

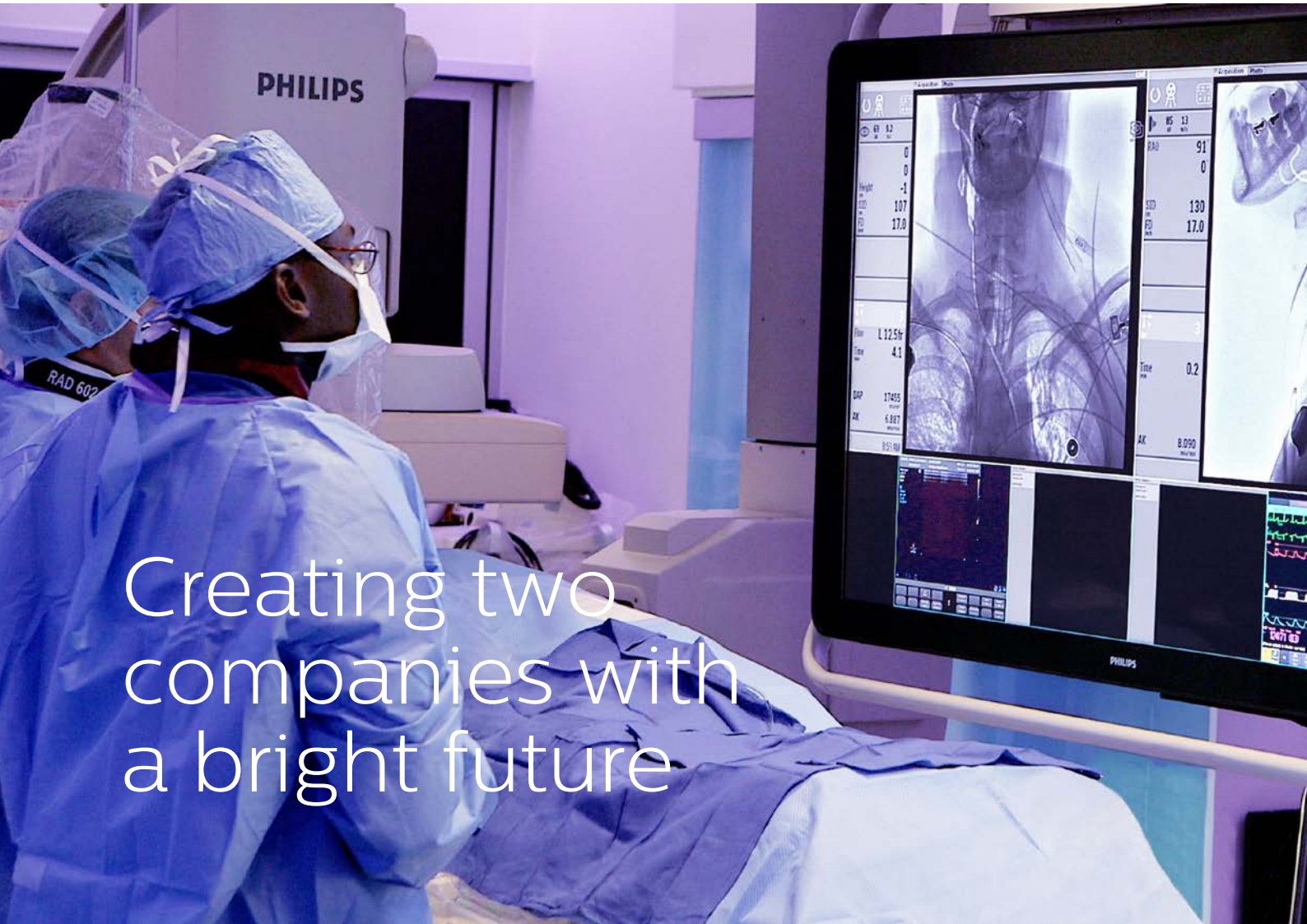


PHILIPS

Annual Report
2015

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 2015. The information in this PDF has been derived from the audited financial statements 2015 of Koninklijke Philips N.V. KPMG has issued unqualified auditors' reports on these financial statements.



Creating two
companies with
a bright future

Contents

IFRS basis of presentation

The financial information included in this document is based on IFRS, as explained in note 1, Significant accounting policies, of this report, unless otherwise indicated.

Dutch Financial Markets Supervision Act

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

Statutory financial statements and management report

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

Significant developments

In September 2014, Philips announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on the HealthTech and Lighting opportunities respectively. We have established a stand-alone structure for Philips Lighting within the Philips Group effective February 1, 2016. We expect to be able to announce the separation of the Lighting business in the first half of 2016, subject to market conditions and other relevant circumstances. As previously stated, we are reviewing all strategic options for Philips Lighting, including an initial public offering and a private sale.

It should however be noted that the completion of the separation could take more time than originally planned or anticipated and that there is no certainty as to the method or timing of the separation of the Lighting business, which may expose Philips to risks of additional cost and other adverse consequences. For further information on specific risks involved in the separation please refer to chapter 7, Risk management, of this Annual Report.

The separation impacts all businesses and markets as well as all supporting functions and all assets and liabilities of the Group. With effect from Q1 2016 onwards Philips plans to report and discuss its financial performance on the basis of different reportable segments than the sectors currently presented and discussed in this Annual Report. For more details on the new segment reporting in 2016 and onwards, please refer to the introduction of chapter 6, Sector performance, of this Annual Report.

As announced on January 22, 2016, the agreement pursuant to which the consortium led by GO Scale Capital would acquire an 80.1% interest in the combined businesses of Lumileds and Automotive, has been terminated. Philips is now actively engaging with other parties that have expressed an interest in the businesses and will continue to report the Lumileds and Automotive businesses as discontinued operations (see note 3, Discontinued operations and other assets classified as held for sale).

Further updates will be provided in the course of 2016.



Philips ArenaVision LED is the world's first LED pitch lighting to meet the stringent requirements of international television broadcasters and sports federations, ensuring a fantastic match experience, both for the fans in the stadium and those watching at home.



Increasingly, Philips is teaming up with hospital and health systems to understand their needs, provide integrated solutions, and engage in multi-year cooperation to drive improvements in terms of patient outcomes, quality of care delivery and cost productivity.

Grey text indicates parts not included in this selection from the Philips Annual Report 2015.

