

# 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.

The Philips logo, consisting of the word "PHILIPS" in a bold, blue, sans-serif font.

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

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#### 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

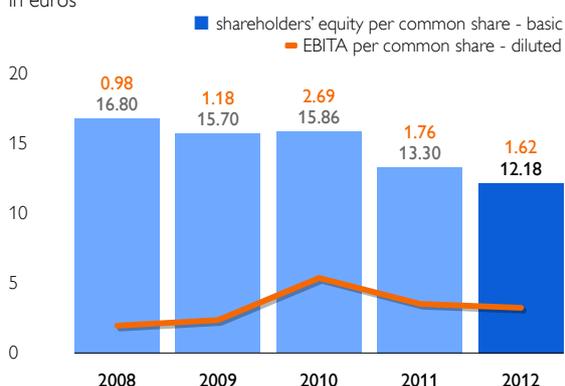
all amounts in millions of euros unless otherwise stated

	2010	2011	2012
Sales	22,287	22,579	24,788
EBITA <sup>1)</sup>	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 <sup>1)</sup>	11,897	10,372	9,307
Free cash flows <sup>1)</sup>	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	-

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

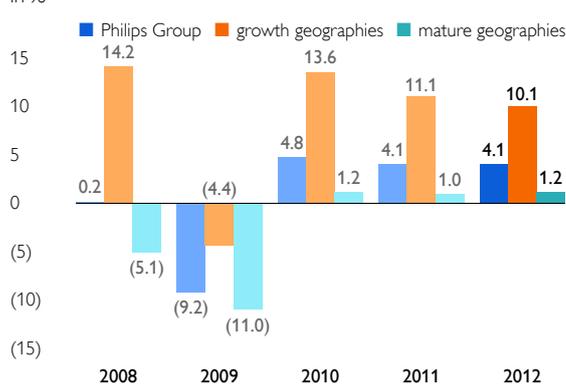
## Equity and EBITA per common share<sup>1)</sup>

in euros



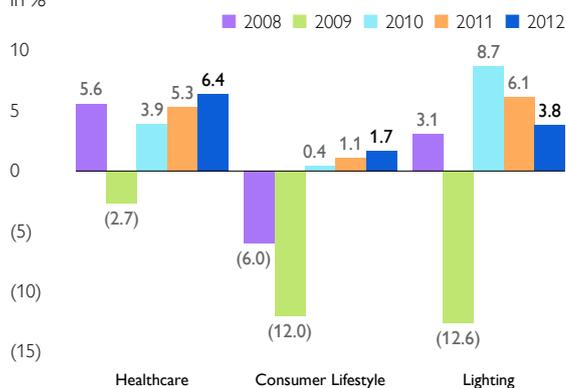
## Comparable sales growth by geographic cluster<sup>1,2)</sup>

in %



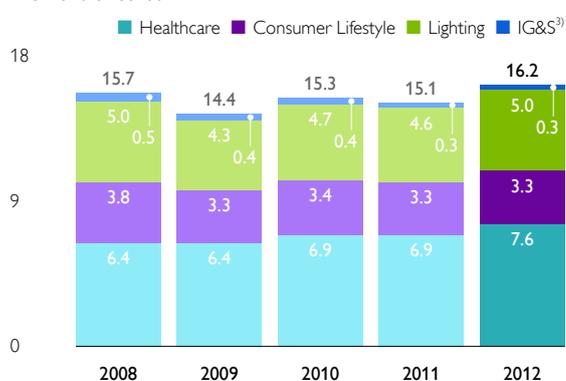
## Comparable sales growth by operating sector<sup>1)</sup>

in %



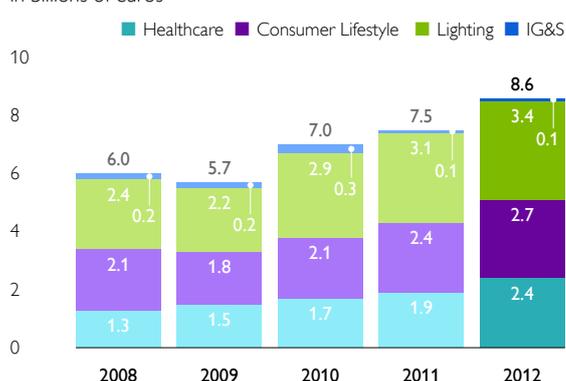
## Sales per sector in mature geographies<sup>2)</sup>

in billions of euros



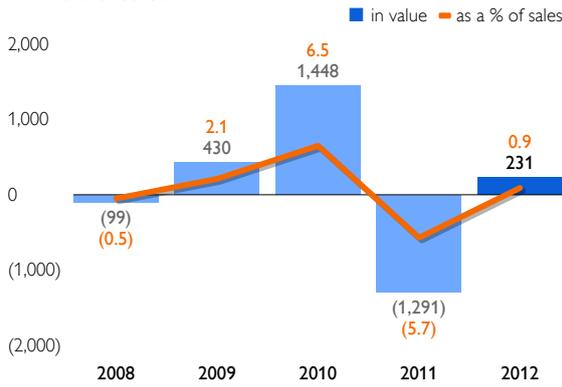
## Sales per sector in growth geographies<sup>2)</sup>

in billions of euros



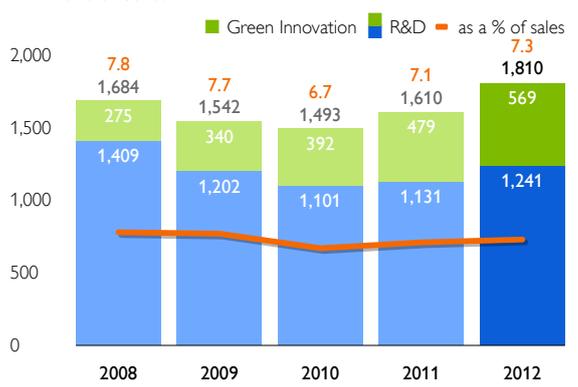
### Net income (loss)

in millions of euros



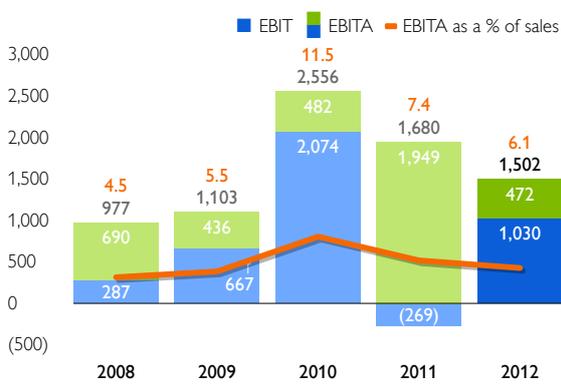
### Research and development expenses

in millions of euros



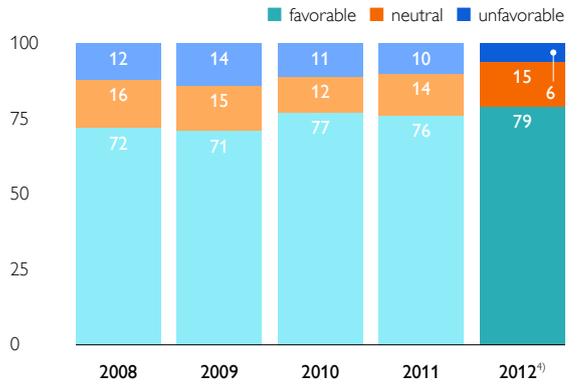
### EBIT and EBITA<sup>1)</sup>

in millions of euros



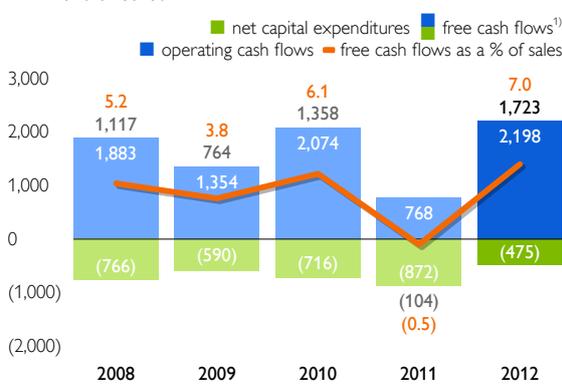
### Employee Engagement Index

in %



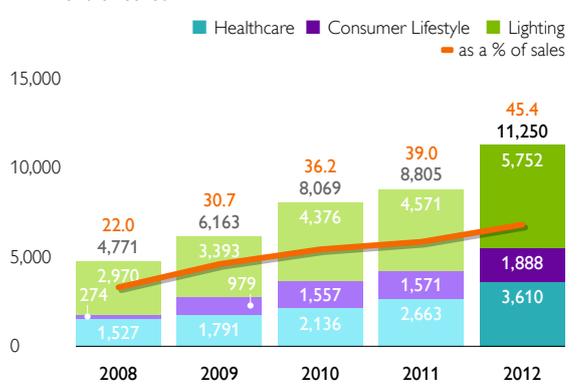
### Operating cash flows

in millions of euros



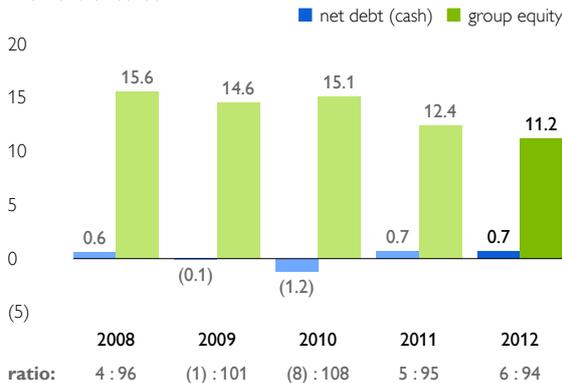
### Green Product sales per sector

in millions of euros



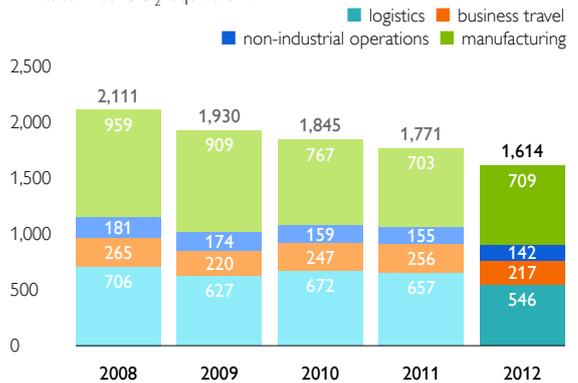
### Net debt (cash) to group equity<sup>1)</sup>

in billions of euros



### Operational carbon footprint

in kilotonnes CO<sub>2</sub>-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.

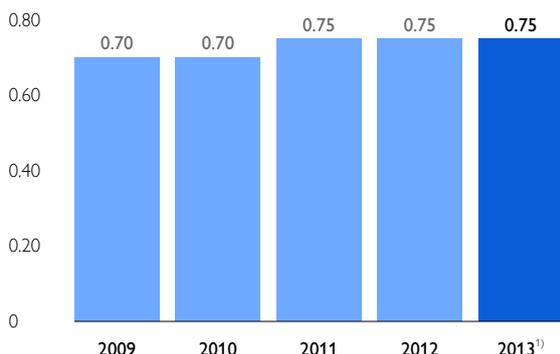
Reshaping our Consumer Lifestyle portfolio was an important step in the transformation of Philips to become the leading technology company in health and well-being. Our Television joint venture with TPV became operational in 2012. This was followed by the announcement of a distribution agreement with 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



<sup>1)</sup> 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.

