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We expect our suppliers to meet the same high standards on ethics, labor rights, health and safety, and the environment that we apply to our own people and operations. Cisco works closely with suppliers to manage these sustainability issues and improve their performance throughout the supply chain and at every stage of the lifecycle of our products. We look to use our relationships with our network of suppliers and peer companies to multiply the impact we can have on sustainability in the information and communications technology (ICT) supply chain.

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Our Supply Chain

Embedding Sustainability in Core Business Processes

Partnering with Suppliers to Improve Performance and Build Capability

Working with Industry Groups

Overview

These first five pages give readers an overview of Cisco's objectives, key challenges, progress, and performance with regard to Supply Chain. We have used this overview as part of our Executive Summary, which can be downloaded here.

The manufacturing of our products is nearly entirely outsourced. More than 600 suppliers provide components for, manufacture and test, deliver, take back, recycle, or enable reuse of Cisco products. Clear communication and close collaboration with these suppliers is critical to our ability to deliver high-quality products to customers while meeting our CSR goals.

We communicate our expectations of our suppliers through our Supplier Code of Conduct, with which all suppliers are expected to comply, and we monitor compliance through supplier self-assessments, sustainability criteria in supplier scorecards, and third-party audits. Regular engagement helps us strengthen our relationships with suppliers and build their sustainability capabilities. Using Cisco solutions such as Cisco TelePresence, we are able to discuss sensitive issues face-to-face with suppliers around the world. In addition, we aim to provide a practical example to suppliers on how to integrate CSR into their day-to-day business operations by working to improve our own practices.

We focus our performance monitoring, audit program, and capability building efforts on around 200 preferred suppliers (see page C8) with which we spend approximately 75 percent of our supply chain expenditure.

Cisco also plays a broader role in raising standards throughout the ICT supply chain by working directly with suppliers and with peer companies through industry initiatives such as the Electronic Industry Citizenship Coalition (EICC).

We recognize that our customers and other stakeholders, such as investors, have a growing interest in sustainability issues in the supply chain. Increasing transparency and addressing sustainability in the supply chain help us to build customer trust, reduce costs, secure continuity of supply, and protect our brand. Collaboration with suppliers also encourages innovation to develop more sustainable products for our customers (see Environment, page F9).

Our strategy is to multiply our positive impact on sustainability standards and performance throughout the supply chain by:

- Embedding sustainability into routine business practices at every stage of the product lifecycle that touches our supply chain

- Working with manufacturing partners, component suppliers, and logistics partners to build their capabilities for managing sustainability impacts and to improve performance

- Partnering with industry consortia to develop common standards and tools to address broader sustainability challenges in the ICT supply chain

"The discussion about sustainability and CSR in Cisco's supply chain gives the reader an understanding of the lifecycle impacts of Cisco's products and how Cisco is addressing them."

Andy Jones
Amcor, Australia

Cisco's 2012 Global Stakeholder Engagement Sessions

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you + networks = impact^x

You: Cisco is committed to improving sustainability performance throughout the supply chain. One of our key focuses in FY12 has been to better understand our suppliers' sustainability performance so we could target improvements more effectively. To this end, we included sustainability criteria in our business scorecards for preferred suppliers for the first time, and we are encouraging our suppliers to report their performance publicly in a CSR report and to disclose their greenhouse gas (GHG) emissions through the Carbon Disclosure Project.

Networks: Cisco is encouraging these improvements by collaborating with our network of suppliers and a network of peer companies through industry initiatives such as the EICC and the International Electronics Manufacturing Initiative (iNEMI). We continue to monitor labor and environmental performance through audits against our Supplier Code of Conduct. We are also working with others in our industry to adopt a standardized approach for measuring and monitoring suppliers' sustainability performance and to tackle industry-wide challenges such as working hours and conflict minerals.

Impact^x: By the end of FY13, we aim to have established a reliable baseline of preferred suppliers' sustainability performance. This will enable us to work with them more effectively to improve their overall sustainability performance. For example, our goal is for 100 percent of our preferred suppliers to have set reduction targets on GHG emissions and to begin reporting progress toward these targets within the next three years. By working together with these networks of suppliers and peers, we can have a much bigger impact on sustainability in the supply chain than any one company could have alone.

Preferred Supplier Performance Summary

Indicator	FY12[1]
% Preferred suppliers publishing a CSR report, by count*	
· Manufacturing partners	75%
· Component suppliers	38%
· Logistics providers	57%
% Preferred suppliers responding to Cisco's supplier sustainability survey (for scorecard), by count	
· Manufacturing partners	100%
· Component suppliers	81%
· Logistics providers	100%
% High-risk manufacturing partners audited, by facility count	65%
% High-risk component suppliers audited, by count	27%
% Preferred suppliers reporting to Carbon Disclosure Project, by count	50%
% Preferred suppliers providing GHG emissions related to Cisco products, by count	
· Manufacturing partners	100%
· Component suppliers	30%
· Logistics providers	100%

1. This is the first year we have published data on these indicators. In future years, we will report year-on-year performance to show trends.

 * Corporate key performance indicator (KPI). For our complete list of corporate KPIs, see Introduction.