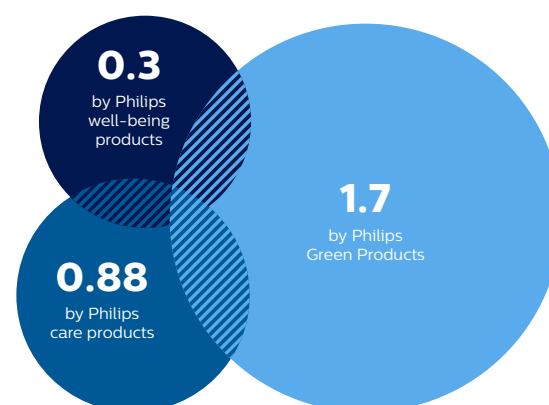
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1 Performance highlights

Philips Group
Key data in millions of EUR unless otherwise stated
 2014 - 2015

	2014	2015
Sales	21,391	24,244
Comparable sales growth	(1)%	2%
EBITA	821	1,372
as a % of sales	3.8%	5.7%
EBIT	486	992
as a % of sales	2.3%	4.1%
Net income	411	659
Net income attributable to shareholders per common share in EUR:		
basic	0.45	0.70
diluted	0.45	0.70
Net operating capital	8,838	11,096
Free cash flow	497	325
Shareholders' equity	10,867	11,662
Employees at December 31	113,678	112,959
continuing operations	105,365	104,204
discontinued operations	8,313	8,755

Philips Group
Lives improved in billions



Total: 2.0 billion (double counts eliminated)

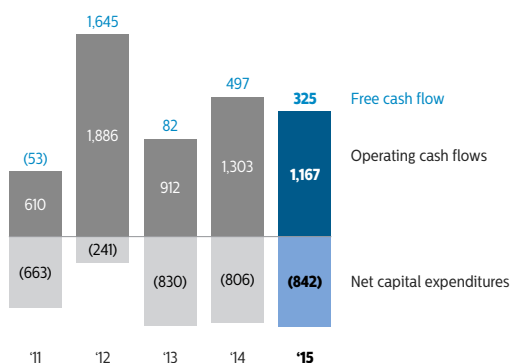
▨ Double counts
 Conceptual drawing, areas do not reflect actual proportions

Performance in millions of EUR unless otherwise stated
 2014 - 2015

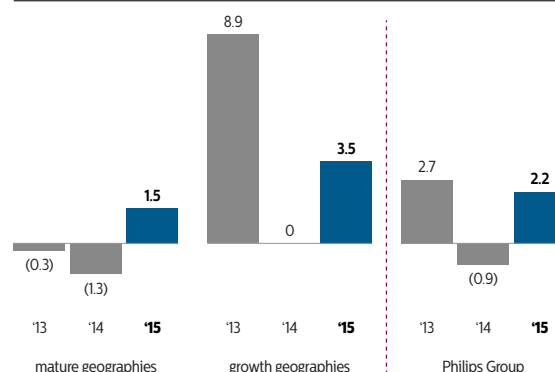
	Group			Healthcare			Consumer Lifestyle			Lighting		
	2014	2015		2014	2015		2014	2015		2014	2015	
Sales	21,391	24,244	13% ▲	9,186	10,912	19% ▲	4,731	5,347	13% ▲	6,869	7,411	8% ▲
Green Product sales	11,065	13,014	18% ▲	3,508	4,580	31% ▲	2,605	3,091	19% ▲	4,952	5,343	8% ▲
Sales in mature geographies ¹⁾	14,004	15,836	13% ▲	6,890	8,207	19% ▲	2,508	2,784	11% ▲	4,182	4,425	6% ▲
Sales in growth geographies ¹⁾	7,387	8,408	14% ▲	2,296	2,705	18% ▲	2,223	2,563	15% ▲	2,687	2,986	11% ▲
EBITA	821	1,372	67% ▲	616	1,024	66% ▲	573	673	17% ▲	293	594	103% ▲
Net operating capital	8,838	11,096	26% ▼	7,565	9,212	22% ▼	1,353	1,453	7% ▼	3,638	3,813	5% ▼

¹⁾ For a definition of mature and growth geographies see chapter 18, Definitions and abbreviations, of this Annual Report

Philips Group
Free cash flow in millions of EUR
 2011 - 2015

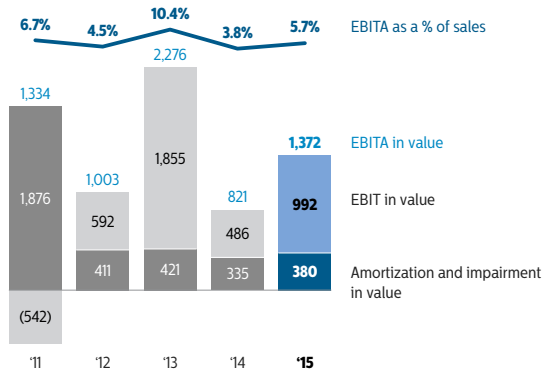


Philips Group
Comparable sales growth by geographic cluster¹⁾ in %
 2013 - 2015



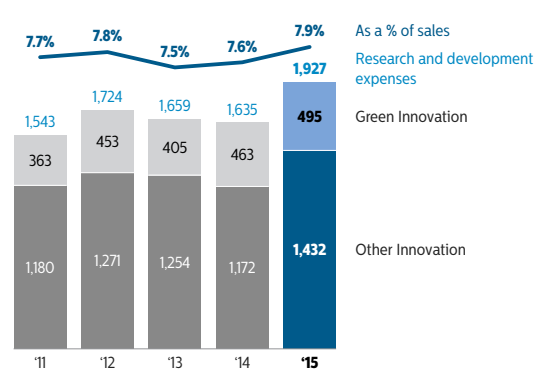
¹⁾ For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

Philips Group
EBIT and EBITA¹⁾ in millions of EUR
 2011 - 2015

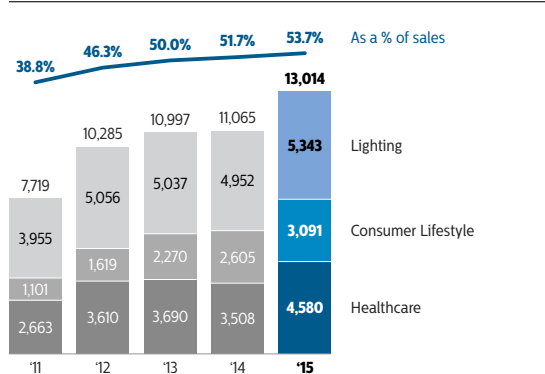


¹⁾ For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

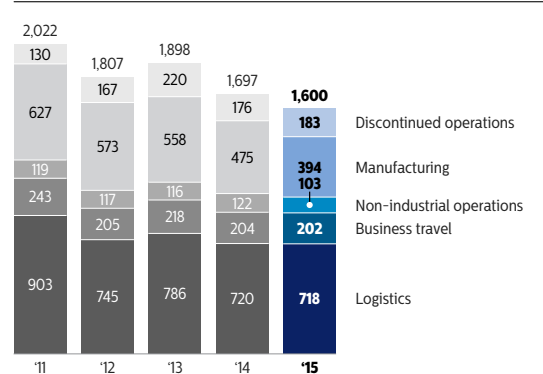
Philips Group
Research and development expenses in millions of EUR
 2011 - 2015



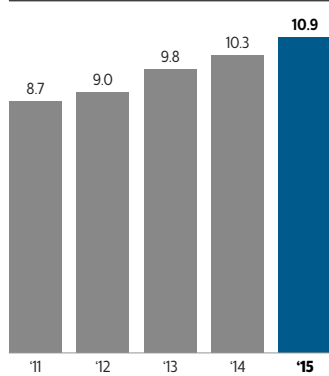
Philips Group
Green Product sales per sector in millions of EUR
 2011 - 2015



Philips Group
Operational carbon footprint in kilotonnes CO₂-equivalent
 2011 - 2015