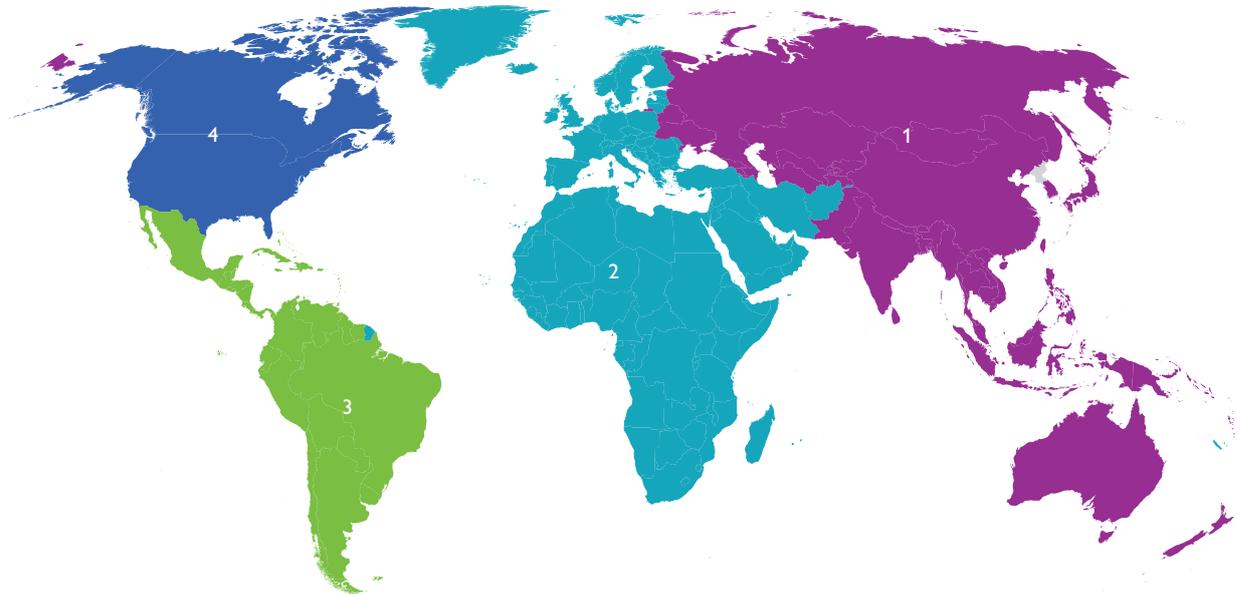
## **Our behaviors**

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

Number of employees: 43,392  
 Employees female: 38%  
 Employees male: 62%  
 R&D centers: 2  
 Manufacturing sites: 28

### 2 EMEA

Number of employees: 40,903  
 Employees female: 31%  
 Employees male: 69%  
 R&D centers: 5  
 Manufacturing sites: 44

### 3 Latin America

Number of employees: 7,670  
 Employees female: 39%  
 Employees male: 61%  
 R&D centers: -  
 Manufacturing sites: 6

### 4 North America

Number of employees: 26,122  
 Employees female: 37%  
 Employees male: 63%  
 R&D centers: 1  
 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

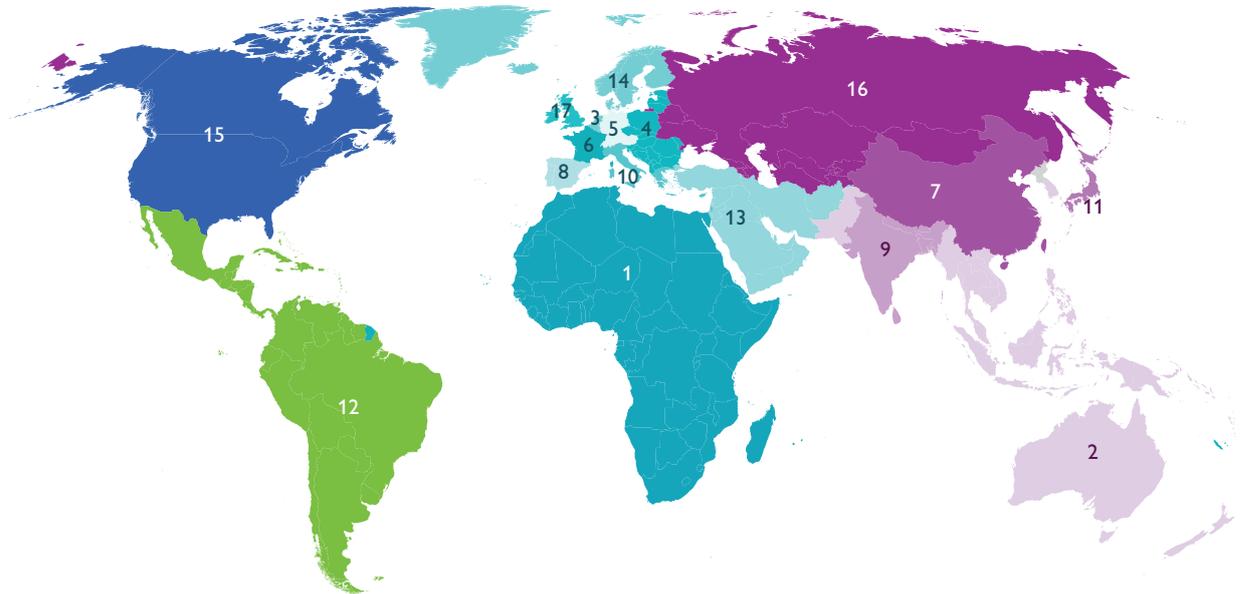
At Philips, we strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025.

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 strengths: 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<sup>1</sup>, 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<sup>2</sup> 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.

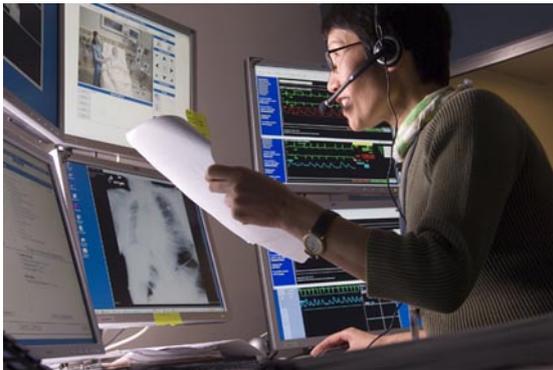


## A seamlessly integrated solution

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<sub>2</sub> 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<sup>2</sup> – 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.



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

*Content you didn't download*

5.1 Financial performance

## 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)

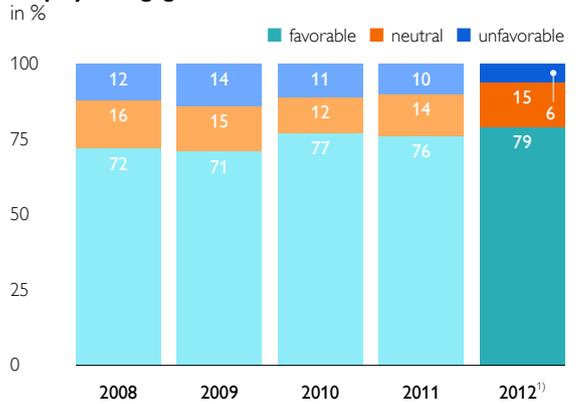


■ Double counts  
 Numbers in billions  
 Conceptual drawing, areas do not reflect actual proportions

### 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



<sup>1)</sup> 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.

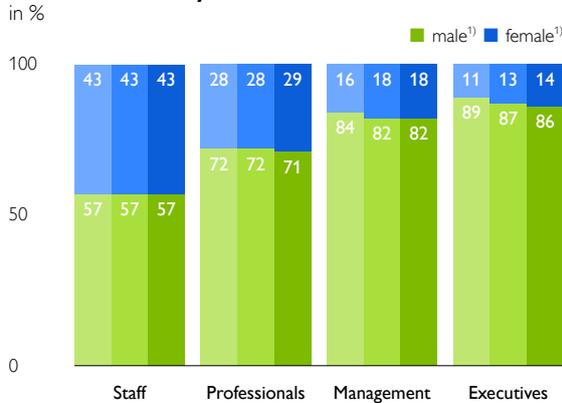
We also continue to use pulse surveys to measure engagement levels in certain teams such as new acquisitions or groups going through significant changes. While this does not provide a statistical comparison to the total organization results of the past, it does provide insight into progress being made 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.

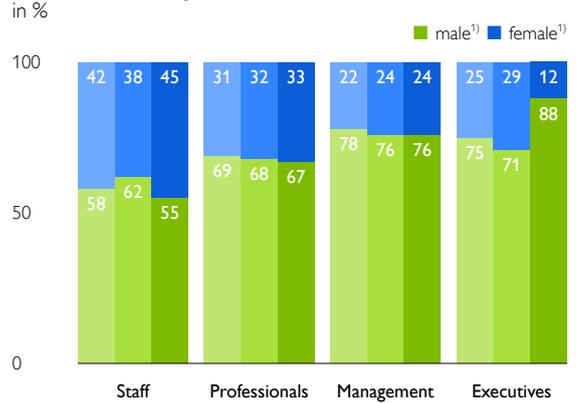
**Workforce diversity**



<sup>1)</sup> 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**



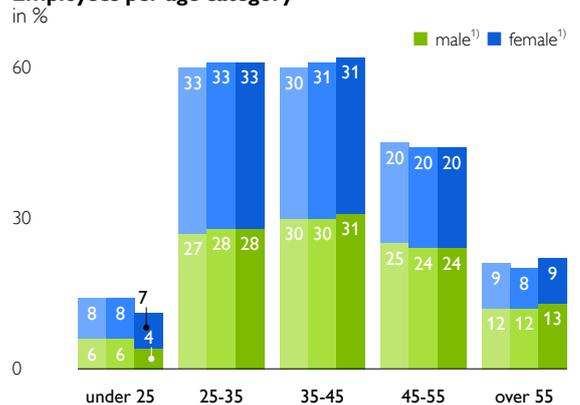
<sup>1)</sup> Left to right: 2010, 2011 and 2012

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**



<sup>1)</sup> 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.

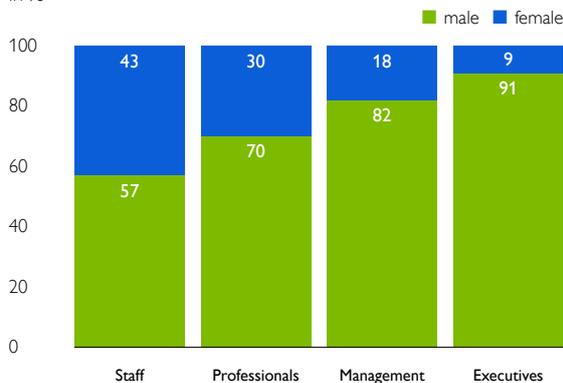
**Employee turnover**

in %

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

**Exit diversity**

in %



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

**5.2.4 Employment**

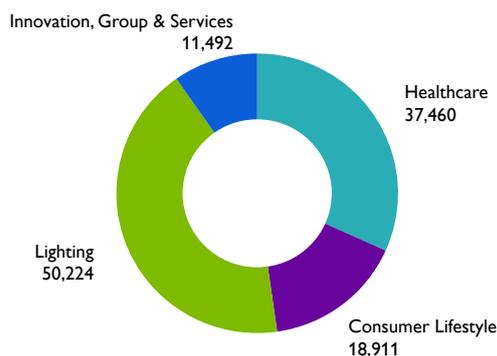
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# The year 2012

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



**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

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

**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	-

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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](http://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](http://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.

