



**PHILIPS**

Annual Report 2013



Delivering  
**innovation that  
matters to you**

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 2013.

The information in this PDF has been derived from the audited financial statements 2013 of Koninklijke Philips Electronics N.V.

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

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Grey text indicates parts not included in this selection from the Philips Annual Report 2013.

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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 18, 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-period financial statements and related information have been restated for the treatment of Audio, Video, Multimedia and Accessories as discontinued operations (see note 7, Discontinued operations and other assets classified as held for sale) and the adoption of IAS 19R, which mainly relates to accounting for pensions (see note 30, Post-employment benefits). For a reconciliation to the most directly comparable GAAP measures, see chapter 14, Reconciliation of non-GAAP information, of this Annual Report.

## Financial table

all amounts in millions of euros unless otherwise stated

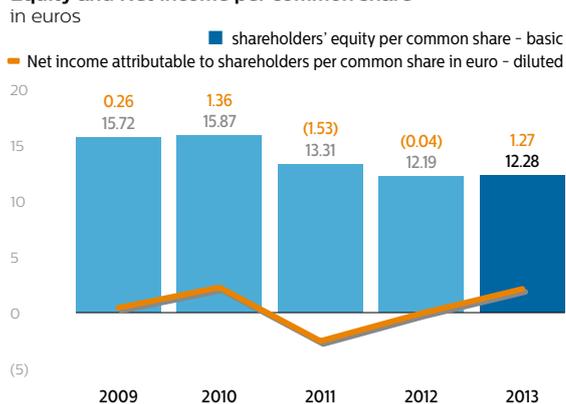
	2011	2012	2013
Sales	20,992	23,457	23,329
EBITA	1,435	1,106	2,451
as a % of sales	6.8	4.7	10.5
EBIT	(479)	648	1,991
as a % of sales	(2.3)	2.8	8.5
Net income (loss)	(1,456)	(30)	1,172
Net income attributable to shareholders per common share in euro:			
- basic	(1.53)	(0.04)	1.28
- diluted	(1.53)	(0.04)	1.27
Net operating capital	10,382	9,316	10,238
Free cash flows	(97)	1,627	172
Shareholders' equity	12,328	11,151	11,214
Employees at December 31	125,240	118,087	116,681
of which discontinued operations	5,645	2,005	1,992

- <sup>1)</sup> Mid-term financial targets
- <sup>2)</sup> Including restructuring and acquisitions
- <sup>3)</sup> Excluding Mergers & Acquisitions impact
- <sup>4)</sup> Based on the results of 60 "pulse surveys" as there was no full-scope Employee Engagement Survey in 2012
- <sup>5)</sup> For a definition of of mature and growth geographies, see chapter 17, Definitions and abbreviations, of this Annual Report
- <sup>6)</sup> As measured by Interbrand

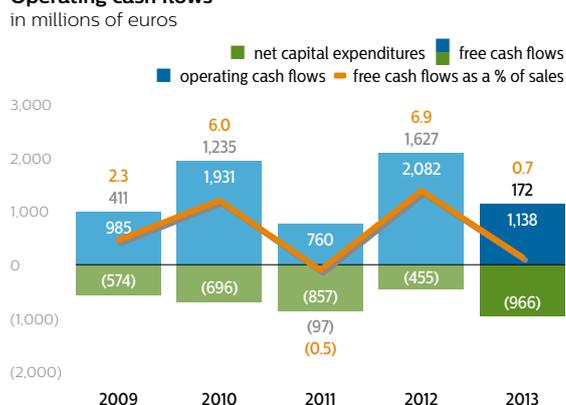
## Financial performance 2013

	Target <sup>1)</sup>	Actual
CAGR 2012 - 2013 %	4-6%	4.5%
EBITA as % of sales <sup>2)</sup>	10-12%	10.5%
ROIC % <sup>3)</sup>	12-14%	15.3%

## Equity and Net income per common share



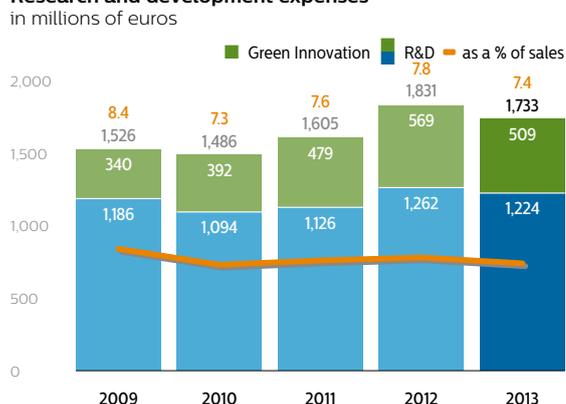
## Operating cash flows



## Net debt (cash) to group equity

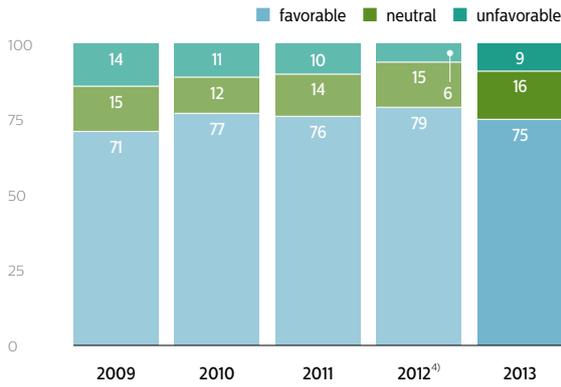


## Research and development expenses



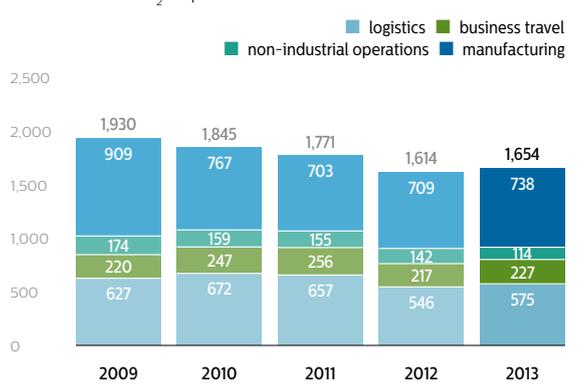
**Employee Engagement Index**

in %



**Operational carbon footprint**

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



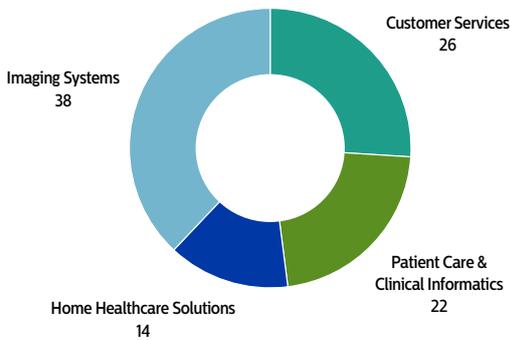
**Performance**

in millions of euros

	Group			Healthcare		Consumer Lifestyle			Lighting			
	2012	2013		2012	2013	2012	2013		2012	2013		
Sales	23,457	23,329	1% ▼	9,983	9,575	4% ▼	4,139	4,605	7% ▲	8,442	8,413	0% ▼
Green product sales	10,981	11,815	8% ▲	3,610	3,690	2% ▲	1,619	2,270	40% ▲	5,572	5,855	2% ▲
Sales in mature geographies <sup>(5)</sup>	15,407	14,825	4% ▼	7,615	7,154	6% ▼	2,365	2,418	2% ▲	5,010	4,758	5% ▼
Sales in growth geographies <sup>(5)</sup>	8,050	8,504	6% ▲	2,368	2,421	2% ▲	1,954	2,187	12% ▲	3,432	3,655	6% ▲
EBITA	1,106	2,451	122% ▲	1,226	1,512	23% ▲	456	483	6% ▲	128	695	443% ▲
Net operating capital	9,316	10,238	10% ▼	7,976	7,437	7% ▲	1,205	1,261	5% ▼	4,635	4,462	4% ▲

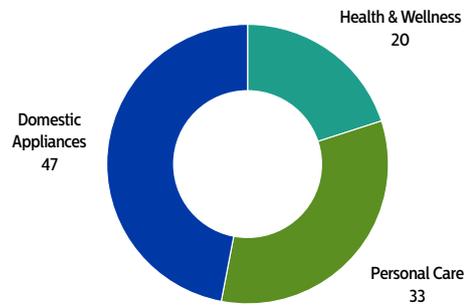
**Total sales by business 2013: Healthcare**

as a %



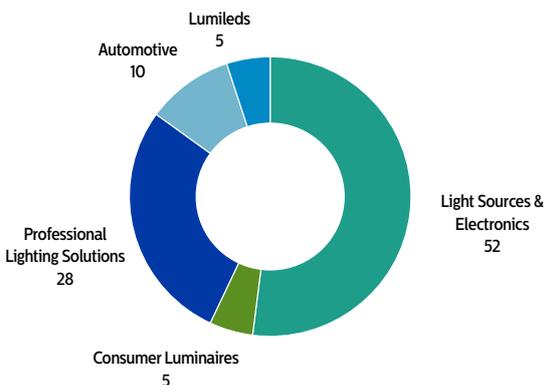
**Total sales by business 2013: Consumer Lifestyle**

as a %



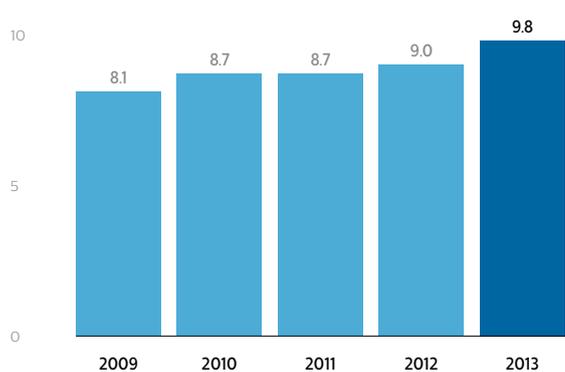
**Total sales by business 2013: Lighting**

as a %



**Brand value<sup>(6)</sup>**

in billions of US dollars



# Message from the CEO



“Our Accelerate! initiatives helped us to achieve our mid-term 2013 targets. We are implementing the Philips Business System across the company to improve customer focus and operational excellence, and drive our businesses systematically to global leadership performance. With our mission to deliver meaningful innovation to make the world healthier and more sustainable, we are well positioned to improve our growth rate.” Frans van Houten, CEO

**Dear stakeholder,**

In 2013 we passed a major milestone on our Accelerate! transformation journey to unlock Philips’ full potential. Despite economic headwinds, especially in Europe and the United States, our Accelerate! initiatives helped us to achieve our mid-term 2013 targets. I am delighted with this result, as it underlines yet again that Philips is, above all, a case of self-help.

Accelerate! is helping us get closer to our customers, as illustrated by our landmark alliance with Georgia Regents Medical Center. And the transformation of our value chains is speeding up the introduction of locally relevant innovations in key markets around the world. Innovations like our EPIQ ultrasound imaging system, our Smart Air Purifier and Airfryer home appliances, and our energy-efficient CityTouch lighting management system.

We are also seeing the steady development of a growth and performance culture characterized by strong employee engagement, teamwork, the drive for operational excellence and accountability for results. This is making us more agile, entrepreneurial and innovative.

#### **Financial performance**

The economic environment in 2013 was challenging. Full-year sales declined by 1% in nominal terms, but increased by 3% on a comparable basis. Closing the year with strong 7% top-line growth in the fourth quarter, we delivered a compound annual growth rate for comparable sales over the period 2012-2013 of 4.5%, compared to our target of 4-6%. In regional terms, our growth geographies delivered 11% comparable sales growth in 2013 and now make up 36% of total sales.

Profitability improved significantly on the back of increased gross margins and productivity gains from our Accelerate! program. This resulted in a reported EBITA of 10.5%, within the target bandwidth of 10-12%. And our return on invested capital was 15.3%, above the targeted range of 12-14%.

Our Healthcare business increased operational earnings despite a virtually flat top line. With the issues surrounding health care reform in the US and budget constraints in key markets, we are increasingly focusing on becoming the technology solutions partner of choice to major hospitals as a way to unlock new growth. Reflecting the success of its innovative propositions for personal health and well-being, Consumer Lifestyle posted strong growth and good earnings, while Lighting recorded higher sales, driven by a 38% increase in LED-based sales, and improved operational earnings.

In 2013 we also completed the execution of our EUR 2 billion share buy-back program, thereby improving the efficiency of our balance sheet, and announced a new EUR 1.5 billion program to be concluded over the next 2-3 years. By the end of 2013 we had completed 7% of this new program.

#### **Other 2013 highlights**

In 2013 we rose to # 40 on Interbrand's annual ranking of the top-100 global brands, with our brand value increasing by 8% to close to USD 10 billion. And in November we unveiled our new brand positioning and brand line – "innovation and you" – and our redesigned shield, which enjoyed an enthusiastic reception from customers, employees and other stakeholders.

In 2014 we celebrate 100 years of Philips Research, and over the past year we underlined our commitment to innovation by investing EUR 1.7 billion in research and development. We filed over 1,500 patent applications in 2013. Other innovation highlights included the increasing adoption of our Digital Pathology solution and the development of the 200 lm/W TLED prototype to replace fluorescent tube lighting.

We also continued to deliver on our EcoVision sustainability commitments in 2013, improving the lives of 1.8 billion people around the globe and hitting our Green Product sales target of 50% of total sales two years ahead of schedule. In Buenos Aires we were awarded the order to renovate most of the city's 125,000 street lights with our CityTouch system, and in Dubai we were selected to transform over 260 Municipality buildings with intelligent LED solutions – both projects reducing energy consumption by some 50%. Our efforts to create a healthier and more sustainable world received recognition in the form of a rise to 23rd place in Interbrand's ranking of the top 50 Best Global Green Brands, as well as a top rating from the Carbon Disclosure Project.

Of course, no year is entirely free of disappointment, and in 2013 we had to contend with the termination of the deal with Funai for our Audio, Video, Multimedia and Accessories business. We also faced compliance issues relating to our General Business Principles, which we are refining and strengthening.

#### **Looking ahead – our Path to Value by 2016**

Philips is a diversified technology company with a portfolio of some 40 businesses across various strategic domains. Over half of these businesses hold global leadership positions. Our portfolio is underpinned by strong assets: deep market insights; world-class innovation capabilities – technology, know-how and strong IP positions; our global footprint; our talented, engaged people; and the Philips brand.

The significant changes we have made to our portfolio in recent years have created a better growth platform with higher profit potential. And with the transformation of our business model architecture, we are increasingly becoming a technology solutions partner, with recurring revenue streams accounting for over 25% of sales.

#### **Meeting the needs of a changing world**

In light of the mega-trends and challenges the world is facing, we are confident in our chosen strategic direction. With its focus on health and sustainability, our

vision to improve the lives of 3 billion people a year by 2025 helps to differentiate us from the competition, have a closer relationship with our customers, create IP and ultimately create more value.

We see the shift from a linear to a circular economy as a further opportunity to create value. In a linear economy, products are used briefly and then discarded as waste. In a circular economy, products are designed so they become part of a value network where re-use and refurbishment ensure continuous re-exploitation of resources.

We are redesigning our products in order to capture their residual value. And we are shifting from transactions to relationships via service and solution business models. A good example is the 10-year performance contract we were awarded to install, monitor and maintain 13,000 connected lighting fixtures and energy management controls for parking garages in Washington, DC. Because we are ensuring light levels and delivering the solutions as a service that is paid for by the energy savings, Washington gets brighter, safer LED lighting for its garages with none of the up-front cost, thereby removing one of the main barriers to the adoption of energy-efficient technology.

**Driving productivity improvement**

Over the coming years we will continue to drive operational excellence and invest in innovation and sales development. We will also continue to focus on improving profitability, e.g. by further reducing overhead costs and driving value engineering through our Design for Excellence (DfX) program. Altogether we see significant potential to improve productivity over the next few years. We also have scope for value-creating bolt-on acquisitions, but will remain prudent with our capital allocation. Most of our growth opportunities are organic.

In 2014 we will roll out a new IT landscape to make Philips a truly real-time company, and we will further embed the Philips Business System (PBS). The PBS is the way we run our company to ensure business success is repeatable. This year will also see our new brand positioning being activated across the globe.

**New growth initiatives**

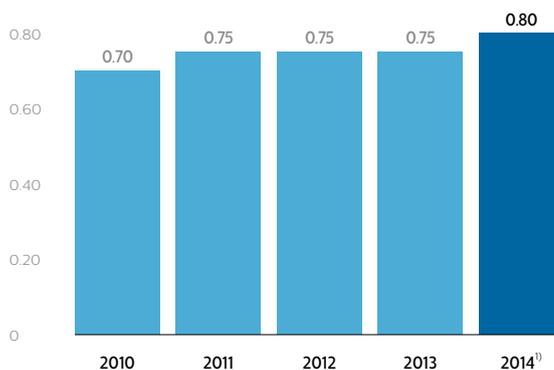
I am pleased to say that Philips has multiple new growth opportunities in the making. Within our Healthcare sector we have established the Healthcare Informatics Solutions & Services business group, which is focusing on a digital connected healthcare delivery platform, advanced informatics and big data analytics, and

world-class integration and consulting services. At Consumer Lifestyle we have a new business initiative on Personal Health. And in our Innovation, Group & Services sector we have several highly promising start-ups, although it will be a few years before they are margin-accretive because of the necessary investments. Examples of these exciting new business areas include point-of-care diagnostics as well as horticultural and city farming technology.

**Confident in the future**

While remaining cautious about the short-term macro-economic outlook, we are committed to delivering on our 2016 financial performance targets. As a sign of our confidence in Philips' future, we are proposing to the upcoming General Meeting of Shareholders to increase this year's dividend to EUR 0.80 per common share, in cash or stock.

**Dividend per common share**  
in euros



<sup>1)</sup> Subject to approval by the 2014 Annual General Meeting of Shareholders

On behalf of my colleagues on the Executive Committee, I wish to thank all our employees for embracing Accelerate!, helping to build a great company fit for the demands of the 21<sup>st</sup> century, and delivering innovations that matter to people the world over. And I would like to thank our customers, shareholders and other stakeholders, for their continued trust and support.

Frans van Houten,

*Chief Executive Officer*



# Accelerate!

In 2011 we embarked upon our Accelerate! journey of change and performance improvement. Ultimately, Accelerate! is all about delivering meaningful innovation to our customers in local markets – and doing so faster and better than the competition.

1. Our transformation

# Driving change and improvement

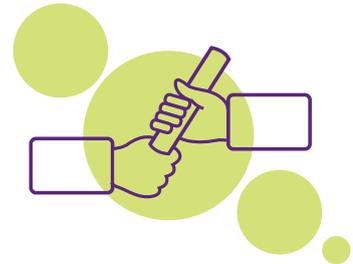
Now in its third year, Accelerate! is making Philips a more agile and entrepreneurial innovator. The program, which is set to run through 2017, is made up of five streams designed to:



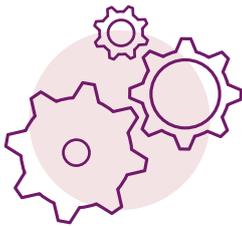
make us more customer focused



resource our business/market combinations to win



create lean end-to-end customer value chains



implement a simpler, standardized operating model



drive a growth and performance culture

## 2. Business impact

# Accelerate! in action

## Customer alliance shaping the future of health care

In 2013 we entered into a 15-year partnership with Georgia Regents Medical Center to facilitate the delivery of innovative and affordable solutions across the continuum of care.

**Read more on page 12**

## Faster, more efficient innovation

We are transforming our end-to-end value chain to just four Lean-based business models. This is helping us to deliver our innovations to market faster and more efficiently.

**Read more on page 13**



## Culture change driving improvement

The renewal of our company culture continued to pay further dividends in 2013, with our engaged employees driving performance improvement across the organization.

**Read more on page 15**



## Increasing our cost productivity

As we move toward a single value-added layer above our business and market organizations, we are on track to deliver gross overhead and indirect cost savings of € 15 billion by 2015.

**Read more on page 17**



# Partners in care: new approaches, new models

With the help of patient advisors like Alice Reece, Philips and Georgia Regents Medical Center are working to redefine patient and family care.

“When I think about the future of healthcare we have to re-think everything: every square foot, every person, every dollar, every resource. And that forces real dynamic change in a way that this industry hasn’t seen in years.”

David Hefner  
Executive Vice President  
Georgia Regents Medical Center

“Providing care requires us to be innovative, requires us to think differently. The partnership that we now have with Philips really stresses a better outcome for our patients.”

Dr Ricardo Azziz  
CEO  
Georgia Regents Health System





# End-to-end – building a winning value chain

Around the world, we are working together with our partners and customers to optimize every step in the value chain. This end-to-end approach is enabling us to innovate and execute faster and more efficiently.

## Driving growth in oral healthcare

In Germany, we are building on our professional recommendation strategy and driving conversion of manual toothbrush users to electric tooth brushing through innovation leadership, portfolio expansion and distribution via new channels. This end-to-end approach resulted in a market share improvement of over 7%.

With only a third of German households owning a rechargeable toothbrush, there is a significant opportunity to expand our leadership in the sonic toothbrush segment. Taking an end-to-end perspective, we identified three key drivers for expansion: driving and communicating innovation leadership with superior propositions; creating a Philips Sonicare proposition at a price-point accessible for a broader audience; and making that proposition available to consumers in channels like drugstores and hypermarkets.

Philips Sonicare is already leading in the German market, with consumers responding to superior propositions like Flexcare Platinum and DiamondClean. In 2013, our leadership position was further supported through celebrity endorsement, which is driving awareness and conversion.

To present current manual toothbrush users with more alternatives from Philips Sonicare, driving growth in the mid-segment, we created a more accessibly priced proposition, the Philips Sonicare PowerUp. This product features similar brushing movements to manual and is gentle and effective. Research showed that over 90% of consumers surveyed preferred the Sonicare PowerUp over their manual toothbrush.

The majority of electric toothbrushes and replacement brush heads are sold in drugstores and hypermarkets. To leverage this opportunity, Sonicare PowerUp launched in DM and Budni drugstores, as well as Kaufland and Marktkauf hypermarkets, adding 2,000 stores to our distribution. We optimized our supply chain to work with these partners, designing bespoke packaging, significantly reducing time-to-market and improving transparency.

In less than a year our end-to-end strategy resulted in strong market share gains and double-digit growth in brush head sales. Consumer satisfaction increased, with patients advised by their dentist to switch to electric brushing conveniently able to purchase a Philips Sonicare and replacement brush heads at their local drugstore.

### **LED façade lighting faster to market**

Through our end-to-end transformation program, we have identified and driven improvements along the entire LED value chain in China. This has resulted in a broad range of competitively priced façade lighting solutions for the mid-tier market segment in China, with a 40% reduction in time-to-market for new product introductions and a significant increase in on-time delivery.

