECD Guidance and using these RMI tools, we have opted to take a risk-based due diligence approach. We request our most relevant suppliers to conduct investigations of their supply chain to determine the origin of metals contained in products supplied to Philips. Our suppliers cascade this request into the next tiers of the supply chain until it reaches the smelter level, identifying and then sharing the smelter names with us. We also request our suppliers to only source from smelters that are validated to be RMAP (or equivalent) conformant, and to cascade the request to the next tier suppliers. The result of this due diligence process is a list of smelters, most of them currently participating in the RMAP.

Since 2014, Philips reports annually on supply chain due diligence by filing a Form SD and Conflict Minerals Report with the US Security and Exchange Commission (SEC). Philips has been including certain disclosures about the use of conflict minerals since 2009, even before the SEC's rules first became effective. A dedicated conflict minerals website with information for consumers, customers and suppliers is available. In 2012, Philips was the first company to publish its smelter list and will continue to regularly update this list as more information becomes available.

¹ Conflict-affected and high-risk areas refer to areas identified by the presence of armed conflict, widespread violence, or other risks of harm to people. Armed conflict may take a variety of forms, such as a conflict of international or non-international character, which may involve two or more states, or may consist of wars of liberation, or insurgencies, civil wars, etc. High-risk areas may include areas of political instability or repression, institutional weakness, insecurity, collapse of civil infrastructure and widespread violence. Such areas are often characterized by widespread human rights abuses and violations of national or international law.

Recognizing that due diligence is an on-going, proactive, and reactive process, Philips annually reviews and improves its responsible minerals program to ensure it complies with applicable international and domestic laws, respects human rights and does not contribute to conflict. Philips is evolving its due diligence practices to address concerns of conflict and other OECD Annex II risks² of minerals from CAHRAs beyond the scope of Dodd-Frank Act.

Moving beyond due diligence – multi-stakeholder initiatives in responsible sourcing of minerals

The Dodd-Frank Act and the OECD guidance focus on due diligence and the subsequent risk management (mitigation). As a result, many companies tend to steer their supply chains away from the entire conflict-affected and high-risk areas, the DRC, and adjoining countries. In other words, risk mitigation becomes synonymous to “risk avoidance”. Risk avoidance causes economic and social hardship in those countries that already suffer from conflict, poverty, and other issues. Philips believes that companies should be encouraged to continue to carry out a due diligence of their supply chain, primarily to understand if and how they might be connected to an adverse impact in those areas, and how they can maximize their leverage to have a positive impact.

Philips recognizes the need to start systematically addressing all extractives related issues worldwide, e.g., human rights abuses incl. child labour, health & safety and environmental issues while making sure not to create *de facto* embargoes by enabling responsible sourcing in the affected regions. For this purpose, we actively engage in multi-stakeholder initiatives, such as the Responsible Business Alliance (RBA), Responsible Minerals Initiative (RMI), the Dutch Gold Sector IRBC Agreement, and as a strategic partner of the European Partnership for Responsible Minerals (EPRM).

The EPRM will provide a platform for cooperation between EU governments, companies, and civil society to address the issue occurring in the mining of minerals and to enable responsible sourcing from high risk and conflict areas. Another goal of EPRM is to promote dialogue, cross-sector learning and support for the implementation of due diligence mechanisms along the entire chain, with special attention to SMEs.

As an example, Philips leverages its position as a strategic partner in the EPRM and engages in responsible sourcing projects (with a scope broadened to other conflict-affected and high-risk areas world-wide as well as a wider array of human rights and environmental issues addressed) to increase the supply and demand for responsibly sourced minerals.

Through a combination of due diligence efforts and multi-stakeholder initiatives, companies and other stakeholders can work towards the achievement of two goals:

1. Stop the trade in conflict minerals from mines that directly or indirectly finance, or benefit armed groups anywhere in the world.
2. Enable responsible sourcing of minerals from conflict-affected and high-risk areas, the DRC, and adjoining countries, thereby supporting the development of the local economy and communities.

In sum, Philips, our partners, and our suppliers actively seek to establish responsible supply chains and facilitate initiatives to foster responsible sourcing globally to be scaled up.

² OECD Annex II risks refer to the risks specified in Annex II of the OECD Guidance, such as serious human rights abuses (including forced labor and worst forms of child labor), direct or indirect support to non-state armed groups or public/private security forces, bribery, and fraudulent misrepresentation of the origin of minerals (including money laundering), and non-payment of taxes, fees and royalties to governments.