<b>Labor</b> <ul style="list-style-type: none"> <li>• Freely Chosen Employment</li> <li>• Child Labor Avoidance</li> <li>• Working Hours</li> <li>• Wages and Benefits</li> <li>• Humane Treatment</li> <li>• Non-Discrimination</li> <li>• Freedom of Association</li> </ul>	<b>Health and Safety</b> <ul style="list-style-type: none"> <li>• Occupational Safety</li> <li>• Emergency Preparedness</li> <li>• Occupational Injury and Illness</li> <li>• Industrial Hygiene</li> <li>• Physically Demanding Work</li> <li>• Machine Safeguarding</li> <li>• Sanitation, Food, and Housing</li> </ul>
<b>Environmental</b> <ul style="list-style-type: none"> <li>• Environmental Permits and Reporting</li> <li>• Pollution Prevention and Resource Reduction</li> <li>• Hazardous Substances</li> <li>• Wastewater and Solid Waste</li> <li>• Air Emissions</li> <li>• Product Content Restrictions</li> </ul>	<b>Ethics</b> <ul style="list-style-type: none"> <li>• Business Integrity</li> <li>• No Improper Advantage</li> <li>• Disclosure of Information</li> <li>• Intellectual Property</li> <li>• Fair Business, Advertising and Competition</li> <li>• Protection of Identity</li> <li>• Responsible Sourcing of Minerals</li> <li>• Privacy</li> <li>• Non-Retaliation</li> </ul>
<b>Management system</b> <ul style="list-style-type: none"> <li>• Company Commitment</li> <li>• Risk Assessment and Risk Management</li> <li>• Management Accountability and Responsibility</li> <li>• Improvement Objectives</li> <li>• Legal and Customer Requirements</li> <li>• Training</li> <li>• Communication</li> <li>• Corrective Action Process</li> <li>• Worker Feedback and Participation</li> <li>• Documentation and Records</li> <li>• Audits and Assessments</li> <li>• Supplier Responsibility</li> </ul>	

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

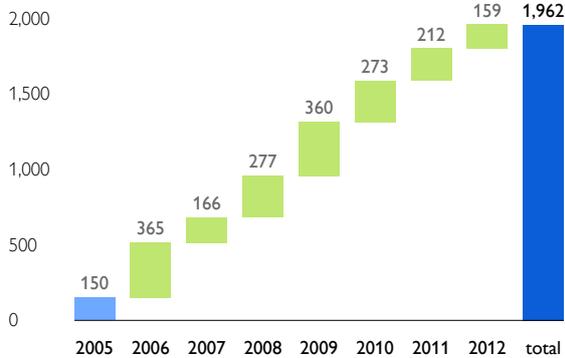
#### 2012 supplier audits in risk countries

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.

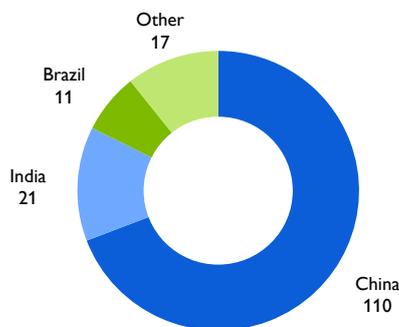
As in previous years, the majority of the audits in 2012 were done in China. The total number of full-scope audits carried out since we started the program in 2005 is now close to 2,000. This number includes repeated audits, since we execute a full-scope audit at our risk suppliers every three years. 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

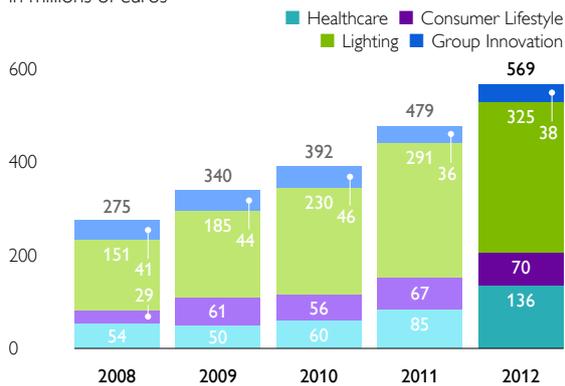
In this environmental performance section an overview is given of the most important environmental parameters of the program. Improving people's lives, Health & Safety, Employee Engagement and Supplier Sustainability are addressed in the Social performance section. Details of the EcoVision parameters 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](http://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](http://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**

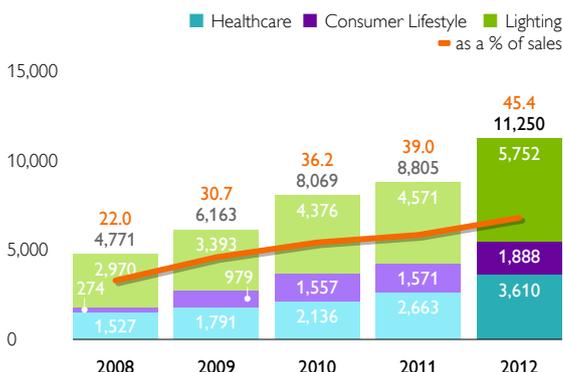
In 2012, sales from Green Products increased from EUR 8.8 billion in 2011 to EUR 11.3 billion, or 45% of sales, on track to reach the target of 50% in 2015.

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 than 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<sub>2</sub> 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<sub>2</sub> emissions from manufacturing (+1% compared to 2011), due to a significant increase in reporting sites (acquisitions).

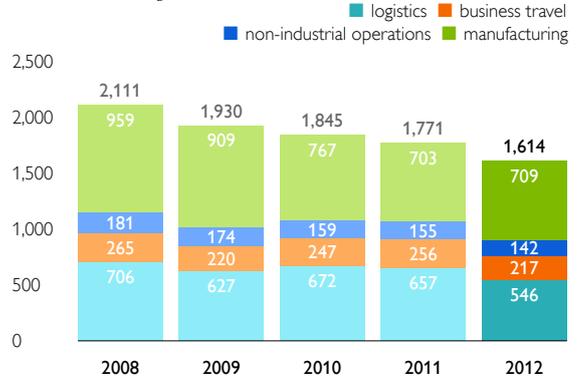
In 2012, CO<sub>2</sub> emissions from non-industrial sites decreased 9%, partly because of our continued focus on the most efficient use of facility space, for instance with our Work Place Innovation program (which enables flex-working), but also due to the increased share of purchased electricity from 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<sub>2</sub> emissions. In 2012, logistics CO<sub>2</sub> 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<sub>2</sub>-equivalent



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

	2008	2009	2010	2011	2012
Operational CO <sub>2</sub> emissions in kilotonnes CO <sub>2</sub> -equivalent	2,111	1,930	1,845	1,771	1,614
Operational CO <sub>2</sub> efficiency in tonnes CO <sub>2</sub> -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<sub>2</sub>-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<sup>3</sup>, 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<sup>3</sup>

	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**

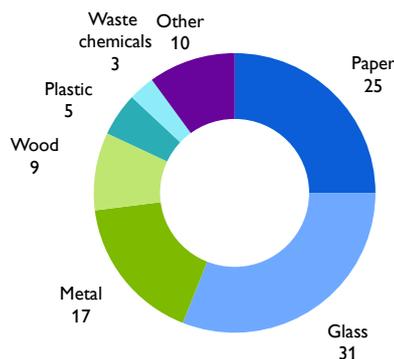
Total waste decreased 7% to 88 kilotonnes in 2012 from 94 kilotonnes in 2011. Lighting (74%) and Consumer Lifestyle (14%) account for 88% of our total waste. The reduction was due to the divestment of the Television activities and organizational changes in all sectors.

**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.

*Content you didn't download*

- 5.4 Proposed distribution to shareholders
- 5.5 Outlook
- # Critical accounting policies

# 14 Sustainability statements

## Approach to sustainability reporting

Philips has a long tradition of sustainability reporting, beginning in 1999 when we published our first environmental annual report. In 2003, we expanded our reporting with the launch of our first sustainability annual report, which provided details of our social and economic performance in addition to our environmental results.

As a next step, we decided to publish an integrated financial, social and environmental report, reflecting the progress we have made embedding sustainability in our way of doing business in 2008. This is also supported by the inclusion of sustainability in the Philips Commitments and the company strategy.

This is our fifth annual integrated financial, social and environmental report.

## Tracking trends

We continuously follow external trends to determine the issues most relevant for our company and those where we can make a positive contribution to society at large. In addition to our own research, we make use of a variety of sources, including the United Nations Environmental Programme (UNEP), World Bank, World Business Council for Sustainable Development (WBCSD), World Economic Forum and World Health Organization. Our work also involves tracking topics of concern to governments, regulatory bodies, academia, and non-governmental organizations, and following the resulting media coverage.

## 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. We participate in meetings and task forces as a member of organizations including the WBCSD, Electronic Industry Citizenship Coalition (EICC), Carbon Disclosure Project Supply Chain, European Committee of Domestic Equipment Manufacturers (CECED), Federation of National Manufacturers Associations for Luminaires and Electrotechnical Components for Luminaires in the European Union (CELMA), European Coordination Committee of the Radiological, Electromedical and Healthcare IT Industry (COCIR), Digital Europe, European Lamp Companies Federation (ELC), European

Roundtable of Industrialists (ERT), National Electrical Manufacturers Association (NEMA), Environmental Leadership Council of the Information Technology Industry Council (ELC ITIC), Consumer Electronics Association (CEA), Association of Home Appliance Manufacturers (AHAM) and Healthcare Plastics Recycling Council (HPRC).

In 2011, a multi-stakeholder project with the Sustainable Trade Initiative (IDH), a number of NGOs, and electronic companies was started. The program focuses on improving working circumstances in the electronics industry in China.

Furthermore, we engaged with a number of NGOs, including Enough, GoodElectronics, MakeITfair, the leading Dutch labor union (FNV), the Chinese Institute of Public and Environmental Affairs, SOMO, Amnesty International and Greenpeace.

## Biodiversity

Philips' commitment to the subject of biodiversity made several significant steps forward in 2012. This was led mainly by the Philips Leaders for Nature (LFN) team which is part of the IUCN Netherlands committee LFN program. The program brings companies, NGOs and government together to work on the topic of business and biodiversity. The Philips LFN team grew both in the number of team members, local and company-wide initiatives, as well as widening the scope of discussions on the internal company-wide social network platform. This year the LFN team not only took an active part for the 5th year in the LFN programs but was represented on the LFN organizing committee for the second year running.

In October, the Philips LFN team organized the Philips sustainability week. This was planned to coincide with the Dutch Sustainability awareness day. The Philips activities took place across multiple sites and were intended to raise awareness of sustainability and biodiversity among Philips employees in the Netherlands. The program included education around biodiversity, sustainable transport, recycling, green products, and reducing your footprint by adopting a more vegetarian diet. There were also recycling and biodiversity restoration activities at the Philips Innovation Campus in Bangalore, Cleveland, Klagenfurt, Reedsville, and the Eindhoven High-Tech Campus amongst others.

The Philips Drachten site green teams have started a program to investigate opportunities for biodiversity restoration locally. This is part of a campaign to raise awareness that healthy ecosystems are the very foundations of our existence. The teams carried out a biodiversity scan of their site and are implementing recommended actions to increase site biodiversity. This will enable the restoration of the local flora and fauna and creating a pleasant outdoor environment for Drachten employees.

In November, the LFN team together with the Philips Corporate Sustainability Office organized the first and very successful Business Ecosystems Training (BET). The training was web-based and nearly 200 Philips employees from all sectors and 21 countries participated. This was the first of a series of trainings intended to increase the knowledge and understanding of the links between ecosystems and business. The BET program was developed by the WBCSD, its member companies and partners, and the IUCN. The training included an introduction to biodiversity and ecosystems, the link to Philips (risks and opportunities) what Philips and other companies have done and can do to include natural capital into their everyday activities.

Philips policy continues to focus on:

- Continuing to reduce the impact of our operations through our Green Operations program, focusing on CO<sub>2</sub> emissions, water, waste and restricted and hazardous substances
- Continuing our EcoDesign activities, resulting in Green Products
- Study concepts such as 'Cradle to Cradle', 'Biomimicry' and 'The Natural Step' – all focused on learning or imitating nature's remarkably efficient designs – for our Sustainable Innovation efforts
- Continuing our global partnership with IUCN, the International Union for the Conservation of Nature. Together we are exploring how specific lighting technology can redress the disturbance of fauna around the world, enabling it to co-exist with human sea and coastal development, for instance.

## Reporting standards

In this report, we have followed relevant best practice standards and international guidelines while reporting on our sustainability performance. Most important are the Global Reporting Initiative's (GRI) G3.1 Sustainability Reporting Guidelines.

With regard to the GRI Application Levels system, we assessed ourselves at the A+ level. A detailed overview of our Management Approach and the G3.1 Core Indicators is provided at the end of this section.

We signed on to the United Nations Global Compact in March 2007, joining thousands of companies from all regions of the world as well as international labor and civil society organizations to advance 10 universal principles in the areas of human rights, labor, the environment and anti-corruption. Our General Business Principles, Sustainability and Environmental Policies, and our Supplier Sustainability Declaration are the cornerstones that enable us to live up to the standards set by the Global Compact. This is closely monitored and reported, as illustrated throughout this report, which is also our annual Communication on Progress (COP) submitted to the UN Global Compact Office.

