# Annual Report 2012

Financial, social and environmental performance

# Accelerate!

# Progress in delivering our full potential

Please note: this PDF contains only the pages highlighted in the list of contents below. The contents of this file are qualified in their entirety by reference to the printed version of the Philips Annual Report 2012.

The information in this PDF has been derived from the audited financial statements 2012 of Koninklijke Philips Electronics N.V.

KPMG has issued unqualified auditors' reports on these financial statements.

PHILIPS

This is the employee selection from the Philips Annual Report 2012

# Contents

*Grey text indicates parts not included in this selection from the Philips Annual Report 2012.*



**IFRS basis of presentation**
The financial information included in this document is based on IFRS, unless otherwise indicated.

**Forward-looking statements and other information**
Please refer to chapter 19, Forward-looking statements and other information, of this Annual Report for more information about forward-looking statements, third-party market share data, fair value information, IFRS basis of preparation, use of non-GAAP information, statutory financial statements and management report, and reclassifications.

**Dutch Financial Markets Supervision Act**
This document comprises regulated information within the meaning of the Dutch Financial Markets Supervision Act *(Wet op het Financieel Toezicht).*

**Statutory financial statements and management report**
The chapters Group financial statements and Company financial statements contain the statutory financial statements of the Company. The introduction to the chapter Group financial statements sets out which parts of this Annual Report form the Management report within the meaning of Section 2:391 of the Dutch Civil Code (and related Decrees).

# Performance highlights

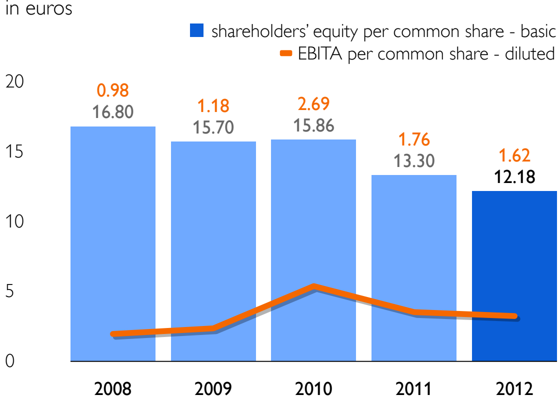
Prior periods amounts have been revised to reflect a voluntary adopted accounting policy change, and immaterial adjustments (see section 12.10, Significant accounting policies, of this Annual Report)

**Financial table**
all amounts in millions of euros unless otherwise stated

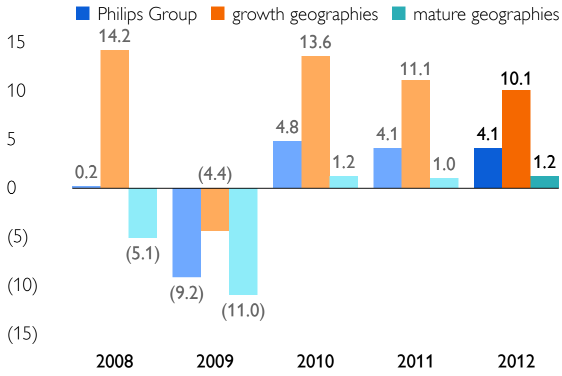
| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Sales | 22,287 | 22,579 | 24,788 |
| EBITA[1] | 2,556 | 1,680 | 1,502 |
| as a % of sales | 11.5 | 7.4 | 6.1 |
| EBIT | 2,074 | (269) | 1,030 |
| as a % of sales | 9.3 | (1.2) | 4.2 |
| Net income (loss) | 1,448 | (1,291) | 231 |
| per common share in euros: | | | |
| - basic | 1.54 | (1.36) | 0.25 |
| - diluted | 1.53 | (1.36) | 0.25 |
| Net operating capital[1] | 11,897 | 10,372 | 9,307 |
| Free cash flows[1] | 1,358 | (104) | 1,723 |
| Shareholders' equity | 15,007 | 12,316 | 11,140 |
| Employees at December 31 | 119,775 | 125,241 | 118,087 |
| of which discontinued operations | 3,610 | 3,353 | – |

[1] For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report
[2] For a definition of mature and growth geographies, see chapter 18, Definitions and abbreviations, of this Annual Report
[3] Group Management & Services sector has been renamed to Innovation, Group & Services
[4] Based on 60 pulse surveys conducted in 2012

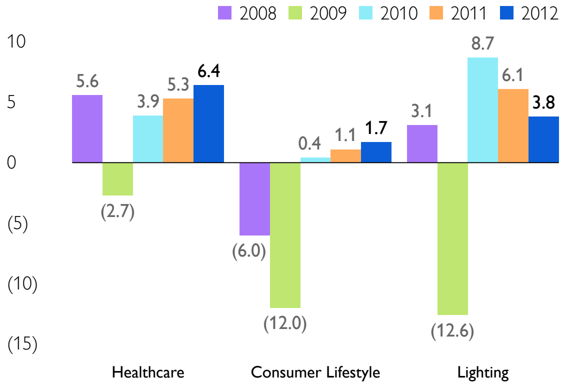
**Equity and EBITA per common share**[1]
in euros



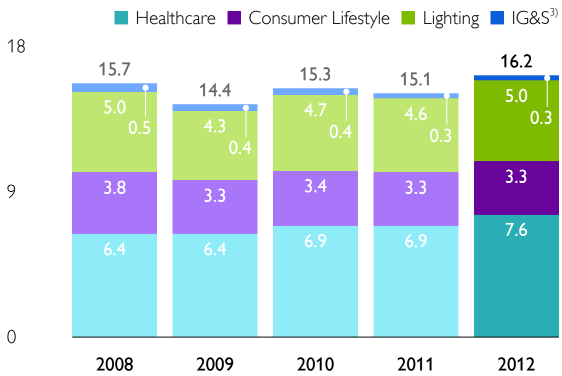

**Comparable sales growth by geographic cluster**[1,2]
in %



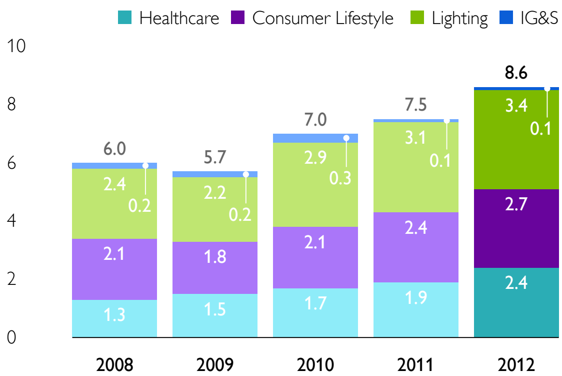

**Comparable sales growth by operating sector**[1]
in %



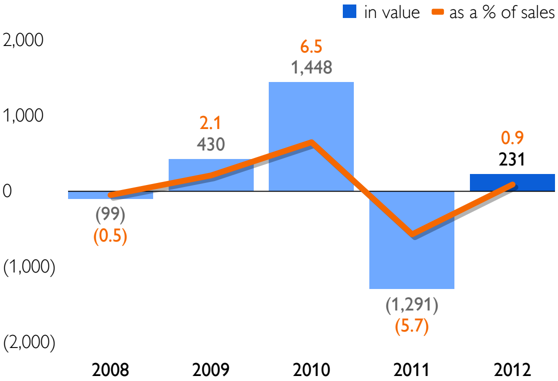

**Sales per sector in mature geographies**[2]
in billions of euros



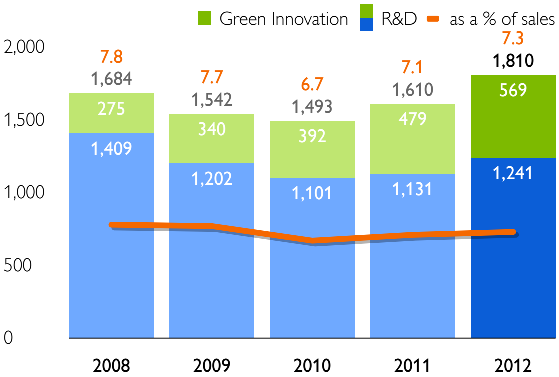

**Sales per sector in growth geographies**[2]
in billions of euros



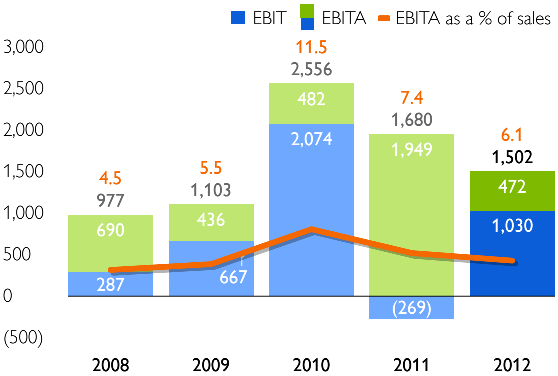
**Net income (loss)**
in millions of euros



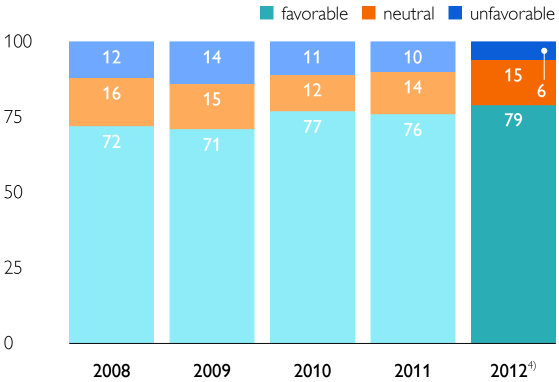

**Research and development expenses**
in millions of euros



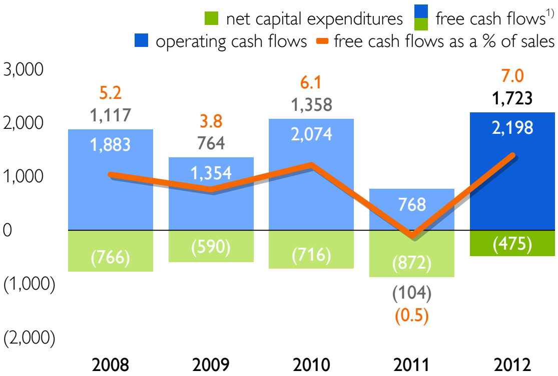

**EBIT and EBITA**[1]
in millions of euros



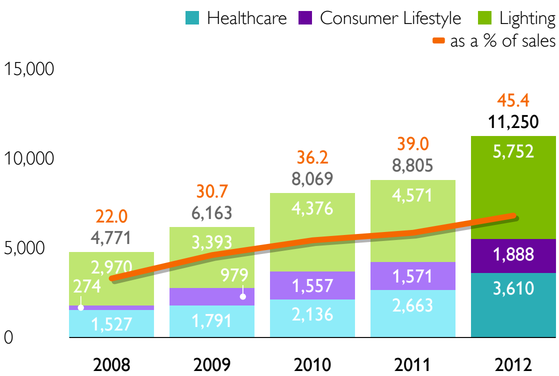

**Employee Engagement Index**
in %



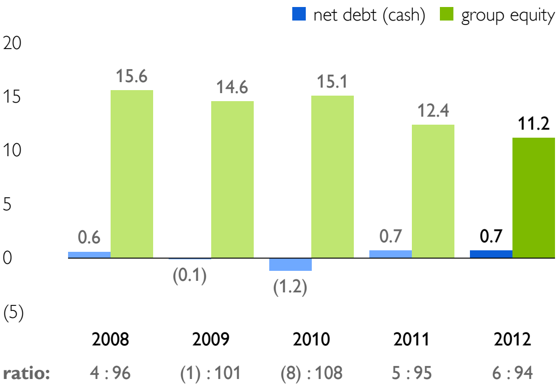

**Operating cash flows**
in millions of euros



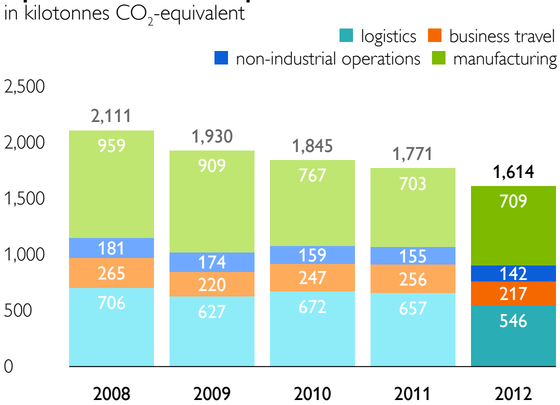

**Green Product sales per sector**
in millions of euros




**Net debt (cash) to group equity**[1]
in billions of euros




**Operational carbon footprint**
in kilotonnes $CO_2$-equivalent



# Message from the CEO

"Accelerate! is gaining good traction and delivering tangible results. We are improving the time-to-market of new innovations and creating value propositions with greater local relevance in key markets around the world. We will continue to relentlessly drive operational excellence and invest in innovation and sales development to deliver profitable growth." **Frans van Houten**, CEO

**Dear stakeholder,**

Philips is a fantastic company with significant potential still to be fully unlocked. We hold leadership positions in the domains of healthcare, lighting and consumer well-being. Global trends and challenges – such as the demand for affordable healthcare, the need for energy efficiency, and the desire for personal well-being – offer us tremendous opportunities, in both growth and mature geographies. We have talented and engaged people, exceptional innovation capabilities, a strong and trusted brand, presence in over 100 countries, and a solid balance sheet, all of which differentiate us in the market and significantly strengthen our businesses.

We continue to see ourselves as a case of 'self-help' as we have considerable scope for operational improvement that will drive higher growth and better returns. Through our multi-year transformation program Accelerate! we are making progress in unlocking this potential, including a rigorous approach to portfolio management to ensure that we invest in the best value-creating opportunities and exit less attractive businesses.

## 2012 – a year of significant progress

With the addition of Deborah DiSanzo and Eric Rondolat as CEO of Healthcare and Lighting respectively, we have completed our Executive Committee – a diverse team that is fully motivated to transform Philips into the leading technology company in health and well-being.

Accelerate! is gaining good traction and delivering tangible results. We are improving the time-to-market of new innovations and creating value propositions with greater local relevance in key markets around the world. We are redirecting resources to areas where we have identified opportunities to create value and win in the market.

We are also transforming our processes to create lean end-to-end customer value chains. We are reducing our working capital requirements, including a significant reduction in inventory in 2012. Our cost reduction program – aimed specifically at reducing overhead and support costs – is delivering ahead of target, with cumulative savings of EUR 471 million in 2012.

And we are creating a growth and performance culture by taking decisions faster, fostering entrepreneurial behavior, and taking a granular approach to business planning and performance management, fully anchored by our General Business Principles. Our reward system has been aligned to reflect the focus on growth and improved performance.

I am delighted that the organization is responding well to Accelerate! – all of these actions are making Philips a more customer-focused, agile, entrepreneurial innovator.

We posted 4% comparable sales growth in 2012, despite ongoing economic challenges and market weakness, especially in the United States and Europe. Our growth geographies made a strong and increasing contribution (35% of sales, up from 33% in 2011).

Our underlying operational profitability improved, driven by sales growth and higher productivity of non-manufacturing costs. Reported EBITA was significantly impacted by various charges, as well as restructuring costs. We substantially improved our return on invested capital.

Healthcare did well in 2012, recording 6% comparable sales growth, as well as – importantly – improved profitability at its Imaging Systems business. The growth businesses in our Consumer Lifestyle sector, i.e. Personal Care, Health & Wellness and Domestic Appliances, delivered solid growth, including a significant contribution from 2011 acquisitions in growth geographies. Lighting posted a further increase in LED-based sales and made progress in addressing underperforming units, with Lumileds and Consumer Luminaires returning to profitability – excluding restructuring and acquisition-related charges – in the fourth quarter. Innovation is a key driver of future LED-based applications and solutions, and we were proud to launch our personal wireless LED lighting system Philips hue. Reinforcing our commitment to innovation, we increased our investments in Research & Development from EUR 1.6 billion (7.1% of sales) in 2011 to EUR 1.8 billion (7.3% of total sales) in 2012.

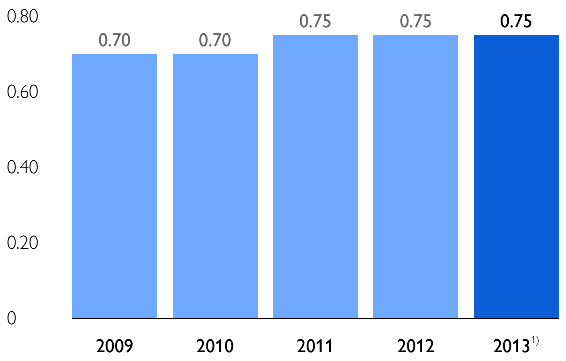
Reshaping our Consumer Lifestyle portfolio was an important step in the transformation of Philips to become the leading technology company in health and well-being. Our Television joint venture with TPV became operational in 2012. This was followed by the announcement of a distribution agreement with Funai for Lifestyle Entertainment in North America. In January 2013 we announced an agreement with Funai on the transfer of our audio, video, multimedia and accessories businesses. This agreement will leverage the strengths of both companies to improve the position of Philips Audio/Video Entertainment in the market, providing continuity for our customers and brand license income for Philips.

As we strive to make the world healthier and more sustainable through innovation, we again delivered on our EcoVision commitments and helped improve the lives of 1.7 billion people in 2012. Our ongoing efforts in this area were recognized when we were named 'Supersector leader' in the Dow Jones Sustainability Index for the second consecutive year. In the annual Interbrand ranking of the top 100 global brands, we increased our brand value by 5% to over USD 9 billion, the highest in the history of our brand.

In 2012 we continued to execute our EUR 2 billion share buy-back program, which will improve the efficiency of our balance sheet, and by the end of the year we had completed 73% of this program.

Reflecting our confidence in Philips' future, we are proposing to the upcoming General Meeting of Shareholders to maintain this year's dividend at EUR 0.75 per common share, in cash or stock.

**Dividend per common share**
in euros




1) Subject to approval by the 2013 Annual General Meeting of Shareholders

## Looking ahead – our path to value in 2013 and beyond

As we pursue our mission and vision, we are confident that the strategic direction we have chosen is sound. We are bringing many exciting new products and services to the market in all three of our sectors. We will continue with Accelerate! to make us more competitive and to enable our businesses to win in the market and achieve global leadership positions. It is the right platform to drive the execution of our plans and to ensure that our investments in innovation, people, systems and markets deliver profitable growth and improve return on invested capital.

In the coming year we will make further progress through Accelerate! by transforming our end-to-end customer value chain to just four Lean-based business models enabled by an effective and cost-efficient IT platform. This is helping us to deliver our innovations to market faster and reducing our working capital requirements. Our end-to-end projects will scale up to cover over 40% of sales in 2013, up from around 20% in 2012.

We are also implementing focused actions to improve gross margins in 2013 and beyond. These include rationalizing our industrial and distribution footprint at Lighting and Healthcare, enhancing procurement effectiveness and driving value engineering.

In conclusion, we made considerable progress in 2012, but there is still much to be done to deliver Philips' full potential. We are confident that operational and financial performance will improve further during 2013, enabling us to achieve our targets for the year.

On behalf of my colleagues on the Executive Committee, I wish to thank our employees for their dedicated efforts and for the way they have embraced our new culture of entrepreneurship and accountability. And I would like to thank our customers and other stakeholders, especially our shareholders, for their continuing support.

Frans van Houten,

*Chief Executive Officer*

# 1 Our company

Philips is a diversified technology company active in the markets of healthcare, lighting and consumer well-being. Our headquarters are in Amsterdam (Netherlands).

**Our heritage**

Philips was founded in Eindhoven (Netherlands) in 1891 by Frederik and Gerard Philips – later joined by Gerard's brother Anton – to "manufacture incandescent lamps and other electrical products". For the 120-plus years since then, we have been enhancing people's lives with a steady flow of ground-breaking innovations. And we are determined to build upon this rich heritage as we aspire to touch billions of lives each year with our innovative lighting and healthcare solutions and our consumer well-being products.

**Our mission**

To improve people's lives through meaningful innovation

Innovation is core to everything we do. But innovation does not only mean 'new technology'. It can also mean a new application, a new business model or a unique customer proposition brought about by an innovative partnership. By tracking global trends and understanding the challenges facing people in their daily lives, we ensure that people's needs and aspirations remain at the heart of our innovation endeavors.

**Our vision**

At Philips, we strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025. We will be the best place to work for people who share our passion. Together we will deliver superior value for our customers and shareholders.

**Guiding statement**

As a diversified technology company we manage a dynamic portfolio of businesses which we build to global leadership performance.

We create value through our capabilities to develop deep understanding of our customers' needs and apply advanced technologies to create innovative solutions. With our people, global presence and trusted brand we reach customers worldwide.

The Philips Business System enables us to deliver superior results by being a learning organization with a growth and performance culture, in which we combine entrepreneurship and agility with disciplined, lean end-to-end execution, leveraging global scale and local relevance.

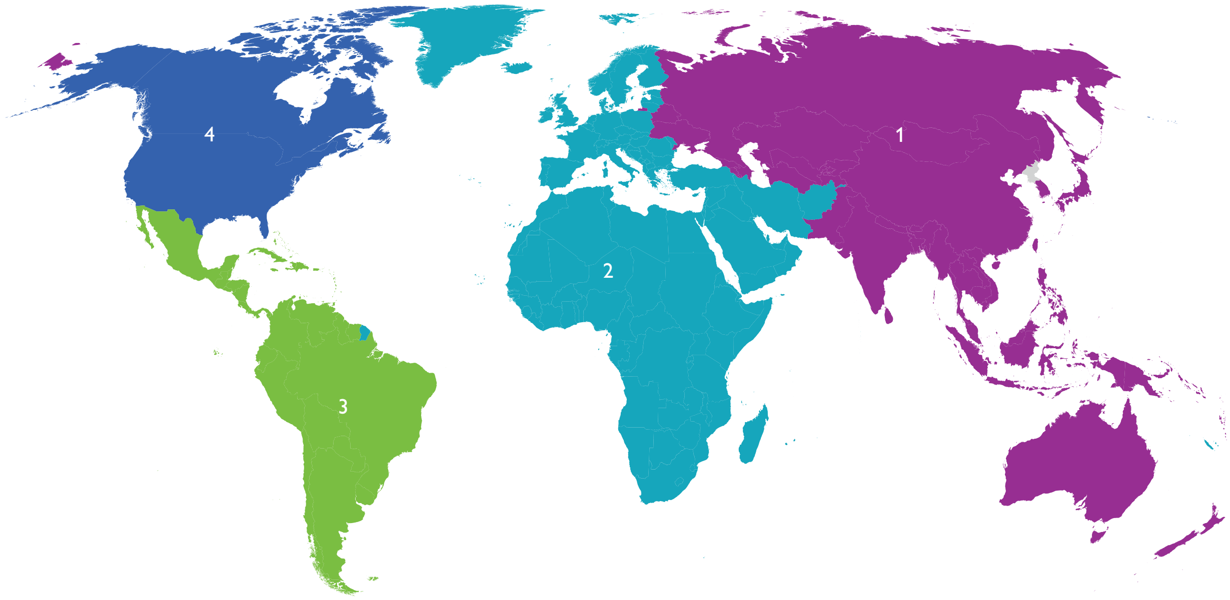
**Our behaviors**

Our behaviors:

- Eager to win
- Take ownership
- Team up to excel

are designed to foster a new performance culture and help all of us accelerate to deliver sustainable profitable growth – always in compliance with Philips General Business Principles.

# Our company




| 1 Asia & Pacific | | 2 EMEA | | 3 Latin America | | 4 North America | |
|---|---|---|---|---|---|---|---|
| Number of employees: | 43,392 | Number of employees: | 40,903 | Number of employees: | 7,670 | Number of employees: | 26,122 |
| Employees female: | 38% | Employees female: | 31% | Employees female: | 39% | Employees female: | 37% |
| Employees male: | 62% | Employees male: | 69% | Employees male: | 61% | Employees male: | 63% |
| R&D centers: | 2 | R&D centers: | 5 | R&D centers: | - | R&D centers: | 1 |
| Manufacturing sites: | 28 | Manufacturing sites: | 44 | Manufacturing sites: | 6 | Manufacturing sites: | 42 |

**External recognition**

Philips and its businesses received a tremendous number and variety of awards and other forms of recognition in 2012. The following are just a few examples from a very successful year:

- Equal highest-ever placing (41st) on the annual Interbrand ranking of the world's most valuable brands
- Philips named 'Supersector leader' in the Dow Jones Sustainability Index for the second consecutive year
- Philips won a record-breaking number of 124 design awards in 2012
- MD Buyline: Customers rated Philips Computed Tomography the #1 vendor in the health care industry for Q2, Q3 and Q4 2012; Philips Ultrasound #1 and Philips PROS #1 in Q3 and Q4 2012; Philips Radiography & Fluoroscopy #1 in Q1 and Q2 2012
- KLAS: November 2012 RSNA Report on Philips Magnetic Resonance Imaging – Ingenia 1.5 T ranked #1
- KLAS: Philips Ultrasound #1 'Best in KLAS' award in general imaging and ultrasound cardiology
- 2012 IMV ServiceTrak™ All Systems survey: Philips Ultrasound ranked #1 based on customer feedback
- American Association for Respiratory Care Zenith Award, Philips Hospital Respiratory Care
- In China, Consumer Care of Consumer Lifestyle was recognized as the 'The Best in Consumer Care 2012' by 51callcenter.com
- UK consumer magazine *Which?* ranked Philips kettles, irons and Gaggia espresso machines #1 for reliability
- Lumea Precision won the Beauty Astir Award for Best Body Product
- CityTouch online outdoor lighting management system honored as a top sustainable solution at Rio+20 United Nations Conference on Sustainable Development
- US business magazine *Forbes* named our Philips hue personal wireless lighting system 'Best Product of 2012'

# 2 Group strategic focus

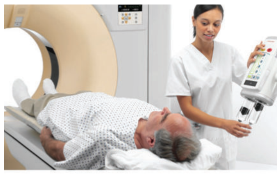
Philips is a technology company with a focus on people's health and well-being. We strive for a balanced portfolio of businesses that have – or can attain – global leadership positions and deliver performance at or above benchmark levels.

A number of trends and challenges are influencing our business activities and portfolio choices:

## Global trends and challenges – our market opportunities

**Healthcare**

- Growing and aging populations
- Increase in patients managing chronic conditions
- Growth geographies wealth creating demand
- Lifestyle changes fueling cardiovascular illnesses and respiratory and sleeping disorders



**Consumer Lifestyle**

- Consumer focus on health and well-being
- Rising middle class in growth geographies
- Back to basics: simple propositions
- Trusted brands combined with locally relevant portfolio

**Lighting**

- Ongoing urbanization and globalization
- Increasing need for energy-efficient solutions
- Fast-growing global illumination market
- Expanding renovation market
- Rapid adoption of LED-based lighting solutions

Philips applies its outstanding innovation capabilities, global footprint, talented and engaged people, deep knowledge of customers and specific industry domains, and strong brand to provide solutions that address these needs and challenges and have a meaningful impact on people's lives.

### Lives improved

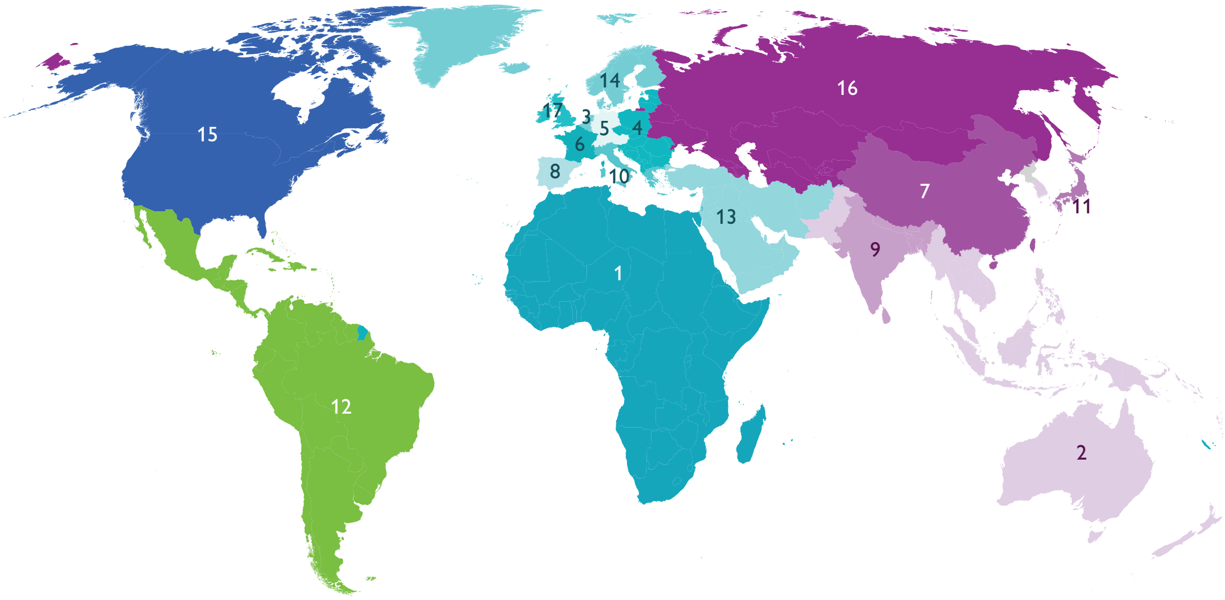
At Philips, we strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025.

Where technology and human needs intersect – that is where we find meaningful innovation. Meeting people's needs through technology means re-imagining livable cities with smarter, more energy-efficient lighting, and developing new approaches to healthcare that promote wellness rather than simply treat illness. It means a focus on health and well-being innovations that are more intuitive, more effective, more affordable and accessible.

Our technology, often conceived and developed in collaborative Open Innovation, gives us smart tools to drive far-reaching positive change – intelligent energy, circular economic production, patient-focused healthcare. And with technology trending towards greater personalization and connectedness, we are increasingly incorporating digital intelligence into our products and solutions.

