



# **Supplier Sustainability Audit Program Manual**

**This guide is intended to help Suppliers understand Signify'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 Signify Supplier Sustainability and Audit 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 Signify.

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

<https://www.signify.com/global/contact/suppliers/sustainability/our-programs>

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### Version history

|                                 |                                 |
|---------------------------------|---------------------------------|
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Dear Stakeholder,

At Signify, 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 Responsible Business Alliance (RBA) and encourage our strategic suppliers to join the RBA too.

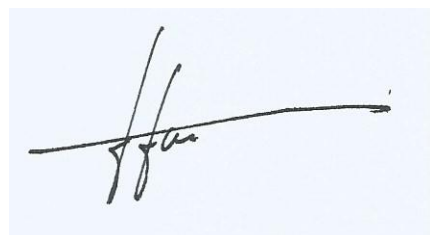
The RBA provides the electronics and other industry with a platform from which to develop standardized tools and processes, helping to develop a uniform standard as well as to measure performance against this standard. Using this platform as a basis, Signify has created the Supplier Sustainability Program. 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 Signify 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, Signify supply chain.

Kind regards,

A handwritten signature in black ink on a light blue background. The signature is stylized and appears to read 'Jaap Borstrok'.

Jaap Borstrok  
Head of Supplier Sustainability  
Signify

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**References:**

Nil.

# 1 Introduction

## Our Mission

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

Signify 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 Integrity code. The Signify Integrity code sets out guiding principles on integrity and ethics in business conduct, including those that help create a sustainable supply chain.

In short, Signify 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

Signify 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:

- Signify Supplier Sustainability Declaration ('Declaration' or 'SSD'), and
- Signify 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 Signify, and Signify 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 Responsible Business Alliance Code of Conduct (RBA Code) a code developed within the electronics and other industry as convened in the Responsible Business Alliance<sup>1</sup>. 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 (<https://www.signify.com/global/contact/suppliers/sustainability/our-programs/supplier-sustainability-management>).

## 2.1 Content

### 2.1.1 The Signify Supplier Sustainability Declaration

The Signify Supplier Sustainability Declaration ('Declaration' or 'SSD') 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.

**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 and housing, health and safety communication.

**Chapter C** reflects the environmental responsibility of RBA member companies. The environmental standards consist of rules relating to environmental permits and reporting, pollution prevention and resource reduction, hazardous substances, solid waste, air emissions, materials restrictions, water management, 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

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<sup>1</sup> <http://www.responsiblebusiness.org/>

property, fair business, advertising and competition, protection of identity and non-retaliation, 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 Signify List of Regulated Substances in Products, Product Packaging and Transport Material**

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

### 3.2 Sustainability risk criteria

#### Country in which production sites are located

The risk country list is based on SA8000 country risk list, the ITUC rating, the Freedom House rating and the Corruption Perception Index.

This list of [risk countries/territory](#) will be reviewed regularly and, where necessary, changes will be made.

#### Commercial interests-Signify spend with Supplier

For monitoring purposes, Signify has determined a threshold based on an annual spend of € 1,000,000 (i.e.: 1M) in the specific risk countries. Any supplier located in these countries with a Signify 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.

Note: for Klite supplier sustainability, the plan is to start with suppliers which spend >5MEuro in 2021.

For potential suppliers Signify uses the lower threshold of an expected annual spend of more than € 100,000 (i.e.: 100K) for the audit program. This means we can ensure that our suppliers are at the acceptable sustainability level before they enter the Signify supplier base.