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Progress Toward Objectives

Objective	Progress in FY12	Status
Embedding Sustainability in Core Business Processes		
Integrate sustainability questions into our business scorecard for preferred suppliers to better understand their performance, identify where they need support, and promote ongoing improvements	Deployed sustainability criteria in business scorecards for all contract manufacturers, logistics partners, and preferred component suppliers.	●
Launch a Supplier Appreciation Award for Sustainability to recognize suppliers that demonstrate an outstanding commitment to sustainability	Award launched in September 2011. Won by one of our logistics partners, UPS, in recognition of its exceptional sustainability commitment. Award will be repeated annually.	●
Provide additional training on sustainability issues for employees who engage regularly with suppliers	Continued to provide sustainability training to supplier-facing employees through webinars and other informal engagements. Launched a new web-based training module, which has been rolled out initially to logistics and manufacturing supplier managers.	●
Partnering with Suppliers to Improve Performance and Build Capability		
Communicate and require suppliers to acknowledge the revised Supplier Code of Conduct	Required all suppliers to affirm their acceptance of the Code and sent a supplemental communication to all suppliers after the Code was revised to make them aware of the changes.	●
Enact Processes That Meet the Requirements of:		
· U.S. Dodd-Frank Act	Published a policy on conflict minerals and initial guidance for suppliers on compliance with the Dodd-Frank Act, and developed a survey to assess suppliers' readiness to comply.	●
· California Transparency in Supply Chains Act of 2010	Published a statement on Cisco.com that describes our position on slavery and human trafficking and explains how our commitment to freely chosen labor is embedded in our supply chain practices.	●
Partner with suppliers to identify and realize sustainability improvements	Collaborated with logistics partners to optimize routes and shift transport mode from air to sea (see Environment logistics, page F27). Helped build suppliers' capabilities to measure, manage, and publicly disclose sustainability impacts to establish a baseline for performance (including indicators such as working hours and injury and illness rates) before working more closely with them to promote on-the-ground improvements.	○
Working with Industry Groups		
Continue to work through industry groups such as the EICC and iNEMI to develop tools and standards to address global sustainability	Contributed to EICC working groups to develop industry-standard tools on issues such as working hours (see page C15) and conflict minerals (see page C17) in the supply chain. Co-led iNEMI's Eco-Impact Evaluator project to develop an estimator tool that will establish a unified format for requesting lifecycle assessment information from suppliers.	●

● **Achieved**　　○ **Ongoing**

Addressing Key Challenges

Stakeholders continue to ask companies for more information about the sustainability impacts of their supply chain as nongovernmental organization (NGO) campaigns, customers, financial analysts, and new regulations require companies to demonstrate increased transparency. We answer the most commonly asked questions in this report.

We are working with our preferred suppliers on the best approach to managing key sustainability impacts. Sustainability criteria now account for at least 5 percent of the business performance scorecard that determines preferred status for our suppliers. We ask suppliers to disclose their performance on sustainability issues to help us increase transparency in our supply chain.

We will continue to refine the scorecard process to gather more consistent data, and we will help suppliers improve their capability for calculating and reporting their impacts. For example, we ask all of our manufacturing partners and logistics providers to provide data on Cisco's share of their GHG emissions to help us understand the impacts related to our products and to help suppliers reduce these impacts. We make a similar request of our preferred component suppliers, but not all of them are able to provide this data. We are also encouraging preferred suppliers to report their carbon emissions through the Carbon Disclosure Project and to set reduction targets.

The sustainability scorecard response rate was 100 percent among manufacturing partners and logistics providers but 81 percent among preferred component suppliers. To achieve a 100 percent response rate in FY13, we will work with suppliers to understand and help them overcome challenges in completing the survey and providing the data we ask for, and we will follow up more vigorously with non-respondents. We recognize that many suppliers are asked to complete multiple surveys, and we are working with others in our industry to explore ways to standardize the process to create greater efficiencies and a higher response rate.

To support the self-assessment scorecard process, we more than doubled the number of site audits we conducted to monitor suppliers' performance in FY12, covering 65 percent of manufacturing partner facilities and 27 percent of component suppliers identified as high risk. Our engagement with suppliers initially focused on manufacturing partners and logistics providers, but we are now increasing visibility further down the supply chain by auditing more component suppliers and including them in the scorecard process. The most frequent audit findings in FY12 still relate to labor issues, specifically working hours, which remains a significant supply chain challenge in the ICT industry.

We are increasing transparency by publishing supply chain sustainability performance metrics in this report for the first time (see page C13), and we will continue to do so in future years to enable year-on-year comparisons.

The toughest sustainability challenges cannot be resolved by one company alone. Cisco continues to support industry efforts to tackle issues such as working hours and conflict minerals and to develop standards and share best practices throughout the shared ICT supply chain. Working with the EICC to develop tools to address these issues will be an important focus in FY13, as will helping our suppliers implement a due diligence process to comply with the conflict minerals provisions of the U.S. Dodd-Frank Act.

"Provide more on what you're doing in the supply chain. What didn't work? What are your successes?"

Dr. Margaret Burnett
Sustainability Practitioner, Hong Kong

Cisco's 2012 Global Stakeholder Engagement Sessions

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One of our top priorities is to increase transparency further down the supply chain. By understanding the impacts of the entities that are suppliers to our manufacturing partners and component suppliers, we can work with our suppliers to reduce risk and improve performance. To address this, we are introducing criteria into our audits for our suppliers to report how they are monitoring their own suppliers in line with the revised EICC audit protocol launched at the end of FY12. This will help to identify areas for improvement throughout the supply chain.

Cisco's response to these challenges is provided in more detail throughout this section.

We also have set objectives on packaging reductions, product take-back, and recycling. These are outlined in the Environment section (page F11).

