

Supplier Sustainability Goals and Progress

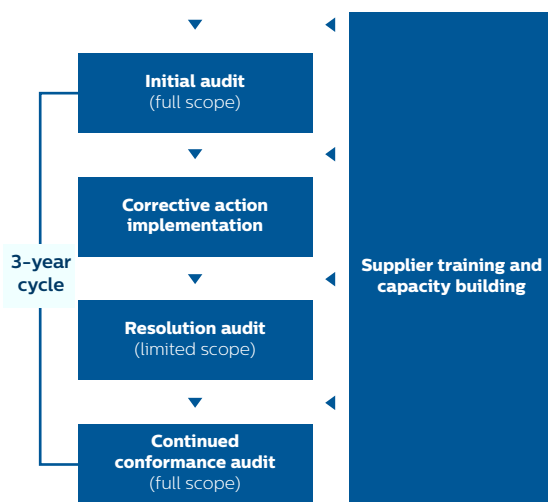
Supplier Sustainability Audit Program

Reflecting our commitment to improve people’s lives, we perform assessments at our supplier sites to identify areas of improvement or change required to promote acceptable working conditions, environmentally responsible management and ethical behavior in our supply base.

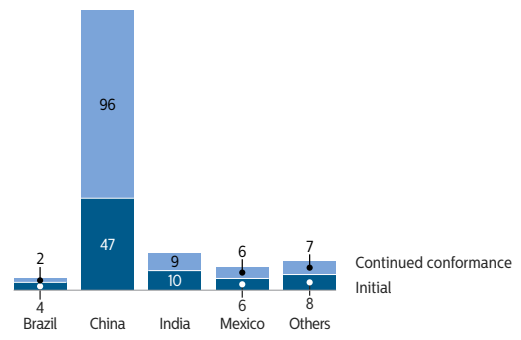
We monitor supplier compliance with the Supplier Sustainability Declaration through a system of regular audits, which are performed by an independent audit firm. If non-conformances are identified, we require the supplier to draw up a corrective action plan. Philips sustainability experts support the supplier, for instance by providing training or sharing best practices, with a particular focus on health and safety in the workplace. We monitor the implementation of corrective action plans until all major non-conformances are resolved.

Full-scope audits are conducted in a 3-year cycle. If we notice a delay in the implementation of a corrective action plan, we apply a stratified approach for consequence management. In exceptional cases where a supplier is unwilling to improve, we end the business relationship.

Philips Group
Audit cycle
2015



Philips Group
Number of initial and continual conformance audits
2015



Philips Group
Audit progress and targets

2014 Goals	Progress 2014
75% of corrective actions implemented within 90 days (for major NCs found in 2014 audits)	Average NC closure time was around 6 months, mainly due to longer resolution times for working hour issues. Before closing working hours NCs Philips requires at least 3 months' time records
2015 Goals	Progress 2015
Improve H&S performance of suppliers with 10%	In the following areas of H&S performance there has been an improvement in the group of suppliers being re-audited after 3 years: Occupational Safety (13% improvement) Emergency Preparedness (4% improvement) Occupational Injury and Illness (3% improvement) Industrial Hygiene (3% improvement)
2016 Goals	
10 suppliers will be involved in H&S program for in-depth development	

Supplier training and capacity building: 2016 highlights

We realize that safety-first-culture minded management teams and well-trained employees are crucial to the Health and Safety of workers in our supply chain. Therefore, a series of classroom trainings was designed and provided to senior staff of 10 pilot suppliers, including Environment, Health and Safety leadership, Machinery safety, Hot work & Confined space, Working at height and Crane safety, Forklift and LOTO and Electrical safety. These trainings were followed by further deployment training to factory workers and improvement projects aiming to eliminate hazardous situations in the workplace. Learning from role model factory is an effective way to build a Health & Safety mindset. In April 2015, pilot suppliers were invited to visit Philips' Malu factory in China which was regarded as a role-model factory in Philips with a highly committed management team and employees focusing on a safety culture for over 15 years. By the end of 2015, some 11,000 workers at the pilot suppliers were benefitting from the Health & Safety programs and 448 improvement projects were identified and implemented to improve Health & Safety performance.