To guide our efforts and measure our progress, we take a two-dimensional approach – social and ecological – to improving people's lives. Products and solutions from our portfolio that directly support the curative (care) or preventive (well-being) side of people's health, determine the contribution to the social dimension. As healthy ecosystems are also needed for people to live a healthy life, the contribution to the ecological dimension is determined by means of our Green Product portfolio, such as our energy-efficient lighting.

# Lives improved by Philips: 1.7 billion




1 Africa
Population 1,043 million*
Lives improved 38 million**
GDP $ 2,035 billion***

2 ASEAN & Pacific
Population 883 million*
Lives improved 223 million**
GDP $ 5,438 billion***

3 Benelux
Population 28 million*
Lives improved 28 million**
GDP $ 1,302 billion***

4 Central & East Europe
Population 125 million*
Lives improved 69 million**
GDP $ 1,393 billion***

5 DACH
Population 98 million*
Lives improved 87 million**
GDP $ 4,384 billion***

6 France
Population 68 million*
Lives improved 56 million**
GDP $ 2,590 billion***

7 Greater China
Population 1,384 million*
Lives improved 313 million**
GDP $ 9,017 billion***

8 Iberia
Population 57 million*
Lives improved 41 million**
GDP $ 1,554 billion***

9 Indian Subcontinent
Population 1,410 million*
Lives improved 152 million**
GDP $ 2,146 billion***

10 Italy, Israel & Greece
Population 81 million*
Lives improved 52 million**
GDP $ 2,515 billion***

11 Japan
Population 127 million*
Lives improved 21 million**
GDP $ 5,984 billion***

12 Latin America
Population 588 million*
Lives improved 124 million**
GDP $ 5,934 billion***

13 Middle East & Turkey
Population 320 million*
Lives improved 83 million**
GDP $ 2,684 billion***

14 Nordics
Population 26 million*
Lives improved 25 million**
GDP $ 1,592 billion***

15 North America
Population 350 million*
Lives improved 269 million**
GDP $ 17,423 billion***

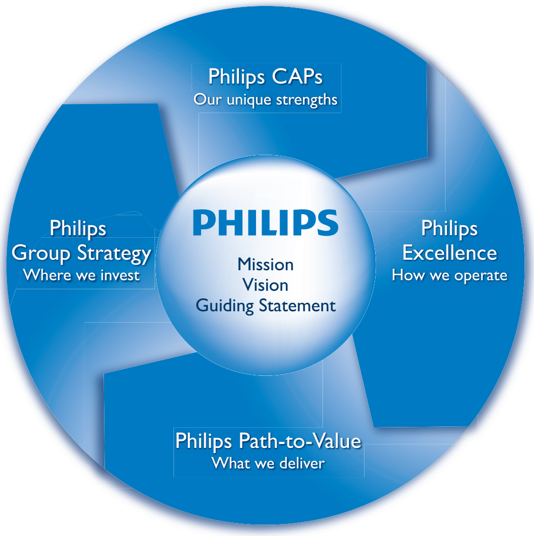
16 Russia & Central Asia
Population 284 million*
Lives improved 77 million**
GDP $ 2,598 billion***

17 UK & Ireland
Population 68 million*
Lives improved 46 million**
GDP $ 2,638 billion***

* Source: UN Department of Economic and Social Affairs
** Source: Philips
*** Source: IMF & CIA Factbook

## The Philips Business System

Centered around our company mission, vision and guiding statement, the Philips Business System links four elements into a coherent system: Our overall Group Strategy and the resulting portfolio choices and resource allocation. Our five Capabilities, Assets and Positions, Philips' unique strenghts: deep customer insight, technology innovation, our brand, global footprint, and our people. To collectively leverage these unique strengths, we rigorously apply common operating principles across the Group to achieve "Philips Excellence". This in turn maximizes the value we can create, value that we can then reinvest in our portfolio of businesses, leading to further strengthening of our CAPs.




As such, the Philips Business System acts as a 'virtuous cycle' in which all four elements continually reinforce one another, accelerating profitable growth of all businesses within it. In this way, we steadily build, over time, the momentum needed to maximize the value we create - for us as a company, for our customers, shareholders and society as a whole.

## Core principles

The following eight principles describe how we operate the Philips Business System:

- We manage our portfolio with clearly defined strategies and allocate resources to maximize value creation.
- We strengthen and leverage our core Capabilities, Assets & Positions as they create differential value.
- We define and execute business plans that deliver sustainable results along a credible Path to Value.
- We govern through Business-Market Combinations and a single value-added layer.
- We serve our customers with speed & excellence through lean, process-driven end-to-end value chains.
- We run a single, granular, performance management cycle with aligned objectives and rewards.
- We champion our Growth and Performance Culture, always acting with integrity.
- We embrace continuous improvement and learning to enhance our capabilities.

## Business Market Combinations

As a diversified technology group, Philips has a wide portfolio of categories/business innovation units which are grouped in business groups based primarily on technology or customer needs. Philips has physical market presence in over 100 countries, which are grouped into 17 market clusters. Our primary operating modus is the Business Market matrix comprising Business Groups and Markets. These Business Market Combinations (BMCs) drive business performance on a granular level at which plans are agreed between global businesses and local market teams.

## Single value-added layer

To optimize our overhead structure, we adopt a single value-added layer above the BMCs. Group and Sector are effectively one layer: staff are shared, not layered or duplicated. The goal is to do the same work only once, i.e. no duplication of roles and responsibilities.

## Accelerate!

Accelerate! is our comprehensive multi-year change and performance improvement program designed to transform Philips and unlock our full potential for long-term success.

Based upon a renewed culture of entrepreneurship and accountability, Accelerate! is reducing the complexity of our organization, tightening customer focus, increasing empowerment and collaboration between businesses and markets with the right resources to win, and increasing the speed and excellence of innovation and end-to-end execution. Through Accelerate! we are creating an agile, entrepreneurial and innovative company that delivers meaningful, locally relevant products and solutions to our customers. At the same time, our costs efficiency need to be at least in line with that of our competitors.

## Our Accelerate! mid-term 2013 financial targets

We measure value through a balanced combination of sales growth, profitability and capital usage (the latter two measured through return on invested capital) in conjunction with other financial, operational and strategic key performance indicators.

Set in 2011 as part of the Accelerate! program, our mid-term financial targets, to be realized by the end of 2013, are:

- Comparable sales growth CAGR of 4-6%, assuming real GDP growth of 3-4% per annum
- Reported EBITA margins of 10-12% for the Group; 15-17% for Healthcare; 8-10% for Consumer Lifestyle (excluding unrelated licenses); 8-10% for Lighting
- Return on invested capital of 12-14%

# 3 Our strategy in action

# Driving progressive health care

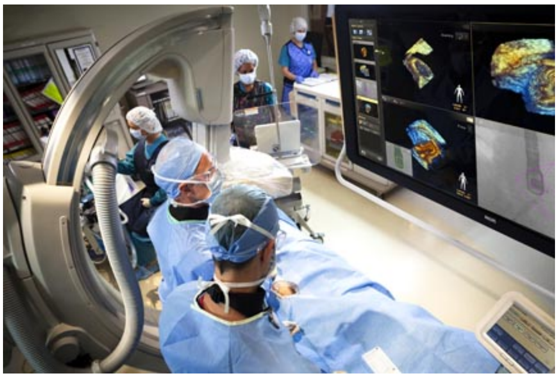
Through innovation in live image-guidance technology, Philips is enabling minimally invasive procedures that were not possible before – opening up new ways to treat disease and improve the quality of life for millions worldwide.

Many health conditions that once required open surgery can be treated far less invasively today, minimizing physical trauma to patients, allowing faster recovery and improving outcomes. Helping drive this trend is the application of X-rays, ultrasound and other imaging technologies to guide interventional procedures, which use specialized devices to diagnose and treat patients at the site of disease and trauma. From repairing fractures of the spine to treating blood vessels around the heart, clinicians need live image guidance when performing a minimally invasive intervention in order to 'see' real-time on a monitor where they are and what they are doing in the patient's body.

## Enabling safer, more effective procedures

Minimally invasive medicine is the future of progressive health care, and at Philips we are leading the way in live image-guidance technology, delivering relevant clinical value where it is needed most. For example, by integrating multi-modality images at the point of treatment, our solutions offer exceptional image clarity and deep insight – opening the door to new clinical procedures for safer, more effective diagnosis and treatment in a number of specialties.

These solutions include our new EchoNavigator[1], which leverages our leadership in interventional X-ray and echocardiography technology. The combination of these two live modalities in a unique and intuitive way enables a more efficient and straightforward method for treating structural heart disease, a condition that affects millions of people around the world.



AlluraClarity with ClarityIQ technology[2] is another of our recent breakthroughs in live image guidance. Developed in collaboration with interventional physicians and introduced in 2012, it directly addresses the ongoing concern of radiation dose level for patients and exposure to clinical staff during interventions.

Traditionally, lower radiation doses have translated into lesser image quality in interventional procedures. In a field where image clarity is critical, AlluraClarity with ClarityIQ does a superior job of maintaining image quality at significantly reduced doses.


These and other advances in imaging are helping drive the transition from open to minimally invasive surgery for better clinical and economic outcomes, while transforming disease management for countless patients.

“Live image guidance is just one example of how Philips is transforming the future of health care,” said Gene Saragnese, Executive Vice President and CEO, Philips Imaging Systems. “The combination of innovation leadership, clinical partnership and an entrepreneurial approach has created demand in the market for our disruptive technology. It is what drives us every day to deliver the best possible patient outcome while improving the overall clinical experience.”

1. Not available in the US; pending FDA 510(k) clearance

2. Not available in the US

At the 2012 meeting of the Radiological Society of North America (RSNA) we unveiled the next chapter in our unique approach to radiology, Imaging 2.0.

Since the launch of Imaging 2.0 in 2010, we have advanced the dialogue across the continuum of care, in partnership with healthcare stakeholders and clinicians, to address some of the world’s toughest healthcare challenges.

At RSNA 2012 we showcased 15 new products and features that reflect the principles of Imaging 2.0. Offering smart, patient-adaptive systems for patient comfort and image quality, new ways to integrate and share information, and superb economic value through innovative upgrades, these solutions help healthcare providers to deliver customized care and better patient outcomes at lower cost.

# Transforming critical care delivery

Philips works closely with health systems to improve quality, costs and access to care across multiple patient settings. By leveraging our leadership in healthcare technology, we are transforming critical care for war veterans.

In the US, the Veterans Integrated Service Network (VISN) 23 is one of 21 health systems operated by the Department of Veterans Affairs (VA) to provide a broad spectrum of medical care to the nation's war veterans. Serving more than 400,000 veterans in ten Midwestern states, VISN 23, like other health systems across the country, faces the ongoing challenge of providing accessible, quality care while lowering costs – against the backdrop of a critical care resource shortage.

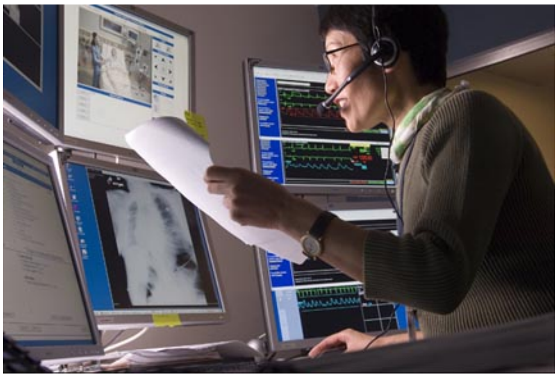
Nowhere are these issues more evident than in an intensive care unit (ICU), where at-risk patients require specialized care, immediate attention and constant monitoring. It is also where a vast amount of patient data is generated. The typical ICU patient is often connected to more than a half dozen bedside medical devices from different manufacturers that run on different software. To make the best informed decisions, clinicians need to be able to view all of the data coming from these devices and in different formats clearly and in one place. Yet for many healthcare facilities, the process of integrating, aggregating and analyzing this amount of data remains tedious and time-consuming.

## A seamlessly integrated solution

When VISN 23 outlined its initial mission to improve critical care delivery across seven of its medical centers, Philips Healthcare immediately recognized the need to bring together two different technology platforms in patient monitoring and clinical informatics in a single, seamless solution that could be delivered using innovative telehealth technology.

Our aim was to enable better use of limited resources, more effective collaboration and greater accountability to drive early intervention during the critical care period. In doing so, we would not only empower VISN 23 medical teams to provide a higher level of care to a broader base of veterans, we would also help minimize the risk of repeated hospital admissions, reducing cost of care.

With this in mind, in 2012 we implemented a solution that combines our IntelliSpace Critical Care and Anesthesia bedside charting product and eICU platform. IntelliSpace Critical Care and Anesthesia is an advanced decision-support and documentation solution that interfaces with VistA, the VA's electronic medical record (EMR) system. It transforms patient data into actionable information through seamless interoperability while automatically populating patient EMRs for more than 100 ICU beds across the VISN 23 system. Building on the VA's commitment to remote patient monitoring, eICU allows monitoring of all VISN 23 ICUs from a control center staffed by critical care specialists at the Minneapolis VA Medical Center. Both solutions are integrated so that data entered into IntelliSpace Critical Care and Anesthesia is available in eICU.



"This state-of-the-art solution provides a vital layer of service and support in diagnosing and treating high-risk patients," said Mike Mancuso, Executive Vice President and CEO, Philips Patient Care & Clinical Informatics. "It also demonstrates the power of Philips' telehealth technology to not only change how care is being delivered to patients, but also enable clinicians to take advantage of other innovations designed to improve patient outcomes and experiences."

Aging populations, an increase in chronic disease, and a shortage of physicians are increasing demand for care outside the traditional hospital setting. With our innovative strength and our global perspective, we are perfectly positioned to shape the delivery of care in and outside the hospital, in the home, and all points in between.

We are working closely with health systems to apply our telehealth solutions in settings from the ICU to the general ward and beyond, enabling better use of scarce resources, greater collaboration and accountability to drive early and proactive intervention.

And addressing the growing need for care in the home, we provide diagnostic and therapy products and home monitoring services to support cardiac and elderly care.

# End-to-end journey with Wal-Mart

In North America we are working together with Wal-Mart to optimize every step in the value chain of our Male Grooming business. This end-to-end approach is transforming our relationship and benefiting Wal-Mart shoppers.

Philips Norelco is the leading brand in the electric shaver market in North America. Continuing to strengthen the business, Male Grooming North America embarked on an end-to-end journey with three key areas of focus: understanding the consumer, partnering with our customer to grow our businesses together, and transforming our business so that it is faster and more responsive to specific local needs.

## Step by step

We started by taking a granular look at consumer needs and aspirations in the North American market. Armed with breakthrough insights, we then turned to Wal-Mart, one of our largest customers.

The shaving and grooming aisle is important to Wal-Mart to meet the needs of their male shoppers. They also seek to cater to the diverse consumer needs of the American population, supporting their 'store of the community' strategy.

Next, we reviewed our own performance, finding significant opportunities to optimize our end-to-end value chain in terms of lead time, inventory, and cost of non-quality.


The final step was to make the change happen. We are moving from a 'push' to a 'pull' inventory model, enabling our North American business to order only what it really needs for its customers and resulting in significantly lower inventories. We have also stepped up investment in our marketing capabilities and resources in North America. And crucially, we are spending more time talking with Wal-Mart.

## Straight talking, fruitful dialog

The impact of this end-to-end journey has been significant, as Michael Smith, Senior Director for Personal Care at Wal-Mart, explains: "The shaving aisle for Wal-Mart is very important as almost all American males aged 16 and older buy products from these categories. I see tremendous potential when we combine Philips' ability to innovate and create demand for new products with our collective ability to simplify the shelf.

"If we really collaborate, it's about getting deep with our customer, understanding what they're looking for and how we can help bring it to life at our store with your brands. And I think that's probably been the biggest change I've seen from Philips: taking a step back and looking at what's important to us as a customer and finding a way to deliver it over a long-term horizon.

"Our relationship today with Philips has changed a great deal, and much of that centers around the fact that we've got into some very honest and candid conversations. One of the great things about end-to-end is that it forces us both to get more focused on the shopper, digging deep and really understanding what our consumer needs, what their different needs are, and how we can bring it to shelf in a product that they will leave our store more satisfied with."

## Dedicated solution

As part of Wal-Mart's 'store of the community' strategy, our team has now developed our first product to address the specific shaving needs of African-American men, such as ingrown hairs. By working with Wal-Mart and leveraging partners like Bump Patrol, a highly successful skincare brand among African-American men, we have brought this exciting new proposition to life – with launch scheduled for Q1 2013!

With end-to-end, one of the building blocks of Accelerate!, we are building a winning value chain – innovating and executing with higher speed and excellence in order to deliver superior customer and consumer value. Each transformation follows three steps:

Define how to win

We look at the market through three lenses – the consumer, the customer and Philips – and define what type of customer value chain we need to outpace the competition and deliver on our plans.

Design the highways to market

Based on those needs, we redesign our customer value chain processes (Idea to Market, Market to Order and Order to Cash) to deliver the required end-to-end performance.

Make the change happen

We design and implement a rigorous transformation plan.

# A recipe for profitable growth

Across the world, we are driving growth in Kitchen Appliances by building global scale through local relevance, leveraging acquisitions, and forming alliances to offer new experiences in the preparation of fresh, healthy food.

At IFA 2012 in Berlin we announced a multi-year partnership with world-famous chef Jamie Oliver to co-design a new range of appliances that takes the strain out of life in the kitchen. The first product of this exciting collaboration is the Philips HomeCooker, a multi-functional device designed to help busy families enjoy tasty, fresh, home-cooked meals while being able to spend more quality time together. The HomeCooker does all the hard work, so you don't have to. It chops, stirs, steams and sautés – it even switches off and keeps food warm until it is ready to be served.

"We all know it can be a struggle to get fresh, home-made food on the table every day, especially for busy parents who have to juggle so much. It's often a real trade-off between spending time with the family and getting fresh food on the table," explains Jamie Oliver. "The beauty of the Philips HomeCooker is that it removes this dilemma – you can now do both!"

Jamie Oliver is a champion of delicious home-cooked food and has been campaigning for many years to get families to eat good, fresh home-made food. This makes for a perfect fit with our commitment to enhance the health and well-being of today's families through meaningful innovation.

## From global innovation platform to local market success - and back

With five regional product creation hubs, we continue to accelerate the introduction of innovations that are tailored to the specific eating habits of cultures around the world. Indeed, since 2010 we have quadrupled the number of launches of locally relevant innovations.

With sales of over one million units in less than two years, the Airfryer has been a huge success as a healthy reduced-fat and odor-free alternative to oil-fried foods. It is also a great example of how a global proposition can be successfully adapted to local cuisines – being used for traditional dishes such as chicken samosas in India, chicken wings in China, and chocolate cake in the UK.

And proving that innovation can be a two-way street, our soy milk platform, developed locally for consumers in China, has now been adapted for European consumers – to make soup.

### Successfully integrating acquisitions

In 2012 we built upon the previous year's acquisitions of Povos (China) and Preethi (India). Povos' end-to-end capability has expanded the Philips brand offering in Chinese cuisine, driving over 30% growth in Philips-branded kitchen appliances, as well as halving time-to-market. Furthermore, a number of products based on Povos' rice cooker innovation platform have been launched outside China, such as the Multicooker in Russia, which has been tailored to meet the specific culinary needs of Russian households.

In India, Preethi's product-creation capability has strengthened Philips' kitchen appliances market leadership: we are now the clear market leader in the important mixer-grinder category, with a market share in excess of 30%. And we are further leveraging Preethi's brand equity, launching Preethi-branded products for the south Indian diaspora across the Middle East and ASEAN, as well as expanding the portfolio in India to include garment care products.

More and more, consumers are looking for solutions that help them maintain or improve their health and well-being – and that of their families. By bringing together our global consumer-centric technology platforms and our local business-creation capabilities, we are able to deliver meaningful innovations that truly meet local consumer needs.

In key categories like male grooming, oral healthcare, kitchen appliances and coffee we are driving profitable growth and making a difference to people's lives – by making it easier for them to achieve a healthier and better lifestyle.


# Re-inventing lighting for consumers

Driven by the shift toward connected, digital lighting solutions and applications, we are strengthening our presence in the consumer market by leveraging our innovative capability to add ever greater value with light.

For more and more of us, home is the hub of our social and leisure activities. Lighting for the home is about much more than merely turning a switch on or off – it's about allowing consumers to truly personalize their interior spaces. Today's flexible, efficient digital lighting can transform a room in an instant, creating a pleasant ambience and enhancing the very way we feel. And it delivers significant energy savings when used to replace conventional lighting, taking some of the strain off household budgets.

## New way to experience and interact with light

As we continue to redefine and extend the possibilities of LED technology, the October 2012 launch of Philips hue has pushed the boundaries of lighting even further. Initially available exclusively from Apple stores, Philips hue – the world's first commercially available web-enabled home lighting system – enables users to control light wirelessly with an app on their smartphone or tablet. This opens up endless possibilities for consumers to creatively personalize their lighting to suit their lifestyle. The app also features four pre-programmed light settings based on our research into the biological effects of light on the body. These scenarios set the LED bulbs to the optimum tone and brightness of white light to help us relax, read, concentrate or energize. Just as phones, media and entertainment have been revolutionized by digital technology, now consumers can also personalize light and enjoy limitless applications.

In the spirit of Open Innovation, we have opened up the hue app to the developer community, inviting developers to explore the app and come up with yet more innovative new ways to enhance life with light.

## New era, new opportunities

Connectivity, interoperability and outstanding light quality are key to opening up new opportunities and business models in the brave new world of digital lighting. Building upon our heritage of over 120 years as a pioneer in lighting, we remain dedicated to unlocking the full potential of light through meaningful innovation and stylish design.

Design is invariably a major factor in the consumer's choice of lighting. With LEDs being so small, designers are no longer limited by the form factor of legacy light sources. And this design freedom is creating new possibilities for consumers to define their own style and identity.

In 2012 we demonstrated our leadership in the field of consumer luminaire design yet again, winning an unprecedented nine iF and six red dot design awards, as well as a number of other awards. iF and red dot awards are renowned throughout the world as a seal of good design. Our *Lirio by Philips* Balanza luminaire range was particularly successful, winning both a coveted Gold iF award *and* a red dot award. Also part of the *Lirio by Philips* range, our eye-catching Nick-Knack line of LED floor lights is minimalistic in design yet has maximum impact, allowing the user to create different light effects simply by adjusting the angle of the top section.

Going forward, we will use our strong position in LED lamp technology and luminaire design, as well as our application know-how, to drive further life-enhancing innovations – and so set the standard for the consumer's experience of light in the home.

The launch of hue met with an enthusiastic media reaction. Leading US business magazine Forbes went so far as to name hue 'Best Product of 2012'.

Lauding the magic of digital world, technology writer Seth Porges enthused, "...It's not an exaggeration to call it a paradigm-shifting jump in the way we light our homes. In other words: Switching from old-style incandescents to the hue LED system is like jumping from a horse and buggy to a Tesla Roadster. The hue doesn't just update your lighting system for an energy-efficient era – it bolts your home lighting from an Edison-era antiquity to a Jetsons-esque curiosity."

# Enhancing urban life with light

Guided by our vision of a healthier and more sustainable world, we are combining our market leadership in LED luminaires with intelligent lighting management and controls to enhance people's lives and add value to business.

A century ago less than one in ten of the world's population lived in a city. By the start of the 21st century this figure had risen to over 50%, and by 2050 over two thirds of us will be living in cities. In the face of this rapid urbanization, our energy-efficient, intelligent lighting can help create safe, smart, vibrant and ecologically sound city environments.

## Energy efficiency

Today, lighting accounts for 19% of the world's electricity consumption – with some 60% used for commercial and public buildings in cities, and around 15% for street lighting. Significant savings – on average 40% and up to 90% in individual projects – can be made simply by switching to energy-efficient lighting technologies like LED. Globally, the potential electricity cost savings amount to EUR 128 billion, leading to a reduction in $CO_2$ emissions of 670 million tonnes.

## Luminaire design innovation

Thanks to their small size, LEDs have opened up tremendous opportunities for innovative luminaire design. Now, luminaires like our FreeStreet LED luminaire – winner of the 2011 Dutch Design Award – can blend into the urban landscape, freeing up space and decluttering urban areas. FreeStreet is unusual because the LED lamps are actually integrated into the cable, creating a 'floating' effect.

"Eindhoven has opted for FreeStreet because the floating lighting system is adapted to the way people move and behave, rather than people having to adapt to where the lighting is located. I think this is a good example of technological progress," says Mary-Ann Schreurs, Municipal Executive Councillor for Innovation, Culture and Public Spaces.

## Intelligent lighting

As lighting goes digital, we are combining our innovative LED lamps and luminaires with smart lighting controls and software in fully integrated, intelligent solutions for cities. Intelligent lighting provides the right amount of light precisely *where* it is needed and *when* it is needed. Our LumiMotion solution, for example, combines LED luminaires with motion sensors to deliver ‘light on demand’. Such context-aware adaptive lighting enables municipal authorities to save on energy and maintenance costs and to reduce obtrusive light, while improving public perception of safety.

## Inspiring environments

Our integrated LED-based lighting solutions also offer exceptional freedom in terms of controlled lighting effects – color, dynamics, brightness, etc. This is driving a shift from ‘quantitative’ functional lighting towards ‘qualitative’ emotive lighting that transforms urban environments. Leveraging the digitalization of light, we are applying our industry-leading expertise in LED lighting control across a range of segments – enabling exciting new shopper experiences, creating personalized office workspaces, and bringing to life iconic landmarks like the Empire State Building.

## Innovation for smart and sustainable solutions

High-quality and intelligently connected lighting helps make a city safer, more attractive and more sustainable, thus enhancing its brand identity – the distinctive signature that defines its appeal and sets it apart from other cities. This not only increases civic pride, but also attracts new residents, new businesses and investment that can boost retailing, tourism and other drivers of economic growth and employment.

For the past 60 or so years, lighting systems have generally combined three separate components – light source, ballast and light fixture – each manufactured independently. With the advent of LEDs, all that is changing.

With the migration of intelligence to the integrated LED module, each light point is effectively a minicomputer with its own IP node – and thus a platform for embedded software. This software can be updated, e.g. to accommodate efficiency upgrades, thereby creating a future-proof solution. In parallel, the traditional separation between light source and luminaire is blurring, enabling highly integrated designs never seen before.

The intelligent modules and IP-based connectivity are also opening the door to city services and applications beyond lighting.

# 4 Our planet, our partners, our people

# The power to make a difference

We have been engaging with stakeholders – from global political and industrial leaders at the UN Climate summit to local community leaders in rural Africa – to highlight the benefits of our locally relevant and affordable innovations.

One of our main vehicles for stakeholder engagement in 2012 was our third Cairo to Cape Town roadshow, which travelled 12,000 kilometers across Africa raising awareness of how our lighting and healthcare solutions improve the quality of people's lives. We engaged in dialogue with customers, governments, NGOs and media on key challenges facing Africa – the need for energy-efficient lighting, mother and child care, women's healthcare – and showcased how our innovations can help address these.

## Enhancing life after dark

More than 500 million Africans live without electricity. For people living near the equator, darkness falls around 7 pm all year round, slowing down or completely stopping many vital activities. By highlighting the benefits of LED and solar lighting, we illustrated how our solutions can resolve this problem and help tackle some of the major issues confronting Africa, such as energy efficiency, climate change and resource scarcity.

We committed an investment of EUR 2 million, spread over three years, to a new initiative which will see the installation of 100 'light centers' across rural Africa by 2015 as part of the UN's 'Sustainable Energy for All' program. These 'light centers' are areas of approximately 1,000 $m^2$ – the size of a small soccer pitch – which are lit using a new generation of highly efficient solar-powered LED lighting. The idea is to create areas of light for rural communities that live without electricity, thus effectively extending the day and creating opportunities for social, sporting and economic activities in the evening, as well as increasing safety at night, particularly for women and children. We have already installed several of these 'light centers' in countries including Egypt, Morocco, Ghana, Kenya and South Africa.

The creation of 'light centers' is also an integral part of a three-year partnership we have entered into with the Royal Dutch Football Association (KNVB) to help expand their WorldCoaches program in rural Africa and South America. WorldCoaches trains soccer coaches in using the game for social development, focusing on communities in developing countries.

In six cities en route to Cape Town we also partnered with Right To Play – a global organization that uses the transformative power of play to educate and empower children facing adversity – on a soccer tournament that took place under our solar-powered LED floodlights.

### Providing clinical training

In support of UN Millennium Development Goals 4 and 5, which aim to reduce child mortality rates and improve maternal health, we also used the roadshow to deliver clinical education on baby resuscitation, fetal monitoring and clinical ultrasound, and to train over 1,200 healthcare practitioners on how to accomplish safe childbirths and improve maternal and infant care.

### The road ahead

"Philips remains dedicated to continuing the engagements, partnerships and commitments we have made on this journey," says JJ van Dongen, CEO Philips Africa. "We are committed to an aggressive multiyear investment plan to significantly increase our business footprint in the coming years, based upon locally relevant products and innovations that address the needs of the growing African population."

During the day Solar Gen2's solar panel converts solar energy to electrical energy and stores it in the battery. At night the battery is discharged, releasing electrical energy to power the LED luminaire.

The key to this breakthrough solution lies in the combination of new High Brightness LEDs with patented optics and an intelligent controller which ensures that maximum power is transferred from the solar panel to the battery (30% more efficient than traditional charge controllers). And it can dim the light when needed, based on self-learning intelligence and a history log. Thanks to the high energy efficiency, the cost and size of the batteries and solar panels can be reduced by as much as 50% compared to standard solutions. The system can also be used to charge mobile devices.

# Encouraging positive change

In addition to our own sustainability activities, we also work to influence our suppliers and their suppliers towards better sustainability practices. To that end, we are active in many supply chain initiatives around the world.