Objectives for FY13 and Beyond

Audit half of our high-risk manufacturing facilities and a third of our high-risk component suppliers in FY13

Partner with suppliers to identify and realize sustainability improvements in FY13

100% of preferred suppliers to complete Cisco's supplier sustainability survey, enabling assessment of their sustainability performance in our business scorecards in FY13

100% of preferred suppliers to report their GHG emissions through the Carbon Disclosure Project questionnaire in FY13

100% of preferred suppliers to have goals in place to reduce GHG emissions and report progress against their goals by end of FY15

100% of preferred suppliers to report Cisco's share of their GHG emissions by end of FY15

100% of manufacturing partners to publish a CSR report in FY13

75% of logistics providers to publish a CSR report in FY13

100% of Cisco supplier managers to complete web-based training on sustainability in FY13

Establish a due diligence process to assess whether tantalum, tin, tungsten, and gold in our products are being sourced from conflict-free minerals, and publish a conflict minerals report by May 31, 2014, as required by the U.S. Dodd-Frank Act

Our Supply Chain

Our supply chain operations encompass everything involved in the development, manufacture, distribution, and take-back of our products. This includes product design, demand management and planning, sourcing, order management, manufacturing, delivery, and reverse logistics.

We aim to embed sustainability criteria and improve performance at every stage (see table below). For more on how we are reducing the environmental impacts of our products from design to end of life, see the Environment section (page F8).

Embedding Sustainability at Every Stage of Our Supply Chain					
	Design / Develop >	Plan / Order >	Source / Make >	Deliver >	End of Life
Role	Cisco designs and develops products.	Cisco works with suppliers to plan the production of products.	Cisco assesses component suppliers against our standards. Manufacturing partners then source parts from suppliers on Cisco's approved vendor list and make finished products.	Logistics service providers transport finished products to our customers.	Cisco connects customers with our take-back suppliers, which bring trade-in products back to Cisco for possible refurbishment, resale, or reuse. Damaged or very old products are sent directly to recycling partners for disassembly and recycling of materials.
Embedding Sustainability	"Design for Environment" principles are incorporated in our product requirements document template. These include improving the energy efficiency of our products, reducing packaging, and designing products for ease of recycling (see Design for Environment, page F8).	Our product reuse team is part of the planning team, which aims to fill orders with used equipment where possible.	Sustainability is a core part of our criteria for assessing the performance of our component and manufacturing suppliers. We monitor compliance with our Supplier Code of Conduct and the Cisco Controlled Substances Specification, and we work with suppliers to improve their performance.	In addition to assessing logistics providers against our Code of Conduct and scorecard, we work with them to reduce their environmental impacts.	We promote the return; refurbishment, remarketing, and reuse; and recycling of our products through our trade-in and take-back programs.
In Practice	Our quality team works with suppliers to understand the availability of alternative materials with lower environmental impacts. Once a new material has been tested for reliability, the team encourages designers to use these components in our products.	Rather than shipping accessories such as cables and power supplies with our products as standard procedure, we make these items orderable options that customers can request only if needed.	Sustainability is integrated into the business scorecard we use to assess suppliers' performance. Our engagement with suppliers through our scorecard and audit processes enables us to build capability in the supply chain by, for example, encouraging suppliers to develop robust labor management systems.	We work with logistics providers to reduce the impacts of their fleets by optimizing shipping routes, shifting transport mode from air to sea, and improving fuel efficiency, where possible.	More than 99 percent of the electronics sent to our e-scrap recyclers is recycled. Cisco is also exploring new business models with our customers and partners to raise utilization of our products and extend their useful life.

We spend billions of dollars each year with the more than 600 suppliers that manage our manufacturing and logistics and provide over 80,000 different parts to make Cisco's core portfolio of products.

Our suppliers are numerous, complex, and globally dispersed. The majority of our expenditure is with three types of suppliers:

- **Manufacturing partners:** A select group of suppliers that produce finished Cisco products
- **Component suppliers:** A much wider group of suppliers that are often contracted directly by Cisco to provide parts to our manufacturing partners according to our specifications
- **Logistics service providers:** A small number of suppliers that we use to distribute our products to customers

We work with suppliers to collect and recycle our products at the end of their useful life, where environmental impacts are a significant concern (see Product Take-back, Reuse, and Recycling, page F42).

Around 200 "preferred suppliers" account for approximately 75 percent of our supply chain expenditure. These preferred suppliers include our manufacturing partners and the logistics service providers that deliver our products to customers, as well as some component and materials suppliers. We use approximately 80 manufacturing facilities, warehouses, and logistics hubs around the world (see map on this page).

Preferred suppliers have committed themselves to working closely with Cisco and to investing in a long-term, strategic relationship that delivers innovation and value to our customers. They have a high level of engagement with Cisco in all aspects of the business, including sustainability.

Preferred suppliers qualify and maintain their status by consistently achieving a high level of performance on our business scorecard in key areas such as cost, quality, technology, fulfillment, and responsiveness. In FY12, we introduced sustainability criteria as part of our scorecard process for monitoring their performance (see page C9).

Embedding Sustainability in Core Business Processes

We are embedding responsible supply chain practices into routine business processes to promote sustainability as a key criterion in our assessment of and ongoing relationships with suppliers. This helps us improve the effective management of our supply chain. It also looks to reduce risks related to business continuity (see Risk Management, page B5).

Cisco Manufacturing Partners and Logistics

Mouse over regions below for alternative views ➕

■ Manufacturing and Fulfillment Locations

■ Multi-Function Logistics Centers

1. Data based on third-quarter 2012 supplier expenditure, which is approximately representative of annual expenditure.

Supplier Code of Conduct

We have adopted the code of conduct of the Electronic Industry Citizenship Coalition (EICC) as the Cisco Supplier Code of Conduct. This Code outlines our expectations of suppliers with regard to social responsibility and human rights, the environment, ethics and governance, health and safety, and related management systems. It also requires our suppliers to extend the Supplier Code of Conduct to their own suppliers.

