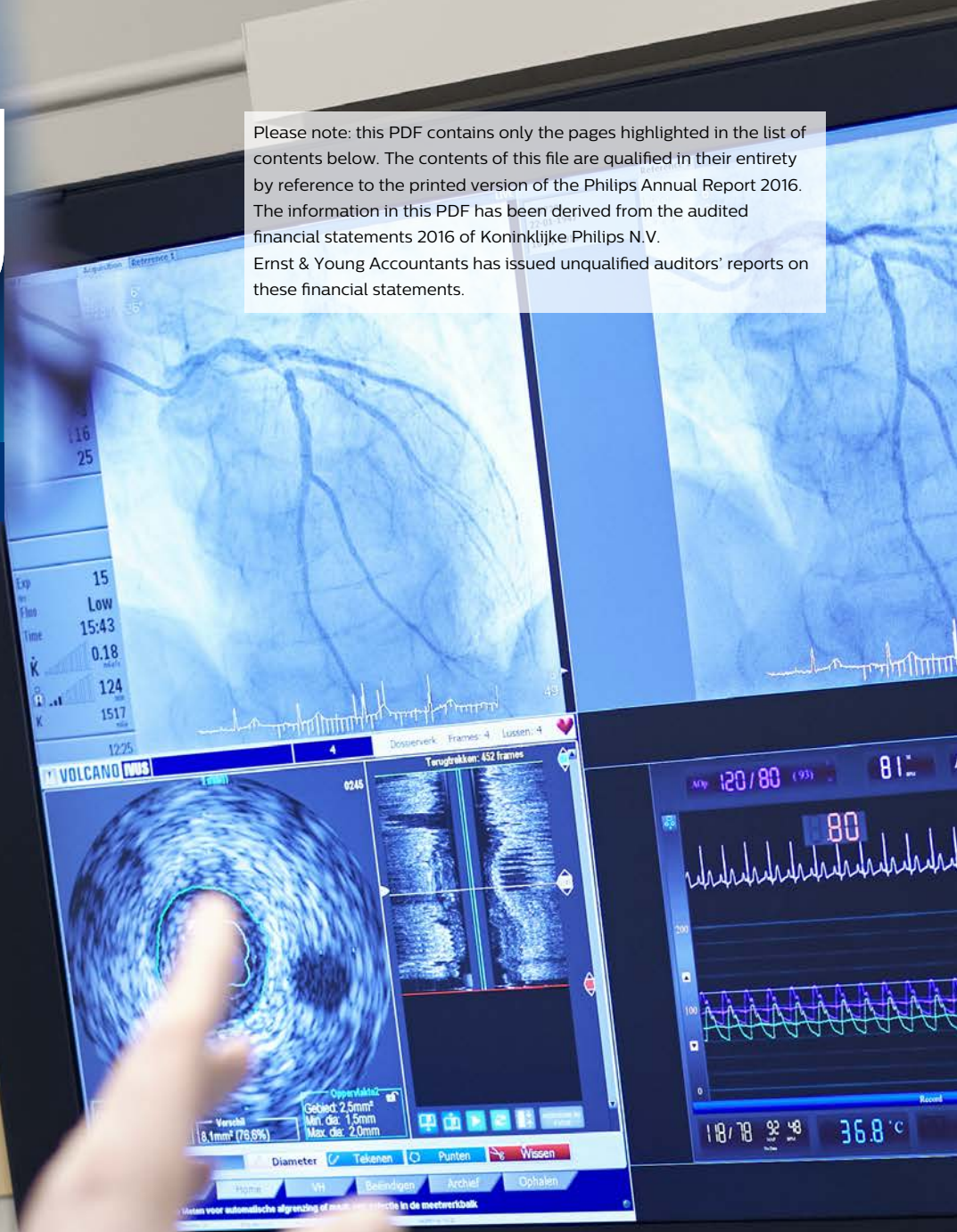


PHILIPS

Annual Report
2016

Sustainability selection

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 2016. The information in this PDF has been derived from the audited financial statements 2016 of Koninklijke Philips N.V. Ernst & Young Accountants has issued unqualified auditors' reports on these financial statements.



**A focused leader
in health technology**

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Grey text indicates parts not included in this selection from the Philips Annual Report 2016.

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1 Message from the CEO

“We have transformed Philips into a focused leader in health technology, delivering innovation to help people manage their health and to support care providers in delivering care effectively.” **Frans van Houten**, CEO Royal Philips

Dear Stakeholder,

I am very excited about the future of Philips as a focused leader in health technology, innovating new approaches to global health challenges. 2016 was a defining year for our company as we celebrated our 125th year as an innovation company and continued to advance our transformation. Our strategic focus is already delivering results.

We have successfully integrated our Volcano acquisition, achieving multiple quarters of double-digit growth, significant growth synergies with our image-guided therapy business, and cost synergies well beyond our original plans.

We separated the Lighting business, executing a complex project on time and below budget. In May we successfully listed Philips Lighting on the Amsterdam Euronext stock exchange, giving it the opportunity to build on its leadership position in the exciting Lighting industry. In its first year as a stand-alone company, Philips Lighting delivered strong LED sales growth and a significant increase in profitability, demonstrating the continued progress that the largest Lighting company in the industry is making. In February 2017 we further reduced our stake in Philips Lighting's issued and outstanding share capital to approximately 55%, in line with our stated aim to fully sell down our stake in Philips Lighting over the next several years. Separately, in December we signed an agreement to sell the combined Lumileds and automotive Lighting businesses, effectively completing our portfolio transformation.

I am pleased with the momentum in the overall business performance of our HealthTech portfolio as our health technology businesses posted 5% comparable sales growth¹⁾ and a significant increase in profitability. At the same time, we again stepped up our investments in quality, growth initiatives and innovation.

Our solutions approach – where we combine suites of systems, smart devices, software and services to help our customers improve patient outcomes and productivity – continues to gain traction, as evidenced by 11% solutions revenue growth in the year and our winning 15 new long-term strategic partnerships around the world with an aggregate value of approximately EUR 900 million.

In 2016, our products and services improved the lives of 2.1 billion people around the world. We also launched our new five-year ‘Healthy people, sustainable planet’ program, supporting the aim of improving the lives of 3 billion people per year by 2025 and becoming carbon-neutral in our operations by 2020. And at the World Economic Forum in January 2017 the Chairman of our Supervisory Board and I signed the **Compact for Responsive and Responsible Leadership**, an initiative to promote and align the long-term sustainability of corporations and the long-term goals of society, with an inclusive approach for all stakeholders.

Our overall 2016 performance gives me great confidence for the future as we build upon outstanding positions in the hospital and the home, expand our solutions capability and continue to deliver on the promise of digitization and smart, connected care.

Transforming the delivery of care

As consumers take a more active role in managing their health, we see professional healthcare and consumer health converging. This provides a tremendous opportunity for technology to play a role in data-enabled healthcare delivery, also supporting the shift from hospital care and acute reactive care to more proactive ambulatory and home care.

Through our market-leading propositions in Personal Health, we have natural touchpoints with consumers to promote healthy lifestyles, which are critical to good health. For example, our Dream Family is a comprehensive solution comprising sleep therapy devices, a comfortable mask, therapy management software and services to provide a good night's sleep for people with obstructive sleep apnea. And our connected Sonicare toothbrushes with smart sensor technology help to improve oral healthcare through real-time feedback and post-brush analytics.

In the hospital we are leading in integrated diagnostic solutions across various disciplines including radiology, pathology and genomics, combining advanced imaging modalities and clinical decision support aided by artificial intelligence and practice management software.

We are leading in image-guided, minimally invasive therapies which, compared with open surgery, have the benefits of reduced patient trauma, shorter recovery times

¹⁾ Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

and higher productivity. Our suites of interventional imaging technologies and navigation software, combined with interventional devices such as smart catheters, enable complex procedures in cardiology and oncology, for example. Our enterprise patient monitoring informatics solutions greatly reduce adverse events for patients and lighten the workload for nurses. And we are increasing our contribution to improve population health management with data analytics and targeted programs to improve health outcomes of patient cohorts with multiple co-morbidities and to reduce costs.

HealthSuite, our secure yet open healthcare Internet of Things cloud platform, connects patients and millions of devices with care providers, supported by powerful artificial intelligence. It 'connects the dots', enabling the flow of data needed to support first-time-right precision diagnoses and to deliver personalized treatments. At Philips, we believe this will improve outcomes, reduce costs and increase well-being.

Our initiative to build primary care capacity in developing markets through the Community Life Centers has passed its clinical and practical validation tests and will soon be ready for further roll-out, with the aim of cost-effectively improving access to care for millions of people.

Significant opportunities for value creation

Our EUR 17 billion health technology portfolio serves markets that offer attractive prospects in terms of growth and profitability.

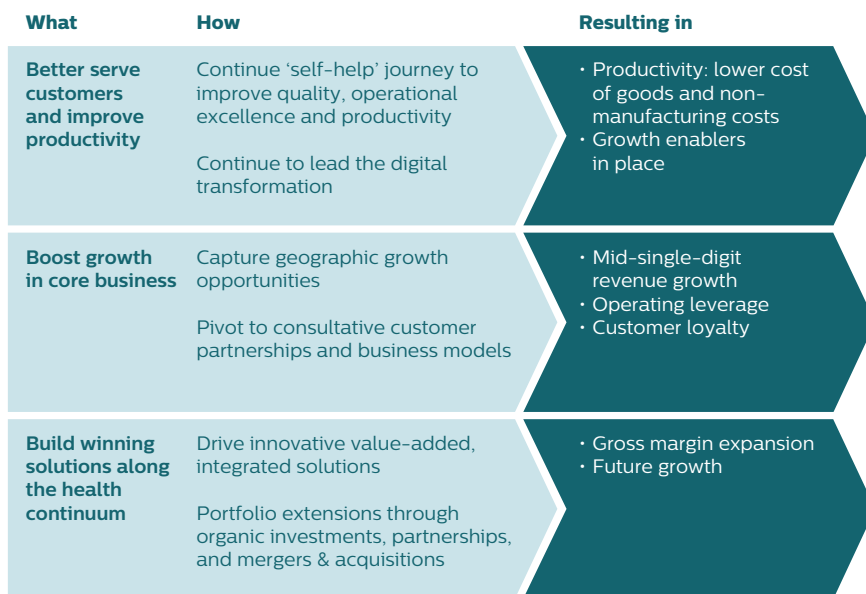
We see a great opportunity to **further improve our operational performance** and to deal forthrightly with the possible impact of regulatory investigations. We believe we

are making progress in improving our customer excellence programs and in strengthening margins through productivity. This is a continuation of our Accelerate! program, where there is considerable scope for 'self-help' by applying the Philips Business System. We will drive higher productivity by lowering the cost of goods, non-manufacturing cost and the cost of non-quality, while at the same time embedding the digital transformation in everything we do. Digitization is a great enabler of cutting-edge value propositions, as well as driving higher levels of customer service, productivity and quality.

Second, we see opportunities to **boost growth in our existing core health technology businesses**. We will do this by executing more effectively on customer partnerships, further transforming the business model from 'transactional' to one of 'long-term partnerships', with shared business goals and recurring revenue streams. Another proven avenue of growth is via geographical adjacencies. This approach has worked well in our Personal Health businesses, where we have taken products that have been successful in the United States or Japan, for example, and brought them into emerging economies, where there is a huge appetite for innovation and our brand. We anticipate market share gains in several of our businesses, including our Diagnostic Imaging business, which has largely overcome the incidents of the past.

Third, we are **driving future growth and profit expansion with our shift to solutions**. We are investing strongly in research and development for value-added, integrated solutions along the health continuum, most notably in the areas of precision diagnostics, cardiology, oncology, respiratory, and population health.

Roadmap to win



We do need to navigate carefully the many potential geo-political risks that we see today. Given that we have a balanced footprint across the world, we believe this is manageable. We are also still exposed to certain risks from legacy issues, which we aim to manage with strong focus and care.

In conclusion

I would like to thank all our customers and stakeholders for their continued support. I would also like to pay tribute to our teams around the world for their outstanding work – and the progress they achieved – in the course of the year.

With a strong commitment to continuous improvement, we will deliver the meaningful innovation and quality our customers expect – and take the next steps on our journey to reach our goal of improving the lives of 3 billion people a year by 2025!

Frans van Houten

Chief Executive Officer

2 Group performance

“Our strategic focus on health technology and the successful separation of Lighting has delivered two winning companies and a significant improvement in Group performance. Our net income more than doubled to EUR 1.5 billion while our income from operations increased to EUR 1.9 billion from EUR 1.0 billion in the previous year. Improved earnings and tight management of working capital generated EUR 1.9 billion of cash from our operating activities.”

Abhijit Bhattacharya, CFO Royal Philips

Content you didn't download

2.1 Financial performance

2.2 Social performance

At Philips we are passionate about improving lives through meaningful innovation. Our people find this aim powerful and inspiring, answering a calling to help create a healthier society. We reflect this aim in all that we do, starting with our people, extending to our stakeholders, as inspiration for new products and services, and through the community work of the Philips Foundation.

Our people

At Philips, we are committed to fostering an ecosystem that inspires inclusion, enables our employees to thrive, and puts our purpose of improving lives at the heart of everything we do. Our people are one of our unique strengths and each one of our employees is instrumental in Philips' success. Our strategy is based on the belief that every employee at Philips has talent and can grow and contribute with increasing impact. We take great pride in our Philips culture, which is rooted in innovation, R&D and entrepreneurship. We strive to hire employees with backgrounds and perspectives that can mirror the diversity of our markets and customers, fueling insight and innovation across our business.

During 2016 we successfully split Philips Lighting from Royal Philips. This facilitated greater focus and growth in each business, but also necessitated change and adjustment for our people. Throughout this process, our people have demonstrated their significant professionalism in making this a smooth transition, from both a people and business perspective, ensuring moments of uncertainty were supported with care.

2.2.1 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. Solutions from our portfolio that directly support the curative or preventive side of people's health determine the contribution to the social dimension. This is also our contribution to the UN Sustainable Development Goal 3 (“to ensure healthy lives and promote well-being for all at all ages”). 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 steadily growing Green Solutions portfolio, such as our energy-efficient products in our Personal Health businesses. This is our contribution to Sustainable Development Goal 12 (“to ensure sustainable consumption and production patterns”).

Through Philips products and solutions that support people's health, we improved the lives of 908 million people in 2016, driven by our Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses. Additionally, our products that help people live a healthy life improved the lives of 324 million people, and our Green Solutions that contribute to a healthy ecosystem 1.74 billion people. After the elimination of double counts – people touched multiple times – we arrived at 2.1 billion lives. This is an increase of around 100 million compared to 2015, driven by all segments, mainly in Greater China, North America, ASEAN, and the Indian subcontinent.

More information on this metric can be found in [Methodology for calculating Lives Improved](#).

Lives Improved per market

To find out about our Lives Improved metric at global, regional and market level, go to <https://www.results.philips.com/#!/interactive-worldmap>

The following table shows the Lives Improved metric per market.

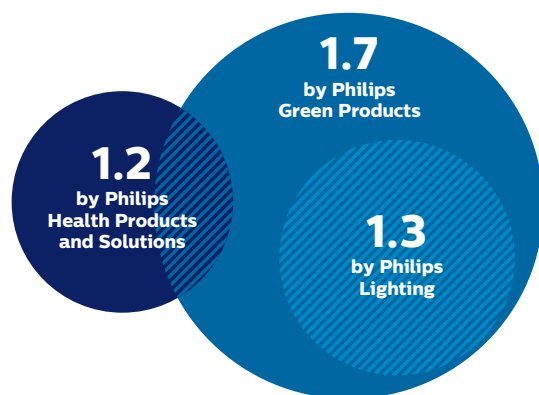
Philips Group			
Lives Improved per market			
Market	Lives Improved (million) ¹⁾	Population (million) ²⁾	GDP (USD billion) ³⁾
Africa	54	1,185	2,186
ASEAN and the Pacific	246	948	5,765
Benelux	28	29	1,301
Central & East Europe	86	125	1,399
Germany, Austria and Switzerland	94	100	4,548
France	60	66	2,519
Greater China	395	1,410	12,851
Iberia	46	57	1,463
Indian subcontinent	213	1,522	2,583
Italy, Israel and Greece	55	82	2,392
Japan	35	127	4,730
Latin America	179	630	5,273
Middle East & Turkey	109	346	2,888
Nordics	26	27	1,460
North America	354	360	20,094
Russia and Central Asia	82	285	1,721
UK & Ireland	51	70	2,973

¹⁾ Source: Philips, double counts eliminated

²⁾ Source: The World Bank, CIA Factbook & Wikipedia

³⁾ Source: IMF, CIA Factbook & Wikipedia

Philips Group
Lives improved in billions



Total: 2.1 billion (double counts eliminated)

 Double counts

Conceptual drawing, areas do not reflect actual proportions

2.2.2 Including, engaging and inspiring our people

The ability to capture growth and seize market opportunities depends on our people – their alignment with our vision, a sense of common purpose, and the belief that their role at Philips is making a positive contribution.