In 2012, market intelligence showed that we were missing out on the LED façade lighting segment in China – a segment predicted to reach € 520 million by 2015, 70% of which will be taken by mid-range solutions. The problem was that in China we only offered top-range LED façade solutions. Clearly, something had to be done.

An end-to-end transformation program was immediately initiated, and a cross-functional team representing both the business and our market

organization was assembled to address all opportunities along the value chain. The team took ownership of the common goal to achieve ambitious cost targets. It invested in market research and started with market sizing and customer segmentation, before developing imaginative strategies for product positioning, go-to-market and time-to-market. From the outset, everyone knew that the new product line had to be conceived, developed and fine-tuned extremely quickly.

The result was a new range of competitive LED façade lighting solutions specially designed for the mid-range market in China. And all in just under 28 weeks – a massive reduction compared to the 12 months it previously took to bring a new product line to market. Another benefit of this end-to-end collaboration is that achievement of the delivery time target of 25 days has increased from 43% to 66%, with a further rise to 95% expected by 2015.





# Our people, our culture

In 2013 we continued to drive structural change through our multi-year transformation program Accelerate! We are seeing the steady emergence of a growth and performance culture that is making us more agile, entrepreneurial and innovative.

With our Accelerate! behaviors – Eager to win, Take ownership and Team up to excel – firmly embedded in the organization, we are rolling out a wide range of initiatives designed to harness the talents, viewpoints and experience of our employees and so build a winning culture. A culture anchored by our General Business Principles.

## **Transformation and change**

To date, over 1,350 of our leading executives have taken part in our Accelerate! Leadership Program (ALP). This immersive program is designed to strengthen our leaders' transformational capabilities so they can drive change in the organization. Complementing the ALP, the Accelerate! Team Performance (ATP) is a transformational session designed to reinforce behaviors that enhance team effectiveness. By year-end, more than 200 teams and 3,650 participants had been through the program, which also touched more than 2,000 employees via viral events.

The transformation drive is being embraced across the organization. In Healthcare, to name just one example, a group of over 160 employee advocates or "Culture Champions" is now in place, role-modeling and instilling the new culture from the middle of the

organization outwards. They are providing invaluable insights and helping to drive changes in day-to-day activities and behaviors.

## **Capability building**

ALP and ATP are also an integral part of our capability-building efforts. In 2013 we took the next steps in becoming a learning organization by completing the organizational design of Philips University. This involved a fundamental shift to align our learning activities with the organizational development priorities we have set to enable us to deliver on our business strategy. New flagship learning programs will be introduced early in 2014, and a move to one single learning management system is scheduled for the second half of the year.

## **Employee engagement**

In October 2013 we launched our renewed bi-annual Employee Engagement Survey (EES), emphasizing the dimensions of employee behavior that affect performance, including change agility, alignment, and engagement. The overall engagement index shows a positive score of 75% – 3 percentage points above the chosen global external high-performance benchmark.

### **Bringing our brand to life**

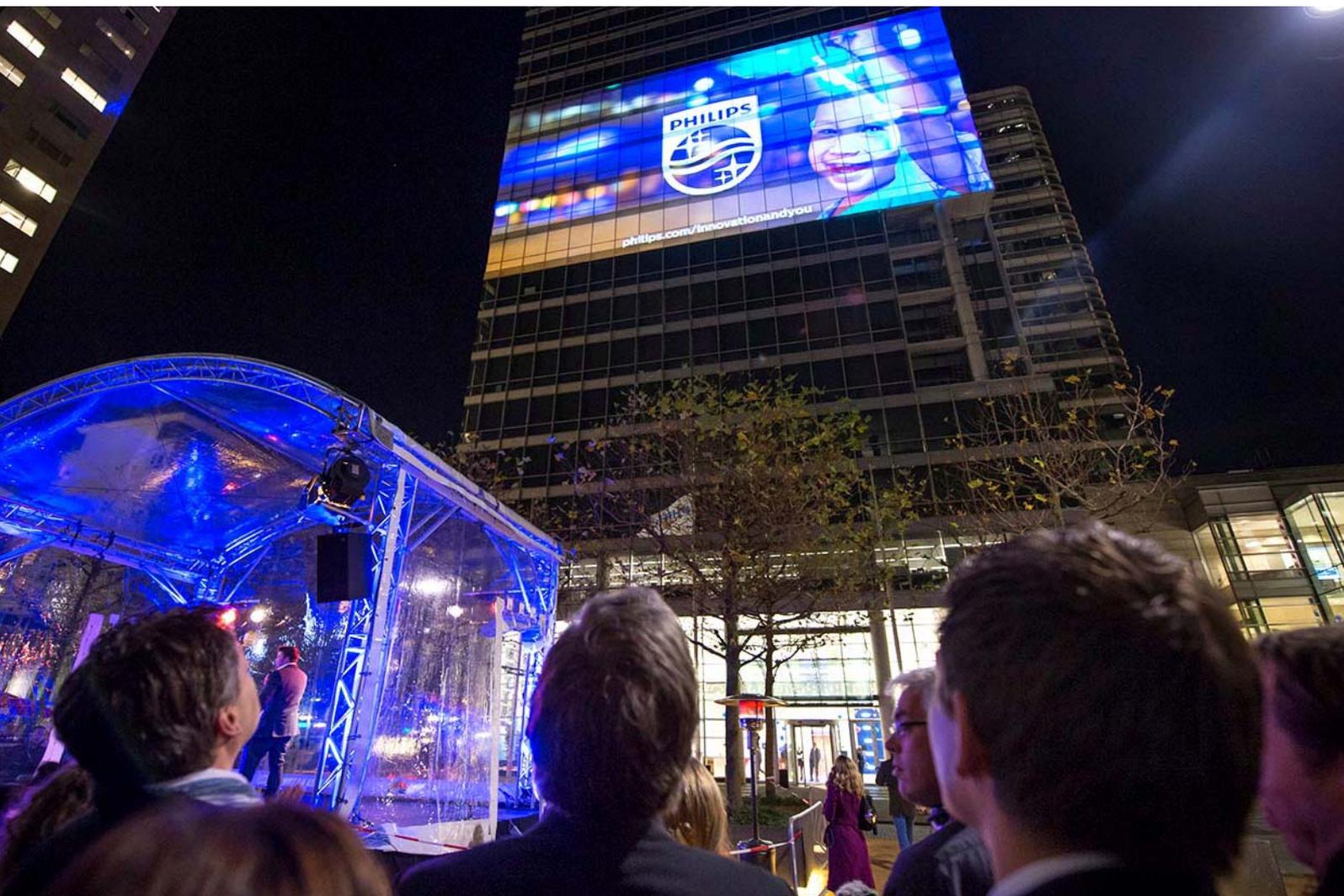
Reflecting this culture of engagement, our employees also play a crucial role as ambassadors of our brand. In May 2013 our Employee Brand Jam focused on engaging employees around our new brand promise. They were asked to share, via a dedicated dashboard, their stories about how Philips delivers innovation to them. This campaign won a European Excellence Award in the Internal Communications category.

In the lead-up to brand launch day, 13 November, we invited the world to uncover our redesigned shield through a mosaic launched via social media. Over 14,000 individuals took part in the 48 hours ahead of the reveal. On the day itself, over 60 sites around the world hosted simultaneous events linked to a live feed

of the unveiling at our head office in Amsterdam. In this way, a highly engaged workforce was brought together to celebrate a landmark event in the history of the company.

### **Diversity and inclusion**

Having an inclusive culture where differences are honored, respected and encouraged and a diverse workforce that mirrors the markets we're active in, enables us to deliver innovation that matters to our customers and consumers and thus to create value for Philips and its stakeholders. Our new Diversity & Inclusion Policy defines our global standards and the role all employees need to play to create a diverse and inclusive workplace.





# Fewer layers, faster and better services

In 2011, Philips embarked on a comprehensive program to significantly increase the efficiency of its overhead structure: those activities which take place mainly above the level of operational businesses and market organizations. Since then, real progress has been made – with more work to be done over the coming years.

The Accelerate! productivity program looked first to benchmarks – to what was currently industry best-in-class – and subsequently leveraged this insight to re-engineer the company's overhead activities such as IT, Finance, Human Resources and Real Estate. The objective was to deliver improved service levels to internal customers in a faster, simpler, easier-to-experience way – at lower cost.

The focus of the program was on the operating model – how the function was set up to deliver its services. These 'smarter functions' looked to pool services into Centers of Expertise which then provide high-quality, 24/7 support to a wide range of businesses and geographies from a single hub. Equally impactful was the increased use of 'output-based delivery', swapping contract workers brought into Philips to support initiatives for clear output-based contracts with the 3<sup>rd</sup>-party suppliers. Last, but by no means least, was the reduction in managerial layers and subsequent increase in span of control of individual managers; this has led to less bureaucracy and faster decision making across the company.

Finance is a good example. Traditionally, finance professionals were spread widely across Philips, each supporting business management in everything from basic bookkeeping to analysis of upcoming Asian competition. As of 2013, we have re-engineered the operating model of our Finance activity, pooling knowledge into efficient, dedicated Centers of Expertise – one focused on fundamental bookkeeping and internal control, another on financial planning and analysis of business performance, yet another on expert company-wide advice on specific topics ranging from foreign exchange to pensions. This has led to a simpler, leaner, more effective operating model which, critically, is able to deliver faster, better services to its internal customers. Similar transformations in the other functions – and indeed more broadly in business management – have, collectively, allowed us to substantially improve the efficiency and effectiveness of our overhead structure and – in the process – report a gross cost reduction of over EUR 1 billion through the end of 2013.

### 3. Fast facts

## Our 2013 results

#### Comparable sales growth

---

**4.5%**

CAGR 2012-2013

#### EBITA

---

**10.5%**

group margin

#### Return on invested capital

---

**15.3%**

#### Comparable sales growth

---

**3.3%**

2013

#### Net income

---

**€ 1,172**

million

#### R&D expenditure

---

**€ 1,733**

million

7.4% of sales

#### Green Product sales

---

**51%**

of total sales

#### Patent families

---

**13,200**

1,550 patent applications in 2013

#### Brand value

---

**\$ 9.8**

billion

No. 40 on Interbrand list of most valuable brands

#### 4. Next phase

## The journey continues

### First milestone passed

Accelerate! is working and driving our transformation. We are pleased to have achieved the first major milestone on our Accelerate! journey – our mid-term 2013 financial targets. However, we still have a way to go before we have delivered Philips' full potential.

### New targets on Path to Value

That's why we have set ourselves challenging new targets, to be realized by the end of 2016. These indicate the value we create, as measured by sales growth, profitability and our use of capital:

#### Our targets for 2016

Comparable sales growth CAGR 2014-2016	<b>4-6%</b>
Group reported EBITA	<b>11-12%</b>
Healthcare	<b>16-17%</b>
Consumer Lifestyle	<b>11-13%</b>
Lighting	<b>9-11%</b>
Return on invested capital	<b>&gt;14%</b>

# Building a great company

We have what it takes to be a great company, fit for the demands of the 21st century – a compelling mission and vision, a clearly defined strategic direction, and, increasingly, a culture of high performance.



## 1. Our rich heritage

# A born innovator

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 improving people’s lives with a steady flow of ground-breaking innovations.

Today, we are building upon this rich heritage as we touch billions of lives each year with our innovative healthcare and lighting solutions and our personal health and well-being products.



## 2. Our vision

# What we aspire to

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.

### 3. Market opportunities

## Responding to global challenges

With our understanding of many of the longer-term challenges our world faces, we see major opportunities to apply our innovative competencies and create value for our stakeholders.

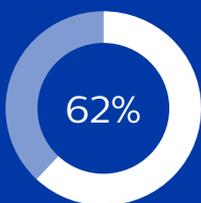
We see a growing need for health care

The world's population aged 60 years and older



## We see increased focus on personal well-being

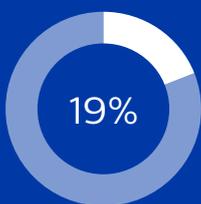
### Well-being of people around the world



Only 62% of people around the globe rate their current state of health and well-being as “good” or “very good”.

## We see rising demand for energy-efficient solutions

### The world's electricity consumption



Lighting

Average saving we can make by switching to energy-efficient lighting solutions

40%

Through some 40 businesses we apply our **deep knowledge of customers, outstanding innovation capabilities, strong brand, global footprint** and **talented and engaged people** – often in value-adding partnerships – to provide solutions that address these needs and challenges and make the world healthier and more sustainable.

#### 4. Our business system

## Ensuring success is repeatable

The Philips Business System is the way we run our company to deliver on our mission and vision. It is designed to ensure that success is repeatable, i.e. that we create value for our stakeholders time after time.



**Group Strategy:** We manage our portfolio with clearly defined strategies and allocate resources to maximize value creation.

**CAPs:** We strengthen and leverage our core Capabilities, Assets and Positions as they create differential value: deep customer insight, technology innovation, our brand, global footprint, and our people.

**Excellence:** We are a learning organization that applies common operating principles to deliver Philips Excellence.

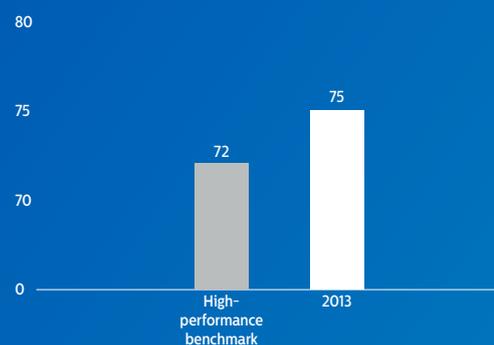
**Path to Value:** We define and execute business plans that deliver sustainable results along a credible Path to Value.

#### 5. Our people

## Engaged employees crucial for success

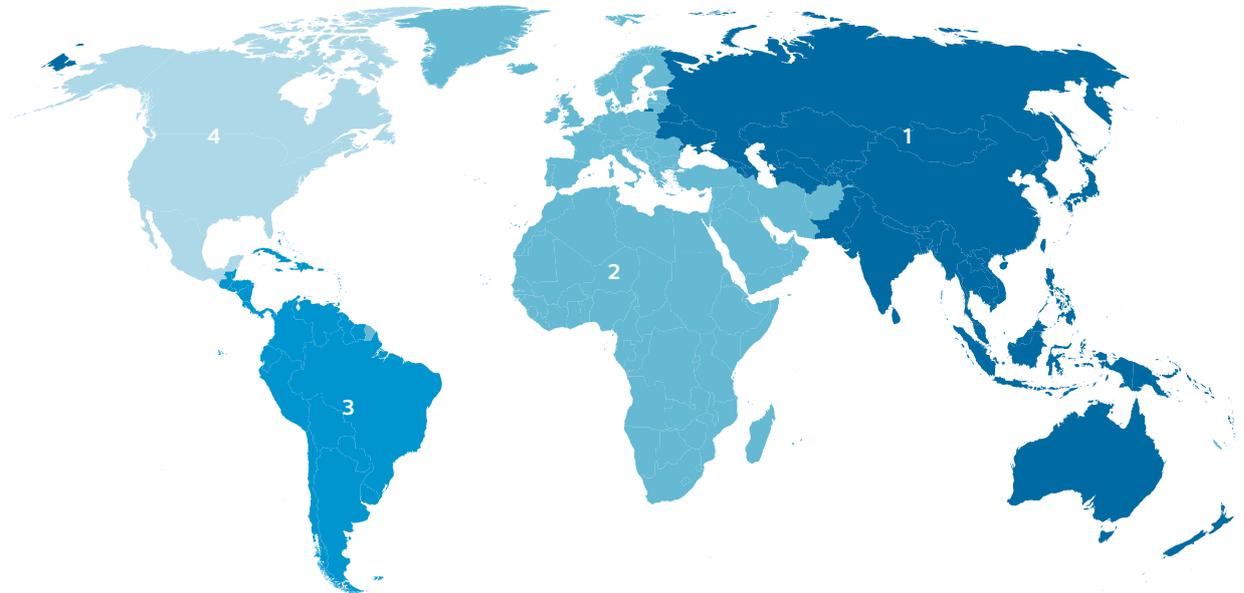
We need all our people collaborating effectively – in a diverse and inclusive environment, where they can grow and fulfill their ambitions. Engagement supports our culture of growth and performance improvement, reinforcing our goal of being the best place to work for people who share our passion.

2013 Employee Engagement Survey  
% positive



# Global presence

Find out more about the scale and location of our activities throughout the world.



## 1 Asia & Pacific

Sales*	7,439
Number of employees	40,438
Employees female	37 %
Employees male	63 %
R&D centers	13
Manufacturing sites	25
Assets*	5,357

## 2 EMEA

Sales*	7,410
Number of employees	41,829
Employees female	32 %
Employees male	68 %
R&D centers	21
Manufacturing sites	40
Assets*	9,735

## 3 Latin America

Sales*	1,439
Number of employees	3,189
Employees female	37 %
Employees male	63 %
R&D centers	3
Manufacturing sites	6
Assets*	947

## 4 North America

Sales*	7,041
Number of employees	29,233
Employees female	35 %
Employees male	65 %
R&D centers	22
Manufacturing sites	40
Assets*	10,520

\* In millions of euros  
2013 R&D centers includes group and sector centers



# Delivering innovation that matters to you

At Philips, our mission is to improve people's lives through meaningful innovation. In 2013 we reaffirmed our long-standing commitment to this goal with the launch of our new brand promise.

## 1. Knowing our customers

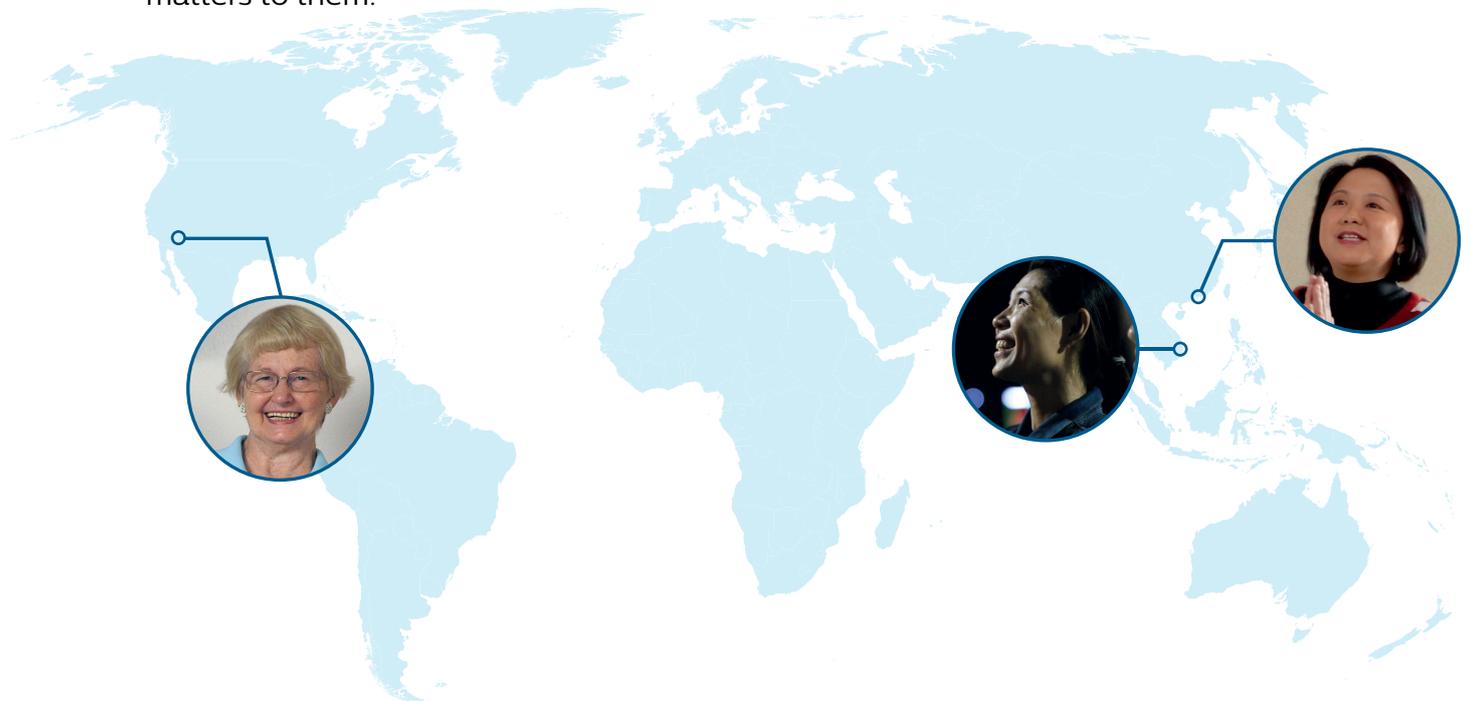
# Who do we mean by 'you'?

Philips delivers innovation that matters to you.

But just who is 'you'? And what matters to you? To get ever closer to our customers, these are questions we ask every day.

With our global presence – we have customer-facing staff in over 100 countries – and our trusted brand, we are uniquely placed to capture local customer insights.

By understanding the challenges local people face – whether they be a hospital director, a city planner, a doctor or a consumer – we ensure that their actual needs and aspirations drive our innovation efforts. So we can deliver what really matters to them.



## 2. Understanding people's needs

# What matters to you?

“Without communication, Ralph and I could have never survived the 64 years.”



**Helen McCurdy**  
Phoenix, USA

Discover how an innovative telemedicine program is enabling seniors to continue living at home.

[Read more on page 31](#)

“My husband loves fried food. Back then I would tell him, No, it’s not good for your health.”



**Dable Kwan**  
Hong Kong

Find out how Philips Airfryer is helping people to eat more healthily.