Suppliers must formally acknowledge the requirements of the Code, usually as part of their contractual agreements with Cisco.

The Code is reviewed and updated regularly so that it continues to reflect best practices and take account of emerging issues. We worked with the EICC to develop the latest version of the Code, which was published in FY12. We communicated the latest version of the Code to our suppliers and have asked for their continued commitment. Revisions to the Code include additional content on:

- Freely chosen employment, humane treatment, and freedom of association
- Responsible sourcing of minerals
- Business integrity and improved disclosure of information
- Processes that communicate Code requirements to their own suppliers and that monitor their supplier compliance to the Code

These revisions aim to comply with the requirements of the 2010 California Transparency in Supply Chains Act, the U.S. Dodd–Frank Wall Street Reform and Consumer Protection Act, the U.K. Bribery Act, and the updated Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises. The related EICC supplier assessment tools and validated audit protocol are also being updated accordingly.

In addition to the Code, suppliers must also comply with the Cisco Controlled Substances Specification, which acknowledges their compliance with certain environmental regulations, such as the EU Restriction of Hazardous Substances Directive (see Environment, page F41).

Supplier Scorecard

In FY12, we integrated sustainability criteria into our overall business scorecard for preferred suppliers. The scorecard is used to establish preferred supplier status and to monitor supplier performance.

Sustainability now represents between 5 and 8 percent of the total score (depending on supplier type), alongside many other criteria such as technology, cost, quality, responsiveness, and collaboration. Suppliers complete a survey, and their performance on sustainability metrics is reviewed at least once per year as part of regular business reviews. Suppliers must maintain strong scores to earn and retain their status as preferred suppliers, and those that perform particularly well often gain more business from Cisco.

By integrating sustainability into business reviews, we aim to show suppliers that Cisco takes sustainability in the supply chain seriously and that they must have an acceptable level of sustainability performance to do business with Cisco. This process provides a channel for regular communication with suppliers on sustainability issues and complements our site audits as a way of monitoring performance and identifying areas for building capability.

The scorecard encourages suppliers to track and disclose environmental and labor impacts, helping us improve transparency on sustainability issues in the supply chain. The survey also asks suppliers to report any environmental or health and safety infractions (such as regulatory violations) and to describe the remedial actions that were taken. We make clear that these are not part of their score and that suppliers will not be penalized for

Cisco Supply Chain Sustainability Guiding Principles

These overarching principles apply to our own operations and those of our global suppliers:

- Operate ethically and in compliance with applicable laws
- Value employees, embrace diversity, and promote a fair and respectful workplace
- Provide a safe and healthy workplace and strive to reduce the environmental footprint of products and operations
- Be an asset to local communities by supporting education, healthcare, and basic human needs programs as well as ongoing economic development
- Promote engagement with and development of diverse suppliers
- Strengthen management systems that govern responsible operations

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disclosing this information. Our aim is to promote open, honest dialogue and to work together with suppliers to resolve any issues.

We consulted suppliers as we developed the sustainability criteria for the scorecard, integrating their feedback into the process. We also took into account existing industry standards and guidelines such as those published by the Carbon Disclosure Project, the Global Reporting Initiative, the Occupational Safety and Health Administration, and the Greenhouse Gas Protocol.

The sustainability part of the score is based on a range of criteria that are tailored to the type of supplier, including:

- Providing data and setting goals on environmental impacts such as water and waste, and reporting GHG emissions through the Carbon Disclosure Project

- Reporting data on labor issues such as injury and illness rates, working hours, and employee turnover

- Demonstrating commitment to sustainability by, for example, publishing a CSR report with clear goals and metrics and by participating in sustainability-related industry groups

We continue to refine the scorecard criteria on specific issues such as working hours and to expand the guidance that we offer as part of this process to improve the accuracy and relevance of the data we gather.

In FY12, we achieved a 100 percent response rate from our preferred manufacturing partners and preferred logistics providers, but only 81 percent from preferred component suppliers. Our focus in FY13 will be to achieve a 100 percent response rate from all preferred suppliers to provide accurate baseline data. We aim to report the percentage of preferred suppliers that meet or exceed our requirements in future years when we have more reliable data.

Training Cisco Supplier Managers

To integrate sustainability into core business processes and effectively raise awareness of our requirements among suppliers, it is essential that our supplier management teams at Cisco understand sustainability and communicate about it confidently. This is important because our long-term objective is to build sustainability into standard business processes so that each business function considers sustainability as a regular part of its business activities and decisions.

In FY12, we conducted targeted training sessions for all employees who work on our Supplier Management teams. Cisco's Supplier Code of Conduct is also noted in our overall Code of Business Conduct (COBC), which all eligible employees review every year during COBC certification (see Governance & Ethics, page B14).

We have also launched a formal web-based training module on sustainability for supplier managers. It explains the business case for sustainability and the role of managers in engaging suppliers, and it outlines the key points of the Supplier Code of Conduct and how Cisco monitors compliance. We initially rolled out the training to manufacturing and logistics supplier managers, and it will be mandatory for component supplier managers in FY13. Additional training on specific topics will also be developed to supplement this training.

Promoting Supplier Diversity

Promoting the growth and use of diverse suppliers (in the form of woman- and minority-owned businesses) within the supply chain is one of Cisco's Supply Chain Sustainability Guiding Principles. Working with diverse suppliers gives us access to a wider range of innovative supply chain partners, enhances supply chain competitiveness, and increases customer satisfaction. Broadening our supplier base also contributes to business continuity by reducing the risk of disruption in our supply chain.