## Material issues and our focus

Based on ongoing trend analysis and stakeholder input, we identify the key material issues for our company from a sustainability perspective. We have mapped the issues in the table below, taking into account the:

- level of concern to society at large and stakeholders, versus impact on Philips, and
- level of control or influence we can have on an issue through our operations and products/solutions.

This is a dynamic process, as we continuously monitor the world around us. We develop our policies and programs based on our findings. The results have been reviewed and approved by the Sustainability Board.

## Key material issues

	Reference <sup>1)</sup>
<b>Environmental</b>	
- Climate change	section 4.1, The power to make a difference, of this Annual Report section 5.3, Environmental performance, of this Annual Report section 14.2, EcoVision, of this Annual Report
- Energy management	section 3.5, Re-inventing lighting for consumers, of this Annual Report section 4.1, The power to make a difference, of this Annual Report section 5.3, Environmental performance, of this Annual Report
- Clean technologies	sub-section 6.4.1, Philips Group Innovation, of this Annual Report
- Collection and recycling (waste)	chapter 2, Group strategic focus, of this Annual Report section 4.1, The power to make a difference, of this Annual Report section 5.3, Environmental performance, of this Annual Report section 14.2, EcoVision, of this Annual Report
- Limited natural resources and resource efficiency	chapter 2, Group strategic focus, of this Annual Report section 4.1, The power to make a difference, of this Annual Report section 5.3, Environmental performance, of this Annual Report section 14.2, EcoVision, of this Annual Report
- Decreasing biodiversity (including wood and paper sources)	chapter 14, Sustainability statements, of this Annual Report
- Water scarcity	chapter 14, Sustainability statements, of this Annual Report
- Nano materials	sub-section 6.4.1, Philips Group Innovation, of this Annual Report
<b>Societal</b>	
- Aging population	chapter 2, Group strategic focus, of this Annual Report section 6.1, Healthcare, of this Annual Report
- Rising healthcare costs	chapter 2, Group strategic focus, of this Annual Report section 6.1, Healthcare, of this Annual Report
- Chronic and lifestyle related diseases	chapter 2, Group strategic focus, of this Annual Report section 6.1, Healthcare, of this Annual Report
- Healthy Living	Message from the CEO, of this Annual Report chapter 2, Group strategic focus, of this Annual Report section 6.2, Consumer Lifestyle, of this Annual Report
- Expanding middle class in growth geographies	Message from the CEO, of this Annual Report section 6.2, Consumer Lifestyle, of this Annual Report
- Rising attention for human rights (deeper into the supply chain)	section 5.2, Social performance, of this Annual Report chapter 14, Sustainability statements, of this Annual Report section 14.5, Supplier indicators, of this Annual Report
- Demographic shift and urbanization	section 3.1, Driving progressive health care, of this Annual Report section 3.6, Enhancing urban life with light, of this Annual Report
- Conflict minerals	sub-section 5.2.10, Supplier sustainability, of this Annual Report section 14.5, Supplier indicators, of this Annual Report
- Employee health and safety	section 5.2, Social performance, of this Annual Report
- Economic downturn	Message from the CEO, of this Annual Report
- Transparency and stakeholder activism	sub-section 5.2.9, Stakeholder engagement, of this Annual Report sub-section 5.2.10, Supplier sustainability, of this Annual Report section 14.5, Supplier indicators, of this Annual Report
- Food scarcity	sub-section 5.3.1, Green Innovation, of this Annual Report chapter 14, Sustainability statements, of this Annual Report

	Reference <sup>1)</sup>
<b>Governance</b>	
- Privacy	section 14.4, General Business Principles, of this Annual Report
- Business ethics and General Business Principles	section 14.4, General Business Principles, of this Annual Report
- Partnerships and co-creation	section 4.2, Encouraging positive change, of this Annual Report sub-section 6.4.1, Philips Group Innovation, of this Annual Report chapter 14, Sustainability statements, of this Annual Report
- Impact of social media	sub-section 5.2.9, Stakeholder engagement, of this Annual Report section 14.4, General Business Principles, of this Annual Report
- Metrics beyond financials	section 5.2, Social performance, of this Annual Report section 5.3, Environmental performance, of this Annual Report
- Increasing product regulation	section 7.5, Compliance risks, of this Annual Report sub-section 6.1.3, About Philips Healthcare, of this Annual Report sub-section 6.2.3, About Consumer Lifestyle, of this Annual Report sub-section 6.3.3, About Philips Lighting, of this Annual Report

<sup>1)</sup> With the exception of section 5.2, Social performance, of this Annual Report, section 5.3, Environmental performance, of this Annual Report, and chapter 14, Sustainability statements, of this Annual Report, the sections and chapters referred to are not included in the scope of the assurance engagement

## Programs and targets

Our sustainability commitments are grouped under the label EcoVision, comprising the following elements:

	target 2015	baseline year
<b>Green Product Sales</b>	50% of total sales	
<b>Lives Improved</b>	2 billion	
<b>Green Innovation</b>		
- Investments	EUR 2 billion (cumulative)	2010
- Energy Efficiency	49 Lumen/Watt (up 50%)	2009
- Materials		
- Collection & Recycling	74,000 tonnes (up 100%)	2009
- Recycled content	15,000 tonnes (up 100%)	2009
<b>Green Operations</b>		
- CO <sub>2</sub> reduction	40%	2007
- Health & Safety	0.26 Lost Workday Injury Cases per 100 FTE	
<b>Supplier Sustainability<sup>1)</sup></b>	72% compliant	

<sup>1)</sup> For more information see section 14.5, Supplier indicators, of this Annual Report

All of our programs are guided by the Philips General Business Principles, which provide the framework for all of our business decisions and actions.

## Scope of sustainability reporting

Our sustainability performance reporting encompasses the consolidated Philips Group activities, following the consolidation criteria detailed in this section.

The consolidated selected financial information in this sustainability statements section has been derived from the Group Financial Statements, which are based on IFRS.

## Comparability and completeness

We used expert opinions and estimates for some parts of the Key Performance Indicator calculations. There is therefore an inherent uncertainty in our calculations. The figures reported are Philips' best possible estimate. As our insight increases, we may enhance the methodology in the future.

Lives improved by Healthcare have been restated for 2010 and 2011 as a result of improved data quality. Collection and Recycling data for 2011 has been restated to reflect the inclusion of Consumer Luminaires.

The Green Product definition has changed in 2012 to include absolute product norms as well as the revenues from remote servicing. The introduction of absolute norms has a downward impact on the Green Product sales, since these are more stringent than the previous definition. The inclusion of remote servicing in Healthcare has an immaterial upward impact on the trend.

The emissions of substances data is based on measurements and estimates at manufacturing site level. There is therefore an inherent uncertainty in our calculations. The figures reported are Philips' best possible estimate. As our insight increases, we may enhance the methodology in the future.

Integration of newly acquired activities is scheduled according to a defined integration timetable (in principle, first full reporting year after the year of acquisition) and subject to the integration agenda. Data for activities that are divested during the reporting year are not included in full-year reporting. Environmental data are measured for manufacturing sites with more than 50 industrial employees.

Social data cover all employees, including temporary employees, but exclude contract workers. Due to the implementation of new HRM systems, we are able to provide exit diversity information on Philips employees for 2012. Historical comparisons may not be available, however.

Health and safety data is measured for units with over 50 FTEs (full-time equivalents) and is voluntary for smaller units. New acquisitions must report, in principle, the first year after acquisition and subject to the integration agenda. Data for activities that are divested during the reporting year are not included in full-year reporting.

Prior periods amounts have been revised to reflect certain immaterial adjustments (see section 12.10, Significant accounting policies, of this Annual Report).

### Data definitions and scope

#### Lives improved, energy efficiency and materials

The key performance indicators on 'lives improved', 'energy efficiency' and 'materials' and the scope are defined in the respective methodology documents that can be found at [www.philips.com/sustainability](http://www.philips.com/sustainability).

#### 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.

#### Green Innovation

Green Innovation comprise all R&D activities directly contributing to the development of Green Products or Green Technologies. A wide set of additional criteria and boundaries have been defined as the basis for internal and external validation.

#### Environmental data

All environmental data from manufacturing operations are reported on a half-year basis in our sustainability reporting and validation tool, according to defined company guidelines that include definitions, procedures and calculation methods.

Internal validation processes are followed and audits performed to ensure consistent data quality and to assess the robustness of data reporting systems.

These environmental data from manufacturing are tracked and reported to measure progress against our Green operations program targets.

Reporting on ISO 14001 certification is based on manufacturing units reporting in the sustainability reporting system.

#### Operational carbon footprint

The Philips operational carbon footprint is calculated on a half-yearly 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
- Logistics – air, sea and road transport

All emission factors used to transform input data (for example, amount of tonne-kilometers transported) into CO<sub>2</sub> emissions are from the Greenhouse Gas Protocol (GHGP), except for business travel, where the service providers supplied CO<sub>2</sub> data based on their own verified methodology. The GHGP distinguishes three scopes. It is mandatory to report on the first two to comply with the GHGP reporting standards.

- Scope 1 – direct CO<sub>2</sub> emissions – is reported on with direct emissions from our industrial and non-industrial sites in full. Emissions from industrial sites, which consist of direct emissions resulting from processes and fossil fuel combustion on site, are reported in the sustainability reporting system. Energy use and CO<sub>2</sub> emissions from non-industrial sites are based on actual data where available. If this is not the case, they are estimated based on square meters, taking the geographical location and building type of the site into account.
- Scope 2 – CO<sub>2</sub> emissions resulting from the generation of purchased electricity for our premises – is reported on with electricity use from industrial and non-industrial sites in full. Indirect CO<sub>2</sub> emissions resulting

from purchased electricity, steam and heat are reported in the sustainability reporting system. Those emissions of industrial sites not yet reporting are calculated on the same basis as described in Scope 1. Indirect emissions of non-industrial sites are calculated in the same manner as described in Scope 1.

- Scope 3 – other CO<sub>2</sub> emissions related to activities not owned or controlled by the Group is reported on for our business travel and distribution activities.

Commuting by our employees, upstream distribution (before suppliers ship to us), outsourced activities and emissions resulting from product use by our customers are not included in our operational carbon footprint. The calculations for business travel by lease cars are based on actual fuel usage and for rental cars on distance traveled. Emissions from business travel by airplane are calculated by the supplier based on mileage flown and emission factors from DEFRA (UK Department of Environment, Food and Rural Affairs), distinguishing between short, medium and long flights. Further, emissions from air freight for distribution are calculated based on the amount of tonne-kilometers transported between airports (distinguishing between short, medium and long hauls), including an estimate (based on actual data of the lanes with the largest volumes) for trucking from sites and distribution centers to airports and vice versa. Express shipments are generally a mix of road and air transport, depending on the distance. Therefore the assumption is applied that shipments over less than 600 km are transported by road and the rest of the shipments by air (those emissions by air are calculated in the same way as air freight). For sea transport, only data on transported volume were available so an estimate had to be made about the average weight of a container. Transportation to and from ports is not registered. This fore and aft part of sea transport was estimated to be around 3% of the total distance (based on actual data of the lanes with the largest volumes), consisting of a mix of modalities, and was added to the total emissions accordingly. CO<sub>2</sub> emissions from road transport were also calculated based on tonne-kilometers. If data were incomplete, the emissions were estimated based on sales volumes. Return travel of vehicles is not included in the data for sea and road distribution.

### Health and safety

Health and safety data are reported and validated monthly. The focus is on reporting work-related injuries, which predominantly occur in manufacturing operations. The annual number of cases leading to at least one lost workday is reported per 100 FTEs (full-time equivalents). Fatalities are reported for staff, contractors and visitors and include commuting accidents.

### General Business Principles

Alleged GBP violations are registered in our intranet-based reporting and validation tool.

### Supplier audits

Supplier audits are primarily focused on identified risk suppliers, based on identified risk countries and on spend of more than EUR 1 million (new suppliers EUR 100,000 and no threshold for high risk suppliers).