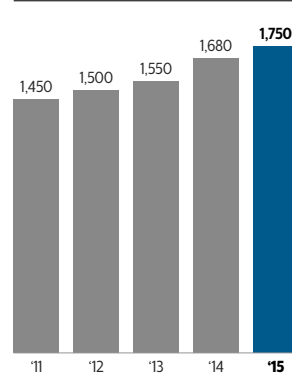


Philips Group
Brand value¹⁾ in billions of USD
 2011 - 2015



¹⁾ As measured by Interbrand

Philips Group
New patents filed in number of patents
 2011 - 2015



2 Message from the CEO



“After separating, Philips will focus on driving higher growth and higher value from its core activities in the field of health technology, and Lighting will have a great future as a stand-alone company.” Frans van Houten, CEO Royal Philips

Dear stakeholder,

2015 was a crucial year for Philips as we restored growth and improved productivity. We also took the decisive next step in our Accelerate! transformation – separating out our Lighting business and moving away from a diversified holding structure to create two stand-alone companies, each with their own clearly defined strategic direction and focus. We believe this is the best way to create lasting value for our customers and shareholders and a bright future for our employees.

Given the major challenges the world faces, for instance in terms of population health management, energy resource constraints and climate change, we see significant opportunities for the two companies – both leveraging the trusted Philips brand – to apply their innovative competencies and capture higher growth in attractive end-markets, which are very much in a state of transition.

Two companies with a bright future

Philips will focus on the exciting opportunities in the area of health technology, delivering meaningful innovation to improve people's lives across the health continuum – through new, more integrated forms of care delivery.

With an expanding and aging population, the rise of chronic diseases, and global resource constraints, health systems all over the world are under tremendous pressure. At the same time, more and more people are keen to take an active role in managing their own health. And digital technology, whilst bringing vast new opportunities, is shifting value from devices to software and services. All of this is driving the convergence of professional healthcare and consumer end-markets.

By leveraging our advanced technology, deep clinical and consumer insights, long-standing customer relationships, our new HealthSuite digital cloud platform, and integrated solutions portfolio, we can improve people's health and enable better outcomes at lower cost across the health continuum.

In the field of lighting, the industry is undergoing a radical transformation. Population growth and urbanization are increasing demand for light, specifically energy-efficient light. At the same time, the rapid rise of LED and the mass adoption of digital technology are driving a shift towards connected lighting. With connected lighting, the lighting fixtures not only provide high-quality illumination, but are also fitted with sensors and connected to the building's IT network infrastructure, forming an 'information pathway'. This is opening up new applications where we can deliver extraordinary value beyond illumination, also via new service-based business models.

As a more agile, stand-alone company with direct access to capital markets, we believe that our Lighting business will be better able to strengthen its position as the world leader in lighting solutions, boost scale and capture growth.

2015 a year of solid progress

Amidst all this transformation, it was vital that we improved our performance in 2015, giving our customers the product and service innovation they expect.

Overall, 2015 was a solid year for Philips, in which we recorded consistent performance improvements in the face of challenging economic conditions. Sales were up 2% on a comparable basis, driven by 4.5% growth in our HealthTech portfolio. Profitability also increased thanks to the improved operational performance, overhead cost savings, a reduction in cost of goods sold and process optimization, partly offset by the significant impact of currency headwinds, higher investments in R&D, settlement costs for pension de-risking, and ongoing investments to improve our quality management systems.

We reinvigorated our Healthcare business in North America and gained momentum in winning large-scale multi-year healthcare enterprise deals, e.g. with Westchester Medical Center (USA) and Mackenzie Health (Canada). And at our Imaging Systems facility in Cleveland we saw a gradual ramp-up of production in the course of the year. In February 2015 we completed the acquisition of Volcano, improving our position in the growing image-guided therapy market and strengthening our ability to deliver the benefits of minimally invasive therapies, such as faster recovery and shorter hospital stays. Post-merger integration is making good progress.

We also continued to deliver impressive growth and strong earnings across the majority of our Consumer Lifestyle portfolio. Our Health & Wellness and Personal Care businesses performed very well, delivering another year of high growth and margin expansion. Expanding our offering to help consumers make healthier choices, we launched the first in a series of personal health apps at the IFA trade fair in Berlin. Built on our Philips HealthSuite digital platform, these

personal health programs represent a new era in connected care, as healthcare continues to move outside the hospital and into our homes and everyday lives.

Lighting had another year of excellent operational improvements, recording double-digit growth and margin expansion in LED, the key segment in the industry, while continuing to actively manage the decline of the conventional lighting market. Further improvement in profitability was mainly driven by cost productivity and procurement savings.

The power of our connected lighting propositions, based on IoT (Internet of Things) technology, was underscored by the opening of the world's most sustainable office building, The Edge in Amsterdam, which features Philips' smart connected lighting solution, with Power over Ethernet. In the US, Los Angeles remotely manages more than 100,000 street lights with our CityTouch lighting management system to create a more livable and safe city. And in the home, our Hue connected lighting platform continues to be a resounding success. Towards the end of the year, we teamed up with Cisco and SAP to address the opportunities in the office and street lighting markets respectively.

The termination of the planned sale of Lumileds to a consortium led by GO Scale Capital was of course a disappointing outcome, but we are actively engaging with other parties that have expressed an interest in the Lumileds business.

Accelerate! driving performance improvement

In 2015, our multi-year Accelerate! program again helped us to step up growth and increase margins, despite deteriorating macro-economic conditions in a number of markets. Through Accelerate! and the implementation of the Philips Business System (PBS) we continue to drive improvements across the organization. The PBS is helping us to further tighten our focus on quality and excellence and enhance productivity through continuous improvement methodologies, while embedding new capabilities and making us more agile, entrepreneurial and customer-centric, with a culture of higher performance. This is evidenced by the many large-scale multi-year hospital deals we won in 2015 and our improving growth and margins despite the difficult economic times.

The PBS is also helping to reduce time-to-market for our innovations through Lean transformations of our customer value chains. And it is supporting our drive to become a digital company, both in how we work and in what we offer to the market, e.g. our Philips HealthSuite digital platform and connected LED lighting. Last but not least, it is driving overhead cost and productivity savings, offsetting headwinds and enabling us to improve our operating results over the year, notwithstanding an increase in our Research & Development expenses to 7.9% of sales.

Innovating for a healthier, more sustainable world

In 2015, our innovative solutions and services improved the lives of 2 billion people around the world.

Underlining our strength in the creation and protection of intellectual property we filed 1,750 new patents during the year and were named the world's second-largest patent applicant for patents filed at the European Patent Office.

We also entered into a five-year research alliance with Massachusetts Institute of Technology (MIT) to develop breakthrough innovations in health technology and connected lighting. And our North American research organization moved to the Cambridge, Mass. area to facilitate collaboration with MIT, academic hospitals, and business partners.

In 2015, we again delivered on our sustainability commitments, with Green Products accounting for 54% of total sales. Philips was recognized as a world leader for corporate action on climate change, achieving a perfect score (100A) in the Carbon Disclosure Project (CDP) Climate Change survey for the 3rd year in a row, and being named Leader in the Industrial Conglomerates category in the Dow Jones Sustainability Index. Keeping up the momentum, we committed to making Philips' operations carbon-neutral by 2020 at the 2015 Paris climate conference.