We directly support diverse suppliers by providing a range of mentoring and networking opportunities to help them develop their global business capability and competitiveness, and we indirectly support them throughout the supply chain by encouraging our preferred suppliers to buy components, products, and services from diverse suppliers and to report their diverse expenditure to us. (For more on our supplier diversity program, see Society, page E18.)

Scorecard Results FY12			
	Preferred Manufacturing Partners	Preferred Logistics Providers	Preferred Component Suppliers
Survey response rate	**100%** (FY13 goal: 100%)	**100%** (FY13 goal: 100%)	**81%** (FY13 goal: 100%)
Supplier publishes a CSR report	**75%** (FY13 goal: 100%)	**57%** (FY13 goal: 75%)	**38%** (goal not currently established)

Partnering with Suppliers to Improve Performance and Build Capability

In addition to our regular review of preferred suppliers' sustainability performance through our business scorecard (see page C9), we monitor their compliance with the Supplier Code of Conduct and help them improve their performance through audits and follow-up actions (see chart on next page).

Audit findings and corrective action plans enable us to identify trends and opportunities to help suppliers enhance their sustainability capabilities. We highlight some specific examples of typical audit findings and the actions we are taking in the table of examples on page C14. We also provide guidance for suppliers on specific issues, encourage them to participate in industry training, and work directly with suppliers to build their capabilities.

We generally follow a six-step process for communicating our Supplier Code of Conduct to suppliers, monitoring compliance, and helping them improve performance.

Supplier Audits

All audits, whether sponsored by Cisco or by multiple companies via the EICC validated audit process, are conducted by a third-party auditor at the supplier's facility. Cisco representatives participate in selected audits where potential high-risk issues have been identified in the supplier's self-assessment or by other means. While most of our audits are announced in advance, we are beginning to conduct some unannounced audits.

The audit criteria include environment, ethics, health and safety, labor, and related management systems. Auditors use the standard protocol and audit tools developed by the EICC. These include:

- Reviewing documentation, including policies and procedures, personnel records, time sheets, and relevant permits

- Conducting a site tour to assess conditions in different areas, including production lines, cafeterias, resting areas, and dorms, if applicable

- Gathering information from management

- Interviewing employees in their preferred language separately from management

The audit team produces a report based on the audit that is shared with Cisco and the supplier. For any issues identified, the supplier must produce a corrective action plan and subsequently provide evidence that the corrective actions have been implemented. Action must be taken on priority issues within 30 days, and all findings are expected to be addressed within 180 days except for certain issues that require long-term improvement plans.

Audit Findings

In FY12, we more than doubled the number of audits we completed of supplier facilities. Our auditing efforts focus on manufacturing partners and component suppliers as these have been identified as higher risk than logistics partners.

All of our manufacturing partners' high-risk facilities have been audited at least once over the past two years. We also met our goal of increasing the number of audits of component suppliers' facilities, which made up two-thirds of our audits in FY12, and we plan to audit more component suppliers in FY13 to give us a better understanding of the potential sustainability issues in our supply chain. Our goal is to audit half of our high-risk manufacturing facilities and a third of our high-risk component suppliers every year.

This year, we are reporting the percentage of high-risk supplier facilities audited, and we are disclosing more detailed information on audit findings. Most of the findings (see chart, page C13) in FY12 were related to labor practices and health and safety, and in particular

to working hours (see box, page C15) and emergency response procedures. Following the communication of our guidance on juvenile labor, we had no major findings related to child labor.

Percent of High-Risk Suppliers Audited		
	FY11	FY12
Manufacturing partner facilities	29%	65%
Component suppliers	13%	27%

Plans are in place for correcting all the major issues identified in the FY12 audits. We work with suppliers to review and agree on corrective action plans and to monitor their implementation (see table of common audit findings and responses, page C14).

> "Although reporting on supply chain issues is better than in the past, I miss more details on audit findings. It would be good to know what percentage preferred suppliers account for in Cisco's supply chain expenditure."
>
> **Philipp Ruehle**
> **oekom research AG, Germany**
>
> Cisco's 2012 Global Stakeholder Engagement Sessions
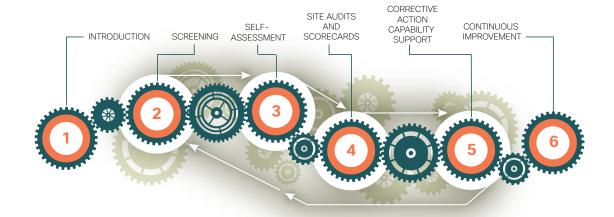
Cisco Supplier Code of Conduct

Supplier Engagement Process

INTRODUCTION — SCREENING — SELF-ASSESSMENT — SITE AUDITS AND SCORECARDS — CORRECTIVE ACTION CAPABILITY SUPPORT — CONTINUOUS IMPROVEMENT

1

Share our Supplier Code of Conduct with suppliers and communicate our expectations on how it should be applied

We include the Code in our agreements with suppliers, and we communicate any changes to the Code as appropriate.

2

Evaluate suppliers to identify higher-risk facilities

Our risk assessment of each supplier facility is based on factors such as our budget with the supplier, the country where the facility is based (using external global risk indices), number of employees, and type of product or service provided. Preferred suppliers are evaluated every year to help us prioritize which sites to audit.

3

Evaluate those facilities through self-assessments

Suppliers identified as high risk are asked to complete a self-assessment for each facility that supplies Cisco.

4

If warranted, commission an audit of facilities, either via the EICC-validated audit process or using Cisco-sponsored third-party auditors

We prioritize facilities to audit based on the results of our risk assessment and the subsequent self-assessment, or if we identify any other significant factors that may warrant an audit. We participate in joint EICC audits where our needs align with those of other EICC member companies. Facilities are generally audited every two years. Some are audited more frequently, depending on audit results or relevant information that comes to light between scheduled audits.