[Read more on page 32](#)



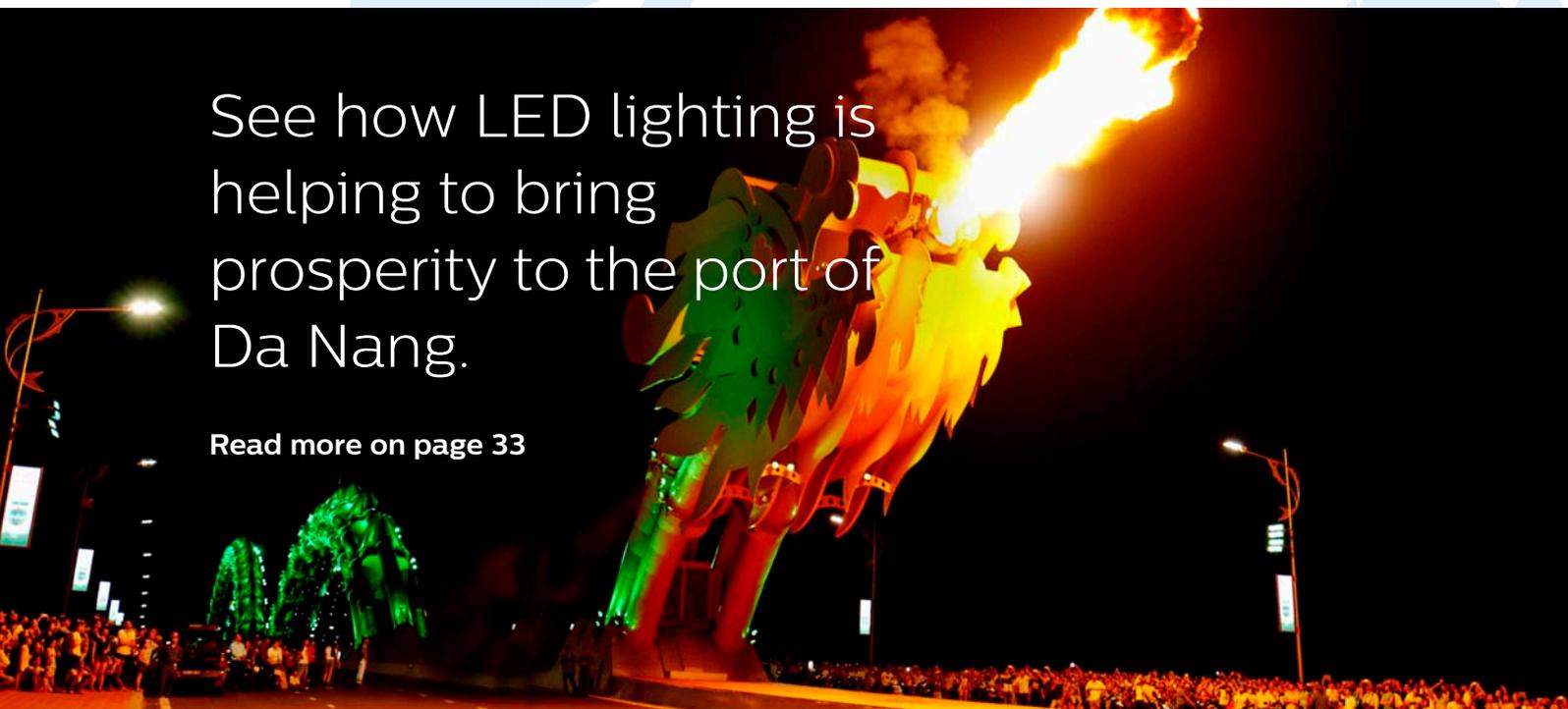
“I no longer have to struggle working at the factory.”



**Le Thi Vinh**  
Da Nang, Vietnam

See how LED lighting is helping to bring prosperity to the port of Da Nang.

**Read more on page 33**



# The comfort of home: a new model for care delivery

Ralph and Helen McCurdy, a loving husband and wife who can live together at home and receive high-quality health care, thanks to an innovative and efficient telemedicine program from Philips and Banner Health.

“Without communication, Ralph and I could have never survived the 64 years. To be able to talk to a doctor on a video and we don’t have to wait two or three days for a doctor appointment, it’s fabulous.”

Helen McCurdy



“This is the future. It’s really an amazing model of care that doesn’t exist anywhere else... yet. When I have a team of people, augmented by a lot of Philips technology, I can catch things earlier, treat things earlier, and intervene in a way that allows me to accomplish what I set out to do as a geriatrician, and ultimately to do some good in these patient’s lives.”

Edward Perrin, MD  
Geriatric Care Specialist & Medical Director  
Banner Hospice

# Frying with air: inspiring healthy meals

The Philips Airfryer lets Dable Kwan prepare spring rolls and other delicious fried foods with much less oil. Who knew innovation could be so good for you, and taste so good too?

“My name is Dable and I live in Hong Kong. I’m a housewife and I love to cook. I really started to cook seriously about 10 years ago. My husband loves fried food. Back then I would tell him, ‘No, there’s too much oil and grease, and it’s not good for your health.’ But since getting the Philips Airfryer, ah, what a happy man.”



“It really makes cooking much easier, much healthier, and much more fun. Now, I’m using less oil, less salt, less everything else. We just had our check-ups and our cholesterol, blood sugar and everything else are at very healthy levels.”



# Lighting a dragon: a bridge to prosperity

The port of Da Nang has grown in prosperity since Philips LEDs began lighting up the Dragon Bridge. See how the lives of fisherman Le Van Khe and his daughter Le Thi Vinh are improving.

“The lights make the structure more vibrant and interesting for people who come to marvel at it... The bridge has been central to our overall growth. This year we’re hoping to receive around 3 million tourists.”

Tran Chi Cuong  
Deputy Director  
Danang Department of Culture, Sports and Tourism



“I have my own sugarcane juice cart near the Dragon Bridge. When the bridge opened I saw a lot of tourists arrive and figured that selling sugarcane to them would be better than working at the factory. My father is very happy that I no longer have to struggle working at the factory.”



On a Saturday and Sunday it’s so much fun to see the show. The bridge is very important to my family and me. My life lit up because the bridge lit up. It has changed our lives for the better.”

Le Thi Vinh

### 3. Behind the scenes

# How we innovate for you

Armed with deep insights into local customer needs, we then bring together our R&D and design expertise and our local business-creation capabilities to address these needs.

The locally relevant solutions we develop – often in collaboration with our customers – do not always involve ‘new technology’. Instead, they may mean a new application or a unique customer proposition brought about by an innovative partnership.

Discover overleaf how we applied our innovation and design capability to help women breastfeed for longer.



## Inside innovation

Almost 25% of mothers stop breastfeeding within the first three months because it becomes too painful. A further 40% stop because of a decreased milk supply. Discover how the Philips AVENT Natural range addresses these problems.

Using a breast pump to express milk can make it easier for mothers to continue breastfeeding. People researchers at Philips discovered that moms thought pumps were too cold and mechanical, and forced them to lean forward to make sure the milk flows down into the bottle.

Around the same time, a clinical study by Philips confirmed that comfort is physiologically essential to helping mothers produce lots of milk. Pain, stress or discomfort hampers the release of oxytocin, the hormone responsible for triggering milk production.

### **Philips AVENT Comfort breast pump**

Therefore we took comfort as the starting point of the design and reshaped the pump to make it possible for moms to sit back in a more relaxing position to express milk. Using ultrasound and MRI scanners, we studied how babies actually suckle. To mimic that, we added five oval petals that gently massage the areas around the nipple to stimulate more milk. We changed the texture of the cushioned silicone funnel that cups the breast, giving it a silky feel that is warm and gentle against the skin.

### **Philips AVENT Natural bottle**

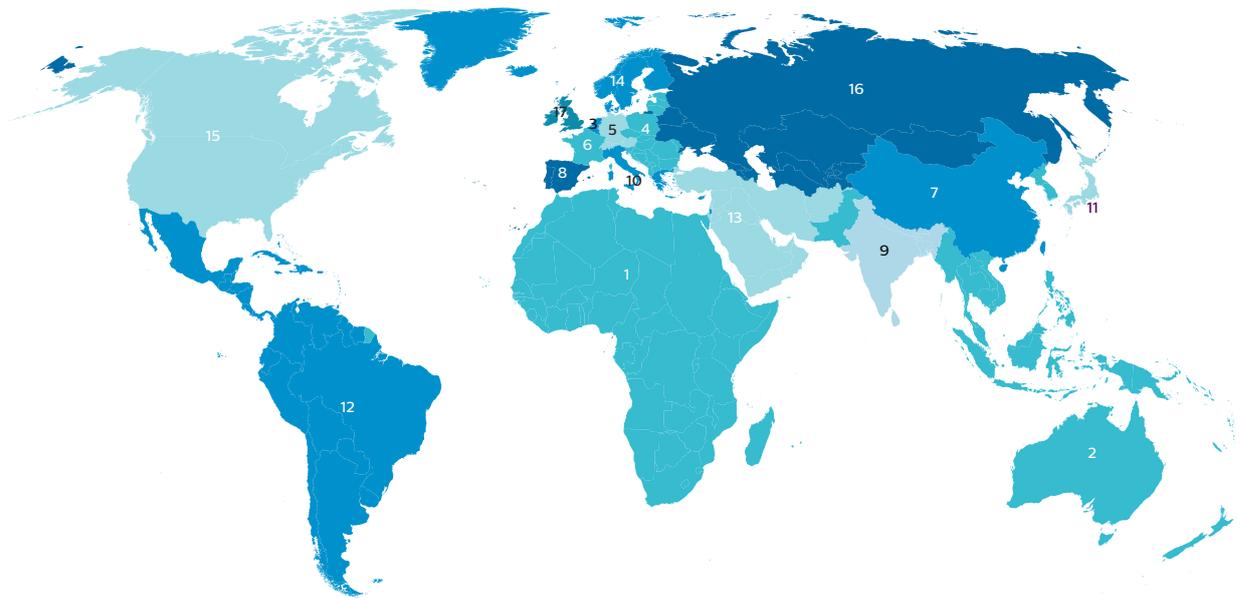
We used the same insights to create a new baby bottle, designed to tackle two things: teat acceptance (also known as 'latch on') and colic. When babies suckle at the breast, they cause the nipple to elongate in a rhythmic way, so we created a teat to stretch in the same way. To create a more natural breast-like shape, the designers made the teat much wider at the base. And to prevent babies swallowing too much air when they are feeding, we added an 'anti-colic' twin-valve system that allows air to vent into the bottle rather than the baby's stomach.

Both the bottle and the breast pump have received several awards for outstanding design.

# Lives improved

We take a two-dimensional approach – social and ecological – to improving people’s lives. Products and solutions that directly support the curative (care) or preventive (well-being) side of people’s health, determine the contribution to the social dimension.

The contribution to the ecological dimension is determined by means of our Green product portfolio, such as our energy-efficient lighting. For additional information, please visit [www.philips.com/sustainability](http://www.philips.com/sustainability).



Markets	Lives improved* (millions)	Population** (millions)	GDP*** (USD billions)
1. Africa	32	1,095	2,095
2. ASEAN	201	938	5,687
3. Benelux	28	28	1,368
4. Central & East Europe	77	133	1,501
5. DACH	89	98	4,662
6. France	56	64	2,744
7. Greater China	330	1,392	9,737
8. Iberia	43	57	1,581
9. Indian Subcontinent	167	1,449	1,987
10. Italy, Israel and Greece	48	81	2,596
11. Japan	49	127	5,007
12. Latin America	132	492	4,655
13. Middle East & Turkey	74	338	3,426
14. Nordics	25	26	1,679
15. North America	342	470	19,881
16. Russia and Central Asia	73	264	2,699
17. UK & Ireland	49	69	2,722

\* Source: Philips

\*\* Source: IMF, CIA Factbook & Wikipedia

\*\*\* Source: IMF, CIA Factbook & Wikipedia

# 4 Group performance

Content you didn't download

4.1 Financial performance

## 4.2 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 2013, Philips further strengthened its focus on sustainability. This is rooted in our long-standing belief that sustainability is a key enabler of value creation and offers opportunities to innovate our way out of the challenging economic circumstances. Therefore, sustainability is an integral part of Philips' vision and strategy.

### 4.2.1 Improving people's lives

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. 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.

Through Philips products and solutions that directly support the curative or preventive side of people's health, we improved the lives of 630 million people in 2013, driven by our Healthcare sector. Additionally, our well-being products that help people live a healthy life, and our Green Products that contribute to a healthy ecosystem, improved the lives of 290 million and 1.49 billion people respectively. After the elimination of double counts – people touched multiple times – we arrived at 1.8 billion lives. This is an increase of 100 million compared to our total baseline of 1.7 billion people a year, established in 2012. More information on this metric can be found in chapter 13, Sustainability statements, of this Annual Report.

Lives improved by Philips in 2013

1.8 (double counts eliminated)

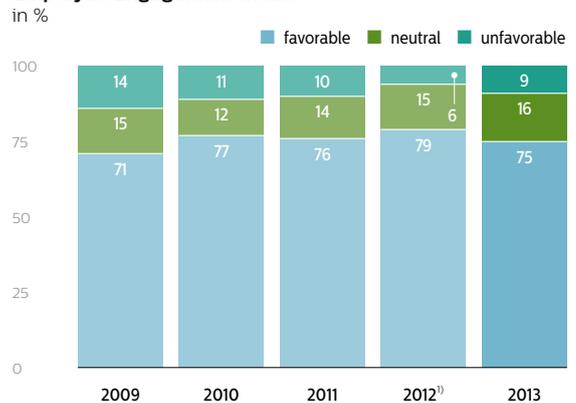


▨ Double counts  
Numbers in billions  
Conceptual drawing, areas do not reflect actual proportions

### 4.2.2 Employee engagement

Employee engagement is key to our competitive performance. Engaged employees help us meet our business goals and help make Philips a great place to work. We have used employee engagement surveys for over a decade to gather feedback and focus areas and have seen tangible results along our journey.

#### 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 Employee Engagement Survey data to a bi-annual basis in order to allow more time for teams to analyze results and implement improvement actions. We also used this as an opportunity to review the way we approach engagement, with the aim of improving the link between the high levels of employee engagement that we achieve and improved business results.

In 2013 we applied a more contemporary model relevant for the next steps in our journey. While our employee survey using the refreshed methodology is not directly comparable to our historical metric, we see that 75% of our employees provided a favorable response to our new engagement index, 3 points above the external high-performing benchmark. This is a very encouraging result; especially given the speed and scale of our current transformation.

The survey results indicate the following areas as strengths:

- Clarity of strategic direction provided by senior leadership
- Adopting good ideas from all over the company
- Making good use of skills and abilities
- Providing opportunities for employees to grow and develop
- Senior leaders' belief in the future of Philips

There are also improvement areas:

- Making the changes necessary to compete effectively and applying these changes in a consistent manner
- Ability as an organization to fix problems so they don't happen again
- Senior leaders have to do more to ensure we drive collaboration, execution and improvement across organizational boundaries
- Focus on customers must continue to strengthen
- Need to create a diverse workforce and inclusive culture where people of all backgrounds can succeed in Philips

Engagement is now an integral part of how we build our culture and is an ingredient in a broader portfolio of initiatives and measurement tools. For example, in our end-to-end transformations, we use surveys to ensure forward progress while creating opportunities for team dialogues. We will use shorter, targeted surveys and dialogue platforms to maintain focus on key areas until the next full-census employee survey in 2015.

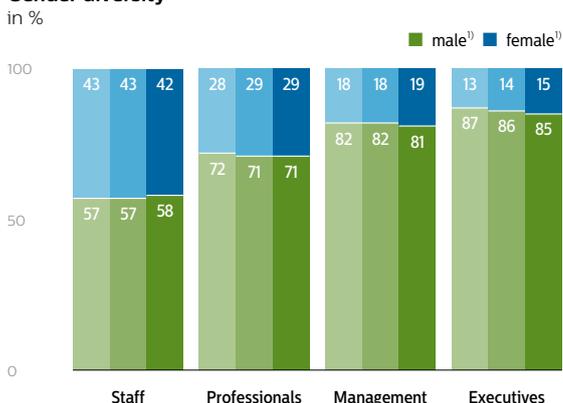
#### 4.2.3 Diversity and inclusion

We set measurable objectives for achieving diversity and inclusion within Philips. Measuring performance against defined metrics twice annually, Executive Committee members hold their organizations accountable for progress and review actions and outcomes as part of business reviews.

With the roll-out of a revised Diversity and Inclusion (D&I) strategy and the launch of a new global D&I policy in 2013, Philips has taken major steps to clearly anchor diversity and inclusion as priorities and to engage all employees and leaders in contributing to an inclusive work environment. This policy prescribes:

- Championing workforce diversity. We embrace unique individuals regardless of race, color, age, gender, gender identity or expression, sexual orientation, language, religion, political or other opinion, disability, national or social origin or birth.
- Valuing diverse perspectives. We leverage the diverse thinking, skills, experience and working styles of everyone in our company.
- Building a flexible organization. We provide opportunities for work arrangements that accommodate the diverse needs of people at different career and life stages.
- Respecting stakeholder diversity. We develop strong and sustainable relationships with diverse stakeholders including customers, communities, governments, suppliers and shareholders.

#### Gender diversity



<sup>1)</sup> Left to right: 2011, 2012 and 2013

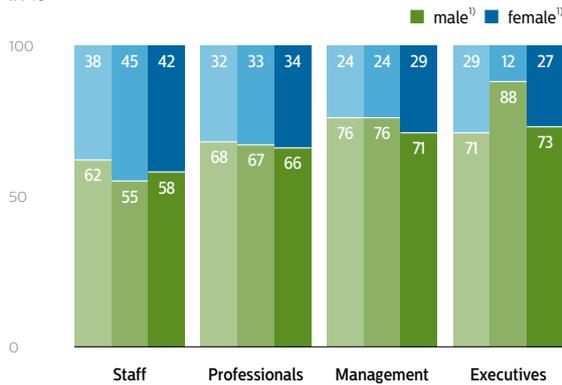
Progress has been made in ensuring a better representation of women in leadership roles: women now constitute 15% of Philips' executive population, an increase of 1 percentage point year-on-year. Also, we have been appointing more local leaders: at year-end 2013, over 75% of senior leaders in countries were of local origin.

Going forward, driving D&I remains a priority for Philips. While female representation has also increased at professional and management level, Philips has made this an attention point for the coming year as well, recognizing that this is necessary in order to strengthen the leadership pipeline and create a strong basis for sustainable change. Therefore, a commitment has been

made to increase the share of women in corporate grades 70 – 90 (refer to professionals and management category in the graphs) by 5 percentage points (per grade) by 2016 compared to the 2012 baseline. Over the same period, the share of female executives is to increase to 20% of the total executive population.

Philips has two women on its Executive Committee and two female members of the Supervisory Board. Philips executives come from more than 30 countries.

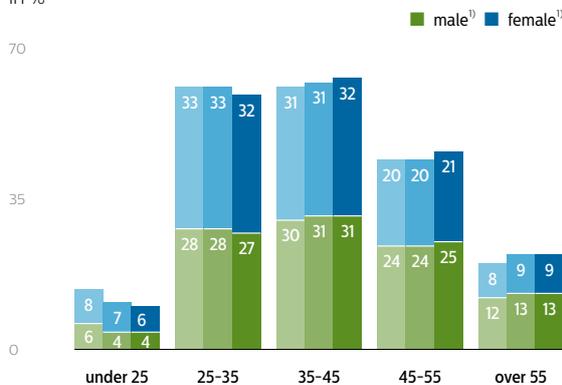
**New hire diversity**  
in %



<sup>1)</sup> Left to right: 2011, 2012 and 2013

In 2013, Philips employed 35% females, a decrease of 1 percentage point compared to 2012.

**Employees per age category**  
in %



<sup>1)</sup> Left to right: 2011, 2012 and 2013

In 2013, employee turnover amounted to 16% (15% in non-manufacturing sites; 20% in manufacturing locations), an increase compared to 2012 caused by the changing industrial footprint, divestments at Healthcare, the company's overhead reduction program and high turnover of manufacturing staff in our factories, mainly in the growth markets.

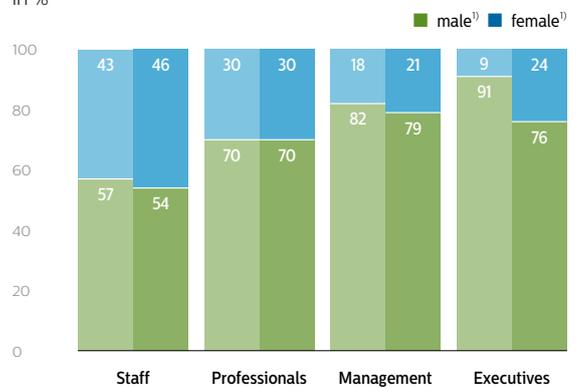
**Employee turnover**  
in %

	2011	2012	2013
Female	13	14	18
Male	10	13	15
Philips Group	11	14	16

**Employee turnover: manufacturing vs non-manufacturing sites**  
in %

	2012	2013
Manufacturing staff	17	20
Non-manufacturing staff	12	15
Group	14	16

**Exit diversity**  
in %

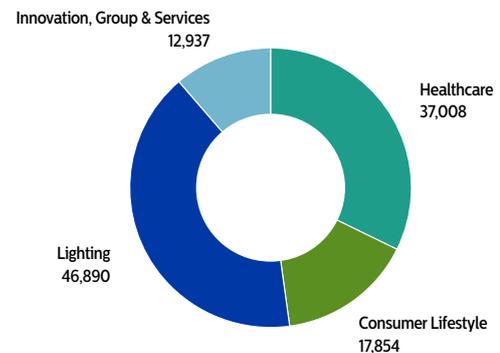


<sup>1)</sup> Left to right: 2012 and 2013

**4.2.4 Employment**

The total number of Philips Group employees (Continued operations) was 114,689 at the end of 2013, compared to 116,082 at the end of 2012. Approximately 41% 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 2013**  
in FTEs at year-end



Compared to 2012, the number of employees in continuing operations decreased by 1,393. This decrease reflects a reduction of 688 employees, mainly related to the industrial footprint rationalization at Lighting. It also reflects the departure of 705 employees due to divestments in Healthcare.

Approximately 52% of the Philips workforce was located in mature geographies, and about 48% in growth geographies. In 2013, the number of employees in mature geographies decreased by 1,614, mainly attributable to reductions relating to the company's overhead reduction program and the industrial footprint reduction in Lighting. Growth geographies headcount increased by 221, primarily in the growth businesses in Consumer Lifestyle.

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

	2011	2012	2013
Healthcare	37,955	37,460	37,008
Consumer Lifestyle	15,471	16,542	17,854
Lighting	53,168	50,224	46,890
Innovation, Group & Services	13,001	11,856	12,937
Continuing operations	119,595	116,082	114,689
Discontinued operations	5,645	2,005	1,992
	125,240	118,087	116,681

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

	2011	2012	2013
Western Europe	32,901	31,126	30,514
North America	28,129	26,134	25,080
Other mature geographies	3,232	3,359	3,478
Total mature geographies	64,262	60,619	59,072
Growth geographies	55,333	55,463	55,617
Continuing operations	119,595	116,082	114,689
Discontinued operations	5,645	2,005	1,992
	125,240	118,087	116,681

#### Employment in FTEs

	2011	2012	2013
Position at beginning of year	119,775	125,240	118,087
Consolidation changes:			
acquisitions	4,759	909	-
divestments	(479)	(1,024)	(705)
comparable changes	(850)	(3,398)	(688)
Divestment and other changes in discontinued operations	2,035	(3,640)	(13)
Position at year-end	125,240	118,087	116,681
of which:			
continuing operations	119,595	116,082	114,689
discontinued operations	5,645	2,005	1,992

#### 4.2.5 Developing our people

Philips' vision statement includes the following affirmation: "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."

As part of our drive to build a learning organization, learners at Philips are supported by a personalized University Portal accessible through all media, which facilitates individual learning journeys according to the 70 (on-the-job experience): 20 (coaching): 10 (classroom) model.