Underlining the importance we attach to 'doing good while doing well', the Philips Foundation entered into global innovation partnerships with the Red Cross and UNICEF, as well as supporting a host of innovation projects designed to make a difference in the communities and lives of those most in need.

Strategic priorities for 2016

In light of the global trends and opportunities outlined above and the innovative competencies we can bring to bear, both our health technology and lighting businesses are well placed to thrive as markets drive greater demand for our solutions and services.

Both companies are deeply committed to delivering on their strategic opportunities. For Philips, serving the health technology markets, this means building strong consultative customer relationships, selling value-added solutions and winning more large-scale, multi-year projects with healthcare providers. It also means delivering growth from innovation investments, establishing the Philips HealthSuite digital platform as a leading cloud-based enabling solution, and boosting scale in its existing businesses.

For Lighting, as a stand-alone company, it means: optimizing returns from conventional products to fund innovation in LED, to outpace the market; leading the shift to LED systems, building the largest IoT connected installed base; capturing adjacent value through new Services business models; and being its customers' best business partner locally, leveraging its global scale.

Both companies will remain strongly committed to improve performance and capture higher growth, focusing ever more closely on customers' needs, driving new ways to innovate and leveraging partnerships, embracing digital technology in their ways of working, and relentlessly driving a mindset of continuous improvement and operational excellence.

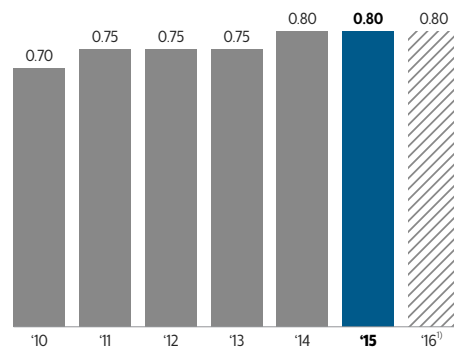
It is my deepest conviction that both Philips and Lighting stand to benefit from the separation, as it will enable greater focus on their respective attractive markets and allow them to capture higher growth and deliver higher profitability.

In conclusion

For 2016, we continue to expect modest comparable sales growth and we will build on our 2015 operational performance improvement. Taking into account ongoing macro-economic headwinds and the phasing of costs and sales, we expect improvements in the year to be back-end loaded.

We are proposing to the upcoming Annual General Meeting of Shareholders to maintain this year's distribution at EUR 0.80 per share, in cash or shares.

Philips Group
Dividend per common share in EUR
2010-2016



¹⁾ Subject to approval by the 2016 Annual General Meeting of Shareholders

I would like to thank our customers, shareholders and other stakeholders for their continued support. I also want to thank all our employees for their dedication and effort this past year.

In 2016, Philips celebrates 125 years in business. That's a tremendous feat for an innovation company, especially in such a fast-changing world. And I'm convinced that there is much more to come, as we continue to improve people's lives through meaningful innovation.

Frans van Houten
Chief Executive Officer

3 Philips in 2015 at a glance



January 21
Philips Foundation announces global innovation partnerships with the Red Cross and UNICEF



February 17
Philips completes acquisition of Volcano



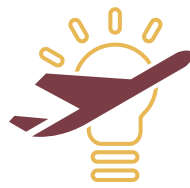
February 26
Philips becomes second-largest patent applicant at the European Patent Office



March 2
A record-breaking number of 52 winners at the iF DESIGN AWARD 2015



April 8
Los Angeles to control its street lighting through mobile and cloud-based technologies from Philips



April 16
Philips provides Light as a Service to Schiphol Airport



May 7
AGM approves separation of Lighting business from Royal Philips



May 19
Philips signs five-year research alliance with Massachusetts Institute of Technology



June 16
Multi-year partnership with Westchester Medical Center Health Network to transform patient care



June 25
Philips connected lighting a key feature of sustainable office building The Edge in Amsterdam



July 6
Philips opens GrowWise City Farming research center in Eindhoven to develop light growth recipes



September 3
Philips introduces personal health programs at IFA in Berlin



September 8
Leading global health institutions digitize pathology workflows with Philips to enhance diagnoses



September 10
Philips industry leader in 2015 Dow Jones Sustainability Index



September 14
Technology agreement with Catharina Hospital for largest cardiovascular center in the Netherlands



October 9
Philips celebrates 90 years of design



November 10
Philips and Canada's Mackenzie Health announce 18-year strategic partnership



December 7
Philips commits to making its operations carbon-neutral by 2020 at COP21 Paris climate conference



December 9
Philips and Cisco form global strategic alliance to address EUR 1 billion office lighting market



December 14
Philips wins a Thomson Reuters 2015 Top 100 Global Innovator Award

4 Our strategic focus

4.1 Addressing global challenges

Guided by our passion to improve people’s lives, Philips has been a leader in building and shaping markets with meaningful innovations for 125 years. With the world facing the challenge of tackling climate change and energy constraints, as well as providing effective and affordable healthcare to a growing global population, we see compelling opportunities in the health technology and lighting markets.

Determined to win in both, we are separating out our Lighting activities as a stand-alone company. This will create more focus, giving Lighting the opportunity to grow and capture the vast opportunities in energy-efficient, digital lighting products, systems and services, and Philips the enhanced focus to expand its core business to address the opportunities in the health technology market.

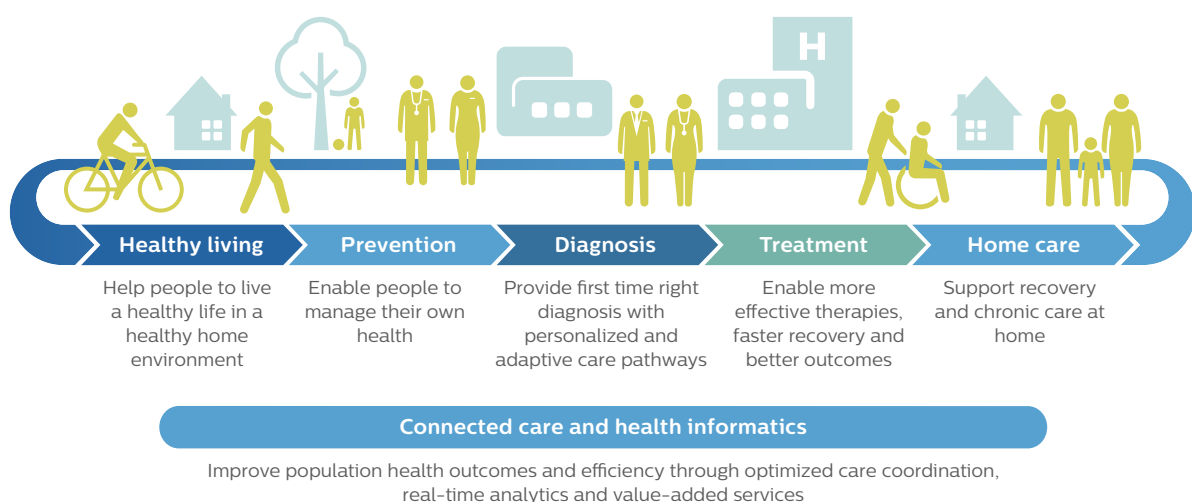
We see a growing need for better health and better care at lower cost

Global resource constraints on health systems are driving a shift to value-based healthcare to reduce cost, increase access and improve outcomes. At the same time, aging populations across the globe and the rise of chronic conditions are driving a shift of care to lower-cost settings and the home.