- Based on the Maplecroft Human Rights Risk Indexes, risk countries for Supply Management in 2012 were: Belarus, Brazil, China, Dominican Republic, India, Indonesia, Mexico, the Philippines, Russia, and Ukraine.
- Suppliers of new ventures are included to the extent that the integration process of these ventures has been finalized. Normative integration period is two years after closure of the new venture.

### Sustainability governance

Sustainability is strongly embedded in our core business processes, like innovation (EcoDesign), sourcing (Supplier Sustainability Involvement Program), manufacturing (Green Manufacturing 2015) and Logistics (Green Logistics).

The Sustainability Board is the highest governing sustainability body in Philips, chaired by Jim Andrew, member of the Executive Committee. Three other Executive Committee members sit in the Sustainability Board jointly with sector and functional executives. The Sustainability Board convenes four times per year, defines Philips' sustainability strategy and programs, monitors progress and takes corrective action where needed.

### External assurance

KPMG has provided reasonable assurance on whether the information in chapter 14, Sustainability statements, of this Annual Report including the information referred to in section 5.2, Social performance, of this Annual Report and section 5.3, Environmental performance, of this Annual Report is, in all material respects, fairly presented in accordance with the reporting criteria. We refer to section 14.6, Independent assurance report, of this Annual Report.

## 14.1 Economic indicators

This section provides summarized information on contributions on an accruals basis to the most important economic stakeholders as a basis to drive economic growth. For a full understanding of each of these indicators, see the specific financial statements and notes in this report.

### Distribution of direct economic benefits

in millions of euros

	2010	2011	2012
Suppliers: goods and services	13,265	13,845	15,379
Employees: salaries and wages	5,035	5,123	5,974
Shareholders: distribution from retained earnings	650	711	687
Government: corporate income taxes	497	283	308
Capital providers: net interest	225	210	241

Total purchased goods and services amounted to EUR 15.4 billion, representing 62% of total revenues of the Philips Group. Of this amount, 65% was spent with global suppliers, the remainder with local suppliers. Compared to 2011, spending increased in absolute terms as a result of higher sales volumes.

In 2012, the salaries and wages totaled EUR 6.0 billion. This amount is EUR 851 million higher than in 2011, mainly caused by restructuring costs. See note 1, Income from operations for more information.

Dividend distributed to shareholders amounted to EUR 687 million, EUR 24 million down compared to 2011.

Corporate income taxes increased slightly to EUR 308 million in 2012 from EUR 283 million in 2011, mainly attributable to higher taxable earnings. For a further understanding, see note 3, Income taxes.

## 14.2 EcoVision

Our latest EcoVision program, includes key performance indicators in relation to Green Product sales, Improving people's lives, Green Innovation, Green Operations, Health & Safety, Employee Engagement and Supplier Sustainability.

### Improving people's lives

Philips products and solutions that directly can support the curative or preventive side of people's health was one of the parameters of our EcoVision 5 program, labelled 'Bringing care to people', with a target of 500 million lives touched in 2015. In this category in 2012, we already touched over 570 million lives, driven by our Healthcare sector.

With the renewal of our company vision in 2012 we have extended that approach with our 'well-being' products that help people live a healthy life as well as our Green Products and solutions of all sectors that contribute to a healthy ecosystem. For the year 2012 we have established our total baseline of 1.7 billion people a year.

Examples of product categories contributing to the 'care' category are all healthcare products.

Examples of products in the 'well-being' category that help people live a healthier life are juicers, blenders, air fryers, but also mother and childcare products. Further details on this parameter and the methodology can be found in the document 'Improving people's lives'.

### Operational carbon footprint and energy efficiency

Our operational carbon footprint decreased 9% in 2012.

#### Operational energy efficiency and carbon footprint: 2012 details

The 2012 results can be attributed to several factors:

- Accounting for 44% of the total footprint, total CO<sub>2</sub> emissions from manufacturing increased due to acquisitions which were largely mitigated by continued energy efficiency improvement programs, our changing industrial footprint and the further increase of the share of purchased electricity from renewable sources to 47% of total purchased electricity.
- CO<sub>2</sub> emissions from non-industrial operations (offices, warehouses, etc.) represent 9% of the total. The overall floor space decreased marginally. However, CO<sub>2</sub> emissions decreased 9% as we continued to centralize

and re-allocate existing facilities, focusing on the most efficient use of facility space and increasing the share of purchased electricity from renewable sources.

- The total CO<sub>2</sub> emissions related to business travel, accounting for 13% of our carbon footprint, decreased 15%. Our stringent in-house travel policy resulted in a significant decrease of CO<sub>2</sub> emissions from air travel and rental cars. Furthermore, the fleet of lease cars increased but the total CO<sub>2</sub> emissions decreased.
- Overall CO<sub>2</sub> emissions from logistics, representing approximately one third of the total, decreased 17%. This decrease mainly resulted from the exclusion of TV business. However, results can also be attributed to an effective gatekeeping process to move freight from air to sea, as well as our continued focus on optimizing container utilization.

#### Operational carbon footprint for logistics

in kilotonnes CO<sub>2</sub>-equivalent

	2008	2009	2010	2011	2012
Air transport	305	308	345	328	309
Road transport	211	174	160	176	105
Sea transport	190	145	167	153	132
Philips Group	706	627	672	657	546

## 14.3 Green Operations

In 2010, we decided to group all activities related to improving the environmental performance of our manufacturing facilities (including chemicals management) under the Green Manufacturing 2015 program, which we renamed to Green Operations. The program focuses on most contributors to climate change, but also addresses water, recycling of waste and chemical substances.

In the course of 2012 we implemented a new IT solution for our environmental reporting, thereby further improving the data quality and the accuracy of the reporting process. Next, we implemented a new process to monitor chemicals used in processes in more detail. Since Philips focuses its reduction efforts on the restricted and hazardous substances listed below, we decided to exclude the categories 'Other restricted substances' and 'Other hazardous substances' from our reporting in 2012. Based on the new insights gained through the new chemicals management process, we will define new reduction targets in 2013 for some of those chemicals.

#### Green Operations

in % unless otherwise stated

	2007 baseline year	2012 actual <sup>1)</sup>	2015 target <sup>1)</sup>
Total CO <sub>2</sub> from manufacturing	865 kilotonnes CO <sub>2</sub> -equivalent	- 20	- 25
Water	4.2 million m <sup>3</sup>	15	- 10
Materials provided for recycling via external contractor per total waste	79	77	80
<b>Restricted substances:</b>			
Benzene emission	52 kg	- 100	achieved
Mercury emission	185 kg	- 71	- 100
CFCs, HCFCs	156 kg	- 100	achieved
<b>Hazardous substances</b>			
Lead emission	1,838 kg	- 96	- 100
PFCs	1,534 kg	67	- 35
Toluene emission	2,210 kg	180	- 90
Xylene emission	4,506 kg	320	- 90
Styrene	80,526 kg	- 47	- 90
Antimony, Arsenic and their compounds	18 kg	- 99	- 100

<sup>1)</sup> Against the base year 2007

## Energy use in manufacturing

Total energy usage in manufacturing amounted to 14,421 terajoules in 2012, of which Lighting consumes about 80%. Compared to 2011, energy consumption at Philips went up by 3%. This was driven by new acquisitions reporting for the first time, organizational changes and energy efficiency improvements.

### Total energy consumption in manufacturing

in terajoules

	2008	2009	2010	2011	2012
Healthcare	1,612	1,670	1,545	1,541	1,798
Consumer Lifestyle	1,521	1,188	1,274	1,252	1,104
Lighting	11,359	11,535	11,580	11,189	11,519
Innovation, Group & Services	34	28	27	-	-
Philips Group	14,526	14,421	14,426	13,982	14,421

## Carbon emissions in manufacturing

The greenhouse gas emissions of our manufacturing operations totaled 691 kilotonnes CO<sub>2</sub>-equivalent in 2012, 9% higher than 2011. Indirect CO<sub>2</sub> emissions increased, mainly as a result of new acquisitions reporting for the first time.

### Total carbon emissions in manufacturing

in kilotonnes CO<sub>2</sub>-equivalent

	2008	2009	2010	2011	2012
Direct CO <sub>2</sub> <sup>1)</sup>	300	295	299	294	294
Indirect CO <sub>2</sub>	436	443	317	273	310
Other greenhouse gases	61	54	34	40	60
From glass production	28	24	25	28	27
Philips Group <sup>2)</sup>	825	816	675	635	691

<sup>1)</sup> From energy

<sup>2)</sup> Excluding new acquisitions therefore different from Operational carbon footprint

CO<sub>2</sub> emissions increased at Healthcare and CL due to new acquisitions reporting for the first time, mitigated by energy efficiency improvements and electricity generated by renewable sources. Lighting achieved additional reductions in CO<sub>2</sub> emissions due to changes in the industrial footprint.

### Total carbon emissions in manufacturing per sector

in kilotonnes CO<sub>2</sub>-equivalent

	2008	2009	2010	2011	2012
Healthcare	120	118	57	54	70
Consumer Lifestyle	70	53	42	39	38
Lighting	633	644	575	542	583
Innovation, Group & Services	2	1	1	-	-
Philips Group	825	816	675	635	691

## Restricted substances

Emissions of restricted substances totaled 55 kilos in 2012, a decrease of 50% versus 2011 mainly as a result of the successful phase-out of benzene in Lighting. With the Green Operations program we continue to focus on a selection of the most important substances in our processes.

### Restricted substances

in kilos

	2008	2009	2010	2011	2012
Benzene and Benzene compounds	1	136	101	55	-
Mercury and Mercury Compounds	211	122	83	51	54
CFCs/HCFCs <sup>1)</sup>	213	14	4	5	1
Total	425	272	188	111	55

<sup>1)</sup> Excluding cooling systems

### Benzene

Lighting was the only sector that used benzene in manufacturing, but has been successful in 2012 in the phase-out of benzene.

### Mercury

Mercury is used exclusively by Lighting. Emissions increased from 51 kg in 2011 to 54 kg in 2012, due to increased loads and a product mix change.

### CFCs/HCFCs

In 2012 total emissions from CFCs/HCFCs reduced further to 1 kg.

## Hazardous substances

Targets have been set on a selected number of hazardous substances.

**Hazardous substances**

in kilos

	2008	2009	2010	2011	2012
Lead and lead compounds	684	1,958	108	44	73
PFCs (Per Fluorinated Compounds)	1,858	2,535	1,507	1,842	2,560
Toluene	2,524	2,160	6,745	5,745	6,184
Xylene	3,684	4,619	30,491	37,889	18,947
Styrene	37,454	21,567	22,920	19,920	42,329
Antimony, Arsenic and their compounds	16	30	24	37	–
<b>Total</b>	<b>46,220</b>	<b>32,869</b>	<b>61,795</b>	<b>65,477</b>	<b>70,093</b>

**Lead and lead compounds**

The 66% increase in 2012 was mainly related to soldering activities and increased load in Lighting.

**PFCs**

The increase in 2012 to 2,560 kg was caused by one Lighting site where PFCs are used as process chemicals.

**Toluene**

The emission of toluene, mainly used in wet lacquers, increased by 8% in 2012 largely as a result of an increased number of reporting sites.

**Xylene**

Activities focused on the reduction of Xylene were successful as wet lacquers were replaced by powder coatings mainly at Consumer Lifestyle and Lighting.

**Styrene**

In 2012, the emission of styrene more than doubled compared to 2011 due to one new reporting site in Lighting.

**Antimony, Arsenic and their compounds**

Lighting was successful in phasing-out these substances.

**ISO 14001 certification**

In 2012, 71% of reporting manufacturing sites were certified. This decrease compared to the previous year is attributable to new acquisitions being included in the reporting for the first time, but not being certified yet. The sectors have programs in place to address this.

**ISO 14001 certification**

as a % of all reporting organizations

	2008	2009	2010	2011	2012
Philips Group	95	92	95	89	71

**Environmental Incidents**

In 2012, 2 incidents were reported by Healthcare related to water. There were no fines reported in our sustainability reporting tool in connection with one of the incidents.

## 14.4 General Business Principles

The analysis is based upon 374 reports submitted in 2012 relating to alleged violations of the General Business Principles (GBP), compared to 269 in 2011.