Our key 2013 objective in terms of leadership development was the creation of a Leadership Academy, based on a strategic framework that differentiates the learning needs of leaders at every level in the organization: Transformation, Transition and Accelerate.

The Academy flagship leadership development programs (including the market program *Shaping Markets* and the first-time manager program *Leading People@Philips*) are being co-created in collaboration with leading suppliers and business schools, with a strong emphasis on helping people to develop on the job and through external coaching and mentoring.

In 2013 we also started building a stronger, more focused and cost-effective approach to assessment for development. We introduced two new assessment tools – Manager Ready, a powerful virtual manager readiness assessment solution which was piloted in key markets (China, India, ASEAN, Central Europe, Benelux, Middle East & Turkey, and the US) and the renewed 360 program based on the new Leadership Competencies and Philips behaviors.

Enrollment in functional curricula programs, including Marketing, Finance, IT, Sales, HR, Procurement and Innovation, decreased to 19,000 from 24,000 in 2012. One of the reasons for this reduction is that many functional curricula were reviewed and content rationalized in 2013, allowing us to redeploy the investment into development of new content.

#### number of enrollments

	2009	2010	2011	2012	2013
Core Curriculum programs	5,500	20,000	39,500	43,000	32,500

The Legal curriculum hit the record of 63,000 enrollments, largely driven by the global roll-out of mandatory Compliance programs. In 2013, we also introduced local market programs with specific training modules for our staff in various geographies, including China, India and Africa.

We recorded 1,000 enrollments for the new Philips Excellence curriculum and around 2,500 registrations for the End2End curriculum programs.

#### Other programs

Philips has played a pioneering role in the Netherlands with its 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, some 1,800 participants have obtained a qualification that will help them in their future careers.

Via WGP, we offer vulnerable groups of external jobseekers a work experience placement, usually combined with some kind of training. The program started in 1983 and over 12,500 people have participated since. After participating in the program, about 70% find a job. In 2013, Philips employed some 150 persons via the WGP program, including young people with autism who are training to become a test engineer. Of the previous group of 10 autistic persons, eight found a job, one proceeded with a course of study, and the other is applying for jobs.

#### Training spend

Our external training spend in 2013 amounted to EUR 47.3 million, in line with EUR 46.9 million in 2012.

#### 4.2.6 Health and Safety

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

We regret to report three fatalities in 2013, all involving contractors. In Pakistan and Colombia, two contractors died while working on a Lighting project. In Poland a contractor died while working on a reconstruction at one of our factories.

In 2013, we recorded 307 Lost Workday Injuries cases, i.e. occupational injury cases where the injured person is unable to work one or more days after the injury, a significant decrease compared with 345 in 2012. The number of Lost Workdays caused by these injuries amounted to 9,603 days down from 12,630 days in 2012. The rate of Lost Workday Injuries decreased to 0.28 per 100 FTEs compared with 0.31 in 2012.

#### Lost Workday Injuries

per 100 FTEs

	2009	2010	2011	2012	2013
Healthcare	0.20	0.25	0.20	0.22	0.19
Consumer Lifestyle	0.26	0.26	0.23	0.25	0.24
Lighting	0.76	0.80	0.64	0.45	0.41
Innovation, Group & Services	0.07	0.13	0.04	0.05	0.04
Philips Group	0.44	0.50	0.38	0.31	0.28

All sectors showed a decrease in the Lost Workday Injury rate. 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 and peer audit programs were started and further expanded in 2013. Since 2010, Lighting achieved a strong decline in reported accident rates mainly attributed to active management involvement, launch of a new policy on machine safety improvements and further strengthening of management systems at major sites implementing the "Safety First" program. Lighting initiated a work stream to address Health & Safety management in Turnkey projects, headed by the Lighting market leaders. In efforts to further reduce injury rates, Lighting will also roll-out a Behavior Based Safety program in 2014.

The Health & Safety performance of Healthcare improved significantly in 2013. The Lost Workday Cases (LWC) decreased from 80 to 70 while the LWC Rate decreased from 0.22 to 0.19 compared to 2012 figures.

Healthcare targeted Health & Safety performance improvement actions within their Field Service Organization (FSO) to include organizational ownership and program management among other items. The FSO overall impact on the Sector Health & Safety performance decreased in 2013 compared to 2012. FSO Lost Workday Cases decreased from 46% to 38% of the Sector total while the number of Lost Workdays decreased from 49% to 38% of the Sector total compared to 2012. While the total number of Lost Workday Cases decreased in 2013, the number of Lost Workdays increased primarily due to isolated incidents with extended healing times.

Consumer Lifestyle continued to have low injury case levels. A new governance structure was launched in the Consumer Lifestyle organization to embed Health & Safety performance review and ownership in the businesses. The acquisitions Preethi and Povos started reporting their performance in 2013.

#### 4.2.7 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 whistleblower policy is intended to supplement more specific local grievance or complaint procedures. If employees wish to raise an issue for which there is a more specific procedure or grievance channel available, they are free to use this, e.g. use the applicable human resources procedures for employment issues. However, in case of concerns of

suspected violations of applicable laws or regulations employees are urged to always report these to either their GBP Compliance Officer or the Philips Ethics Line.

The global implementation of the 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).

In 2013, we introduced a mandatory sign-off on GBP for all executives.

#### Business Integrity Survey

In June 2013, a business integrity survey has been rolled out to all employees in eight most relevant languages to get their input on the effectiveness of our GBP program. The survey provides input on a number of aspects that are recognized to influence responsible business conduct. The insights that were derived from this survey were used to further enhance the effectiveness of the current compliance activities as well as the compliance road map.

The overall conclusion that could be drawn from the survey is that the Philips culture provides a sound basis to build upon, and that leaders are well positioned to manage integrity even more actively so as to support an environment in which employees feel comfortable to discuss or report potential issues and dilemmas.

#### Ongoing training

The business integrity survey provided the kickoff of a global GBP communications campaign, culminating in a global event called the 'GBP dialogue week' held in October 2013, in which managers were invited to hold sessions with their teams to discuss GBP in relation to their function or business. In their feedback, participating managers indicated they experienced this week as very meaningful and worth repeating.

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. Every quarter, all new hires get an invitation to take this training in their local language. In addition, targeted

audiences have been invited to take a web-based training on specific topics, including anti-bribery, antitrust, privacy and export controls.

More information on the Philips GBP can be found in chapter 6, Risk management, of this Annual Report. Results of the monitoring in place are provided in the chapter 13, Sustainability statements, of this Annual Report.

#### 4.2.8 Stakeholder engagement

In organizing ourselves around customers and markets, we create dialogues with our stakeholders in order to explore common grounds in addressing societal challenges, build partnerships and jointly develop supporting ecosystems for our innovations. Working with partners 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 13, Sustainability statements, of this Annual Report.

##### **Strategic Partner of the World Economic Forum**

In 2013, Philips entered into a strategic partnership with the World Economic Forum. The Forum's mission of 'Improving the state of the world' closely matches our own and the Forum engages business, political, academic and other leaders of society to shape global, regional and industry agendas in an informal, action focused way.

During the first year of our partnership, Philips contributed significantly to the Forum's agenda, with active participation in three industry groups, numerous speaking roles at the various meetings and a co-chairmanship of Frans van Houten at the World Economic Forum on Africa summit in Cape Town. Furthermore, Deborah DiSanzo, CEO Healthcare, has accepted to chair a thought leadership initiative that will explore Health Systems Leapfrogging in Emerging Markets.

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

Over the last 5 years, Philips has run The Philips Center for Health and Well-being as a knowledge-sharing forum that raised the level of dialogue on key societal questions that matter most to citizens and communities. In 2013, the Aging Well think tank, one of the initiatives of the Center, actively participated in a number of events, such as the Aging in America conference of the American Society on Aging, the International Congress on Telehealth and Telecare of the King's Fund in the UK, and a well-attended expert roundtable to explore next-generation technologies

for aging well. As of 2014, the activities of the Center will be merged with our other stakeholder engagement platforms and initiatives across the businesses and markets.

##### **Partnering to improve healthcare in Africa**

In November 2013, Philips and AMREF Flying Doctors announced that they will work together in a partnership to structurally improve healthcare infrastructure and provision in Africa. Both parties will leverage their respective strengths to help tackle inadequately equipped medical facilities and inadequately trained staff as a way to better address the growing incidence of non-communicable diseases across the continent. AMREF and Philips will also work with local stakeholders to develop and implement large-scale projects to make healthcare more accessible to the local population.

We sought similar partnerships in our 'Fabric of Africa' campaign launched in 2013. The campaign's primary intent is to enter into public/private partnerships with local and international stakeholders to improve healthcare delivery in the areas of non-communicable diseases, maternal and child health, healthcare infrastructure, technology and clinical training. Philips has developed innovative, low-resource setting health technologies and e-Health solutions to address the challenges in the African market. More information on this campaign can be found at [www.philips.com/FabricofAfrica](http://www.philips.com/FabricofAfrica).

##### **Working on global issues**

In 2013, Philips participated in a number of international conferences and events focused on sustainable development and climate change. These included the Climate Week in New York City (organized by The Climate Group), co-launching the 'Cities & Aging' policy snapshot with the Global Cities Indicator Facility in Toronto, as well as the United Nations Climate Change Conference in Warsaw, Poland. Most notably we were invited as the only private sector company to join the UN Secretary General's Chief Executives Board, with Ban Ki Moon and part of his UN leadership team. Here we highlighted that energy efficient and intelligent LED solutions will result in a 30% reduction of electricity consumption by the global lighting market in 2020 compared to 2006. This equates to a reduction of 515 megaton CO<sub>2</sub> emissions, while also significantly reducing energy bills by around EUR 100 billion in 2020.

#### Innovation event

In November, Philips Research organized an Innovation Event at the High Tech Campus with external guest speakers, to share best practices, share Philips corporate ambition for more sustainable product solutions; initiate new innovative concepts to radically improve access to healthcare; new products that decrease food waste and help meet world food security goals; and to identify new approaches to the circular economy, focusing on concepts such as “design for reuse” and improved recycling efficiency. We believe these global challenges can only be addressed through Open Innovation and regional partnerships with all stakeholders involved. We collaborate with academics, universities through direct partnerships, Open Innovation initiatives and government driven initiatives, like FP7 and Horizon 2020, two European Union research programs.

#### 4.2.9 Social Investment Programs

In 2013, we continued to develop and localize our global social investment program, [SimplyHealthy@Schools](#). In Brazil, 230 employees from Philips offices and factories registered to volunteer in *Fal@ndo em Bem-Estar*, the local adaptation of [SimplyHealthy@Schools](#). The program aims to empower kids from 8 to 12 to change their habits, health and environment and educates teenagers about safe sex and sexual transferable diseases prevention, a critical national issue.

Philips Brazil also rolled-out a new initiative in 2013 with an important Healthcare partner, Fleury. Based on the same topics and questions explored in our *Fal@ndo em Bem-Estar*, the project consists of a giant interactive board game, developed to be used in schools throughout the entire country by Fleury and Philips employees.

In North America, the [Philips Cares](#) program provides ways for employees to work together to improve people’s lives by creating healthy, sustainable communities that contribute to the success and well-being of future generations. This can take many forms: from helping a child to excel in math, to providing safety and energy efficient home improvements to the disadvantaged, to raising awareness about the importance of cardiac health. In 2013 alone, more than 5,000 employees participated in volunteer opportunities that suited their needs, schedules, and passions in partnerships with organizations such as American heart Association, March of Dimes, and Rebuilding Together.

At the end of 2012 we 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 after dark.

Throughout 2014, Philips will roll out a new three pillar social investment strategy, comprising of a disaster relief program, a local community investment program and a signature social innovation program. The main focus will be on access to healthcare, access to light and healthy futures.

#### 4.2.10 Supplier sustainability

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

<b>Labor</b> <ul style="list-style-type: none"> <li>Freely Chosen Employment</li> <li>Child Labor Prohibition</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>	

**2013 supplier audits in risk countries**

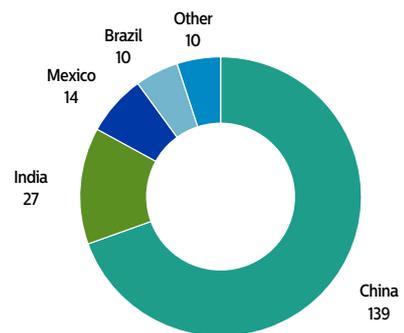
In 2013, Philips conducted 200 full-scope audits, including four joint audits conducted on behalf of Philips and other EICC member companies. Additionally, 59 audits of potential suppliers were performed. Potential suppliers are audited as part of the supplier approval process, and they need to close any zero-tolerance issues before they can start delivering to Philips. In our new audit approach, we place more focus on capacity building programs to realize structural improvements leading to better audit results.

As in previous years, the majority of the audits in 2013 were done in China. The total number of full-scope audits carried out since we started the program in 2005 is 2,162. This number includes repeated audits (131 in 2013), since we execute a full-scope audit at our risk suppliers every three years. The audit program covers 90% of our spend with risk suppliers.

**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, being the percentage of risk suppliers that was audited within the last 3 years, and do not have any - or have resolved all major non compliances. During 2013 we achieved a compliance rate of 77% (2012: 75%).

Please refer to sub-section 13.2.2, Supplier indicators, of this Annual Report for the detailed findings of 2013.

#### 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 structural attention from management is crucial to realize structural and lasting changes at supplier production sites. In 2013 we continued our focus on capacity building initiatives which are offered to help suppliers improve their practices. Our supplier sustainability experts in China, India and Brazil organized trainings, visited suppliers for on-site consultancy, conducted pre-audit checks and helped suppliers to train their own employees on topics like occupational health and safety, emergency preparedness and chemicals management.

We also teamed up with peers in the industry and civil society organizations to work on capacity building at Chinese factories via the [IDH Electronics Program](#), an innovative multi-stakeholder initiative sponsored by the Sustainable Trade Initiative (Initiatief Duurzame Handel). The goal is to improve working conditions for more than 500,000 employees in the electronics sector. Two years ago the program was kicked-off in China's Pearl River Delta, and now expanded to also cover supplier factories in the Yangtze River Delta area. A total of 15 Philips suppliers are now participating in the program.

#### 4.2.11 Conflict minerals: issues further down the chain

In line with Philips' commitment to supply chain sustainability, we feel obliged to implement measures in our chain to ensure that our products are not directly or indirectly funding human atrocities in the Democratic Republic of the Congo (DRC). We are concerned about the situation in eastern 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 Philips does not directly source minerals from the DRC and mines are typically seven or more tiers removed from our direct suppliers.

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 shied away from purchasing minerals from the DRC, creating a de facto embargo in a region where mining is often the only source of income for local communities. We decided that this was not the right approach and instead of avoiding the DRC, we took the more difficult road, supporting conflict-free sourcing from the DRC. To promote cooperation and economic growth in the

region outside the control of the rebels, we launched the [Conflict-Free Tin Initiative](#). This initiative introduces a tightly controlled conflict-free supply chain of tin from a mine in the DRC all the way down to an end-product. Philips is one of the industry partners brought together by the Dutch government that initiated the program in 2012. To underline our commitment to conflict-free sourcing, we joined a delegation in February 2013 to visit the mine and engage with different local stakeholders in the DRC. At the end of 2013 we reached an important milestone when the first end-user products containing this conflict-free tin were made in our Philips Lighting factory.

During 2013 we continued our work with 349 priority suppliers to raise awareness and conduct supply chain investigations to determine the origin of the metals in our products. This resulted in the identification of 191 smelters in our supply chain involved to process these metals. We publish this smelter list on our website, creating 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. Philips encourages all smelters in our supply chain to join the Conflict Free Smelter program and demonstrate their conflict-free status via independent third party assessments. 29% of the smelters identified by our suppliers have now successfully passed the Conflict Free Smelter assessment. As sufficient conflict-free smelters for all four metals (Tin, Tantalum, Tungsten and Gold) will become available, Philips plans to direct its supply chain towards these smelters.

We believe that industry collaboration and stakeholder dialogue are important to create impact at these deeper levels of our supply chain. Therefore Philips continued its active contribution to the Conflict Free Sourcing Initiative, a joint effort of the [EICC](#) and [GeSI](#) and others 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 continued our participation in the multi-stakeholder OECD-hosted program 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 U.S. to see how we can resolve the issue.

In line with the US Dodd-Frank Act, we started preparations for publishing a Philips Conflict Minerals Report, including an audit of the Conflict Minerals Report as required by the Act.

For more details and result of our supplier sustainability program, please refer to sub-section 13.2.2, Supplier indicators, of this Annual Report.

## 4.3 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. Next we launched our first EcoVision program in 1998 which focused on operations and products. We also started to focus on sustainability in our supply chain in 2003. We extended our scope further in 2010 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:

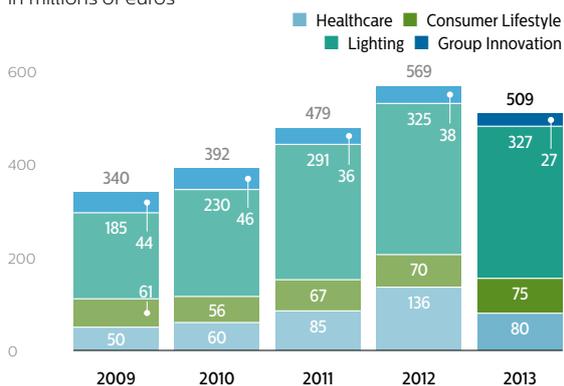
- Improving people's lives
- Green Product sales
- Green Innovation, including Circular Economy
- Green Operations
- Health & Safety
- Supplier Sustainability

In this environmental performance section an overview is given of the most important environmental parameters of the program. Improving people's lives, Health & Safety, and Supplier Sustainability are addressed in the Social performance section. Details of the EcoVision parameters can be found in the chapter 13, Sustainability statements, of this Annual Report.

### 4.3.1 Green Innovation

Green Innovation is the Research & Development spend related to the development of new generations of Green Products and Green Technologies. We announced in 2010 our plan to invest a cumulative EUR 2 billion in Green Innovation during the coming 5 years. In 2013 Philips invested some EUR 509 million in Green Innovation, with the strongest contribution from Lighting mainly stemming from investments in LED.

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



**Healthcare**

Philips Healthcare develops innovative solutions across the continuum of care in collaborating 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, with a focus on energy efficiency and dose reduction. Healthcare investments in Green Innovation in 2013 amounted to EUR 80 million, a significant decrease compared with 2012. This can be attributed to a number of significant Healthcare projects which were completed in 2012. Other areas covered include increased levels of recycled content in our products, remote servicing 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. Philips Healthcare actively supports a voluntary industry initiative (COICIR) for improving the energy efficiency of imaging equipment. Moreover, we are actively partnering with care providers to look together for innovative ways to reduce the environmental impact of healthcare, for example by optimizing energy efficient use of medical equipment.

**Consumer Lifestyle**

Green Innovation at Consumer Lifestyle amounted to EUR 75 million compared to EUR 70 million in 2012 and resulted in an increase in Green Product sales in all Business Groups. 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 voluntary phase-out of polyvinyl chloride (PVC), brominated flame retardants (BFR) and Bisphenol A (BPA) from food contact products. In particular, more than 80% of the shaving and grooming products are completely PVC/BFR-free.

**Lighting**

At Lighting, we strive to make the world healthier and more sustainable through energy-efficient lighting solutions. In 2013 Lighting invested EUR 327 million in line with EUR 325 million in 2012 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). Recent examples include the TLED and the Philips LUXEON Altilon product family in the Mercedes S-class Intelligent Lighting System, making this the first car in which all lighting functions are LED. 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 27 million in Green Innovations, spread over projects focused on global challenges related to water, air, waste, energy, food and access to affordable healthcare. Group Innovation deployed the Sustainable Innovations Assessment tool in which innovation projects are mapped, categorized and scored along the environmental and social dimension to identify those innovation projects that drive sustainable innovation. One example of a Group Innovation project is related to low cost solar-powered LED lighting.

When the sun sets in Africa, over 600 million people on the continent rely on kerosene and candles to see in the dark. For most of the population who are at the Base of the Pyramid (BoP) these lighting solutions remain costly, give only low illumination and are highly non-sustainable. The BoP comprises four billion people living in our world today, and in the poorest socio-economic group. We engaged directly with BoP consumers in some of the poorest areas of Africa to understand their needs for lighting and energy and how they wish to use that light. The insights derived from these studies have resulted in a re-design of our entire portfolio of solar lighting for the consumer. At the same time the new products take advantage of the very latest developments in LED, solar panels and battery technology, resulting in a portfolio that is flexible in use-case, has a high performance, is robust and long lasting. All this is provided at price-points that match the spending power of the target consumers with a payback time within 3-6 months.

### Energy efficiency of products

Energy efficiency is a key Green Focal Area for our Green Products. About 97% of the energy consumed during the use phase of our products is attributable to Lighting products, according to our analysis. 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 2% in 2013 (19% compared to 2009).

In 2013 LED sales continued to advance well, but 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 2013 was limited. As the traditional incandescent lamp will be banned in more countries, we expect the energy efficiency improvement to advance in the coming years. Our target for 2015 is a 50% improvement compared to the 2009 baseline. In this target setting, assumptions were made on the speed of the regulatory developments in this area, which stayed behind expectations. Therefore, in 2015 the target of 50% improvement will probably not yet be achieved. 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).

### Circular economy

For a sustainable world, the transition from a linear to a circular economy is a necessary boundary condition. A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using those resources more effectively. It is a driver for innovation in the areas of material-, component- and product reuse, as well as new business models such as solutions and services. In a circular economy, the more effective (re)use of materials enables to create more value, both by cost savings and by developing new markets or growing existing ones.

In 2013, Philips started its circular economy approach. Key characteristics are customer access over ownership (pay for performance e.g. pay per lux or pay per scan), business model innovations (from transactions to relationships via service and solution models), reverse cycles (including partners outside

current value chains e.g. upstream-downstream integration and co-creation) and logistics, innovations for material-, component-, and product reuse, products designed for disassembly and serviceability. In 2013, Philips became a global partner of the Ellen McArthur Foundation, the leading organization on the concept of circular economy.

### Closing the material loop

In 2013 we restated the 2009 baseline for global collection and recycling amounts at around 22,500 tonnes (excluding TV and AVM&A), 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 2012 (reported in 2013) was calculated at 31,000 tonnes, excluding AVM&A (which was calculated at 9,000 tonnes). A small improvement compared to the amount for 2011 due to an increase in recycled products in Healthcare.

### Recycled materials

We calculated the amount of recycled materials in our products in 2013 at some 14,000 tonnes (2012: 15,000 tonnes), by focusing on the material streams plastics, aluminum, refurbished products, and spare parts harvesting depending on the relevance in each sector.