5

Work with suppliers on corrective action plans to resolve issues raised by audit findings

Priority issues must be resolved within 30 days. Other issues are expected to be closed within 180 days, with the exception of certain issues that require long-term improvement plans. In these cases, suppliers must regularly update us on progress.

6

Validate that issues have been resolved and continue to monitor and talk with suppliers

Documentary evidence must be provided to demonstrate that issues have been resolved and, if needed, we will conduct a follow-up audit to confirm this. We engage with suppliers to understand the corrective actions they are taking and continue to work with them until their performance improves.

FY12 Supplier CSR Audit: Summary of Findings

	Findings Identified as Major	Findings Identified as Minor	Total Number of Audit Elements
Labor	63	58	1402
Freely chosen employment	5	8	
Child labor avoidance	0	18	
Working hours	37	12	
Wages and benefits	17	14	
Humane treatment	1	3	
Non-discrimination	2	1	
Freedom of association	1	2	
Health and Safety	41	34	1142
Occupational safety	7	4	
Emergency preparedness	16	8	
Occupational injury or illness	6	5	
Industrial hygiene	4	9	
Physically demanding work	2	5	
Machine safeguarding	3	2	
Food, sanitation, and housing	3	1	
Environment	15	21	643
Environmental permits and reporting	4	2	
Pollution prevention and resource reduction	0	1	
Hazardous substances	4	16	
Wastewater and solid waste	4	1	
Air emissions	3	0	
Product content restrictions	0	1	
Labor and Ethics Management System	41	58	856
Company commitment	3	1	
Management accountability and responsibility	6	10	
Legal and customer requirements	3	8	
Risk assessment and risk management	7	13	
Performance objectives with implementation plans and measures	1	10	
Training	7	2	
Communication	6	3	
Worker feedback and participation	1	2	
Audits and assessments	4	4	
Corrective action process	1	5	
Documentation and records	2	0	

FY12 Supplier CSR Audit: Summary of Findings

	Findings Identified as Major	Findings Identified as Minor	Total Number of Audit Elements
Environment, Health, and Safety Management System	11	21	868
Company commitment	0	1	
Management accountability and responsibility	1	3	
Legal and customer requirements	0	1	
Risk assessment and risk management	3	2	
Performance objectives with implementation plans and measures	1	3	
Training	2	4	
Communication	0	0	
Worker feedback and participation	1	1	
Audits and assessments	1	5	
Corrective action process	2	0	
Documentation and records	0	1	
Ethics	8	6	361
Business integrity	1	1	
No improper advantage	0	1	
Disclosure of information	0	0	
Intellectual property	1	1	
Fair business, advertising, and competition	4	2	
Protection of identity	2	1	
General Code and Legal Compliance	6	4	269
Electronic industry code of conduct	6	3	
Compliance with laws	0	1	

Major nonconformance: A significant failure in the management system that renders established processes or procedures ineffective.

Minor nonconformance: Typically an isolated or random incident that does not necessarily indicate a systemic problem with management systems.

Total audit elements: The total number of audit criteria with the potential for a finding.

Examples of Common Audit Findings and Responses in FY12

We highlight some specific examples of findings from our audits in FY12 in the following table and explain how we required suppliers to respond by strengthening their management systems and building their capability.

Category	Finding	Response
Labor: Working hours	Overtime hours and consecutive days worked without a break exceed regulatory requirements.	Suppliers have enhanced their management systems to monitor working hours and have implemented a control mechanism to alert managers to overtime exceeding the maximum working hours set by the EICC and to increase management accountability.
Labor: Wages and benefits	Contracted workers are not compensated correctly for overtime by labor agencies or outsourced companies.	Suppliers have implemented requirements for labor agencies to correctly calculate compensation for overtime for contract workers.
Labor: Freely chosen employment	The agency used for hiring contract workers was retaining some migrant workers' passports for safekeeping, although the agency stated that this was by request from the workers.	The agency has documented the request by foreign workers asking the agency to retain their passports for safekeeping, clearly stating that the workers are able to retrieve their passports when needed.
Labor: Freely chosen employment	Line leaders set limits for toilet use during a shift.	This practice was withdrawn immediately, and line leaders were provided with training on the importance of labor welfare.
Labor: Child labor avoidance	No procedure in place to respond to the discovery of underage workers.	A new procedure has been established that documents the process to be followed if underage workers are found.
Health and Safety: Occupational injury and illness	Lack of analysis of root causes of health and safety incidents.	Suppliers' management personnel have been assigned responsibility for health and safety. Procedures for analyzing root causes of incidents and corrective action plans have been implemented.
Health and Safety: Emergency preparedness	Emergency signals or alarms are inadequate or managed ineffectively, and fire drill training for workers is inadequate.	Suppliers' health and safety managers have been made accountable for risk assessment, emergency preparedness, and effective training.
Environment: Hazardous substances	Handling procedures for chemicals and hazardous materials are not adequately implemented throughout the facility.	Training on the handling of hazardous materials is now mandatory for all production workers.
Environment: Wastewater and solid waste	Inadequate wastewater controls.	Mechanism to monitor wastewater discharge level has been established and tested.
Labor and Ethics management system: Management accountability and responsibility	Lack of formal labor and ethics management system.	Supplier has established a management system which includes a CSR committee with representatives from business units and relevant functions.
Labor and Ethics management system: Training	Inadequate training and communication to workers on labor and ethics management system.	Supplier has implemented communications on labor and ethics management through a worker welfare committee.