Inclusion and Diversity

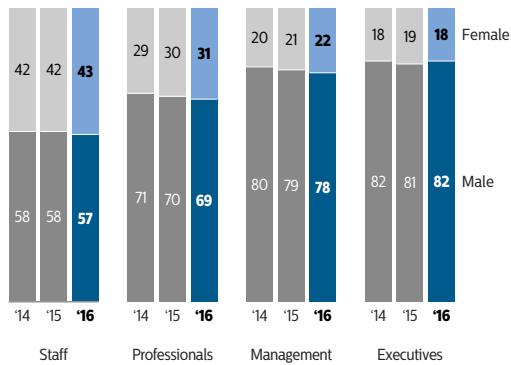
Philips recognizes that the best and most innovative solutions are generated through collaboration between people who think differently from one another and genuinely welcome a variety of ideas and viewpoints.

Inclusion requires intentional acceptance; a mindset and workplace where every employee's ideas, knowledge, perspectives, experiences, and styles are valued. The conviction that all individuals should be treated fairly and respectfully, have equal access to opportunities and resources, and can contribute fully to our success.

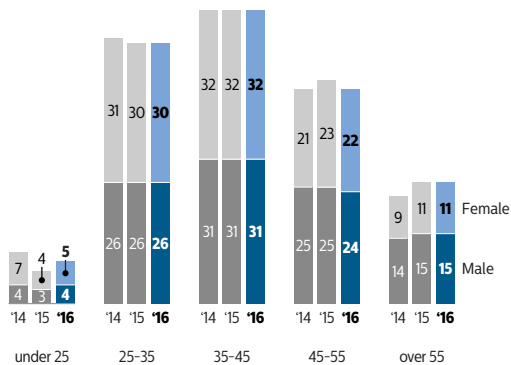
Data insights

- Gender diversity figures remained stable at 36% overall, with slight increases in the Staff, Professional and Management categories
- Age diversity increased slightly in 2016 with an increase in the under 25 age group
- 120+ nationalities bringing a rich diversity of capabilities, opinions and perspectives
- 47% of our employees are located in growth geographies

Philips Group
Gender diversity in %
2014 - 2016



Philips Group
Employees per age category in %
2014 - 2016



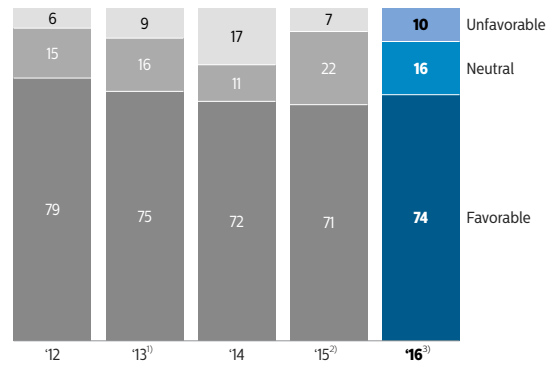
Engagement and Inspiration

Our employee survey consistently reports high levels of employee engagement, above 70% throughout 2010-2016, and rising from 71% to 74% favorable between 2015 to 2016 for the HealthTech businesses. Details on the Lighting employee engagement results can be found in the Philips Lighting Investor Relations [website](#).

At Philips, we care for our people and believe that we are at our best when our team are at theirs. We understand work is only one part of life. That is why we offer a variety of innovative benefits and health programs to help keep our people mentally and physically strong, and foster flexibility to manage life's unexpected moments at home.

By keeping our finger on the pulse of employee sentiment toward the company, listening to employees' ideas for improvement, and demonstrating to employees that their feedback is valued, we are working to ensure that every member of our global team has a role in creating lasting value for our customers, shareholders, and other stakeholders.

Philips Group
Employee Engagement Index in %
2012 - 2016



¹⁾ Based on 60 pulse surveys conducted in 2012

²⁾ Based on My Accelerate! Surveys

³⁾ Based on My Accelerate Surveys in HealthTech

2.2.3 Hiring and acquiring our people

In 2016, over 10,000 people were appointed to roles within Philips; 69% of executive vacancies were filled by internal candidates, the remainder were external hires with 60% coming from other healthcare or IT companies. In line with previous years, roughly one third of all roles were filled with internal candidates and the remainder filled with highly qualified external talent.

Three successful integrations were completed in 2016, Volcano, PathXL and Wellcentive, also infusing the organization with additional talent with deep health technology expertise.

Philips' focus on health technology has enabled activation of more highly targeted recruitment campaigns and outreach efforts. As such, Philips has continued to strengthen in-house talent acquisition capabilities, completing 80% of Executive hires in 2016, and saving EUR 3 million in agency costs.

Recruitment campaigns have been customized to raise awareness and attractiveness of Philips as a top healthcare technology employer within critical talent segments, for example Software and Q&R. The **Code to Care** campaign achieved 340,000 prospects to the software careers page, supporting 77% growth in digital talent pipelines. Likewise the **Quality Gene** campaign resulted in a 35% increase in applications, and a 39% increase in Q&R hires from strategically targeted companies.

In 2016, Philips was recognized as the best-in-class in talent acquisition by **Corporate Executive Board** and is in the top 1% of **LinkedIn** top global talent attractors. In addition, Best Place to Work programs helped Philips boost attractiveness to passive talent in the labor market in 2016, winning category awards in the United States, Netherlands, Germany, Spain, and Panama.

2.2.4 Employment

The total number of Philips Group employees (continuing operations) was 105,223 at the end of 2016, compared to 104,204 at the end of 2015. Approximately 33% were employed in the Lighting segment, 23% in the Diagnosis & Treatment businesses, 21% in the Personal Health businesses, 13% in the HealthTech Other segment and 10% in the Connected Care & Health Informatics businesses.

Philips Group
Employees per segment in FTEs at year-end
2014 - 2016

	2014	2015	2016
Personal Health	21,488	21,384	22,530
Diagnosis & Treatment	20,104	23,638	23,791
Connected Care & Health Informatics	9,119	10,290	11,033
HealthTech Other	13,019	11,493	13,570
Lighting	41,635	37,399	34,256
Legacy Items			43
Continuing operations	105,365	104,204	105,223
Discontinued operations	8,313	8,755	9,508
Philips Group	113,678	112,959	114,731

Compared to 2015, the number of employees in continuing operations increased by 1,019.

The increase reflects insourced manufacturing for products with critical process capability requirements, increased resources in digital innovation across marketing and software, and growth through acquisition. This targeted growth was partially offset by industrial footprint rationalization at Lighting, a reduction of traditional sales roles, and a decrease in operational headcount in central functions.

Approximately 53% of the Philips workforce was located in mature geographies, and about 47% in growth geographies. In 2016, the number of employees in mature geographies increased by 67, mainly due to the Wellcentive acquisition in the Connected Care & Health Informatics segment. The number of employees in growth geographies increased by 952 driven by three factors: Global Business Services right-shoring supporting functions, further shift and rationalization in industrial footprint, and new legislation introduced in China, which capped contingent workforce size at 10% and prompted insourcing of contingent workers.

Philips Group
Employees per geographic cluster in FTEs at year-end
2014 - 2016

	2014	2015	2016
Western Europe	29,105	28,590	28,326
North America	22,283	23,614	23,839
Other mature geographies	3,643	3,908	4,014
Mature geographies	55,031	56,112	56,179
Growth geographies	50,334	48,092	49,044
Continuing operations	105,365	104,204	105,223
Discontinued operations	8,313	8,755	9,508
Philips Group	113,678	112,959	114,731

Philips Group
Employment in FTEs at year-end
2014 - 2016

	2014	2015	2016
Balance as of January 1	116,082	113,678	112,959
Consolidation changes:			
Acquisitions	1,506	1,865	163
Divestments	(247)	(300)	(571)
Changes in Discontinued operations	(2,132)	442	753
Other changes	(1,531)	(2,726)	1,427
Balance as of December 31	113,678	112,959	114,731

In 2016, employee turnover amounted to 16.0% (of which 9.6% was voluntary) compared to 16.6% (9.7% voluntary) in 2015. 2016 turnover was mainly due to the changing industrial footprint in Lighting and our overhead reduction program.

Philips Group
Employee turnover in %
2016

	Staff	Professionals	Management	Executives	Total
Female	21.2	12.1	10.8	13.7	17.0
Male	23.4	10.3	9.3	10.7	15.4
Philips Group	22.4	10.8	9.6	11.2	16.0

Philips Group
Voluntary turnover in %
2016

	Staff	Professionals	Management	Executives	Total
Female	13.0	8.0	7.5	5.9	10.7
Male	13.4	6.3	4.7	4.8	9.0
Philips Group	13.2	6.8	5.3	5.0	9.6

2.2.5 Developing our people

At Philips, we operate with in belief that everyone has talent and that our people are critical to our organizational success. With over 105,000 talented and motivated employees all over the world, it is our people who continue to turn our strategy into reality. Our sustained growth and long-term success will be achieved by becoming a world-class talent-builder, offering attractive and rewarding work which contributes to the careers of our people.

Philips University

In 2016, Philips University began implementing a targeted approach to delivering learning, focusing on strategic needs, identified through strategic plans of the business, strategic workforce planning, and talent reviews. These plans help ensure the effectiveness of our learning budget. Also, innovative learning techniques including gamification, video and micro-learning were infused into learning offerings.

For more information on our people's development, please refer to [sub-section 12.3.2, People development](#), of this Annual Report.

2.2.6 Health and Safety

At Philips we strive to make the world healthier and more sustainable through innovation. A critical aspect of which starts with our own people. We believe we are at our best when our employees are at theirs. A belief championed by our CEO in his recent [Financial Times article](#).

Philips strives for an injury-free and illness-free work environment, with a sharp focus on reducing the number of injuries and improving processes. As of 2016, the Total Recordable Cases (TRC) rate is defined as a Key Performance Indicator (KPI), on which we set yearly targets for the company, Business Groups and industrial sites. For data comparability reasons, we also provide the Lost Workday Injury Cases (LWIC) rate.

We regret to report two fatalities in Philips Lighting in 2016. One of our sales officers passed away after a traffic accident in Pakistan. In India a contractor died due to injuries sustained at one of our factories. For both of these fatalities, a thorough investigation and root cause analysis were conducted. Corrective actions were implemented, including reminding our employees of safe driving rules and accelerating our injury prevention program to prevent such occurrences in the future.

In 2016, we recorded 174 LWIC, of which 71 in Philips Lighting. These are occupational injury cases where the injured person is unable to work one or more days after the injury. This represents a significant decrease compared with 213 in 2015, and continues the downward trend since 2010. The LWIC rate decreased to 0.18 per 100 FTEs, compared with 0.21 in 2015. The number of Lost Workdays caused by injuries decreased by 1,253 days (16%) to 6,728 days in 2016.

In 2016, we recorded 395 TRC, of which 156 in Philips Lighting. These are cases where the injured employee is unable to work one or more days, or had medical treatment or sustained an industrial illness. We will continue to monitor this KPI and actively set reduction targets for all our businesses in 2017.

For more information on Health and Safety, please refer to [sub-section 12.3.4, Health and Safety performance](#), of this Annual Report.

2.2.7 General Business Principles

The Philips General Business Principles (GBP) incorporate the fundamental principles for all Philips business around the world. They set the minimum standard for business conduct for both individual employees and for the company and our subsidiaries. Our GBP also stand as a reference for the business conduct we expect from our business partners and suppliers. Translations of the text are available in 32 languages, allowing almost every employee to read the GBP in their native language. Detailed underlying

policies, manuals, training and tools are in place to give employees practical guidance on how to apply the GBP in their day-to-day work environments.

In addition, there are separate Codes of Ethics that apply to employees working in specific areas of our business, i.e. the Procurement Code of Ethics and the Financial Code of Ethics. Details of these can be found at www.philips.com/gbp.

As part of our unyielding effort to raise GBP awareness and create engagement throughout the organization on the different forms acting with integrity can take, each year a GBP communications and training plan is deployed. In 2016 a number of new initiatives were undertaken through various channels such as our spotlight article series, Quick Reference Cards for at-a-glance guidance on how to handle a number of common GBP concerns as well as returning programs such as e-Learnings which were deployed early in the year. Many of these initiatives contributed to building momentum towards our annual Dialogue Week in the third quarter, which serves as the highlight of our GBP program for the year. During 2016's Dialogue Week hundreds of Philips teams held open and frank discussions on what Acting with Integrity means to them, and posted pictures of their sessions on the Philips social platform using the hashtag, #integritymatters.

The GBP form an integral part of labor contracts in virtually every country in which Philips operates. It is the responsibility of each employee to live up to our GBP, and employees are requested to affirm their commitment after having completed their GBP e-training. In addition, employees in respective specialized areas must sign-off on the Financial and Supply Management Codes of Ethics. Executives are requested to sign-off on the General Business Principles to confirm a renewed commitment to awareness of and compliance with the respective codes each year.

The GBP Review Committee is responsible for the effective deployment of the GBP and for generally promoting a culture of compliance and ethics within Philips. The GBP Review Committee is a body chaired by the Chief Legal Officer, and its members include the Chief HR Officer, the Chief Market Leader and the Chief Financial Officer. They are supported in the implementation of their initiatives by a Committee Secretariat, and a network of GBP Compliance Officers who are appointed in all countries and at all major sites where Philips has operations.

Related roles and responsibilities are laid down in the Charter of the GBP Review Committee. In 2016, in response to external regulatory developments in business ethics and compliance, a revised charter was deployed by the GBP Review Committee. This newly updated charter impacted the composition of the GBP Review Committee, the roles and responsibilities of its

members as well as the composition, roles and responsibilities of the GBP Compliance function. To strengthen monitoring and oversight of GBP compliance within Philips, a mandatory annual GBP self-assessment questionnaire was introduced. The GBP Review Committee Secretariat receives an overview of the results of this self-assessment and can take action when deemed necessary. We believe this has created a more robust network equipped with the requisite skills and support to monitor and enhance compliance in the increasingly regulated environments in which Philips operates.

The GBP are supported by established mechanisms that ensure standardized reporting and escalation of concerns. These mechanisms are based on the GBP Reporting Policy that urges employees to report any concerns they may have regarding business conduct in relation to the GBP either through a GBP Compliance Officer or through the Philips Ethics Line. The Philips Ethics Line enables employees and also third parties to report a concern either by telephone or online via a web intake form in a variety of different languages 24/7 all year round. All concerns raised are registered consistently in a single database hosted externally from Philips by a third party and are investigated uniformly in accordance with standardized investigation procedures.

More information on the Philips GBP can be found in chapter 5, Risk management, of this Annual Report. The results of the monitoring measures in place are given in [sub-section 12.3.5, General Business Principles](#), of this Annual Report.

2.2.8 Working with stakeholders

In organizing ourselves around customers and markets, we create dialogues with our stakeholders in order to explore common ground for addressing societal challenges, building partnerships and jointly developing supporting ecosystems for our innovations around the world. To deliver on our vision to make the world healthier and more sustainable through innovation, working with partners is crucial. An overview of stakeholders and topics discussed is provided in [chapter 12, Sustainability statements](#), of this Annual Report.

For more information on our stakeholder engagement activities in 2016, please refer to [sub-section 12.3.7, Stakeholder Engagement](#), of this Annual Report.

2.2.9 Supplier sustainability

Royal Philips has a direct business relationship with approximately 8,500 product and component suppliers and 22,000 service providers. In many cases the sustainability issues deeper in our supply chain require us to intervene beyond tier 1 of the chain.