In parallel, more and more people are looking for new ways to proactively monitor and manage their health. And the digitalization of healthcare is shifting value from devices to software and services.

These challenges can only be met through new, more integrated forms of care delivery across the health continuum, with a shift away from today’s focus on acute care and late-stage interventions.

In an increasingly connected world, the convergence of Philips’ consumer technologies that facilitate healthy living, medical technologies that help clinicians to deliver better diagnosis and treatment, and cloud-based technologies that enable data sharing and analysis, will be a key enabler of more effective, lower-cost integrated health solutions. This fits very well with our core strengths in professional healthcare and in consumer health and well-being.



In a total addressable market estimated at over EUR 140 billion, we are well positioned to leverage advanced technology and our deep clinical and consumer insights to deliver integrated solutions that improve people's health and enable better outcomes across the health continuum.



Healthy living and Prevention



Diagnosis and Treatment



Home care

We have defined five priority areas: personal health, definitive diagnosis, minimally invasive guided therapy, population health management, and connected care delivery. And our focus on cardiology, oncology, respiratory care, and fertility, pregnancy and parenting already gives us a broad-based opportunity to expand our integrated solutions capabilities.

More and more, we are teaming up with hospital and health systems to understand their needs, provide integrated solutions, and engage in multi-year cooperation to drive improvements in terms of patient outcomes, quality of care delivery and cost productivity.

Going forward, we will further drive the benefits of scale in our current businesses while delivering additional growth from continuing investments in innovation. And establishing the Philips HealthSuite digital platform as a leading cloud solution to connect consumers, patients and providers will allow us to introduce value propositions with recurring revenue streams.

We see increasing demand for energy-efficient and connected digital lighting

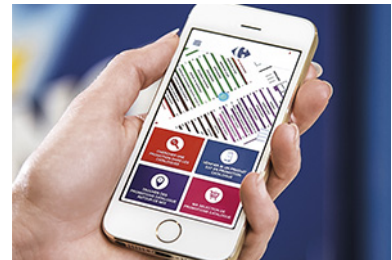
The lighting industry is undergoing a radical transformation, driven by the market's transition to LED and digital technology. Three mega-trends present a huge opportunity.



More light



More energy-efficient light



Digital light

The rapid rise in the world's population and in new lighting applications is driving up global demand for light. At the same time, with lighting accounting for 19% of global electricity consumption, the world needs that light to be energy-efficient. And with the integration of LED technology, lighting controls and software opening up new functionality and services, the world will benefit from the compelling new applications that connected digital lighting can offer, delivering value beyond illumination.

As a stand-alone company, our Lighting business is well positioned to capture the value that is shifting from individual products to connected LED lighting systems and services, more than offsetting the decline of conventional lighting. Its total addressable market is estimated at over EUR 65 billion.



Optimizing returns from its conventional products to fund growth, Philips Lighting is committed to innovate in LED to outpace the market. It will continue to lead the shift to Systems, building the industry's largest connected installed base and capturing value through new Services business models with recurring revenue streams, e.g. Light as a Service. And, leveraging its global scale, it will continue to strive to be its customers' best business partner locally.

4.2 How we create value

Understanding and meeting people's needs

Building upon our long history of innovation, we take a systematic approach to value creation. Our starting point is always to understand the specific challenges local people face – whether they be a doctor, a real estate developer, a hospital director, a city planner, a consumer, etc.

Having gained these deep insights, we then apply our innovative competencies, strong brand, global footprint and talented, engaged people – often in value-adding partnerships – to deliver solutions that meet these needs. Making the world healthier and more sustainable.

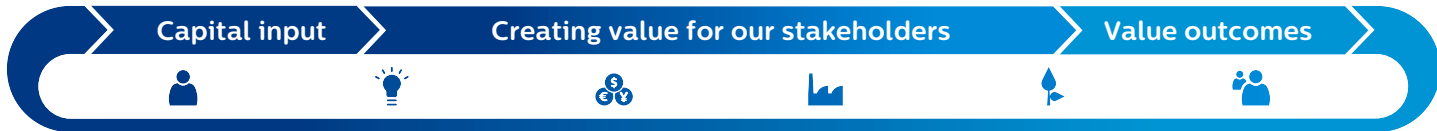
To measure the impact our solutions are having around the world, we have developed our independently verified Lives Improved model. We take a two-dimensional approach – social and ecological – to improving people's lives. Products and solutions that directly support the curative (care) or preventive (well-being) side of people's health, determine the contribution to the social dimension. The contribution to the ecological dimension is determined by means of our Green Product portfolio, such as our energy-efficient lighting.

Our business system

With its four interlocking elements, the Philips Business System (PBS) is designed to help us deliver on our mission and vision – and to ensure that success is repeatable. As we execute our strategy and invest in the best opportunities, leverage our unique strengths and become operationally excellent, we will be able to consistently deliver value to our customers, consumers and other stakeholders.

- **Group strategy:** We manage our portfolio with clearly defined strategies and allocate resources to maximize value creation.
- **CAPs:** We strengthen and leverage our core Capabilities, Assets and Positions – our deep customer insights, technological innovation, global footprint, our people, and the trusted Philips brand – as they create differential value.
- **Excellence:** We are a learning organization that applies common operating principles and practices to deliver to our customers with excellence.
- **Path to Value:** We define and execute business plans that deliver sustainable results along a credible Path to Value.

The 'Creating value for our stakeholders' diagram, based on the International Integrated Reporting Council framework, shows how – with the Philips Business System at the heart of our endeavors – we use six different forms of capital to drive value in the short, medium and long term.



Human

We employ diverse and talented people and give them the skills and training they need to ensure their effectiveness and their personal development and employability.

Intellectual

We apply our innovation and design expertise to create new products and solutions that meet local customer needs.

Financial

We raise the funds we need from shareholders and other capital providers. We allocate this capital to the businesses and markets we think offer the best prospects for growth and returns.