As the supplier annual spend keeps changing, to ensure the audit program covers suppliers whose spend exceed the threshold, suppliers' 12 months rolling will be checked in the mid and end of every year (i.e.: July and Nov). If any existing supplier's spend is more than 1M but not audited within last 3 years it will be added in audit plan as an active supplier. If any existing supplier's spend is between 100K to 1M but

was not audited before it will be added in audit plan as a legacy supplier. The next step is to confirm the spend, forecasted spend (if available) and supplier status (e.g.: phase out plan, change of location, spend per location etc.) with SAMs. Supplier will not be included in audit plan if SAM confirmed that the supplier will be phased out in the following 6 months (phase out status in TSL lifecycle for reference). Based on that feedback audit plan is updated and needs approval from head of supplier sustainability. Approved audit plan is communicated by Signify to the 3<sup>rd</sup> party audit firm, who will contact these suppliers to schedule audits accordingly. The recommended audit date is (at latest) 45 days after the updated audit plan sent to 3<sup>rd</sup> party audit firm.

If potential supplier passed qualification and its spend >1M€, it will be changed to active supplier during one of the two spend checks.

If supplier will relocate to a new site, the new site will be classified as a potential supplier and it will undergo a qualification process including sustainability audit.

Supplier sustainability audit program KPI (note: KPI refer to 6.2) on overall compliance rate covers active BOM suppliers (exclude software suppliers).

For next tier suppliers, if suppliers are managed by Signify (for example: have been signed GPA with Signify), then they are included in monitoring program same as 1<sup>st</sup> tier suppliers.

### **Incidents reported to Signify**

Where environmental, health & safety, labor or ethics related incidents are brought to the attention of Signify, Signify 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, Signify 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 Signify 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         |  | <ul style="list-style-type: none"> <li>3 year cycle audit: 3rd party</li> <li>1<sup>st</sup> resolving audit:               <ul style="list-style-type: none"> <li>Signify experts or third party audit firm</li> </ul> </li> <li>Failed 1st resolving: 3rd party</li> </ul> | <p><b>MEDIUM RISK</b></p> <ul style="list-style-type: none"> <li>Self assessment by supplier, review by Signify experts or 3<sup>rd</sup> party</li> <li>3 year cycle: 3<sup>rd</sup> party</li> </ul> |
|                | Potential Supplier | <ul style="list-style-type: none"> <li>Assessment by 3<sup>rd</sup> party audit firm</li> <li>Only sustainability audit score is more than 70% and without ZT issues, this potential supplier can move forward to next step, such as SAT (VDA) audit.</li> <li>The final onboarding of potential supplier is possible only after the achievement of green status (score over 90% and no critical NCs in open status )</li> </ul> |  |  |

*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 (i.e.: 5M), 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 Signify sustainability expert or 3<sup>rd</sup> party audit firm, 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                |   |                   |                               |                   |

$$\text{Total Supplier Sustainability Risk Level Score(R)} = A * B * (C + D + E)$$

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

## 4 Knowing What to Do

The success of the Signify 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. Signify 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

#### Signify RBA training sessions in China and India

Suppliers are encouraged to take part in the training sessions on the RBA Code of Conduct that are held on a regular basis in China and India. These Signify RBA training sessions are organized by Signify or 3<sup>rd</sup> party. Signify sustainability experts or 3<sup>rd</sup> party provide trainings to our suppliers, which cover various topics relating to the requirements of the RBA 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 Signify.

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.

#### RBA training sessions on various topics

Signify will inform suppliers of training opportunities offered by RBA, e.g. worker management training, health and safety training, and will encourage suppliers to take part in.

## **4.2 What can you do yourself?**

#### The RBA risk assessment tools

Signify considers the RBA 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 RBA risk assessment tools can be found on the RBA [website](#).