Supplier sustainability strategy

Managing our large and complex supply chain in a socially and environmentally responsible way requires a structured and innovative approach while being transparent and engaging with a wide variety of stakeholders. Insights gained through the stakeholder engagement process are used as an input to develop our supplier sustainability strategy. We then translate this strategy into five dedicated programs:

1. Supplier sustainability compliance

Combination of contractual sustainability commitment of Philips suppliers defined in two core Supplier Sustainability policy documents (Supplier Sustainability Declaration (SSD) and Regulated Substances List (RSL)) and additional transparency requirements to provide information and evidence on topics mentioned in SSD and RSL.

2. Supplier sustainability performance

This program aims to bring about structural, sustainable improvement in our supply chain while focusing on health and safety, remuneration and benefits, and workforce turnover. This approach has been designed to replace the Philips audit program and was piloted in 2016 on a sample of 93 supplier sites in China.

3. Responsible sourcing

This program aims to manage sustainability risks related to minerals mined in conflict-affected and high-risk regions. Philips addresses the complexities of the minerals supply chains through continuous due diligence process combined with multi-stakeholder initiatives to responsible sourcing.

4. Circular procurement

Philips' ambition is to increase its circular business proposition and it has set a 2020 target to achieve 15% circular revenues. This program identifies how procurement can contribute to our ambition to be a provider of circular solutions and services.

5. Environmental footprint China

This program serves to reduce the environmental footprint of our suppliers' sites in China. Furthermore, we want to focus on increasing supply chain transparency in terms of environmental footprint and to drive responsible use of resources through our supply chain. An example is the collaboration of Philips with a Chinese NGO, the Institute of Public Environment (IPE).

Please refer to [sub-section 12.3.8, Supplier indicators](#), of this Annual Report for more details and to the Philips Lighting Investor Relations [website](#) for details on the Lighting Supplier Sustainability program.

2.3 Environmental performance

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 second

program in 1998, which focused on the environmental dimension of our 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 company vision:

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.

In 2016, our CEO Frans van Houten launched our new Royal Philips five-year sustainability program, ‘Healthy people, sustainable planet’, addressing both social and environmental challenges and including associated targets to be achieved by 2020.

The three pillars of the ‘Healthy people, sustainable planet’ program are:

- Creating value for our customers through **Sustainable Solutions**
- Leading by example in our **Sustainable Operations**
- Multiplying our impact by driving **Sustainability through our supply chain**

More details on the new program, as well as the initial results, have been addressed in this report.

Every year, Royal Philips publishes a full Integrated Annual Report. Our independent auditor Ernst & Young (EY) has not only audited our financial information but has also provided reasonable (highest level) assurance on Sustainability Information in [chapter 12, Sustainability statements](#), of this Annual Report and sections [section 2.2, Social performance](#), of this Annual Report and [section 2.3, Environmental performance](#), of this Annual Report. Please refer to section 12.5, Assurance report of the independent auditor, of this Annual Report. With this, Philips is a frontrunner in this field.

Please refer to the Philips Lighting Investor Relations [website](#) for more details on the new Lighting sustainability program and results.

In this Environmental performance section an overview is given of the most important environmental parameters of the new program. Improving people’s lives, Health and Safety, and Supplier Sustainability are addressed in the Social performance section. Details of the ‘Healthy people, sustainable planet’ parameters can be found in the [chapter 12, Sustainability statements](#), of this Annual Report.

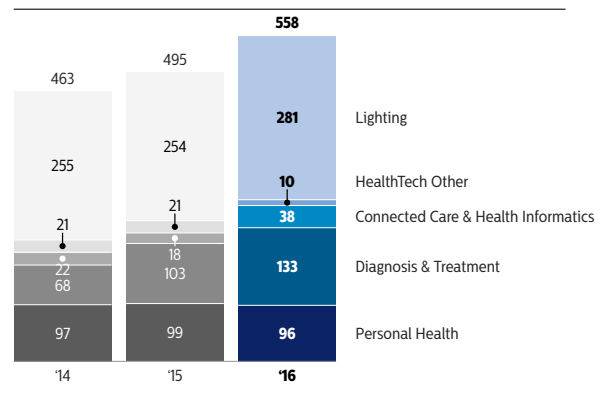
2.3.1 Green Innovation

Green Innovation is the Research & Development spend related to the development of new generations of Green Products and Solutions and Green Technologies.

Sustainable Innovation is the Research & Development spend related to the development of new generations of products and solutions that address the United Nations’ Sustainable Development Goals 3 (“to ensure healthy lives and promote well-being for all at all ages”) or 12 (“to ensure sustainable consumption and production patterns”). With regard to the latter, Philips set a target of EUR 7.5 billion (cumulative) for its HealthTech businesses over the coming five years as part of the ‘Healthy people, sustainable planet’ program.

In 2016, Philips invested EUR 558 million in Green Innovation while the HealthTech businesses invested EUR 1.3 billion in Sustainable Innovation.

Philips Group
Green Innovation per segment in millions of EUR
2014 - 2016



Diagnosis & Treatment businesses

Philips develops innovative Diagnosis & Treatment solutions that enable first-time right diagnosis, precision interventions and therapy, while respecting the boundaries of natural resources. Investments in Green Innovation in 2016 amounted to EUR 133 million, a 29% increase compared to 2015. All Philips Green Focal Areas are taken into account while we aim to reduce environmental impact over the total lifecycle. Energy efficiency is an area of focus, especially for our large imaging systems such as MRI. Closing the materials loop is another area where our focus on developing upgrading pathways has enabled extended product life and therefore reduced materials use and lower cost. Our Diagnosis & Treatment businesses actively support a voluntary industry initiative to improve the energy efficiency of medical imaging equipment. Moreover, we are actively partnering with multiple leading care providers to look together for innovative ways to reduce the environmental impact of healthcare, for example by maximizing energy-efficient use of medical equipment and optimizing lifecycle value.

Connected Care & Health Informatics businesses

Philips innovates with connected health IT solutions that integrate, collect, combine and deliver quality data for actionable insights to help improve access to quality care, while respecting the boundaries of natural

resources. It is our belief that well-designed e-health solutions can reduce the travel-related carbon footprint of healthcare, and improve access and outcomes. Investments in Green Innovation in 2016 amounted to EUR 38 million, a doubling compared to 2015. All Philips Green Focal Areas are taken into account as we aim to reduce environmental impact over the total lifecycle. Energy efficiency and material reduction are the main areas of focus.

Personal Health businesses

Continuous high R&D investments at our Personal Health businesses are also reflected in Green Innovation spend, which amounted to EUR 96 million in 2016, compared with EUR 99 million in 2015. The investments resulted in high Green Revenues in all Business Groups. The Personal Health businesses continued their work on improving the energy efficiency of their 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), Bisphenol A (BPA) and phthalates from, among others, food contact products. In particular, close to 100% of the Mother & Child Care, Male Grooming and Oral Healthcare products are completely PVC/BFR free.

Lighting

Philips Lighting strives to make the world healthier and more sustainable through energy-efficient light. With a 2016 investment of EUR 281 million in Green Innovation, Lighting invested 11% more compared to 2015. Increasing investments in digital solutions and connectivity have led to further improvements in the area of energy efficiency. In 2016, Philip Lighting teamed up with the Dubai Municipality to create the Dubai Lamp Initiative, a unique research partnership that resulted in the development of the world's most energy-efficient commercially available LED lamp. By replacing conventional lamps with the Dubai Lamp – the first commercially available 200 lumen per watt LED lamp – households and enterprises can reduce electricity used for lighting by more than 90% compared to incandescent technologies. In addition to raising light and energy efficiency to new levels, the Dubai Lamp is extremely durable with an average lifespan of up to 15 times that of conventional lamps.

HealthTech Other

HealthTech Other invested EUR 10 million in Green Innovations, spread over projects focused on global challenges related to water, air, energy, food, Circular Economy, and access to affordable healthcare. The Research organization within HealthTech Other used the Sustainable Innovation Assessment tool, in which innovation projects are evaluated and scored along the environmental and social dimensions, in order to identify those projects that most strongly drive sustainability. Transfers of Research projects include a Lives Improved calculation to assess what the project's contribution will be to Philips' vision to improve the lives of 3 billion people a year by 2025. Intellectual Property

& Standards has developed a Sustainable IP portfolio for which the spend has been included in the above total for HealthTech Other.

At the end of 2016, Philips' IP portfolio consisted of 5.7% green patent families. All families are labeled with at least one Green Focal Area. In 2016, 3.3% of our total new patent filings were flagged as relating to green patent family. As IP is an extension of Philips' innovation efforts, the portfolio percentage related to green patents is multiplied by our annual patent portfolio costs to determine Philips' yearly investment in Green IP.

While a product can be classified as green because it incorporates an environmentally friendly technology, such technology cannot always be protected in a patent because of a lack of patentability over the state-of-the-art technology. Therefore, there is not necessarily a correlation between green patents and Green Technologies in Green Products and Solutions.

Circular Economy

The transition from a linear to a circular economy is essential to create a sustainable world. A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using these resources more effectively. It is a driver of innovation in the areas of material, component and product re-use, as well as new business models such as system solutions and services. In a circular economy, more effective (re)use of materials enables the creation of more value, both by means of cost savings and by developing new markets or growing existing ones. The 'Healthy people, sustainable planet' program includes a target to generate 15% of our revenues in 2020 from Circular Products and Solutions.

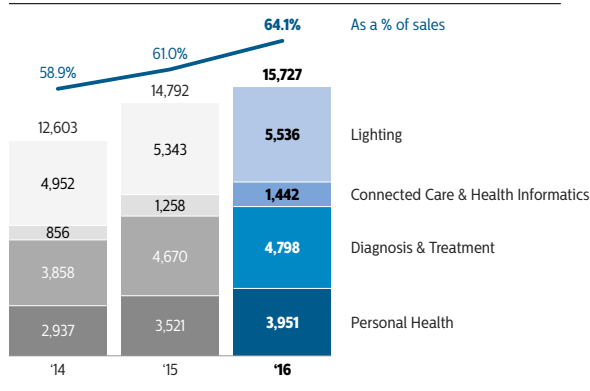
For more information on our Circular Economy activities and the progress towards targets in 2016, please refer to sub-section 12.4.1, Circular Economy, of this Annual Report. Please refer to the Philips Lighting Investor Relations [website](#) for more details on circular products and solutions of Philips Lighting.

2.3.2 Green Revenues

Green Revenues are generated through products and solutions which offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Circularity, and Lifetime reliability. Green Revenues, excluding the Lumileds and Automotive business, increased to EUR 15.7 billion in 2016, or 64.1% of sales (61.0% in 2015), thereby reaching a record level for Philips.

The exclusion of Lumileds and Automotive had a 1% negative impact on the total Green Revenues percentage.

Philips Group
Green Revenues per segment in millions of EUR
 2014 – 2016



Through our EcoDesign process we aim to create products and solutions that have significantly less impact on the environment during their whole lifecycle. Overall, the most significant improvements have been realized in our energy efficiency Green Focal Area, an important objective of our program, although there was also growing attention for hazardous substances and recyclability in all segments in 2016, the latter driven by our Circular Economy initiatives.

New Green Products and Solutions from each segment include the following examples.

Diagnosis & Treatment businesses

In 2016, our Diagnosis & Treatment businesses maintained the Green Product and Solutions portfolio with redesigns of various Green Products with further environmental improvements. These products improve patient outcomes, provide better value, and help secure access to high-quality care, while reducing environmental impact. We continued to add an energy-efficient CryoCompressor to our MRI systems, with energy savings in the various non-scanning modes of 30-40%.

Connected Care & Health Informatics businesses

Our Connected Care & Health Informatics businesses grew the Green Product and Solutions portfolio with three new products and solutions which offer better technology and functionality and at the same time reduce environmental impact. Examples include a new patient monitor GS10/GS20/G30E/G40E series from our Goldway China site with a 21% reduction in product weight and an 18% reduction in energy usage, compared to the predecessor products. Another example is the patient mask AF541, which has a 33% lower product weight and no longer contains polycarbonate compared to its predecessor mask and thus has no risk of containing bisphenol-A.

Personal Health businesses

Our Personal Health businesses focuses on Green Products and Solutions which meet or exceed our minimum requirements in the areas of energy consumption, packaging, and substances of concern.

Green Revenues in 2016 surpassed 56% of total sales. All our Green Products with rechargeable batteries (like toothbrushes, shavers, and grooming products) exceed the stringent California energy efficiency norm by at least 10%. We are making steady progress in developing PVC/BFR-free products. More than 55% of sales consist of PVC/BFR-free products, with the exception of the power cords, for which there are not yet economically viable alternatives available. In the remaining 30% of product sales, PVC/BFR has already been phased out to a significant extent, but the products are not yet completely free of these substances.

Sleep & Respiratory Care (S&RC) launched the Simple Mini Go portable oxygen concentrator (POC), the smallest and lightest POC ever developed by Philips; compared to its predecessor the product weight has been reduced by 40% and energy efficiency improved by 20%.

Lighting

Green Revenues within Lighting increased to 78% in 2016. Connected Lighting systems and LED contributed to Green Revenues with solutions in more applications and market segments. In Jakarta, Indonesia, 90,000 street luminaires were retrofitted this year with energy efficient LED lights connected by the Philips CityTouch lighting management system. Each light point is now connected, using sensors that collect performance data. As a result, city officials can now monitor Jakarta’s lighting infrastructure, remotely managing light levels to match different needs by district. At the same time, Jakarta can better manage its carbon footprint, reduce energy expenses and improve public services.

2.3.3 Sustainable Operations

The Sustainable Operations programs, in Royal Philips and Philips Lighting focus on the main contributors to climate change, recycling of waste, reduction of water consumption, and reduction of emissions. Full details can be found in [chapter 12, Sustainability statements](#), of this Annual Report.

Carbon footprint and energy efficiency

Both Royal Philips and Philips Lighting are committed to the ambition of becoming carbon-neutral in our operations during the COP21 United Nations Climate Summit in Paris (December 2015). The target we have set is to be 100% carbon-neutral in our operations by 2020 and sourcing all our electricity usage from 100% renewable sources.

After achieving our 40% reduction target in 2015 compared to our 2007 base year we continued to decrease our carbon emissions in 2016. We achieved a 5% carbon reduction compared to 2015, resulting in a total of 1,344 kilotonnes CO₂ emission. This reduction is mainly driven by increasing our renewable electricity share globally from 56% in 2015 to 62% in 2016. This led to a 17% carbon reduction in our industrial sites. As of December 2016 we source 100% of our US electricity demand from the Los Mirasoles windfarm in Texas

through a 15-year Power Purchase Agreement. Additionally, Philips created a renewable electricity purchasing consortium with AkzoNobel, DSM and Google, and the four companies closed the first wind energy transaction in the Netherlands in October 2016 – the Krammer windfarm in the Zeeland province.

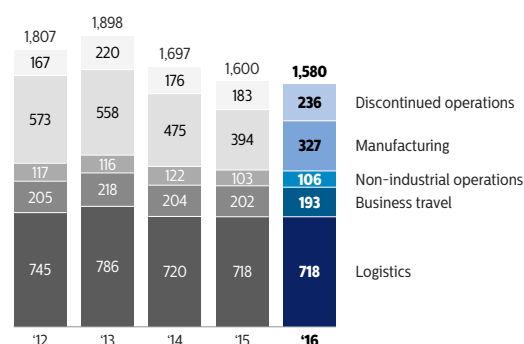
Our business travel emissions showed a reduction of 4% compared to 2015, driven by a stricter air travel policy introduced in the last quarter of 2016. This led to an air travel reduction of 5%. The emissions resulting from our lease cars decreased by 4%, slightly offset by an increase in carbon emissions from our rental cars usage (+6%). In order to further decrease our business travel emissions we will continue to promote video conferencing as an alternative to travel in 2017.

Within our logistics operations we have seen no significant changes in the overall carbon emissions compared to the previous year. Our air freight emissions went up 6% over the course of 2016 to meet demand in our HealthTech businesses, partially caused by distress at one of our larger ocean freight carriers. This was offset by significant reductions within Lighting due to a stricter air freight policy and a Royal Philips program to increase the loading degree of our containers for ocean freight.