We see a considerable increase in number of complaints reported, which can be attributed mainly to an increase in number of complaints in North America, which accounted for 47% of all complaints (2011: 32%). This dominance in North America we believe is due to a corporate culture in which employees are very much aware of compliance issues, their rights and the opportunities for reporting potential violations. A considerable decrease in complaints reported is shown in Latin America (2012: 21%; 2011: 32%). The management attention and additional training in 2012 including the launch of a 'Mutual Respect' e-training in Brazil early 2012 we believe may have contributed to this decline. With 15% of the total number of reported complaints, Europe and the Middle East region show a relative decrease in comparison to 2011 (19%). A minor increase is witnessed in the Asia Pacific region, which accounted for 18% of all reports (2011: 17%).

### Most common types of alleged violations

#### Treatment of employees

The most common alleged violations remain related to the Treatment of employees category, which represented 55% of all violations (2011: 49%).

As in 2011, the vast majority of the Treatment of employees complaints (almost 85%) remains related to two issues – Discrimination and Respectful treatment. The increase in number of complaints this year can be attributed to the increase related to these two issues.

Complaints regarding Discrimination mainly relate to discrimination based on gender and favoritism, and originated principally in the US and Brazil. Of the complaints reported in the US, 30% related to discrimination, and of the complaints reported in Brazil, 14% related to discrimination, whereas that figure was 19% for Philips. For Brazil, this is a notable decline in percentage in comparison to last year (23%).

Most complaints regarding lack of Respectful treatment – primarily verbal abuse, (sexual) harassment and unfair treatment – again come from the US and Brazil. Of the complaints reported in the US, 37% related to respectful treatment; of the complaints reported in Brazil, 32% related to respectful treatment; compared to 27% for Philips as a whole.

#### Business integrity

In second place, with 32% of the total number of complaints, are allegations in the Business integrity category (2011: 40%).

#### Supply Management

All employees who are performing (certain) purchasing functions should adhere to and fully comply with the Philips Supply Management Code of Ethics. As in the previous two years, we witnessed a low number of complaints in this regard in 2012, with only 3 complaints concerning alleged violations of the Code (2011: 3 complaints).

More information on these categories can be found in the GBP Directives on [www.philips.com/gbp](http://www.philips.com/gbp).

#### Breakdown of alleged violations GBP

	2008	2009	2010	2011	2012
<b>Health &amp; Safety</b>	10	6	3	2	11
<b>Treatment of employees</b>	197	162	184	132	205
- Collective bargaining	1	–	1	–	1
- Discrimination	76	63	64	41	72
- Employee development	8	3	1	–	–
- Employee privacy	2	2	2	1	1
- Employee relations	14	15	4	1	2
- Respectful treatment	81	53	96	71	102
- Remuneration	7	22	12	6	15
- Right to organize	–	–	–	–	1
- Working hours	8	4	4	2	–
- HR other	–	–	–	10	11
<b>Legal</b>	8	4	13	10	19
<b>Business Integrity</b>	62	88	112	107	119
<b>Supply management</b>	5	4	4	3	3
<b>Other</b>	78	54	22	15	17
<b>Total</b>	360	318	338	269	374

#### Actual violations versus not proven allegations

Although 76 of the 374 GBP complaints reported in 2012 are still pending (especially those lodged during the last three months of the year), the table of investigated complaints provides an initial indication of the number of

substantiated violations compared to the number of complaints which, upon investigation, could not be substantiated.

Out of the 298 complaints investigated, it was found that roughly one quarter (26%) were justified, considerably lower than in 2011 (32%).

With regard to complaints regarding Treatment of employees, there was a considerable decrease in the number of justified complaints to 13% of the total number of complaints in this category (2011: 21%).

In the other major category, i.e. the investigated complaints in the Business integrity category, the percentage of complaints that were justified decreased slightly to 42% (2011: 43%).

A range of disciplinary and corrective measures have been implemented as a result of established violations of the General Business Principles, ranging from dismissal and written warnings to awareness training sessions and organizational measures.

#### Classification of the complaints investigated

category	2010		2011		2012	
	substantiated	unsubstantiated	substantiated	unsubstantiated	substantiated	unsubstantiated
Health & Safety	1	2	–	2	2	7
Treatment of employees	22	111	18	68	22	150
Legal	4	7	–	5	5	8
Business Integrity	39	45	33	43	37	51
Supply Management	2	2	2	1	1	–
Other	10	9	3	5	11	4
<b>Total</b>	<b>78</b>	<b>176</b>	<b>56</b>	<b>124</b>	<b>78</b>	<b>220</b>

## 14.5 Supplier indicators

Philips has a direct business relationship with approximately 10,000 product and component suppliers and 30,000 service providers. Given the size and complexity of our supply chain we need to focus our efforts. Therefore, we developed an approach based on the supplier's sustainability risk profile related to spend, country of production, business risk and type of supplier relationship. 594 supplier sites have been identified as risk suppliers, including 497 product and component suppliers, and 97 service providers. Different types of service providers are part of our audit program, including labor agencies and transportation companies. All risk suppliers are by definition part of our audit program.

#### Philips Supplier Sustainability Declaration

The Philips Supplier Sustainability Declaration is based on the EICC code of conduct and we added requirements on Freedom of Association and Collective Bargaining. The topics covered include labor and human rights, worker health and safety, environmental impact, ethics, and management systems. We monitor supplier compliance to the Declaration through a system of regular audits.

In 2012 we updated the Philips Supplier Sustainability Declaration and audit tools, to be in line with the new version of the EICC code of conduct that was recently issued. The updated Declaration includes 4 entirely new provisions, and 14 updates to existing provisions. The new provisions are related to responsible sourcing of minerals, protection of privacy, non-retaliation, and supplier responsibility to monitor code compliance at next tier suppliers. We begin to roll-out the updated Philips Supplier Sustainability Declaration via the purchasing contracts signed with suppliers, and via all trainings and audits conducted.

The Declaration requires suppliers to cascade the EICC Code of Conduct down to their next tier suppliers. This roll-out to deeper tiers in the supply chain is reviewed during the on-site audits. Risk suppliers with whom we have a direct business relationship are included in the audit program, and most of these are tier 1 suppliers. However, sometimes Philips also selects and prescribes the tier 2 suppliers, in which case these tier 2 suppliers will also be included in the audit program.

We monitor supplier compliance with the Declaration through a system of regular audits. During these audits, an independent external party visits the supplier's site for several man-days to hold interviews with workers and management, do a factory tour, and review documentation. Based on purchasing spend, production country and type of business, Philips selects suppliers for inclusion in the audit and supplier development program. 594 suppliers have been identified as risk suppliers and are included in the audit program; the majority of these are in China. During the audits, compliance with all sections of the Declaration is reviewed. In the event of non-compliance we require suppliers to make a corrective action plan, and we monitor its implementation until all major non-compliances are resolved. Full-scope audits are conducted in a 3-year cycle; to date we have audited 90% of all identified risk suppliers.

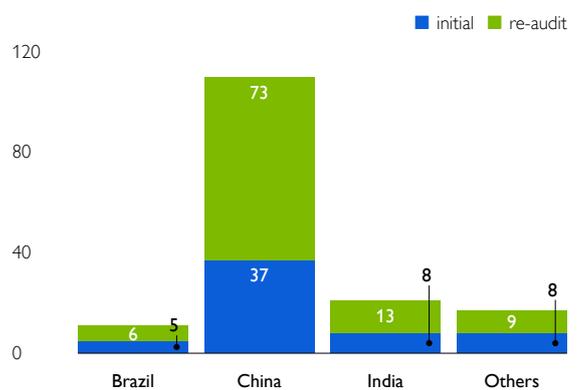
#### 2012 supplier sustainability audits

In 2012 we audited 159 of our current risk suppliers, including 100 continual conformance audits with suppliers that we already audited in 2009. Risk suppliers from recently acquired companies are also included, and this year we audited 17 suppliers from the acquisitions of Indal, Povos, and Preethi. As in previous years, the majority of the audits were done in China. Also in Brazil and India audits were done, as well as a small number of audits in Mexico, Indonesia, Philippines, Russia, Belarus, Ukraine and the Dominican Republic. With these audits we directly or indirectly impacted over 124,000 workers employed at the production sites that were audited.

On top of the audits with current risk suppliers, we also audited 65 potential suppliers during the supplier selection process. Below we report on the findings at existing suppliers only; findings at potential suppliers are not included in this report since these suppliers are not (yet) part of Philips' supply base.

To track our progress in improving compliance with risk suppliers we use the key performance indicator 'compliance rate', being the percentage of the risk suppliers that was audited in the last 3 years, and has resolved all major non-compliances. During 2012 we achieved a compliance rate of 75% (2011: 72%).

#### Number of initial and continual conformance audits



#### Audit findings

Below table shows the results of the full scope audits done during 2012. On average we identified 18 major non-compliances per audit, 5 zero tolerance and 13 limited tolerance non-compliances, and we work with each supplier to resolve these non-compliances within 90 days where possible. The limited-tolerance non-compliances include all management systems related issues, accounting for an average of 8 non-compliances per audit. The continual conformance audits showed on average a better result than the initial audits with suppliers that went through the audit cycle for the first time.

When the audit reveals areas of non-compliance we request suppliers to implement corrective actions and we monitor the implementation during resolution audits. During the year a total of 1,375 corrective actions were implemented successfully by our suppliers to resolve major non-compliances. The results of the resolution audits are not shown in below table.

During 2012 for 2 supplier sites the phase-out decision was taken due to, amongst others, a lack of sustainability improvements.

The most frequently observed areas of major non-compliance are:

- Working hours, wages and benefits: excessive overtime, continual seven-day working weeks, insufficient record keeping of standard and overtime working hours, no payment of overtime premiums
- Emergency preparedness: inadequate fire detection and suppression systems, blocked or insufficient emergency exits
- Occupational safety: worker exposure to safety hazards, e.g. electrical shocks
- Lack of adequate management systems to safeguard compliance to the EICC code for labor and ethics, health and safety and environment

Compared to 2011 we note on average per audit 8% more non-compliances for wages and benefits, and in particular full payment of all overtime premiums is an issue. Suppliers reported difficulties in implementing the yearly legal wage increases in China, especially in the current weak economic environment. For industrial hygiene and occupational safety non-compliances we observe a 9% and 7% increase respectively, which is mainly due to the application of new and stricter legislation in China.

Areas where we observe improvements compared to previous year are mainly related to environmental impact, especially for environmental permits and reporting, pollution prevention and resource reduction, and product content restrictions. These improvements are the result of increased enforcement and management awareness, and we believe that the Philips programs have contributed to this.

#### **Excessive working hours**

In China, there is a wide gap between legislated working hours and reality. Especially in regions with high shares of migrant workers a 72 hour working week is not uncommon. While this issue is not unique to Philips, we have decided to take a step-wise approach by working with our suppliers to reduce to a maximum of 60 work hours per week and at least one day off per week, except in emergency or unusual circumstances.

During the 2012 audits we identified 119 suppliers with working weeks exceeding 60 hours, and 88 cases where workers were not provided with one day off per week. In these cases we require suppliers to submit a corrective action plan taking into account factors like employee turnover, seasonality, workforce size, shift structure, productivity, demand planning, etc.

#### **Management systems**

There may be areas where our audits reveal compliance in actual practice, but the related underlying management systems to safeguard continued compliance may not be sufficient. Therefore, also management systems are reviewed during the audits. We see this area as a continued weak area at suppliers where further capacity building is necessary. Related to management systems the most frequently observed areas of non-compliance are insufficient risk assessment and self-audits, absence of performance objectives, and a lack of worker feedback and communication.

More information on the Supplier Sustainability Involvement Program, the Philips Supplier Sustainability Declaration and audit approach can be found at [www.philips.com/suppliers](http://www.philips.com/suppliers).