Philips is one of the initiators of the IDH Electronics Program, a multi-stakeholder initiative sponsored by the Sustainable Trade Initiative (IDH) together with Dell, Hewlett-Packard, and civil society organizations. Working with more than 100 electronics suppliers in China, this program steers away from traditional auditing methods and seeks to make a transformative impact by building and up-scaling the capabilities of both workers and management. By enhancing worker-management dialogue and developing employees' skills and careers, the program seeks to reduce employee turnover, increase worker satisfaction, boost energy efficiency, and improve overall performance of supplier factories.

idh dutch sustainable trade initiative

EICC® ELECTRONIC INDUSTRY CITIZENSHIP COALITION

We are also a member of the Electronic Industry Citizenship Coalition (EICC), which promotes an industry code of conduct to improve working and environmental conditions within global supply chains. Today, the EICC includes more than 50 global electronics companies and their suppliers.

## Consistent recognition

In 2012, the Dutch Association of Investors for Sustainable Development (VBDO) once again recognized our efforts in responsible supply chain management. VBDO ranked Philips the top performer among 40 of the largest publicly-listed companies in the Netherlands. Our scores have shown continual improvement over the last six years, rising from 62% in 2006 to the highest score ever of 96% in 2012.

## A powerful recent example

The economy of the Democratic Republic of the Congo (DRC) has collapsed due to decades of conflict. In an attempt to prevent the country's rich supply of minerals, including tin, from being used to finance war, many corporations around the world have desisted from buying minerals from the DRC, creating a de facto embargo. To overcome this problem and to promote cooperation and economic growth in the region – beyond rebel control –

we helped launch the Conflict-Free Tin Initiative in September 2012. One month later, an important milestone was reached when the first bags of tagged minerals left a non-rebel-controlled mine in the DRC.

Philips is continuing to make an active contribution in this area through our membership of the Extractives Work Group, a joint effort of the EICC and GeSI (Global eSustainability Initiative). This work group seeks to positively influence social and environmental conditions in the global metals extractives supply chain. In 2012 we also participated in the multi-stakeholder OECD-hosted pilot to test the implementation of the 'OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas'. Furthermore, we continue to engage with relevant Congolese organizations as well as non-government organizations in Europe and the US on this issue.

Multi-stakeholder engagement is necessary to improve working conditions in the supply chain – a major contribution towards the United Nations' Millennium Development Goals (MDGs).

We engage with our suppliers to encourage them to meet sound environmental and ethical standards, as well as to provide working conditions for their employees that reflect both the Philips General Business Principles and the Electronic Industry Citizenship Coalition (EICC) Code of Conduct.

In the years to come we will continue our active cooperation and dialogue with other societal stakeholders including governments and civil society organizations – either directly or through institutions like the EICC, the multi-stakeholder program of the Sustainable Trade Initiative IDH, and the OECD.

# Embracing culture change

Through the Accelerate! program, Philips is driving structural change – with a renewed company culture as the foundation for performance improvement and growth, explains Carole Wainaina, Chief HR Officer.

Culture is the glue that bonds a company's employees together – it is the very DNA of the organization. The creation of a growth and performance culture is central to Accelerate!, the multi-year transformation program designed to make us a more agile, entrepreneurial and innovative company and bring us closer to our customers.

To realize our ambitions, we need highly motivated, passionate employees who display entrepreneurial spirit, the desire to excel, and a bold determination to succeed. These traits are articulated in our Accelerate! behaviors – *Eager to win*, *Take ownership* and *Team up to excel*.

With the implementation of Accelerate!, Philips is moving away from a 'one size fits all' company culture which has tended to inhibit growth, to a culture that drives performance – one that is focused on results and characterized by honest dialogues, fact-based conclusions and fast action. This will enable us to adapt quickly to changing market conditions and outpace the competition.

## Change begins at the top

Leaders play a crucial role in driving change within an organization. From role modeling to recognizing and rewarding the desired behaviors, employees look to their leaders for direction. That's why over 700 of our leading executives have participated in the Accelerate! Leadership Program. This immersive program is designed to strengthen our leaders' change management capabilities so they can, in turn, lead change in the organization. In our rapidly changing world, we see these capabilities as crucial to success.

## Embedding the culture

To truly change behaviors, our systems and processes need to be adjusted accordingly. We have, therefore, embedded our new behaviors in our HR processes, e.g. our People Performance Management recognition and reward system. And we have changed the annual incentive system for executives to reflect line-of-sight accountability and aligned it with the key performance indicators of our Accelerate! mid-term 2013 financial targets.

At the same time, we are augmenting our talent management initiatives and focusing on the development of a learning organization. For example, by upgrading and expanding the various core, functional and market training curricula offered to our employees.

## Tracking progress

To understand exactly where we are on our Accelerate! journey, we have launched a quarterly Change Adoption survey. The survey provides us with a good indication of what is going well – in order to build on it further – and indicates where we need to improve. This supports the momentum for our transformation.

## Living the culture

Ultimately, Accelerate! is all about transforming ourselves so that we can continue to be a great company – today, tomorrow, and a hundred years from now. Our renewed culture will make a decisive contribution in this regard, by helping to make Philips an even more dynamic and rewarding place for talented, dedicated, passionate people to work.

To achieve our growth ambitions we need a diverse workforce made up of men and women of different cultures, generations, talents and backgrounds and an inclusive work environment that values the different skills, experiences and perspectives of every employee.

As a global company, our customers come from a multitude of countries and cultures. Having a diverse workforce where differences are honored, respected and encouraged to thrive, puts us in a stronger position to mirror the markets we're active in, because we can understand our customers and identify with their needs.

As part of our efforts to reach out to under-represented groups within Philips, we have set up popular networks for female employees and for gay and lesbian employees.

# 5 Group performance

"2012 was a year of progress despite the challenging economic environment, especially in the United States and Europe. Supported by our Accelerate! transformation program, we achieved 4% comparable sales growth and improved our net income, capital efficiency and free cash flow. The results in 2012 demonstrate momentum on our path towards our Accelerate! mid-term 2013 financial targets." **Ron Wirahadiraksa**, CFO

# 5.1 Financial performance

## Management summary

**Key data**[1]
in millions of euros unless otherwise stated

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Sales | 22,287 | 22,579 | 24,788 |
| EBITA[2] | 2,556 | 1,680 | 1,502 |
| as a % of sales | 11.5 | 7.4 | 6.1 |
| EBIT | 2,074 | (269) | 1,030 |
| as a % of sales | 9.3 | (1.2) | 4.2 |
| Financial income and expenses | (121) | (240) | (246) |
| Income tax expense | (497) | (283) | (308) |
| Results of investments in associates | 18 | 16 | (214) |
| Income (loss) from continuing operations | 1,474 | (776) | 262 |
| Income (loss) from discontinued operations | (26) | (515) | (31) |
| Net income (loss) | 1,448 | (1,291) | 231 |
| Net income (loss) per common share in euros: | | | |
| - basic | 1.54 | (1.36) | 0.25 |
| - diluted | 1.53 | (1.36) | 0.25 |
| Net operating capital (NOC)[2] | 11,897 | 10,372 | 9,307 |
| Cash flows before financing activities[2] | 1,477 | (525) | 1,286 |
| Employees (FTEs) | 119,775 | 125,241 | 118,087 |
| of which discontinued operations | 3,610 | 3,353 | – |

[1] Prior periods amounts have been revised to reflect a voluntarily adopted accounting policy change, and immaterial adjustments throughout Annual Report, see section 12.10, Significant accounting policies, of this Annual Report
[2] For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

### The year 2012

- Despite strong economic headwinds, we continued on our steady path of improvement driven by our multi-year change and performance program, Accelerate!. We recorded 4% comparable sales growth (10% nominal growth), with a strong contribution from growth geographies. Healthcare and Consumer Lifestyle delivered solid earnings, while Lighting gained momentum in its turnaround. Net income for the year amounted to EUR 231 million, and was impacted by substantial restructuring charges as well as the European Commission fine related to alleged violation of competition rules in the Cathode-Ray Tube (CRT) industry.
- Sales amounted to EUR 24.8 billion, a 10% nominal increase for the year. Excluding favorable currency effects and portfolio changes, comparable sales were 4% above 2011, driven by all three operating sectors. Healthcare sales grew 6%, with solid growth in all businesses. Lighting sales were 4% above 2011, with strong growth coming from Light Sources & Electronics, mainly fueled by market demand for LED, and Automotive, partly tempered by a sales decline at Lumileds. Sales at Consumer Lifestyle were 2% above 2011, with double-digit growth at Domestic Appliances and Health & Wellness and mid-single-digit growth at Personal Care, tempered by a sales decline at our Lifestyle Entertainment business.
- Our growth geographies achieved 10% comparable growth, while mature geographies grew by a modest 1%, as a result of the overall macroeconomic developments and the continued weakness of the Western European markets, particularly Southern Europe. In 2012, growth geographies accounted for 35% of total sales, compared to 33% in 2011.
- EBIT amounted to EUR 1,030 million, or 4.2% of sales, compared to a loss of EUR 269 million, or negative 1.2% of sales, in 2011. Excluding impairment charges of EUR 1,355 million in 2011, significant EBIT improvement was seen at Consumer Lifestyle and Healthcare, while Lighting was impacted by charges related to restructuring activities.
- We continued to re-align our portfolio to further focus on expanding market-leadership positions across our Healthcare, Consumer Lifestyle and Lighting sectors. In 2012, we completed the divestment of our Television business to TP Vision, extended our partnership in Senseo with Sara Lee and strengthened our Lifestyle Entertainment platform in North America through the signing of a distribution agreement with Funai. Additionally, we completed the acquisition of Indal, strengthening our position in outdoor lighting. In January 2013 we announced an agreement to transfer our Audio, Video, Multimedia and Accessories businesses to Funai.
- In 2012 we generated EUR 2,198 million of cash flow from operating activities, which was EUR 1,430 million higher than in 2011. The increase was largely a result of lower working capital requirements and higher cash earnings. Our cash flows before financing activities were EUR 1,811 million above the level of 2011, due to higher cash flow from operating activities, higher proceeds from divestments, and lower outflows related to acquisitions of new businesses.

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Financial performance - 2011

## 5.1.1 Sales

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The year 2012

The composition of sales growth in percentage terms in 2012, compared to 2011, is presented in the table below.

**Sales growth composition 2012 versus 2011**
in %

| | comparable growth | currency effects | consolida-tion changes | nominal growth |
|---|---|---|---|---|
| Healthcare | 6.4 | 6.4 | – | 12.8 |
| Consumer Lifestyle | 1.7 | 3.8 | 0.5 | 6.0 |
| Lighting | 3.8 | 4.6 | 2.1 | 10.5 |
| IG&S[1] | (7.4) | 0.1 | (6.2) | (13.5) |
| Philips Group | 4.1 | 5.0 | 0.7 | 9.8 |

[1] Group Management & Services sector has been renamed to Innovation, Group & Services

Group sales amounted to EUR 24,788 million in 2012, representing 10% nominal growth compared to 2011.

Adjusting for a 5% favorable currency effect and a 1% favorable portfolio effect, comparable sales were 4% above 2011. Comparable sales were up 6% at Healthcare, while Lighting was 4% higher and Consumer Lifestyle was 2% higher than the previous year.

Healthcare sales amounted to EUR 9,983 million, which was EUR 1,131 million higher than in 2011, or 6% higher on a comparable basis. Higher sales were driven by solid mid-single-digit comparable growth in all businesses, as increases in growth geographies and North America were tempered by flat sales in Western Europe.

Consumer Lifestyle reported sales of EUR 5,953 million, which was EUR 338 million higher than in 2011, or 2% higher on a comparable basis. We achieved double-digit growth at Domestic Appliances and Health & Wellness and mid-single-digit growth at Personal Care. This was partly offset by a double-digit decline at Lifestyle Entertainment, where growth was tempered by a slowdown in consumer spending, particularly in mature geographies.

Lighting sales amounted to EUR 8,442 million, which was EUR 804 million higher than in 2011, or 4% higher on a comparable basis. Growth was largely driven by high-single-digit growth at Automotive and mid-single-digit growth at Light Sources & Electronics. This was tempered by low-single-digit growth at Professional Lighting Solutions and Consumer Luminaires and a sales decline at Lumileds.

IG&S reported sales of EUR 410 million, which was EUR 64 million lower than in 2011, due to the divestment of Assembléon in the prior year and lower royalty income.

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Sales - 2011

## 5.1.2 Earnings

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The year 2012

In 2012, Philips' gross margin was EUR 9,409 million, or 38.0% of sales, compared to EUR 8,734 million, or 38.7% of sales, in 2011. Gross margin in 2012 included EUR 296 million in restructuring and acquisition-related charges, whereas 2011 included EUR 53 million in restructuring and acquisition-related charges. Gross margin percentage was higher than in 2011 for Consumer Lifestyle and Healthcare, while Lighting was lower.

Selling expenses increased from EUR 5,247 million in 2011 to EUR 5,468 million in 2012. 2012 included EUR 194 million in restructuring and acquisition-related charges, compared to EUR 54 million of restructuring charges in 2011. The year-on-year increase was mainly attributable to restructuring activities and higher expenses aimed at supporting a higher level of sales. In relation to sales, selling expenses decreased from 23.2% to 22.1%. Selling expenses as a percentage of sales were lower in all sectors.

General and administrative expenses amounted to EUR 798 million in 2012, compared to EUR 841 million in 2011. As a percentage of sales, costs decreased from 3.7% in 2011 to 3.2%.

Research and development costs increased from EUR 1,610 million in 2011 to EUR 1,810 million in 2012. The year-on-year increase was largely attributable to higher investments in growth and innovation. As a percentage of sales, research and development costs increased from 7.1% in 2011 to 7.3% in 2012.

The overview below shows sales, EBIT and EBITA according to the 2012 sector classifications.

**Sales, EBIT and EBITA**
in millions of euros unless otherwise stated

| | sales | EBIT | % | EBITA[1)] | % |
|---|---|---|---|---|---|
| 2012 | | | | | |
| Healthcare | 9,983 | 1,122 | 11.2 | 1,322 | 13.2 |
| Consumer Lifestyle | 5,953 | 593 | 10.0 | 663 | 11.1 |
| Lighting | 8,442 | (6) | (0.1) | 188 | 2.2 |
| IG&S | 410 | (679) | − | (671) | − |
| Philips Group | 24,788 | 1,030 | 4.2 | 1,502 | 6.1 |
| 2011 | | | | | |
| Healthcare | 8,852 | 93 | 1.1 | 1,145 | 12.9 |
| Consumer Lifestyle | 5,615 | 217 | 3.9 | 297 | 5.3 |
| Lighting | 7,638 | (362) | (4.7) | 445 | 5.8 |
| IG&S | 474 | (217) | − | (207) | − |
| Philips Group | 22,579 | (269) | (1.2) | 1,680 | 7.4 |

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

In 2012, EBIT increased by EUR 1,299 million compared to 2011, to EUR 1,030 million, or 4.2% of sales. 2012 included EUR 580 million in restructuring and acquisition-related charges, compared to EUR 163 million in 2011. The year-on-year increase was mainly attributable to goodwill impairments of EUR 1,355 million in 2011 and higher gross margin percentages in Healthcare and Consumer Lifestyle, but was partly offset by a EUR 313 million fine issued by the European Commission in relation to the alleged violation of competition rules in the Cathode-Ray Tube (CRT) industry.

Amortization of intangibles, excluding software, capitalized product development and impairment related charges, amounted to EUR 472 million in 2012, compared to EUR 594 million in 2011.

EBITA decreased from EUR 1,680 million, or 7.4% of sales, in 2011 to EUR 1,502 million, or 6.1% of sales, in 2012. EBITA was higher than in 2011 at Consumer Lifestyle and Healthcare, while Lighting was lower.

### Healthcare

EBITA increased from EUR 1,145 million, or 12.9% of sales, in 2011 to EUR 1,322 million, or 13.2% of sales, in 2012. EBITA improvements were realized across all businesses, largely as a result of higher sales and reduced expenses resulting from cost-saving programs. Restructuring and acquisition-related charges totaled EUR 134 million, compared to EUR 20 million in 2011.

### Consumer Lifestyle

EBITA increased from EUR 297 million, or 5.3% of sales, in 2011 to EUR 663 million, or 11.1% of sales, in 2012. Restructuring and acquisition-related charges amounted to EUR 75 million in 2012, compared to EUR 54 million in 2011. 2012 results included a EUR 160 million one-time gain from the extension of our partnership with Sara Lee, including the transfer of our 50% ownership rights to the Senseo trademark. Excluding this one-time gain, the year-on-year EBITA increase was driven by higher sales across all growth businesses as well as lower net costs formerly reported as part of the Television business. EBITA was higher than in 2011 in all businesses.

### Lighting

EBITA decreased from EUR 445 million, or 5.8% of sales, in 2011 to EUR 188 million, or 2.2% of sales, in 2012. Restructuring and acquisition-related charges amounted to EUR 315 million in 2012, compared to EUR 66 million in 2011. The decrease in EBITA was mainly attributable to higher restructuring and acquisition-related charges, as well as losses on the sale of industrial assets amounting to EUR 81 million, partly offset by higher sales. Compared to 2011, EBITA declined in all businesses except Automotive.

### Innovation, Group & Services

EBITA decreased from a loss of EUR 207 million in 2011 to a loss of EUR 671 million in 2012. Results in 2012 were negatively impacted by a charge of EUR 313 million related to the CRT fine and provisions related to various legal matters totaling EUR 132 million. EBITA in 2012 also includes a EUR 25 million gain from a change in a medical retiree benefit plan and a EUR 37 million gain on the sale of the High Tech Campus, while 2011 included a EUR 21 million gain related to a change in pension plan. Restructuring and acquisition-related charges amounted to EUR 56 million in 2012, compared to EUR 23 million in 2011.

For further information regarding the performance of the sectors, see chapter 6, Sector performance, of this Annual Report.

*Content you didn't download*
Earnings - 2011

## 5.1.3 Marketing

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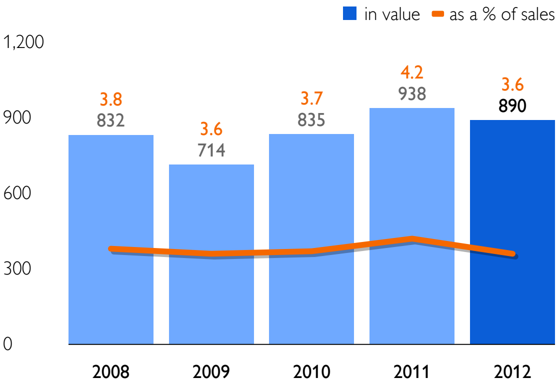
The year 2012

Philips' total 2012 marketing expenses approximated EUR 890 million, a decrease of 5% compared to 2011, mainly due to decreased investments in Western Europe.

Consistent with 2011, the Company allocated a higher proportion of its total marketing spend towards growth geographies and strategic markets, priority areas for the Company's growth strategy. Accordingly, the Company increased its marketing spend in key growth geographies by 5% compared to 2011. Total 2012 marketing investment as a percentage of sales approximated 3.6%, compared to 4.2% in 2011.

Philips increased its brand value by 5% in 2012 to over USD 9 billion in the ranking of the world's 100 most valuable brands, as measured by Interbrand. In the 2012 listing, Philips maintained its ranking as the 41st most valuable brand in the world.

**Marketing expenses**
in millions of euros

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Marketing - 2011

## 5.1.4 Research and development

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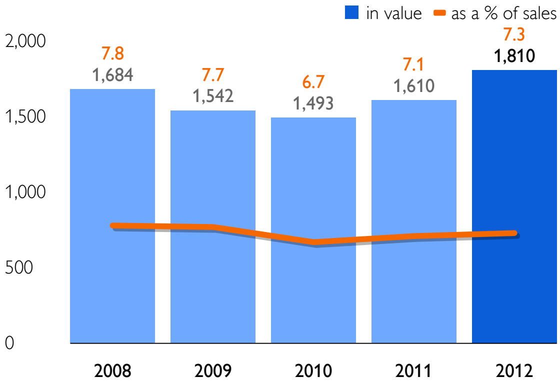
The year 2012

Research and development costs increased from EUR 1,610 million in 2011 to EUR 1,810 million in 2012. The year-on-year increase was largely attributable to higher investments in growth and innovation, including an increased focus on new value spaces. As a percentage of sales, research and development costs increased from 7.1% in 2011 to 7.3%.

**Research and development expenses**
in millions of euros




Research and development costs within Healthcare increased EUR 63 million, mainly at Imaging Systems and Home Healthcare Solutions. At Lighting, research and development costs increased EUR 44 million, primarily at Lumileds and our Controls business within Professional Lighting Solutions. At Consumer Lifestyle, research and development spending was EUR 12 million lower than in 2011, mainly as a result of the re-positioning of the Lifestyle Entertainment portfolio. In Innovation, Group & Services, R&D expenses increased by EUR 105 million, driven by investments in new value spaces as well as innovation and design initiatives.

**Research and development expenses per sector**
in millions of euros

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Healthcare | 698 | 740 | 803 |
| Consumer Lifestyle | 282 | 313 | 301 |
| Lighting | 355 | 409 | 453 |
| Innovation, Group & Services | 158 | 148 | 253 |
| Philips Group | 1,493 | 1,610 | 1,810 |

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Research & development - 2011

## 5.1.5 Pensions

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The year 2012

The net periodic pension costs of defined-benefit pension plans amounted to a credit of EUR 38 million in 2012, compared to a cost of EUR 18 million in 2011. The defined-contribution pension cost amounted to EUR 142 million, EUR 22 million higher than in 2011.

The funded status of our defined-benefit plans improved in 2012, in spite of decreasing discount rates and improved life expectancy assumptions in the Netherlands and UK plans. The surpluses of the plans in the

Netherlands and UK increased, but as we do not recognize the surplus in these countries the net balance sheet position was not impacted.

In 2012, a prior-service cost gain of EUR 25 million was recognized in one of our major retiree medical plans. The plan change reduced certain company post-retirement risks. In the Netherlands a curtailment gain was recognized of EUR 25 million in the pension plan in 2012 due to headcount reductions as a result of our restructuring activities. In 2012, further steps were taken to manage the financial exposure to defined-benefit plans such as the buy-out of the Swiss Pension Fund by an insurance company.

The overall curtailment gain for 2011 was EUR 18 million and the prior-service cost gain was EUR 20 million.

For further information, refer to note 29, Pensions and other postretirement benefits.

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Pensions - 2011

## 5.1.6 Restructuring and impairment charges

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The year 2012

2012 included EUR 530 million in restructuring and related asset impairment charges. In addition to the annual goodwill impairment tests for Philips, trigger-based impairment tests were performed during the year, resulting in no goodwill impairments.

In 2011, EBIT included net charges totaling EUR 1,572 million for restructuring and related asset impairments. The annual impairment test led to selected adjustments of pre-recession business cases as well as an adjustment of the discount rate across Philips, leading to a EUR 1,355 million impairment of goodwill. In addition to the annual goodwill impairment tests for Philips, trigger-based impairment tests were performed during the year, but resulted in no further goodwill impairments. 2011 also included a EUR 128 million charge related to the impairment of customer relationships and brand names at Consumer Luminaires.

For further information on sensitivity analysis, please refer to note 9, Goodwill.

**Restructuring and related charges**
in millions of euros

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Restructuring and related charges per sector: | | | |
| Healthcare | 48 | 3 | 116 |
| Consumer Lifestyle | 12 | 9 | 57 |
| Lighting | 74 | 54 | 301 |
| Innovation, Group & Services | (2) | 23 | 56 |
| Continuing operations | 132 | 89 | 530 |
| Discontinued operations | 30 | 15 | 10 |
| Cost breakdown of restructuring and related charges: | | | |
| Personnel lay-off costs | 151 | 109 | 443 |
| Release of provision | (70) | (45) | (37) |
| Restructuring-related asset impairment | 14 | 10 | 66 |
| Other restructuring-related costs | 37 | 15 | 58 |
| Continuing operations | 132 | 89 | 530 |
| Discontinued operations | 30 | 15 | 10 |

In 2012, the most significant restructuring projects related to Lighting and Healthcare and were driven by our change program Accelerate!. Restructuring projects at Lighting centered on Luminaires businesses and Light Sources & Electronics, the largest of which took place in the Netherlands, Germany and in various locations in the US. In Healthcare, the largest projects were undertaken at Imaging Systems and Patient Care & Clinical Informatics in various locations in the United States to reduce operating costs and simplify the organization. Innovation, Group & Services restructuring projects focused on the IT and Financial Operations Service Units (primarily in the Netherlands), Group & Regional Overheads (mainly in the Netherlands and Italy) and Philips Innovation Services (in the Netherlands and Belgium). Consumer Lifestyle restructuring charges were mainly related to Lifestyle Entertainment (primarily US and Hong Kong) and Coffee (mainly Italy).

In 2011, the most significant restructuring projects related to Lighting and Innovation, Group & Services and were mainly driven by our change program Accelerate!. Restructuring projects at Lighting centered on Luminaires businesses and Light Sources & Electronics, the largest of which took place in the Netherlands, Brazil and in the US. Innovation, Group & Services restructuring projects focused on the Global Service Units (primarily in the Netherlands), Corporate and Country Overheads (mainly in the Netherlands, Brazil and Italy) and Philips Design (the Netherlands). At Healthcare, the largest projects were undertaken at Imaging Systems, Home Healthcare Solutions and Patient Care & Clinical Informatics in various locations in the US to reduce operating costs and simplify the organization. Consumer Lifestyle restructuring charges mainly related to our remaining Television operations in Europe.

For further information on restructuring, refer to note 20, Provisions.

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Restructuring and impairment charges - 2011

## 5.1.7 Financial income and expenses

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The year 2012

A breakdown of Financial income and expenses is presented in the table below.

**Financial income and expenses**
in millions of euros

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Interest expense (net) | (225) | (210) | (241) |
| Sale of securities | 162 | 51 | 1 |
| Impairment on securities | (2) | (34) | (8) |
| Other | (56) | (47) | 2 |
| | (121) | (240) | (246) |

The net interest expense in 2012 was EUR 31 million higher than in 2011, mainly as a result of higher average outstanding debt.

**Sale of securities**
in millions of euros

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Gain on sale of NXP shares | 154 | – | – |
| Gain on sale of TCL shares | – | 44 | – |
| Gain on sale of Digimarc shares | – | 6 | – |
| Others | 8 | 1 | 1 |
| | 162 | 51 | 1 |

In 2012 there was a EUR 1 million gain on the sale of securities. In 2011, income from the sale of securities totaled EUR 51 million, including a EUR 44 million gain on the sale of the remaining shares in TCL and a EUR 6 million gain on the sale of shares of Digimarc.

**Impairments on securities**
in millions of euros

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| TPV | – | (25) | – |
| Chi-Mei Innolux | – | (4) | (1) |
| BG Medicine | – | (2) | (1) |
| Prime Technology | (2) | (1) | – |
| Tendris | – | – | (5) |
| Gilde III | – | – | (1) |
| Other | – | (2) | – |
| | (2) | (34) | (8) |

Impairment charges in 2012 amounted to EUR 8 million, mainly from shareholdings in Tendris. In 2011, impairment charges amounted to EUR 34 million, mainly from shareholdings in TPV Technologies Ltd.

Other financial income was a EUR 2 million gain in 2012, compared to a net expense of EUR 47 million in 2011. In 2012, there was a EUR 46 million gain related to a change in estimate on the valuation of long-term derivative contracts and remaining other financial income of EUR 20 million. This is offset by EUR 42 million other financing charges and a EUR 22 million accretion expense (mainly associated with discounted provisions).

Other financial expenses in 2011 primarily consisted of a EUR 35 million other financing charge and a EUR 33 million accretion expense (mainly associated with discounted provisions) offset by EUR 11 million dividend income and other financial income, including a net gain of EUR 6 million mostly from the revaluation impact of the option related to NXP.

For further information, refer to note 2, Financial income and expenses.

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Financial income and expenses - 2011

## 5.1.8 Income taxes

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The year 2012

Income taxes amounted to EUR 308 million, compared to EUR 283 million in 2011. The year-on-year increase was largely attributable to higher taxable earnings.

The tax burden in 2012 corresponded to an effective income tax rate of 39.3%, compared to negative 55.6% in 2011. In 2011, the negative effective income tax rate was attributable to goodwill impairment losses of EUR 1,355 million, which are largely non-tax-deductible. The effective income tax rate in 2012 included the impact of the non-tax-deductible charge of EUR 509 million arising from the European Commission ruling related to the alleged violation of competition rules in the Cathode-Ray Tube (CRT) industry.

For 2013, the effective tax rate excluding incidental non-taxable items is expected to be between 32% and 35%.

For further information, refer to note 3, Income taxes.

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Income taxes - 2011

## 5.1.9 Results of investments in associates

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The year 2012

The results related to investments in associates declined from income of EUR 16 million in 2011 to a loss of EUR 214 million in 2012, largely attributable to a charge of EUR 196 million related to the former LG.Philips Displays joint venture.

The European Commission imposed fines in relation to alleged violations of competition rules in the Cathode-Ray Tube industry. Philips recorded a total charge of EUR 509 million, of which EUR 313 million is directly related to Philips and therefore recorded in Income from Operations, while EUR 196 million relates to LG.Philips Displays and is therefore recorded in results of investments in associates.

**Results of investments in associates**
in millions of euros

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Company's participation in income | 14 | 18 | (8) |
| Results on sale of shares | 5 | − | − |
| (Reversal of) investment impairment and other charges | (1) | (2) | (206) |
| | 18 | 16 | (214) |

The Company's participation in income decreased from EUR 18 million in 2011 to negative EUR 8 million in 2012. The loss in 2012 was mainly attributable to the results of EMGO, while the income in 2011 was mainly due to the results of Intertrust.

For further information, refer to note 4, Investments in associates.

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Results of investments in associates - 2011

## 5.1.10 Non-controlling interests

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The year 2012

Net income attributable to non-controlling interests amounted to EUR 5 million in 2012, compared to EUR 4 million in 2011.

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Non-controlling interests - 2011

## 5.1.11 Discontinued operations

The Television business's long-term strategic partnership agreement with TPV was signed on April 1, 2012. The results related to the Television business are reported under Discontinued operations in the Consolidated statements of income and Consolidated statements of cash flows.

In 2012, the loss from discontinued operations of EUR 31 million was due to the net operational results of the business. The transaction was finalized in the first quarter of 2012.