Our operational energy efficiency improved by 8%, from 1.11 terajoules per million euro sales in 2015 to 1.01 terajoules per million euro sales in 2016 as a result of energy efficiency programs in our industrial sites. During 2016, the applied emission factors used to calculate our operational carbon footprint have been updated with the latest DEFRA (UK Department for Environment, Food & Rural Affairs) 2016 emission factors. Philips reports all its emissions in line with the Greenhouse Gas Protocol (GHGP) as further described in [chapter 12, Sustainability statements](#), of this Annual Report.

The impact of the exclusion of Lumileds and Automotive is displayed as discontinued operations in the next graph; the size of which varies over the years, but averages around 18% over the past five years where emissions from our non-industrial facilities and business travel have been estimated based on FTE data. In 2016, Lumileds and Automotive business travel was based on actuals and non-industrial sites were extrapolated based on floor area. For our logistics emissions, the part of discontinued operations has been estimated using Philips Lighting revenue share as a proxy.

Philips Group
Operational carbon footprint in kilotonnes CO₂-equivalent
2012 – 2016



Philips Group
Operational carbon footprint by Greenhouse Gas Protocol scopes in kilotonnes CO₂-equivalent
2012 – 2016

	2012	2013	2014	2015	2016
Scope 1	355	361	320	261	229
Scope 2 (market based)	335	313	277	236	204
Scope 3	950	1,004	924	920	911
Philips Group	1,640	1,678	1,521	1,417	1,344
Scope 2 (location based)	584	583	546	496	488

Philips Group
Ratios relating to carbon emissions and energy use
2012 – 2016

	2012	2013	2014	2015	2016
Operational CO₂ emissions in kilotonnes CO ₂ -equivalent	1,640	1,678	1,521	1,417	1,344
Operational CO₂ efficiency in tonnes CO ₂ -equivalent per million EUR sales	74	76	71	58	55
Operational energy use in terajoules	30,013	30,890	28,741	26,792	24,824
Operational energy efficiency in terajoules per million EUR sales	1.35	1.40	1.34	1.11	1.01

Water

Total water intake in 2016 was 2.4 million m³, about 11% lower than in 2015. This decrease was mainly due to operational changes, lower production volumes at multiple Lighting sites where water is used for cooling purposes, and water-saving actions at various sites.

Lighting represents around 60% of total water usage. At Lighting, water is used in manufacturing as well as for domestic purposes. In Royal Philips, water is mainly used for domestic purposes. The exclusion of Lumileds and Automotive has a significant downward impact on the water consumption of Philips. In 2016, Lumileds and Automotive accounted for 1.7 million m³ of water.

Philips Group
Water intake in thousands of m³
 2012 - 2016

	2012	2013	2014	2015	2016
Personal Health	368	652	585	614	613
Diagnosis & Treatment	281	311	392	268	269
Connected Care & Health Informatics	75	77	74	94	81
Lighting	2,413	2,249	2,052	1,751	1,451
Continuing operations	3,137	3,289	3,103	2,727	2,414
Discontinued operations	1,720	1,755	1,700	1,684	1,651
Philips Group	4,857	5,044	4,803	4,411	4,065

In 2016, 70% of water was purchased and 30% was extracted from groundwater wells.

Waste

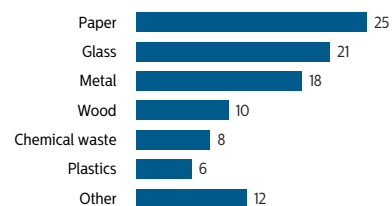
In 2016, total waste decreased by some 5% compared to 2015 to 64.8 kilotonnes, mainly due to operational changes, lower production volumes and less packaging waste at Lighting sites. Lighting contributed 62% of total waste, Personal Health businesses 22%, Diagnosis & Treatment businesses 14% and Connected Care & Health Informatics businesses 2%. The reported increase in waste in Diagnosis & Treatment businesses was partially caused by the removal of obsolete components and two newly acquired reporting sites. The exclusion of Lumileds and Automotive had a downward impact on total waste of 6.2 kilotonnes.

Philips Group
Total waste in kilotonnes
 2012 - 2016

	2012	2013	2014	2015	2016
Personal Health	14.6	13.2	13.1	13.8	14.3
Diagnosis & Treatment	7.4	6.7	6.8	8.0	9.2
Connected Care & Health Informatics	1.1	1.1	1.2	1.4	1.4
Lighting	57.5	54.9	53.9	45.3	39.9
Continuing operations	80.6	75.9	75.0	68.5	64.8
Discontinued operations	7.0	16.1	5.4	6.4	6.2
Philips Group	87.6	92.0	80.4	74.9	71.0

Total waste consists of waste that is delivered for landfill, incineration or recycling. Materials delivered for recycling via an external contractor comprised 54 kilotonnes, which equals 83% of total waste, comparable to 2015. Of the 17% remaining waste, 81% comprised non-hazardous waste and 19% hazardous waste. A total of 6.1 kilotonnes of waste was sent to landfill. Our sites are addressing both the recycling percentage as well as waste sent to landfill as part of both the new Royal Philips and Philips Lighting sustainability programs.

Philips Group
Industrial waste delivered for recycling in %
 2016



Emissions

In the 'Healthy people, sustainable planet' program, Royal Philips included new reduction targets for the substances that are most relevant for its businesses. In order to provide comparable information at Group level, please find the summary of the emissions of the formerly targeted substances below. Emissions of restricted substances reduced from 26 kilos in 2015 to 7 kilos in 2016, mainly caused by one site in China which phased out a thinner containing benzene. For the fourth year in a row, mercury emissions at Lighting were as low as reasonably achievable, according to our assessment. The level of emissions of hazardous substances decreased from 25,101 kilos to 12,412 kilos in 2016 (-51%), mainly driven by changes in the lacquering process and product mix in the Personal Health businesses.

Philips Group
Restricted and hazardous substances in kilos
 2012 - 2016

	2012	2013	2014	2015	2016
Restricted substances	67	37	29	26	7
Hazardous substances	67,530	35,118	28,310	25,101	12,412

For more details on emissions from substances, please refer to [sub-section 12.4.3, Sustainable Operations](#), of this Annual Report.

Content you didn't download

2.4 Proposed distribution to shareholders

12 Sustainability statements

12.1 Approach to sustainability reporting

Philips has a long tradition of sustainability reporting, beginning with our first environmental Annual Report published in 1999. This was expanded in 2003, with the launch of our first sustainability Annual Report. As a next step, in 2008, we decided to publish an integrated financial, social and environmental report. For more information, please refer to the [company's website](#).

This is our ninth annual integrated financial, social and environmental report which has been prepared in line with the International Integrated Reporting Council (IIRC) Integrated Reporting (IR) framework and includes a visualization of our [value creation](#) process.

Philips Lighting's results are consolidated in this report but are also available in their Annual Report.

Royal Philips and Philips Lighting publish their integrated Annual Report with the highest (reasonable) assurance level on the financial, social and environmental performance. With that overall reasonable assurance level Philips is a frontrunner in this field.

12.1.1 Tracking trends

We follow external trends continuously to determine the issues most relevant for our company and 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 Economic Forum, World Health Organization, and the World Business Council for Sustainable Development (WBCSD). Our work also involves tracking topics of concern to governments, non-governmental organizations (NGO), regulatory bodies, academia, and following the resulting media coverage.

12.1.2 Stakeholders

We derive significant value from our diverse stakeholders across all our activities and engage with, listen to and learn from them. Working in partnerships is crucial in delivering on our vision to make the world healthier and more sustainable through innovation. We incorporate their feedback on specific areas of our business into our planning and actions. In addition, we participate in meetings and task forces as a member of organizations including the World Economic Forum, WBCSD, Electronic Industry Citizenship Coalition (EICC), the Ellen MacArthur Foundation, and the European Partnership for Responsible Minerals.

A multi-stakeholder project with the Sustainable Trade Initiative (IDH), a number of NGOs, and electronics companies was started in 2011 and expanded in 2014 and 2015 to include suppliers in the Yangtze river delta. The program focuses on improving working conditions 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 as well as a variety of investors and analysts.

Our sustainability e-mail account (philips.sustainability@philips.com) enables stakeholders to share their issues, comments and questions with the sustainability team. The table below provides an overview of the different stakeholder groups, examples of those stakeholders and the topics discussed, used for our materiality analysis.

Stakeholder overview (non-exhaustive)

	Examples	Processes
Employees	<ul style="list-style-type: none"> - European Works Council - Individual employees 	Regular meetings, quarterly My Accelerate! Surveys, employee development process, quarterly update webinars. For more information refer to section 2.2, Social performance , of this Annual Report.
Customers	<ul style="list-style-type: none"> - Hospitals - Retailers - Consumers 	Joint (research) projects, business development, Lean value chain projects, consumer panels, Net Promoter Scores, Philips Customer Care centers, Training centers, social media
Suppliers	<ul style="list-style-type: none"> - Chinese suppliers in the Supplier Development program - HP, Randstad 	Supplier development activities (including topical training sessions), supplier forums, supplier website, participation in industry working groups like COCIR and EICC. For more information refer to sub-section 12.3.8, Supplier indicators , of this Annual Report.
Governments, municipalities, etc.	<ul style="list-style-type: none"> - European Union - Authorities in Indonesia, Singapore 	Topical meetings, annual Innovation Experience, research projects, policy and legislative developments, business development
NGOs	<ul style="list-style-type: none"> - UNICEF, International Red Cross - Friends of the Earth, Greenpeace 	Topical meetings, cross-segment (multi-stakeholder) projects, joint (research) projects, social investment program and Philips Foundation
Investors	<ul style="list-style-type: none"> - Mainstream investors - ESG investors 	Webinars, roadshows, capital markets day, investor relations and sustainability accounts

12.1.3 Reporting standards

We have prepared the integrated annual report in line with the International Integrated Reporting Council (IIRC) Integrated Reporting [framework](#).

For the sustainability information included in the integrated annual report we followed the Global Reporting Initiative (GRI) Standards-Option Comprehensive. A detailed overview of the GRI Comprehensive indicators can be found in the GRI content index on our [sustainability website](#). Next, we developed additional company specific indicators. The information on definition and measurement can be found in this chapter.

We signed on to the United Nations Global Compact in March 2007 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.

At the World Economic Forum in January 2017 Philips signed the Compact for [Responsive and Responsible Leadership](#). The Compact is an initiative to promote and align the long-term sustainability of corporations and the long-term goals of society, with an inclusive approach for all stakeholders.

We use this report to communicate on our progress towards the relevant Sustainable Development Goals (SDGs), in particular SDG 3 (“Ensure healthy lives and

promote well-being for all at all ages”) and SDG 12 (“Ensure sustainable consumption and production patterns”). Please refer to [sub-section 12.3.7, Stakeholder Engagement](#), of this Annual Report for more details.

More information about Philips Lighting’s commitments to the SDGs can be found in their Annual Report.

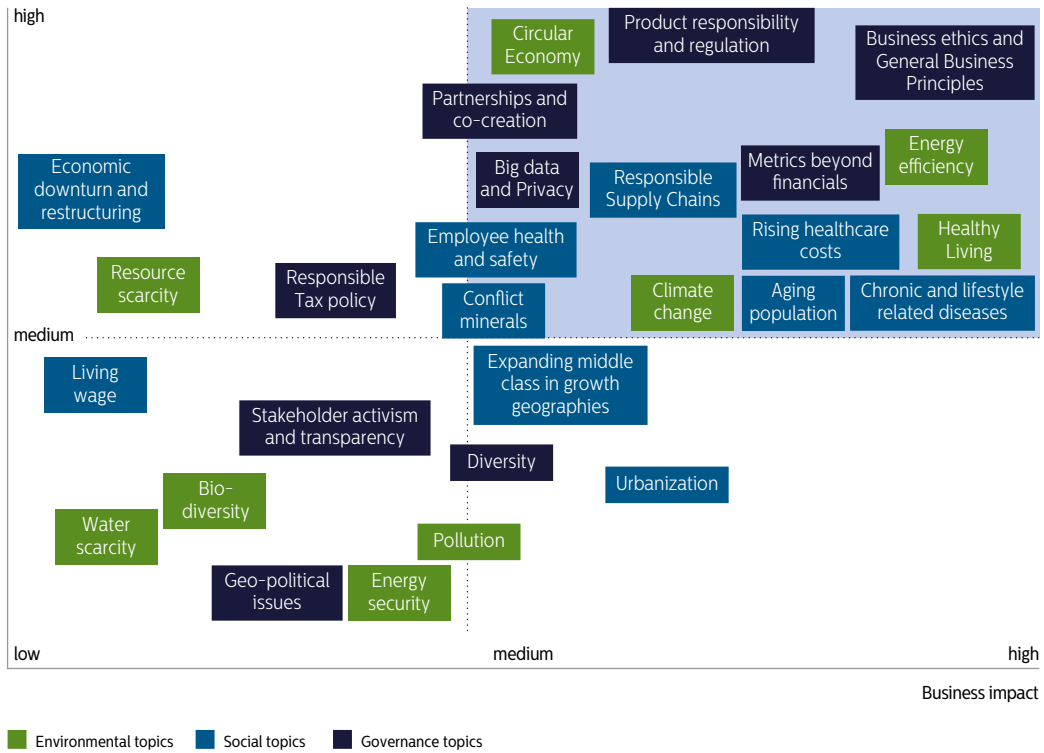
12.1.4 Material topics and our focus

We identify the environmental, social, and governance topics which have the greatest impact on our business and the greatest level of concern to stakeholders along our value chain. Assessing these topics enables us to prioritize and focus upon the most material topics and effectively address these in our policies and programs.

Our materiality assessment is based on an ongoing trend analysis, media search, and stakeholder input. The results for Royal Philips are reflected in the materiality matrix below. Those for Philips Lighting can be found in the Philips Lighting Annual Report. The scores are based on Philips’ assessment. Our materiality assessment has been conducted in the context of the GRI Sustainable Reporting Standards and the results have been reviewed and approved by the Philips Sustainability Board. As a result of the exclusion of Philips Lighting, a number of aspects have changed in terms of materiality in the table below (compared to 2015), for example, health related aspects have become more material.