**Summary of 2012 initial and continued conformance audit findings per region**

suppliers with one or more major non-compliances per category (in % of suppliers audited in 2012)

	China	Asia excl. China	LATAM	EMEA	Total
No. of audits	110	30	16	3	159
Initial audits	37	12	9	1	59
Continued conformance audits	73	18	7	2	100
Average number of non-compliance per audit	19	16	16	7	18
Workers employed at sites audited	102,494	12,789	6,163	2,788	124,234
<b>Labor</b>					
Freely Chosen Employment <sup>1)</sup>	<10%	25-50%	10-25%	–	10-25%
Child labor avoidance /young worker management <sup>2)</sup>	<10%	–	–	–	<10%
Working hours	>75%	50-75%	25-50%	–	>75%
Wages and Benefits	50-75%	25-50%	10-25%	–	50-75%
Humane Treatment	–	–	–	–	–
Non-discrimination	10-25%	–	10-25%	–	<10%
Freedom of association	–	10-25%	–	–	<10%
Collective bargaining	–	–	–	–	–
<b>Health &amp; Safety</b>					
Occupational Safety	50-75%	25-50%	50-75%	50-75%	50-75%
Emergency Preparedness	50-75%	50-75%	50-75%	>75%	50-75%
Occupational Injury and Illness	25-50%	25-50%	<10%	25-50%	25-50%
Industrial Hygiene	50-75%	25-50%	10-25%	–	25-50%
Physically demanding work	<10%	–	10-25%	–	<10%
Machine safeguarding	10-25%	<10%	10-25%	–	10-25%
Dormitory and canteen	10-25%	10-25%	10-25%	–	10-25%
<b>Environment</b>					
Environmental Permits and Reporting	25-50%	10-25%	10-25%	–	10-25%
Pollution prevention and resource reduction	<10%	10-25%	10-25%	–	<10%
Hazardous substances	25-50%	10-25%	10-25%	–	25-50%
Waste water and solid waste	<10%	10-25%	10-25%	–	<10%
Air emissions	<10%	10-25%	<10%	–	<10%
Product content restrictions	25-50%	25-50%	25-50%	–	25-50%
<b>Management systems</b>					
Company Commitment	25-50%	25-50%	25-50%	25-50%	25-50%
Management Accountability and responsibility	50-75%	25-50%	50-75%	25-50%	50-75%
Legal and Customer Requirements	25-50%	25-50%	50-75%	50-75%	25-50%
Risk Assessment and Risk Management	50-75%	50-75%	50-75%	25-50%	50-75%
Performance Objectives	50-75%	50-75%	50-75%	25-50%	50-75%
Training	50-75%	25-50%	50-75%	–	50-75%
Communication	50-75%	25-50%	25-50%	25-50%	50-75%
Worker feedback and participation	50-75%	50-75%	50-75%	25-50%	50-75%
Audits and assessments	50-75%	50-75%	50-75%	25-50%	50-75%
Corrective action process	50-75%	25-50%	50-75%	50-75%	50-75%
Documentation and records	50-75%	25-50%	25-50%	–	25-50%
<b>Ethics</b>					
Business Integrity	<10%	10-25%	–	–	<10%
No Improper Advantage	<10%	10-25%	<10%	–	<10%
Disclosure of information	–	–	–	–	–
Protection of Intellectual Property	<10%	10-25%	–	–	<10%
Fair business, advertising and competition	<10%	10-25%	10-25%	–	<10%
Protection of identity	10-25%	10-25%	10-25%	–	10-25%

	China	Asia excl. China	LATAM	EMEA	Total
<b>General</b>					
EICC Code	25-50%	>75%	10-25%	25-50%	25-50%
Compliance with law	-	-	-	-	-

<sup>1)</sup> Freely chosen employment: these cases are related to 1) workers having to pay a deposit for uniforms, safety equipment, and/or tools. We requested suppliers to return these deposits to the workers and provide these items without demanding a deposit, and 2) in some cases no labor contract was signed. We requested suppliers to take corrective actions and verified that contracts were in place for all workers.

<sup>2)</sup> Child labor avoidance/young worker management: this is related to one case of historic child labor, where a supplier hired 2 workers prior to reaching the legal age, but they were no longer underage at the time of the audit. We requested the supplier to strengthen its management system and age verification procedure, and ensured that the workers were enrolled in the young worker management program.

### Supplier training and capability building

Based on many years of experience with the audit program, we know that a combination of audits, capacity building, consequence management and structural attention from management is crucial to realize structural and lasting changes at supplier production sites. During 2012 we extended capacity building initiatives which are offered to help suppliers improve their practices. We organize classroom training sessions, Philips sustainability experts regularly visit suppliers to provide on-site consultancy and training, and we invite suppliers to participate trainings provided by the EICC. In China and India we held dedicated training sessions about the EICC code of conduct, trainings about fire safety, electrical and machine safety, chemical management, and industry hygiene, which were attended by more than 380 supplier representatives for active and potential suppliers, including suppliers for recent acquisitions. In Shenzhen, China we also hosted a Health and Safety Training that was developed in joint effort by the EICC and GeSI.

In India, in a project initiated with the Dutch Ministry suppliers were coached by local consultants in the development and implementation of a sustainability strategy for their company, integrated in their business strategy. Three suppliers participated in this bottom-up approach, which helped suppliers to set their own objectives, based on their own priorities and values as responsible corporate citizens.

### Sustainable Trade Initiative IDH

Philips is one of the initiators of the [IDH Electronics Program](#), an innovative multi-stakeholder initiative sponsored by the Sustainable Trade Initiative (IDH) together with Dell, HP, Philips and civil society organizations. The program will work with over 100 electronics suppliers in China to support innovative workforce management practices, sustainability and better business performance. The goal is to improve working conditions of more than 500,000 employees in the electronics sector.

The program was formally kicked off end 2011 when the first suppliers entered the program, and in 2012 we continued the implementation phase in China's Pearl River Delta. A total of 8 Philips suppliers are now involved in the program. Suppliers receive a so-called Entry Point Assessment to identify challenges common to factory management and workers such as worker-management communication, occupational health and safety, production, performance management and environmental issues. Based on this a tailor made action plan is developed with each supplier on the basis of improved dialogue between management and workers. Suppliers receive support over a period of up to 24 months, and the costs of the program are shared between the supplier, Philips, and the IDH.

### Conflict minerals

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. These minerals may end up in many different products such as cars, planes, chemicals, packaging, and electronics equipment. Philips is committed to address this issue, even though it does not directly source minerals from the DRC. The supply chain for the metals of concern consists of many tiers, including mines, traders, exporters, smelters, refiners, alloy producers and component manufacturers, before reaching Philips' direct suppliers. Philips is working towards the following goals:

- Minimize trade in conflict minerals that benefit armed groups in the DRC or an adjoining country
- Enable legitimate minerals from the region to enter global supply chains, thereby supporting the Congolese economy and the local communities that depend on these exports.

### What are conflict minerals?

Conflict minerals are defined in the US Dodd-Frank Act as tin, tantalum, tungsten and gold. They can come from many sources around the world, including mines in the

DRC which are estimated to provide approximately 18% of global tantalum production, 4% of tin, 3% of tungsten, and 2% of gold. Some of the mines in the DRC are controlled by militias responsible for atrocities committed in the Congolese civil war.

**Collaboration with different stakeholders**

We believe that industry collaboration and stakeholder dialogue are key to creating impact at these deeper levels of our supply chain. Since 2008 Philips is actively contributing to the Extractives Work Group, a joint effort of the electronic and mobile phone industry organizations EICC and GeSI, to positively influence the social and environmental conditions in the metals extractives supply chain. See also <http://www.eicc.info/extractives.htm>.

As we have been doing for years, we 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. To demonstrate our commitment we signed on to the multi-stakeholder statement from the Responsible Sourcing Network, urging stakeholders to continue the momentum on removing conflict minerals from the supply chain.

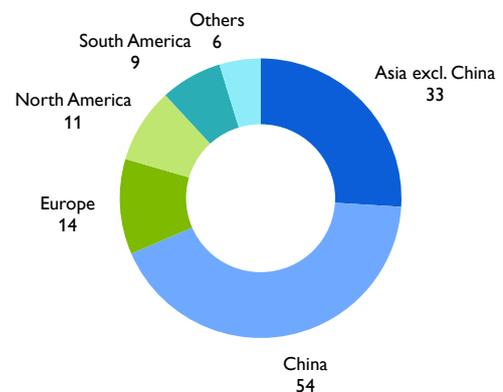
In September 2012, the Conflict Free Tin Initiative was launched, introducing a tightly controlled conflict-free supply chain of tin from a mine in Congo all the way down to an end-product. Philips is one of the industry partners brought together by the Dutch government that initiated this conflict-free sourcing program in eastern DRC. Although this region has a rich supply of minerals, its economy has collapsed due to decades of ongoing conflict. In an effort to prevent minerals from financing war, many companies worldwide have shielded away from purchasing minerals from the DRC, creating a de facto embargo and a collapse of the local economy. To overcome this issue and promote cooperation and economic growth in the region outside the control of the rebels, we launched the Conflict Free Tin initiative. 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.

**Supply chain due diligence**

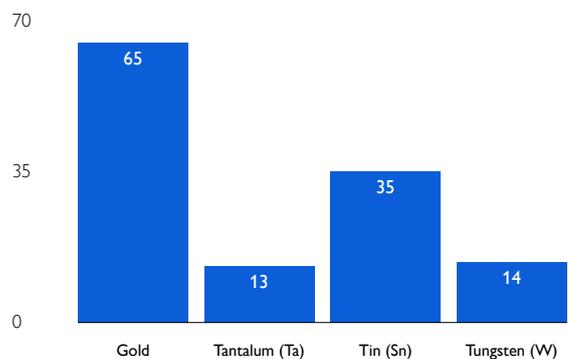
To assist in developing a due diligence standard for conflict minerals, we participated in the multi-stakeholder OECD-hosted pilot for the implementation of the 'OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas'.

During 2012 we worked with 347 priority suppliers to raise awareness and start supply chain investigations into the country of origin for the metals. These suppliers cover more than 80% of the relevant purchasing spend. Using the EICC-GeSI Conflict Minerals Template we requested our suppliers to report back their progress and to disclose which smelters are used in their supply chains to produce the metals. For all four metals together we identified 127 smelters in our supply chain, of which the majority is located in Asia. By having published this smelter list on our internet we created transparency at deeper levels in our supply chain of those actors that we believe hold the key towards effectively addressing the concerns around conflict minerals.

**Number of identified smelters per region**



**Number of identified smelters per metal**



**Conflict-free smelter program**

The smelter is at a key point in the supply chain to enforce responsible sourcing because at that stage minerals from many sources are processed to produce a refined metal. The EICC-GeSI Conflict-Free Smelter (CFS) program makes it possible to identify smelters that can demonstrate through an independent third party assessment that the minerals they procure did not originate from sources that contribute to conflict in the

DRC. After having identified smelters in our supply chain, Philips started to invite these smelters to participate in the CFS program.

A list of CFS compliant smelters for tantalum and gold has been published, and audits for tin and tungsten smelters are under way. As sufficient conflict-free smelters for all four metals become available, Philips plans to direct its supply chain towards these smelters. See [www.conflictreesmelter.org](http://www.conflictreesmelter.org) for more details.

For more details, see [www.philips.com/suppliers](http://www.philips.com/suppliers) and the published [Philips position paper on Conflict Minerals](#).