In 2011, the loss from discontinued operations of EUR 515 million was mainly due to the transaction loss recorded on the sale of our Television business of EUR 353 million (after tax), which included an onerous contract provision for the loss recognized upon signing the agreement with TPV, accruals for the expected costs of disentanglement and value adjustments to assets. In addition, the net operational results of the business were an after-tax loss of EUR 162 million.

For further information, refer to note 5, Discontinued operations and other assets classified as held for sale.

## 5.1.12 Net income

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The year 2012

Net income increased from negative EUR 1,291 million in 2011 to EUR 231 million in 2012. The increase was largely due to EUR 1,299 million higher EBIT and EUR 484 million lower costs related to discontinued operations, partly offset by lower results relating to investments in associates of EUR 230 million and higher income tax charges of EUR 25 million.

Net income attributable to shareholders per common share increased from negative EUR 1.36 per common share in 2011 to EUR 0.25 per common share in 2012.

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Net income - 2011

## 5.1.13 Acquisitions and divestments

In 2012, Philips completed one acquisition. Acquisitions in 2012 and previous years led to post-merger integration charges totaling EUR 50 million in 2012: Healthcare EUR 18 million, Consumer Lifestyle EUR 18 million, and Lighting EUR 14 million.

In 2011, Philips completed six acquisitions. Acquisitions in 2011 and previous years resulted to post-merger integration charges totaling EUR 74 million in 2011: Healthcare EUR 17 million, Consumer Lifestyle EUR 45 million, and Lighting EUR 12 million.

For further information, refer to note 7, Acquisitions and divestments.

### Acquisitions

In 2012, Philips completed the acquisition of Indal. This acquisition fits in with Philips' ambition to grow its presence in professional lighting solutions, creating a platform to expand its capabilities to deliver lighting solutions and lead the transition to energy-efficient LED-based lighting applications.

In 2011, we completed six acquisitions. Healthcare acquisitions included Sectra, AllParts Medical and Dameca. Within Consumer Lifestyle, Philips completed the acquisition of Preethi and Povos. Within Lighting, Philips acquired Optimum Lighting.

In 2010, we completed eleven acquisitions. Healthcare acquisitions included Somnolyzer, Tesco, Apex, CDP Medical, Wheb Sistemas and medSage Technologies. Within Lighting, Philips completed the acquisitions of Luceplan, Burton, Street Lighting Controls from Amplex A/S and NCW. Within Consumer Lifestyle, Philips acquired Discus.

### Divestments

During 2012, Philips completed several divestments of business activities, namely the Television business (for further information see note 5, Discontinued operations and other assets classified as held for sale), certain Lighting manufacturing activities, Speech Processing activities and certain Healthcare service activities. The Speech Processing activities were sold to Invest AG, in line with our strategy.

In 2012, Philips agreed to extend its partnership with Sara Lee Corp (Sara Lee) to drive growth in the global coffee market. Under a new exclusive partnership framework, which will run through to 2020, Philips will be the exclusive Senseo consumer appliance manufacturer and distributor for the duration of the agreement. As part of the agreement, Philips divested its 50% ownership right in the Senseo trademark to Sara Lee.

In 2011, Philips completed several divestments of which Assembléon was the most significant. Philips sold 80% of the shares in Assembléon to H2 Equity Partners, an Amsterdam-based private equity firm, for a consideration of EUR 14 million.

In 2010, Philips completed several divestments of which the sale of 9.4% of the shares in TPV Technology Ltd (TPV) was the most significant. The TPV shares were sold to CEIC Ltd., a Hong Kong-based technology company, for a cash consideration of EUR 98 million.

For details, please refer to note 7, Acquisitions and divestments.

## 5.1.14 Performance by geographic cluster

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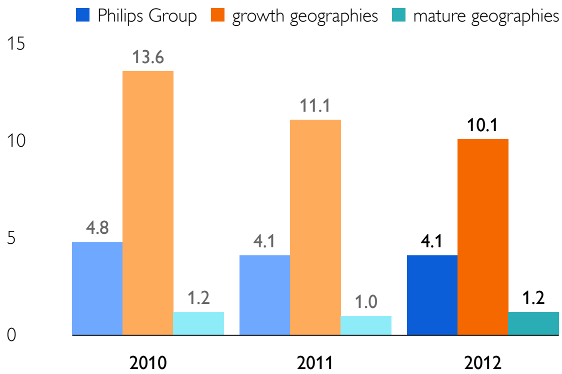
The year 2012

In 2012, sales grew 4% on a comparable basis (10% nominally), driven by growth in Healthcare, notably in growth geographies.

**Comparable sales growth by geographic cluster**[1)]
in %

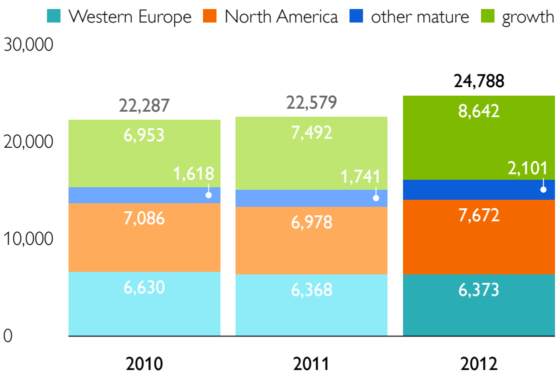



1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

Sales in mature geographies were EUR 1,059 million higher than in 2011, or 1% higher on a comparable basis. Sales in Western Europe were impacted by the macroeconomic developments, resulting in a 3% decline in comparable sales, attributable to all sectors. On a nominal basis, sales in Western Europe were largely unchanged from the prior year, driven by the acquisition of Indal in Lighting. Sales in North America were EUR 694 million higher, or 2% higher on a comparable basis, driven by single-digit growth in all sectors. Both nominal and comparable sales in other mature geographies showed strong growth. Comparable sales in other mature geographies double-digit growth in all sectors.

In growth geographies, sales grew by EUR 1,150 million, or 10% on a comparable basis, driven by double-digit growth at Healthcare. In China, Healthcare and Lighting recorded solid double-digit nominal and comparable growth. Sales in Russia also showed double-digit growth, attributable to strong sales performance at Consumer Lifestyle and Healthcare.

**Sales per geographic cluster**
in millions of euros

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Performance by geographic cluster - 2011

## 5.1.15 Cash flows provided by continuing operations

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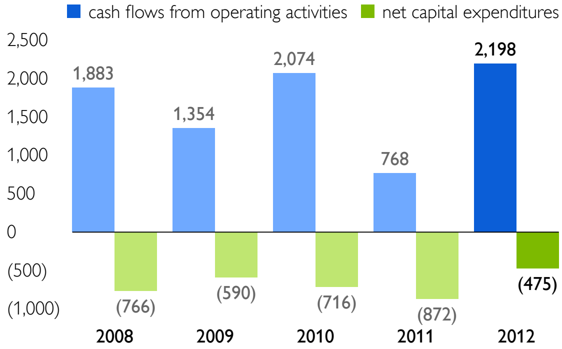
The year 2012

### Cash flows from operating activities

Net cash flow from operating activities amounted to EUR 2,198 million in 2012, compared to EUR 768 million in 2011. The year-on-year improvement was largely attributable to lower working capital outflows, mainly related to accounts payable, as well as higher cash earnings. The increase in other current liabilities includes a payable of EUR 509 million related to the European Commission fine for alleged violations of competition rules in the Cathode-Ray Tube (CRT) industry. Excluding the CRT payable, the increase in accounts payable and accrued and other current liabilities was attributable to increased volume from higher sales, while the outflow in 2011 was attributable to a tightening of vendor payments in the operating sectors.

**Cash flows from operating activities and net capital expenditures**
in millions of euros




Condensed consolidated statements of cash flows for the years ended December 31, 2010, 2011 and 2012 are presented below:

**Condensed consolidated cash flow statements**[1]
in millions of euros

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income (loss) | 1,448 | (1,291) | 231 |
| Adjustments to reconcile net income to net cash provided by operating activities | 626 | 2,059 | 1,967 |
| Net cash provided by operating activities | 2,074 | 768 | 2,198 |
| Net cash (used for) provided by investing activities | (597) | (1,293) | (912) |
| Cash flows before financing activities[2] | 1,477 | (525) | 1,286 |
| Net cash used for financing activities | (97) | (1,790) | (292) |
| Cash (used for) provided by continuing operations | 1,380 | (2,315) | 994 |
| Net cash (used for) discontinued operations | (22) | (364) | (256) |
| Effect of changes in exchange rates on cash and cash equivalents | 89 | (7) | (51) |
| Total change in cash and cash equivalents | 1,447 | (2,686) | 687 |
| Cash and cash equivalents at the beginning of year | 4,386 | 5,833 | 3,147 |
| Cash and cash equivalents at the end of year | 5,833 | 3,147 | 3,834 |

[1] Please refer to section 12.7, Consolidated statements of cash flows, of this Annual Report
[2] Please refer to chapter 15, Reconciliation of non-GAAP information, of this Annual Report

### Cash flows from investing activities

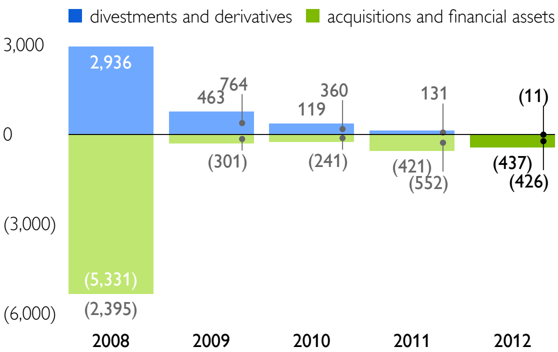
2012 cash flows from investing activities resulted in a net outflow of EUR 912 million, attributable to EUR 475 million cash used for net capital expenditures, EUR 259 million used for acquisitions, as well as a EUR 167 million outflow for financial assets, mainly due to loans provided to TPV Technology Limited and the television joint venture TP Vision Holding BV in connection with the divestment of the Televison business (EUR 151 million in aggregate).

2011 cash flows from investing activities resulted in a net outflow of EUR 1,293 million, attributable to EUR 872 million cash used for net capital expenditures and EUR 509 million used for acquisitions, mainly for Povos, Preethi and Sectra. This was partly offset by EUR 106 million proceeds from sale of financial assets and divestment, mainly TCL and Digimarc shares.

### Net capital expenditures

Net capital expenditures totaled EUR 475 million, which was EUR 397 million lower than 2011, mainly due to proceeds received from the sale of the High Tech Campus of EUR 425 million (consisting of a EUR 373 million cash transaction and an amount of EUR 52 million that will be received in future years) and the divestment of our 50% ownership right in the Senseo trademark to Sara Lee for EUR 170 million. Excluding these impacts, higher investments were visible in all sectors, notably additional growth-focused investments in Lighting.

**Cash flows from acquisitions and financial assets, divestments and derivatives**
in millions of euros




### Acquisitions and financial assets

The net cash impact of acquisitions of businesses and financial assets in 2012 was a total of EUR 426 million, mainly related to the acquisition of Indal. The EUR 167 million outflow for financial assets mainly relates to loans provided to TPV Technology Limited and the television joint venture TP Vision Holding BV in connection with the divestment of the Television business (EUR 151 million in aggregate).

The net cash impact of acquisitions of businesses and financial assets in 2011 was a total of EUR 552 million, mainly related to the acquisitions for Povos, Preethi and Sectra.

### Divestments and derivatives

Cash proceeds of EUR 36 million were received from divestments, mainly of non-strategic businesses within Consumer Lifestyle and Healthcare. Cash flows from derivatives and securities led to a net cash outflow of EUR 47 million.

In 2011, cash proceeds of EUR 106 million were received from divestments, including EUR 69 million from the sale of remaining shares in TCL, as well as divestments of non-strategic businesses within Consumer Lifestyle and Healthcare. Cash flows from derivatives and securities led to a net cash inflow of EUR 25 million.

### Cash flows from financing activities

Net cash used for financing activities in 2012 was EUR 292 million. Philips' shareholders were given EUR 687 million in the form of a dividend of which cash dividend amounted to EUR 255 million. The net impact of changes in debt was an increase of EUR 731 million, including the issuance of USD 1.5 billion in bonds, partially offset by the early redemption of a USD 500 million bond. Additionally, net cash outflows for share buyback and share delivery totaled EUR 768 million.

Net cash used for financing activities in 2011 was EUR 1,790 million. Philips' shareholders were given EUR 711 million in the form of a dividend of which cash dividend amounted to EUR 259 million. The net impact of changes in debt was a decrease of EUR 860 million, including the redemption of a EUR 750 million bond, a USD 350 million bond and other debts totaling EUR 1,314 million, partially offset by the drawdown of a EUR 200 million committed facility and other new long-term borrowing totaling EUR 454 million. Additionally, net cash outflows for share buyback and share delivery totaled EUR 671 million.

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Cash flows provided by continuing operations - 2011

## 5.1.16 Cash flows from discontinued operations

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The year 2012

In 2012, EUR 256 million cash was used by discontinued operations. This was attributable to the operating cash outflows of the Television business of EUR 296 million and a cash inflow from investing activities of EUR 40 million.

In 2011, EUR 364 million cash was used by discontinued operations. This was attributable to the operating cash outflows of the Television business of EUR 270 million and cash outflow to investing activities of EUR 94 million.

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Cash flows from discontinued operations - 2011

## 5.1.17 Financing

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The year 2012

Condensed consolidated balance sheets for the years 2010, 2011 and 2012 are presented below:

**Condensed consolidated balance sheet information**[1)]
in millions of euros

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| | | | |
| Intangible assets | 12,233 | 11,012 | 10,679 |
| Property, plant and equipment | 3,145 | 3,014 | 2,959 |
| Inventories | 3,865 | 3,625 | 3,495 |
| Receivables | 4,947 | 5,117 | 4,858 |
| Assets held for sale | 120 | 551 | 43 |
| Other assets | 2,567 | 2,929 | 3,211 |
| Payables | (6,977) | (6,563) | (6,210) |
| Provisions | (2,394) | (2,694) | (2,969) |
| Liabilities directly associated with assets held for sale | − | (61) | (27) |
| Other liabilities | (3,628) | (3,867) | (4,165) |
| | 13,878 | 13,063 | 11,874 |
| | | | |
| Cash and cash equivalents | 5,833 | 3,147 | 3,834 |
| Debt | (4,658) | (3,860) | (4,534) |
| Net cash (debt) | 1,175 | (713) | (700) |
| Non-controlling interests | (46) | (34) | (34) |
| Shareholders' equity | (15,007) | (12,316) | (11,140) |
| | (13,878) | (13,063) | (11,874) |

1) Please refer to section 12.6, Consolidated balance sheets, of this Annual Report

## 5.1.18 Cash and cash equivalents

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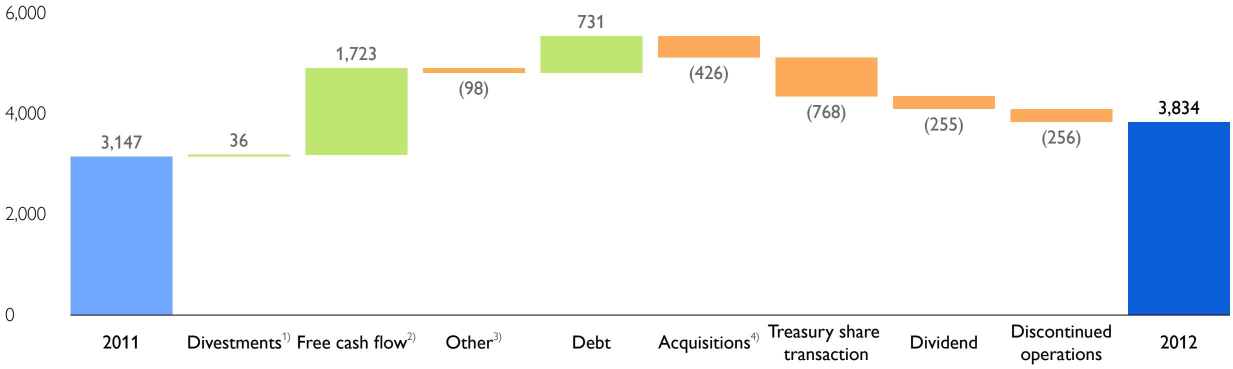
The year 2012

In 2012, cash and cash equivalents increased by EUR 687 million to EUR 3,834 million at year-end. The increase was mainly attributable to cash inflows from operations amounting to EUR 2,198 million and EUR 731 million from increases in debt. This was partly offset by a EUR 768 million outflow for treasury share transactions, an outflow on net capital expenditures of EUR 475 million, a EUR 426 million outflow for acquisitions of businesses and financial assets, a EUR 255 million outflow for the cash dividend payout, and a EUR 256 million outflow related to discontinued operations.

In 2011, cash and cash equivalents decreased by EUR 2,686 million to EUR 3,147 million at year-end. The decrease was mainly attributable to an outflow on net capital expenditures of EUR 872 million, a EUR 860 million decrease in debt, a EUR 671 million outflow for treasury share transactions, a EUR 552 million outflow for acquisitions of businesses and financial assets, and a EUR 259 million outflow for the cash dividend payout. This was partly offset by cash inflows from operations amounting to EUR 768 million, EUR 106 million in proceeds from divestments, including EUR 87 million from the sale of stakes.

**Cash balance movements**
in millions of euros




1) Includes proceeds from divestment of CL Speech Processing business
2) Please refer to chapter 15, Reconciliation of non-GAAP information, of this Annual Report
3) Includes cash inflow for derivatives, partly offset by unfavorable currency effect
4) Acquisitions of businesses and financial assets include the acquisitions of Indal and the venture with TPV

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Cash and cash equivalents - 2011

## 5.1.19 Debt position

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The year 2012

Total debt outstanding at the end of 2012 was EUR 4,534 million, compared with EUR 3,860 million at the end of 2011.

**Changes in debt**
in millions of euros

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| New borrowings | (212) | (454) | (1,361) |
| Repayments | 78 | 1,314 | 630 |
| Consolidation and currency effects | (257) | (62) | 57 |
| Total changes in debt | (391) | 798 | (674) |

In 2012, total debt increased by EUR 674 million. New borrowings of EUR 1,361 million included the issuance of USD 1.5 billion in bonds. Repayment of EUR 630 million included early redemption of a USD 500 million bond. Other changes resulting from consolidation and currency effects led to a decrease of EUR 57 million.

In 2011, total debt decreased by EUR 798 million. The repayment of EUR 1,314 million included redemptions of a EUR 750 million bond, a USD 350 million bond, and EUR 217 million repayment of short-term debt. New borrowing and finance leases amounted to EUR 454 million. Other changes resulting from consolidation and currency effects led to an increase of EUR 62 million.

Long-term debt as a proportion of the total debt stood at 82% at the end of 2012 with an average remaining term of 12.7 years, compared to 85% and 10.4 years at the end of 2011.

For further information, please refer to note 19, Long-term debt and short-term debt.

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Debt position - 2011

## 5.1.20 Net debt to group equity

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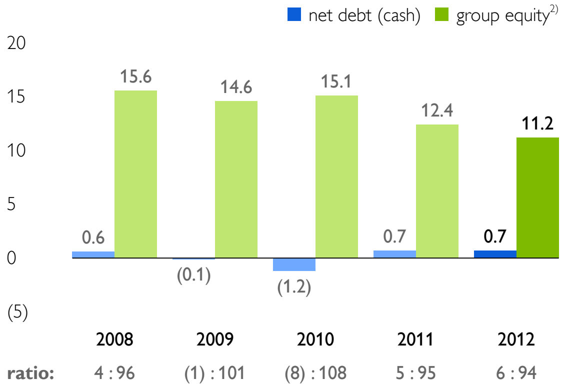
The year 2012

Philips ended 2012 in a net debt position (cash and cash equivalents, net of debt) of EUR 700 million, compared to a net debt position of EUR 713 million at the end of 2011.

**Net debt (cash) to group equity**[1]
in billions of euros




1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report
2) Shareholders' equity and non-controlling interests

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Net debt to group equity - 2011

## 5.1.21 Shareholders' equity

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The year 2012

Shareholders' equity decreased by EUR 1,176 million in 2012 to EUR 11,140 million at December 31, 2012. The decrease was mainly as a result of EUR 816 million related to the purchase of treasury shares and EUR 406 million losses related to pension plans, partially offset by EUR 231 million net income. The dividend payment to shareholders in 2012 reduced equity by EUR 259 million. The decrease was partially offset by a EUR 50 million increase related to the delivery of treasury shares and a EUR 84 million increase in share premium due to share-based compensation plans.

Shareholders' equity decreased by EUR 2,691 million in 2011 to EUR 12,316 million at December 31, 2011. The decrease was mainly as a result of a EUR 1,291 million net loss and EUR 447 million losses related to pension plans, as well as EUR 751 million related to the purchase of treasury shares. The dividend payment to shareholders in 2011 reduced equity by EUR 263 million. The decrease was partially offset by a EUR 46 million increase related to the delivery of treasury shares and a EUR 56 million increase in share premium due to share-based compensation plans.

The number of outstanding common shares of Royal Philips Electronics at December 31, 2012 was 915 million (2011: 926 million).

At the end of 2012, the Company held 28.7 million shares in treasury to cover the future delivery of shares (2011: 33.6 million shares). This was in connection with the 52.3

million rights outstanding at the end of 2012 (2011: 47.1 million rights) under the Company's long-term incentive plan and convertible personnel debentures. At the end of 2012, the Company held 13.8 million shares for cancellation (2011: 49.3 million shares).

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Shareholders' equity - 2011

## 5.1.22 Liquidity position

Including the Company's net debt (cash) position (cash and cash equivalents, net of debt), listed available-for-sale financial assets, as well as its EUR 1.8 billion committed revolving credit facility, the Company had access to net available liquid resources of EUR 1,220 million as of December 31, 2012, compared to EUR 2,597 million one year earlier.

**Liquidity position**
in millions of euros

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Cash and cash equivalents | 5,833 | 3,147 | 3,834 |
| Committed revolving credit facility/ CP program/Bilateral loan | 2,000 | 3,200 | 1,800 |
| Liquidity | 7,833 | 6,347 | 5,634 |
| Available-for-sale financial assets at fair value | 270 | 110 | 120 |
| Short-term debt | (1,840) | (582) | (809) |
| Long-term debt | (2,818) | (3,278) | (3,725) |
| Net available liquidity resources | 3,445 | 2,597 | 1,220 |

The fair value of the Company's available-for-sale financial assets amounted to EUR 120 million.

Philips has a EUR 1.8 billion committed revolving credit facility that can be used for general corporate purposes and as a backstop of its commercial paper program. In January 2013, the EUR 1.8 billion facility was extended by 2 years until February 18, 2018. The commercial paper program amounts to USD 2.5 billion, under which Philips can issue commercial paper up to 364 days in tenor, both in the US and in Europe, in any major freely convertible currency. There is a panel of banks, in Europe and in the US, which service the program. The interest is at market rates prevailing at the time of issuance of the commercial paper. There is no collateral requirement in the commercial paper program. Also, there are no limitations on Philips' use of the program. As at December 31, 2012, Philips did not have any loans outstanding under these facilities.

Philips' existing long-term debt is rated A3 (with negative outlook) by Moody's and A- (with negative outlook) by Standard & Poor's. It is Philips' objective to manage its financial ratios to be in line with an A3/A- rating. There is no assurance that Philips will be able to achieve this goal. Ratings are subject to change at any time. Outstanding long-term bonds and credit facilities do not have a repetitive material adverse change clause, financial covenants or credit-rating-related acceleration possibilities.

As at December 31, 2012, Philips had total cash and cash equivalents of EUR 3,834 million. Philips pools cash from subsidiaries to the extent legally and economically feasible. Cash not pooled remains available for local operational or investment needs. Philips had a total gross debt position of EUR 4,534 million at year-end 2012.

Philips believes its current working capital is sufficient to meet our present working capital requirements.

## 5.1.23 Cash obligations

### Contractual cash obligations

Presented below is a summary of the Group's contractual cash obligations and commitments at December 31, 2012.

**Contractual cash obligations at December 31, 2012**
in millions of euros [1)]

| | | payments due by period | | | |
|---|---|---|---|---|---|
| | total | less than 1 year | 1-3 years | 3-5 years | after 5 years |
| Long-term debt[2)] | 3,733 | 186 | 253 | 2 | 3,292 |
| Finance lease obligations | 298 | 73 | 97 | 40 | 88 |
| Short-term debt | 558 | 558 | – | – | – |
| Operating leases | 1,219 | 240 | 368 | 236 | 375 |
| Derivative liabilities | 544 | 138 | 143 | 138 | 125 |
| Interest on debt[3)] | 2,802 | 201 | 376 | 360 | 1,865 |
| Purchase obligations[4)] | 289 | 133 | 105 | 36 | 15 |
| Trade and other payables | 2,839 | 2,839 | – | – | – |
| | 12,282 | 4,368 | 1,342 | 812 | 5,760 |

1) Data in this table are undiscounted
2) Long-term debt includes short-term portion of long-term debt and excludes finance lease obligations
3) Approximately 28% of the debt bears interest at a floating rate. The majority of the interest payments on variable interest rate loans in the table above reflect market forward interest rates at the period end and these amounts may change as the market interest rate changes
4) Philips has commitments related to the ordinary course of business which in general relate to contracts and purchase order commitments for less than 12 months. In the table, only the commitments for multiple years are presented, including their short-term portion

Philips has no material commitments for capital expenditures.

Additionally, Philips has a number of commercial agreements, such as supply agreements, which provide that certain penalties may be charged to the Company if it does not fulfill its commitments.

Certain Philips suppliers factor their trade receivables from Philips with third parties through supplier finance arrangements. At December 31, 2012 approximately EUR 310 million of the Philips accounts payables were known to have been sold onward under such arrangements whereby Philips confirms invoices. Philips continues to recognize these liabilities as trade payables and will settle the liabilities in line with the original payment terms of the related invoices.

## Other cash commitments

The Company and its subsidiaries sponsor pension plans in many countries in accordance with legal requirements, customs and the local situation in the countries involved. Additionally, certain postretirement benefits are provided in certain countries. The Company is reviewing the funding of pension plans in the Netherlands, the US and UK. Refer to note 29, Pensions and other postretirement benefits for a discussion of the plans and expected cash outflows.

The Company had EUR 385 million restructuring-related provisions by the end of 2012, of which EUR 277 million is expected to result in cash outflows in 2013. Refer to note 20, Provisions for details of restructuring provisions and potential cash flow impact for 2012 and further.

A proposal will be submitted to the General Meeting of Shareholders to declare a distribution of EUR 0.75 per common share (up to EUR 685 million), in cash or shares at the option of the shareholder, against the net income for 2012 and the retained earnings of the Company. Further details will be given in the agenda for the General Meeting of Shareholders, to be held on May 3, 2013.

## Guarantees

Philips' policy is to provide guarantees and other letters of support only in writing. Philips does not provide other forms of support. At the end of 2012, the total fair value of guarantees recognized by Philips in other non-current liabilities amounted to less than EUR 1 million. The following table outlines the total outstanding off-balance sheet credit-related guarantees and business-related guarantees provided by Philips for the benefit of unconsolidated companies and third parties as at December 31, 2011 and 2012.

**Expiration per period**
in millions of euros

| | total amounts committed | less than 1 year | 1-5 years | after 5 years |
|---|---|---|---|---|
| 2012 | | | | |
| Business-related guarantees | 295 | 113 | 114 | 68 |
| Credit-related guarantees | 27 | 11 | – | 16 |
| | 322 | 124 | 114 | 84 |
| 2011 | | | | |
| Business-related guarantees | 297 | 99 | 126 | 72 |
| Credit-related guarantees | 39 | 22 | – | 17 |
| | 336 | 121 | 126 | 89 |

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# Supply management

# 5.2 Social performance

Our businesses provide innovative solutions that address major trends affecting the world – the demand for affordable healthcare, the need for greater energy efficiency and the desire for personal well-being.

In 2012, Philips maintained its focus on sustainability. This is rooted in our long-standing belief that sustainability is a key enabler of growth and offers opportunities to innovate our way out of the economic crisis. Therefore, sustainability is an integral part of Philips' vision and strategy.

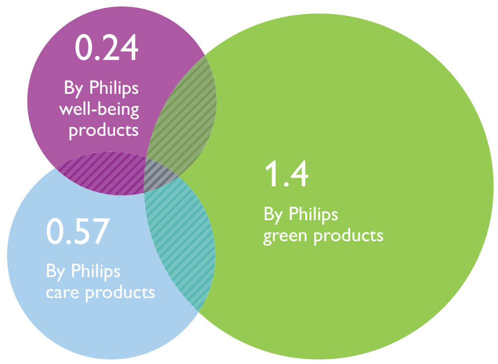
## 5.2.1 Improving people's lives

The creation of Philips products and solutions that directly support the curative or preventive side of people's health was one of the key objectives of our EcoVision5 program with a target of 500 million lives improved in 2015. By year-end 2012, we were already at a level of 570 million lives, driven by our Healthcare sector.

With the renewal of our company vision in 2012 we have extended this approach with our well-being products that help people live a healthy life, as well as our Green Products that contribute to a healthy ecosystem. Our goal is to improve the lives of 3 billion people a year by 2025. For the year 2012 we have established our total baseline at 1.7 billion people a year. More information on this metric can be found in chapter 14, Sustainability statements, of this Annual Report.

### Lives improved by Philips in 2012

1.7 (double counts eliminated)

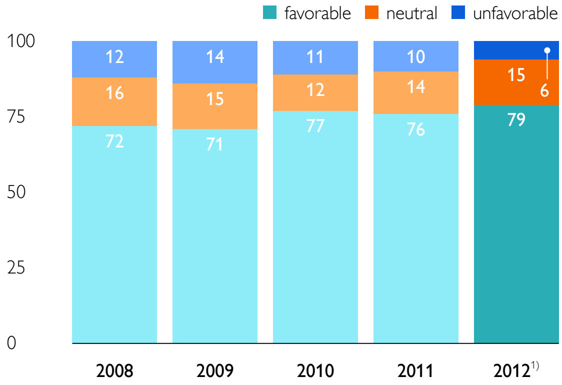



Double counts
Numbers in billions
Conceptual drawing, areas do not reflect actual proportions

## 5.2.2 Employee engagement

At Philips, we believe that employee engagement is an important measure that helps us to manage and develop our human capital and stimulate business growth through our people. Our 2011 Employee Engagement Survey (EES) showed that our overall engagement scores at Philips were in line with external high performance norms.