Materiality matrix

Importance to Stakeholders



Key material topics

	Reference ¹⁾	Boundaries
Environmental		
- Climate change	chapter 1, Message from the CEO, of this Annual Report section 2.3, Environmental performance, of this Annual Report section 12.4, Environmental statements, of this Annual Report	Supply chain, operations, use phase
- Energy efficiency	sub-section 2.3.1, Green Innovation, of this Annual Report section 2.3, Environmental performance, of this Annual Report section 12.4, Environmental statements, of this Annual Report	Supply chain, operations, use phase
- Circular Economy	sub-section 2.3.1, Green Innovation, of this Annual Report section 2.3, Environmental performance, of this Annual Report sub-section 12.3.8, Supplier indicators, of this Annual Report	Supply chain, operations, use phase

	Reference ¹⁾	
Societal		Boundaries
- Rising healthcare costs	chapter 1, Message from the CEO, of this Annual Report sub-section 3.2.1, About Diagnosis & Treatment businesses, of this Annual Report sub-section 3.3.1, About Connected Care & Health Informatics businesses, of this Annual Report	Use phase
- Healthy Living	chapter 1, Message from the CEO, of this Annual Report sub-section 3.2.1, About Diagnosis & Treatment businesses, of this Annual Report sub-section 3.3.1, About Connected Care & Health Informatics businesses, of this Annual Report sub-section 3.1.1, About Personal Health businesses, of this Annual Report	Use phase
- Chronic and lifestyle related diseases	chapter 1, Message from the CEO, of this Annual Report sub-section 3.2.1, About Diagnosis & Treatment businesses, of this Annual Report sub-section 3.3.1, About Connected Care & Health Informatics businesses, of this Annual Report sub-section 3.1.1, About Personal Health businesses, of this Annual Report	Use phase
- Aging population	chapter 1, Message from the CEO, of this Annual Report sub-section 3.2.1, About Diagnosis & Treatment businesses, of this Annual Report sub-section 3.1.1, About Personal Health businesses, of this Annual Report	Use phase
- Responsible Supply Chains	section 2.2, Social performance, of this Annual Report chapter 12, Sustainability statements, of this Annual Report	Supply chain
- Employee health and safety	sub-section 2.2.6, Health and Safety, of this Annual Report	Supply chain, operations
- Conflict minerals	sub-section 12.3.8, Supplier indicators, of this Annual Report	Supply chain

	Reference ¹⁾	
Governance		Boundaries
- Business ethics and General Business Principles	section 5.5, Compliance risks, of this Annual Report sub-section 2.2.7, General Business Principles, of this Annual Report	Supply chain, operations, use phase
- Partnerships and co-creation	sub-section 3.4.1, About HealthTech Other, of this Annual Report chapter 12, Sustainability statements, of this Annual Report	Supply chain, use phase
- Metrics beyond financials	section 2.2, Social performance, of this Annual Report section 2.3, Environmental performance, of this Annual Report chapter 12, Sustainability statements, of this Annual Report	Supply chain, operations, use phase
- Product responsibility and regulation	section 5.5, Compliance risks, of this Annual Report sub-section 3.1.1, About Personal Health businesses, of this Annual Report sub-section 3.2.1, About Diagnosis & Treatment businesses, of this Annual Report sub-section 3.3.1, About Connected Care & Health Informatics businesses, of this Annual Report	Supply chain, operations, use phase
- Big data and Privacy	section 5.4, Operational risks, of this Annual Report sub-section 3.1.1, About Personal Health businesses, of this Annual Report sub-section 3.2.1, About Diagnosis & Treatment businesses, of this Annual Report sub-section 3.3.1, About Connected Care & Health Informatics businesses, of this Annual Report	Supply chain, operations, use phase

¹⁾ With the exception of section 2.2, Social performance, of this Annual Report, section 2.3, Environmental performance, of this Annual Report, and chapter 12, Sustainability statements, of this Annual Report, the sections and chapters referred to are not included in the scope of the assurance engagement

12.1.5 Programs and targets

Royal Philips HealthTech businesses
Sustainability commitments
2016

	baseline year 2015	target 2020	2016 actual
Lives Improved	2.0 billion	2.5 billion	2.1 billion
Circular revenues	7%	15%	9%
Green revenues	56%	70%	59%
Operational carbon footprint	757 Ktonnes	0 Ktonnes	821 Ktonnes
Operational waste recycling	78%	90%	79%
- Hazardous substances emissions	1,419 kilos	50% reduction	1,099 kilos
- Total Recordable Case (TRC) rate	0.39	0.29	0.37
Supplier Sustainability	33% RSL compliant	85% RSL compliant	59% RSL compliant
Supplier Sustainability ¹⁾	New development program tested	300 companies in development program	93 companies in development program

¹⁾ For more information see sub-section 12.3.8, [Supplier indicators](#), of this Annual Report

With the new 5-year 'Healthy people, sustainable planet' program, new sustainability commitments were introduced, more detailed targets can be found in the respective sections.

More details on the Philips Lighting sustainability program can be found in their 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.

12.1.6 Boundaries of sustainability reporting

Our sustainability performance reporting encompasses the consolidated Philips Group activities in the Social and Environmental Performance sections, 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 reported for each topic on the relevant parts of the value chain. More details are provided in the relevant sections in these Sustainability Statements and in the Philips Lighting Investor Relations [website](#).

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

12.1.7 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.

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 more specific exit information on Philips employees from 2014 onwards.

Until 2016, Philips reported on Green Product sales. Due to the change in our businesses, we changed this in 2016 to Green Revenues, which includes products and solutions (refer to the definition in 12.1.8). Revenues for 2014 and 2015 have been restated to reflect this change.

In 2016, emission factors for CO₂ were not updated. In 2015 however, the emission factor set for consumed electricity was updated to the IEA 2015 publications. Also, the emission factors for natural gas were implemented according to DEFRA (UK Department of Environment, Food and Rural Affairs). Lastly, all scope 3 emission factors for business travel and logistics were updated from a bespoke emission factor set to DEFRA guidance as well. The latter has had an upward effect on our scope 3 emissions, ranging from 15% to 32% in the years 2007-2015.

The emissions of substances data is based on measurements and estimates at manufacturing site level. The figures reported are Philips' best estimate.

The integration of newly acquired activities is scheduled according to a defined integration timetable (in principle, the 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.

In line with the Discontinued operations presentation in the Group financial statements regarding the Lumileds and Automotive business, we have excluded this data from the consolidated Sustainability data. Where the impact of the exclusion was material, we clearly disclosed the impact.

12.1.8 Data definitions and scope

Lives improved and materials

The Key Performance Indicators on 'lives improved' and 'materials' and the scope are defined in the respective methodology documents that can be found at [Methodology for calculating Lives Improved](#). We used opinions from Philips experts and estimates for some parts of the Lives Improved calculations. There is therefore an inherent uncertainty in our calculations. The figures reported are Philips' best possible estimate.

Health and safety

Health and safety data is reported by sites with over 50 FTEs (full-time equivalents) and is voluntary for smaller locations. Health and safety data are reported and validated each month via an online centralized IT tool. As of 2016, the Total Recordable Cases (TRC) rate is defined as a KPI, cases where the injured employee is unable to work one or more days, or had medical treatment or sustained an industrial illness. For data comparability reasons, we also provide the Lost Workday Injury Cases (LWIC) rate, work-related injuries and illnesses that predominantly occur in manufacturing operations and Field Services Organizations where the incident leads to at least one lost workday. Fatalities are reported for staff, contractors and visitors.

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 a 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 2016 were: Brazil, China, India, Indonesia, Mexico, Russia and Ukraine.
- Suppliers of new ventures are included to the extent that the integration process of these ventures has been finalized. The normative integration period is two years after closure of the new venture.

Green Revenues

Green Revenues are revenues generated through products or solutions that offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Circularity and Lifetime reliability. The lifecycle 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 and solutions need to prove leadership in at least one Green Focal Area compared to industry standards, which is defined by a 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 a recognized eco-performance label. Because of different product portfolios, segments have specified additional criteria for Green products and solutions, including product-specific minimum requirements where relevant.

Circular Revenues

Circular Revenues are defined by revenues generated through products and solutions that meet specific Circular Economy requirements, for example by containing at least 30% recycled plastics (Personal Health), where Philips remains the owner, or where the product has been refurbished.

Sustainable Innovation

Sustainable Innovation is the Research & Development spend related to the development of new generations of products and solutions that address the United Nations Sustainable Development Goals 3 ("to ensure healthy lives and promote well-being for all at all ages") or 12 ("to ensure sustainable consumption and production patterns").

Green Innovation

Green Innovation is a subset of Sustainable Innovation and is defined as all R&D activities directly contributing to the development of Green Products and Solutions or Green Technologies; it contributes to SDG 12. This means all products, systems or services that demonstrate a measurable positive impact on energy efficiency (10% or greater than previous products or legal requirements), and preferably also in one or more green focal areas: Circularity, Weight & Materials, Packaging, and Substances. Green Innovation for Lighting is calculated by multiplying the total R&D spend by percentages for sustainable innovation per Business Group (LED 100%, Professionals 95%, Home is 97% and Lamps 15%). These percentages are an assessment of the contribution of R&D projects to sustainable innovation and are calculated based on prior-year innovation budgets. As part of this assessment we applied the assumptions that the prior-year percentages are still applicable for this reporting year and that all innovation in LED and LED-related products and services are considered as sustainable.

Environmental data

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

Internal validation processes have been implemented 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 Sustainable Operations targets.

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

Operational carbon footprint

Philips reports in line with the Greenhouse Gas Protocol (GHGP). The GHGP distinguishes three scopes, as described below. The GHGP requires businesses to report on the first two scopes to comply with the GHGP reporting standards. As per the updated GHGP Scope 2 reporting guidance, from 2015 onward our scope 2 emissions reporting includes both the market-based method and the location-based method. The market-based method of reporting will serve as our reference for calculating our total operational carbon footprint.

- Scope 1 – direct CO₂ emissions – is reported on in full, with details of direct emissions from our industrial and non-industrial sites. 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 CO₂ emissions from non-industrial sites are based on actual data where available. If this is not the case, they are estimated based on average energy usage per square meters, taking the geographical location and building type of the site into account.
- Scope 2 – indirect CO₂ emissions – is reported on in full, with details of indirect emissions from our industrial and non-industrial sites. CO₂ emissions resulting from purchased electricity, steam, heat and other indirect sources are reported in the sustainability reporting system. The indirect emissions of sites not yet reporting are calculated in the same manner as described in Scope 1.
 - The location-based method of scope 2 reporting reflects the average emissions intensity of grids on which energy consumption occurs (using mostly grid-average emission factor data). For this method our emission factors derive from the International Energy Agency (IEA) 2015 and are based on grid averages.
 - The market-based method of scope 2 reporting allows use of an emission factor that is specific to the energy purchased. Emissions intensity of consumed energy can differ based on contractual instruments used. For example, so-called 'green electricity contracts' guarantee the purchaser will be supplied with electricity coming from renewable sources which typically lower emissions per energy unit generated. In the market-based method Philips will account for renewable electricity with an emission factor of 0 grams CO₂ per kWh. All renewable electricity claimed by Philips is sourced from the same energy market where the electricity-consuming operations are located, and is tracked and redeemed, retired, or cancelled solely on behalf of Philips. All certificates were obtained through procurement of Green-e certified Renewable Energy Certificates (RECs) in the United States and European Guarantees of Origin from the Association of Issuing Bodies (AIB) of the European Energy Certificate System (EECS).

- Scope 3 – other CO₂ emissions related to activities not owned or controlled by the Group – is reported on for our business travel and distribution activities.

The Philips operational carbon footprint (Scope 1, 2 and 3) is calculated on a quarterly basis and includes the emissions from our:

- 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, ocean and road transport

All emission factors used to transform input data (for example, amount of tonne-kilometers transported) into CO₂ emissions have been updated from the previously used DEFRA (UK Department for Environment, Food & Rural Affairs) 2007 and bespoke emission factors to the applicable DEFRA 2015 emission factors for each year respectively. The total CO₂ emission resulting from these calculations serve as input for scope 1, 2 and 3.

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 car are based on actual fuel usage and for travel by rental car they are based on distance travelled. Taxis and chauffeur driven cars used for business travel are not included in the calculations. Emissions from business travel by airplane are calculated by the supplier based on mileage flown and emission factors from DEFRA, distinguishing between short, medium and long-haul flights. Furthermore, emissions from air freight for distribution are calculated based on the amount of tonne-kilometers transported between airports (distinguishing between short, medium and long-haul flights), 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.

It is therefore assumed that shipments across over less than 600 km are transported by road and the rest 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. CO₂ emissions from road transport were also calculated based on tonne-kilometers. Return travel of vehicles is not included in the data for sea and road distribution.

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.

The reported 2016 figure is based on My Accelerate Survey in Royal Philips HealthTech businesses. This survey is conducted by Expert Training Systems (ETS). The total score of the employee engagement is an average of quarterly results of the survey. The results are calculated by taking the average of the answered questions of the surveys.

12.1.9 Sustainability governance

Sustainability is strongly embedded in our core business processes, like innovation (EcoDesign), sourcing (Supplier Sustainability Program), manufacturing (Sustainable Operations) and Logistics (Green Logistics) and projects like the Circular Economy initiative.

In Royal Philips, the Sustainability Board is the highest governing sustainability body and is chaired by the Chief Strategy and Innovation Officer and member of the Executive Committee. Three other Executive Committee members sit on the Sustainability Board together with segment 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 employees and at least annually in the Executive Committee and Supervisory Board. Please refer to the Philips Lighting Annual Report to learn about their sustainability governance.

12.1.10 External assurance

EY has provided reasonable assurance on whether the information in [chapter 12, Sustainability statements](#), of this Annual Report and [section 2.2, Social performance](#), of this Annual Report and [section 2.3, Environmental performance](#), of this Annual Report presents fairly, in all material respects, the sustainability performance in accordance with the reporting criteria. Please refer to section 12.5, Assurance report of the independent auditor, of this Annual Report.

12.2 Economic indicators

This section provides summarized information on contributions made 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.

Philips Group
Distribution of direct economic benefits in millions of EUR
2014 - 2016

	2014	2015	2016
Suppliers: goods and services	13,185	14,388	13,904
Employees: salaries and wages	5,018	5,533	5,832
Shareholders: distribution from retained earnings	729	730	732
Government: corporate income taxes	26	239	327
Capital providers: net interest	251	302	327

Total purchased goods and services as included in cost of sales amounted to EUR 13.9 billion, representing 57% of total revenues of the Philips Group. Of this amount, approximately 69% was spent with global suppliers, the remainder with local suppliers.

In 2016, salaries and wages totaled EUR 5.8 billion. This amount is some EUR 300 million higher than in 2015, mainly caused by the increased number of employees and currency effects. See note 6, Income from operations for more information.

Philips' shareholders were given EUR 732 million in the form of a dividend, the cash portion of which amounted to EUR 330 million.

Income taxes amounted to EUR 327 million, compared to EUR 239 million in 2015. The effective income tax rate was lower than the weighted average statutory income tax rate in 2016, mainly due to recognition of deferred tax assets and non-taxable income, largely attributable to favorable tax regulations relating to R&D investments. These effects were partly offset by non-deductible expenses.

For a further understanding, see note 8, Income taxes.

Philips supports global initiatives of the OECD (Organization for Economic Cooperation and Development) and UN (United Nations) to promote tax transparency and responsible tax management, taking into account the interest of various stakeholders, such as governments, shareholders, customers and the communities in which Philips operates. For more information, please refer to [Philips' Tax Principles](#).

12.3 Social statements

In 2016, both Royal Philips HealthTech businesses and Philips Lighting launched their next 5-year sustainability programs. This section provides additional information on (some of) the Social performance parameters reported in [section 2.2, Social performance](#), of this Annual Report.

12.3.1 Building employability

Other programs

At Philips, our vision to offer the best place to work for people who share our passion is not limited to employees on our payroll. In the Netherlands, for example, we run a special employment program, WGP

(Werkgelegenheidsplan, or Philips Employment Scheme), to offer vulnerable groups of external jobseekers a work experience placement, usually combined with training. Since the scheme's launch in 1983, nearly 13,000 people have participated, and around 70% found a regular job after taking part in the program. In 2016, Philips employed 140 people via the WGP program, including 25 people with autism. As we move into 2017, we will continue to offer an environment for all of our people to thrive and grow.

12.3.2 People development

Our talent development focuses on all aspects of the 70:20:10 learning framework.

70% Learning through critical career experiences

Philips is on a multi-year journey to evolve our culture to focus on experience-based career development, giving our people the opportunity to identify and gain the experiences necessary to support our health technology strategy and strengthen their employability. By identifying the roles and experiences critical to our business strategy, we clarify development areas and transferrable skills in support of cross-functional, lateral, traditional, as well as non-traditional career opportunities for our people.

As of 2016, our people are able to view the succession plans in which they are included. In 2017 we will continue on our journey towards an experience-based careers culture through:

- Enabling and empowering our people with real-time, integrated tools and resources to plan and manage their career
- Building awareness of experience-based careers for our people through stories and communications, prioritizing critical roles and capabilities that are directly in support of our health technology strategy
- Facilitated 'gig-board' of extra-curricular roles to increase flexible teaming across organization structures and provide opportunity for further development within existing roles

20% Guidance through coaching and mentoring

In 2016, Philips University launched a program for leaders to help them get the most out of our people, help them grow, and have meaningful career conversations. In 2017 we will drive further initiatives focused on:

- Strengthening the employee-and-manager career partnership with clear accountabilities
- Equipping managers as effective career coaches who will have transparent career dialogues with their team, with differentiated development for deep specialists and broad leaders

10% Learning through formal learning

In 2016, more than 1,900 new courses were made available by Philips University. By year-end, over 86,000 employees had enrolled for courses with

Philips University. In total, some 1.2 million hours were spent on training through Philips University in 2016, with some 580,000 training completions.

12.3.3 Employee volunteering

In North America, the **Philips Cares program** provides ways for employees to work together to improve people's lives by creating healthy, sustainable communities. This can take many forms: from helping a child to excel in math, or providing safety and energy-efficient home improvements for the disadvantaged, to raising awareness about the importance of cardiac health. In 2016 alone, more than 9,500 employee volunteers participated in community outreach projects that suited their needs, schedules, and passions individually as well as through partnerships with organizations such as the American Heart Association, International Medical Equipment Collaborative (IMEC), and the March of Dimes.