Manufacturing

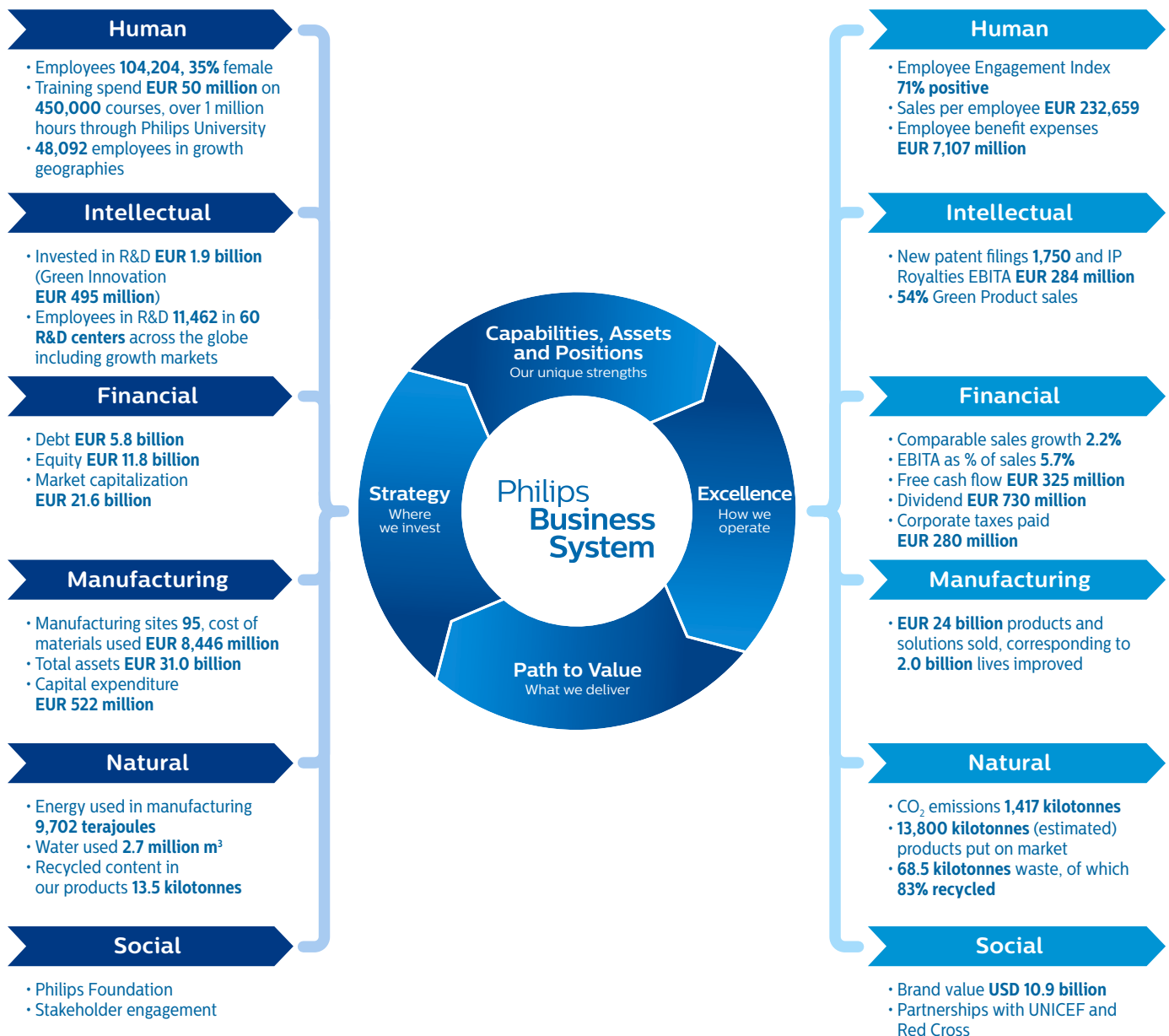
We apply Lean techniques to our manufacturing processes to produce high-quality products. We manage our supply chain in a responsible way.

Natural

We are a responsible company and aim to minimize the environmental impact of our supply chain, our operations, and also our products and solutions.

Social

We contribute to our customers and society through our products and solutions, our tax payments, the products and services we buy, and our investments in local communities.



4.3 Accelerate! journey continues

In 2011 we set out on our Accelerate! journey of change and performance improvement. Designed to transform Philips into an agile and entrepreneurial company, Accelerate! is all about delivering meaningful innovation to our customers in local markets – and doing so in a fast and efficient way.

The program has three main thrusts:

- *transform to address underperformance*
- *expand global leadership positions*
- *initiate new growth engines*

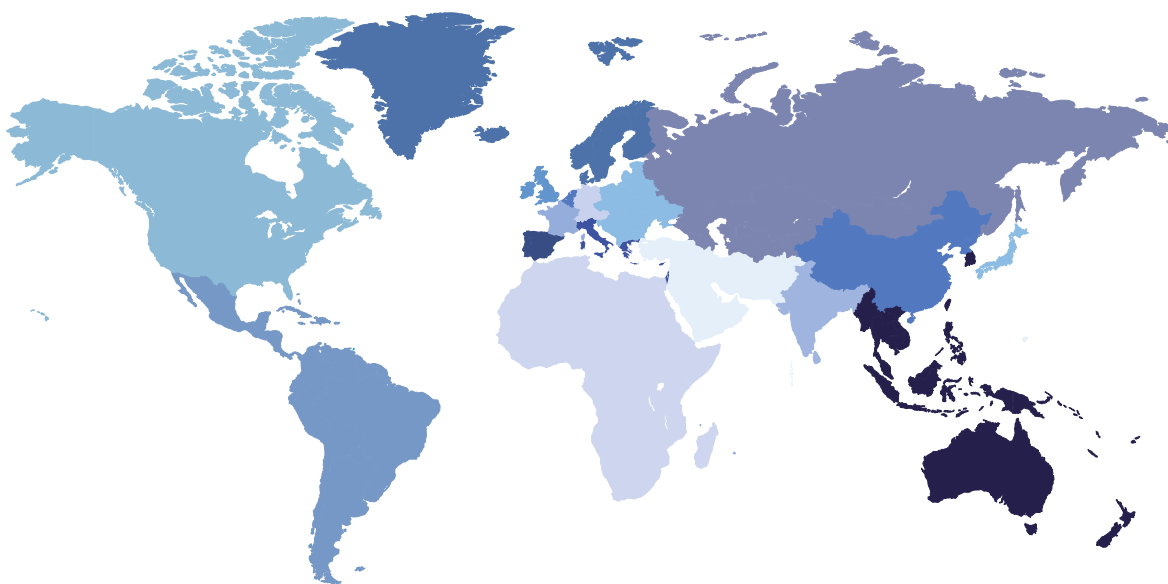
We are now in the fifth year of this transformation process, and our Path to Value is clearly mapped out:

Accelerate! roadmap



For 2016, we continue to expect modest comparable sales growth and we will build on our 2015 operational performance improvement. Taking into account ongoing macro-economic headwinds and the phasing of costs and sales, we expect improvements in the year to be back-end loaded.

4.4 Lives improved



Markets	Lives improved (million) ¹⁾	Population (million) ²⁾	GDP (USD billion) ³⁾
1. Africa	56	1,152	1,959
2. ASEAN	227	935	5,634
3. Benelux	28	29	1,267
4. Central & East Europe	87	125	1,376
5. Germany, Austria & Switzerland	92	99	4,424
6. France	59	65	2,454
7. Greater China	375	1,406	12,263
8. Iberia	45	57	1,424
9. Indian Subcontinent	203	1,503	2,488
10. Italy, Israel and Greece	52	82	2,341
11. Japan	34	127	4,116
12. Latin America	172	626	5,185
13. Middle East & Turkey	108	338	2,824
14. Nordics	26	27	1,425
15. North America	345	357	19,541
16. Russia and Central Asia	86	287	1,810
17. UK & Ireland	50	70	3,108

¹⁾ Source: Philips, double counts eliminated

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

³⁾ Source: IMF, CIA Factbook & Wikipedia

4.5 Global presence

Regions	Sales in millions of EUR	Number of employees	Employees female	Employees male	R&D centers	Manufacturing sites	Tangible and intangible assets in millions of EUR
Asia & Pacific	6,990	32,533	32%	68%	9	20	2,023
EMEA	7,948	39,903	34%	66%	28	35	2,959
Latin America	1,211	8,154	46%	54%	3	11	136
North America	8,095	23,614	36%	64%	20	29	9,420

4.6 Our strategy in action



Training tomorrow's lifesavers

At Philips, we build relationships to ensure that our products and solutions are addressing people's needs in the right way. And that means supplying help as well as hardware.