Philips Group

Supplier training and capacity building

2014 Goals	Progress 2014
Roll-out best practices and learnings from IDH electronics program to Chinese suppliers included in audit program	During the supplier classroom trainings we included insights from the IDH program. We paid special attention to the relation between worker satisfaction and worker turnover rates, and how factory management can improve these by establishing a communication bridge with workers
Start dedicated 3-year program to improve Health & Safety conditions in supplier factories. Start roll-out to 20% of the Chinese suppliers in 2014	57 out of 410 Chinese suppliers now in the program (14%)
2015 Goals	Progress 2015
Train 150 suppliers during at least 8 two-day sustainability training sessions to address top sustainability issues from 2014 audits	Trained more than 200 suppliers globally, 549 participants, 11 EICC training session in 2015 totally
Implement corrective actions to close all major NCs identified at supplier sites during 2014. Provide tailor made and on-site capacity building for 90% of the related suppliers in China	Corrective actions to close all major NCs identified at supplier sites during 2015 and implemented
2016 Goals	
Train 80 suppliers during at least 6 two-day sustainability training sessions to address top sustainability issues from 2015 audits	
100 suppliers to participate in a the new approach to Supplier Sustainability Performance pilot	

IDH Electronics program

Philips is one of the initiators of the IDH Electronics Program, an innovative multi-stakeholder initiative sponsored by Dutch government and the Sustainable Trade Initiative (IDH) together with Dell, HP, Philips and civil society organizations. This program is aiming to accelerate sustainable trade by building partnership between leading multinationals, civil society organizations, governments and other stakeholders. In 2015, Philips introduced the IDH Fast Track Program which is a one-year program aiming at helping even more suppliers to further improve their labor management, environment, Health and Safety via professional on-site assessment, analysis and correction plan. Seven additional Chinese suppliers were involved through the IDH Fast Track Program.

Top 4 improvement actions are identified and progress is monitored closely to help create better labor management at the suppliers. We also set up a dedicated team to follow-up and provide additional advice and support to suppliers to ensure successful implementation of the improvement actions.

Philips Group

IDH Electronics Program

2014 Goals	Progress 2014
Increase number of participating suppliers to 20	21 Philips suppliers are now participating
All participating suppliers identify their top 3 improvement actions and develop their work plans	Completed for all 21 suppliers
70% of all identified top 3 improvement actions implemented by end 2014	90% implemented by year-end 2014
2015 Goals	Progress 2015
3 out of 4 top improvement actions identified for each IDH supplier implemented by end 2015	93% of all identified top 4 actions implemented by end 2015 19 Suppliers are now participating
	All 19 suppliers completed their Entry Assessments and identified their top 4 improvement of their work plans
2016 Goals	
Philips will continue to support its suppliers in 2016 by further enhancing their management-employee communication, so that the outcomes of the IDH program will be applied to drive sustainability	

Responsible Sourcing of Minerals: Addressing issues deeper in the supply chain

Conflict-free minerals policy and Supply chain due diligence

Philips does not directly source minerals from mines in the DRC or elsewhere, and the supply chain for these metals consists of many tiers, including mines, traders, exporters, smelters, refiners, alloy producers and component manufacturers, before reaching Philips' direct suppliers. Philips has committed not to purchase raw materials, subassemblies, or supplies which we know contain conflict minerals.

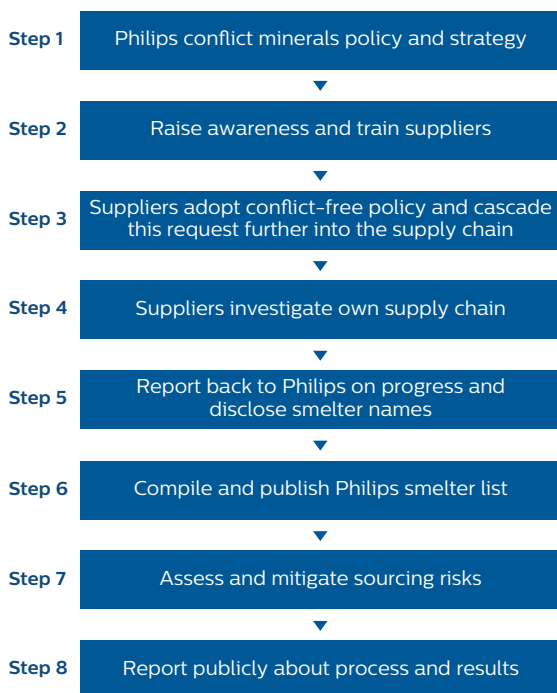
Philips Group
Simplified tin supply chain
2015



In 2015 we continued our work with some 400 priority suppliers selected based on largest purchasing spend and metal usage.

Philips Conflict Minerals Support Center was set up to support suppliers in conducting an investigation in their supply chains. Philips requests its suppliers to adopt and implement a conflict-free minerals policy, to investigate their supply chain and share all smelter names used in their supply chains to produce the metals. Suppliers are also asked to cascade Philips' request to only source from smelters validated as conflict free further into the chain.