Since Q4 2016, all of our employees are now able to take 1 day per year to support charitable endeavors through volunteering. For example, in the Benelux 70 of our people were trained in resuscitation (CPR) by the Dutch Hartstichting (heart foundation), enabling them to provide support in the critical first period of a cardiac arrest.

12.3.4 Health and Safety performance

In 2016, we recorded 174 LWIC, i.e. occupational injury cases where the injured person is unable to work one or more days after the injury. This represents a significant decrease compared with 213 in 2015. The LWIC rate decreased to 0.18 per 100 FTEs, compared with 0.21 in 2015. The number of Lost Workdays caused by injuries decreased by 1,253 days (16%) to 6,728 days in 2016.

Additionally, in 2016, we recorded 395 TRC's, i.e. cases where the injured employee is unable to work one or more days, or had medical treatment or sustained an industrial illness.

In 2016, we focused our efforts not only on traditional process and equipment safety improvements, but also on a proactive cultural transformation through Behavior Based Safety (BBS). BBS requires a fundamental shift in how we think and act about Health and Safety before an injury occurs. Our new company program, based on an internal best practice, was deployed and implemented globally across many factories in 2016 including those in China, Asia Pacific and the USA. We believe this program will continue to drive down our workplace injuries and be a key pillar towards reaching our goal of a 25% reduction in total injuries by 2020.

Philips Group
Lost workday injuries per 100 FTEs
 2012 – 2016

	2012	2013	2014	2015	2016
Personal Health	0.39	0.33	0.16	0.16	0.15
Diagnosis & Treatment	0.22	0.23	0.27	0.20	0.36
Connected Care & Health Informatics	0.16	0.05	0.18	0.16	0.15
<i>HealthTech Other</i>	0.14	0.12	0.11	0.13	0.10
Lighting	0.47	0.42	0.37	0.34	0.22
Continuing operations	0.31	0.27	0.23	0.21	0.18
Discontinued operations	0.55	0.37	0.25	0.27	0.32
Philips Group	0.31	0.28	0.23	0.22	0.19

Philips Group
Total recordable cases per 100 FTEs
 2016

	2016
Personal Health	0.33
Diagnosis & Treatment	0.65
Connected Care & Health Informatics	0.67
<i>HealthTech Other</i>	0.27
Lighting	0.50
Continuing operations	0.41
Discontinued operations	0.44
Philips Group	0.41

Diagnosis & Treatment businesses

In the Diagnosis & Treatment businesses segment Health and Safety showed a decrease in performance in 2016 with 40 LWIC compared to 21 in 2015. The LWIC rate increased to 0.36 compared to 0.20 in 2015. The total number of recordable cases for the Diagnosis & Treatment businesses segment was 73 in 2016.

Connected Care & Health Informatics businesses

Health and Safety performance in the Connected Care & Health Informatics businesses segment continued to improve in 2016 with 5 LWIC in 2016 compared to 6 in 2015. Correspondingly, the LWIC rate decreased to 0.15 in 2016 compared to 0.16 in 2015. This was primarily driven by our global patient monitoring businesses. The total number of recordable cases for the Connected Care & Health Informatics businesses segment was 23 in 2016.

Personal Health businesses

The Personal Health businesses segment showed stable performance in Health and Safety with 21 LWIC in 2016, the same number as in 2015. The LWIC rate improved from 0.16 in 2015 to 0.15 in 2016. The Personal Health businesses segment had 46 recordable cases in 2016.

Lighting

Lighting showed an overall improvement while recording 71 LWIC compared to 119 in 2015. As a result the LWIC rate improved to 0.22 (0.34 in 2015). In 2016, Lighting had 156 reportable cases. Lighting introduced a new safety program in 2015 focusing on preventing injuries.

12.3.5 General Business Principles

A total of 503 concerns were reported over the course of 2016 via the Philips Ethics Line and through our network of GBP Compliance Officers, of which 164 related to Philips Lighting. The previous reporting period (2015) saw a total of 447 concerns, 135 of which related to Philips Lighting. Overall, we saw an increase of 13% in the total number of reports (11% for Royal Philips versus 21% for Philips Lighting).

This is a continuation of the upward trend reported since 2014, the year in which Philips updated its General Business Principles and deployed the related communication campaign, although the overall increase in the number of complaints reported has slightly declined year-on-year (2015: 14%). We believe this trend is in line with our multi-year efforts to encourage our employees to speak up, and we are now approaching a normalized level of reported concerns annually. The relatively larger increase in the number of concerns that relate to Philips Lighting is expected to relate, at least in part, to the separation event and the related corporate activities.

The upward trend in the number of concerns can primarily be attributed to significantly more concerns being reported in the North American (NA) region, making up 38% of the total number of reports in 2016 (2015: 31%). The number of concerns reported in Latin America once again declined year-on-year to 19% of the total number of complaints, compared with 25% in 2015. In percentage terms, Europe, Middle East & Africa (EMEA) and Asia Pacific (APAC) remained quite stable, representing 20% and 23% of the total number of complaints respectively (2015: 21% and 20%).

In keeping with a trend that became visible in 2015, we again saw a more even distribution in reporting across the four regions. While the Americas were historically dominant in terms of number of cases reported, EMEA and APAC have now reached the same level as Latin America. We believe this to be as a result of significant communication efforts in addition to our Global GBP Communications campaign, especially in the APAC region, improving employees' awareness of their rights with regard to the GBP, and the reporting facilities available to them.

Philips Group
Breakdown of reported GBP concerns in number of reports
 2013 - 2016

	2013	2014	2015	2016
Health & Safety	3	10	9	16
Treatment of employees	203	203	242	276
- Collective bargaining	5	-	-	2
- Equal and fair treatment	80	72	44	73
- Employee development	4	-	2	15
- Employee privacy	1	3	8	4
- Employee relations	5	6	-	20
- Respectful treatment	84	93	111	107
- Remuneration	15	11	9	11
- Right to organize	-	-	-	-
- Working hours	3	5	2	8
- HR other	6	13	66	36
Legal	9	30	35	32
Business Integrity	109	110	138	144
Supply management	5	6	6	13
IT	6	7	4	10
Other	-	27	13	12
Total	335	393	447	503

Most common types of concerns reported

Treatment of employees

As in previous years, the most commonly reported type of concern related to the category Treatment of employees. In 2016 there were 276 reports in this category, compared to 242 in 2015. This represents 55% of the total number of concerns, which is a slight increase from 2015 (54%).

Two subcategories, Respectful treatment and Equal and fair treatment, make up just over 65% of the concerns related to Treatment of employees. The Respectful treatment category generally relates to concerns about verbal abuse, (sexual) harassment, and hostile work environments. Equal and fair treatment primarily addresses favoritism, and matters of discrimination and unfair treatment in the workplace. 79% of the cases in these categories originated from the Americas, which is slightly more than in 2015 (76%).

Business integrity

The second most reported type of concern relates to Business Integrity, which made up 29% of the total cases reported. This is slightly less than in 2015, when the percentage was 31%. These concerns originated from the APAC region (45%), followed by EMEA (33%), Latin America (14%) and North America (8%).

Substantiated/unsubstantiated concerns

Of the 503 cases reported in 2016, 137 are still pending closure, in particular those that were filed towards the end of the year. The table below gives an overview of the number of reported concerns that were substantiated (i.e. found to constitute a breach of our General Business Principles) by the subsequent investigation.

Of the 366 reports investigated (267 in 2015), 115 were substantiated, which represents 31% of the total reported and closed (34% in 2015). This is also shown in the table below. Notably, while in 2015 39% of the Treatment of employee cases were substantiated, this percentage dropped to 28% in 2016 (2014: 22%, 2013: 20%). On the other hand, 40% of the Business Integrity reports were closed as substantiated in 2016, compared with 21% in 2015 (2014: 36%, 2013: 50%).

In addition to the above, 174 concerns that were still open at the end of 2015 were closed during 2016. 37% of these concerns were substantiated after investigation.

Of the 179 closed concerns that were substantiated, 100 were followed up with disciplinary measures varying from termination of employment and written warnings to training and coaching. In other cases, corrective action was taken, which varied from strengthening the business processes to increasing awareness of the expected standard of business conduct.

12.3.6 The Philips Foundation

The Philips Foundation was established in 2014 and is a registered charity that strives to improve the lives of people in communities in need. The Philips Foundation seeks to make use of the expertise of partners, visionaries and innovators and the innovation capabilities of Philips to create lasting impact. In 2016, the Philips Foundation continued to build its portfolio of projects and partners in the areas of community

Philips Group
Classification of the new concerns investigated in number of reports
 2014 - 2016

	2014		2015		2016	
	substantiated	unsubstantiated	substantiated	unsubstantiated	substantiated	unsubstantiated
Health & Safety	1	7	3	4	3	4
Treatment of employees	32	112	62	95	64	164
Legal	4	9	4	9	5	14
Business Integrity	25	45	16	62	38	56
Supply Management	1	-	-	1	1	7
IT	2	-	-	2	1	3
Other	4	18	1	8	3	3
Total	69	191	86	181	115	251

development and social entrepreneurship, as well as in our approach towards disaster relief. Royal Philips and Philips Lighting supported the program of the Philips Foundation with a donation of EUR 10 million in 2016 and provided the operating staff, payment in-kind and the expert support of skilled employees who support the Foundation's program for part of their time.

A highlight of the year was the launch of a partnership with Ashoka, one of the world's largest networks of social entrepreneurs, that identifies and invests in social entrepreneurs helping them to bring their ideas for solving social problems to scale. Through a six month 'globalizer' program, 12 social entrepreneurs were supported by advisory teams – involving 24 Philips volunteers to build their impact scaling plan. This culminated in a three-day summit where the social entrepreneurs were able to pitch their impact plans to a large group of senior experts, such as social investors, public sector representatives and Philips executives.

We additionally worked on strengthening our partnerships with the Red Cross and UNICEF. The partnership with the Red Cross focuses on exploring innovations that could assist in providing immediate relief to people in regions affected by humanitarian crises including natural disasters. We are working with the Netherlands Red Cross and the Ivory Coast Red Cross on a project in Ivory Coast to strengthen the resilience of a community in the Bolequin region with a focus on the health of mothers and children. The Philips Foundation and UNICEF have partnered to develop healthcare innovations for the first 1,000 days of children's lives. We are supporting UNICEF's Global Innovation Center and are a lead partner in the Kenya Maker for Maternal, Newborn and Child Health Project in Nairobi, which focuses on developing and deploying solutions that improve access to healthcare for mothers and their children in low-resource settings.

In addition, 36 local projects have been approved to be set up throughout the world. These projects are organized via the local Philips organization and NGO partner and funded by the Philips Foundation. These projects offer employee engagement opportunities including skilled expert volunteering. Employee donations were also a large part of the Philips Foundation's response to the earthquakes in Ecuador, Japan and Italy as well as Hurricane Matthew in the USA. Along with our co-creation projects we were able to respond to disasters around the world via our partnership with the Red Cross and global fundraisers, through which we raised a total of more than EUR 80,000 – a combination of employee donations and foundation matching.

More information about the Philips Foundation, its purpose and scope as well as the Philips Foundation Annual Report 2015 can be found [here](#).

Examples of innovation projects supported by the Philips Foundation

The Philips Foundation, CurArte Foundation and Hospital Vall d'Hebrón teamed up to create '*Imatgina*', an advanced patient-centric initiative in pediatric radiology that aims to improve the experience children have during diagnostic imaging tests. The goal of the initiative is to enhance the experience for children by creating a friendly atmosphere that dispels the uncertainty and fear usually associated with these types of procedures. It is estimated that the project will improve the lives of over 7,000 children on an annual basis.

Every day in rural Uganda, 555 birth complications occur, which lead to the death of over 6,000 Ugandan women a year. Although ultrasound has proven to be instrumental in the early identification of these complications, its high cost and the lack of trained personnel mean that it is not widely available in rural areas. The Philips Foundation and Philips teamed up with Imaging the World (ITW) to identify and implement sustainable business models in the healthcare ecosystem of rural Uganda. Establishing sustainable and increased sources of funding will allow ITW to create new health clinics and impact the lives of an additional 35,000 Ugandan women and babies a year.

12.3.7 Stakeholder Engagement

Our engagements with various partners and stakeholders is essential to our vision of making the world healthier and sustainable through innovation. Some of our partnership engagements are described below.

Global partnerships

World Economic Forum

Philips is proud to continue as a strategic partner and active member of the World Economic Forum (WEF), an independent international organization committed to improving the state of the world by engaging leaders in partnerships to shape global, regional and industry agendas. We supported and participated in a wide range of initiatives and projects through the year – regional WEF events, as well as the participation in International Business Council of the World Economic Forum.

Further to our various engagements with WEF, Frans van Houten has been selected to serve as a Stewardship Board Member of a key WEF initiative on shaping the "Future of Health and Healthcare". The initiative will focus on managing the risk and impact of future epidemics addressing the shortfall in the world's ability to respond to public health emergencies by developing a multifaceted cross-industry, cross-sectorial approach.

Global Alliance for Vaccines and Immunization

Philips and the Global Alliance for Vaccines and Immunization (Gavi), are partnering to improve the quality of immunization data and its collection in primary and community healthcare. The partnership will be piloting the project in Uganda. The goal of the partnership is to gather accurate data which both organizations believe is essential to improve patient outcomes, provide access to care and reduce costs. Good data is key to strengthening health systems around the world.

World Heart Federation

Philips announced a new partnership with the World Heart Federation (WHF) in 2016 to help people better manage their heart health. Aligned with the WHF's 'power your life' campaign, Philips aims to encourage people to take personal responsibility for leading heart-healthy lives and to raise awareness about cardiovascular disease.

Thought leadership

Future Health Index

Philips launched a new report, the Future Health Index (FHI) in 2016, an extensive global study which explores how 13 countries around the world are positioned to meet long-term global health challenges through integration and connected care technologies. The Future Health Index measures readiness to address these challenges by examining perceptions about the accessibility and level of integration of healthcare services, and the adoption of connected care technology throughout national healthcare systems.

Digital transformation of health and care

Philips is a champion of the EU Blueprint on digital transformation of health and care for the ageing society. Philips will continue its engagement in the Blueprint through deploying digital innovation across the EU. We believe that this will contribute to development of value-based care models for the benefit of citizens/patients and sustainability of health systems.

Working on global issues

Sustainable Development Goals

Philips aspires to be a major private sector contributor to the Sustainable Development Goals (SDGs) that were launched during the UN General Assembly in New York in September 2015. The United Nations Sustainable Development Goals 3 ("to ensure healthy lives and promote well-being for all at all ages") and 12 ("to ensure sustainable consumption and production patterns") are drivers and outcomes of sustainable development and Philips is committed to working closely with all relevant stakeholders to develop solutions to address these.

Strengthening primary care and enabling community development

Working in collaboration with the United Nations Population Fund (UNFPA), Royal Philips plans to inaugurate a Community Life Center (CLC) in Mandera, a County in North-Eastern Kenya with one of the world's highest maternal mortality rates - 3,795 per 100,000 live births. The project supported by the County Government of Mandera is the second of its kind in the world; Philips inaugurated the first CLC in Kiambu County, Kenya in 2014. The CLC will deliver crucial primary healthcare and enhance community development in Mandera.

Access to primary healthcare in Africa is a complex and complicated issue, therefore a sustainable solution needs to address a wide range of issues collectively. Issues range from unavailability of qualified healthcare workers to the lack of electricity, water and basic healthcare technology. The creation of the CLC concept enabled Philips to realize its vision to drastically improve primary healthcare in Africa.

Grand Challenges Canada on childhood pneumonia

Philips and Grand Challenges Canada (GCC) are collaborating on an innovative project to aid and improve the diagnosis of childhood pneumonia in low resource settings.

Royal Philips received a repayable grant to scale the manufacturing and distribution of the Philips Children's Automated Respiration Monitor (also known as ChARM) to make it affordable and accessible for community-based health workers in low-resource settings throughout the world. ChARM has the potential to assist community health workers in establishing a more accurate measurement of a sick child's breathing rate to help improve the diagnosis of pneumonia and potentially prevent some of the 922,000 childhood deaths caused by pneumonia each year.