In a technologically advanced world, it's no good simply investing in pioneering products such as high-tech radiology devices, MRI scanners and other medical imaging tools: doctors need to know how to use them to improve patient care. Which is where Philips comes in, not only providing the technology, but expert developmental medical training too, by partnering with key stakeholders.

At the American University of Beirut, students and professionals from all over the Middle East join colleagues from Lebanon – along with private companies such as Philips – to develop essential life-saving skills that they can take back to their home countries, and to learn how they can make a difference through digital innovations. The medical training is a collaboration that not only teaches new skills, but is spreading the finest medical care through some of the world's most vulnerable populations.





Addressing the community's primary health needs

In Africa, we are partnering with local governments to develop Community Life Centers with the aim of not only improving primary healthcare but also promoting community development.

In most countries in Sub-Saharan Africa, healthcare systems are having to contend with serious challenges. Primary health facilities in particular are facing difficulties in offering quality basic services to local communities and playing the role of gatekeeper to the rest of the healthcare system.

At Philips we believe that the strengthening of health systems has to start at the primary level. That's why, in partnership with local government, we have installed a Community Life Center at Langata in Kiambu County, Kenya. Community Life Centers are a total solution for primary healthcare facilities, combining an integrated set of appropriate technologies with design, implementation and support services.

Since the opening of the Langata Community Life Center the number of children treated has doubled and Ante Natal Care visits have increased 12-fold, supporting our commitment to the UN's 'Every Woman, Every Child' initiative.

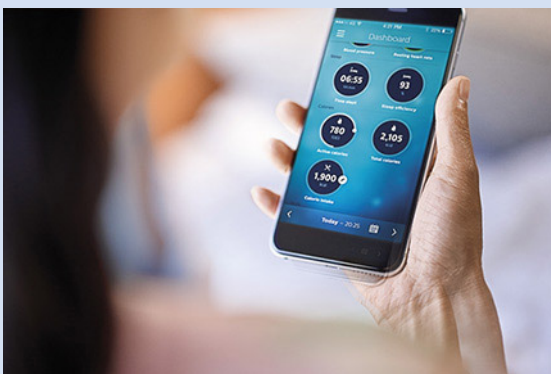




Change your health for life

In 2015, Philips announced the first in a series of personal health programs – including connected health measurement devices, app-based personalized programs and cloud-based data analysis – to help consumers take greater control of their health.

Philips personal health programs represent a new era in connected care for consumers, patients and health providers, as healthcare continues to move outside the hospital, and into our homes and everyday lives. They are built on the Philips HealthSuite digital platform, an open and secure, cloud-based platform that collects and analyzes health and other data from multiple devices and sources.



“Consumers are increasingly engaged in their personal health and they want solutions that empower them to stay healthy and prevent illness,” says Pieter Nota (CEO Philips Consumer Lifestyle in 2015). “Philips personal health programs will help consumers develop healthier habits for life.”

Leveraging Philips’ deep healthcare and consumer expertise, the personal health programs enable individuals to measure vital signs to understand how lifestyle choices affect their body, to set goals and monitor their progress, and to stay motivated with intelligent programs, developed with leading doctors and psychologists, that respond to individual progress and make personalized recommendations.

The Philips personal health programs and health measurement devices are not currently available for sale in the USA.



Offering new parents peace of mind

We believe that every baby deserves the best possible start in life. With the Philips Avent uGrow digital platform, parents can track progress, relish milestones and learn about their baby's development and needs.

Philips Avent uGrow is an innovative digital parenting platform in the form of a mobile application, plus connected digital products, which provides new parents with personalized advice and insights to help them understand and support each stage of their baby's development.

Based on professional guidance and pertinent localized content, and with a timeline that incorporates data ranging from how much baby has eaten to sleep patterns, uGrow gives new parents peace of mind in their baby's development. Interactive photos and virtual stickers can be used to mark occasions and

celebrate milestones on baby's timeline. And the app remembers key dates in order to provide bespoke guidance, e.g. on baby's developing weight, or on weaning as baby grows.

"Being a parent is a life-changing experience, during which we often rely on our intuition," says Aliette van der Wal, Business Leader Mother & Childcare, Health & Wellness. "At Philips Avent we're harnessing the power of connected technology to empower parents with additional information, tailored to individual needs, which will help them make the best decisions for their baby."



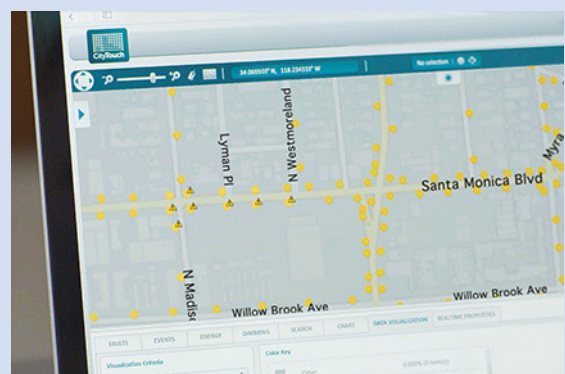
Connected lighting delivering value beyond illumination

With Philips CityTouch, Los Angeles remotely manages more than 100,000 street lights to create a more livable city.

In 2015, Los Angeles became the first city in the world to control its street lighting through an advanced Philips management system that uses mobile and cloud-based technologies.

With Philips CityTouch, the LA Bureau of Street Lighting can remotely control street lighting fixtures, as well as monitor energy use and the status of each light. Using mobile chip technology embedded into each fixture, the street lights are able to identify themselves and network instantly.

This smart plug-and-play approach not only reduces the cost of programming each fixture, it also reduces the time required for commissioning from days to minutes and eliminates on-site commissioning completely. Furthermore, CityTouch offers system managers a real-time, map-based view of all connected light points via any standard web browser.



“I call it priceless,” says Ed Ebrahimian, Director of the LA Bureau of Street Lighting, “because if we can save one life by finding out if a light is out and fixing it right away, we’ve done our job.”