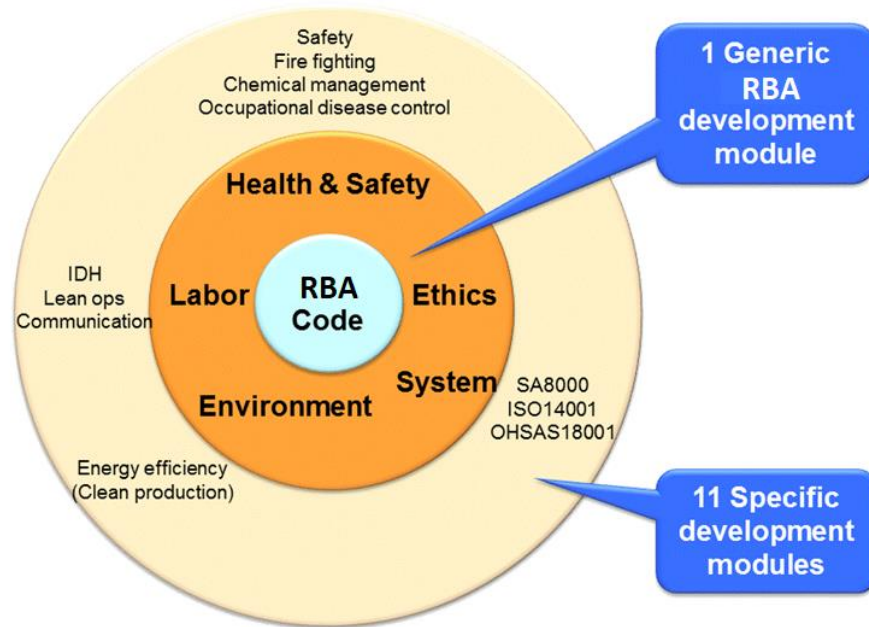
#### Self-audits

Signify encourages businesses to carry out self-audits on a regular basis. One tool suitable for this purpose is the Signify 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 Signify Supplier Sustainability Development Program provided by Signify sustainability experts or 3<sup>rd</sup> party mainly located in China and India. The Supplier can

indicate for which topics support is needed and, together with Signify, can decide how this support can best be arranged. In addition to that, the Signify sustainability experts can proactively engage with Suppliers to help resolve non-conformances (see Section 5), which is part of the Supplier Sustainability Development Program.



*Signify 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 Signify and Suppliers with a regular status overview of Suppliers' conformance with the Declaration. The audit is the evaluation process conducted by a Signify approved 3<sup>rd</sup> party audit firm (or Signify sustainability experts) 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 Signify products but instead cover an entire Supplier site and the complete workforce.

The audit firms use the Signify Supplier Sustainability Audit List, and the Signify guidelines as a basis for conducting the audit. For the purpose of confidentiality, the results of audits are only shared with Signify and the Supplier. The audit results are not made public or shared with customers of Signify, unless with the Supplier's consent.

#### RBA Validated Audit Program (VAP)

Suppliers who have a lot of RBA members among their customers can opt for the RBA VAP process. This process is RBA driven and includes an audit carried out by an RBA-approved audit firm, with tracking of non-conformance resolution by the RBA. The audit report is stored in the RBA audit database, and Suppliers can share the audit reports with the relevant RBA members of their choice. If a Supplier has a valid VAP audit report and Signify has received access to the report in the RBA database, there is no need for a separate Signify Supplier audit.

#### RBA audits by other RBA member companies

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

#### Recognition of other scheme / program audit reports:

To reduce redundancy sustainability audits, after comparison and evaluation of other audit schemes and other client programs, Signify decide to accept audit reports of some schemes or programs if the audit is conducted by 3<sup>rd</sup> party (world-wide well-known auditing firms). At this stage Signify accept audit reports of BSCI, TFS, Amazon, IWAY, Royal Philips, Lumileds, Apple, SA8000+ISO14001+ISO45001 certificate (3 certificates and audit reports).

Other CSR/sustainability audit reports or CSR related certificates will be considered and evaluated by our team to see if it's reliable and similar with our own audit criteria (RBA code), and the auditee's industry position and sustainability performance will be evaluated as well, then the CSR/sustainability audit report or certificate may be accepted according to the evaluation result. To ensure the consistence and preciseness of evaluation outcome, the final decision should be made by head of supplier sustainability. Here is some typical example report/certificate we evaluated and accepted: Sedex report of Samsung, Sony audit report and CSR certificate issued by DNV. Our team will always review it firstly before final approval.