Capability Building

To improve sustainability performance globally, we work closely with our preferred suppliers to help them improve their performance. In FY12, we continued to engage with many of our preferred suppliers to communicate our sustainability priorities, understand their priorities and challenges, and identify opportunities where we can partner to improve overall sustainability performance. These discussions helped to align priorities and better prepare suppliers to implement programs that support Cisco's sustainability goals.

The integration of sustainability metrics into our scorecards and business reviews for preferred suppliers helps us identify areas for capability building. For example, one of Cisco's priorities is to help suppliers understand how to allocate GHG emissions to each product or component to support their customers' calculations of product lifecycle impacts. To this end, we have recently begun working with the Massachusetts Institute of Technology and members of the EICC to develop approaches that different types of suppliers can use to calculate this data.

We identify areas for improvement and opportunities to partner through our audits of suppliers' performance, and we focus on any specific issues raised by stakeholders. Where suppliers are not meeting our requirements, we help them take appropriate corrective actions and work with them to raise standards. We believe that this is the most effective way to embed sustainability awareness and promote ongoing improvement among suppliers.

Our tailored support includes talking about sustainability issues with our suppliers' senior managers, discussing audit findings and appropriate corrective actions, and conducting regular reviews of their sustainability performance.

In FY12, we provided guidance for suppliers producing their first CSR reports by directing them to the Global Reporting Initiative framework. We supported our suppliers in reporting their climate impacts through the Carbon Disclosure Project, and we provided guidance documentation for specific issues, such as the California Transparency in Supply Chains Act, juvenile labor, and waste management in China, as well as an updated specification on controlled substances for our products. We also published preliminary guidance documentation on conflict minerals and engaged with suppliers to assess their awareness of the issue and understand their knowledge of the origin of their materials. This will continue to be a key focus in FY13 (see page C17).

Cisco aims to raise sustainability standards throughout the supply chain by working with suppliers to help them improve their management systems and implement similar processes when working with their own suppliers. The Cisco Supplier Code of Conduct requires all suppliers with which we have a direct relationship to apply these same standards to their own suppliers. This includes all of the manufacturing partners, logistics partners, and component suppliers on our approved vendor list.

Focus on Working Hours

The issue of excessive working hours in the ICT supply chain has been highlighted in recent years by NGO campaigns and the media. We take this issue extremely seriously.

Monitoring working hours is an important element of our supplier audit process and scorecard for preferred suppliers. In FY13, we will require our manufacturing partners to provide a breakdown of their average monthly working hours using a tracker tool we are developing. Our manufacturing partners have systems in place to record working hours. We have ongoing dialogue with them about how they are working to reduce overtime, and we continue to monitor their performance.

Our site audits found that average working hours per week have dropped from around 80 hours per week in FY11 to between 68 and 72 in FY12. This still exceeds the 60-hour maximum required by the EICC. We also found that while a rest day for every seven-day working week is generally observed by most of the facilities audited, this is not guaranteed, especially during peak seasons.

Reducing overtime remains one of the biggest supply chain challenges for our industry because many factors contribute to excessive overtime, including production demands, availability of labor, and wages. The complexity of this challenge is highlighted by the increase in turnover experienced by some suppliers that are reducing their working hours, as workers leave to go to companies that will offer them more hours. We will continue to work through the EICC Working Hours task force (see page C18) to set standards and to require our suppliers to contain overtime within acceptable limits.

⚙ Supply Chain

We use our network of suppliers to pair up individual suppliers to enable them to share best practices and learn from each other. We also encourage suppliers to join the EICC and participate in wider industry efforts to promote standardization and build capability. For example, we nominate suppliers to participate in industry training initiatives. In FY12, three of our suppliers in China completed EICC training on worker-management communication, and one supplier in Malaysia completed EICC training on health and safety.

Environmental sustainability is another key focus of our capability-building activities. Helping suppliers improve their management of environmental issues and reduce their impacts can, in turn, help us reduce the overall impacts of our products throughout their lifecycle.

For example, we monitor the list of noncompliances with wastewater regulations published by the Institute of Public and Environmental Affairs, a Chinese NGO, and we act promptly in any case where a Cisco supplier is mentioned to reiterate the standards we require and help the supplier develop effective environmental management systems. We have provided additional guidance on waste and wastewater management to suppliers in China to help them understand requirements, and we encourage suppliers to complete training on environment, health, and safety developed by the EICC.

At the product level, we are working with suppliers as well as product engineers to source components that are more energy efficient and contain less hazardous material. For more information on our approach to managing environmental issues throughout the lifecycle of our products, see the Environment section (page F8).

Tackling Conflict Minerals

The Issue: Increased scrutiny from NGOs and growing interest from governments have put a spotlight on the use of certain metals in the electronics industry, specifically those derived from potential "conflict minerals," namely columbite-tantalite (known as "coltan," refined to produce tantalum), wolframite (refined to produce tungsten), cassiterite (refined to produce tin), and gold.

The Democratic Republic of the Congo (DRC) is among the world's primary sources of these minerals, and many of the mines and transportation routes in the area are under the control of armed groups. The concern is that the mining and purchase of these minerals from the DRC and its bordering countries may be directly or indirectly financing or benefiting armed groups in the region that are often accused of major human rights abuses.

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, passed in July 2010, puts the burden on companies to know and disclose the source of these metals in their products. It requires any company that makes products containing these metals to conduct a reasonable country-of-origin inquiry and due diligence process of their supply chain and to publish a report disclosing whether those minerals originated from the DRC or its bordering countries.