Philips Group
Supplier sustainability
 2015



We carefully review the information received via the Conflict Minerals Reporting Template from each supplier against the requirements Philips has set for the program and follow up until all pending issues are closed. The main challenges for suppliers remain the lack of resources as well as the length and complexity of the minerals’ supply chains. Limited insight and cooperation from suppliers deeper in the chain leads to data quality issues and delays or even push back in implementing actions Philips sees as crucial in achieving the conflict free goals for the whole industry.

Philips developed additional training materials in 2015 to assist suppliers with improving their due diligence performance, e.g. smelter data quality. We teamed up with other members of Brainport (Eindhoven, The Netherlands) industries to align on communications and requirements towards shared suppliers and also co-developed a ready to use information toolkit that was made available to all suppliers for communicating further in their supply chains.

Philips Group
Conflict minerals

2014 Goals	Progress 2014
Publish a Philips Conflict Minerals Report validated by external auditors	First Conflict Minerals Report was published and Philips was one of the only 4 companies that had their report audited
Implement augmented expectations for supply chain investigations, including stricter criteria for data collection from priority suppliers	In 2014 we worked with suppliers to implement and roll-out a CM policy, collect more information from their next-tier suppliers and disclose additional smelters
Collect Conflict Minerals Reporting Templates from at least 80% of priority suppliers, applying stricter criteria on data quality and completeness than previous year	98% of the priority suppliers filled out the template questionnaire. 86% were meeting or exceeding the Philips minimum criteria
Conflict Free Tin Initiative: include DRC tin in mainstream solder supply (move from pilot to normal business)	CFTI tin is now part of the regular supply of solder and used in different Philips products
2015 Goals	Progress 2015
Request direct suppliers to steer their supply chain towards using only smelters verified as conflict-free by third-party auditors	Philips deployed the requirement of steering the supply chain towards using only smelters verified as conflict free by third-party auditors in 2015
Confirm that all active, identified tantalum smelters in our supply chain are verified as conflict-free by third-party auditors	All verified smelters in Philips’ supply chain were identified as Active and Compliant in the Conflict Free Sourcing Program
2016 Goals	
Philips will continue working with our suppliers to improve the smelter list data quality in the suppliers’ Conflict Minerals Reporting Templates (CMRTs) and start implementing the requirement to steer the supply chain towards conflict free validated smelters only.	

Other sustainability initiatives in our supply chain

Managing CO₂ emissions in our supply chain

To increase the transparency of the supply chain impact and to identify potential improvement areas Philips continued its environmental partnership with solutions provider CDP in 2015.

Using the CDP Supply Chain program Philips has reached out to over 500 suppliers (4 times more than in 2014) allowing information sharing on CO₂ emissions and climate strategies.

Philips Group

Managing CO₂ emissions in our supply chain

2015 Goals	Progress 2015
Extend the CDP Supply Chain invitations to cover top 80% spend from manufacturing and transportation suppliers	Number of suppliers on the CDP platform: 562 in 2015 compared to 128 in 2014 - Number of suppliers actively measuring CO ₂ emissions: 185 in 2015 compared to 80 in 2014 - Number of collaborative opportunities identified via CDP: 47 in 2015 compared to 17 in 2014
Based on CDP Supply Chain results, offer CDP Action Exchange to top 100 suppliers with highest CO ₂ reduction potential	
2016 Goals	
In 2016 we will stimulate and facilitate further improvement in our supply chain. A growing number of suppliers will be assisted in supplier development projects using Lean methodologies to reduce energy usage. Using the CDP platform Philips will continue to connect to suppliers, monitoring development, sharing best practices and identify new improvement opportunities	

Circular Procurement

Procurement is a key driver in the transition towards embracing the concept of Circular Economy. Timely decisions in the product creation process are a prerequisite to closing the material loop at the end of the product life, with products made for repair or refurbishment and re-use from the start.

Philips Group

Circular Procurement

2015 Goals	Progress 2015
Start 2 circular procurement projects	Philips is currently involved in over a 20 Circular Economy type of projects and most of them involve procurement. The first Circular Economy DfX convention was executed in 2015 focusing on refurbishing of the returned garment care steam generators
Train 40% of procurement commodity teams on circular procurement	Circular Economy (Value Leakage model) is now part of the DfX training (Design for X), which is a program and toolbox for proactively including end-user experience in the product development phase. As such, 1,455 (of which 778 in 2015) procurement colleagues have been trained in this concept so far
2016 Goals	
Increase Circular Economy training >80% of procurement community	
Launch new circular procurement projects	
Integrate circular economy/procurement in Procurement Policy	
Develop circular procurement strategy	