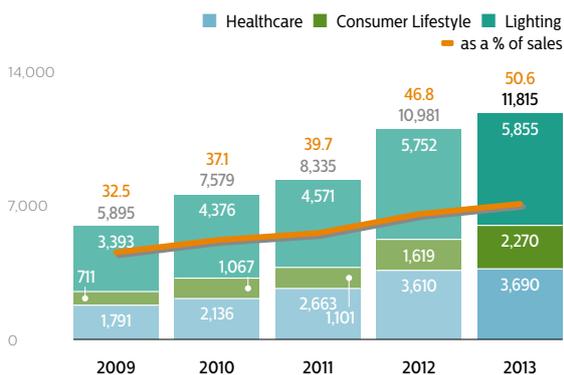
Our target is to double the global collection and recycling and the amount of recycled materials in our products by 2015 compared to 2009. Further details on this parameter and the methodology can be found in the document 'Closing the material loop' at [www.philips.com/sustainability](http://www.philips.com/sustainability).

## 4.3.2 Green Product sales

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. Sales from Green Products increased from EUR 11.0 billion in 2012 to EUR 11.8 billion in 2013, or 51% of sales, thereby reaching the target of 50% we set ourselves for 2015.

All sectors contributed to the growth in Green Product sales, but Consumer Lifestyle achieved the highest Green Product nominal sales growth, followed by Healthcare and Lighting. The exclusion of AVM&A had a 10% positive impact in 2013 on the Green Product sales percentage of Consumer Lifestyle (2013: 49%).

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



New Green Products from each sector include the following examples.

**Healthcare**

During 2013, Healthcare expanded the Green Product portfolio with 13 new products to improve patient outcomes, provide better value, and expand access to care, while reducing environmental impact. Philips' new EPIQ platform for example, delivers high-quality ultrasound imaging to every setting where echocardiography is used and at the same time reduces both energy use and product weight by almost 30% compared to the predecessor model. The energy consumption for each of Philips MRI models is lower than the market average according to COCIR. Other examples are new X-ray systems such as DuraDiagnost systems and a new Certeray X-ray generator, with significantly lower energy use and product weight versus predecessor models. Green Products from Patient Care & Clinical Informatics include MX400/450 and MX 500 patient monitors, for which product weight is significantly reduced (up to 27%) as well as energy consumption (up to 23%) when compared to their predecessor models.

**Consumer Lifestyle**

Consumer Lifestyle is focusing on the avoidance of substances of concern, the application of recycled materials and the energy efficiency of the products. In 2013, in China, Consumer Lifestyle introduced energy efficient living room Air purifiers. The products have an energy efficient motor, and score the highest grade (A) on the China energy label for Air purifiers.

**Lighting**

An example of a new Green Product introduced in 2013 is the Pacific LED Green Parking system covered parking solution. It ensures safety, whilst offering outstanding energy savings, low maintenance and long lifetimes. Through a mix of LED luminaires, wireless

controls and presence detection, it can save up to 80% in running costs whilst typically delivering back the return on investment in under 3 years. As the solution is wireless, it is an easy retrofit solution that will match the lumen output of traditional fluorescents.

We aim to create products that have significantly less impact on the environment during their whole lifecycle through our EcoDesign process. 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 hazardous substances and recyclability in all sectors in 2013, the latter driven by our Circular Economy initiatives.

**4.3.3 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 13, Sustainability statements, of this Annual Report.

**Carbon footprint and energy efficiency**

After achieving our EcoVision4 carbon emissions reduction target in 2012 (25% operational CO<sub>2</sub> emissions reduction compared to 2007, the baseline year) we continued our energy efficiency improvement programs across different disciplines in 2013. Examples are Work Place Innovation, partnering in the KLM BioFuel program and Green Logistics. However, in 2013 our Carbon Footprint increased by 2% to 1,654 kilotonnes CO<sub>2</sub> as a result of increased carbon emissions from air transport (to mitigate supply shortages), the increased use of SF<sub>6</sub> (a substance with high Global Warming Potential impact) and increased business travel due to our increasing focus on emerging markets. These were, however, partly offset by decreasing emissions resulting from reduced office space (Work Place Innovation), consolidation of warehouses, the changing industrial footprint, and the increase in purchased electricity from renewable sources.

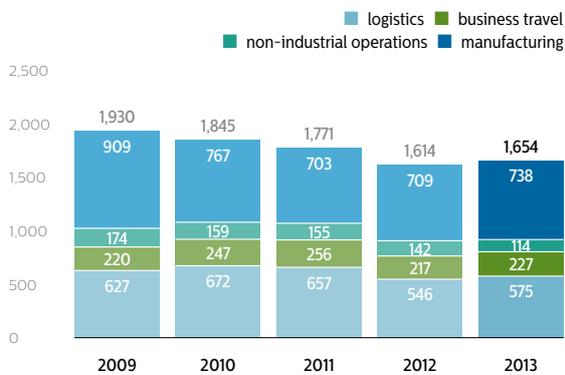
In 2013, CO<sub>2</sub> emissions from non-industrial sites decreased 20%, in large part attributable to our Work Place Innovation program which enables flex-working and thus reduces the floor space in our portfolio. But also our continuing focus on buildings' energy efficiency and the increased share of purchased electricity from renewable sources have helped achieve this.

After a decrease in 2012, total emissions from business travel increased 5% in 2013 as reduced emissions from our lease car fleet were off-set by increased air travel. We continue to promote video conferencing as an alternative to travel. In 2013, logistics CO<sub>2</sub> emissions increased 5% in comparison with 2012. These were mainly caused by increased air shipments to mitigate supply shortages in our Lighting sector.

Our operational energy efficiency decreased 5% from 1.15 terajoules per million euro sales in 2012 to 1.21 terajoules per million euro sales in 2013 as a result of intensified industrial activities, increased business travel and increased logistics activities.

#### Operational carbon footprint

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



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

	2009	2010	2011	2012	2013
Operational CO <sub>2</sub> emissions in kilotonnes CO <sub>2</sub> -equivalent	1,930	1,845	1,771	1,614	1,654
Operational CO <sub>2</sub> efficiency in tonnes CO <sub>2</sub> -equivalent per million euro sales	83	73	70	65	71
Operational energy use in terajoules	31,145	32,766	31,402	28,405	28,162
Operational energy efficiency in terajoules per million euro sales	1.34	1.29	1.24	1.15	1.21

#### Operational carbon footprint by Greenhouse Gas Protocol scopes

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

	2009	2010	2011	2012	2013
Scope 1	447	441	431	443	465
Scope 2	636	485	427	409	387
Scope 3	847	919	913	762	802
Philips Group	1,930	1,845	1,771	1,614	1,654

#### Water

Total water intake in 2013 was 5.0 million m<sup>3</sup>, about 4% higher than in 2012. This increase was mainly due to a new acquisition in China that started to report in 2013, which accounted for 6% of group water consumption in 2013 as well as increased water use at two Lighting Lumileds sites, mitigated by water conservation activities across all sectors.

Lighting represents around 79% 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>

	2009	2010	2011	2012	2013
Healthcare	363	256	308	421	454
Consumer Lifestyle	315	351	338	303	586
Lighting	3,531	3,604	3,682	4,133	4,004
Innovation, Group & Services	7	7	-	-	-
Philips Group	4,216	4,218	4,328	4,857	5,044

In 2013, 82% of water was purchased and 18% was extracted from groundwater wells.

#### Waste

Total waste increased 5% to 92 kilotonnes in 2013 from 88 kilotonnes in 2012. Lighting (77%) and Consumer Lifestyle (12%) account for 89% of our total waste. The increase was mainly due to one-time demolition scrap at a Lighting site in the Netherlands (10 kilotonnes) and a new acquisition in China, mitigated by the exclusion of the AVM&A business in CL and waste reduction programs in all sectors.

#### Total waste

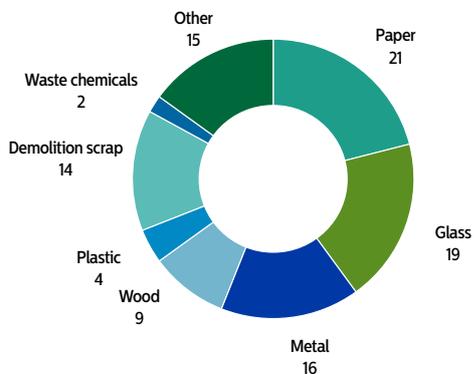
in kilotonnes

	2009	2010	2011	2012	2013
Healthcare	8.2	11.2	9.3	10.4	9.6
Consumer Lifestyle	20.1	23.2	19.6	12.7	11.4
Lighting	69.3	70.1	65.1	64.5	71.0
Innovation, Group & Services	0.1	0.1	0.0	0.0	0.0
Philips Group	97.7	104.6	94.0	87.6	92.0

Total waste consists of waste that is delivered for landfill, incineration or recycling. Materials delivered for recycling via an external contractor comprised 74 kilotonnes, which equated to 81%, an improvement compared to 77% in 2012, as our manufacturing sites

implemented recycling programs. Of the remaining waste, 14% comprised non-hazardous waste and 5% hazardous waste.

**Industrial waste delivered for recycling**  
in %



**Emissions**

Emissions of restricted substances totaled 9 kilos in 2013, a significant decrease compared to 55 kilos in 2012, due to a continued reduction in mercury emissions at Lighting and more accurate measurements. The level of emissions of hazardous substances decreased by some 40% from 70,093 to 40,451 kilos, mainly as a result of a decrease in total styrene emissions at Lighting and more accurate measurements mitigated by an increase in xylene emissions in CL. All sectors have reduction programs for the restricted and hazardous substances.

**Restricted and hazardous substances**  
in kilos

	2009	2010	2011	2012	2013
Restricted substances	272	188	111	55	9
Hazardous substances	32,869	61,795	65,477	70,093	40,451

For more details on restricted and hazardous substances, please refer to sub-section 13.3.3, Green Operations, of this Annual Report.

*Content you didn't download*

- 4.4 Proposed distribution to shareholders
- 4.5 Outlook

# 13 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. This was expanded in 2003, with the launch of our first sustainability annual report, which provided details of our social and economic performance in addition to our environmental results.

In 2008, 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. This is also supported by the inclusion of sustainability in the Philips Mission, Vision and the company strategy.

This is our sixth 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.

## Stakeholders

We seek to engage stakeholders across all our activities 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. In addition to engagement with our customers, our suppliers, employees, local communities and governments, we participate in meetings and task forces as a member of organizations including the WBCSD, World Economic Forum, 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), Healthcare Plastics Recycling Council (HPRC) and the Ellen MacArthur Foundation.

A multi-stakeholder project with the Sustainable Trade Initiative (IDH), a number of NGOs, and electronic companies was started in 2011 and continued in 2013. The program focuses on improving working circumstances in the electronics industry in China.

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

## 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) new G4 Sustainability Reporting Guidelines as well as the International Integrated Reporting Council (IIRC) Integrated Reporting <IR> framework.

A detailed overview of the G4 Comprehensive Indicators is provided at the end of this section.

Sustainability is integrated in our company strategy and embedded in the organization. We have tried to reflect this "integrated thinking" while writing this report, in line with the <IR> framework.

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 aspects and our focus**

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

- level of concern to society at large and stakeholders, versus
- significance of the environmental and social impact on and by Philips 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 aspects

	Reference <sup>1)</sup>	Boundaries
<b>Environmental</b>		
- Climate change	section 2.3, Market opportunities, of this Annual Report section 4.3, Environmental performance, of this Annual Report chapter 13, Sustainability statements, of this Annual Report	Supply chain, operations, use phase
- Energy efficiency	section 2.3, Market opportunities, of this Annual Report section 4.3, Environmental performance, of this Annual Report chapter 13, Sustainability statements, of this Annual Report	Supply chain, operations, use phase
- Clean technologies	sub-section 5.4.1, About Innovation, Group & Services, of this Annual Report	Use phase
- Circular Economy (incl. resource efficiency and collection & recycling)	Message from the CEO, of this Annual Report sub-section 4.3.1, Green Innovation, of this Annual Report section 4.3, Environmental performance, of this Annual Report sub-section 13.2.2, Supplier indicators, of this Annual Report	Supply chain, operations, use phase
- Biodiversity (increased focus on natural resources)	section 4.3, Environmental performance, of this Annual Report chapter 13, Sustainability statements, of this Annual Report	Operations, use phase
- Water scarcity	chapter 13, Sustainability statements, of this Annual Report	Operations
- Pollution (incl. air and acidification)	sub-section 5.4.1, About Innovation, Group & Services, of this Annual Report	Operations, use phase
<b>Societal</b>		
- Aging population	Message from the CEO, of this Annual Report section 2.3, Market opportunities, of this Annual Report section 5.1, Healthcare, of this Annual Report	Use phase
- Rising healthcare costs	Message from the CEO, of this Annual Report section 2.3, Market opportunities, of this Annual Report section 5.1, Healthcare, of this Annual Report	Use phase
- Chronic and lifestyle related diseases	Message from the CEO, of this Annual Report section 2.3, Market opportunities, of this Annual Report section 5.1, Healthcare, of this Annual Report	Use phase
- Healthy Living	Message from the CEO, of this Annual Report section 2.3, Market opportunities, of this Annual Report section 5.2, Consumer Lifestyle, of this Annual Report	Use phase
- Expanding middle class in growth geographies	Message from the CEO, of this Annual Report section 5.2, Consumer Lifestyle, of this Annual Report	Use phase
- Responsible Supply Chains (inc. human rights)	section 4.2, Social performance, of this Annual Report chapter 13, Sustainability statements, of this Annual Report	Supply chain
- Demographic shift and urbanization	section 2.3, Market opportunities, of this Annual Report sub-section 5.3.1, Lighting business landscape, of this Annual Report	Use phase
- Conflict minerals	sub-section 4.2.10, Supplier sustainability, of this Annual Report sub-section 13.2.2, Supplier indicators, of this Annual Report	Supply chain

	Reference <sup>1)</sup>	
- Employee health and safety	section 4.2, Social performance, of this Annual Report	Supply chain, operations
- Economic downturn	Message from the CEO, of this Annual Report	Supply chain, operations, use phase
	Reference <sup>1)</sup>	
<b>Governance</b>		<b>Boundaries</b>
- Privacy and on-line sales	section 6.5, Compliance risks, of this Annual Report	Operations, use phase
- Business ethics and General Business Principles	section 6.5, Compliance risks, of this Annual Report	Supply chain, operations, use phase
- Partnerships and co-creation	sub-section 5.4.1, About Innovation, Group & Services, of this Annual Report chapter 13, Sustainability statements, of this Annual Report	Supply chain, use phase
- Impact of social media	sub-section 4.2.8, Stakeholder engagement, of this Annual Report section 6.4, Operational risks, of this Annual Report	Supply chain, operations, use phase
- Stakeholder activism and transparency	sub-section 4.2.8, Stakeholder engagement, of this Annual Report sub-section 4.2.10, Supplier sustainability, of this Annual Report section 6.4, Operational risks, of this Annual Report	Supply chain, operations, use phase
- Metrics beyond financials	section 4.2, Social performance, of this Annual Report section 4.3, Environmental performance, of this Annual Report chapter 13, Sustainability statements, of this Annual Report	Supply chain, operations, use phase
- Product regulation (inc. transparency on chemicals)	section 6.5, Compliance risks, of this Annual Report sub-section 5.1.2, About Philips Healthcare, of this Annual Report sub-section 5.2.2, About Philips Consumer Lifestyle, of this Annual Report sub-section 5.3.2, About Philips Lighting, of this Annual Report	Supply chain, operations, use phase
- Diversity	section 2.5, Our people, of this Annual Report sub-section 4.2.3, Diversity and inclusion, of this Annual Report	Operations

<sup>1)</sup> With the exception of section 4.2, Social performance, of this Annual Report, section 4.3, Environmental performance, of this Annual Report, and chapter 13, 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	45,000 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 sub-section 13.2.2, 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.

## Boundaries of sustainability reporting

Our sustainability performance reporting encompasses the consolidated Philips Group activities, following the consolidation criteria detailed in this section. As a result of impact assessments of our value chain we have identified the material topics, determined their relative impact in the value chain (supply chain, our own operations, and use phase of our products) and report for each topic on the relevant parts of the value chain. More details on our impact are provided in the relevant sections.

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 estimate. As our insight increases, we may enhance the methodology in the future.

The Green Product definition has changed in 2013 for Lighting; with the phase-out of incandescent lamps, the Eco Halogen lamp became the reference product for many lamps and was not included in our Green Product sales any longer. This had a downward impact on the Green Product sales of Lighting of some 4%. At the same time it was decided to include sustainable services provided by the business group Professional Lighting Solutions (PLS) in the Green Product definition Lighting. This had an upward impact of 1,5% on the Green Product sales of this sector.

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 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 reported 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 as from 2012. Historical comparisons may not be available, however.

Health and safety data is reported 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.

In line with the discontinued operations presentation in the Group financial statements regarding the Audio, Video, Multimedia and Accessories (AVM&A) business, we have excluded the AVM&A data from the consolidated Sustainability data. Where the impact of the exclusion was material, we clearly disclosed the impact.

Prior-period financial statements have been restated for the treatment of Audio, Video, Multimedia and Accessories as discontinued operations and the adoption of IAS 19R, which mainly relates to accounting for pensions.

### 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 peer 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 (Scope 1, 2 and 3) 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 2013 were: Brazil, China, India, Indonesia, Mexico, Ukraine, and Vietnam.
- 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) and projects like the Circular Economy initiative.

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.

Progress on Sustainability is communicated internally on a quarterly basis to Philips staff and at least annually in the Executive Committee and Supervisory Board.

#### External assurance

KPMG has provided reasonable assurance on whether the information in chapter 13, Sustainability statements, of this Annual Report and section 4.2, Social performance, of this Annual Report and section 4.3, Environmental performance, of this Annual Report presents fairly, in all material respects, the sustainability performance in accordance with the reporting criteria. We refer to section 13.4, Independent assurance report, of this Annual Report.

## 13.1 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

	2011	2012	2013
Suppliers: goods and services	12,732	14,466	13,641
Employees: salaries and wages	4,668	5,499	4,983
Shareholders: distribution from retained earnings	711	687	678
Government: corporate income taxes	251	185	466
Capital providers: net interest	302	325	268

Total purchased goods and services amounted to EUR 13.6 billion, representing 58% of total revenues of the Philips Group. Of this amount, 70% was spent with global suppliers, the remainder with local suppliers. Compared to 2012, spending decreased significantly mainly as a result of Bill of Material savings.

In 2013, the salaries and wages totaled EUR 4.98 billion. This amount is some EUR 500 million lower than in 2012, caused by a reduction in headcount and lower restructuring costs. See note 3, Income from operations for more information.

Dividend distributed to shareholders amounted to EUR 678 million, comparable to 2012.

Income taxes amounted to EUR 466 million, compared to EUR 185 million in 2012. The effective income tax rate was 28.1%, compared to 58.0% in 2012. Excluding the non-tax-deductible European Commission fine and charges related to various legal matters in 2012, the effective tax rate in 2012 was 25.5%. The 2.6 percentage points increase in 2013 was mainly related to a higher weighted average statutory income tax rate in 2013 due to a change in the country mix of profit and loss, which was partly offset by lower valuation allowances.

For a further understanding, see note 5, Income taxes.

## 13.2 Social statements

This section provides additional information on (some of) the social performance parameters reported in section 4.2, Social performance, of this Annual Report

### 13.2.1 General Business Principles

The analysis is based upon 335 concerns reported via the formal GBP procedure in 2013 relating to alleged violations of the General Business Principles (GBP), compared to 374 in 2012.

The decrease in the overall number of concerns reported can mainly be attributed to a decrease in the Americas. We see a slight decrease in percentage of reported concerns in North America, which accounted for 43% of all concerns (2012: 47%), and a continued decrease in concerns reported in Latin America (2013: 17%; 2012: 21%, 2011: 32%). Europe and the Middle East show a stable 15% of the total number of reported concerns (2012: 15%). Only the Asia Pacific region, which accounted for 25% of all concerns, shows a notable and continuing increase in reports (2012: 18%). The continuing 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. The continuing increase in the Asia Pacific region we believe is the consequence of our efforts in that region to strengthen our corporate culture in the area of ethics and compliance.

### Most common types of reported concerns

#### Treatment of employees

The most common reported concern remains related to the Treatment of employees category, which represented 61% of all reports (2012: 55%). As in 2012, the vast majority of the Treatment of employees concerns (81%) remains related to two issues – Equal and fair treatment and Respectful treatment.

Concerns regarding Equal and fair treatment – primarily favoritism, discrimination and unfair treatment – originated principally in the US. Of the concerns reported in the US, 39% related to equal and fair treatment, whereas that figure was 24% for Philips.

Most concerns regarding lack of Respectful treatment – primarily verbal abuse, (sexual) harassment and hostile work environment– again come from the US. Of the concerns reported in the US, 33% related to respectful treatment; compared to 25% for Philips as a whole.

#### Business integrity

In second place, with 33% of the total number of reports, are concerns reported in the Business integrity category (2012: 32%). Most concerns (60%) in this category originate in the Asia Pacific region. Followed by the regions North America and Europe and Middle East (both 17%) and Latin America (7%).

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

#### Breakdown of reported GBP concerns

	2009	2010	2011	2012	2013
<b>Health &amp; Safety</b>	6	3	2	11	3
<b>Treatment of employees</b>	162	184	132	205	203
- Collective bargaining	-	1	-	1	5
- Equal and fair treatment	63	64	41	72	80
- Employee development	3	1	-	-	4
- Employee privacy	2	2	1	1	1
- Employee relations	15	4	1	2	5
- Respectful treatment	53	96	71	102	84
- Remuneration	22	12	6	15	15
- Right to organize	-	-	-	1	-
- Working hours	4	4	2	-	3
- HR other	-	-	10	11	6
<b>Legal</b>	4	13	10	19	9
<b>Business Integrity</b>	88	112	107	119	109
<b>Supply management</b>	4	4	3	3	5
<b>IT</b>	-	-	-	-	6
<b>Other</b>	54	22	15	17	-
<b>Total</b>	318	338	269	374	335

#### Classification of the concerns investigated

category	2011		2012		2013	
	substantiated	unsubstantiated	substantiated	unsubstantiated	substantiated	unsubstantiated
Health & Safety	-	2	2	7	-	2
Treatment of employees	18	68	22	150	33	136
Legal	-	5	5	8	2	2
Business Integrity	33	43	37	51	32	32
Supply Management	2	1	1	-	-	3
IT	-	-	-	-	3	1
Other	3	5	11	4	-	-
<b>Total</b>	<b>56</b>	<b>124</b>	<b>78</b>	<b>220</b>	<b>70</b>	<b>176</b>

#### Substantiated versus unsubstantiated concerns

Although 89 of the 335 GBP concerns reported in 2013 are still pending (especially those lodged during the last three months of the year), the table of investigated concerns provides an initial indication of the number of substantiated concerns compared to the number of concerns which, upon investigation, could not be substantiated.

Out of the 246 concerns investigated, it was found that roughly one quarter (28%) were justified, comparable with 2012 (26%).