This regulation, and the underlying issue, is not exclusive to the electronics industry. It affects many other industries that use these metals in their products, including the aerospace, automotive, and jewelry industries. Resolving this issue demands extensive collaboration with many participants within and outside the ICT supply chain.

Our Response: In FY12, we published a policy on conflict minerals, asserting our commitment to source minerals in a manner that respects human rights and our support for the goals and objectives of the Dodd-Frank Act. We also provided training sessions for relevant Cisco employees on our requirements under the Act.

The policy requires suppliers to certify that all products supplied to Cisco do not contain tantalum, tin, tungsten,

Cisco's Three-Stage Approach to Validating Conflict-Free Sourcing of the Regulated Minerals

Trace Minerals to the Smelter	Conflict-Free Smelter Validation	Validate and Report
Collecting and evaluating supplier responses to the EICC-GeSI industry Conflict Minerals Reporting Template	Working through industry consortia to develop and implement audit protocols for smelters	Obtaining an independent private-sector audit of Cisco's Conflict Minerals Report to verify our conflict-free status before filing with the U.S. Securities and Exchange Commission

· Working with suppliers to identify conflict-free solutions
· Publishing a Conflict Minerals Report by May 31, 2014, as required by the Dodd-Frank Act

or gold that are necessary to their production or functionality or, if products do contain these minerals, that they originate from smelters that have been validated as "conflict free" by an independent private-sector party. The revised Supplier Code of Conduct also includes a requirement for suppliers to exercise due diligence on the source and chain of custody of these minerals.

We informed suppliers of our requirements on conflict minerals in FY12 and published preliminary guidance documentation for them. We also met with approximately 20 suppliers, including all our manufacturing partners, to assess their awareness of the issue and their knowledge of the origin of their materials.

We are now rolling out a survey, based on the industry questionnaire developed by the EICC, to assess supplier awareness of the requirements of the Act and their readiness to comply.

Supporting an Industry-Wide Approach
We continue to support an industry-wide approach to the complex issue of conflict minerals. Through our participation in the EICC Extractives Working Group, we support industry initiatives to better understand the challenges of establishing

a chain of custody for these minerals and to develop a clear process to trace the minerals back to their source. The working group brings together a wide range of stakeholders, from miners, smelters, and brokers to capacitor makers and other manufacturers of electronic components and products.

Two key initiatives have come out of this engagement and are now underway:

· An in-region sourcing program that traces minerals from the mine to the smelter
· A conflict-free smelter assessment program that certifies smelters and refiners that source only conflict-free minerals

Cisco worked with the EICC to develop a standard methodology for auditing the metals supply chain, which is intended to create a common way of collecting and reporting this information. We also asked suppliers to list the smelters from which they source tin, tantalum, tungsten, and gold so these smelters can be included in the EICC conflict-free smelter validation program. (For more information on industry initiatives, see www.eicc.info.)

Working with Industry Groups

Cisco promotes responsible practices in the wider ICT supply chain through industry collaboration and participation in global industry consortia such as the EICC and iNEMI. These forums enable Cisco to exchange ideas and pool resources with industry peers, share best practices, respond to stakeholder concerns, and influence the development of industry standards.

We play an active role in the EICC's working groups on extractives, environmental sustainability, learning and capability building, and management tools, and we contribute to regular revisions of the Supplier Code of Conduct. We participate in the EICC's task forces on working hours, freely chosen employment, Asia, and governance, the last of which aims to improve the effectiveness of the EICC itself.

Cisco is a founding member of the Stanford Initiative for the Study of Supply Chain Responsibility. Established in FY12, this research initiative aims to explore the relationship between global supply chain social and environmental responsibility and business performance, to share best practices, and to develop a supply chain sustainability maturity model for the industry.

Labor Standards

In FY12, we continued to work with peers in the EICC to promote socially responsible labor practices, focusing in particular on working hours and compliance with the 2010 California Transparency in Supply Chains Act. The Act, which came into force in January 2012, requires large retailers and manufacturers that do business in the state of California to provide information about their efforts to eradicate slavery and human trafficking from their supply chains.

Cisco is a member of the EICC's task force on Freely Chosen Employment, and we have published a position statement on this issue in line with EICC recommendations and have strengthened our Supplier Code of Conduct in this area. We require our manufacturing partners to provide us with documentation of their policy and supporting management system to allow us to assess their compliance with the Act. We document and track their commitment and monitor their conformance through our supplier audit process, which now includes specific requirements on compliance with the Act.

Slavery and human trafficking are covered in our Code of Business Conduct training for Cisco employees, and we also provide resources to help employees understand the requirements and respond to related requests from our customers.

We support the EICC's goal to reduce excessive overtime in manufacturing facilities based in China. In FY12, we participated in the EICC Working Hours task force to analyze average working hours based on EICC members' supplier audit findings and to share best practices. The EICC is also developing training for suppliers on managing working hours.

Training, Tools, and Standards

In collaboration with the EICC, we are developing common industry training, tools, and standards to support suppliers in improving their sustainability performance.

Cisco contributes to the development of industry training courses. In FY12, we encouraged our suppliers to complete the EICC e-learning course on CSR and to participate in face-to-face training offered through the EICC on specific issues such as occupational health and safety and worker-management communications.

Our participation in iNEMI focuses on reducing the environmental impacts of the materials that make up our products. For example, Cisco leads a working group to define standard methodologies and approaches for simplifying lifecycle analyses for the ICT industry, and we participate in projects to identify alternatives to polyvinyl chloride and halogenated flame-retardants in printed circuit boards. We are also helping to develop standardized approaches for collecting key environmental performance indicators from suppliers through the EICC Environmental Sustainability Working Group. For more details on Cisco's activities in this area, see the Environment section (page F9).