Suppliers are encouraged to submit anyone of these reports if they already have, Signify expert will review and validate the audit report, It is the responsibility of the Signify experts to transfer the NCs in the report into Signify CAP format.

## **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 RBA 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. Signify will treat any such absence of information as a Zero Tolerance non-conformance (see Section 6).

## **5.4 Audit scheduling and payment**

Signify will provide audit plan to the 3<sup>rd</sup> party audit firm. Suppliers will be informed by the 3<sup>rd</sup> party audit firm 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 Signify. All audits done by a third-party audit firm including any necessary 2<sup>nd</sup> time Resolution Audits done by 3<sup>rd</sup> 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 € 5M annual spend) Suppliers, the annual full scope verification audits and necessary 1<sup>st</sup> resolution verifying for high risk suppliers and self-assessment review on medium risk suppliers are done by 3<sup>rd</sup> party audit firm or Signify sustainability experts. 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, refer to our NC guidance document.

The audit fees are set by Signify 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, 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, Signify reserves the right to conduct unannounced audits or to have these conducted on its behalf. Signify may conduct unannounced audits particularly to substantiate specific Supplier-related allegations concerning unsustainable practices.

These unannounced audits are initially financed by Signify. Signify 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 3<sup>rd</sup> party audit firm. Signify will not be a member of the audit team. However, in a number of audits a Signify sustainability expert will be present as an observer, as part of the quality management of the audit firm. Furthermore, the Signify Supplier Account Manager or Supplier Quality Manager/Engineer 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

- Prepare CAP and training material (PPT)
- Close meeting and training session (include feedback session, provide CAP and training materials to supplier finally)

## 5.8 Audit deliverables

The audit firm will submit to Signify 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 Signify sustainability experts before they are released to the Supplier (based on sampling check, refer to below table 5.8). 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

| <b>No.</b> | <b>Scenario</b>  | <b>Sample size</b> |
|------------|--|--------------------|
| 1          | <ul style="list-style-type: none"> <li>• First 2 months after New 3<sup>rd</sup> party audit firm introduced</li> <li>• First 2 months after Major update/changes of audit criteria happened</li> <li>• Report quality do not meet target in two consecutive months (revision rate &gt;50%)</li> </ul> | 100%               |
| 2          | <ul style="list-style-type: none"> <li>• Report quality do not meet target in two consecutive months (revision rate &gt;30% and &lt;50%)</li> </ul>  | 70%                |
|            | <ul style="list-style-type: none"> <li>• Report quality do not meet target in two consecutive months (revision rate &gt;5% and &lt;30%)</li> </ul>   | 40%                |
| 4          | <ul style="list-style-type: none"> <li>• Report quality meet target (revision rate ≤5%)</li> </ul>   | 10%                |

## 5.9 Audit type and timeline of resolution audit, full-scope audit frequency

### Full-Scope Audit

A Full-Scope Audit is conducted with all Signify 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 Signify based on Supplier risk level. Annual verification audits will be conducted by Signify sustainability experts or the 3<sup>rd</sup> party audit firm with Suppliers classified as "high risk". Annual self-assessments (hereafter, SAQ) will be required for Suppliers defined as "medium risk" and reviewed by Signify sustainability expert or the 3<sup>rd</sup> party audit firm.