**Employee Engagement Index**
in %




[1] Based on 60 pulse surveys conducted in 2012

In 2012 we announced our intention to move from an annual measurement of EES data to a bi-annual basis to allow more time for teams to analyze results and enact improvement actions, as well as to create an opportunity to review the way we approach engagement. Through these measures, we hope to identify how we can improve the link between the high levels of employee engagement that we are achieving and improved business results.

We remain committed to creating a great place to work for our employees in line with our corporate vision. We will use the additional time before the next EES to drive existing action plans and, where applicable, begin new actions designed to improve employee engagement. Through our internal social media tool 'Connect Us' and an open SharePoint site we provide forums for managers and employees to share best practices and ask questions on the topic of engagement.

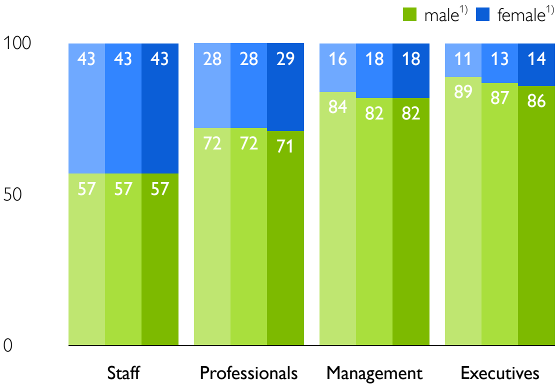
We also continue to use pulse surveys to measure engagement levels in certain teams such as new acquisitions or groups going through significant changes. While this does not provide a statistical comparison to the total organization results of the past, it does provide insight into progress being made for these teams. In 2012 we deployed over 60 pulse surveys touching nearly 2,000 employees. In previous years over 80% of the Philips employees participated in the EES.

In 2013 we will deploy our renewed approach to employee engagement with a focus on developing an engaging, high-performance work environment. Individual actions around engagement are crucial to drive our performance culture forward. This will help us to continue to create a working environment that inspires individuals and stimulates business growth.

## 5.2.3 Diversity and inclusion

During 2012, we continued to focus on increasing the opportunities for women and other under-represented groups throughout the organization, and on developing a diverse talent pipeline, as we truly believe that diversity enables us to better serve our customers. As a result, we made progress towards the diversity targets of Philips' executive population.

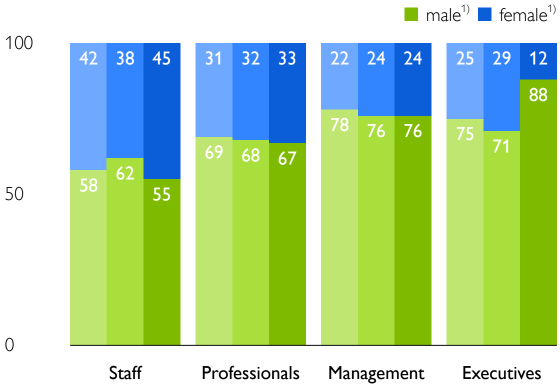
**Workforce diversity**
in %




[1] Left to right: 2010, 2011 and 2012

The share of female executives at the end of 2012 was 14%, which was 1% above 2011, but 1% below our 15% target for 2012. However, women made up 22% of all new executive promotions, a clear indication of the positive impact of the inclusive talent management approach that supports the development of diverse talents. While our 2012 gender diversity targets were not achieved, we have increased our efforts and are getting the right measures in place to drive change longer term, as evidenced by the one-third increase in the share of female executives over the last two years.

**New hire diversity**
in %



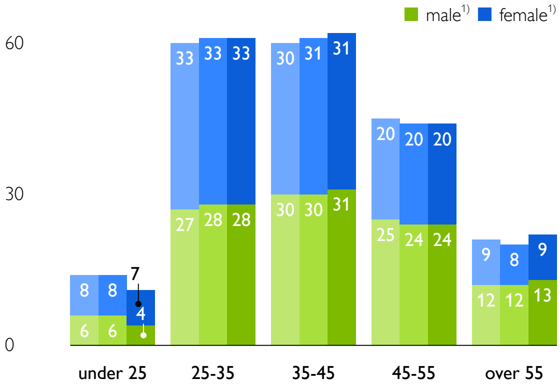

[1] Left to right: 2010, 2011 and 2012

In 2012, Philips employed 36% females, on par with 2011.

With the appointment of Deborah DiSanzo as CEO of Philips Healthcare, Philips now has two women on its Executive Committee. The nomination in 2012 of Neelam Dhawan, Managing Director of HP India, as the second female member of the Supervisory Board, also re-confirms the company's ongoing commitment to diversity.

In line with the growing importance of BRIC countries for Philips' business, the share of executives with Brazilian, Russian, Indian and Chinese nationality increased from 8% in 2011 to 9% in 2012, one percentage point below the 2012 target. Overall, the 535 Philips Executives represent 33 different nationalities.

**Employees per age category**
in %



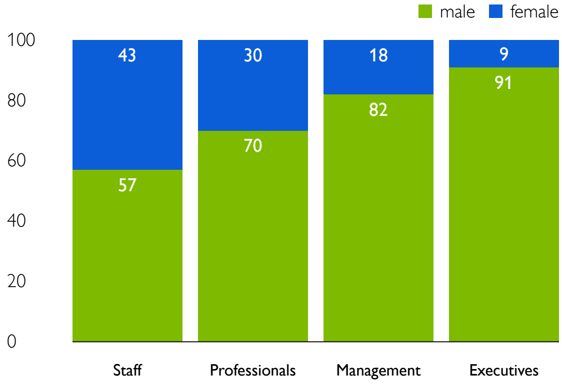

[1] Left to right: 2010, 2011 and 2012

In 2012, employee turnover amounted to 14%, an increase compared to 2011 caused by the various restructuring initiatives mainly at Lighting and IG&S.

**Employee turnover**
in %

| | 2011 | 2012 |
|---|---|---|
| Female | 13 | 14 |
| Male | 10 | 13 |
| Philips Group | 11 | 14 |

**Exit diversity**
in %




## 5.2.4 Employment

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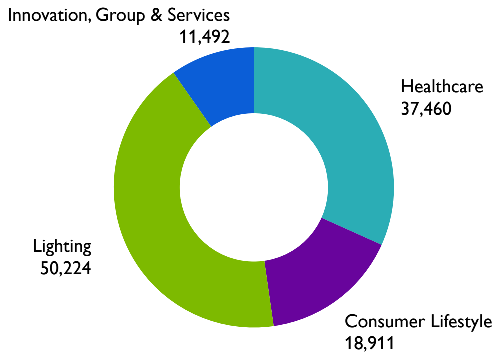
# The year 2012

The total number of Philips Group employees was 118,087 at the end of 2012, compared to 121,888 at the end of 2011. Approximately 42% were employed in the Lighting sector, due to the continued vertical integration in this business. Some 32% were employed in the Healthcare sector and approximately 16% in the Consumer Lifestyle sector.

**Employees per sector 2012**
in FTEs at year-end




Compared to 2011, the number of employees in continuing operations decreased by approximately 3,800. This decrease reflects a reduction of 3,686 employees, mainly related to the company's overhead reduction program, primarily at Lighting and IG&S. It also reflects the departure of 1,024 employees, mainly due to the industrial footprint reduction at Lighting, and the addition of 909 employees from acquisitions (mainly Indal).

Approximately 52% of the Philips workforce is located in mature geographies, and about 48% in growth geographies. In 2012, the number of employees in mature geographies decreased by 3,951, as the additional headcount from acquisitions was more than offset by reductions relating to the company's overhead reduction program and the industrial footprint reduction in Lighting. Growth geographies headcount increased by 150, primarily in the growth businesses in Consumer Lifestyle.

**Employees per sector**
in FTEs at year-end

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Healthcare | 36,253 | 37,955 | 37,460 |
| Consumer Lifestyle | 14,095 | 18,291 | 18,911 |
| Lighting | 53,888 | 53,168 | 50,224 |
| Innovation, Group & Services | 11,929 | 12,474 | 11,492 |
| Continuing operations | 116,165 | 121,888 | 118,087 |
| Discontinued operations | 3,610 | 3,353 | − |
| | 119,775 | 125,241 | 118,087 |

**Employees per geographic cluster**
in FTEs at year-end

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Western Europe | 33,557 | 33,515 | 31,562 |
| North America | 27,881 | 28,249 | 26,122 |
| Other mature geographies | 3,045 | 3,234 | 3,363 |
| Total mature geographies | 64,483 | 64,998 | 61,047 |
| Growth geographies | 51,682 | 56,890 | 57,040 |
| Continuing operations | 116,165 | 121,888 | 118,087 |
| Discontinued operations | 3,610 | 3,353 | − |
| | 119,775 | 125,241 | 118,087 |

**Employment**
in FTEs

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Position at beginning of year | 116,153 | 119,775 | 125,241 |
| Consolidation changes: | | | |
| acquisitions | 1,457 | 4,759 | 909 |
| divestments | (307) | (479) | (1,024) |
| comparable changes | 3,626 | 1,443 | (3,686) |
| Divestment and other changes in discontinued operations | (1,154) | (257) | (3,353) |
| Position at year-end | 119,775 | 125,241 | 118,087 |
| of which: | | | |
| continuing operations | 116,165 | 121,888 | 118,087 |
| discontinued operations | 3,610 | 3,353 | – |

*Content you didn't download*
Employment - 2011

## 5.2.5 Developing our people

With 2012 being a year of focus on all learning methodologies, including classroom, coaching, mobile learning and on-the-job experience, we recorded over 43,000 enrollments in personal effectiveness and leadership programs available through the Learning Portal, an increase compared to 39,500 in 2011. Some 5,500 employees participated in personal effectiveness workshops delivered across the world by Philips accredited internal facilitators.

Enrollment in functional curricula programs, including Marketing, Finance, IT, Sales, HR, Procurement and Innovation, decreased slightly to 24,000 compared to 25,000 in 2011. Many functional curricula are tied to mandatory learning plans designed to increase our organizational capability. In 2012, we also introduced local market programs with specific training modules for our staff in various geographies, including China, India, Africa and Russia, for which there have been some 13,500 enrollments to date.

number of enrollments

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Core Curriculum programs | 10,000 | 5,500 | 20,000 | 39,500 | 43,000 |

In 2012, we also introduced a new service – getAbstract – a comprehensive library of compressed knowledge including over 7,000 relevant business book summaries from leading business authors. getAbstract releases over 50 abstracts each month, ensuring fresh content is always available for users. With the service successfully launched in May 2012 we registered 86,000 downloaded book summaries, in the form of PDF, downloaded to mobile devices or MP3.

The Octagon program concluded in 2012 involved 31 participants who completed eight business projects sponsored by senior business leaders targeting growth geographies, the US and South Africa.

The Accelerate! Leadership Program (ALP) was conducted for over 700 leaders from 40 teams to further embed the Accelerate! mindset and behaviors and develop high performance teams. The Accelerate! Team Performance (ATP) Facilitator Development program, launched in Q3, trained 120 business and HR leaders across Asia, Europe and North America to conduct ATPs and embed cultural modules to increase team effectiveness.

As 2012 was a year of continued focus on leadership development in our key emerging markets, we introduced new programs supporting fast growth in those geographies. The 'Strategic Thinking and Business Model Creation' program run in both Africa and India, contributed to local strategic capability building and commencing developing a granular approach to the next series of strategy initiatives. The 'China Leadership Accelerate Program', focusing on stimulating innovative thinking and promoting an entrepreneurial culture with customer-centric mindsets, prepared its 29 participants for future general management roles. Designed in collaboration with the leading Indian School of Business, the 'ALTIUS Leadership Development Program' ran in India with the objective to prepare leaders to take up future business leadership roles across geographies and cultural boundaries.

### Other programs

In the Netherlands, we have for many years played a pioneering role with our national Vocational Qualification Program (CV) and the Philips Employment Scheme (WGP). The CV project has been running since 2004 and targets employees who know their trade well, but do not have a diploma to prove it. CV provides a solution by awarding these people a recognized qualification. To date, more than 1,750 participants have obtained a qualification that will help them in their future careers.

Via WGP, we offer vulnerable groups of external jobseekers work experience placement, usually combined with some kind of training. Between 2010 and 2012, for example, we trained 10 autistic persons to become (junior) test engineers. As a result, seven found their next job, one proceeded with a mathematics study, and the last two are applying for jobs. In November 2012, after a four month preparation period, Philips started with the next group of nine autistic persons.

### 5.2.6 Health and Safety

Philips strives for an injury-free and illness-free work environment, with a sharp focus on decreasing the number of injuries. This is defined as a KPI, on which we set yearly targets for the company and our individual sectors.

We regret to report seven fatalities in 2012, of which two were related to a traffic accident in India when two service engineers were returning from a customer visit, one was related to a safety accident in China, and one to a traffic accident whilst commuting in China. One Philips employee passed away after a traffic accident in the Netherlands whilst commuting. In Pakistan, a Philips employee died after a traffic accident on his way to a customer. Lastly, during an environmental audit in Indonesia, a government official suffered cardiac arrest and passed away.

In 2012, we recorded 345 Lost Workday Injuries cases, i.e. occupational injury cases where the injured person is unable to work the day after the injury. This is a significant decrease compared with 2011. The number of Lost Workdays caused by these injuries amounted to 12,630 days. The rate of Lost Workday Injuries decreased to 0.31 per 100 FTEs compared with 0.38 in 2011.

**Lost Workday Injuries**
per 100 FTEs

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Healthcare | 0.27 | 0.20 | 0.25 | 0.20 | 0.22 |
| Consumer Lifestyle | 0.44 | 0.26 | 0.26 | 0.23 | 0.25 |
| Lighting | 1.17 | 0.76 | 0.80 | 0.64 | 0.45 |
| Innovation, Group & Services | 0.12 | 0.07 | 0.13 | 0.04 | 0.05 |
| Philips Group | 0.68 | 0.44 | 0.50 | 0.38 | 0.31 |

Healthcare and CL showed an increase in the Lost Workday Injury rate, Lighting recorded a decrease. However, the number of Lost Workday Injury cases at CL and Lighting decreased. At Lighting, a dedicated action program, Safety First, was launched five years ago to drive down injury levels. In 2012, various regional Health & Safety improvement programs were started as well as peer audit programs. Next, we updated our Health & Safety (H&S) policy and further deployed the H&S manual to all sites to help them structurally improve the H&S culture and implemented a monthly reporting process. Safety is fully integrated in the Lean Program.

A number of sites have been recognized for their outstanding safety performance, for example: Philips AVENT, the manufacturing center for Philips parenting and baby products in the UK, has won the Bronze RoSPA safety award. Philips Home Healthcare Solutions in the Philippines won the Best in Rescue and Transfer Relay Award in the Philippines National Industrial Fire Brigade Competition. Philips Lighting Flight Forum has been recognized as the safest warehouse in the Netherlands and Philips Lighting Yizheng won the Guangzhou Green Star Award.

### 5.2.7 General Business Principles

The Philips General Business Principles (GBP) govern Philips' business decisions and actions throughout the world, applying equally to corporate actions and the behavior of individual employees. They incorporate the fundamental principles within Philips for doing business.

The GBP are available in most of the local languages and are an integral part of the labor contracts in virtually all countries where Philips has business activities. Responsibility for compliance with the principles rests primarily with the management of each business. Every country organization and each main production site has a compliance officer. Confirmation of compliance with the GBP is an integral part of the annual Statement on Business Controls that has to be issued by the management of each business unit. The GBP incorporate a whistleblower policy, standardized complaint reporting and a formal escalation procedure.

The global implementation of the One Philips Ethics hotline seeks to ensure that alleged violations are registered and dealt with consistently within one company-wide system.

To drive the practical deployment of the GBP, a set of directives has been published, which are applicable to all employees. There are also separate directives which apply to specific categories of employees, e.g. the Supply Management Code of Ethics and Financial Code of Ethics. Details can be found at www.philips.com/gbp.

**Ongoing training**

The mandatory web-based GBP training, which is designed to reinforce awareness of the need for compliance with the GBP, is available in 23 languages.

More information on the Philips GBP can be found in chapter 7, Risk management, of this Annual Report. Results of the monitoring in place are provided in the chapter 14, Sustainability statements, of this Annual Report.

## 5.2.8 Social Investment Programs

As part of our drive to improve the health and well-being of people around the world, our focus on encouraging the next generation to embrace healthy and active lifestyles continued in 2012 with the further expansion and localization of our SimplyHealthy@Schools program. Working together with local schools, communities and non-profit organizations, nearly 1,400 volunteers traveled to over 230 schools in 33 countries, teaching lessons about healthy living and environmental sustainability to over 24,000 children worldwide. In addition, working together with the Singapore Nutrition and Dietetics Association, we rolled out a new and interactive Nutrition module that has helped children all the way from Malaysia to Pakistan understand the importance of a healthy breakfast.

In the United States, the Philips Cares program is a way for employees to support projects that create healthy, sustainable communities that contribute to the success and well-being of future generations. In 2012 alone, some 4,800 employees participated in volunteer opportunities that suited their needs, schedules, and passions. It is through Philips Cares and our charitable partnerships with organizations such as the American Heart Association and the American Red Cross, that Philips and its employees are able to improve the quality of life in their communities today and for tomorrow.

At the end of 2012 we also signed a three year partnership agreement with the Royal Dutch Football Association (KNVB) to support their WorldCoaches program by installing more than 100 solar lighting 'Light Centers' in rural communities throughout Africa and South America. Working together with local communities and the KNVB, the Light Centers will provide safe and functional space for sports and other community activities once the sun goes down.

## 5.2.9 Stakeholder engagement

Across all our activities we seek to engage stakeholders to gain their feedback on specific areas of our business. Working in partnerships is crucial in delivering on our vision to make the world healthier and more sustainable through innovation. An overview of stakeholders is provided in chapter 14, Sustainability statements, of this Annual Report.

**The Philips Center for Health and Well-being**

The Philips Center for Health and Well-being is a knowledge-sharing forum that provides a focal point to raise the level of discussion on what matters most to citizens and communities. The Center brings together experts for dialogue and debate aimed at overcoming barriers and identifying possible solutions and meaningful innovations that can improve people's lives. It also facilitates research on a range of health and well-being topics.

Philips seeks to address key societal issues by developing solutions relating to Healthcare & Aging, Urbanization and Access to Energy. The Center was launched in December 2009 and amongst others brings together teams of multidisciplinary experts from all over the world to discuss and debate Aging Well, Livable Cities and Mother and Childcare. Participants include NGOs and Academia, such as European Patient Forum, ISOCARP, Harvard School of Public Health, Keio University Tokyo and global experts on each of the respective subjects.

For more information on the work of the Center, go to www.philips-thecenter.org.

**Working on global issues**

In 2012, Philips participated in two major UN conferences. In June, we contributed to the UN Rio+20 'sustainable development' conference in Rio de Janeiro, where we shared the triple benefits offered by sustainable solutions, with an emphasis on LED lighting. At Rio+20 The Climate Group launched a report 'Lighting the Clean Revolution, the rise of LED lighting and what it means for cities'. In December we participated in the United Nations Climate Change Conference in Doha, Qatar. We partnered with other leading industry players, governmental organizations, NGOs and several UN entities. We commissioned a report by Ecofys that highlighted the real economics of energy efficiency, called 'The benefits of energy efficiency: why wait?'. The report highlights the relevance and potential of energy efficiency to slash energy bills, reduce public budget deficits, reduce greenhouse gas emissions and stimulate job creation, and will be used further in public stakeholder engagements.

In November 2012, we organized the Philips Innovation Experience which was attended by some 1,500 journalists, customers, scientists, partners and employees. This year's theme was 'Rethinking solutions for tomorrow's society' and demonstrated Philips drive for sustainable innovation to address global challenges like population growth and urbanization, aging population and rising healthcare costs, and growing demands for energy and water and food scarcity.

We firmly believe that these global challenges can only be addressed through Open Innovation and constructive dialogue with all stakeholders involved.

## 5.2.10 Supplier sustainability

More and more, our products are being created and manufactured in close cooperation with a wide range of business partners, both in the electronics industry and other industries. Philips needs suppliers to share our commitment to sustainability, and not just in the development and manufacturing of products but also in the way they conduct their business. We require suppliers to provide a safe working environment for their workers, to treat workers with respect, and to work in an environmentally sound way. Our programs are designed to engage and support our suppliers on a shared journey towards continuous improvement in supply chain sustainability.

As a leading company in sustainability, Philips will act as a catalyst and support our suppliers in their pursuit of continuous improvement of social and environmental performance. We recognize that this is a huge challenge requiring an industry-wide effort in collaboration with other societal stakeholders. Therefore, we remain active, together with peers in the industry, in the Electronic Industry Citizenship Coalition (EICC) and encourage our strategic suppliers to join the EICC too. We will also continue to seek active cooperation and dialogue with other societal stakeholders including governments and civil society organizations, either directly or through institutions like the EICC, the multi-stakeholder program of the Sustainable Trade Initiative IDH, and the OECD.

**Supplier Sustainability Involvement Program**

The Philips Supplier Sustainability Involvement Program is our overarching program to help improve the sustainability performance of our suppliers. We create commitment from our suppliers by requiring them to comply with our Regulated Substances List and the Philips Supplier Sustainability Declaration, which we include in all purchasing contracts. The Declaration is based on the EICC code of conduct and we added requirements on Freedom of Association and Collective Bargaining. The topics covered in the Declaration are listed below.

**Labor**
- Freely Chosen Employment
- Child Labor Avoidance
- Working Hours
- Wages and Benefits
- Humane Treatment
- Non-Discrimination
- Freedom of Association

**Health and Safety**
- Occupational Safety
- Emergency Preparedness
- Occupational Injury and Illness
- Industrial Hygiene
- Physically Demanding Work
- Machine Safeguarding
- Sanitation, Food, and Housing

**Environmental**
- Environmental Permits and Reporting
- Pollution Prevention and Resource Reduction
- Hazardous Substances
- Wastewater and Solid Waste
- Air Emissions
- Product Content Restrictions

**Ethics**
- Business Integrity
- No Improper Advantage
- Disclosure of Information
- Intellectual Property
- Fair Business, Advertising and Competition
- Protection of Identity
- Responsible Sourcing of Minerals
- Privacy
- Non-Retaliation

**Management system**
- Company Commitment
- Risk Assessment and Risk Management
- Management Accountability and Responsibility
- Improvement Objectives
- Legal and Customer Requirements
- Training
- Communication
- Corrective Action Process
- Worker Feedback and Participation
- Documentation and Records
- Audits and Assessments
- Supplier Responsibility

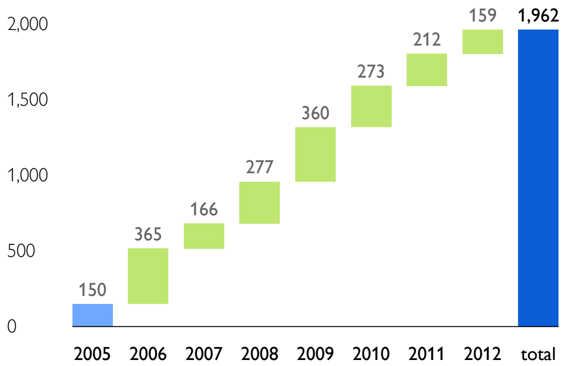
We monitor supplier compliance with the Declaration through a system of regular audits.

**2012 supplier audits in risk countries**

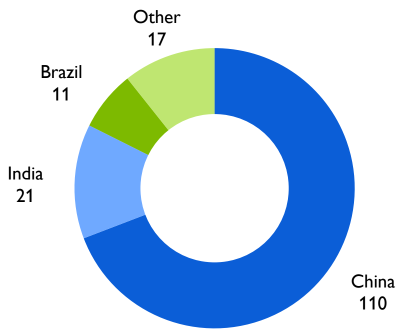
Philips conducted 159 full-scope audits in 2012, including four joint audits conducted on behalf of Philips and other EICC member companies. On top of this, 65 audits of potential suppliers were performed. Potential suppliers are audited as part of the supplier approval process, and they need to close any zero-tolerance issues before they can start delivering to Philips. The number of audits done this year is lower due to new audit criteria introduced in 2011, which place more focus on capacity building programs to realize structural improvements.

As in previous years, the majority of the audits in 2012 were done in China. The total number of full-scope audits carried out since we started the program in 2005 is now close to 2,000. This number includes repeated audits, since we execute a full-scope audit at our risk suppliers every three years. The audit program covers 90% of our active risk supplier base. Most of the audits done in 2012 were continued-conformance audits, because the majority of our risk suppliers had already undergone an audit in the past.

**Accumulative number of initial and continual conformance audits**




**Distribution of supplier audits by country**




**Audit findings**

We believe it is important to be transparent about the issues we observe during the audits. Therefore we have published a detailed list of identified major non-compliances in our Annual Report since 2010. To track improvements, Philips measures the 'compliance rate' for the identified risk suppliers, i.e. the percentage of risk suppliers that were recently audited and had resolved all major non-compliances. During 2012 we achieved a compliance rate of 75% (2011: 72%).

Please refer to section 14.5, Supplier indicators, of this Annual Report for the detailed findings of 2012.

**Supplier development and capacity building**

Based on many years of experience with the audit program, we know that a combination of audits, capacity building, consequence management and continuous attention from management is crucial to realize structural and lasting changes at supplier production sites. During 2012 we extended our capacity-building initiatives, which are offered to help suppliers improve their practices. Our supplier sustainability experts in China, India and Brazil organized classroom trainings, regularly visited suppliers for on-site consultancy on specific topics, and helped suppliers to train their own workers on topics like occupational health and safety.

We also teamed up with industry peers, non-governmental organizations and a trade union to work on capacity building at Chinese factories via the IDH Electronics Program. This program was kicked off in 2011 and is an innovative multi-stakeholder initiative sponsored by the Sustainable Trade Initiative (IDH) together with Dell, HP, Philips and civil society organizations. The goal is to improve working conditions for more than 500,000 employees in the electronics sector. In 2012 we continued the implementation phase in China's Pearl River Delta and a total of eight Philips suppliers are now involved in the program.

## 5.2.11 Conflict minerals: issues further down the chain

Philips is concerned about the situation in the east of the Democratic Republic of the Congo (DRC) where proceeds from the extractives sector are used to finance rebel conflicts in the region. Philips is committed to address this issue through the means and influencing mechanisms available to us, even though we do not directly source minerals from the DRC and mines are typically seven or more tiers removed from our direct suppliers.

During 2012 we worked with 347 priority suppliers to raise awareness and start supply chain investigations to determine the origin of the metals in our products. This resulted in the identification of 127 smelters in our supply chain that were used to process these metals. We encourage all smelters in our supply chain to participate in the EICC-GeSI Conflict Free Smelter program. By publishing this smelter list we have created transparency at deeper levels in our supply chain regarding those actors that we believe hold the key to effectively addressing the concerns around conflict minerals.

In September 2012 the Conflict-Free Tin Initiative was launched, introducing a tightly controlled conflict-free supply chain of tin from a mine in Congo all the way down to an end-product. Philips is one of the industry partners brought together by the Dutch government that initiated this conflict-free sourcing program in eastern DRC. Although this region has a rich supply of minerals, its economy has collapsed due to decades of conflict. In an effort to prevent minerals from being used to finance war, and in response to the US Dodd-Frank Act obligations, many companies worldwide have shied away from purchasing minerals from the DRC, creating a de facto embargo and a collapse of the local economy. Philips, believes that this provides opportunities to positively engage in the DRC and invest in legitimate minerals trade. Therefore, we helped launch the Conflict-Free Tin initiative to catalyze economic growth in the region outside the control of the rebels. In October 2012 an important milestone was reached when the first bags of tagged minerals left the mine. The first end-user products containing this conflict-free tin are expected mid-2013.

We believe that industry collaboration and stakeholder dialogue are important to create impact at deeper levels of our supply chain. Therefore, Philips continued its active contribution to the Extractives Work Group, a joint effort of the EICC and GeSI to positively influence the social and environmental conditions in the metals extractives supply chain. To assist in developing a due diligence standard for conflict minerals, we participated in the multi-stakeholder OECD-hosted pilot for the implementation of the 'OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas'. We also continued our engagement with relevant stakeholders including the European Parliament, other industry organizations and local as well as international NGOs in Europe and the US to see how we can resolve the issue.

For more details and result of our supplier sustainability program, please refer to section 14.5, Supplier indicators, of this Annual Report.

# 5.3 Environmental performance

## EcoVision

Philips has a long sustainability history stretching all the way back to our founding fathers. In 1994 we launched our first program and set sustainability targets for our own operations. In 1998, we launched our first EcoVision program focused on operations and products. We also started to focus on sustainability in our supply chain in 2003. In 2010 we extended our scope further by including the social dimension of products and solutions, which is now reflected in our renewed company vision stating that we strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025.

The main elements of the EcoVision program are:

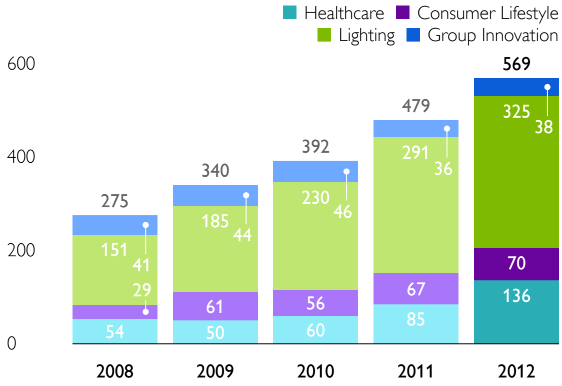
- Green Product sales
- Improving people's lives
- Green Innovation
- Green Operations
- Health & Safety
- Employee Engagement
- Supplier Sustainability

In this environmental performance section an overview is given of the most important environmental parameters of the program. Improving people's lives, Health & Safety, Employee Engagement and Supplier Sustainability are addressed in the Social performance section. Details of the EcoVision parameters can be found in the chapter 14, Sustainability statements, of this Annual Report.