*Content you didn't download*

14.6 Independent assurance report

## 14.7 Global Reporting Initiative (GRI) table

	profile disclosure	description	cross-reference <sup>1)</sup>
<b>Strategy and analysis</b>			
	1.1	Statement from the most senior decision-maker of the organization	Message from the CEO
	1.2	Description of key impacts, risks, and opportunities	Message from the CEO section 7.2, Risk categories and factors section 7.3, Strategic risks section 7.4, Operational risks section 7.5, Compliance risks section 7.6, Financial risks chapter 14, Sustainability statements
<b>Organizational profile</b>			
	2.1	Name of the organization	chapter 1, Our company
	2.2	Primary brands, products, and/or services	chapter 1, Our company chapter 2, Group strategic focus
	2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries and joint ventures	chapter 2, Group strategic focus chapter 6, Sector performance
	2.4	Location of organization's headquarters	chapter 1, Our company section 17.7, Investor contact
	2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	chapter 1, Our company chapter 6, Sector performance
	2.6	Nature of ownership and legal form	chapter 11, Corporate governance
	2.7	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries)	Performance highlights
	2.8	Scale of the reporting organization	Performance highlights
	2.9	Significant changes during the reporting period relating to size, structure, or ownership	section 17.2, Share information section 17.5, Philips' acquisitions note 5, Discontinued operations and other assets classified as held for sale note 7, Acquisitions and divestments
	2.10	Awards received in the reporting period	Message from the CEO section 4.1, The power to make a difference section 14.2, EcoVision

	profile disclosure	description	cross-reference <sup>1)</sup>	
<b>Report parameters</b>				
Report profile	3.1	Reporting period	Performance highlights	
	3.2	Date of most recent previous report	chapter 12, Group financial statements	
	3.3	Reporting cycle	section 17.6, Financial calendar	
	3.4	Contact point for questions regarding the report or its contents	section 17.7, Investor contact	
Report scope and boundary	3.5	Process for defining report content	chapter 12, Group financial statements section 12.1, Management's report on internal control section 12.2, Reports of the independent auditor section 12.3, Auditors' report on internal control over financial reporting chapter 14, Sustainability statements	
	3.6	Boundary of the report	chapter 12, Group financial statements section 12.1, Management's report on internal control section 12.2, Reports of the independent auditor section 12.3, Auditors' report on internal control over financial reporting chapter 14, Sustainability statements	
	3.7	State any specific limitations on the scope or boundary of the report	chapter 12, Group financial statements section 12.1, Management's report on internal control section 12.2, Reports of the independent auditor section 12.3, Auditors' report on internal control over financial reporting chapter 14, Sustainability statements	
	3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organizations	chapter 12, Group financial statements section 12.1, Management's report on internal control section 12.2, Reports of the independent auditor section 12.3, Auditors' report on internal control over financial reporting section 12.10, Significant accounting policies chapter 14, Sustainability statements	
	3.9	Data measurement techniques and the bases of calculations	chapter 12, Group financial statements section 12.1, Management's report on internal control section 12.2, Reports of the independent auditor section 12.3, Auditors' report on internal control over financial reporting section 12.10, Significant accounting policies chapter 14, Sustainability statements	
	3.10	Explanation of the effect of any re-statements	chapter 12, Group financial statements section 12.1, Management's report on internal control section 12.2, Reports of the independent auditor section 12.3, Auditors' report on internal control over financial reporting section 12.10, Significant accounting policies chapter 14, Sustainability statements chapter 19, Forward-looking statements and other information	
	3.11	Significant changes from previous reporting periods	chapter 12, Group financial statements section 12.1, Management's report on internal control section 12.2, Reports of the independent auditor section 12.3, Auditors' report on internal control over financial reporting section 12.10, Significant accounting policies chapter 14, Sustainability statements chapter 19, Forward-looking statements and other information	
	3.12	Table identifying the location of the Standard Disclosures in the report	Contents Performance statements	
	Assurance	3.13	Policy and current practice with regard to seeking external assurance for the report	section 10.3, Report of the Audit Committee chapter 11, Corporate governance section 11.2, Supervisory Board section 11.4, Logistics of the General Meeting of Shareholders chapter 14, Sustainability statements section 14.6, Independent assurance report

	profile disclosure	description	cross-reference <sup>1)</sup>
<b>Governance</b>			
Governance	4.1	Governance structure of the organization	chapter 11, Corporate governance section 11.1, Board of Management section 11.2, Supervisory Board section 11.3, General Meeting of Shareholders section 11.4, Logistics of the General Meeting of Shareholders
	4.2	Indicate whether the Chair of the highest governance body is also an executive officer	section 11.1, Board of Management section 11.2, Supervisory Board
	4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	Not relevant for Philips, see chapter 11, Corporate governance
	4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	chapter 11, Corporate governance section 11.1, Board of Management section 11.2, Supervisory Board section 11.3, General Meeting of Shareholders section 11.4, Logistics of the General Meeting of Shareholders chapter 17, Investor Relations
	4.5	Linkage between compensation for members of the highest governance body, senior managers and executives and the organization's performance	section 10.2, Report of the Remuneration Committee
	4.6	Processes in place for the highest governance body to ensure, that conflicts of interest are avoided	chapter 10, Supervisory Board report section 11.2, Supervisory Board
	4.7	Process for determining the qualifications and expertise of the members of the highest governance body	chapter 10, Supervisory Board report
	4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental and social performance and the status of their implementation	chapter 1, Our company chapter 2, Group strategic focus section 7.1, Our approach to risk management and business control
	4.9	Procedures of the highest governance body for overseeing the organization's identification and management of performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles	chapter 10, Supervisory Board report chapter 11, Corporate governance section 11.1, Board of Management section 11.2, Supervisory Board section 11.3, General Meeting of Shareholders section 11.4, Logistics of the General Meeting of Shareholders
	4.10	Processes for evaluating the highest governance body's own performance	chapter 10, Supervisory Board report chapter 11, Corporate governance section 11.1, Board of Management section 11.2, Supervisory Board section 11.3, General Meeting of Shareholders section 11.4, Logistics of the General Meeting of Shareholders
Commitments to external initiatives	4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	section 7.1, Our approach to risk management and business control chapter 11, Corporate governance
	4.12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or endorses	chapter 14, Sustainability statements
	4.13	Memberships in associations (such as industry associations)	chapter 14, Sustainability statements
Stakeholder engagement	4.14	List of stakeholder groups engaged by the organization	chapter 14, Sustainability statements
	4.15	Basis for identification and selection of stakeholders with whom to engage	chapter 14, Sustainability statements
	4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	chapter 14, Sustainability statements
	4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	Message from the CEO chapter 10, Supervisory Board report chapter 14, Sustainability statements

	profile disclosure	description	cross-reference <sup>1)</sup>
<b>Economic</b>			
Economic performance		Disclosure on management approach to economic aspects	Message from the CEO chapter 7, Risk management
	EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and governments	Performance highlights section 14.1, Economic indicators
	EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	chapter 14, Sustainability statements
	EC3	Coverage of the organization's defined-benefit plan obligations	note 29, Pensions and other postretirement benefits
	EC4	Significant financial assistance received from government	Philips does not receive significant financial assistance from governments
	EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	chapter 14, Sustainability statements section 14.1, Economic indicators section 14.5, Supplier indicators
	EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	sub-section 5.2.4, Employment section 5.2, Social performance
	EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement	section 3.6, Enhancing urban life with light section 4.1, The power to make a difference sub-section 5.2.8, Social Investment Programs
	EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	section 3.6, Enhancing urban life with light section 4.1, The power to make a difference sub-section 5.2.8, Social Investment Programs section 14.1, Economic indicators

	profile disclosure	description	cross-reference <sup>1)</sup>
<b>Environment</b>			
		Disclosure on management approach to environmental aspects	Message from the CEO section 5.3, Environmental performance
Materials	EN1	Materials used by weight or volume	section 14.2, EcoVision section 14.3, Green Operations
	EN2	Percentage of materials used that are recycled input materials	section 14.2, EcoVision section 14.3, Green Operations
Energy	EN3	Direct energy consumption by primary energy source	section 14.2, EcoVision section 14.3, Green Operations
	EN4	Indirect energy consumption by primary source	section 14.2, EcoVision section 14.3, Green Operations
Water	EN8	Total water withdrawal by source	section 14.3, Green Operations
Biodiversity	EN11	Location and size of land owned, leased, managed in or adjacent to protected areas and areas of high biodiversity value outside protected areas	This indicator is not material to Philips because the company does not own land in protected areas and areas with high biodiversity
	EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	chapter 14, Sustainability statements
Emissions, effluents, and waste	EN16	Total direct and indirect greenhouse gas emissions by weight	section 14.2, EcoVision section 14.3, Green Operations
	EN17	Other relevant indirect greenhouse gas emissions by weight	section 14.2, EcoVision section 14.3, Green Operations
	EN19	Emissions of ozone-depleting substances by weight	section 14.3, Green Operations
Commitments to external initiatives	EN20	NO <sub>x</sub> , SO <sub>x</sub> and other significant air emissions by type and weight	section 14.3, Green Operations
	EN21	Total water discharge by quality and destination	section 14.3, Green Operations
	EN22	Total weight of waste by type and disposal method	section 14.3, Green Operations
	EN23	Total number and volume of significant spills	section 14.3, Green Operations
	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	section 4.1, The power to make a difference section 5.2, Social performance section 14.2, EcoVision
	EN27	Percentage of products sold and their packaging materials that are reclaimed by category	section 5.2, Social performance section 14.2, EcoVision
Compliance	EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	section 14.3, Green Operations

	profile disclosure	description	cross-reference <sup>1)</sup>
<b>Labor practices and decent work</b>			
		Disclosure on management approach to labor practices and decent work	section 14.4, General Business Principles
Employment	LA1	Total workforce by employment type, employment contract and region	sub-section 5.2.4, Employment
	LA2	Total number and rate of employee turnover by age group, gender and region	sub-section 5.2.3, Diversity and inclusion sub-section 5.2.4, Employment
Labor/Management relations	LA4	Percentage of employees covered by collective bargaining agreements	See also <a href="http://www.philips.com/gbp">www.philips.com/gbp</a>
	LA5	Minimum notice period(s) relating to significant operational changes, including whether it is specified in collective agreements	See <a href="http://www.philips.com/gbp">www.philips.com/gbp</a>
Occupational health and safety	LA7	Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region	sub-section 5.2.6, Health and Safety
	LA8	Education, training, counseling, prevention and risk-control programs in place to assist workforce members, their families or community members in relation to serious diseases	section 4.2, Encouraging positive change section 4.3, Embracing culture change
Training and education	LA10	Average hours of training per year per employee by employee category	section 4.3, Embracing culture change sub-section 5.2.5, Developing our people
Diversity and equal opportunity	LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity	sub-section 5.2.3, Diversity and inclusion chapter 8, Management chapter 9, Supervisory Board
	LA14	Ratio of basic salary of men to women by employee category	See also <a href="http://www.philips.com/gbp">www.philips.com/gbp</a>
<b>Human rights</b>			
		Disclosure on management approach to human rights	section 14.4, General Business Principles section 14.5, Supplier indicators
Investment and procurement practices	HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	section 5.1, Financial performance
	HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	section 14.5, Supplier indicators
Non-discrimination	HR4	Total number of incidents of discrimination and actions taken	section 14.4, General Business Principles
Freedom of association and collective bargaining	HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	section 14.4, General Business Principles
Child labor	HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor	section 14.4, General Business Principles
Forced and compulsory labor	HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor	section 14.4, General Business Principles

	profile disclosure	description	cross-reference <sup>1)</sup>
<b>Society</b>			
		Disclosure on management approach to society and community involvement	section 4.1, The power to make a difference section 4.2, Encouraging positive change section 4.3, Embracing culture change
Community	SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	section 4.3, Embracing culture change section 5.2, Social performance
Ethics	SO2	Percentage and total number of business units analyzed for risks related to ethics	section 14.4, General Business Principles
	SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	section 14.4, General Business Principles
	SO4	Actions taken in response to incidents of ethics	section 14.4, General Business Principles
Public policy	SO5	Public policy positions and participation in public policy development and lobbying	chapter 14, Sustainability statements
Compliance	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	section 12.11, Notes section 14.3, Green Operations
<b>Product responsibility</b>			
		Disclosure on management approach to product responsibility	section 4.1, The power to make a difference
Customer health and safety	PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	section 5.2, Social performance section 14.2, EcoVision
Product and service labeling	PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	section 4.1, The power to make a difference
Marketing communications	PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	chapter 14, Sustainability statements
	PR9	Monetary value of significant fines for non-compliance with laws and regulations relating to the provision and use of products and services	section 12.11, Notes section 14.3, Green Operations

<sup>1)</sup> The sections referred to, except for the sections in chapter 14, Sustainability statements, are not included in the scope of the assurance engagement on Sustainability 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<sub>2</sub>)

Carbon dioxide (chemical formula CO<sub>2</sub>) 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<sub>2</sub> is a trace gas comprising 0.039% of the atmosphere.

### CO<sub>2</sub>-equivalent

CO<sub>2</sub>-equivalent or carbon dioxide equivalent is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO<sub>2</sub> 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<sub>2</sub>-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, polybrominated 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.