Global Financing Facility

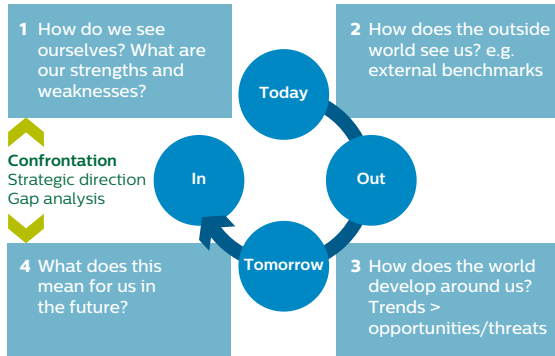
In 2016 Philips committed to supporting the Global Financing Facility (GFF) through our expertise in innovation and our core competencies in growing primary-care capacity. The GFF brings together a broad range of partners to promote the sustainable solutions needed to achieve universal coverage of health care. By creating the right financial and technical conditions for innovation, as a common objective we believe our involvement will achieve greater impact and better health outcomes through collaboration.

12.3.8 Supplier indicators

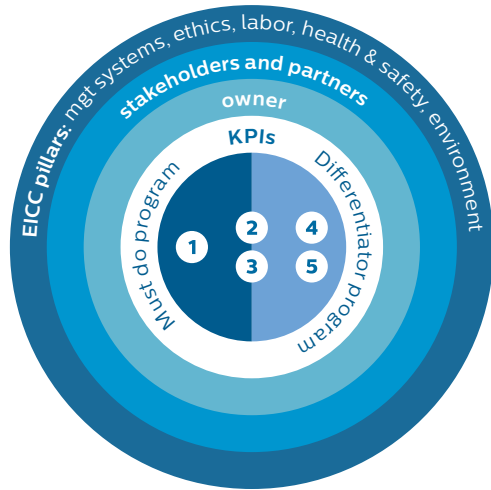
Philips has a direct business relationship with approximately 8,500 product and component suppliers and 22,000 service providers, and in many cases the sustainability issues deeper in our supply chain require us to intervene beyond tier 1 of the chain.

Supplier sustainability strategy

Through a structured annual strategic process combined with a multi-stakeholder dialogue we identified our key focus areas as described below:



This process resulted in 2016 into five strategic programs for our Sustainable Supply Chain:



Key programs

- 1 Supplier sustainability compliance (SSC)
- 2 Supplier sustainability performance (SSP)
- 3 Responsible sourcing (RS)
- 4 Circular procurement (CP)
- 5 Environmental footprint China (EFP)

Enablers

- ONE database and dashboard
- Standardized metrics (KPIs)
- Communication plan
- Multi-stakeholder dialogue
- Industry collaboration
- Training plan
- Risk mapping (BOM, materials, suppliers)

1. Supplier Sustainability Compliance

Two core policy documents form the basis of supplier sustainability compliance: the Supplier Sustainability Declaration (SSD) and the Regulated Substances List (RSL).

Supplier Sustainability Declaration (SSD)

The SSD sets out the standards and behaviors Philips requires from its suppliers. The SSD is based on the Electronics Industry Citizenship Coalition (EICC) Code of Conduct and covers the topics Health & Safety, Labor, Environment, Ethics and Management systems.

Regulated Substances List (RSL)

The RSL specifies which chemical substances are regulated by legislation. Suppliers are required to follow all the requirements stated in the RSL. Substances can either be marked as restricted or declarable.

Following the SSD and RSL, Philips further specifies contractual and transparency requirements. Suppliers are obliged to contractually commit to the SSD and RSL and upon request provide additional information and evidence.

2. Supplier Sustainability Performance (SSP)

Since 2006, our supplier sustainability audits have been executed by third party auditors.

Due to insights gained through a thorough analysis of the audit program and the data it generated in the past 10 years our main conclusions were:

- The audit process consists of a third party audit to verify the SSD compliance, it focuses on closing the identified “Non Conformities” and repeats every 3 years. The frequency of checks is not sufficient and the system does not lead to long lasting improvements of the sustainability performance or compliance rate of our suppliers.
- Training and capacity-building programs are focused on general sharing of information and not necessarily on driving change or improvements. They do not always meet individual supplier needs.
- To secure business continuity, suppliers try to pass the audit with the least possible effort rather than making lasting improvements.
- Years of an audit culture which did not focus on long-lasting improvements has led to audit fatigue due to too many audits demanded by other customers.

Based on the above conclusions, Philips identified a need for change and developed a new “beyond audit” approach which:

- Understands that suppliers may have initial deviations from the SSD and RSL.
- Accepts that suppliers each have their own organizational – and sustainability maturity level and need an individual improvement plan.

- Is continuous and creates a cultural change leading toward long-term improvements.
- Ultimately leads to one-cross-industry standard for supplier sites and will therefore remove the audit burden.

The new SSP approach has been piloted in 2016 on a sample of 93 suppliers in China with the following results:

- 90% of the suppliers completed a Self-Assessment Questionnaire (SAQ), 57% of which were validated by Philips sustainability experts.
- Followed by a site assessment at 20 supplier sites.
- Through joint efforts an improvement Plan (IP) was developed and agreed upon with these 20 suppliers.
- These 20 suppliers started executing the Improvement Plan, while Philips provides support and monitors progress on a regular basis.

The following observations were made after analyzing the first phase of the pilot:

- Higher level of commitment and ownership from suppliers (also at top management level).
- Change in mindset towards continuous improvement and transparency.
- Suppliers are disclosing more areas for improvement than it would be possible to identify through an audit only.
- Suppliers are moving away from quick fixes and towards lasting improvements.

Three key focus areas of SSP

We are primarily focusing on 3 areas: Health and Safety, remuneration and benefits, and workforce turnover.

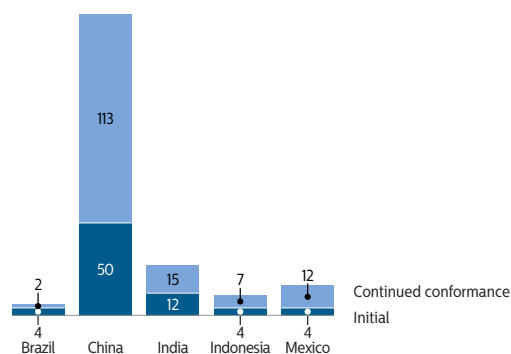
Process Chemicals

Philips is an active member of the EICC project team on process chemicals, for further details on the strategy and approach of this project see the [EICC position paper](#). In addition to this project team we have addressed the topic of process chemicals in the new SSP approach and we aim to identify if and how the manufacturing sites are managing process chemicals.

Summary of 2016 Sustainability Audit Program

In 2016, we audited 226 of our current risk suppliers, including 150 continued conformance audits with suppliers that we had already audited in 2013. As in previous years, the majority of the audits were done in China. With these audits we directly or indirectly impacted almost 180,000 workers employed at the production sites that were audited.

Philips Group
Number of initial and continual conformance audits
2016



On top of the audits with current risk suppliers, we also audited 28 potential suppliers during the supplier selection process. These potential suppliers need to close any zero-tolerance issues before they can start delivering to Philips.

To track improvements Philips measures the 'compliance rate' for the identified risk suppliers, being the percentage of risk suppliers audited within the last 3 years who do not have or have resolved all major NCs. During 2016 we achieved a compliance rate of 90% (2015: 86%).

Audit findings

The table below shows the results of the full scope audits done during 2016; potential suppliers are not included. Most frequent areas of non-compliance in 2016:

- Certified Management System (ISO9001, ISO14001, and OHSAS18001)
- Emergency Preparedness
- Wages and Benefits

Philips Group
Summary of 2016 audit findings per region

	China	Asia excl. China	LATAM	EMEA	Total
No. of audits	163	38	22	3	226
Initial audits	50	16	8	2	76
Continued conformance audits	113	22	14	1	150
Average number of non-compliances per audit	9	20	13	3	12
Workers employed at sites audited	154,309	8,394	14,165	2,295	179,163

More information on the Supplier Sustainability Audit Program can be found [here](#).

3. Responsible Sourcing of Minerals

The supply chains of minerals are long and complex. There are typically 7+ tiers between the end-user companies like Philips and the mines where the minerals are being extracted.

Philips does not directly source minerals from mines in the conflict-affected and high-risk regions, and the supply chain for these metals consists of many tiers, including traders, exporters, smelters, refiners, alloy producers and component manufacturers, before reaching Philips' direct suppliers.

Mining in these regions often takes place in an artisanal form which often means it is informal and unregulated. Artisanal miners can become victims to exploitation by various militia and armed groups. This increases the risk of human rights violations (forced labor, child labor or widespread sexual violence), unsafe working conditions or environmental concerns.

Philips addresses the complexities of the minerals supply chains through a continuous due diligence process combined with multi-stakeholder initiatives for responsible sourcing of minerals.

Responsible Sourcing approach of Philips

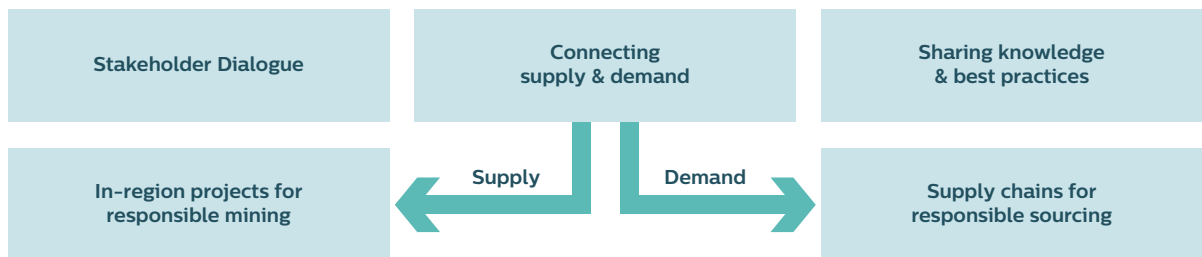
Due diligence approach

OECD Five-Step Framework for Risk-Based Due Diligence in the Mineral Supply Chain



Multi-stakeholder initiatives

Working together with other stakeholders to apply leverage



Conflict minerals due diligence

Philips annually investigates its supply chain to identify smelters of tin, tantalum, tungsten and gold in its supply chain and we have committed not to purchase raw materials, subassemblies, or supplies which are found to contain conflict minerals.

Philips applies collective cross-industry leverage through active engagement via Conflict Free Sourcing Initiative (CFSI). The Conflict-Free Smelter Program (CFSP) identifies smelters that can demonstrate through an independent third-party audit that the minerals they procure are conflict free. Philips is actively directing its supply chain towards these smelters. See www.conflictreesmelter.org for more details.

The Philips Conflict Minerals due diligence framework, measures and outcomes are described in the Conflict Minerals Report that we file annually with SEC. The Report is audited by an independent third party and made publicly available on Philips' [website](#).

Multi-stakeholder initiatives for responsible sourcing of minerals

We believe that a multi-stakeholder collaboration in responsible sourcing of minerals is the most viable approach in addressing the complexities of minerals value chains.

European Partnership for Responsible Minerals (EPRM)

EPRM is a five-year multi-stakeholder partnership between governments, companies, and civil society actors working toward more sustainable minerals

supply chains. Philips became a strategic, founding partner of EPRM in May 2016, being the first representative of the private sector to join the initiative.

Tin mining in Indonesia

Indonesia produces roughly one-third of the world's tin supply, of which the vast majority comes from the islands Bangka and Belitung.

In 2015, a Roadmap to sustainable tin mining was created in collaboration with the local industry and government, defining improvement areas for onshore land reclamation and offshore low-impact mining.

In 2016, the first implementation pilot projects of the Roadmap were kicked off, governed by the local steering committee.

Dutch Covenant on Gold

Leaders of different industries using gold in The Netherlands together with the Dutch government and NGOs look for ways to make gold supply chains more responsible. Through 2016, the group has engaged in knowledge sharing to understand all specifics of the gold supply chain and to identify the right approach for the parties to address the most severe issues.

Mica Working Group

Mica is mainly used as a pearlescent pigment in coatings and cosmetics, and in the electronics sector it is used as an electrical insulator.

In 2016, Terre des Hommes in collaboration with SOMO published a report "[Beauty and a Beast](#)" which showed the widespread problem in the mica industry in Jharkhand/Bihar (India) and gaps in the due diligence of end user companies.

Philips decided to team up with Terre des Hommes in order to bring other mica users from all industries together to start a Mica Working Group with Terre des Hommes, Philips, the Dutch Ministry of Foreign Affairs and a group of 15 companies.

"Terre des Hommes Netherlands is pleased to partner with Philips in order to set up the Mica Working Group. Our report "[Beauty and a Beast, child labor in India for sparkling cars and cosmetics](#)" shows the challenges of mica mining and the need for immediate interventions. Philips became aware of the issue and immediately demonstrated its leadership in CSR by taking the initiative to bring partners from various industries together. Philips' engagement in other responsible sourcing initiatives definitely supported the Mica Working Group to move forward. We are confident that this multi-stakeholder initiative will lead to a transparent, traceable and child labor free mica supply chain"

Terre des Hommes
NGO

4. Circular Procurement

Philips' ambition is to increase its circular value proposition and it has set a 2020 target of 15% circular revenues. Procurement can play a leading role in Philips' transition towards a circular economy in order to achieve the 2020 target or even exceed this.

Topics where Procurement is actively involved are:

- Circular procurement in the procurement policy. The next step is to define a circular procurement strategy and a clear long-term ambition.
- The implementation of a governance structure beyond the procurement organization to cover the whole value chain is part of the internal Circular Economy Excellence network.
- Execution of an analysis of internal and external circular service models to improve collaboration.

"In 2016 Philips and HP have further strengthened their business relationship by specifying and delivering an IT pay-per-device model which will cover more than 100,000 IT assets across 50 countries. This device-as-a-service solution supports both companies' efforts towards a shared circular economy. Philips stands out in truly understanding the importance of managing its IT requirements in order to realise both maximum value and minimize environmental impact from IT products. HP is proud to be Philips' partner of choice for IT asset management and will continue to collaborate on shared circular economy objectives."

Dr. Kirstie McIntyre
HP Social and Environmental Responsibility
Director

HP Case Study

Philips has used HP Asset Recovery Services since 2011 to comprehensively manage end of life IT assets worldwide, with data wiping, remarketing and recycling to mitigate security and privacy risk and ensure compliance. Over that time HP Asset Recovery Services have managed 80,000 assets across 24 countries, remarketing 90% of them.

5. Environmental Footprint China

In order to minimize our impact, we are supporting our Chinese suppliers to reduce their environmental footprint and at the same time to contribute to Philips' sustainability strategy.

Achievements in 2016

- Environmental footprint training for 120 suppliers by Philips Supplier Sustainability team.
- Philips actively participated in the Sino-Dutch Sustainable Supply Chain Management Program held by the Dutch Consulate in Zhejiang and Jiangsu province.
- Customer engagement (Starbucks) the supplier has established a new waste water treatment facility to ensure waste water discharging in accordance with regulatory requirements.
- Environmental footprint data reported for improving performance by 20 suppliers as part of the SSP on-site development.
- Energy savings via Supplier Development program - energy savings will be achieved upon implementation of the identified improvement actions.

Collaboration with IPE, a Chinese NGO

The Institute of Public and Environmental Affairs (IPE) is a registered non-profit organization based in Beijing. IPE has developed two pollution databases (water and air) to monitor corporate environmental performance and to facilitate public participation in environmental governance. For more information please refer to IPE website.

SA is a Philips supplier located in Shenzhen. In April 2016, environmental issues were identified in the waste water discharge system of this supplier. This was reported via the IPE Pollution Map.

Philips experts immediately contacted the supplier account manager, an IPE expert and the supplier to identify the root-cause and work out an improvement plan. With multi-stakeholder engagement, SA had the IPE Green Choice Alliance audit and closed the issue with 50 environmental protection NGOs as witnesses.

12.4 Environmental statements

This section provides additional information on (some of) the environmental performance parameters reported in [section 2.3, Environmental performance](#), of this Annual Report.

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12.4.1 Circular Economy

12.4.2 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.

