



## **NXP Supply-Chain Assessment and Audit Procedures**

Assessing and auditing our supply chain is a means for NXP to determine if our suppliers not only meet regulatory requirements and the NXP Supplier Code of Conduct, but also a way to continue building our business relationships for continuous improvement through a collaborative and consultative approach.

Our systematic assessment and audit approach focus on questions such as:

- What procedures and processes are being followed, and what exactly is being done?
- Are there written policies and procedures for all the processes being performed, and do the current processes comply with those written policies and procedures?
- Do the written policies and procedures comply with standards, regulations, and requirements?
- Are employees made aware and trained on policies and procedures, and aware of their rights in the workplace?

This allows NXP to understand how well our suppliers are performing and identify any gaps or non-conformances that need to be corrected as well as implement preventative measures.



## Assessments

Annually the Social Responsibility and Procurement teams conduct a human-rights risk-mapping assessment to identify potential adverse human-rights impacts in our supply chain. As part of the annual risk assessment, NXP engages with advisory firms to identify any potential risks of forced labor and human trafficking.

Advisory Firm Engagement	
<p><b>Verisk Maplecroft</b></p> <p>Screens our supply chain for inherent risk and uses predictive models to evaluate areas such as forced labor, child labor, and working conditions.</p>	<p><b>Verité Cumulus</b></p> <p>Provides online technology to identify forced-labor and human-trafficking risks of labor agents in the labor supply chain. This technology assesses and maps the known network of labor agents, in both the receiving and sending countries, and the recruitment practices of labor agents.</p>

Approximately 10,000 suppliers are reviewed in our annual risk assessment to identify suppliers that are at risk of having human-rights issues relating to forced/bonded labor, fair wages, humane treatment, child labor, and/or health and safety.

Three risk criteria are considered when assessing a supplier: country risk, product risk, and business criticality. Each criterion has a scale of 1 (lowest risk) to 10 (highest risk). All three criteria are scored, and the product of these scores becomes the supplier's overall risk score.

The assessment also include reviews of labor agents who represent foreign migrant workers, as these workers are more vulnerable to human-rights abuses. To account for the labor and human-rights risks associated with using labor agents, the country outcome from the quantitative approach is increased by one level.

$$\text{Risk Score} = \frac{[(\text{Country Risk}) \times (\text{Product or Service}) \times (\text{Spend})]}{1000} \times 100$$

Once calculated, the total risk score is assigned a category: <49% (low risk), 50% - 70% (medium risk) and 71% - 100% (high risk).



<b>Country Risk</b>				
<b>Maplecroft Report</b>	<b>Index</b>	<b>Definition of the Index</b>	<b>Element of the Supplier Code of Conduct Covered</b>	<b>NXP's Assigned Weight</b>
<b>Human Rights Risk Atlas</b>	Labor Rights & Protection Index	Measures the risk of association with, and involvement in, violations of labor rights within a given country. It is composed of six different indicators: child labor, forced labor, trafficking, freedom of association and collective bargaining, discrimination in the workplace, and working conditions.	Labor  Health & Safety	60%
<b>Legal &amp; Regulatory Environment Risk Atlas</b>	Corporate Governance Index	Quantification of the quality of corporate governance, based on the quality of existing legal structures and the extent to which the law is enforced. It is composed of five different indicators: investor protection, ethical behavior of firms, strength of auditing and reporting standards, efficacy of corporate boards, and corruption risk index.	Business Ethics	20%
<b>Legal &amp; Regulatory Environment Risk Atlas</b>	Legal & Regulatory Environment Index	Monitors and identifies the strategic and operational risks presented by an uneven playing field in terms of regulation and government policy, the costs associated with corruption, and lack of respect for the rule of law.	Governance	10%
<b>Climate Change &amp; Environmental Risk Atlas</b>	Climate Change Vulnerability Index	Evaluates the vulnerability of human populations to extreme climate-related events and changes in major climate parameters over the next 30 years.	Environment	10%



### **Products & Services**

External manufacturers pose the highest level of product risk exposure.