With regard to concerns regarding Treatment of employees, there was a notable increase in the number of justified concerns to 20% of the total number of concerns in this category, back to the level of 2011 (2012: 13%, 2011: 21%).

In the other major category, i.e. the investigated concerns in the Business integrity category, the percentage of concerns that was justified increased considerably to 50% (2012: 42%).

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.

### 13.2.2 Supplier indicators

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

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. The risk profile is used to select suppliers for inclusion in our sustainability audit program, conflict minerals, hazardous substance management and IDH Electronics program.

#### Philips Supplier Sustainability Declaration

The Philips Supplier Sustainability Declaration is based on the EICC Code of Conduct and in line with our General Business Principles, 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.

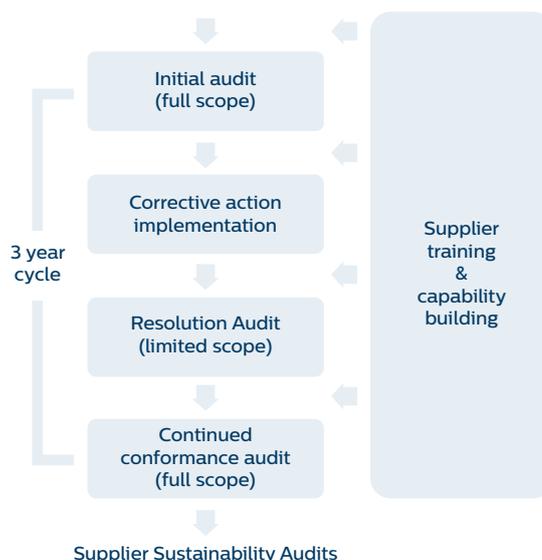
In 2012 we updated the Philips Supplier Sustainability Declaration, in line with the new version of the EICC Code of Conduct. In 2013, we rolled-out the updated Declaration via the new purchasing contracts signed with suppliers, and via all trainings and audits done per January 1, 2013. The updated Declaration 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.

The Declaration requires suppliers to cascade the EICC Code down to their next tier suppliers. Suppliers must regard the Code as a total supply chain initiative and at a minimum, also require its next tier suppliers to acknowledge and implement the Code. This roll-out to deeper levels in the supply chain is reviewed during the on-site audits, where it is assessed how requirements have been communicated to the next tier suppliers and whether there is an effective process in place to ensure that the next tier suppliers implement the Code.

Risk suppliers with who we have a direct business relationship are included in the supplier sustainability 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.

#### Supplier Sustainability 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 their risk profile, 572 risk suppliers are included in the supplier audit and development 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 (NC) we require suppliers to make a corrective action plan, and we monitor its implementation until all major NCs are resolved. Full-scope audits are conducted in a 3-year cycle; to date we have audited 90% of all identified risk suppliers.



#### 2013 Audits

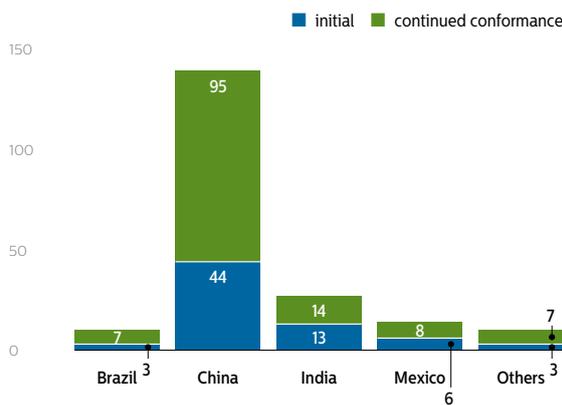
In 2013 we audited 200 of our current risk suppliers, including 131 continued conformance audits with suppliers that we already audited in 2010. Risk suppliers from recently acquired companies are also included, and this year we audited 27 suppliers from the acquisitions of Povos and Preethi. As in previous years, the majority of the audits were done in China. Also in Brazil, India and Mexico audits were done, as well as a small number of audits in Indonesia, Ukraine and

Vietnam. With these audits we directly or indirectly impacted over 110,000 workers employed at the production sites that were audited.

On top of the audits with current risk suppliers, we also audited 59 potential suppliers during the supplier selection process. These potential suppliers need to close any zero-tolerance issues before they can start delivering to Philips. 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 improvements Philips measures the 'compliance rate' for the identified risk suppliers, being the percentage of risk suppliers was audited within the last 3 years and don't have - or have resolved all - major NCs. During 2013 we achieved a compliance rate of 77% (2012: 75%).

**Number of initial and continued conformance audits**



Per January 2013 we rolled out an updated version of the Philips Supplier Sustainability Declaration and audit checklist. Philips follows the EICC classification for distinguishing major and minor NCs, and in the new audit checklist the classification of what is a major and what is a minor NC changed for several topics. This explains some of the differences in audit findings 2013 compared to 2012.

**Audit findings**

Below table shows the results of the full scope audits done during 2013. When the audit reveals areas of non-compliance we request suppliers to implement

corrective actions and our sustainability experts and independent third party auditors monitor the implementation during resolution audits. The results of the resolution audits are not included in the table below.

**Positive trends compared to last year**

- Occupational safety (NCs down 29%)
- Working hours (on average 22% less NCs in 2013)
- Emergency preparedness (NCs down 8%)
- Wages and benefits (NCs down 8%)

Above topics belong to the most frequently observed areas of non-compliance and therefore, during our supplier development activities and visits we have paid more attention to these topics in 2013.

**Negative trends compared to last year**

- Business integrity (NCs up 28% - no training provided for employees)
- Freely chosen employment (NCs up 11% - workers paying deposits)
- Child labor prohibition/young worker management (NCs up 10% - young employees working overtime)

Above increases we believe are mostly the result of more stringent criteria in the new EICC audit checklist.

**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. Although the 2013 audits show improvements compared to previous years, we see this as a continued weak area at suppliers where further capacity building is necessary. Related to management systems the most frequently observed NCs are a lack of third-party certified management systems, supplier responsibility (EICC Code requirements have not been communicated to the next tier suppliers), insufficient management accountability and responsibility, and absence of improvement objectives.

**Summary of 2013 initial and continued conformance audit findings per region**

suppliers with one or more major non-compliances per category (in % of suppliers audited in 2013)

" &lt;10%" means that &lt;10% of the supplier audits done in 2013 showed areas of non-compliance for a certain topic

	China	Asia excl. China	LATAM	EMEA	Total
No. of audits	139	35	24	2	200
Initial audits	44	15	9	1	69
Continued conformance audits	95	20	15	1	131
Average number of non-compliances per audit	11	18	9	11	12
Workers employed at sites audited	88,775	13,008	8,067	516	110,336
<b>Labor</b>					
Freely Chosen Employment <sup>1)</sup>	10-25%	50-75%	10-25%	-	10-25%
Child labor prohibition /young worker management <sup>2)</sup>	10-25%	<10%	<10%	-	10-25%
Working hours	50-75%	50-75%	<10%	-	50-75%
Wages and Benefits	50-75%	25-50%	-	50-75%	25-50%
Humane Treatment	<10%	<10%	<10%	-	<10%
Non-discrimination	<10%	-	-	-	<10%
Freedom of association	-	10-25%	<10%	-	<10%
<b>Health &amp; Safety</b>					
Occupational Safety	25-50%	25-50%	<10%	50-75%	25-50%
Emergency Preparedness	25-50%	50-75%	25-50%	>75%	25-50%
Occupational Injury and Illness	25-50%	25-50%	10-25%	50-75%	25-50%
Industrial Hygiene	25-50%	25-50%	<10%	>75%	25-50%
Physically demanding work	<10%	<10%	10-25%	-	<10%
Machine safeguarding	10-25%	<10%	-	50-75%	10-25%
Food Sanitation and Housing	10-25%	10-25%	10-25%	50-75%	10-25%
<b>Environment</b>					
Environmental Permits and Reporting	10-25%	25-50%	10-25%	>75%	10-25%
Pollution prevention and resource reduction	<10%	25-50%	10-25%	-	<10%
Hazardous substances	25-50%	25-50%	-	50-75%	25-50%
Waste water and solid waste	<10%	<10%	10-25%	50-75%	<10%
Air emissions	10-25%	<10%	10-25%	-	10-25%
Product content restrictions	-	-	-	-	-
<b>Management systems</b>					
Certified management system (SA8000, etc.)	50-75%	>75%	50-75%	>75%	50-75%
Company commitment	10-25%	25-50%	10-25%	-	10-25%
Management accountability and responsibility	25-50%	50-75%	25-50%	50-75%	25-50%
Legal and customer requirements	10-25%	25-50%	25-50%	-	10-25%
Risk assessment and risk management	25-50%	50-75%	10-25%	>75%	25-50%
Improvement objectives	25-50%	50-75%	25-50%	-	25-50%
Training	10-25%	50-75%	25-50%	-	25-50%
Communication	10-25%	25-50%	10-25%	-	25-50%
Worker feedback and participation	10-25%	25-50%	10-25%	-	10-25%
Audits and assessments	25-50%	50-75%	25-50%	-	25-50%
Corrective action process	25-50%	25-50%	25-50%	-	25-50%
Documentation and records	10-25%	25-50%	<10%	-	10-25%
Supplier responsibility	25-50%	50-75%	25-50%	-	25-50%
<b>Ethics</b>					
Business Integrity	25-50%	25-50%	25-50%	-	25-50%
No improper advantage	<10%	<10%	25-50%	-	<10%
Disclosure of information	<10%	<10%	-	-	<10%
Protection of Intellectual Property	<10%	25-50%	<10%	-	<10%

	China	Asia excl. China	LATAM	EMEA	Total
Fair business, advertising and competition	10-25%	<10%	10-25%	-	<10%
Protection of identity	<10%	25-50%	10-25%	-	<10%
Responsible sourcing of minerals	<10%	<10%	-	-	<10%
Privacy	-	-	-	-	-
Non-retaliation	<10%	<10%	<10%	-	<10%
<b>General</b>					
EICC Code	<10%	25-50%	10-25%	50-75%	10-25%

<sup>1)</sup> Freely Chosen Employment: these cases are related to workers having to pay a deposit to their employer, which is not acceptable under the EICC Code of Conduct. We requested suppliers to take corrective action and verified that the deposits were returned to the workers and supplier policies were changed.  
<sup>2)</sup> Child labor avoidance /young worker management: this is related to A) 20 cases of young workers (16 – 18 years) working overtime hours, which is not allowed by local laws. We requested suppliers to stop this and verified implementation of corrective action during resolving audits. B) two cases of historic child labor, where a labor agency and a supplier hired 2 workers a couple of months prior to reaching the legal age. We requested suppliers to strengthen its management system and age verification procedure, and ensured that the workers were enrolled in the young worker management program. If we find any cases of child labor, we require suppliers to take immediate action according to the ILO guidelines for employers of child labor, see also our [child labor policy](#)

**Implementing corrective actions**

On average we see 12 major NCs per supplier audit, and work with each supplier to resolve these NCs within 90 days where possible. Goal is to improve the conditions in the supplier factories. Therefore, we focus on training, supplier development and implementation of corrective action plans with those suppliers. In exceptional cases where the supplier is unwilling to improve, we will decide to end the business relationship, which we did for 15 suppliers in 2013.

If Philips notices that there is a delay in the realization of the corrective action plan by the supplier, Philips uses a stratified approach for consequence management. Depending on the root cause why the supplier is not taking sufficient corrective actions, Philips can decide to: send a formal warning to the supplier; allocate no new projects; allocate no new orders; or stop doing business.

**Audit progress and targets**

2013 Goals	Progress
Compliance rate: 67%	Reached 77% compliance rate
2014 Goals	
75% of corrective actions implemented within 90 days (for major NCs found in 2014 audits)	

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).

This is what we did different in 2013 training sessions, to improve the impact of the supplier trainings and audit results:

**Supplier training 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 structural attention from management is crucial to realize structural and lasting changes at supplier production sites.

- Smaller groups (less than 40 attendees per training, more training sessions, 22 full days of training were given), to enable more interaction and dialogue with and between suppliers
- Suppliers performed self-assessments prior to the training
- Suppliers learned how to do a self-audit after the training, Philips experts helped suppliers in this process and with the follow-up actions

**Developing risk suppliers**

Since 2012 we are extending our 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 in trainings provided by the EICC.

In China we invited suppliers for classroom training sessions which were attended by over 190 active and potential suppliers, representing a workforce of more than 120,000 factory workers in total. Next to basic training on the EICC Code of Conduct, dedicated trainings were provided for areas where we often see weak performance during the audits, e.g. fire safety, working hours, and management systems.

We continued our training programs for Philips buyers and quality managers, supporting them to further integrate sustainability in their daily work with suppliers.

**Supplier training and capacity building**

2013 Goals	Progress
35% of active risk suppliers in China involved in supplier sustainability development program	Supplier sustainability development program was initiated in China. 44% suppliers are involved in sustainability development program
	Worked together with Philips customers to improve sustainability performance over multiple tiers of the supply chain, harmonizing sustainability expectations and requirements towards suppliers.
2014	
Roll-out best practices and learnings from IDH electronics program to Chinese suppliers included in audit program	
Start dedicated 3-year program to improve Health & Safety conditions in supplier factories. Start roll-out to 20% of the Chinese suppliers in 2014	

**Sustainable Trade Initiative IDH**

Since 2011 Philips has been an active initiator and participant in the [IDH Electronics Program](#), a multi-stakeholder initiative sponsored by the Dutch government to accelerate sustainable trade by building partnerships between leading multinationals, civil society organizations, governments, and other stakeholders.

management communication, occupational health and safety, production, performance management and environmental issues. This is then used to develop a tailor-made action plan with each supplier, based on improved dialogue between management and employees. Suppliers receive support over a period of up to 24 months, and the cost of the program is shared between the supplier, Philips, and the IDH.

The IDH Electronics Program aims to support the development of sustainable and innovative workforce management practices for over 75 suppliers. Unlike other CSR programs that have been implemented previously in the industry, this program steers away from traditional auditing methods and seeks to make a significant impact by building and up-scaling the skills of both workers and management. By promoting worker-management dialogue and helping to develop employees' skills and careers, the program strives to reduce employee turnover and wastage, improve energy efficiency and improve the overall performance of supplier factories. The goal is to improve working conditions for more than 500,000 employees in the electronics sector.

In 2013, IDH was extended from the Pearl River Delta Area to include the Yangtze River Delta area. As of year-end 2013, the program covers 52 suppliers to Philips, Apple, Nokia, Dell and Hewlett-Packard. A total of 15 Philips suppliers are now involved in the program, seven in the Yangtze River Delta area and eight in the Pearl River Delta Area, covering around 17,000 employees. Together with other branded goods manufacturers, we are going beyond a supplier audit. In order to ensure a worthwhile output we are also working together with suppliers and the IDH program team to identify the top three improvement actions, and we are monitoring progress closely. Suppliers such as 'company B' are starting to see the benefits of this program.

Participating suppliers are given an 'Entry Point Assessment' to identify issues that affect both factory management and employees, such as worker-

**IDH**

2013 Goals	Progress
Increase number of participating Philips suppliers from 7 to 15 suppliers	15 suppliers are now participating. Another 5 were invited and are in the process of enrolling
Each IDH supplier identifies its top 3 improvement actions	All 15 suppliers completed their Entry Point Assessments and identified improvement areas and 11 suppliers defined their top 3 improvement actions and completed development of their work plans
2014 Goals	
Increase number of participating suppliers to 20	
All participating suppliers identify their top 3 improvement actions and develop their work plans	
70% of all identified top 3 improvement actions implemented by end 2014	

**IDH case study**

B is a company based in Hong Kong, which has an electronics factory located in Dongguan, China. As a Philips supplier, B has been involved in the IDH Electronics Program since January 2013.

B has implemented a series of improvement plans in different areas, including worker-management communication, workers' welfare and pay, health and safety, factory facilities and production. These improvement actions have resulted in increased productivity and greater employee satisfaction.

To improve worker-management communication, for example, B has set up a factory improvement team made up of front-line production workers, departmental representatives and managerial staff. B's management believes that talking directly to front-line workers gives a more accurate picture of what is going on in the company than hear-say reports that are passed up through the organizational hierarchy. The team structure helps to facilitate B's cultural values of mutual respect and open communication.

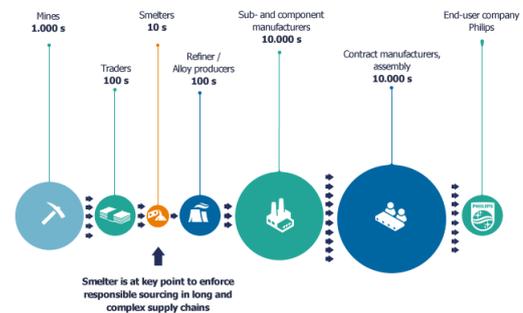
In the coming years B's management will continue their active cooperation and dialogue with employees. Challenges will be identified jointly through constructive dialogue facilitated by the IDH Program.

**Issues further down the chain**

**Conflict minerals**

In line with Philips' commitment to supply chain sustainability, we feel obliged to implement measures in our chain to ensure that our products are not directly or indirectly funding human atrocities in the Democratic Republic of the Congo (DRC). We are concerned about the situation in eastern DRC where proceeds from the extractives sector are used to finance rebel conflicts in the region. 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 has committed not to purchase raw materials, subassemblies, or supplies which we know contain conflict minerals that directly or indirectly finance or benefit armed groups in the DRC or an adjoining country. Philips works 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. These minerals may end up in many different products such as cars, planes, chemicals, jewelry, packaging, and electronics equipment.

*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 Conflict Free Sourcing Initiative, a joint effort founded by a coalition of leading electronics companies from the industry organizations EICC and GeSI (formerly called the “EICC-GeSI Extractives Work Group”). Over 120 companies participate in this initiative today, and we have formed partnerships with other leadership groups from across industries, government and civil society. The Conflict Free Sourcing Initiative provides information on conflict-free smelters and refiners, common tools and standards to collect supply chain information, and forums for exchanging best practices. It is a multi-sector, multi-stakeholder network, and reduces the need for duplication of efforts across the many sectors that are using these minerals. See also [www.conflictreesmelter.org](http://www.conflictreesmelter.org)

As we have been doing for years, we continued in 2013 our engagement with relevant stakeholders including the European Parliament, other industry organizations and local as well as international NGOs in Europe and the U.S. to see how we can resolve the issue. To assist in developing a due diligence standard for conflict minerals, we participated in the multi-stakeholder OECD-hosted program for the implementation of the “OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas”.

*Supply chain due diligence*

In 2013 we continued our work with 349 priority suppliers to raise awareness and conduct supply chain investigations into the country of origin for the metals. These suppliers cover more than 80% of the relevant purchasing spend. Using the standard Conflict Minerals Reporting 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.



*Progress on smelter identification*

Philips suppliers have provided the names of several hundred possible smelters and we are working to confirm which of these actually are smelters. For all four metals together we now identified 191 confirmed smelters in our supply chain, of which the majority is located in Asia. 29% of these successfully passed their Conflict Free Smelter (CFS) assessment, thereby confirming their conflict-free status. None of the smelters identified in our supply chain is known to source minerals that benefit armed groups in the DRC, and our suppliers reported back that they provide us with conflict-free products. Nevertheless, we continue to urge smelters to confirm their status via independent third party assessments.

Philips was the first company to publish its [smelter list](#) on internet in 2012. In doing so 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. In 2013 we updated the smelter list with new information received from our suppliers, and we will continue to do so as more information becomes available over time.

*Conflict-free smelter program*

Smelters mix minerals from many sources and refine it into metal used in our industry. The smelter is at a key point in the supply chain to enforce responsible sourcing by implementing due diligence in selecting

their mineral sources. The EICC-GeSI 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 tin, tantalum and gold has been published, and assessments for 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.

*Conflict Free Tin Initiative*

In September 2012, the [Conflict Free Tin Initiative](#) was launched, introducing a tightly controlled conflict-free supply chain for tin, from a mine in the Democratic

Republic of Congo (DRC) all the way 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. In an effort to prevent minerals from financing war, many companies worldwide have refrained from purchasing minerals from the DRC, leading to a de facto embargo and a collapse of the local economy.

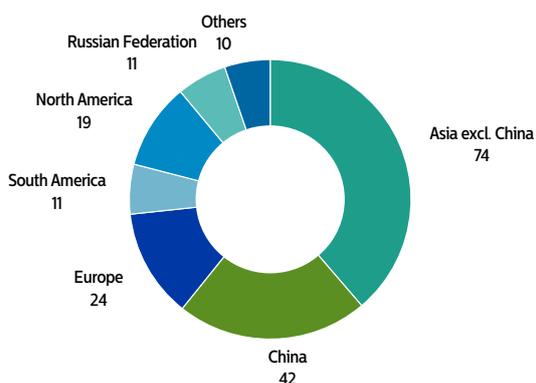
The easiest route would have been to simply abandon sources from the DRC and nearby countries (forbidding suppliers from sourcing there) and to rely instead on supplies from conflict-free regions. However, we decided against that approach. Instead of avoiding the DRC, we took the more difficult road, supporting conflict-free sources within the region.

**Conflict minerals**

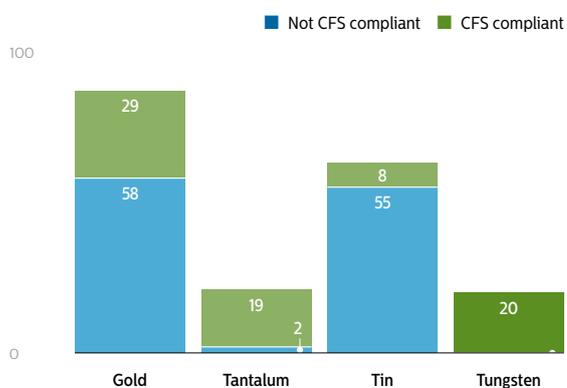
2013 Goals	Progress
Awareness raising and capability building with buyers and suppliers	Conflict minerals is now a standard part of the Philips procurement core curriculum  Organized webinars for buyers and suppliers, attended by about 120 participants and installed a helpdesk (English and Chinese) to support suppliers in collecting the requested information
Priority suppliers to adopt a conflict-free sourcing policy	71% of the priority suppliers did
Priority suppliers to investigate supply chain and report back on progress and results	94% of the priority suppliers completed the standard Conflict Minerals Reporting Template. 69% disclosed smelters identified in their supply chain
Conflict Free Tin Initiative: include DRC tin in end-user product	In Q4 the first products were made using this DRC conflict-free tin
2014 Goals	
Publish a Philips Conflict Minerals Report validated by external auditors	
Collect Conflict Minerals Reporting Templates from at least 80% of priority suppliers, applying stricter criteria on data quality and completeness	
Conflict Free Tin Initiative: include DRC tin in mainstream solder supply (move from pilot to normal business)	

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

**Number of identified smelters per region**



**Number of identified smelters per metal**



**Tin mining in Indonesia**

The islands of Bangka and Belitung, Indonesia, are one of the world's principal tin-producing regions. Recently concerns have been raised about environmental devastation and unsafe working conditions related to the illegal mining of tin in this region. To evaluate possibilities for addressing these concerns, Philips teamed up with other frontrunner companies, the tin industry and civil society in the new IDH Indonesian Tin Working Group, coordinated by the Dutch Sustainable Trade Initiative IDH. We co-funded a situational analysis and sustainability assessment commissioned by this working group to better understand the situation and the potential ways for downstream companies to take constructive action.

