Transparency is our guide in an evolving ESG landscape



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BY PHILIPS

Philips' purpose, as a health technology company, is to improve people's health and well-being through meaningful innovation. We aim to improve the lives of 2.5 billion people per year by 2030, including 400 million people in underserved communities. Building on our longstanding commitment to sustainability, we have embraced a fully integrated approach to doing business responsibly and sustainably, as reflected in our These ESG commitments reflect our firm belief that companies that hold themselves accountable to their stakeholders and increase transparency will be more viable and valuable in the long run. I am convinced that these commitments, which are aligned with Environmental, Social & Governance (ESG) commitments for the period 2020-2025. United Nations Sustainable Development Goals 3, 12, 13 and 17, are the best way for Philips to drive priorities for global impact – expanding access to care, taking climate action, reversing loss of biodiversity (natural capital), and embedding circular economy principles and EcoDesign in our innovation processes – and so create long-term value for our many stakeholders.

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Meaningful, effective and informed stakeholder engagement is integral to our ESG efforts. Philips continually interacts with our diverse

stakeholders across all our activities– engaging with, listening to and learning from them. And in alignment with the Netherlands' revised Corporate Governance Code, we incorporate their feedback on specific areas of our business into our planning and actions.

To be recognized as a responsible corporate citizen, a company not only has to 'do the right thing', it also has to render account to the outside world by reporting in line with the expanding ESG disclosure requirements and best practices.

Philips has a strong track record in ESG reporting – the ESG statements included in our Annual Report are independently audited at highest (reasonable) assurance level, making us a front-runner in our industry. Transparency in tax reporting is one of our key ESG commitments. We see tax payments as a social value contribution to the local communities in which we operate, as detailed in the dedicated Country Activity & Tax Report we publish each year. And our annual 'transparency cycle' concludes toward the end of each year with the publication of our Philips Human Rights Report.

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Historically, one of the things that has tended to hold back the wider adoption of ESG reporting has been the lack of global standards. Building on our extensive experience of environmental and social impact measurement and of providing transparency on governance, Philips has been playing an active role – in collaboration with, in particular, the International Financial Reporting Standards (IFRS) Foundation, the World Economic Forum (WEF) and the European Union – to help drive the evolution towards a standard ESG reporting framework.

In 2007, we signed up to the United Nations Global Compact, to advance 10 universal principles in the areas of human rights, labor, the environment and anti-corruption. In 2017, we signed the Compact for Responsive and Responsible Leadership – an initiative initiated by WEF and Philips to promote and align the long-term sustainability of corporations and the long-term goals of society.

In 2020, the WEF's International Business Council (IBC) published its

core set of StakeholderCapitalism Metrics and disclosures to help companies align their mainstream reporting on performance against ESG indicators and track their contributions towards the United Nations Sustainable Development Goals. Through 2022, Philips continued to integrate the Stakeholder Capitalism Metrics framework into its reporting. And now we are working to prepare for the latest development in this evolving landscape – the EU Corporate Sustainability Reporting Directive (CSRD).

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Designed to bring about more complete, consistent and transparent sustainability reporting across Europe, the EU CSRD will take effect in January 2024 for listed European companies. CSRD will be mandatory for all large European companies and companies listed on the EU-regulated markets, including EU subsidiaries of non-EU parent companies; in total, this will affect some 50,000 companies.

In order to ensure companies report relevant and decision-useful information for investors, stakeholders, and society at large, CSRD and the 12 related European Sustainability Reporting Standards (ESRS) prescribe rules for organizations to report sustainability disclosures across several topics: not only metrics related to environmental performance, but also addressing social impact (the ‘S’ in ESG), for instance treatment of employees, respect for human rights, anti-corruption and bribery, and diversity. Organizations will be required to detail how their business strategy will mitigate the risks associated with these environmental and social issues and publish these disclosures – with independent auditing mandatory.

Clearly, we at Philips share the sense of urgency when it comes to protecting human health, as well as halting climate change and reversing biodiversity loss, without which the planet has no path to net zero. Accordingly, we support the rationale of increased transparency, enhanced accountability and improved risk management behind CSRD and other (voluntary) ESG disclosure initiatives. At the same time, reporting requirements need to be proportional, so that

companies can provide their stakeholders with information that is meaningful, comparable and actionable.

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Each year, we conduct an evidence-based materiality analysis to identify the Environmental, Social and Governance topics which we believe have the greatest impact on our business and the greatest level of concern to stakeholders along our value chain.

We do this through a multi-stakeholder process involving our customers, suppliers, investors, employees, peer companies, social partners, regulators, NGOs, and academics. Assessing these topics enables us to prioritize and focus upon the most material topics and effectively address these in our policies, programs and targets.

This year, in preparation for CSRD, after completing the regular materiality analysis, we completed a preliminary 'double materiality' analysis. The double materiality analysis addresses both financial materiality (the impact of society on Philips) as well as impact materiality (the impact of Philips on society).

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These topics are all covered in more detail in the Annual Report 2022 and monitored regularly. And we will use the results of our double materiality assessment to further underpin and strengthen our preparations for CSRD. Because, ultimately, that will strengthen our ability to improve people’s health and well-being while acting responsibly towards the planet and society.

Traction for more exhaustive ESG reporting is increasing outside Europe too. Building on the work of the IFRS Foundation, the International Sustainability Standards Board (ISSB) has issued its inaugural global sustainability disclosure standards, and the US

Securities and Exchange Commission (SEC) is developing a climate standard covering full value-chain emissions (Scope 3). Philips is well placed to comply with these new standards as we became the first health technology company to have its entire value chain CO2 emission-reduction targets approved by the Science Based Targets initiative (SBTi).

As a Dutch company with a US listing, we support the development – e.g. through the ISSB – of aligned global ESG metrics for consistent measurement and reporting of progress. And we strongly advocate interoperability between ISSB, SEC and ESRS standards.

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The many questions we receive from our Philips shareholders and other stakeholders on sustainability – what we're doing to advance health equity and mitigate climate change and biodiversity loss– underscore the need for transparency in our ESG reporting.

As Philips' Chief ESG & Legal Officer, I am very much taken up with the question of how to operationalize ESG at all levels in the company. Because that is how companies practically turn big aspirational pronouncements into action – it's how they go about making a real difference. I believe the 'tone from the top' is critical in ensuring sustainability is fully incorporated in companies' risk approach and long-term strategy planning. In this respect, I follow with great interest the proactive efforts of the WEF Community of Chairpersons to map out what corporate boards, especially those of listed companies, need to know in order to keep pace with the fast-moving world of ESG reporting.

We will do everything we can to rally our industry peers, customers and partners around the tenet that transparency in ESG reporting can play a key role in driving long-term environmental sustainability and social impact.

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Philips Marnix leads Environmental, Social and Governance efforts across the company and serves as Co-Chair of Philips' ESG Committee. He is responsible for Legal, Intellectual Property & Standards, as well as Government & Public Affairs. In 2017, he was appointed to Philips' Board of Management, and he has been an Executive Committee member since 2014.

Click here to read more on Marnix van Ginneken

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