Direct and indirect suppliers who provide materials and services are the next highest risk.

### **Business Criticality**

Based on annual spend.

Suppliers are divided into three categories (high, medium, and low) based on defined spend ranges.



## Audits

Supplier audits analyze three main aspects of social responsibility: documentation reviews, management and private worker interviews. Audits also include interviews with labor agents and onsite service providers, such as janitorial, canteen, security, and other services. If the audit is conducted onsite, then facilities, including any dormitories are physically inspected.

Remote audits are announced, and onsite audits can be either announced or unannounced, and are conducted by an approved third-party audit firm and accompanied, at a minimum, by a NXP-certified Responsible Business Alliance (RBA) Lead Auditor. It is NXP's principle to understand the issues that arise during an audit, verify that the audit is conducted per the NXP Auditable Standards, and provide consultation after the audit, if the supplier has challenges.

Overall, suppliers must demonstrate a good understanding and commitment to the NXP Supplier Code of Conduct and meet the requirements of the NXP Auditable Standards on Social Responsibility. Our supply chain must integrate NXP requirements into their policies, procedures, and must be communicated effectively to all levels of workers.

Audit nonconformances are categorized into three categories.

Priority	Major	Minor
Confirmed evidence that human rights are being abused or unacceptable practices in accordance to the NXP Auditable Standards. Such examples are the presence of forced/bonded labor, child labor, serious instances of worker harassment, immediate risk to the life of workers and/or negative impacts to the environment.	A significant failure in the management system for social responsibility which affects the ability to produce the desired results. May also include a failure to implement an established process/procedure or, the process/procedure is ineffective or not suited to the operation.	A failure that, by itself, does not indicate a systemic problem with the management system for social responsibility. It is typically an isolated or random incident.



## Remote Audit

Remote audits, are, on average, spread over an 18-day period that includes pre-assessment meetings, technical rehearsals, and the audit proper.

Pre-Assessment Meeting	Technical Rehearsal	Audit Proper
<ul style="list-style-type: none"> <li>• Validate Facility Information</li> <li>• Remote Audit Process (Timeline and Expected Deliverables)</li> <li>• Audit Scope</li> <li>• Identification of Auditee Resource Persons</li> <li>• Overview of Technical Requirements</li> <li>• Overview of Document Review Process</li> <li>• Confidentiality and Data Privacy</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed Agenda</li> <li>• Test Software and Hardware, Audio, Video Devices</li> <li>• Align Videoconferencing and File Sharing Platform</li> <li>• Employee Roster</li> </ul>	<ul style="list-style-type: none"> <li>• Opening Meeting</li> <li>• Documents Review</li> <li>• Management Interviews</li> <li>• Worker Interviews</li> <li>• Closing Meeting</li> </ul>

If the audit results in a nonconformance, the supplier must submit a corrective action plan that addresses both correction and prevention within a set time frame.

If there is a priority violation, the supplier is given the opportunity to improve performance, but the response to and resolution of the violation is non-negotiable. The supplier has seven days to submit a corrective action plan and 30 days to complete the plan. If there is immediate risk of life, the supplier has 24 hours to complete the corrective action. Unresolved priority violations can result in the withdrawal or termination of business.