**Other initiatives in our supply chain****Carbon footprint of our supply chain**

Society has a pressing need to manage and reduce CO<sub>2</sub> emissions over the whole value chain, including at supplier level. Therefore 80 of the largest suppliers to Philips have been invited to report their carbon footprint as part of the Carbon Disclosure Project (CDP) Supply Chain program. 69 suppliers completed the full questionnaire, showing increased performance with respect to climate change. This year, Philips became a founding member of the CDP Action Exchange program, connecting our suppliers to globally recognized solutions providers in the field of energy-efficient technology, helping them in their search for innovative solutions to reduce their future emissions, for instance by applying LED lighting technology.

**Substance management with suppliers**

We work with suppliers to eliminate and minimize the use of hazardous substances in our products and production processes. Since regulatory requirements affecting electronics frequently change, we structurally collect information from suppliers in an online tool (**BOMcheck**) since 2010, in particular for those suppliers that provide materials which could represent a risk in terms of compliance, e.g. soft plastics, complex materials, and ROHS-relevant materials. Philips validates the substance declarations received from suppliers to ensure that the products we put on the market are compliant with the Philips Regulated Substances List and all relevant legislation. During 2013 we collected and validated substance declarations for nearly 95% of all relevant components and products.

## 13.3 Environmental statements

This section provides additional information on (some of) the environmental performance parameters reported section 4.3, Environmental performance, of this Annual Report.

**13.3.1 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**

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.

Through Philips products and solutions that directly support the curative or preventive side of people's health, we improved the lives of 630 million people in 2013, driven by our Healthcare sector. Additionally, our well-being products that help people live a healthy life, and our Green Products that contribute to a healthy ecosystem, improved the lives of 290 million and 1.49 billion people respectively. After the elimination of double counts - people touched multiple times - we arrived at 1.8 billion lives. This is an increase of 100 million compared to our total baseline of 1.7 billion people a year, established in 2012.

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.

Examples of Green Products, products offering a significant environmental improvement in one or more Green Focal Areas, can be found in sub-section 4.3.2, Green Product sales, of this Annual Report. Further details on this parameter and the methodology can be found in the document 'Improving people's lives'.

**Operational carbon footprint and energy efficiency****Operational energy efficiency and carbon footprint: 2013 details**

The 2013 results can be attributed to several factors:

- Accounting for 45% of the total footprint, total CO<sub>2</sub> emissions from manufacturing increased due to the higher use of SF<sub>6</sub> (a substance with high Global Warming Potential impact) in our Lighting manufacturing operations. This was, however, partly offset by our continued focus on energy efficiency improvement programs, our changing industrial footprint, the further increase of the share of purchased electricity from renewable sources to 50% of total purchased electricity.
- CO<sub>2</sub> emissions from non-industrial operations (offices, warehouses, etc.) represent 7% of the total. The overall floor space decreased significantly in 2013 as a result of our Work Place Innovation program, which promotes flex-working and thus reduces the floor space in our real estate portfolio. As a result, emissions reduced 20% compared to 2012 as we also continued to focus on the most efficient use of facility space and increased the share of purchased electricity from renewable sources.
- The total CO<sub>2</sub> emissions related to business travel, accounting for 14% of our carbon footprint, increased 5%. This is mainly attributable to Philips' increasing presence in emerging markets. Our stringent in-house travel policy remains in place, as does our Green Lease Car policy.
- Overall CO<sub>2</sub> emissions from logistics, representing approximately one third of the total, increased 5% compared to 2012. We recorded an increase in sea freight, confirming the effect of our gatekeeping process to move freight from air to sea. However, increased air shipments to address supply shortages in our Lighting sector mitigated the reduction realized by this policy.

**Operational carbon footprint for logistics**  
in kilotonnes CO<sub>2</sub>-equivalent

	2009	2010	2011	2012	2013
Air transport	308	345	328	309	326
Road transport	174	160	176	105	108
Sea transport	145	167	153	132	141
Philips Group	627	672	657	546	575

### 13.3.2 Biodiversity

Philips recognizes the importance of healthy ecosystems and rich biodiversity for our company, our employees, and society as a whole. We aim to minimize any negative impacts and actively promote ecosystem restoration activities including biodiversity restoration projects with social components, sustainable development, poverty relief, and carbon offsetting.

In 2013 Philips made significant steps forward in biodiversity management, both on sites, on natural capital valuation and on the management level. The steps were led by the Philips Leaders for Nature (LFN) team, site management, local sustainability organizations worldwide, sustainability managers, and Group Sustainability in Eindhoven, the Netherlands. We made intensive use of the internal company-wide social network platform to create and share activities and achievements including training programs. We continued our global partnership with the International Union for the Conservation of Nature (IUCN) Netherlands Committee and our participation in the IUCN LFN program which brings companies, NGOs and government together to work on the topic of business and biodiversity.

Our projects in 2013 included improving our understanding of biodiversity by organizing together with the IUCN a very well-attended Business & Ecosystems Training (BET) on the topics of Natural Capital, Ecosystem Services and Biodiversity and the link to business. We worked on actively preserving biodiversity in and around our industrial sites with local communities and environmental organizations. In the Netherlands, the Drachten Consumer Lifestyle and Best Healthcare plants restructured their sites for optimal restoration of biodiversity and employee well-being. Other examples are a large-scale employee-led biodiversity initiative in Reedsville, Pennsylvania; and conservation efforts in the Miribel (France), Ketrzyn Farel and Pila (Poland), San Jose (USA), Varginha (Brazil), and Pune (India) sites for example. In addition Philips employees established a community garden at the High-Tech Campus in Eindhoven (the Netherlands). A diverse team organized several internal and external events for the Netherlands sustainability day in October 2013 – including an introduction to the Circular Economy program and a product disassembly workshop. Finally, Philips co-hosted the “Mind Your Business” event with PwC and the Netherlands Ministry of Economic Affairs on ‘The transition to a bio-based economy – the role of government, the impact of/for companies, and partnerships/networks – the necessity of joint projects and knowledge sharing’.

We also conducted a biodiversity survey and water risk investigation of our industrial sites. The biodiversity survey results have enabled us to build a knowledge base of endangered and resident species, nature reserves and wildlife corridors, biodiversity initiatives and partnerships at Philips industrial sites. This will enable us to prepare biodiversity guidelines for sites.

Philips commissioned Trucost, in 2013, to perform an Environmental Profit and Loss (EP&L) analysis using 2012 data to help identify natural capital dependency “hot spots” and place a financial value on Philips environmental impacts. The preliminary results show that between 2007 and 2012 Philips was able to decrease its exposure to natural capital risks and hence be better positioned to succeed in a natural capital constrained economy. Together with the WBCSD we will further develop the EP&L concept and methodology, including the environmental benefits.

To build and expand the Philips biodiversity strategy Philips has developed a biodiversity policy.

### 13.3.3 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 2013 we implemented an improved process to report chemicals used in processes in more detail. Based on the new insights gained, we included a few additional substances to our reporting scope in 2013. These substances do not have a material impact on our reported data. New chemicals on which we will focus our reduction efforts and new reduction targets will be incorporated in the next Green Operations program.

### Green Operations

in % unless otherwise stated

	2007 baseline year	2013 actual <sup>1)</sup>	2015 target <sup>1)</sup>
Total CO <sub>2</sub> from manufacturing	865 kilotonnes CO <sub>2</sub> -equivalent	(19)	(25)
Water	4.2 million m <sup>3</sup>	20	(10)
Materials provided for recycling via external contractor per total waste	79	81	80
Restricted substances:			
Benzene emission	52 kg	(100)	achieved
Mercury emission	185 kg	(96)	(100)
CFCs, HCFCs	156 kg	(100)	achieved
Hazardous substances			
Lead emission	1,838 kg	(100)	achieved
PFCs	1,534 kg	248	(35)
Toluene emission	2,210 kg	(46)	(90)
Xylene emission	4,506 kg	525	(90)
Styrene	80,526 kg	(93)	achieved
Antimony, Arsenic and their compounds	18 kg	(100)	achieved

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

### Energy use in manufacturing

Total energy usage in manufacturing amounted to 14,160 terajoules in 2013, of which Lighting consumes about 79%. Compared to 2012, energy consumption at Philips went down by 2%. This was driven by new acquisitions reporting for the first time, organizational changes and energy efficiency improvements.

### Total energy consumption in manufacturing

in terajoules

	2009	2010	2011	2012	2013
Healthcare	1,670	1,545	1,541	1,798	1,794
Consumer Lifestyle	1,188	1,274	1,252	1,104	1,142
Lighting	11,535	11,580	11,189	11,519	11,224
Innovation, Group & Services	28	27	-	-	-
Philips Group	14,421	14,426	13,982	14,421	14,160

### Carbon emissions in manufacturing

The greenhouse gas emissions of our manufacturing operations totaled 705 kilotonnes CO<sub>2</sub>-equivalent in 2013, 2% higher than in 2012. This is the result of new acquisitions reporting for the first time and increased usage of specific process chemicals. Indirect CO<sub>2</sub>

emissions overall decreased, mainly as a result of increased usage of electricity generated by renewable sources.

#### Total carbon emissions in manufacturing

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

	2009	2010	2011	2012	2013
Direct CO <sub>2</sub> <sup>1)</sup>	295	299	294	294	281
Indirect CO <sub>2</sub>	443	317	273	310	293
Other greenhouse gases	54	34	40	60	104
From glass production	24	25	28	27	27
Philips Group <sup>2)</sup>	816	675	635	691	705

<sup>1)</sup> From energy

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

CO<sub>2</sub> emissions decreased at Healthcare due to energy efficiency improvements and increased use of electricity generated by renewable sources, this was however partly mitigated by new acquisitions reporting for the first time. Lighting increased its CO<sub>2</sub> emissions due to the increased use of specific process chemicals, mitigated by electricity generated by renewable sources.

#### Total carbon emissions in manufacturing per sector

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

	2009	2010	2011	2012	2013
Healthcare	118	57	54	70	58
Consumer Lifestyle	53	42	39	38	38
Lighting	644	575	542	583	609
Innovation, Group & Services	1	1	-	-	-
Philips Group	816	675	635	691	705

#### Restricted substances

Emissions of restricted substances totaled 9 kilos in 2013, a significant decrease compared to 2012 mainly as a result of the continued reduction in mercury emissions in Lighting, and more accurate measurements. With the Green Operations program we continue to focus on a selection of the most important substances in our processes.

#### Restricted substances

in kilos

	2009	2010	2011	2012	2013
Benzene and Benzene compounds	136	101	55	-	-
Mercury and Mercury Compounds	122	83	51	54	8
CFCs/HCFCs <sup>1)</sup>	14	4	5	1	1
Total	272	188	111	55	9

<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 decreased from 54 kg in 2012 to 8 kg in 2013, due to continued emissions reductions activities and improved measurements.

#### CFCs/HCFCs

In 2013 total emissions from CFCs/HCFCs remained at 1 kg.

#### Hazardous substances

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

#### Hazardous substances

in kilos

	2009	2010	2011	2012	2013
Lead and lead compounds	1,958	108	44	73	1
PFCs (Per Fluorinated Compounds)	2,535	1,507	1,842	2,560	5,331
Toluene	2,160	6,745	5,745	6,184	1,190
Xylene	4,619	30,491	37,889	18,947	28,176
Styrene	21,567	22,920	19,920	42,329	5,753
Antimony, Arsenic and their compounds	30	24	37	-	-
Total	32,869	61,795	65,477	70,093	40,451

#### Lead and lead compounds

The strong decrease in 2013 was mainly due to more accurate calculations based on the improved reporting process.

#### PFCs

The increase in 2013 to 5,331 kg was caused by Lumileds sites where PFCs are used as process chemicals.

**Toluene**

The emission of toluene, mainly used in wet lacquers, decreased by 81% in 2013 largely as a result of phase-out programs in Consumer Lifestyle.

**Xylene**

The use of xylene increased by 49% due to increased production at Consumer Lifestyle sites.

**Styrene**

Styrene is mainly used in Lighting. In 2013, the emission of styrene decreased significantly due to more accurate calculations based on the improved reporting process.

**Antimony, Arsenic and their compounds**

Lighting was successful in phasing-out these substances.

**ISO 14001 certification**

In 2013, 80% of reporting manufacturing sites were certified. This increase compared to the previous year is attributable to new acquisitions being certified for the first time. The sectors have programs in place to address certification at new sites.

**Sustainability world map**

**ISO 14001 certification**

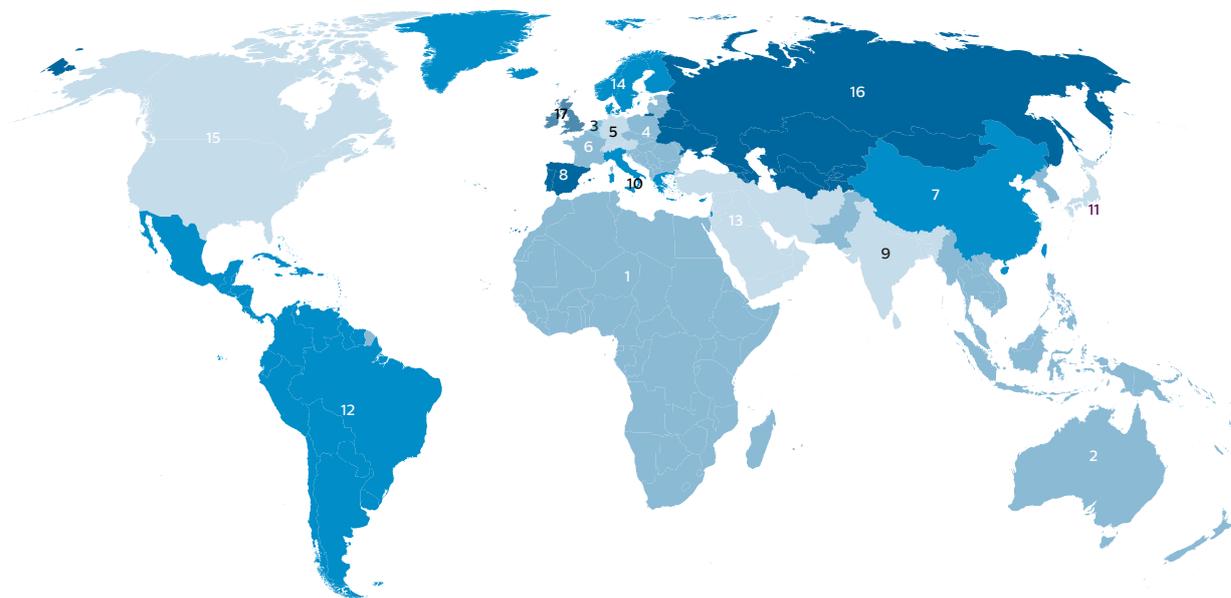
as a % of all reporting organizations

	2009	2010	2011	2012	2013
Philips Group	92	95	89	71	80

**Environmental Incidents**

In 2013, 3 incidents were reported by Healthcare related to waste water and a leakage. Consumer Lifestyle reported 1 incident related to emissions to air and Lighting reported 3 incidents reported to waste water and a leakage. There were no fines reported in our sustainability reporting tool in connection with any of the incidents.

## Sustainability



Markets	Manufacturing sites	Lost Workday Injury rate*	CO <sub>2</sub> emitted (Tonnes CO <sub>2</sub> )	Total waste		Water (m <sup>3</sup> )	Emissions (kg)	
				Waste (Tonnes)	Recycled (%)		Restricted substances	Hazardous substances
1. Africa	0	0.33	–	–	–	–	–	–
2. ASEAN	7	0.09	251,450	7,827	57%	1,276,133	4	5,520
3. Benelux	13	0.31	32,176	20,057	89%	590,061	1	177
4. Central & East Europe	8	0.32	72,092	18,628	85%	491,337	0	22,045
5. DACH	4	0.46	5,515	2,926	90%	191,435	1	3
6. France	4	1.15	3,119	747	76%	19,179	0	36
7. Greater China	13	0.16	119,750	7,625	86%	988,721	1	1,724
8. Iberia**	2	1.22	–	–	–	–	–	–
9. Indian Subcontinent	5	0.11	69,491	7,316	100%	267,278	0	24
10. Italy, Israel and Greece	4	0.76	5,461	1,614	66%	26,622	0	4,738
11. Japan	0	0.00	–	–	–	–	–	–
12. Latin America	6	0.14	188	1,282	93%	27,126	0	780
13. Middle East & Turkey	0	0.14	–	–	–	–	–	–
14. Nordics	2	0.28	15	57	99%	1,249	0	0
15. North America	40	0.28	141,559	21,937	70%	1,140,441	2	5,366
16. Russia and Central Asia	0	0.00	–	–	–	–	–	–
17. UK & Ireland	3	0.37	3,808	1,918	85%	24,780	0	38

\*Includes manufacturing and non-manufacturing sites

\*\*Acquired manufacturing sites did not start reporting environmental data yet

*Content you didn't download*

13.4 Independent assurance report

## 13.5 Global Reporting Initiative (GRI) table 4.0

KPMG has audited Chapter 11 Group financial statements and Chapter 12 Company financial statements, as well as sections 4.2 Social performance, 4.3 Environmental performance and Chapter 13 Sustainability statements. Where in the table cross-reference is made to these parts, the information is included in the scope of one of these audits. For the other information in the report, KPMG has assessed whether this information is consistent with the information in the aforementioned parts. Where there is no cross-reference to a section in the Report, assurance is not applicable. Please refer to sections 11.10, 12.5 and 13.4 for the independent auditor's reports.

## General Standard Disclosures

profile disclosure	description	cross-reference
<b>Strategy and analysis</b>		
G4-1	Statement from the most senior decision-maker of the organization (incl. strategy relates to sustainability, impacts of the activities in relation to the stakeholders)	Message from the CEO
G4-2	Description of key impacts, risks, and opportunities	Message from the CEO section 2.3, Market opportunities section 6.2, Risk categories and factors section 6.3, Strategic risks section 6.4, Operational risks section 6.5, Compliance risks section 6.6, Financial risks chapter 13, Sustainability statements

profile disclosure	description	cross-reference
<b>Organizational profile</b>		
G4-3	Name of the organization	chapter 10, Corporate governance
G4-4	Primary brands, products, and/or services	section 1.4, Next phase section 2.1, Our rich heritage section 2.3, Market opportunities section 2.4, Our business system section 2.6, Global presence
G4-5	Location of organization's headquarters	section 10.5, Investor Relations
G4-6	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	section 2.6, Global presence chapter 5, Sector performance section 13.2, Social statements
G4-7	Nature of ownership and legal form	chapter 10, Corporate governance
G4-8	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries)	Performance highlights chapter 3, Delivering innovation that matters to you
G4-9	Scale of the reporting organization	Performance highlights sub-section 5.1.4, 2013 financial performance sub-section 5.2.4, 2013 financial performance sub-section 5.3.4, 2013 financial performance sub-section 5.4.2, 2013 financial performance
G4-10	Total workforce by employment type, gender, employment contract and region	sub-section 4.2.3, Diversity and inclusion sub-section 4.2.4, Employment note 3, Income from operations
G4-11	Percentage of employees covered by collective bargaining agreements	For all Philips businesses, guidance is applicable regarding collective bargaining agreements. See <a href="http://www.philips.com/gbp">www.philips.com/gbp</a> The actual percentage of employees covered by collective bargaining agreements is managed and monitored at local level. Philips considers this percentage on consolidated level not relevant.
G4-12	Describe the organization's supply chain (incl. product or service providers, engaged suppliers in total number, type, and location, payments made to suppliers)	chapter 13, Sustainability statements section 13.1, Economic indicators sub-section 13.2.2, Supplier indicators Related content: Supplier Sustainability Involvement Program
G4-13	Significant changes during the reporting period relating to size, structure, or ownership or its supply chain (incl. changes in location, operations, facilities, capital information and supplier information)	section 16.2, Share information section 16.5, Philips' acquisitions note 7, Discontinued operations and other assets classified as held for sale note 9, Acquisitions and divestments chapter 13, Sustainability statements sub-section 13.2.2, Supplier indicators
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organization	section 6.1, Our approach to risk management and business control chapter 10, Corporate governance
G4-15	Externally developed economic, environmental, and social charters,	chapter 13, Sustainability statements

profile disclosure	description	cross-reference
	principles, or other initiatives to which the organization subscribes or endorses	
G4-16	Memberships in associations (such as industry associations)	chapter 13, Sustainability statements - "Stakeholders"

profile disclosure	description	cross-reference
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**Identified material aspects and boundaries**

G4-17	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures (List all entities in the consolidated financial statements)	Performance highlights Message from the CEO chapter 5, Sector performance chapter 9, Supervisory Board report note 2, Information by sector and main country
G4-18	Process for defining report content and the Aspect Boundaries and explain how the Reporting Principles has been implemented	chapter 13, Sustainability statements
G4-19	List all the material Aspects identified	chapter 13, Sustainability statements
G4-20	The Aspect Boundary within the organization: Whether the Aspect is material within the organization; The list of entities included in G4-17 for which the Aspect is or is not material; Specific limitation regarding the Aspect Boundary within the organization	chapter 13, Sustainability statements
G4-21	The Aspect Boundary outside the organization: Whether the Aspect is material outside the organization; The list of entities for which the Aspect is material, relate to geographical location; Specific limitation regarding the Aspect Boundary outside the organization	chapter 13, Sustainability statements
G4-22	Explanation of the effect of any re-statements	chapter 13, Sustainability statements - "Comparability and completeness" note 7, Discontinued operations and other assets classified as held for sale
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	chapter 13, Sustainability statements

profile disclosure	description	cross-reference
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**Stakeholder engagement**

G4-24	List of stakeholder groups engaged by the organization	sub-section 4.2.8, Stakeholder engagement chapter 13, Sustainability statements - "Stakeholders"
G4-25	Basis for identification and selection of stakeholders with whom to engage	sub-section 4.2.8, Stakeholder engagement chapter 13, Sustainability statements - "Stakeholders"
G4-26	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	sub-section 4.2.8, Stakeholder engagement chapter 13, Sustainability statements - "Stakeholders"
G4-27	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; Report the stakeholder groups that raised each of the key topics and concerns	sub-section 4.2.8, Stakeholder engagement chapter 13, Sustainability statements - "Stakeholders"

profile disclosure	description	cross-reference
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**Report profile**