### Timeline of Resolution Audit

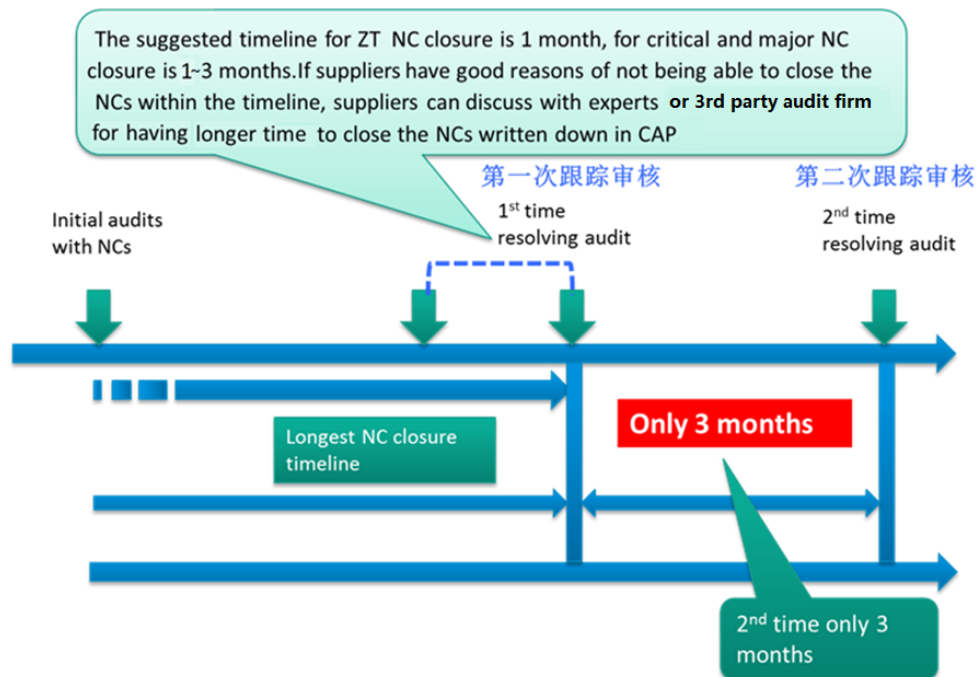
In general, Signify wants to close ZT, Critical and Major NCs as quickly as possible. In the Signify Audit Tool, we suggest to close ZT non-conformances as soon as possible (normally limited to 1 month), while for Critical non-conformances, the timeline is suggested to be 1~3 months. And for Major non-conformances, the timeline is suggested to be 3 months (classification critical and major refer to audit checklist). 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 Signify sustainability experts or 3<sup>rd</sup> party audit firm 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 6 months. 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 1<sup>st</sup> Resolution Audit will take place. The 2<sup>nd</sup> Resolution Audit will

take place 3 months after the 1<sup>st</sup> 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 Signify sustainability experts or 3<sup>rd</sup> party 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 Signify Supplier Account managers can use this information during their business review meetings with the Suppliers.

