

## Philips' Position on Responsible Sourcing of Minerals

Our commitment to sustainable development obliges us to address issues in the extractives sector, 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 are able to have an impact in addressing the sustainability issues related to mining of minerals through a strong multi-stakeholder engagement.

With this in mind, Philips became a **strategic partner of the new European Partnership for Responsible Minerals (EPRM)**, a public-private partnership initiative that was launched in 2016, in which Philips took a leading role in the private sector.

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 regions. 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.

### **Activities of Philips in the area of 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)**. We have committed not to purchase raw materials, sub-assemblies, or supplies for which we know contain conflict minerals that directly or indirectly finance or benefit armed groups in the DRC or an adjoining country.

Philips joined the **Responsible Business Alliance (RBA)**, formerly known as Electronics Industry Citizenship Coalition (EICC), in 2006, and has been an active member of the **Responsible Minerals Initiative (RMI)**, formerly known as the Conflict Free Sourcing Initiative (CFSI), 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 areas<sup>1</sup> (CAHRAs). 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)**, formerly known as Conflict Free Smelter Program (CFSP), 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 the smelter level can be identified and then share the smelter

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<sup>1</sup> Conflict-affected and high-risk areas (CAHRAs) 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 characterised by widespread human rights abuses and violations of national or international law.

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.

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 risks<sup>2</sup> 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 conflict-affected and high-risk regions. 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 conflict-affected and high-risk regions, 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 EPRM as mentioned above.

As an example to how this could work, Philips leverages its position as a strategic partner in the EPRM and engages in responsible sourcing projects (with a scope broadened to other CAHRAs world-wide as well as a wider array of human rights and environmental issues addressed) in order to increase the supply and demand for responsibly sourced minerals. Furthermore, Philips acts as a liaison between EPRM and other responsible sourcing initiatives in which Philips participates (e.g., the Dutch Covenant on Gold), and actively engages with the RMI to encourage further adoption, improvement, and reliability in relevant programs, tools and standards.

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

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<sup>2</sup> 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.

1. Minimize 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 regions, thereby supporting the development of the local economy and communities.

Philips also expects its suppliers to source from responsible sources and start actively cascading this request to the next tiers of Philips supply chain. We will actively seek to establish responsible supply chains where possible and facilitate such initiatives to be scaled up to foster responsible sourcing from conflict-affected and high-risk regions.