## 5.3.1 Green Innovation

Green Innovation is the Research & Development spend related to the development of new generations of Green Products and Green Technologies. In 2010 we announced plans to invest a cumulative EUR 2 billion in Green Innovation during the coming 5 years. Philips invested some EUR 570 million in Green Innovation in 2012, with the strongest contribution from Lighting.

**Green Innovation per sector**
in millions of euros




### Energy efficiency of products

Energy efficiency is a key Green Focal Area for our Green Products. Our analysis has shown that about 97% of the energy consumed during the use phase of our products is attributable to Lighting products. The remaining 3% is split over Consumer Lifestyle and Healthcare. Therefore, we focus on the energy efficiency of our Lighting products in the calculation. The annual energy consumption per product category is calculated by multiplying the power consumption of a product by the average annual operating hours and the annual pieces sold and then dividing the light output (lumens) by the energy consumed (watts). The average energy efficiency of our total product portfolio improved some 7% in 2012 (17% compared to 2009).

Although LED sales advanced well, demand for conventional lighting remained fairly stable due to the challenging economic environment. Since the number of traditional lamps sold is significantly higher than LEDs, the energy efficiency improvement of the total Lighting portfolio in 2012 was limited. Our target for 2015 is a 50% improvement compared to the 2009 baseline. Further details on this parameter and the methodology can be found in the document 'Energy efficiency of Philips products' at www.philips.com/sustainability.

### Closing the material loop

In 2010 we calculated the 2009 baseline for global collection and recycling amounts at around 37,000 tonnes (excluding TV), based on the data retrieved from the WEEE collection schemes and from our own recycling and refurbishment services (mainly Healthcare). The amount of collection and recycling for 2011 (reported in 2012) was calculated at 43,000 tonnes as we noted an increase in recycled Lighting products.

We calculated the amount of recycled materials in our products in 2012 at some 12,000 tonnes (2011: 10,000 tonnes), by focusing on the material streams plastics, aluminum and refurbished products, depending on the relevance in each sector.

Our target is to double the global collection and recycling and the amount of recycled materials in our products by 2015 compared to 2009. Further details on this parameter and the methodology can be found in the document 'Closing the material loop' at www.philips.com/sustainability.

### Healthcare

Philips Healthcare develops innovative solutions across the continuum of care in partnership with clinicians and customers to improve patient outcomes, provide better value, and expand access to care. While doing so, we take into account all Green Focal Areas and aim to reduce environmental impact over the total lifecycle. Healthcare investments in Green Innovation in 2012 amounted to EUR 136 million with a focus on energy efficiency and dose reduction. Other areas covered include increased levels of recycled content in our products and closing the materials loop, e.g. through upgrading strategies, parts harvesting and refurbishing programs as well as reducing environmentally relevant substances from our products. The investments reflect the increasing interest that we see in societies across the globe for green hospitals and reduced environmental impact of healthcare. Philips Healthcare actively supports a voluntary industry initiative for improving the energy efficiency of imaging equipment. Moreover, solutions are being developed to support hospitals in identifying and realizing energy efficiency opportunities in their operations.

### Consumer Lifestyle

Green Innovation at Consumer Lifestyle amounted to EUR 70 million. The sector continued its work on improving the energy efficiency of its products, closing the materials loop (e.g. by using recycled materials in products and packaging) and the voluntarily phase-out of polyvinyl chloride (PVC), brominated flame retardants (BFR) and Bisphenol A (BPA) from food contact products. In particular, the Personal Care business launched many products which are completely PVC/BFR-free. Overall this has resulted in an increase in Green Product sales at the Personal Care, Domestic Appliances, Health & Wellness and Coffee businesses.

### Lighting

At Lighting, we strive to make the world healthier and more sustainable through energy-efficient lighting solutions. In 2012 Lighting invested EUR 325 million to develop products and solutions that address environmental and social challenges. Investments are made to advance the LED revolution, which can substantially reduce carbon dioxide emissions (by switching from inefficient to energy-efficient lighting). Furthermore, Lighting has developed solutions for water purification, solar LEDs for rural and urban locations, and LED solutions for agricultural applications supporting biodiversity.

**Philips Group Innovation**

Philips Group Innovation invested EUR 38 million in Green Innovations, spread over projects focused on global challenges related to water, air, waste, and energy. Group Innovation deployed the EcoVision portfolio mapping tool in which innovation projects are mapped along the environmental and social dimension to further drive sustainable innovation. One example of a Group Innovation project is related to LED light recipes. Population growth and urbanization is putting a lot of pressure on the planet's ecological system (water, nutrients, fertilizers, herbicides, and pesticides). There is a variety of potential solutions and initiatives ongoing to fundamentally change the way food is produced, transported and monitored. We contributed through, for example, innovations on LED light recipes in greenhouses, city farm initiatives, light recipes to enhance plant resistance to disease, and lighting to increase nutritious value and shelf life in supermarkets.

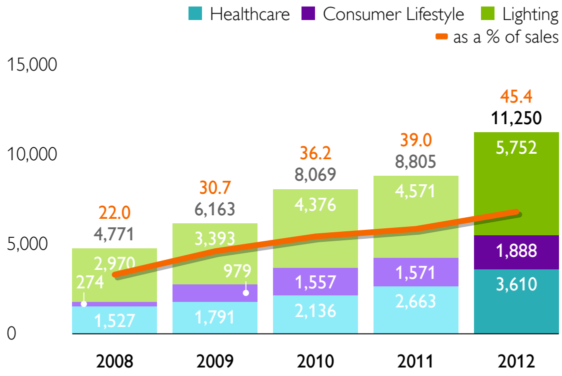
## 5.3.2 Green Product sales

In 2012, sales from Green Products increased from EUR 8.8 billion in 2011 to EUR 11.3 billion, or 45% of sales, on track to reach the target of 50% in 2015.

All sectors contributed to the growth in Green Product sales. Healthcare achieved the highest Green Product nominal sales growth (36%), followed by Lighting (26%) and Consumer Lifestyle (20%).

The Philips EcoDesign process aims to create products that have significantly less impact on the environment during their whole lifecycle. Overall, the most significant improvements have been realized in our energy efficiency Green Focal Area, an important objective of our EcoVision program, although there was also growing attention for recyclability and hazardous substances in all sectors in 2012.

**Green Product sales per sector**
in millions of euros




New Green Products from each sector include the following examples.

**Healthcare**

During 2012, Healthcare expanded the Green Product portfolio with 16 new products to improve patient outcomes, provide better value, and expand access to care, while reducing environmental impact. All Business Groups in the sector contributed to the increase. Imaging Systems continued to expand the fleet of CT systems with dose reduction and MRI systems with PowerSave, an energy efficient feature. Philips MRI has been recognized by COCIR as the front runner in the industry for energy efficient MRI. In addition, Ultrasound and CT systems with lower weight and energy usage were released. Green Innovations from Patient Care & Clinical Informatics include the HeartStart FR3 Defibrillator which has eliminated a number of environmentally relevant substances and is 25% lighter in weight than its predecessor. At Home Healthcare Solutions, the sleep therapy products REMStar and BIPAP A30 have considerably lower energy use and packaging weight than their predecessor.

**Consumer Lifestyle**

Consumer Lifestyle has always focused strongly on energy management and the avoidance of substances of concern in products, in addition to their efforts to close the materials loop. The sector continued with the introduction of products free of polyvinyl chloride (PVC) and brominated flame retardants (BFR). In 2012, Consumer Lifestyle introduced the Home Cooker, an appliance that not only provides an extra pair of hands in the kitchen and helps to easily create a homemade meal, but is able to do so while consuming less energy than conventional cooking.

**Lighting**

In 2012 Philips introduced the next generation shop accent lighting, namely CDM Evolution. The Evolution lamp is 10% more-energy efficient than its predecessor (CDM Elite). A Philips MASTERColour Evolution lamp is now on average 30% more energy-efficient than a CDM standard lamp introduced in 1994, and 10-20% more energy-efficient that the average competition. The Evolution lamp is also much longer-lasting. In the past average lifetime was around 12,000 hours. The Evolution range extends lifetime beyond 20,000 hours, almost halving the need for lamp replacement and therefore helping to reduce waste levels.

## 5.3.3 Green Operations

The Green Operations program focuses on the main contributors to climate change, recycling of waste, reduction of water consumption and reduction of emissions of restricted and hazardous substances.

Full details, can be found in chapter 14, Sustainability statements, of this Annual Report.

**Carbon footprint and energy efficiency**

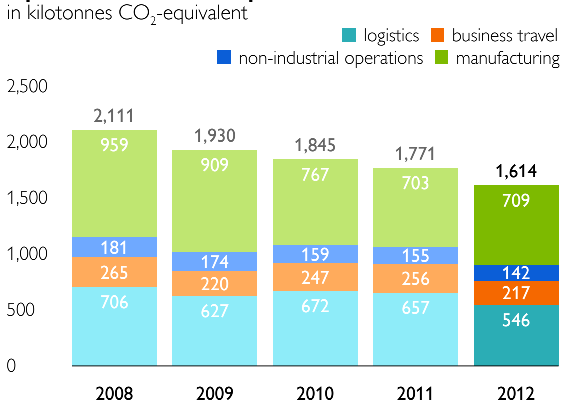
In 2012, we achieved our EcoVision4 carbon reduction target as our operational $CO_2$ emissions decreased 25% compared to 2007, the baseline year. We were able to achieve this significant reduction for a number of reasons, including our ongoing energy efficiency improvement program, Green logistics, our changing industrial footprint, and the increase in purchased electricity from renewable sources. These were, however, partly offset by increased $CO_2$ emissions from manufacturing (+1% compared to 2011), due to a significant increase in reporting sites (acquisitions).

In 2012, $CO_2$ emissions from non-industrial sites decreased 9%, partly because of our continued focus on the most efficient use of facility space, for instance with our Work Place Innovation program (which enables flex-working), but also due to the increased share of purchased electricity from renewable sources.

Due to a stringent travel policy, total emissions from business travel decreased 15% in 2012. We continue to promote video conferencing as an alternative to travel; as a result air travel is down 24%, saving a total of 38 kilotonnes $CO_2$ emissions. In 2012, logistics $CO_2$ emissions decreased 17%, because of the exclusion of the logistic movements related to the TV business, our continued focus on efficient container utilization, reduced mileage in road freight, and the shift from air to sea freight, which is cleaner and more cost-effective.

Our operational energy efficiency improved 7%, from 1.24 terajoules per million euro sales in 2011 to 1.15 terajoules per million euro sales in 2012 as a result of a lower carbon footprint and higher sales.

**Operational carbon footprint**
in kilotonnes $CO_2$-equivalent




**Ratios relating to carbon emissions and energy use**

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Operational $CO_2$ emissions in kilotonnes $CO_2$-equivalent | 2,111 | 1,930 | 1,845 | 1,771 | 1,614 |
| Operational $CO_2$ efficiency in tonnes $CO_2$-equivalent per million euro sales | 80 | 83 | 73 | 70 | 65 |
| Operational energy use in terajoules | 33,831 | 31,145 | 32,766 | 31,402 | 28,405 |
| Operational energy efficiency in terajoules per million euro sales | 1.28 | 1.34 | 1.29 | 1.24 | 1.15 |

**Operational carbon footprint by Greenhouse Gas Protocol scopes**
in kilotonnes $CO_2$-equivalent

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Scope 1 | 467 | 447 | 441 | 431 | 443 |
| Scope 2 | 673 | 636 | 485 | 427 | 409 |
| Scope 3 | 971 | 847 | 919 | 913 | 762 |
| Philips Group | 2,111 | 1,930 | 1,845 | 1,771 | 1,614 |

**Water**

Total water intake in 2012 was 4.9 million $m^3$, about 12% higher than in 2011. This increase was mainly due to new acquisitions that started to report in 2012, which accounted for 11% of group water consumption in 2012 as well as increased water use at Lighting Lumileds sites. At Consumer Lifestyle the total water consumption went down by 10%, partially due to the divestment of Television activities.

Lighting represents around 85% of total water usage. In this sector, water is used in manufacturing as well as for domestic purpose. The other sectors use water mainly for domestic purposes.

**Water intake**
in thousands $m^3$

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Healthcare | 370 | 363 | 256 | 308 | 421 |
| Consumer Lifestyle | 452 | 315 | 351 | 338 | 303 |
| Lighting | 3,168 | 3,531 | 3,604 | 3,682 | 4,133 |
| Innovation, Group & Services | 6 | 7 | 7 | − | − |
| Philips Group | 3,996 | 4,216 | 4,218 | 4,328 | 4,857 |

In 2012, 80% of water was purchased and 20% was extracted from groundwater wells.

### Waste

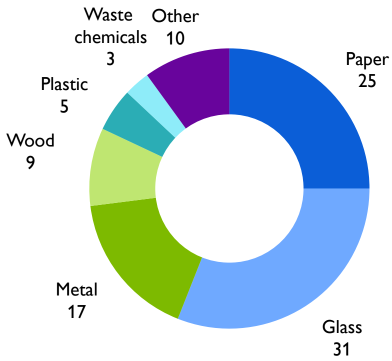
Total waste decreased 7% to 88 kilotonnes in 2012 from 94 kilotonnes in 2011. Lighting (74%) and Consumer Lifestyle (14%) account for 88% of our total waste. The reduction was due to the divestment of the Televsion activities and organizational changes in all sectors.

**Total waste**
in kilotonnes

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Healthcare | 8.2 | 8.2 | 11.2 | 9.3 | 10.4 |
| Consumer Lifestyle | 28.0 | 20.1 | 23.2 | 19.6 | 12.7 |
| Lighting | 77.3 | 69.3 | 70.1 | 65.1 | 64.5 |
| Innovation, Group & Services | 0.1 | 0.1 | 0.1 | − | − |
| Philips Group | 113.6 | 97.7 | 104.6 | 94.0 | 87.6 |

Total waste consists of waste that is delivered for landfill, incineration or recycling. Materials delivered for recycling via an external contractor comprised 68 kilotonnes, which equated to 77% of total waste as improved recycling rates at our established sites were off-set by lower recycling rates at our new acquisitions. Of the remaining waste, 18% comprised non-hazardous waste and 5% hazardous waste.

**Industrial waste delivered for recycling**
in %




### Emissions

Emissions of restricted substances totaled 55 kilos in 2012, a decrease of 50% compared to 2011, due to a 100% reduction in use of benzene because of the realized phase-out at Lighting. The level of emissions of hazardous substances increased by 7% from 65,477 to 70,093 kilos, mainly as a result of an increase in total Styrene emissions at Lighting, because of an acquired site that was reporting for the first time in 2012.

**Restricted and hazardous substances**
in kilos

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Restricted substances | 425 | 272 | 188 | 111 | 55 |
| Hazardous substances | 46,220 | 32,869 | 61,795 | 65,477 | 70,093 |

For more details on restricted and hazardous substances, please refer to section 14.3, Green Operations, of this Annual Report.

# 5.4 Proposed distribution to shareholders

Pursuant to article 34 of the articles of association of Royal Philips Electronics, a dividend will first be declared on preference shares out of net income. The remainder of the net income, after reservations made with the approval of the Supervisory Board, shall be available for distribution to holders of common shares subject to shareholder approval after year-end. As of December 31, 2012, the issued share capital consists only of common shares; no preference shares have been issued. Article 33 of the articles of association of Royal Philips Electronics gives the Board of Management the power to determine what portion of the net income shall be retained by way of reserve, subject to the approval of the Supervisory Board.

A proposal will be submitted to the 2013 Annual General Meeting of Shareholders to declare a dividend of EUR 0.75 per common share (up to EUR 685 million), in cash or in shares at the option of the shareholder, against the net income for 2012 and the reserve retained earnings of the Company.

Shareholders will be given the opportunity to make their choice between cash and shares between May 10, 2013 and May 31, 2013. If no choice is made during this election period the dividend will be paid in shares. On May 31, 2013 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume weighted average price of all traded common shares Koninklijke Philips Electronics N.V. at Euronext Amsterdam on 29, 30 and 31 May 2013. The Company will calculate the number of share dividend rights entitled to one new common share, such that the gross dividend in shares will be approximately 1.5% higher than the gross dividend in cash. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 5, 2013. The distribution of dividend in cash to holders of New York registry shares will be made in USD at the USD/EUR rate fixed by the European Central Bank on June 3, 2013.

Dividend in cash is in principle subject to 15% Dutch dividend withholding tax, which will be deducted from the dividend in cash paid to the shareholders. Dividend in shares paid out of earnings and retained earnings is subject to 15% dividend withholding tax, but only in respect of the par value of the shares (EUR 0.20 per share). This withholding tax in case of dividend in shares will be borne by Philips.

In 2012, a dividend of EUR 0.75 per common share was paid in cash or shares, at the option of the shareholder. Approximately 62.4% elected for a share dividend resulting in the issue of 30,522,107 new common shares, leading to a 3.4% percent dilution. EUR 255 million was paid in cash.

The balance sheet presented in this report, as part of the Company financial statements for the period ended December 31, 2012, is before appropriation of the result for the financial year 2012.

# 5.5 Outlook

By executing on our Accelerate! program, we will continue to relentlessly drive operational excellence and invest in innovation and sales development to deliver profitability and growth.

The challenging economic environment in 2012, notably in Europe and United States, has impacted our order book, and hence we expect our sales in 2013 to start slow and pick up in the second half of the year. We will continue to be prudent in our allocation of capital, and we will complete our share buy-back program in the course of 2013. We remain confident in our ability to further improve our operational and financial performance, enabling us to achieve our Accelerate! mid-term 2013 financial targets.

*Content you didn't download*
# Critical accounting policies

# 6 Sector performance

## Healthcare

Imaging Systems • Home Healthcare Solutions • Patient Care & Clinical Informatics • Customer Services

## Consumer Lifestyle

Personal Care • Lifestyle Entertainment • Domestic Appliances • Health & Wellness

## Lighting

Light Sources & Electronics • Consumer Luminaires • Professional Lighting Solutions • Automotive Lighting • Lumileds

## Innovation, Group & Services

Group Innovation • Group & Regional Overheads • Pensions • Global Service Units • New Venture Integration • Design

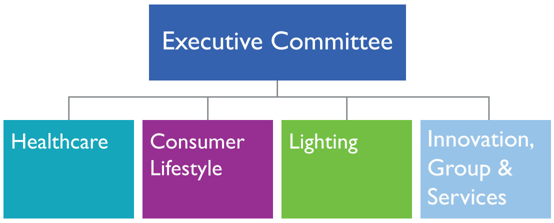
### Our structure

Koninklijke Philips Electronics N.V. (the ‘Company’) is the parent company of the Philips Group (‘Philips’ or the ‘Group’). The Company is managed by the members of the Board of Management and Executive Committee under the supervision of the Supervisory Board. The Executive Committee operates under the chairmanship of the Chief Executive Officer and shares responsibility for the deployment of Philips’ strategy and policies, and the achievement of its objectives and results.

Philips’ activities in the field of health and well-being are organized on a sector basis, with each operating sector – Healthcare, Consumer Lifestyle and Lighting – being responsible for the management of its businesses worldwide.

The Innovation, Group & Services sector provides the operating sectors with support through shared service centers. Furthermore, country management organization supports the creation of value, connecting Philips with key stakeholders, especially our employees, customers, government and society. The sector also includes pensions.

## Organizational chart




Members of the Board of Management and certain key officers together form the Executive Committee

Also included under Innovation, Group & Services are the activities through which Philips invests in projects that are currently not part of the operating sectors, but which could lead to additional organic growth or create value through future spin-offs.

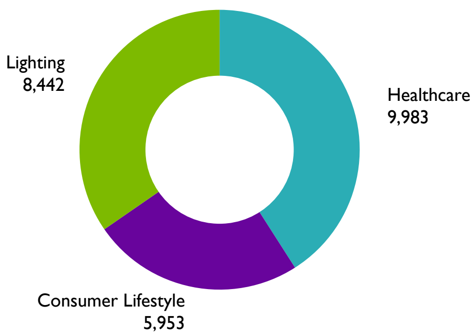
At the end of 2012, Philips had 120 production sites in 29 countries, sales and service outlets in approximately 100 countries, and 118,087 employees.

**Sales, EBIT and EBITA 2012**
in millions of euros unless otherwise stated

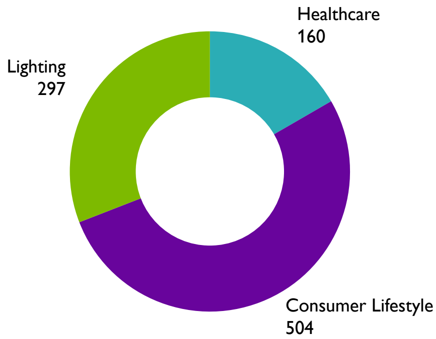
| | sales | EBIT | % | EBITA[1] | % |
|---|---|---|---|---|---|
| Healthcare | 9,983 | 1,122 | 11.2 | 1,322 | 13.2 |
| Consumer Lifestyle | 5,953 | 593 | 10.0 | 663 | 11.1 |
| Lighting | 8,442 | (6) | (0.1) | 188 | 2.2 |
| Innovation, Group & Services | 410 | (679) | − | (671) | − |
| Philips Group | 24,788 | 1,030 | 4.2 | 1,502 | 6.1 |

[1] For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

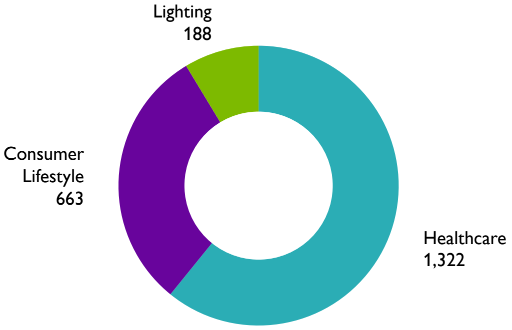
**Sales per operating sector 2012**
in millions of euros




**Cash used for acquisitions per operating sector 2010-2012**
in millions of euros

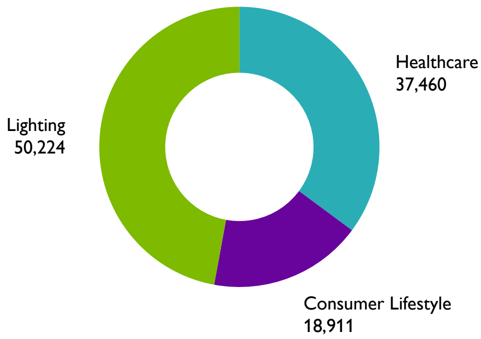



**EBITA per operating sector 2012**[1]
in millions of euros




[1] For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

**Employees per operating sector 2012**
in FTEs at year-end



# 6.1 Healthcare

"Health care systems throughout the world are rapidly changing to meet the needs of a changing society. Philips Healthcare is prepared to match the pace of change with innovative solutions that connect and empower patients and their caregivers in new and profound ways. Through the Accelerate! program, Philips Healthcare will speed up innovation, raise customer service and improve value creation." **Deborah DiSanzo**, CEO Philips Healthcare

- The spiraling cost of managing health care for the world's aging population presents a major challenge to society.
- The global demand for care delivery is increasing – which in turn places a significant burden on under-resourced health care systems, governments and health care providers around the world.
- We continued to implement Accelerate! across our global Healthcare business to provide the industry with the most innovative solutions to address these needs.

## 6.1.1 Health care landscape

In today's health care environment, there are two powerful dynamics at work, which together are challenging the status quo and driving the need for transformational change.

In developed markets, the increasing cost of treating our aging world population, combined with a rise in chronic disease and a shortage of qualified healthcare workers, presents a major challenge to the delivery of care. Concurrently, the continual need for broader access to care has reached critical levels in growth markets. At

Philips, we see the ability to provide connected solutions across the continuum of care as key to addressing these pressing issues. Technological advancements are changing and will continue to change how patient care is delivered from the hospital to the home and points in between for improved outcomes, better value and greater access to effective diagnosis and treatment.

The global economic slowdown and continuing crisis in the Euro zone had a negative impact on our European business in 2012, particularly in Southern Europe. This situation was balanced in part by continued growth in North America, Japan and in growth geographies.

### 6.1.2 Creating the future of health care

Our health care innovations and ongoing partnership with customers are helping us lay the groundwork for the transformational change of our global health care system.

We continue to introduce solutions and services that connect and empower patients, their providers and support network for the more efficient and productive delivery of care.

We are also developing new products in growth geographies to make state-of-the-art technology affordable and accessible to these markets while investing in creative solutions specifically designed to make quality care possible for the underserved.

### 6.1.3 About Philips Healthcare

As a global leader in health care, we are guided by the understanding that there is a patient at the center of everything we do. By pioneering new solutions that improve and expand care around the world, we are dedicated to creating the ideal experience for all patients, young and old.

We harness the power of clinical information by providing clinicians and health care providers with real-time information all in one place – across modalities, time zones and technologies – for more confident decision-making and efficient workflow.

We focus on delivering the most technologically advanced products and solutions, as we help clinicians diagnose, treat and manage many of today's most prevalent diseases.

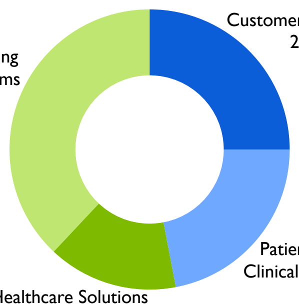
We expand access to care by promoting the adoption of new mobile and remote technologies and developing new protocols that can lead to more efficient and productive health care systems.

These commitments are the driving force behind our research and investment in promising new approaches to radiology, cardiology, oncology, decision support, home health, respiratory and other critical areas.

Our Healthcare business is organized around four strategic business groups:

- **Imaging Systems**: Integrated clinical solutions that include radiation oncology, clinical applications and platforms, and portfolio management; advanced diagnostic imaging, including computed tomography (CT), magnetic resonance imaging (MRI) and molecular imaging (MI); diagnostic X-ray, including digital X-ray and mammography; interventional X-ray, encompassing cardiology, radiology, surgery and other areas; and ultrasound, a modality with diverse customers and broad clinical presence.
- **Patient Care & Clinical Informatics**: Enterprise patient monitoring solutions, from value solutions to sophisticated connected solutions, for real-time clinical information at the patient's bedside; cardiology informatics and enterprise imaging informatics, including picture archiving and communication systems and other clinical information systems; patient monitoring and clinical informatics; mother and child care, including products and solutions for pregnancy, labor and delivery, newborn and neonatal intensive care and the transition home; and therapeutic care, including cardiac resuscitation, emergency care solutions, therapeutic temperature management, anesthesia care, hospital respiratory systems and ventilation.
- **Home Healthcare Solutions**: Sleep management, respiratory care and non-invasive ventilation; medical alert and medication dispensing services for independent living; and remote patient monitoring.
- **Customer Services**: Equipment services and support, including service contracts, equipment maintenance, proactive monitoring and multi-vendor services; managed service programs, including equipment financing and asset management; and professional services, including consulting, site planning and project management, education, and design.

**Total sales by business 2012**
as a %




Philips is one of the world's leading health care companies (based on sales) along with General Electric and Siemens. The United States, our largest market, represented 41% of our Healthcare business's global sales in 2012, followed by Japan, China and Germany. Growth geographies accounted for 24% of Healthcare sales. Philips Healthcare employs approximately 37,500 employees worldwide.

Sales at Healthcare are generally higher in the second half of the year largely due to the timing of new product availability and customer spending patterns.

**Regulatory requirements**
Philips Healthcare is subject to extensive regulation. We are committed to compliance with regulatory product approval and quality system requirements in every market we serve by addressing specific terms and conditions of local and national regulatory authorities, including the US FDA and comparable foreign agencies. Obtaining their approval is costly and time-consuming, but a prerequisite for market introduction.

With regard to sourcing, please refer to section 14.5, Supplier indicators, of this Annual Report.

## 6.1.4 Progress against targets

The Annual Report 2011 set out a number of key targets for Philips Healthcare in 2012 that are steps towards achieving our Accelerate! mid-term 2013 goals. Our progress is outlined below.

### Implement Accelerate! transformation

The launch of Accelerating Healthcare in 2012 put us on a fast track to eliminate organizational complexity as a barrier to higher performance. We established Lean operating principles and enhanced the alignment of our product-creation and customer-facing teams to ensure speed of execution while maintaining quality. This included designing for cost by leveraging value engineering.

We also continued to increase our presence and industrial footprint in growth geographies and to expand our value offering and locally relevant services.

### Driving to co-leadership in Imaging Systems

Our Imaging 2.0 initiative continued to deliver share gains, as well as awards for quality, performance and reliability, with over 15 new products and features introduced in 2012. Our innovative integrated clinical solutions include elastography; iterative image reconstruction technique for virtually "noise free" image quality; cardiovascular x-ray system software that allows a significant reduction in X-ray dose while preserving image quality; a software application that converts analog MR images to digitized MR images; and a multi-vendor workstation that integrates image history across modality for easy collaboration among physicians.

We announced new strategic alliances in 2012, including a program with Elekta in Sweden to develop a potential breakthrough in cancer care. We also entered into an exclusive distribution agreement with Corindus Vascular Robotics in the US for one of their state-of-the-art robotic-assisted systems.

### Achieving leadership with holistic innovation in Patient Care & Clinical Informatics

A number of important advancements in 2012 helped strengthen our leadership position in clinical decision support and address the specific needs of high-growth geographies, such as Brazil, China and India. These included FDA clearance for two groundbreaking clinical decision support applications for our patient monitors, and innovative solutions for interoperability, defibrillation, clinical informatics, anesthesia care and patient monitoring.

We also collaborated with customers on initiatives with far-reaching implications. With Maxima Medical Center in the Netherlands, we created a new concept in neonatal intensive care called the Woman-Mother-Child Center, where mothers and their newborn babies are kept together for fully integrated treatment and nursing care.

### International expansion of the Home Healthcare Solutions business

Our Home Healthcare Solutions business grew at or above market rates in 2012, with strong growth in Japan, Western Europe and other geographies where home health care – as part of chronic disease management – is a fundamental component of the care continuum.

We also continued to lead the way in helping shape selected regional markets in the early stages of home health care development. In these markets, we focused on building awareness of chronic conditions and understanding the value of home health care while making investments in research and clinical education.