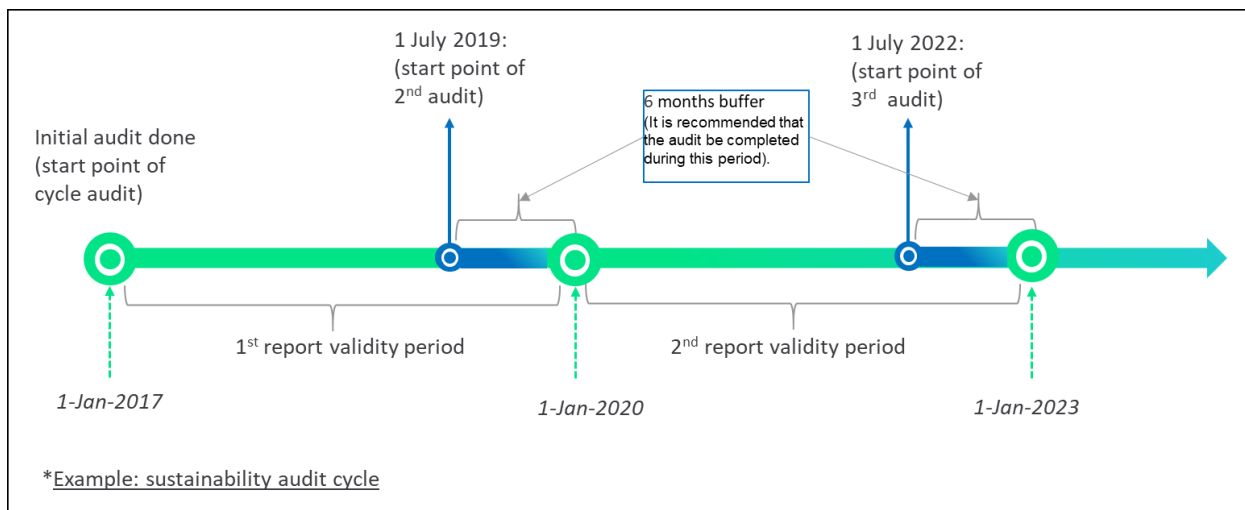
**Table: Audit Frequency**

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



## Audit Frequency

For all active suppliers covered in the audit program, the next Full-Scope Audit is to be conducted at most three years after the date of the previous Full-Scope Audit. For example: A supplier's initial audit was conducted on January 1<sup>st</sup>, 2017, and this report shall be valid until January 1<sup>st</sup>, 2020 (i.e.: three-years cycle). The 2<sup>nd</sup> audit recommended to start from July 1<sup>st</sup>, 2019. Assuming they complete the audit on time, the latest audit results will not be immediately counted as the supplier's compliance status, as the previous report will remain valid until January 1<sup>st</sup>, 2020. In other words, suppliers have a buffer time of up to 6 months to resolve non-compliance, and if they fail to close non-compliances and meet green levels until the expiration date (i.e., January 1<sup>st</sup>, 2020), the latest audit results will represent their compliance status from the expiration date. The 2<sup>nd</sup> audit report will valid until January 1<sup>st</sup> 2023 (3-years cycle again), and the 3<sup>rd</sup> audit recommended to start from July 1<sup>st</sup> 2022, the audit cycle will continue in this way. (refer to below graph)



For high spend and high risk suppliers, Annual verification audits are to be conducted by Signify sustainability experts or by 3<sup>rd</sup> party audit firm 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. Signify 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. Signify 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.

$$\text{Overall Score} = 100 - 20 * \text{ZTs} - 7 * \text{CRs} - 4 * \text{MAs. Nr.}$$

| NC Rating             | Items                       | Item Scoring                      |
|-----------------------|-----------------------------|-----------------------------------|
| <b>Zero tolerance</b> | A1.1, A2.1, ..., D3.2       | 20 points per NC will be deducted |
| <b>Critical Items</b> | A3.1, A4.1, ..., C3.1       | 7 points per NC will be deducted  |
| <b>Major Items</b>    | 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, and no critical NC in open status, 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.

|                            |                             |   |
|----------------------------|-----------------------------|---|
| <b>Overall Audit Score</b> | <b>Acceptable</b>           | Audit Score > 90, and no Critical NC in open status |
| <b>100</b>                 | <b>Improvement required</b> | Audit Score > 80 and ≤ 90                           |
|                            | <b>Not Acceptable</b>       | Audit Score ≤ 80                                    |
|                            |                             |   |

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

The key index of Signify supplier sustainability program is overall compliance rate. Calculation of this data only include active suppliers. Since the audit cycle is 3 years, the compliance rate calculation is based on rolling data of past 3 years, the formula is as below:

$$\text{Compliance rate} = \frac{\text{green active suppliers number}}{\text{total active suppliers number}}$$

### 6.3 Corrective Action Plan (CAP)

In the event of ZT, Critical and Major non-conformances, Signify 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 Signify or the 3<sup>rd</sup> party audit firm 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 proforma outline of the [CAP](#) is attached to this document as Attachment.

A Signify sustainability expert or the 3<sup>rd</sup> party audit firm 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 Signify or the 3<sup>rd</sup> party audit firm in the event of any delay. Where necessary, the Supplier can consult the Signify sustainability expert or the 3<sup>rd</sup> party audit firm about the resolution of NCs.