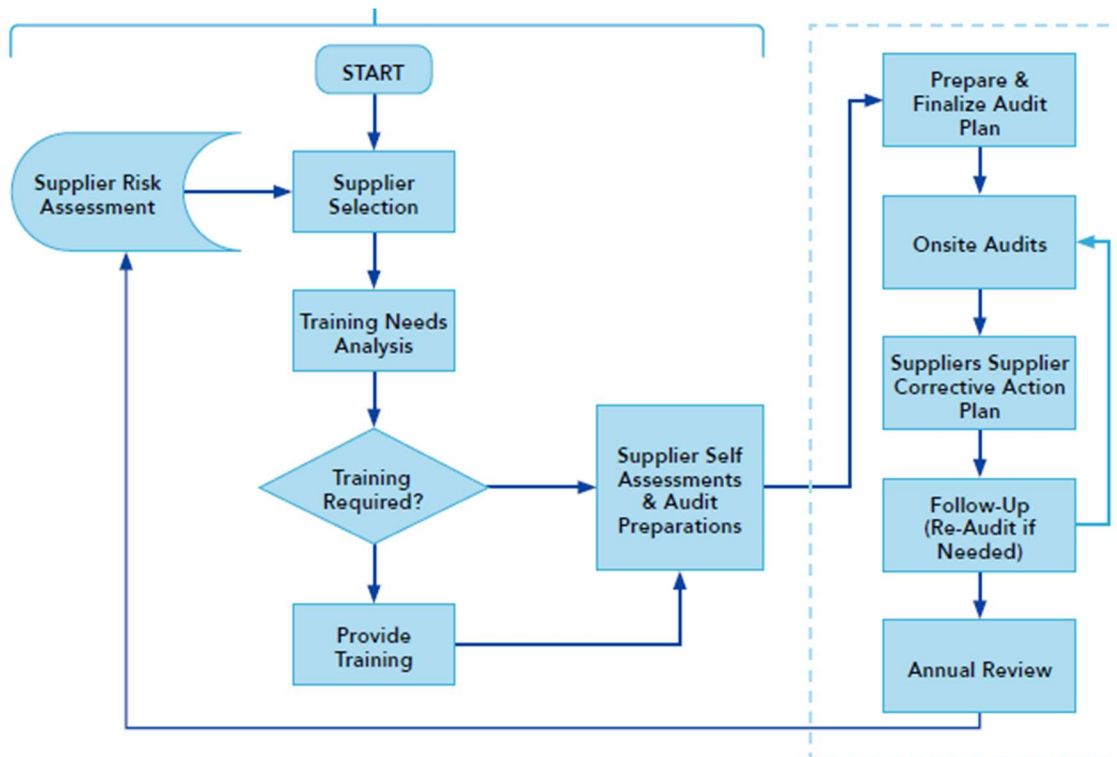
Other nonconformances can be registered as either major or minor. The list of major and minor nonconformances is issued to the supplier within two weeks of the closing meeting. All corrective actions must be approved by NXP and, unless otherwise negotiated or approved, must be fully closed within 90 days. Within that 90-day period, the supplier must update the NXP team every 30 days.



## Onsite Audits

The NXP Social Responsibility Audit program is conducted in accordance with a defined process flow:

### *Onsite Social Responsibility Audit Process Flow*



### Supplier Risk Assessment

The process starts with an annual NXP Supplier Risk Assessment to evaluate which suppliers are a high priority for a NXP audit.

### Training

Once a supplier is selected for an audit, NXP consults, trains, and offers advice with selected suppliers if needed.

### Self-Assessments

The supplier then completes the NXP Supplier Self-Assessment and returns to NXP, including any applicable policies and documentation.



### Onsite Audit

The onsite audit is led by a team of auditors from a third-party audit firm qualified by NXP and accompanied by an NXP RBA-trained auditor. Depending on the size and complexity of the supplier's operations, a typical audit requires two or three full days.

### Supplier Corrective Action Plan

Resolution of priority violations is non-negotiable. Major and minor nonconformances must also be approved by NXP. Corrective actions must be fully closed within 90 days unless otherwise negotiated and approved.

### Follow-Up

NXP may conduct verification audits to assess whether the supplier has fully addressed all corrective and preventive actions. These audits are scheduled after corrective actions are submitted by the supplier and approved by NXP.

### Annual Review

Upon completion of the annual audit cycle, NXP conducts a review to determine if any suppliers that were audited in the preceding year will be re-audited in the coming year. A re-audit is required based on the severity of audit results.

This [video](#) provides more information on the NXP Social Responsibility Audit.