### Invest for leadership in growth geographies

In 2012 we made a number of strategic investments in growth geographies. These included the opening of research and development centers and manufacturing facilities in China and India to drive local innovation. We also strengthened our presence in the Middle East with strategic alliances in Saudi Arabia and Abu Dhabi.

In addition, we extended our innovative telehealth solution to provide remote critical care in India, and continued to expand our solutions in imaging, patient monitoring and clinical informatics for price-sensitive markets, such as Brazil and China.

### Executing operational excellence initiatives to increase margin and time-to-market

Under Accelerate! we made significant progress in the restructuring of our organization to innovate faster and more efficiently.

### Deliver on EcoVision sustainability commitments

As part of our EcoDesign process, we consider all Green Focal Areas to help reduce total life cycle impact. In 2012 we introduced 16 Green Products to support energy efficiency, materials reduction and other sustainability goals.

## 6.1.5 2012 financial performance

**Key data**
in millions of euros unless otherwise stated

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Sales | 8,601 | 8,852 | 9,983 |
| Sales growth | | | |
| % increase, nominal | 10 | 3 | 13 |
| % increase, comparable[1] | 4 | 5 | 6 |
| EBITA[1] | 1,186 | 1,145 | 1,322 |
| as a % of sales | 13.8 | 12.9 | 13.2 |
| EBIT | 922 | 93 | 1,122 |
| as a % of sales | 10.7 | 1.1 | 11.2 |
| Net operating capital (NOC)[1] | 8,908 | 8,418 | 7,976 |
| Cash flows before financing activities[1] | 1,141 | 773 | 1,394 |
| Employees (FTEs) | 36,253 | 37,955 | 37,460 |

[1] For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

In 2012, sales amounted to EUR 9,983 million, 13% higher than in 2011 on a nominal basis, driven by higher sales in all businesses. Excluding a 7% favorable impact of currency effects, comparable sales were 6% higher. Solid mid-single-digit comparable sales growth was achieved by all businesses. Green Product sales amounted to EUR 3,610 million, a 36% year-on-year increase.

Geographically, comparable sales in mature geographies were higher than in 2011 in all businesses. The year-on-year sales increase was largely attributable to North America and other mature markets, as sales in Western Europe were in line with the prior year. In growth geographies, we achieved 20% growth, largely driven by strong, double-digit growth in China, Brazil, India and Russia.

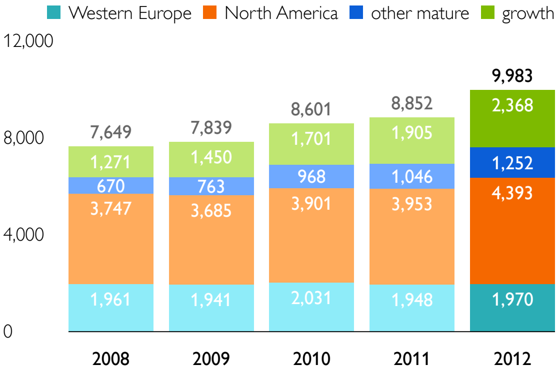
EBITA increased from EUR 1,145 million, or 12.9% of sales, in 2011 to EUR 1,322 million, or 13.2% of sales, in 2012. EBITA improvements were realized at all businesses, largely as a result of higher sales and cost-saving programs. Restructuring and acquisition-related charges amounted to EUR 134 million, compared with EUR 20 million in 2011.

EBIT amounted to EUR 1,122 million, or 11.2% of sales, and included EUR 200 million of charges related to amortization of intangible assets.

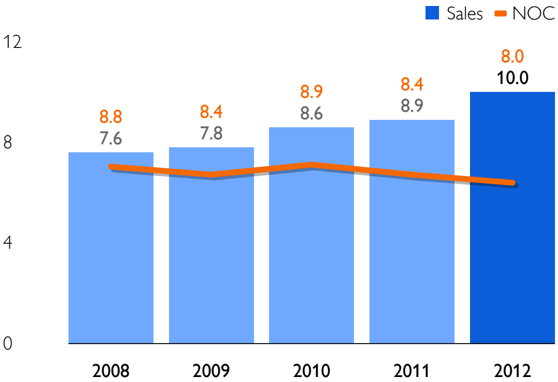
Net operating capital in 2012 decreased by EUR 442 million to EUR 8 billion, mainly due to currency effects and an increase in provisions related to restructuring charges. All businesses showed improved efficiency in inventory usage year-over-year.

Cash flows before financing activities increased from an inflow of EUR 773 million in 2011 to an inflow of EUR 1,394 million in 2012, mainly attributable to higher earnings and lower working capital requirements.

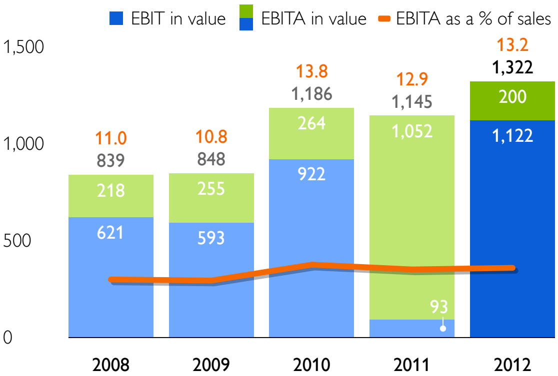
**Sales per geographic cluster**
in millions of euros




**Sales and net operating capital**
in billions of euros




**EBIT and EBITA**[1)]
in millions of euros




1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

*Content you didn't download*
2011 financial performance

## 6.1.6 2013 priorities

In 2013 Philips Healthcare will continue to progress on the following imperatives designed to accelerate performance and achieve our goals:

- Complete our Accelerating Healthcare transformation
- Invest in our growth initiatives to deliver differentiated offerings from the hospital to the home
- Create momentum behind Customer Services
- Implement our end-to-end customer relationship management solution across the global Philips Healthcare organization
- Create a high-performance organization as measured by ongoing employee surveys and business results
- Institutionalize our end-to-end operating framework to optimize financial returns on our portfolio and improve the customer experience

In addition to these priorities, Philips Healthcare will continue to deliver on EcoVision sustainability commitments.

# 6.2 Consumer Lifestyle

"At Consumer Lifestyle we're making the world healthier and more sustainable through meaningful innovation. The Accelerate! transformation program is now showing solid results in our sector. By planning, resourcing and managing performance by Business Market Combination (BMC), we are driving greater consumer intimacy, enabling us to launch more locally relevant products. We continue to transform Consumer Lifestyle for profitable growth, reshaping our portfolio towards health and well-being."

**Pieter Nota**, CEO Philips Consumer Lifestyle

- New operating model fully in place, moving decisions closer to markets and stimulating entrepreneurship and speed.
- Granular approach to growth is showing solid results, addressing local consumer needs and leveraging our position in attractive growth geographies.
- Announced start of Television joint venture named TP Vision, ensuring the future of the Philips brand in Television.
- January 2013 announcement of agreement to transfer Audio, Video, Multimedia and Accessories businesses to Funai.

## 6.2.1 Lifestyle retail landscape

Across the world, consumers want to maintain and improve their health and well-being. To achieve this, they seek propositions that help them to look and feel their best and to care for their family and friends: propositions that help them to live well. This is as true of consumers in growth geographies such as China as it is in developed markets such as Western Europe.

In 2012 economic headwinds increased, resulting in pressure on consumer spending in some markets. However, we believe consumers will continue to demand products that enhance their health and well-being, creating resilience in our product categories.

Underlying trends continue to drive growth in our key categories:

- Consumers have a growing interest in personal health
- Consumers are increasingly appearance-conscious
- Consumers want healthy food that is also easy to prepare
- In a complex market environment, consumers look for responsible brands they can trust

## 6.2.2 Helping people achieve a healthier and better life

Consumer Lifestyle makes a difference to people's lives by making it easier for them to achieve a healthier and better lifestyle.

Consumer Lifestyle empowers its business and market organizations to work together in order to address the different and changing needs of consumers and customers across the world.

We are increasing the speed, quality and local relevance of product innovation and expanding our distribution, thereby capturing the increasing spending power of growth geographies.

## 6.2.3 About Consumer Lifestyle

At Consumer Lifestyle we are delivering on Philips' vision to make the world healthier and more sustainable through innovation. We have a global footprint, with an established presence in both mature and growth geographies. Our investment in innovation and local business creation enables us to deliver a stream of locally relevant, meaningful innovations. We have a leading global brand, which is highly trusted across the world.

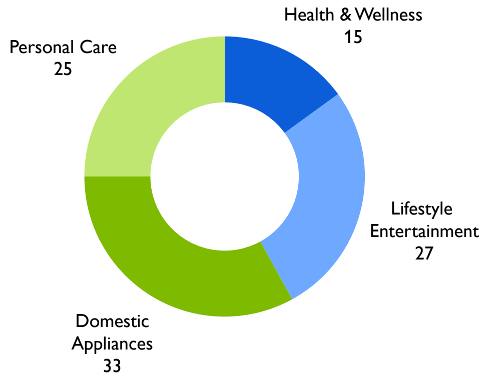
The Philips Consumer Lifestyle sector is organized around its businesses and markets, and is focused on value creation through category development and delivery through operational excellence.

We plan, resource and manage performance by Business Market Combination (BMC). Our operating model stimulates entrepreneurship and speed by ensuring clear accountability and by moving decisions closer to our customers and markets.

In 2012 the sector consisted of the following areas of business:

- Health & Wellness: mother and childcare, oral healthcare
- Personal Care: male grooming, skincare, beauty
- Domestic Appliances: coffee, floor care, garment care, kitchen appliances, water & air, beverage appliances
- Lifestyle Entertainment: audio and video entertainment; communications, headphones and accessories

**Total sales by business 2012**
as a %




We offer a broad range of products from high to low price/value quartiles, necessitating a diverse distribution model. We continue to expand our portfolio to increase its accessibility, particularly for lower-tier cities in growth geographies. We have implemented innovative approaches in online and social media to build our brand and drive sales.

Under normal economic conditions, the Consumer Lifestyle sector experiences seasonality, with higher sales in the fourth quarter resulting from the holiday sales.

Consumer Lifestyle employs approximately 18,900 people worldwide. Our global sales and service organization covers more than 50 developed and growth geographies. In addition, we operate manufacturing and business creation organizations in Austria, Brazil, China, India, Indonesia, Italy, Netherlands, Romania, the UK and the US.

**Regulatory requirements**

Consumer Lifestyle is subject to significant regulatory requirements in the markets where it operates. This includes the European Union's Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS) and Energy-use of Products (EuP) requirements. Consumer Lifestyle has a growing portfolio of medically regulated products in its Health & Wellness and Personal Care businesses. For these products we strive to meet the requirements of the US FDA, the European Medical Device Directive, the SFDA in China and the regulations stipulated by Health Authorities in India. Through our growing skincare product portfolio the range of applicable regulations has been extended to include requirements relating to cosmetics and, on a very small scale, pharmaceuticals.

With regard to sourcing, please refer to section 14.5, Supplier indicators, of this Annual Report.

## 6.2.4 Progress against targets

The Annual Report 2011 set out a number of key targets for Philips Consumer Lifestyle in 2012 that are steps towards achieving our Accelerate! mid-term 2013 goals. Our progress is outlined below.

### Implement Accelerate! transformation

In Consumer Lifestyle, Accelerate! is showing solid results. Taking a granular approach to growth, we now have 150 BMC plans in place. We have moved from a functional, centrally-led organization to an organization built around businesses and markets. We have clear accountability in our operating model, for both businesses and markets. We have seven end-to-end transformation pilots in place with clear deliverables: reduced time-to-market, reduced inventories and better gross margin management.

### Right-size the organization post TV joint venture establishment

We have significantly reduced overhead costs and stranded costs related to the establishment of the TV joint venture with TPV, TP Vision, which was established on April 1, 2012. Key actions taken include streamlining the headcount in the Supply Chain Management, Manufacturing and Support functions, realigning International Key Account Management, rationalizing the central Marketing set-up, reducing logistics and warehousing costs through structural improvements, and reducing the real estate footprint.

### Address Lifestyle Entertainment portfolio and execute turn-around plan

We continued to transition the portfolio towards growing categories like docking and connected entertainment, away from rapidly declining categories like MP3, MP4 and DVD players. We reduced the business's cost base to reflect the lower revenue base. In North America we entered into a distribution agreement with Funai, a long-standing Philips business partner, in 2012. We also divested the Speech Processing business in Lifestyle Entertainment, selling it to Invest AG. In January 2013 we announced an agreement to transfer our Audio, Video, Multimedia and Accessories businesses to Funai.

### Continued growth investment in core businesses towards global category leadership

In our key growth businesses of Male Grooming, Oral Healthcare, Kitchen Appliances and Coffee (which includes our Espresso and Beverage Appliance categories), we made significant progress in 2012. In Male Grooming, we have increased our share of the total market (including blade shaving), strengthening our leading position. In Oral Healthcare, we are entering new channels, including pharmacies, with the launch of the Sonicare PowerUp power toothbrush.

In Kitchen Appliances, acquisitions and local product creation have driven a strong increase in new product offerings, with leadership in key markets strengthened through local relevance. In Coffee, a new, long-term agreement with DE Master Blenders has further strengthened the Senseo business.

### Regional business creation; leverage fill-in acquisitions in China and India

Leading kitchen appliances companies Preethi and Povos, acquired in 2011 in India and China respectively, continued to show strength. Povos contributed to an incremental 30% growth in China by strengthening our Chinese product offering. Preethi's leadership in the south of India complements our position across India, where we have over 30% market share in mixer grinders, the largest category. We are also leveraging the Preethi brand to build a portfolio beyond kitchen appliances.

### Deliver on EcoVision sustainability commitments

Sustainability continues to play an important role in the product development process at Consumer Lifestyle. In 2012 we made progress in implementing our voluntary commitment to phase out polyvinyl chloride (PVC) and brominated flame retardants (BFR) from our products, and for the first time all of our espresso coffee machines launched during the year are free of these substances.

We increased the use of recycled materials in our products. For example, the housing base of the Performer range of vacuum cleaners is now made from recycled plastics, resulting in the use of approximately 300 tonnes of recycled plastic by 2013.

## 6.2.5 2012 financial performance

**Key data**
in millions of euros unless otherwise stated

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Sales | 5,504 | 5,615 | 5,953 |
| Sales growth | | | |
| % increase (decrease), nominal | 7 | 2 | 6 |
| % increase (decrease), comparable[1] | – | 1 | 2 |
| EBITA[1] | 487 | 297 | 663 |
| as a % of sales | 8.8 | 5.3 | 11.1 |
| EBIT | 449 | 217 | 593 |
| as a % of sales | 8.2 | 3.9 | 10.0 |
| Net operating capital (NOC)[1] | 882 | 884 | 1,217 |
| Cash flows before financing activities[1] | 288 | (257) | 597 |
| Employees (FTEs) | 14,095 | 18,291 | 18,911 |

[1] For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

Sales amounted to EUR 5,953 million, a nominal increase of 6% compared to 2011, mainly driven by double-digit growth in our Health & Wellness and Domestic Appliances businesses. This was partly offset by a double-digit decline in Lifestyle Entertainment, where growth was adversely affected by a slowdown in consumer spending, particularly in mature geographies. Excluding a 3% favorable currency impact and a 1% impact from portfolio changes, comparable sales were 2% higher than the previous year.

From a geographical perspective, we recorded 7% comparable sales growth in growth geographies, which was partly offset by a 2% decline in mature geographies, mainly in Western Europe. In growth geographies, the year-on-year sales increase was driven by Russia and China, primarily in our Domestic Appliances and Personal Care businesses. Growth geographies' share of sector sales increased from 42% in 2011 to 46% in 2012.

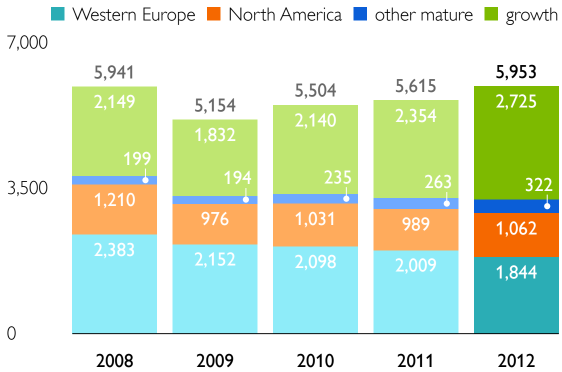
EBITA increased from EUR 297 million, or 5.3% of sales, in 2011 to EUR 663 million, or 11.1% of sales, in 2012. Restructuring and acquisition-related charges amounted to EUR 75 million in 2012, compared to EUR 54 million in 2011. 2012 results included a EUR 160 million one-time gain from the extension of our partnership with Sara Lee, including the transfer of our 50% ownership right to the Senseo trademark. Excluding this one-time gain, the year-on-year EBITA increase was driven by higher sales across all growth businesses as well as lower net costs formerly reported as part of the Television business. Compared to 2011, EBITA improvements were seen in all businesses.

EBIT amounted to EUR 593 million, or 10.0% of sales, which included EUR 70 million of amortization charges, mainly related to intangible assets in Health & Wellness and Domestic Appliances.

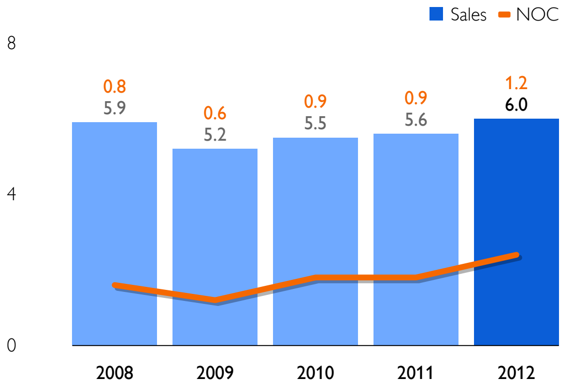
Net operating capital increased from EUR 884 million in 2011 to EUR 1,217 million in 2012, primarily due to a reduction in the accounts payable balance related to the former Television business in Consumer Lifestyle.

Cash flows before financing activities increased from a cash outflow of EUR 257 million in 2011 to a cash inflow of EUR 597 million. The increase was attributable to higher cash earnings, lower cash outflows for acquisitions as well as the transfer of our 50% ownership right to the Senseo trademark to Sara Lee for cash proceeds EUR 170 million.

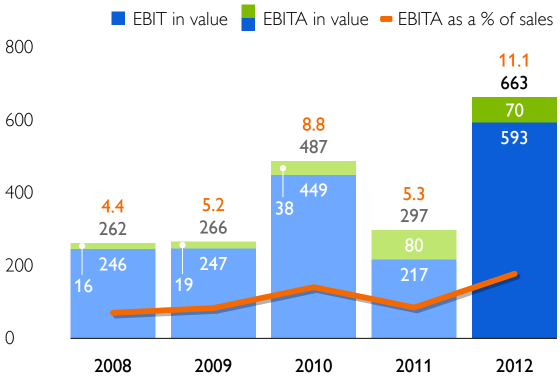
**Sales per geographic cluster**
in millions of euros




**Sales and net operating capital**
in billions of euros



**EBIT and EBITA**[1)]
in millions of euros




1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

*Content you didn't download*
2011 financial performance

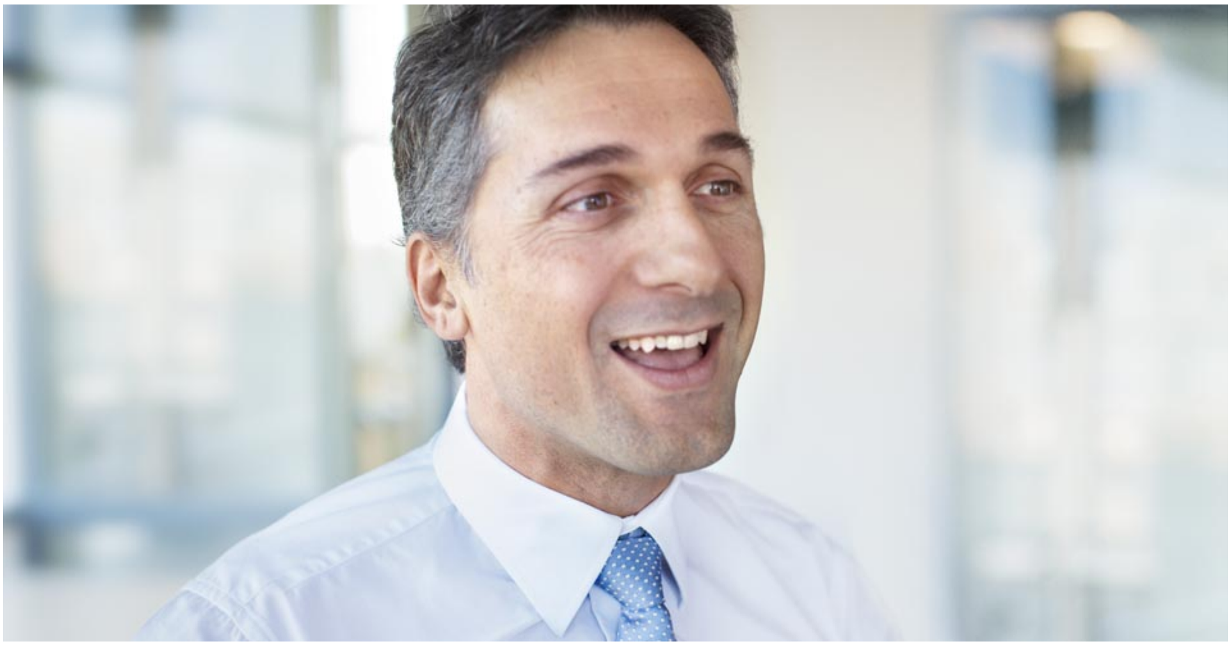
## 6.2.6 2013 priorities

In 2013 Philips Consumer Lifestyle will continue to progress on the following imperatives designed to accelerate performance and achieve our goals:

- Drive global scale and category leadership in health and well-being categories with attractive profit pools
- Further reduce our cost base
- Improve return on investment in marketing
- Roll out end-to-end programs that will drive reduced time-to-market, reduced inventories and improved gross margins

In addition to these priorities, Philips Consumer Lifestyle will continue to deliver on EcoVision sustainability commitments.

# 6.3 Lighting



"The market for lighting is sizeable, attractive and growing. In the transition towards energy-efficient and LED-based lighting solutions, we are accelerating our Accelerate! program to excel in customer satisfaction, time-to-market, and end-to-end processes. In 2012 we made a significant step forward on our path to value. Our Accelerate! transformation and the turnaround of two of our business groups helped drive improved profitability. Going forward, Philips Lighting will continue to strengthen its global leadership position through meaningful innovations that enhance people's lives." **Eric Rondolat**, CEO Philips Lighting

- The lighting industry is undergoing a radical transformation.
- The lighting market is large and attractive, driven by major trends.
- Strategy based on four priorities to maximize growth, improve performance and expand leadership.

### 6.3.1 Lighting business landscape

We are witnessing a number of trends and transitions that will affect the lighting industry in the years to come and change the way people use and experience light.

We serve a large and attractive market that is driven by the need for more light, energy-efficient lighting, and digital lighting. Over half the world's population currently lives in urban areas: a figure that is expected to rise to over 70% by 2050. That means 3 billion extra city dwellers. These people will all need light. In addition, the world needs more energy-efficient light in the face of rising energy prices and climate change. At the same time, the lighting industry is moving from traditional to digital lighting – lighting solutions enabled by the integration of LED technology, luminaires, lighting controls and software.

Between now and 2015 we expect the value of the global lighting market to grow by 5-7% on a compound annual basis. The majority of the growth will come from LED-based solutions and applications – heading towards a 45% share by 2015 – and from growth geographies.

In 2011 the lighting industry as a whole was recovering from the global economic developments in 2010. In 2012, however, this recovery slowed due to widespread downward pressure on GDP, weaker consumer markets in mature geographies, and continued weakness in the construction market. Growth geographies continue to show healthy growth, albeit somewhat at a slower pace.

### 6.3.2 Enhancing life with light

We believe that by focusing on what people really need and leveraging our expertise with a broad range of leading partners, we can create and deliver the most innovative and meaningful solutions on the market.

Our lighting solutions are transforming urban environments, helping to create livable cities by enhancing safety, municipal identity and residential well-being. Building owners and retailers are recognizing the benefits of energy-efficient lighting in reducing their operational costs. And schools are learning how lighting can improve education and well-being. At the same time, consumers are increasingly using lighting to create their own ambience at home as an expression of their lifestyle.

We believe that the rise of LED, coupled with our global market leadership, positions us well to continue to deliver on our mission to enhance life with light.

### 6.3.3 About Philips Lighting

Philips Lighting is a global market leader with recognized expertise in the development, manufacturing and application of innovative lighting solutions. We have pioneered many of the key breakthroughs in lighting over the past 121 years, laying the basis for our current strength and ensuring we are well-placed to be a leader in the digital transformation. We aim to further strengthen our position in the digital market through added investment in LED leadership while at the same time capitalizing on our broad portfolio, distribution and brand in conventional lighting ('managing the golden tail' – there is a significant opportunity to grow market share and optimize profits in conventional lamps and drivers by flexibly anticipating the slower or faster phase-out of conventional products).

We address people's lighting needs across a full range of market segments. Indoors, we offer lighting solutions for homes, shops, offices, schools, hotels, factories and hospitals. Outdoors, we offer solutions for roads (street lighting and car lights) and for public spaces, residential areas and sports arenas. In addition, we address the desire for light-inspired experiences through architectural projects. Finally, we offer specific applications of lighting in specialized areas, such as horticulture and water purification.

Philips Lighting spans the entire lighting value chain – from light sources, luminaires, electronics and controls to full applications and solutions – through the following businesses:

- Light Sources & Electronics: LED, eco-halogen, (compact) fluorescent, high-intensity discharge and incandescent light sources, plus electronic and electromagnetic gear, modules and drivers
- Consumer Luminaires: functional, decorative, lifestyle, scene-setting luminaires
- Professional Lighting Solutions: controls and luminaires for city beautification, road lighting, sports lighting, office lighting, shop/hospitality lighting, industry lighting
- Automotive Lighting: car headlights, car signaling, interior
- Lumileds: packaged LEDs.

The Light Sources & Electronics business conducts its sales and marketing activities through the professional, OEM and consumer channels, the latter also being used by our Consumer Luminaires business. Professional Lighting Solutions is organized in a trade business (commodity products) and a project solutions business (project luminaires, systems and services). Automotive Lighting is organized in two businesses: OEM and After-market.

The conventional lamps industry is highly consolidated, with GE and Siemens/Osram as key competitors. The LED lighting market, on the other hand, features a wide variety of competitors, ranging from start-ups to multinationals. The luminaires industry is fragmented, with our competition varying per region and per market segment.

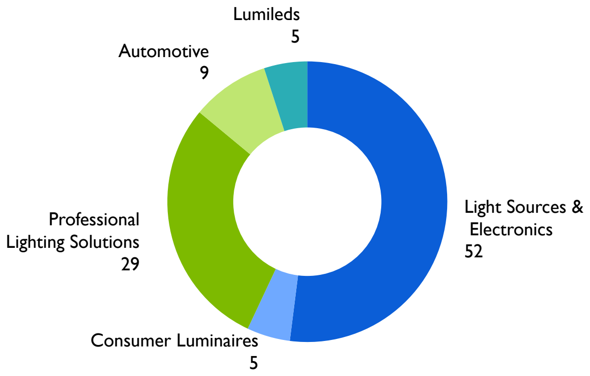
Under normal economic conditions, Lighting's sales are generally not materially affected by seasonality.

Philips Lighting has manufacturing facilities in some 25 countries in all regions of the world, and sales organizations in more than 60 countries. Commercial activities in other countries are handled via distributors working with our International Sales organization. Lighting has 50,200 employees worldwide.

**Regulatory requirements**
Lighting is subject to significant regulatory requirements in the markets where it operates. These include the European Union's Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS), Energy-using Products (EuP) and Energy Performance of Buildings (EPBD) directives.

With regard to sourcing, please refer to section 14.5, Supplier indicators, of this Annual Report.

**Total sales by business 2012**
as a %




## 6.3.4 Progress against targets

The Annual Report 2011 set out a number of key targets for Philips Lighting in 2012 that are steps towards achieving our Accelerate! mid-term 2013 goals. Our progress is outlined below.

### Implement Accelerate! transformation

We are speeding up implementation of the Accelerate! program. We have adapted our processes to improve deliveries in all our geographies. We are taking a granular approach to investment choices through our Business Market Combination (BMC) plans, which are based on local customer insights. We have projects running to increase revenue, expand margins and reduce time-to-market and inventories, and we are aligning our processes in order to better serve our customers. In addition, we are strengthening accountability and simplifying our way of working, leading to cost savings. Driving the whole transformation is the deployment of culture transformation programs across all levels of the organization.

### Accelerate transformation to LED, applications and solutions

In 2012 we further strengthened our expertise in LED development and application. Our LED-based sales grew by 41% compared to 2011, representing some 22% of total Lighting sales. Sales growth of LED-based applications was approximately 58%. To strengthen our leadership position, we established a cost-reduction program for LED lamps and expanded our portfolio of LED solutions in professional, automotive and home segments.

We continued to invest in growing our solutions (luminaires, controls, software and services) business, and sales increased by 31% in 2012. We are creating value through seamless integration of controls and management software in our LED-based solutions.

With the journey from initial idea to marketable product taking only nine months, the development of our hue connected lighting system illustrates how our organization has embraced the journey to accelerate. Effective and efficient collaboration across multiple disciplines significantly shortened time-to-market for this ground-breaking solution.

### Strengthen performance management and execution

We are stepping up the pace of Accelerate! to prepare our organization to take full advantage of LED-driven future opportunities. We have now connected our business and market teams through our BMC approach to win customers in key markets. Projects are reducing complexity, improving execution along our end-to-end customer value chain, and increasing speed to market – all with the aim of driving market leadership, accelerating growth and boosting profitability.