G4-28	Reporting period	section 11.1, Management's report on internal control
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profile disclosure	description	cross-reference
		chapter 13, Sustainability statements
G4-29	Date of most recent previous report	chapter 15, Five-year overview
G4-30	Reporting cycle	chapter 15, Five-year overview
G4-31	Contact point for questions regarding the report or its contents	section 16.7, Investor contact
G4-32	Table identifying the location of the Standard Disclosures in the report	chapter 13, Sustainability statements section 13.5, Global Reporting Initiative (GRI) table 4.0
G4-33	Policy and current practice with regard to seeking external assurance for the report	section 9.3, Report of the Audit Committee section 10.4, Logistics of the General Meeting of Shareholders and provision of information section 11.1, Management's report on internal control section 11.2, Report of the independent auditor section 11.3, Auditor's report on internal control over financial reporting section 11.10, Independent auditor's report - Group note K, Audit fees section 12.5, Independent auditor's report - Company chapter 13, Sustainability statements section 13.4, Independent assurance report
profile disclosure	description	cross-reference
<b>Governance</b>		
G4-34	Governance structure of the organization (incl. report the committees responsible for decision-making on economic, environmental and social impacts)	chapter 10, Corporate governance section 10.1, Board of Management section 10.2, Supervisory Board section 10.3, General Meeting of Shareholders section 10.4, Logistics of the General Meeting of Shareholders and provision of information chapter 13, Sustainability statements
G4-35	Process for delegating authority for economic, environmental and social topics	section 10.1, Board of Management section 10.2, Supervisory Board chapter 13, Sustainability statements
G4-36	Whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body	chapter 7, Management section 10.1, Board of Management section 10.2, Supervisory Board chapter 13, Sustainability statements
G4-37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics (to whom, any feedback)	sub-section 4.2.2, Employee engagement sub-section 4.2.8, Stakeholder engagement section 10.5, Investor Relations chapter 13, Sustainability statements section 16.7, Investor contact
G4-38	The composition of the highest governance body and its committees	chapter 7, Management chapter 8, Supervisory Board section 10.1, Board of Management section 10.2, Supervisory Board chapter 13, Sustainability statements
G4-39	Indicate whether the Chair of the highest governance body is also an executive officer	section 10.1, Board of Management
G4-40	Process for determining the qualifications and expertise of the members of the highest governance body	chapter 9, Supervisory Board report section 9.1, Report of the Corporate Governance and Nomination & Selection Committee section 10.2, Supervisory Board
G4-41	Processes in place for the highest governance body to ensure, that conflicts of interest are avoided	section 10.1, Board of Management section 10.2, Supervisory Board
G4-42	Roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals	chapter 9, Supervisory Board report section 10.1, Board of Management section 10.2, Supervisory Board section 10.3, General Meeting of Shareholders section 10.4, Logistics of the General Meeting of Shareholders and provision of information chapter 13, Sustainability statements

profile disclosure	description	cross-reference
G4-43	The measures taken to develop and enhance the highest governance body's collective knowledge	chapter 9, Supervisory Board report section 10.1, Board of Management section 10.2, Supervisory Board
G4-44	Processes for evaluating the highest governance body's own performance	section 6.1, Our approach to risk management and business control chapter 9, Supervisory Board report section 10.1, Board of Management section 10.2, Supervisory Board chapter 13, Sustainability statements
G4-45	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	section 6.1, Our approach to risk management and business control chapter 9, Supervisory Board report chapter 10, Corporate governance section 10.1, Board of Management section 10.2, Supervisory Board
G4-46	The highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics	section 6.1, Our approach to risk management and business control section 9.3, Report of the Audit Committee section 10.1, Board of Management chapter 13, Sustainability statements
G4-47	The frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities	section 6.1, Our approach to risk management and business control section 9.3, Report of the Audit Committee section 10.1, Board of Management chapter 13, Sustainability statements
G4-48	The highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered	section 10.2, Supervisory Board chapter 13, Sustainability statements
G4-49	The process for communicating critical concerns to the highest governance body	sub-section 4.2.7, General Business Principles section 6.1, Our approach to risk management and business control
G4-50	The nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them	sub-section 13.2.1, General Business Principles
G4-51	Linkage between compensation for members of the highest governance body, senior managers, and executives, and the organization's performance	section 9.2, Report of the Remuneration Committee
G4-52	The process for determining remuneration; Whether remuneration consultants are involved	section 9.2, Report of the Remuneration Committee section 10.1, Board of Management section 10.2, Supervisory Board
G4-53	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	section 10.3, General Meeting of Shareholders section 10.4, Logistics of the General Meeting of Shareholders and provision of information section 10.5, Investor Relations
G4-54	The ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country	Philips does not consider this indicator relevant, Philips makes an impact on local communities by the salaries it pays its employees. Salaries are based on industry norms as described in <a href="http://www.philips.com/gbp">www.philips.com/gbp</a> (GBP - 4.4 Wages and payment)
G4-55	The ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country	Philips does not consider this indicator relevant, Philips makes an impact on local communities by the salaries it pays its employees. Salaries are based on industry norms as described in <a href="http://www.philips.com/gbp">www.philips.com/gbp</a>
profile disclosure	description	cross-reference
<b>Ethics and integrity</b>		

profile disclosure	description	cross-reference
G4-56	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	sub-section 4.2.7, General Business Principles section 6.1, Our approach to risk management and business control See <a href="http://www.philips.com/gbp">www.philips.com/gbp</a>
G4-57	The internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines	sub-section 4.2.7, General Business Principles section 6.1, Our approach to risk management and business control
G4-58	The internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines	sub-section 13.2.1, General Business Principles

### Specific Standard Disclosures

profile disclosure	description	cross-reference
<b>Economic</b>		
Economic performance		
G4-EC1	Direct economic value generated and distributed, including revenues, operating costs, employee wages and benefits, payments to providers of capital, payments to government (by country) and community investments; EVG&D separately at country, regional or market level	Performance highlights sub-section 4.2.9, Social Investment Programs note 2, Information by sector and main country section 13.1, Economic indicators
G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	sub-section 4.3.1, Green Innovation sub-section 4.3.2, Green Product sales section 6.4, Operational risks sub-section 13.3.2, Biodiversity
G4-EC3	Coverage of the organization's defined-benefit plan obligations	note 30, Post-employment benefits
G4-EC4	Significant financial assistance received from government	Philips does not receive significant financial assistance from governments.
Market presence		
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	For all Philips businesses, guidance is applicable regarding equal and fair treatment and wages and payment. See <a href="http://www.philips.com/gbp">www.philips.com/gbp</a> (GBP - 4.3 Equal and fair treatment and 4.4 Wages and payment) Actual ratios are managed and monitored at local level. Philips considers this ratio on consolidated level not relevant.
G4-EC6	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	sub-section 4.2.3, Diversity and inclusion sub-section 4.2.4, Employment
Indirect economic impacts		
G4-EC7	Development and impact of infrastructure investments and services supported	sub-section 4.2.8, Stakeholder engagement sub-section 4.2.9, Social Investment Programs sub-section 5.1.3, 2013 highlights sub-section 5.3.3, 2013 highlights
G4-EC8	Significant indirect economic impacts, including the extent of impacts	sub-section 4.2.8, Stakeholder engagement sub-section 4.2.9, Social Investment Programs sub-section 5.1.3, 2013 highlights sub-section 5.3.3, 2013 highlights
Procurement practices		
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	section 13.1, Economic indicators Related content: Supplier sustainability Related content: Involvement program

profile disclosure	description	cross-reference
<b>Environment</b>		
<b>Materials</b>		
G4-EN1	Materials used by weight or volume	sub-section 4.3.3, Green Operations sub-section 13.3.3, Green Operations
G4-EN2	Percentage of materials used that are recycled input materials	sub-section 4.3.1, Green Innovation sub-section 4.3.3, Green Operations chapter 13, Sustainability statements sub-section 13.3.3, Green Operations
<b>Energy</b>		
G4-EN3	Energy consumption within the organization	sub-section 4.3.3, Green Operations sub-section 13.3.3, Green Operations
G4-EN4	Energy consumption outside of the organization	sub-section 13.2.2, Supplier indicators Philips does not report this indicator in the Annual Report, but in the Carbon Disclosure Project (CDP) reporting.
G4-EN5	Energy intensity	sub-section 4.3.3, Green Operations sub-section 13.3.1, EcoVision
G4-EN6	Reduction of energy consumption	sub-section 4.3.3, Green Operations sub-section 13.3.3, Green Operations
G4-EN7	Reductions in energy requirements of products and services	sub-section 4.3.1, Green Innovation sub-section 4.3.2, Green Product sales chapter 13, Sustainability statements
<b>Water</b>		
G4-EN8	Total water withdrawal by source	sub-section 4.3.3, Green Operations sub-section 13.3.3, Green Operations
G4-EN9	Water sources significantly affected by withdrawal of water	Philips is not a water-intensive company, so this indicator is not applicable for Philips.
G4-EN10	Percentage and total volume of water recycled and reused	Philips is not a water-intensive company, so this indicator is not applicable for Philips.
<b>Biodiversity</b>		
G4-EN11	Location and size of land owned, leased, managed in or adjacent to protected areas and areas of high biodiversity value outside protected areas	sub-section 13.3.2, Biodiversity This data is currently not available for all sites. Philips plans to report on this indicator in 2014.
G4-EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	sub-section 13.3.2, Biodiversity This data is currently not available for all sites. Philips plans to report on this indicator in 2014.
G4-EN13	Habitats protected or restored	sub-section 13.3.2, Biodiversity This data is currently not available for all sites. Philips plans to report on this indicator in 2014.
G4-EN14	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	sub-section 13.3.2, Biodiversity This data is currently not available for all sites. Philips plans to report on this indicator in 2014.
<b>Emissions</b>		
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	sub-section 4.3.3, Green Operations sub-section 13.3.3, Green Operations
G4-EN16	Indirect greenhouse gas (GHG) emissions (Scope 2)	sub-section 4.3.3, Green Operations sub-section 13.3.3, Green Operations
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	sub-section 4.3.3, Green Operations sub-section 13.2.2, Supplier indicators
G4-EN18	Greenhouse gas (GHG) emissions intensity	sub-section 4.3.3, Green Operations
G4-EN19	Emissions of ozone-depleting substances (ODS)	sub-section 13.3.3, Green Operations
G4-EN20	Emissions of ozone-depleting substances by weight	sub-section 13.3.3, Green Operations
G4-EN21	NOx, SOx, and other significant air emissions	Philips does not report this indicator in the Annual Report, but in the Carbon Disclosure Project (CDP) reporting.
<b>Effluents and Waste</b>		
G4-EN22	Total water discharge by quality and destination	Philips is not a water-intensive company, so this indicator is not applicable for Philips.

profile disclosure	description	cross-reference
G4-EN23	Total weight of waste by type and disposal method	sub-section 4.3.3, Green Operations sub-section 13.3.3, Green Operations
G4-EN24	Total number and volume of significant spills	sub-section 13.3.3, Green Operations
G4-EN25	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention <sup>2</sup> Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	sub-section 13.3.3, Green Operations
G4-EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff	sub-section 13.3.2, Biodiversity This data is currently not available for all sites. Philips plans to report on this indicator in 2014.
<b>Products and Services</b>		
G4-EN27	Extent of impact mitigation of environmental impacts of products and services	sub-section 4.3.1, Green Innovation
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category	sub-section 4.3.1, Green Innovation
<b>Compliance</b>		
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	note 26, Contingent assets and liabilities
<b>Transport</b>		
G4-EN30	Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce	sub-section 4.3.3, Green Operations
<b>Overall</b>		
G4-EN31	Total environmental protection expenditures and investments by type	chapter 13, Sustainability statements sub-section 13.3.2, Biodiversity Philips does not monitor such expenditures at Group level
<b>Supplier environmental assessment</b>		
G4-EN32	Percentage of new suppliers that were screened using environmental criteria	sub-section 4.2.10, Supplier sustainability chapter 13, Sustainability statements
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	sub-section 13.2.2, Supplier indicators
<b>Environmental grievance mechanisms</b>		
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	sub-section 13.3.3, Green Operations - environmental incidents
profile disclosure	description	cross-reference
<b>Labor practices and decent work</b>		
<b>Employment</b>		
G4-LA1	Total workforce by employment type, employment contract and region	sub-section 4.2.3, Diversity and inclusion sub-section 4.2.4, Employment note 3, Income from operations
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Benefits provided are fully compliant with all applicable national laws. See <a href="http://www.philips.com/gbp">www.philips.com/gbp</a> (GBP Directives - 9.10 Employment conditions)
G4-LA3	Return to work and retention rates after parental leave, by gender	For all Philips businesses, guidance is applicable regarding equal and fair treatment. See <a href="http://www.philips.com/gbp">www.philips.com/gbp</a> (GBP Directives - 9.7 Equal and fair treatment)

profile disclosure	description	cross-reference
		Actual rates are managed and monitored at local level. Philips considers this rate on consolidated level not relevant.
Labor/Management relations		
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	For all Philips businesses, guidance is applicable regarding Employment conditions. See <a href="http://www.philips.com/gbp">www.philips.com/gbp</a> (GBP Directives - 9.10 Employment conditions) Notice periods are managed and monitored at local level. Philips considers this data on consolidated level not relevant.
Occupational health and safety		
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	On sector level, different initiatives exist to help decrease the number and severeness of Lost Workday Injuries cases. See sub-section 4.2.6, Health and Safety The percentage of total workforce represented is managed and monitored at local level. Philips considers this data on consolidated level not relevant.
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	sub-section 4.2.6, Health and Safety Sustainability world map On site level, insights exist in gender specific information. Philips considers this data on consolidated level not relevant.
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	sub-section 4.2.6, Health and Safety
G4-LA8	Health and safety topics covered in formal agreements with trade unions	See <a href="http://www.philips.com/gbp">www.philips.com/gbp</a> (GBP - 4.1 Right to organize and 4.2 Health and safety) The content of formal agreements with trade unions varies per country. The inclusion of Health and Safety topics in these agreements is monitored locally and not considered relevant to be reported at Group level.
Training and education		
G4-LA9	Average hours of training per year per employee by gender, and by employee category	sub-section 4.2.5, Developing our people The number of enrollments and the training spend are managed and monitored on consolidated level. The hours of training per year per employee are managed and monitored on local level. Philips considers these data on consolidated level not relevant.
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Our people, our culture sub-section 4.2.5, Developing our people
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	sub-section 4.2.5, Developing our people Philips implemented a semi-annual performance review, but does not track the percentage of employees benefitting from this centrally.
Diversity and equal opportunity		
G4-LA12	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 4.2.3, Diversity and inclusion section 10.1, Board of Management section 10.2, Supervisory Board
Equal remuneration for women and men		
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	For all Philips businesses, guidance is applicable regarding equal and fair treatment and wages and payment. See <a href="http://www.philips.com/gbp">www.philips.com/gbp</a> (GBP - 4.3 Equal and fair treatment and 4.4 Wages and payment). Actual ratios are managed and monitored at local level. Philips considers this ratio on consolidated level not relevant.
Supplier assessment for labor practices		
G4-LA14	Percentage of new suppliers that were screened using labor practices criteria	sub-section 4.2.10, Supplier sustainability chapter 13, Sustainability statements
G4-LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	sub-section 13.2.2, Supplier indicators

profile disclosure	description	cross-reference
<b>Labor practices grievance mechanisms</b>		
G4-LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	sub-section 4.2.10, Supplier sustainability sub-section 13.2.1, General Business Principles sub-section 13.2.2, Supplier indicators See <a href="http://www.philips.com/gbp">www.philips.com/gbp</a>
<b>Human rights</b>		
<b>Investment</b>		
G4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	sub-section 4.2.10, Supplier sustainability chapter 13, Sustainability statements See <a href="http://www.philips.com/gbp">www.philips.com/gbp</a> Philips does not monitor the percentage centrally.
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	sub-section 4.2.7, General Business Principles sub-section 13.2.1, General Business Principles sub-section 13.2.2, Supplier indicators For all Philips businesses, guidance is applicable regarding employee training on human rights policies as part of the GBP. Total hours of employee training are managed and monitored at local level. Philips considers these data on consolidated level not relevant.
<b>Non-discrimination</b>		
G4-HR3	Total number of incidents of discrimination and actions taken	sub-section 13.2.1, General Business Principles sub-section 13.2.2, Supplier indicators
<b>Freedom of association and collective bargaining</b>		
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	sub-section 13.2.1, General Business Principles sub-section 13.2.2, Supplier indicators
<b>Child Labor</b>		
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	sub-section 13.2.1, General Business Principles sub-section 13.2.2, Supplier indicators
<b>Forced or compulsory labor</b>		
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	sub-section 13.2.1, General Business Principles sub-section 13.2.2, Supplier indicators
<b>Security practices</b>		
G4-HR7	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations	The actual percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations is managed and monitored at local level. Philips considers this data on consolidated level not relevant.
<b>Indigenous rights</b>		
G4-HR8	Total number of incidents of violations involving rights of indigenous people and actions taken	Philips is not operational in areas with indigenous people. Therefore this indicator is not relevant.
<b>Assessment</b>		
G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	The total number and percentage of operations that have been subject to human rights reviews or impact assessments are managed and monitored at local level. Philips considers this data on consolidated level not relevant.
<b>Supplier human rights assessment</b>		
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	sub-section 4.2.10, Supplier sustainability

profile disclosure	description	cross-reference
		sub-section 4.2.11, Conflict minerals: issues further down the chain chapter 13, Sustainability statements
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	sub-section 13.2.2, Supplier indicators
Human rights grievance mechanisms		
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	sub-section 4.2.10, Supplier sustainability sub-section 13.2.1, General Business Principles sub-section 13.2.2, Supplier indicators See <a href="http://www.philips.com/gbp">www.philips.com/gbp</a>
profile disclosure	description	cross-reference
<b>Society</b>		
Local Communities		
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	sub-section 4.2.8, Stakeholder engagement sub-section 4.2.9, Social Investment Programs sub-section 5.1.3, 2013 highlights sub-section 5.3.3, 2013 highlights Philips has groupwide community involvement programs and policies that its sites implement and evaluate at local level. Philips does not consider the calculation of an overall percentage as relevant in this context.
G4-SO2	Operations with significant actual or potential negative impacts on local communities	Sustainability world map
Anti-corruption		
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	section 6.1, Our approach to risk management and business control sub-section 13.2.1, General Business Principles
G4-SO4	Communication and training on anti-corruption policies and procedures	sub-section 4.2.7, General Business Principles
G4-SO5	Confirmed incidents of corruption and actions taken	sub-section 13.2.1, General Business Principles
Public Policy		
G4-SO6	Total value of political contributions by country and recipient/beneficiary	Philips does not make political contributions as defined in <a href="http://www.philips.com/gbp">www.philips.com/gbp</a> (GBP Directives - chapter 7 Dealing with governments, political parties and politicians)
Anti-competitive Behavior		
G4-SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	section 6.5, Compliance risks
Compliance		
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	note 26, Contingent assets and liabilities
Supplier assessment for impacts on society		
G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	sub-section 4.2.10, Supplier sustainability sub-section 4.2.11, Conflict minerals: issues further down the chain chapter 13, Sustainability statements
G4-SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	sub-section 13.2.2, Supplier indicators
Grievance mechanisms for impacts on society		

profile disclosure	description	cross-reference
G4-SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	sub-section 4.2.10, Supplier sustainability sub-section 13.2.1, General Business Principles sub-section 13.2.2, Supplier indicators sub-section 13.3.3, Green Operations - "Environmental incidents" See <a href="http://www.philips.com/gbp">www.philips.com/gbp</a>
profile disclosure	description	cross-reference
<b>Product responsibility</b>		
Customer health and safety		
G4-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	sub-section 5.1.2, About Philips Healthcare sub-section 5.2.2, About Philips Consumer Lifestyle sub-section 5.3.2, About Philips Lighting
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	Philips plans to report on this indicator in 2014. Information on current consumer product recalls can be found at <a href="http://www.recall.philips.com">www.recall.philips.com</a> .
Product and service labeling		
G4-PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	sub-section 5.1.2, About Philips Healthcare sub-section 5.2.2, About Philips Consumer Lifestyle sub-section 5.3.2, About Philips Lighting
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	Philips plans to report on this indicator in 2014.
G4-PR5	Results of surveys measuring customer satisfaction	Philips measures the Net Promoter Scores, but does not disclose these for confidentiality reason.
Marketing communications		
G4-PR6	Sale of banned or disputed products	Philips plans to report on this indicator in 2014. Refer also to <a href="http://www.philips.com/gbp">www.philips.com/gbp</a>
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	Philips plans to report on this indicator in 2014. Refer also to <a href="http://www.philips.com/gbp">www.philips.com/gbp</a>
Customer privacy		
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	section 6.5, Compliance risks
Compliance		
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	note 26, Contingent assets and liabilities
<b>Disclosure of management approach</b>		
Material aspects	DMA and Indicators	Omissions
chapter 13, Sustainability statements - "Key material aspects"	chapter 13, Sustainability statements - "Key material aspects" section 13.5, Global Reporting Initiative (GRI) table 4.0 - "Specific Standard Disclosures"	section 13.5, Global Reporting Initiative (GRI) table 4.0 - "Cross-reference"  chapter 13, Sustainability statements - "Key material aspects" (Footnote 1)

# 17 Definitions and abbreviations

## Base of the Pyramid

The base of the pyramid is the largest, but poorest socio-economic group. In global terms, this is the 4 billion people who live on less than USD 2.50 per day.

## 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.

## Compound annual growth rate (CAGR)

The CAGR is the average Comparable Sales calculated over a period of more than one year. Compound comparable sales exclude the effect of currency movements and acquisitions and divestments (changes in consolidation) over the total period. Philips believes that CAGR information enhances understanding of sales performance over a period longer than a year.

## 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, poly-brominated biphenyls (PBB) or polybrominated diphenyl ethers (PBDE), except in certain specific applications, in concentrations greater than the values decided by the European Commission. These values have been established as 0.01% by weight per homogeneous material for cadmium and 0.1% for the other five substances.

**Return on equity (ROE)**

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

**Return on invested capital (ROIC)**

Return on Invested Capital consists of income from continuing operations excluding results attributable to non-controlling interest holders, results relating to investments in associates and financial income and expenses, divided by the average net operating capital at year end and the preceding four quarter ends. Philips believes that ROIC information makes the underlying performance of its businesses more transparent as it relates returns to the operating capital in use.

**SF<sub>6</sub>**

SF<sub>6</sub> (Sulfur hexafluoride) is used in the electrical industry as a gaseous dielectric medium.

**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.

# 18 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 4.5, Outlook, of this Annual Report, 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 6, Risk management, of this Annual Report, 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 2013 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 14, Reconciliation of non-GAAP information, of this Annual Report, 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 2012 compared to 2011

The analysis of the 2012 financial results compared to 2011, 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 2013, which will be filed electronically with the US Securities and Exchange Commission.