### 6.4 Continued non-conformance

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



| When  | Signify 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 Sustainability will issue warning letter<br><br>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                                    |

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 Sustainability. In case a Supplier still has no progress and keeps being in “red” or “orange” status 2nd warning letter will be sent out, Signify will plan end of relationship with this Supplier as a last resort.

Per the new (potential) supplier qualification process, only when the sustainability audit score of potential supplier is more than 70% and without ZT (zero tolerance) issues, this potential supplier can move forward for next step, such as SAT (VDA) quality audit. If its sustainability audit score less than 70% or have ZT issues, this supplier will be blocked at this step and can’t follow up with next qualification steps. If there is a need to have this supplier qualified, new full scope sustainability needs to be performed and threshold of min 70% compliance (with no ZT NC) needs to be met. The final onboarding of potential supplier is possible only after the achievement of green status.

**6.5 Issue-based resolution; cases of child labor**

**RBA 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 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 learning programs, which comply with all laws and regulations, is supported. Workers under the age of 18 (young workers) shall not perform work that is likely to jeopardize their health or safety, include night*

*shift and overtime.*

## **Child labor**

In the world today, an estimated 218 million boys and girls work as child laborers<sup>2</sup>. 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, Signify 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, Signify expects will request the Supplier to take immediate remedial action, taking into account the interests of the children employed.

Signify expects the Supplier to follow the three Hs (i.e.: hiring/hazards/hours) approach, as set out in the ILO guides for employers on child labor<sup>3</sup>:

- 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.

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<sup>2</sup> ILO guides for employers on child labor, guide one: introduction to the issue. The guides can be found at [www.ioe-emp.org/](http://www.ioe-emp.org/)

<sup>3</sup> The guides can be found at [www.ioe-emp.org/](http://www.ioe-emp.org/)

### Reducing Hours 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, Signify 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.

### Supporting education

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

## References

The documents listed below are available via the following link:

<https://www.signify.com/global/contact/suppliers/sustainability/our-programs/supplier-sustainability-management>

- The Signify Supplier Sustainability Declaration (SSD)
- Supplier sustainability self-assessment questionnaire (SAQ)
- Corrective Action Plan (CAP)
- Child Labor Policy
- Risk Country List

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

<https://www.signify.com/global/contact/suppliers/sustainability/our-programs/substance-management>

## 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.

### **Declaration**

The Signify Supplier Sustainability Declaration, latest version.

### **RBA**

Responsible Business Alliance (RBA) is a non-profit comprised of electronics, retail, auto and toy companies committed to supporting the rights and wellbeing of workers and communities worldwide affected by the global electronics supply chain. RBA members commit and are held accountable to a common Code of Conduct and utilize a range of RBA training and assessment tools to support continuous improvement in the social, environmental and ethical responsibility of their supply chains.

Today the RBA is comprised of more than 110 electronics companies with combined annual revenue of over \$4.75 trillion, directly employing more than 6 million people. In addition to RBA members, thousands of companies that are Tier 1 suppliers to those members are required to implement the RBA Code of Conduct. More than 3.5 million people from over 120 countries contribute to the manufacture of RBA members' products. Click the link to see for the full list of members:

<http://www.responsiblebusiness.org/about/members/>

### **Full-Scope Audit**

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

### **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

### **Signify Integrity code**

The Integrity code set out guiding principles on integrity and ethics in business conduct. These minimum requirements of behavior govern Signify business decisions and actions throughout the world and apply equally to corporate actions and to the behavior of individual employees when conducting Signify business. The Signify Integrity code can be found at:

<https://www.signify.com/global/contact/suppliers/working-with-signify>

### **Signify Sustainability Expert**

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

## **Purchasing Agreements**

Purchasing agreements with Signify 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 Signify-approved audit firm or a Signify 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:** Signify Electronics List of Regulated Substances in Products, Product Packaging and Transport Material

## **Supplier**

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

**SAM:** Supplier Account Manager