### Address cost base, margin management and working capital

In 2012, as part of our organizational redesign and cost program, we took a fundamental approach to increase the speed and efficiency of our organization. We reduced the number of Business Groups from six to five. Regional layers have been simplified and regional teams no longer sit between markets and businesses. Significant reductions in overhead functions like IT, Human Resource Management and Finance & Accounting have been implemented. Furthermore, we have endeavored to optimize our industrial asset base for maximum efficiency and lowest cost. We have reduced our industrial footprint by 40% compared to 2008, with four sites closed and four divested in 2012.

To protect our margins, we further improved our product mix and implemented selective price increases, mainly in our conventional lamps and luminaires businesses, and also managed cost aggressively. While we continue to invest in innovation and our go-to market capabilities, we will continue to focus on overhead cost reductions and accelerate the rationalization of our industrial footprint.

Our focus on working capital management is clearly paying off. Tight management of the value and quality of inventory led to a year-on-year improvement of 1.9% of sales.

### Deliver on turnaround of Lumileds and Consumer Luminaires

Good progress has been made towards turning around our Lumileds and Consumer Luminaires businesses. Both managed to achieve a return to profitability – excluding restructuring and acquisition-related charges – in Q4 2012. At Lumileds, actions have been taken to improve manufacturing yields and innovation effectiveness. Also, the go-to-market and distribution structure has been expanded and strengthened, resulting in incremental top-line growth. At Consumer Luminaires, successful actions have been taken to improve customer intimacy and our go-to-market strategy. In addition, actions have been taken to improve productivity and to improve the end-to-end supply chain costs. In China and India in particular, we have experienced strong growth with continued expansion of branded Philips Lighting stores and shop-in-shops.

### Deliver on EcoVision sustainability commitments

In 2012, Philips Lighting invested EUR 325 million in Green Innovation, compared to EUR 291 million in 2011. Major investments have been made in energy-saving technologies such as OLED and lighting controls and in the reduction of regulated substances in our product portfolio.The energy efficiency of our total product portfolio improved from 36 to 38 lm/W, mainly because of the shift to LED lighting. Within the Green Operations 2015 program, we are on track to meet our commitments to reduce Lighting's environmental footprint. By using renewable energy and implementing energy-saving programs in our major operational sites, we have already reduced our carbon footprint by 23%. Currently 78% of our total waste is re-used as a result of recycling.

## 6.3.5 2012 financial performance

**Key data**
in millions of euros unless otherwise stated

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Sales | 7,552 | 7,638 | 8,442 |
| Sales growth | | | |
| % increase, nominal | 15 | 1 | 11 |
| % increase, comparable[1] | 9 | 6 | 4 |
| EBITA[1] | 863 | 445 | 188 |
| as a % of sales | 11.4 | 5.8 | 2.2 |
| EBIT | 689 | (362) | (6) |
| as a % of sales | 9.1 | (4.7) | (0.1) |
| Net operating capital (NOC)[1] | 5,506 | 4,965 | 4,635 |
| Cash flows before financing activities[1] | 590 | 254 | 339 |
| Employees (FTEs) | 53,888 | 53,168 | 50,224 |

[1] For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

Sales amounted to EUR 8,442 million, a nominal increase of 11% compared to 2011, mainly driven by growth at Light Sources & Electronics and Professional Lighting Solutions, but tempered by a sales decline at Lumileds. Excluding a 5% favorable currency impact and a 2% impact from portfolio changes, comparable sales increased by 4%.

The year-on-year sales increase was substantially driven by growth geographies, which grew 7% on a comparable basis. As a proportion of total sales, sales in growth geographies increased slightly to 41% of total Lighting sales, driven by double-digit growth in China and India, compared to 40% in 2011. In mature geographies, sales growth was limited to low single-digits due to lower demand in North America and Western Europe, particularly for Professional Lighting Solutions and Consumer Luminaires.

Sales of LED-based products grew to over 22% of total sales, up from 16% in 2011, driven by Light Sources & Electronics and Professional Lighting Solutions. Sales of energy-efficient Green Products exceeded EUR 5,752 million, or 68% of sector sales.

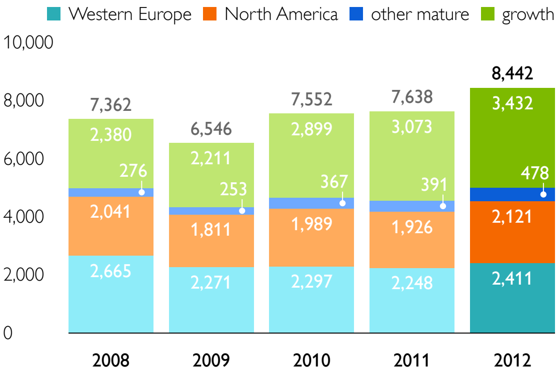
EBITA amounted to EUR 188 million, or 2.2% of sales, compared to EUR 445 million, or 5.8% of sales, in 2011. Restructuring and acquisition-related charges amounted to EUR 315 million in 2012, compared to EUR 66 million in 2011. The decrease in EBITA was mainly attributable to higher restructuring and acquisition-related charges, as well as losses on the sale of industrial assets amounting to EUR 81 million, partly offset by higher sales.

EBIT amounted to a loss of EUR 6 million, or negative 0.1% of sales, which included EUR 194 million of amortization charges, mainly related to intangible assets at Professional Lighting Solutions.

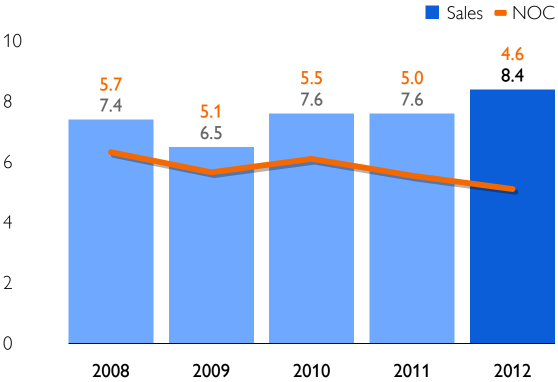
Net operating capital decreased by EUR 330 million to EUR 4.6 billion, primarily due to an increase in provisions related to restructuring, lower inventories and currency effects, partly offset by the consolidation of Indal.

Cash flows before financing activities increased from EUR 254 million in 2011 to EUR 339 million, mainly attributable to lower working capital outflows, partly offset by higher outflows for acquisitions.

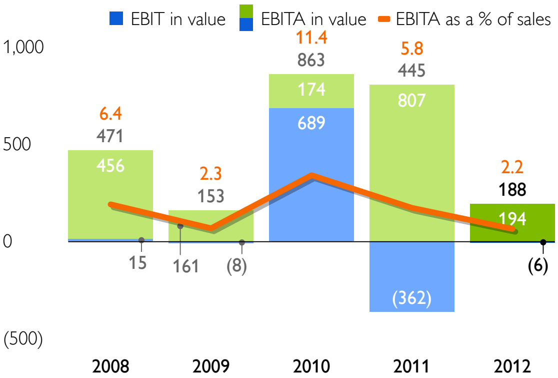
**Sales per geographic cluster**
in millions of euros




**Sales and net operating capital**
in billions of euros




**EBIT and EBITA**[1]
in millions of euros




[1] For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

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2011 financial performance

### 6.3.6 2013 priorities

In 2013 Philips Lighting will continue to progress on the following imperatives designed to accelerate performance and achieve our goals:

- Lead the technological revolution in Lighting, be the thought-leader in LED, and win the 'golden tail' in conventional lighting
- Win in the professional market, developing and growing profitable solutions and services
- Win in consumer markets and develop new ways to go to market
- Use Accelerate! as our transformation and performance improvement platform throughout the whole organization

In addition to these priorities, Philips Lighting will continue to deliver on EcoVision sustainability commitments.

# 6.4 Innovation, Group & Services

"Innovation is absolutely core to what Philips is, and the way it ensures competitive edge and long-term value creation. We're all about creating value through innovation more quickly, and making sure we earn that return on investment. In 2012 we continued optimizing our innovation portfolio and improved execution. At the same time, we are placing increasing emphasis on initiatives designed to leverage our intellectual property leadership."

**Jim Andrew**, Chief Innovation & Strategy Officer

## Introduction

Innovation, Group & Services comprises the activities of the Group headquarters, including Philips' global management and sustainability programs, country and regional management costs, and costs of pension and other postretirement benefit plans, as well as Group Innovation and New Venture Integration. Additionally, the global shared business services for purchasing, finance, human resources, IT, real estate and supply are reported in this sector.

Innovation, Group & Services plays an important role in the Accelerate! program, notably by helping to improve the end-to-end value chain. The end-to-end approach consists of three core processes: Idea to Market, Market to Order, and Order to Cash. Innovation, Group & Services supports Idea to Market in five focal areas: Speeding up time to market, Portfolio optimization, Driving breakthrough innovation, Improving innovation competences, and Restoring the image of Philips as an innovation leader. Based on deeper customer insights, enhanced capability and competency building, we are driving value more effectively.

## 6.4.1 Philips Group Innovation

Philips Group Innovation (PGI) feeds the innovation pipeline, enabling its business partners – the three Philips operating sectors – to create new business options through new technologies, venturing and intellectual property development, to improve time-to-market efficiency, and to increase innovation effectiveness via focused research and development activities. In addition, PGI opens up new value spaces beyond current sector scope or focus (Emerging Business Areas, EBAs), manages the EBA-related R&D portfolio, and creates synergy for cross-sector initiatives.

PGI encompasses Philips Research, Philips Intellectual Property & Standards (IP&S), Philips Innovation Services, the Philips Innovation Campus, Philips Design as well as Emerging Business Areas. In total, PGI employs some 4,800 professionals around the globe.

PGI actively participates in 'Open Innovation' through relationships with academic and industrial partners, as well as via European and regional projects, in order to improve innovation efficiency and share the related financial exposure. The High Tech Campus in Eindhoven (Netherlands), the Philips Innovation Campus in Bangalore (India), and Research Shanghai (China), are prime examples of environments enabling Open Innovation. In this way, we also seek to ensure proximity of innovation activities to growth geographies.

### Philips Research

Philips Research is the main partner of Philips' operating sectors for technology-enabled innovation. It creates new technologies and the related intellectual property (IP), which enables Philips to grow in businesses and markets. Together with the sectors, Philips Research also co-creates innovations and game-changers to strengthen the core businesses as well as to open up new business in adjacencies beyond the core. Research's innovation pipeline is aligned with our vision and strategy and inspired by major societal challenges as well as unmet customer needs.

One such challenge is the huge increase in the number of patients living with cancer. In the Netherlands, Philips Research and University Medical Center Utrecht have started a pilot clinical study to evaluate a new personalized treatment for breast cancer based on a technology called MR-guided High Intensity Focused Ultrasound (MR-HIFU). MR-HIFU has emerged as a technology with the potential to non-invasively destroy tumors by heating them up while they are still inside the body. Magnetic Resonance (MR) imaging provides real-time imaging of soft tissue structures so that the HIFU beam can be accurately focused onto the tumor.

Building on its expertise in LED lighting applications, Philips Research has been testing and validating new LED-based retail lighting concepts, designed to enhance the product appearance of fashion merchandise in shops, at multiple customer locations.

On January 1, 2012, the front-end innovation competencies of Lighting and the Healthcare R&D lab in Paris were integrated into Philips Research, thereby strengthening cooperation in the early stages of the innovation chain.

### Philips Intellectual Property & Standards

Philips IP&S proactively pursues the creation of new intellectual property in close co-operation with Philips' operating sectors and Philips Group Innovation. IP&S is a leading industrial IP organization providing world-class IP solutions to Philips' businesses to support their growth, competitiveness and profitability. Philips' IP portfolio currently consists of around 59,000 patent rights, 35,000 trademarks, 81,000 design rights and 4,200 domain name registrations. Philips filed approximately 1,500 patents in 2012, with a strong focus on the growth areas in health and well-being. IP&S participates in the setting of standards to create new business opportunities for the Healthcare, Consumer Lifestyle and Lighting sectors. A substantial portion of revenue and costs is allocated to the operating sectors. Philips believes its business as a whole is not materially dependent on any particular patent or license, or any particular group of patents and licenses.

### Philips Innovation Services

Philips Innovation Services supports internal and third-party customers by offering services in concept creation support, product, process and equipment development, prototyping and small-series production, quality and reliability, sustainability, safety and health, and industry consulting.

Innovation Services is playing an increasing role in the operating sectors' digital transformation, supporting the move into internet and network applications/services.

### Philips Innovation Campus

Philips Innovation Campus Bangalore (PIC) hosts activities from all three operating sectors, Philips Research, IP&S and IT. Healthcare is the largest R&D organization at PIC, with activities in Imaging Systems and Patient Care &

Clinical Informatics. While PIC originally started as a software center, it has since developed into a product development center (including mechanical, electronics, and supply chain capabilities). Several Healthcare businesses have also located business organizations focusing on growth geographies at PIC.

### New Venture Integration

The New Venture Integration group focuses on the integration of newly acquired companies across all sectors.

### Philips Design

Philips Design partners with the Philips businesses, Group Innovation and functions to ensure that our innovations are meaningful and locally relevant, and that the Philips brand experience is preferable and consistent across all its touch-points.

Philips Design is a global function within the company, comprised of a Group Design team that drives the function and develops new competences, and fully integrated sector Design teams ensuring close alignment with the Philips businesses. The organization is made up of designers across various disciplines, as well as psychologists, ergonomists, sociologists and anthropologists – all working together to understand people's needs and desires and to translate these into relevant solutions and experiences that create value for people and business. Design's forward-looking exploration projects deliver vital insights for new business development.

Philips Design is widely recognized as a leader in people-centric design. In 2012, it won over 120 key design awards in the areas of product, communication and innovation design.

### Philips Healthcare Incubator

The Philips Healthcare Incubator is a dedicated corporate venturing organization within Philips. Its mission is to identify novel business opportunities based on the unmet needs of patients and their care providers, and to transform these into successful business ventures. It focuses on breakaway solutions to these unmet needs in areas that are of strategic interest to Philips. The ultimate goal is to create breakthrough businesses for Philips in health care.

## 6.4.2 2012 financial performance

**Key data**

in millions of euros unless otherwise stated

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Sales | 630 | 474 | 410 |
| Sales growth | | | |
| % increase (decrease), nominal | 14 | (25) | (14) |
| % increase (decrease), comparable[1)] | 14 | (11) | (7) |
| EBITA of: | | | |
| Group Innovation | (84) | (51) | (122) |
| IP Royalties | 258 | 198 | 179 |
| Group and Regional costs | (142) | (134) | (154) |
| Accelerate! investment | − | (28) | (128) |
| Pensions | 100 | (23) | 48 |
| Service Units and other | (112) | (169) | (494) |
| EBITA[1)] | 20 | (207) | (671) |
| EBIT | 14 | (217) | (679) |
| Net operating capital (NOC)[1)] | (3,399) | (3,895) | (4,521) |
| Cash flows before financing activities[1)] | (542) | (1,295) | (1,044) |
| Employees (FTEs) | 11,929 | 12,474 | 11,492 |

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

In 2012, sales amounted to EUR 410 million, EUR 64 million lower than in 2011, attributable to the divestment of Assembléon in 2011 as well as lower royalty income.

EBITA in 2012 amounted to a loss of EUR 671 million, compared to a loss of EUR 207 million in 2011. The year-on-year decrease in EBITA was largely attributable to a EUR 313 million fine issued by the European Commission in relation to the alleged violation of competition rules in the Cathode-Ray Tube (CRT) industry and provisions related to various legal matters totaling EUR 132 million. Restructuring and acquisition-related charges amounted to EUR 56 million in 2012, compared to EUR 23 million in 2011.

EBITA at Group Innovation was EUR 71 million lower than in 2011, attributable to new innovation and design initiatives, as well as higher investments in new value spaces.

Group & Regional Overhead costs were EUR 20 million higher than in 2011, mainly due to increased costs related to strengthening the market access and growth initiatives.

Accelerate! investments amounted to EUR 128 million in 2012, and include investments in IT infrastructure, internal departments and external consultancy dedicated to the Accelerate! program.

EBITA at Pensions was EUR 71 million higher than in 2011, mainly due to the effect of lower interest rates. In 2011, EBITA was positively impacted by a EUR 21 million gain due to a plan change in one of our major plans, while 2012 was positively impacted by a EUR 25 million gain from a change in a medical retiree plan.

EBITA at Service Units and Other decreased from a loss of EUR 169 million in 2011 to a loss of EUR 494 million. The decrease was largely attributable to the CRT fine of EUR 313 million and provisions related to various legal matters totaling EUR 132 million, partly offset by a gain on the sale of High Tech Campus of EUR 37 million and lower stranded costs from the divestment of our Television business.

Net operating capital decreased to negative EUR 4,521 billion, primarily related to an increase in payables and provisions due to legal and environmental matters.

Cash flows before financing activities improved from an outflow of EUR 1,295 million in 2011 to an outflow of EUR 1,044 million, mainly attributable to higher cash inflows from the sale of fixed assets.

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2011 financial performance

# 18 Definitions and abbreviations

## Definitions of key terms (including abbreviations)

### BMC
Business Market Combination - As a diversified technology group, Philips has a wide portfolio of categories/business innovation units which are grouped in business groups based primarily on technology or customer needs. Philips has physical market presence in over 100 countries, which are grouped into 17 market clusters. Our primary operating modus is the Business Market matrix comprising Business Groups and Markets. These Business Market Combinations (BMCs) drive business performance on a granular level at which plans are agreed between global businesses and local market teams.

### Brominated flame retardants (BFR)
Brominated flame retardants are a group of chemicals that have an inhibitory effect on the ignition of combustible organic materials. Of the commercialized chemical flame retardants, the brominated variety are most widely used.

### CAGR
Compound Annual Growth Rate.

### Carbon dioxide ($CO_2$)
Carbon dioxide (chemical formula $CO_2$) is a chemical compound composed of two oxygen atoms covalently bonded to a single carbon atom. It is a gas at standard temperature and pressure and exists in the Earth's atmosphere in this state. $CO_2$ is a trace gas comprising 0.039% of the atmosphere.

### $CO_2$-equivalent
$CO_2$-equivalent or carbon dioxide equivalent is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of $CO_2$ that would have the same global warming potential (GWP), when measured over a specified timescale (generally 100 years).

### Cash flow before financing activities
The cash flow before financing activities is the sum of net cash flow from operating activities and net cash flow from investing activities.

### Chlorofluorocarbon (CFC)
A chlorofluorocarbon is an organic compound that contains carbon, chlorine and fluorine, produced as a volatile derivative of methane and ethane. CFCs were originally developed as refrigerants during the 1930s.

### Comparable sales
Comparable sales exclude the effect of currency movements and acquisitions and divestments (changes in consolidation). Philips believes that comparable sales information enhances understanding of sales performance.

### Continuing net income
This equals recurring net income from continuing operations, or net income excluding discontinued operations and excluding material non-recurring items.

### Dividend yield
The dividend yield is the annual dividend payment divided by Philips' market capitalization. All references to dividend yield are as of December 31 of the previous year.

### EBITA
Earnings before interest, tax and amortization (EBITA) represents income from continuing operations excluding results attributable to non-controlling interest holders, results relating to investments in associates, income taxes, financial income and expenses, amortization and impairment on intangible assets (excluding software and capitalized development expenses). Philips believes that EBITA information makes the underlying performance of its businesses more transparent by factoring out the amortization of these intangible assets, which arises when acquisitions are consolidated. In our Annual Report on form 20-F this definition is referred to as Adjusted IFO.

### EBITA per common share
EBITA divided by the weighted average number of shares outstanding (basic). The same principle is used for the definition of net income per common share, replacing EBITA.

### Electronic Industry Citizenship Coalition (EICC)
The Electronic Industry Citizenship Coalition was established in 2004 to promote a common code of conduct for the electronics and information and communications technology (ICT) industry. EICC now includes more than 40 global companies and their suppliers.

### Employee Engagement Index (EEI)
The Employee Engagement Index (EEI) is the single measure of the overall level of employee engagement at Philips. It is a combination of perceptions and attitudes related to employee satisfaction, commitment and advocacy.

### Energy-using Products (EuP)
An energy-using product is a product that uses, generates, transfers or measures energy (electricity, gas, fossil fuel). Examples are boilers, computers, televisions, transformers, industrial fans, industrial furnaces etc.

### Free cash flow
Free cash flow is the net cash flow from operating activities minus net capital expenditures.

### Full-time equivalent employee (FTE)
Full-time equivalent is a way to measure a worker's involvement in a project. An FTE of 1.0 means that the person is equivalent to a full-time worker, while an FTE of 0.5 signals that the worker is only half-time.

### Global Reporting Initiative (GRI)
The Global Reporting Initiative (GRI) is a network-based organization that pioneered the world's most widely used sustainability reporting framework. GRI is committed to the framework's continuous improvement and application worldwide. GRI's core goals include the mainstreaming of disclosure on environmental, social and governance performance.

### Green Innovation
Green Innovation comprise all R&D activities directly contributing to the development of Green Products or Green Technologies.

### Green Products
Green Products offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Recycling and disposal and Lifetime reliability. The life cycle approach is used to determine a product's overall environmental improvement. It calculates the environmental impact of a product over its total life cycle (raw materials, manufacturing, product use and disposal).
Green Products need to prove leadership in at least one Green Focal Area compared to industry standards, which is defined by a sector specific peer group. This is done either by outperforming reference products (which can be a competitor or predecessor product in the particular product family ) by at least 10%, outperforming product specific eco-requirements or by being awarded with a recognized eco-performance label. Because of different product portfolios, sectors have specified additional criteria for Green Products, including product specific minimum requirements where relevant.

### Growth geographies
Growth geographies are the developing geographies comprising of Asia Pacific (excluding Japan, South Korea, Australia and New Zealand), Latin America, Central & Eastern Europe, the Middle East (excluding Israel) and Africa.

### Hydrochlorofluorocarbon (HCFC)
Hydrochlorofluorocarbon is a fluorocarbon that is replacing chlorofluorocarbon as a refrigerant and propellant in aerosol cans.

### Income as % of shareholders' equity (ROE)
This ratio measures income from continuing operations as a percentage of average shareholders' equity. ROE rates Philips' overall profitability by evaluating how much profit the company generates with the money shareholders have invested.

### Income from continuing operations
Net income from continuing operations, or net income excluding discontinued operations.

### Initiatief Duurzame Handel (IDH)
IDH is the Dutch Sustainable Trade Initiative. It brings together government, frontrunner companies, civil society organizations and labor unions to accelerate and up-scale sustainable trade in mainstream commodity markets from the emerging countries to Western Europe.

### International Standardization Organization (ISO)
The International Standardization Organization (ISO)is the world's largest developer and publisher of International Standards. ISO is a network of the national standards institutes of more than 160 countries, one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system. ISO is a non-governmental organization that forms a bridge between the public and private sectors.

### Light-Emitting Diode (LED)
Light-Emitting Diode (LED), in electronics, is a semiconductor device that emits infrared or visible light when charged with an electric current. Visible LEDs are used in many electronic devices as indicator lamps, in automobiles as rear-window and brake lights, and on billboards and signs as alphanumeric displays or even full-color posters. Infrared LEDs are employed in autofocus cameras and television remote controls and also as light sources in fiber-optic telecommunication systems.

### Lives improved by Philips
To calculate how many lives we are improving, market intelligence and statistical data on the number of people touched by the products contributing to the social or ecological dimension over the lifetime of a product are multiplied by the number of those products delivered in a year. After elimination of double counts – multiple different product touches per individual are only counted once – the number of lives improved by our innovative solutions is calculated. In 2012 we established our baseline at 1.7 billion a year.

### Mature geographies
Mature geographies are the highly developed markets comprising of Western Europe, North America, Japan, South Korea, Israel, Australia and New Zealand.

### Millennium Development Goals (MDG)
Adopted by world leaders in the year 2000 and set to be achieved by 2015, the Millennium Development Goals (MDGs) provide concrete, numerical benchmarks for tackling extreme poverty in its many dimensions. The MDGs also provide a framework for the entire international community to work together towards a common end – making sure that human development reaches everyone, everywhere. Goals include for example eradicating extreme poverty and hunger, achieving universal primary education and ensuring environmental sustainability.

### Net debt : group equity ratio
The % distribution of net debt over group equity plus net debt.

### Non-Governmental Organization (NGO)
A non-governmental organization (NGO) is any non-profit, voluntary citizens' group which is organized at a local, national or international level.

### OEM
Original Equipment Manufacturer.

### Operational carbon footprint
A carbon footprint is the total set of greenhouse gas emissions caused by an organization, event, product or person; usually expressed in kilotonnes $CO_2$-equivalent. The Philips operational carbon footprint is calculated on a half-year basis and includes industrial sites (manufacturing and assembly sites), non-industrial sites (offices, warehouses, IT centers and R&D facilities), business travel (lease and rental cars and airplane travel) and logistics (air, sea and road transport).

### Perfluorinated compounds (PFC)
A perfluorinated compound (PFC) is an organofluorine compound with all hydrogens replaced by fluorine on a carbon chain—but the molecule also contains at least one different atom or functional group. PFCs have unique properties to make materials stain, oil, and water resistant, and are widely used in diverse applications. PFCs persist in the environment as persistent organic pollutants, but unlike PCBs, they are not known to degrade by any natural processes due to the strength of the carbon–fluorine bond.

### Polyvinyl chloride (PVC)
Polyvinyl chloride, better known as PVC or vinyl, is an inexpensive plastic so versatile it has become completely pervasive in modern society. The list of products made from polyvinyl chloride is exhaustive, ranging from phonograph records to drainage and potable piping, water bottles, cling film, credit cards and toys. More uses include window frames, rain gutters, wall paneling, doors, wallpapers, flooring, garden furniture, binders and even pens.

### Productivity
Philips uses Productivity internally and as mentioned in this annual report as a non-financial indicator of efficiency that relates the added value, being income from operations adjusted for certain items such as restructuring and acquisition-related charges etc. plus salaries and wages (including pension costs and other social security and similar charges), depreciation of property, plant and equipment, and amortization of intangibles, to the average number of employees over the past 12 months.

### Regulation on Hazardous Substances (RoHS)
The RoHS Directive prohibits all new electrical and electronic equipment placed on the market in the European Economic Area from containing lead, mercury, cadmium, hexavalent chromium, poly-brominated biphenyls (PBB) or polybrominated diphenyl ethers (PBDE), except in certain specific applications, in concentrations greater than the values decided by the European Commission. These values have been established as 0.01% by weight per homogeneous material for cadmium and 0.1% for the other five substances.

**Return on equity (ROE)**
Income from continuing operations as a % of average shareholders' equity (calculated on the quarterly balance sheet positions).

**Turnover rate of net operating capital**
Sales divided by average net operating capital (calculated on the quarterly balance sheet positions).

**Waste Electrical and Electronic Equipment (WEEE)**
The Waste Electrical and Electronic Equipment Directive (WEEE Directive) is the European Community directive on waste electrical and electronic equipment which became European Law in February 2003, setting collection, recycling and recovery targets for all types of electrical goods. The directive imposes the responsibility for the disposal of waste electrical and electronic equipment on the manufacturers of such equipment.

**Weighted Average Statutory Tax Rate (WASTR)**
The reconciliation of the effective tax rate is based on the applicable statutory tax rate, which is a weighted average of all applicable jurisdictions. This weighted average statutory tax rate (WASTR) is the aggregation of the result before tax multiplied by the applicable statutory tax rate without adjustment for losses, divided by the group result before tax.

# 19 Forward-looking statements and other information

**Forward-looking statements**
This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items, in particular section 5.5, Outlook, of this Annual Report. Examples of forward-looking statements include statements made about our strategy, estimates of sales growth, future EBITA and future developments in our organic business. Forward-looking statements can be identified generally as those containing words such as “anticipates”, “assumes”, “believes”, “estimates”, “expects”, “should”, “will”, “will likely result”, “forecast”, “outlook”, “projects”, “may” or similar expressions. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

These factors include, but are not limited to, domestic and global economic and business conditions, the successful implementation of our strategy and our ability to realize the benefits of this strategy, our ability to develop and market new products, changes in legislation, legal claims, changes in exchange and interest rates, changes in tax rates, pension costs and actuarial assumptions, raw materials and employee costs, our ability to identify and complete successful acquisitions and to integrate those acquisitions into our business, our ability to successfully exit certain businesses or restructure our operations, the rate of technological changes, political, economic and other developments in countries where Philips operates, industry consolidation and competition. As a result, Philips’ actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, see also chapter 7, Risk management, of this Annual Report.

**Third-party market share data**
Statements regarding market share, contained in this document, including those regarding Philips’ competitive position, are based on outside sources such as specialized research institutes, industry and dealer panels in combination with management estimates. Where full-year information regarding 2012 is not yet available to Philips, those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.

**Fair value information**
In presenting the Philips Group’s financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid at the balance sheet date. When quoted prices or observable market values do not exist, fair values are estimated using valuation models, which we believe are appropriate for their purpose. They require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the financial statements. In certain cases, independent valuations are obtained to support management’s determination of fair values.

**IFRS basis of presentation**
The financial information included in this document is based on IFRS, unless otherwise indicated. As used in this document, the term EBIT has the same meaning as Income from operations (IFO).

**Use of non-GAAP information**
In presenting and discussing the Philips Group’s financial position, operating results and cash flows, management uses certain non-GAAP financial measures like: comparable growth; EBITA; NOC; net debt (cash); free cash flow; and cash flow before financing activities. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent GAAP measures.

Further information on non-GAAP information and a reconciliation of such measures to the most directly comparable GAAP measures can be found in chapter 15, Reconciliation of non-GAAP information, of this Annual Report.

**Statutory financial statements and management report**
The chapters Group financial statements and Company financial statements contain the statutory financial statements of the Company. The introduction to the chapter Group financial statements sets out which parts of this Annual Report form the management report within the meaning of Section 2:391 of the Dutch Civil Code (and related Decrees).

**Analysis of 2011 compared to 2010**
The analysis of the 2011 financial results compared to 2010, and the discussion of the critical accounting policies, have not been included in this Annual Report. These sections are included in Philips’ Form 20-F for the financial year 2012, which will be filed electronically with the US Securities and Exchange Commission.

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