The Philips Biodiversity policy was issued in 2014 and progress was made on biodiversity management, both on sites (e.g. impact measurement), on natural capital valuation and at management level. Most initiatives were led by the environmental coordinators at our sites, for example at our Best and Drachten sites in The Netherlands, which serve as role models on the topic of biodiversity.

Philips participated in 2015 in the development of the Natural Capital Protocol and volunteered as a pilot company. These activities continued in 2016. The environmental impact of the Royal Philips sites is limited as they are not very energy-intensive and do not emit large quantities of high-impact substances. The impact of our supply chain however is significantly higher than our own impact. For this reason, we used the identified hot-spots in our supply chain as input for

our CDP Supply Chain program. More information on that program can be found in [sub-section 12.3.8, Supplier indicators](#), of this Annual Report.

12.4.3 Sustainable Operations

The Royal Philips HealthTech businesses and Philips Lighting Sustainable Operations programs related to improving the environmental performance of our manufacturing facilities focus on most contributors to climate change, but also address water, recycling of waste and chemical substances.

For an overview of Philips' industrial sites, please visit: [Philips industrial sites](#).

Royal Philips HealthTech businesses
Green Operations
2016

	baseline year 2015	target 2020 ¹⁾	2016 actual
Total CO ₂ from manufacturing	84 Ktonnes	0 Ktonnes	85 Ktonnes
Water	978,500 m ³	10% reduction	963,000 m ³
Zero waste to landfill	3.2 kilotonnes	0 tonnes	2.9 kilotonnes
Operational waste recycling	78%	90%	79%
Hazardous substances emissions	1,419 kilos	50% reduction	1,099 kilos
VOC emissions	169 tonnes	10% reduction	129 tonnes

¹⁾ Against the base year 2015

Energy use in manufacturing

Total energy usage in manufacturing amounted to 8,987 terajoules in 2016, a decrease of 7% compared to 2015. Philips Lighting consumed about 66% of the total and realized a 13% year-on-year reduction, which was mainly driven by a reduction of energy-intensive operations and energy efficiency improvements in the factories. The Connected Care & Health Informatics businesses realized a decrease in energy consumption of 5% due to operational changes. Energy consumption in the Diagnosis & Treatment businesses increased by 8%, which was mainly due to the inclusion of two newly acquired sites. In the Personal Health businesses, site expansions and changed demand caused an increase in energy consumption, which was partly offset by energy efficiency improvements. The energy of discontinued operations amounted to 2,231 terajoules in 2016 (2015: 2,179 terajoules).

Philips Group
Total energy consumption in manufacturing in terajoules
2012 – 2016

	2012	2013	2014	2015	2016
Personal Health	1,329	1,369	1,352	1,389	1,436
Diagnosis & Treatment	1,248	1,238	1,202	1,214	1,316
Connected Care & Health Informatics	325	329	334	336	318
Lighting	9,112	9,027	8,369	6,763	5,917
Philips Group	12,014	11,963	11,257	9,702	8,987

Operational carbon footprint and energy efficiency – 2016 details

Becoming carbon-neutral in our operations by 2020 is one of the key targets, after already reducing our operational carbon footprint very significantly during the past years (40% decrease in CO₂ emissions in 2015 compared to our 2007 base year). Our carbon footprint decreased by 5% compared to 2015, resulting in a total of 1,344 kilotonnes CO₂.

The 2016 results can be attributed to several factors:

- Accounting for 24% of the total footprint, total CO₂ emissions from manufacturing decreased by 17% due to operational changes resulting in decreased energy usage and a lower load (mainly in Philips Lighting); additionally the share coming from renewable sources increased.
- CO₂ emissions from non-industrial operations (offices, warehouses, etc.), representing 8% of the total emissions, increased this year due to increased overall floor space in our non-industrial real estate portfolio. This resulted in a 3% carbon emission increase compared to 2015. In 2017, we will continue to focus on the most efficient use of facility space and increase the share of purchased electricity from renewable sources.
- The total CO₂ emissions related to business travel, accounting for 14% of our carbon footprint, showed a decrease of 4% compared to 2015. The reductions achieved with business flights and our lease cars was partially mitigated by an increase in our rental car emissions.
- Overall CO₂ emissions from logistics, representing 53% of the total, showed no overall change compared to 2015. We recorded an increase in emissions from air and road freight in Royal Philips, which was mitigated by a decrease in Philips Lighting. This increase in air freight combined with reduced emissions from parcel, road and ocean freight resulted in no overall change in our logistics emissions.

Philips Group
Operational carbon footprint for logistics
in kilotonnes CO₂-equivalent
2012 – 2016

	2012	2013	2014	2015	2016
Air transport	366	385	348	429	448
Road transport	169	174	164	118	117
Ocean transport	210	227	208	171	153
Philips Group	745	786	720	718	718

Carbon emissions in manufacturing

The greenhouse gas emissions of our manufacturing operations totaled 323 kilotonnes CO₂-equivalent in 2016, 13% lower than in 2015. This was the result of decreased energy usage in manufacturing and operational changes. Direct CO₂ emissions represented 56% of the total, which decreased by 10%. Indirect CO₂ emissions represented 38%, an decrease of 18% due to lower electricity consumption. The carbon emissions of

discontinued operations amounted to 175 kilotonnes CO₂-equivalent in 2016 (2015: 145 kilotonnes CO₂-equivalent).

Philips Group
Total carbon emissions in manufacturing
in kilotonnes CO₂-equivalent
2012 - 2016

	2012	2013	2014	2015	2016
Direct CO ₂ ¹⁾	278	276	253	200	181
Indirect CO ₂	252	208	185	148	122
Other greenhouse gases	6	7	6	6	4
From glass production	27	27	24	17	16
Philips Group²⁾	563	518	468	371	323

¹⁾ From energy

²⁾ Excluding non-reporting industrial sites therefore different from Operational carbon footprint

Philips Group
Total carbon emissions in manufacturing per segment
in kilotonnes CO₂-equivalent
2012 - 2016

	2012	2013	2014	2015	2016
Personal Health	54	50	45	49	59
Diagnosis & Treatment	52	35	31	28	22
Connected Care & Health Informatics	14	9	8	7	4
Lighting	443	424	384	287	238
Philips Group	563	518	468	371	323

CO₂ emissions decreased significantly at Philips Lighting due to reduced energy usage resulting from operational changes and energy efficiency improvements. Emissions at the Diagnosis & Treatment businesses decreased due to an increase in use of electricity generated by renewable sources, partially offset by two newly acquired sites. The Connected Care & Health Informatics businesses segment decreased its CO₂ emissions due to lower energy consumption. At the Personal Health businesses, CO₂ emissions increased due to a decrease in the use of electricity generated by renewable sources. In December 2016, the Los Mirasoles windfarm in the US started to produce electricity. As a result, all our US operations will be powered by wind energy in 2017, a clear step towards our ambition to become carbon-neutral in our operations by 2020.

Hazardous substances emissions

In the 'Healthy people, sustainable planet' program, new chemical reduction targets have been defined, on the most relevant categories of substances for Royal Philips, being hazardous substance emissions as well as VOC (Volatile Organic Compounds) emissions. As part of the deployment of the new program, reduction targets at our industrial sites are being agreed. For more information on Philips Lighting's emissions please refer to their Annual Report.

Royal Philips HealthTech businesses
Hazardous substances emissions in kilos
2015 - 2016

	2015	2016
Personal Health	789	642
Diagnosis & Treatment	604	428
Connected Care & Health Informatics	26	29
HealthTech	1,419	1,099

In 2016, emissions of hazardous substances decreased by 23%, mainly caused by reduced usage of harmful chemicals at a Diagnosis & Treatment businesses site and a Personal Health businesses site and changing processes at multiple sites in all segments.

VOC emissions

Royal Philips HealthTech businesses
VOC emissions in tonnes
2015 - 2016

	2015	2016
Personal Health	138	92
Diagnosis & Treatment	29	35
Connected Care & Health Informatics	2	2
HealthTech	169	129

VOC emissions reduced significantly in 2016 (by 24%) to 129 tonnes. This decrease was mainly driven by a number of industrial sites in the Personal Health businesses segment, which changed their lacquering processes, as well as changes in the product mix. This was slightly offset by the inclusion of two newly acquired industrial sites in the Diagnosis & Treatment businesses segment.

ISO 14001 certification

Most of the Royal Philips manufacturing sites are certified under the umbrella certificates for the Diagnosis & Treatment, Connected Care & Health Informatics and Personal Health businesses segments. Philips Lighting also has an umbrella certificate. In 2016, 82% of reporting manufacturing sites were certified, a 4% increase compared to 2015. Two sites were newly certified this year in the Personal Health businesses segment, and the two sites in the Diagnosis & Treatment businesses segment that started to report were not yet certified.

Philips Group
ISO 14001 certification as a % of all reporting organizations
2012 - 2016

	2012	2013	2014	2015	2016
Philips Group	69	79	79	78	82

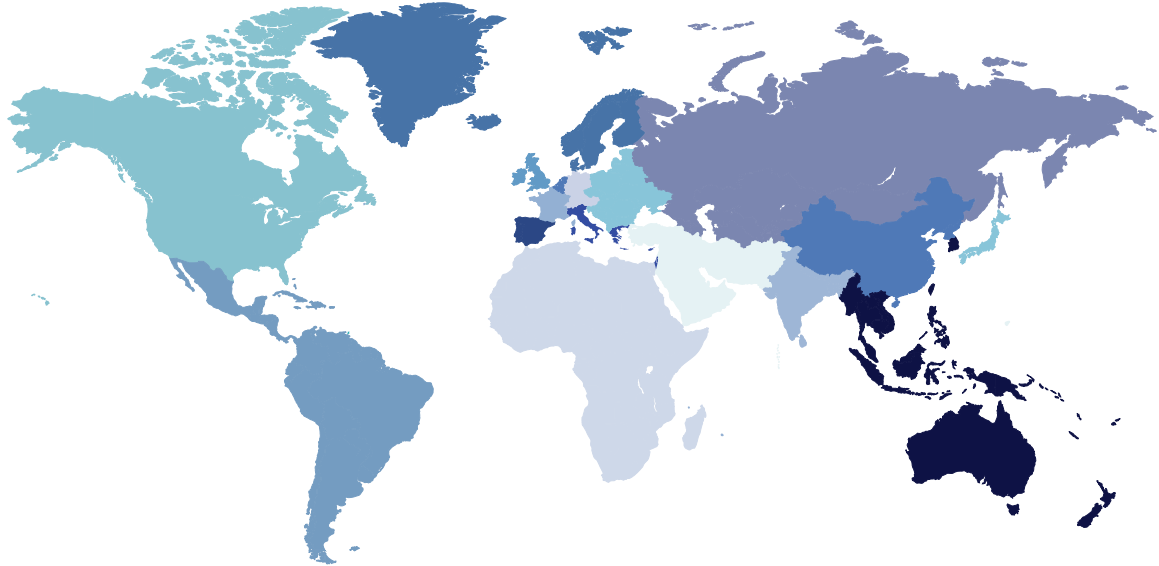
Environmental incidents

In 2016, the Personal Health businesses reported one environmental incident with noise and four non-compliances. One was related to noise, followed by a technical project to meet the requirements; two were related to waste water and storm water permits which were followed-up by corrective actions; and one administrative incident was related to waste. The Diagnosis & Treatment businesses reported one

environmental incident with an oil spill which did not result in soil pollution. The Connected Care & Health Informatics businesses reported one environmental non-compliance which was related to waste water. Philips Lighting did not experience any environmental incidents but reported four non-compliances, of which one resulted in a non-material fine (manufacturing site exceeding the usage limit of its emergency generator).

Sustainability world map

To find out about our Health and Safety, Waste, Water and Emissions metrics at global, regional and market level, go to <https://www.results.philips.com/#!/interactive-worldmap>



Philips Group Market	Manufacturing sites	Total recordable case rate ¹⁾	CO ₂ emitted (Tonnes CO ₂)	Total waste		Water (m ³)	Emissions ²⁾	
				Waste (Tonnes)	Recycled (%)		Hazardous substances (kg)	VOC (Tonnes)
Africa	-	0.00	-	-	-	-	-	-
ASEAN and the Pacific	1	0.12	21,307	1,463	91%	74,738	5	25
Benelux	6	0.22	10,757	8,726	80%	235,372	157	12
Central & Eastern Europe	7	0.30	61,274	7,019	81%	243,260	92	20
Germany, Austria and Switzerland	4	0.50	7,616	3,050	89%	53,264	389	6
France	2	0.76	1,284	5,123	95%	182,370	-	-
Greater China	11	0.14	75,592	6,663	90%	977,947	311	27
Iberia	2	0.66	2,398	2,042	82%	47,291	-	-
Indian Subcontinent	5	0.10	65,148	2,552	96%	57,174	6	4
Italy, Israel and Greece	4	0.53	6,829	2,117	76%	22,529	15	5
Japan	-	0.20	-	-	-	-	-	-
Latin America	11	0.35	12,927	8,107	82%	173,474	-	8
Middle East & Turkey ³⁾	3	0.27	-	-	-	-	-	-
Nordics	-	0.20	-	-	-	-	-	-
North America	24	0.94	48,193	16,799	76%	337,998	47	18
Russia and Central Asia	-	0.00	-	-	-	-	-	-
UK & Ireland	2	0.06	9,096	1,102	85%	8,501	77	4

¹⁾ Includes manufacturing and non-manufacturing sites

²⁾ HealthTech

³⁾ Three manufacturing sites did not start to report environmental data yet

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12.5 Assurance report of the independent auditor

15 Definitions and abbreviations

BMC

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

Brominated flame retardants (BFR)

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

CO₂-equivalent

CO₂-equivalent or carbon dioxide equivalent is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO₂ that would have the same global warming potential (GWP), when measured over a specified timescale (generally 100 years).

Circular economy

A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using those resources more effectively. By definition 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 use of materials enables to create more value, both by cost savings and by developing new markets or growing existing ones.

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.

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 100 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 include boilers, computers, televisions, transformers, industrial fans and industrial furnaces.

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 works 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.

Hazardous substances

Hazardous substances are generally defined as substances posing imminent and substantial danger to public health and welfare or the environment.

Income from operations (EBIT)

Income from operations (earnings before interest and tax) represents net income, less discontinued operations net of income taxes, investments in associates net of income taxes, income tax expense, financial income and financial expense.

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. We established our 2012 baseline at 1.6 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.

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 CO₂-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).

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.

REACH

Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) is a European Union regulation dated 18 December 2006. REACH addresses the production and use of chemical substances, and their potential impacts on both human health and the environment.

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.

VOC

Volatile organic compounds (VOCs) are organic chemicals that have a high vapor pressure at ordinary room temperature. Their high vapor pressure results from a low boiling point, which causes large numbers of molecules to evaporate or sublimate from the liquid or solid form of the compound and enter the surrounding air, a trait known as volatility.

Voluntary turnover

Voluntary turnover covers all employees who resigned of their own volition.

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.

16 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. Examples of forward-looking statements include statements made about our strategy, estimates of sales growth, future EBITA and future developments in our 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, developments within the euro zone, 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, and the state of international capital markets as they may affect the timing and nature of the dispositions by Philips of its interests in the Lighting business and the Lumileds and Automotive business.

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 5, Risk management, of this Annual Report.

Third-party market share data

Statements regarding market share, contained in this document, including those regarding Philips’ competitive position, are based on outside sources such as specialized research institutes, industry and dealer panels in combination with management

estimates. Where full-year information regarding 2016 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 audited consolidated financial statements as of December 31, 2016 and 2015, and for each of the years in the three-year period ended December 31, 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective year-end 2016 have been endorsed by the EU, except that the EU did not adopt certain paragraphs of IAS 39 applicable to certain hedge transactions. Philips has no hedge transactions to which these paragraphs are applicable. Consequently, the accounting policies applied by Philips also comply with IFRS as issued by the IASB.

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. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measure and should be used in conjunction with the most directly comparable IFRS measures. Non-GAAP financial measures do not have standardized meaning under IFRS and therefore may not be comparable to similar measures presented by

other issuers. A reconciliation of these non-GAAP measures to the most directly comparable IFRS measures is contained in this document. Reference is made in Reconciliation of non-GAAP information, of this 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).