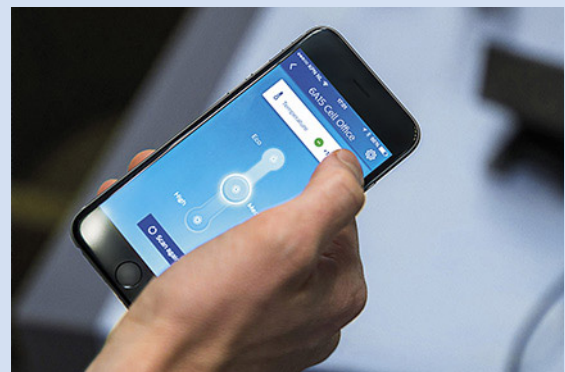
Creating a sustainable office environment

Opened in 2015, innovative office building The Edge in Amsterdam received the highest-ever BREEAM score – the leading assessment method for sustainable buildings. A key aspect of the design is a connected lighting system from Philips.

The Edge's connected lighting system uses nearly 6,500 LED luminaires over the building's 15 stories. These fixtures are connected to the building's IT network by Power over Ethernet (PoE) technology. With PoE, Ethernet cables transmit both power and data, eliminating the need for separate power cabling and creating a sort of 'information pathway'.

With integrated sensors in 3,000 of these luminaires, the connected lighting system captures anonymous data on room occupancy. The LED fixtures interface with other building systems such as heating and ventilation to provide facility managers with an integrated view of a building's occupancy patterns and energy usage. This enables more informed decision making, with unprecedented levels of energy and operational efficiency.

Supporting workplace productivity, employees at The Edge are also able to set the lighting and temperature to suit their personal preferences via an app on their smartphone.





Lighting the steel heart

Innovative lighting can help improve health and safety at work. Nowhere is this more apparent than in Ostrava, where Philips has helped to transform ArcelorMittal's steel plant with a new lighting system.

A steel plant can be a hazardous workplace. When employees work with molten steel, with loads exceeding 350 tons in weight and temperatures exceeding 1,500 degrees, it is important to have good lighting. At its steel plant in Ostrava, the steel heart of the Czech Republic, ArcelorMittal needed a lighting partner who understood their needs, could offer a suitable solution, and, of course, deliver that solution with a minimum of disruption.

With the steel plant in full operation, Philips implemented a complete modernization of the lighting. It was a complex project but ArcelorMittal and Philips worked closely together for the duration of the renovation. "There has been a substantial improvement in health, safety, as well as productivity and energy benefits," says Anoop Nair, Chief Operating Officer,

ArcelorMittal, Ostrava. "This gave kind of an explosive or meteoric effect to the employees. And I think it was thanks to Philips."



5 Group performance

Content you didn't download

5.1 Financial performance

5.2 Social performance

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

Philips further strengthened its focus on sustainability in 2015 through a number of initiatives described in the Social and Environmental performance sections, including the introduction of new products and solutions and partnerships with the Red Cross and UNICEF through the Philips Foundation.

Our people

At Philips, a key element of our vision is to offer the best place to work for people who share our passion. Our people are one of our unique strengths, and each one of our employees is instrumental to Philips' success. Our strategy is based on the belief that every employee at Philips has talent and can grow and contribute with increasing impact, so we support all individuals in driving their development. We believe that the best place to work is an inclusive place to work, and we celebrate and foster an inclusive culture where everyone feels valued, respected, and where all of our people can thrive.

Our company people strategy is directly linked to our business strategy. In 2015, we continued on our path to creating two winning stand-alone companies, including ensuring the timely allocation of our employees to either Royal Philips or to Philips Lighting. We also continued to drive our Accelerate! transformation through our growth and performance culture, where we take ownership, we are eager to win, we team up to excel, and we always act with integrity. Alongside these behaviors, we focus on nurturing six competences

which accelerate our transformation, and we offer related learning and development opportunities to all employees through our Philips University.

“Philips people share a passion for improving people's lives through meaningful innovation, and this passion has kept us all working together towards our common mission and vision during the past year. Throughout 2015, our people have demonstrated that we are one Philips family, even if we know that we will ultimately be part of Royal Philips or of Philips Lighting. As CHRO, I am proud to belong to Philips, and proud to be one of our Philips people.”

Denise Haylor

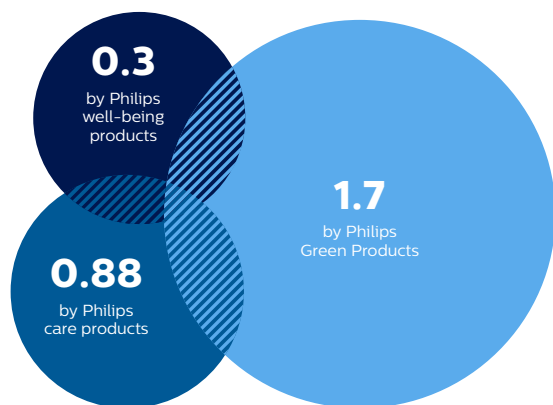
Chief Human Resources Officer

5.2.1 Improving people's lives

At Philips, we strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025. To guide our efforts and measure our progress, we take a two-dimensional approach – social and ecological – to improving people's lives. Products and solutions from our portfolio that directly support the curative (care) or preventive (well-being) side of people's health determine the contribution to the social dimension. As healthy ecosystems are also needed for people to live a healthy life, the contribution to the ecological dimension is determined by means of our steadily growing Green Product portfolio, such as our energy-efficient lighting.

Through Philips products and solutions that directly support the curative or preventive side of people's health, we improved the lives of 881 million people in 2015, driven by our Healthcare sector. Additionally, our well-being products that help people live a healthy life improved the lives of 304 million, and our Green Products that contribute to a healthy ecosystem 1.7 billion people. After the elimination of double counts – people touched multiple times – we arrived at 2.0 billion lives. This is an increase of around 140 million compared to 2014, mainly driven by Healthcare in Greater China and North America, Consumer Lifestyle in Greater China, ASEAN and North America, and Lighting in North America and the Indian subcontinent.

Philips Group
Lives improved in billions



Total: 2.0 billion (double counts eliminated)

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

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

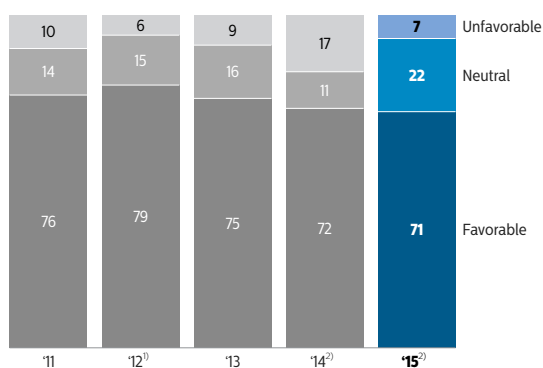
5.2.2 Employee engagement

Employee engagement is key to our competitive performance and at the heart of our vision, promoting the best place to work for people who share our passion. Engaged employees are emotionally committed to and proud of our company, they help us meet our business goals, and they contribute to making our workplace the best it can be. We can only truly offer an environment in which all our people can thrive when we maintain a dialogue with our people to understand their needs. Our employees take the time for this dialogue, directly shaping the work environment and our inclusive culture. As a result, high engagement levels not only help Philips to grow, but also help us to understand our employees' needs in depth and respond to these in turn.

Given that employee feedback and input is so critical, we actively track it via quarterly surveys with a set of targeted questions. In 2014, we implemented a complementary, team-focused survey called My Accelerate! Survey (MAS) with accompanying promotion of Team Performance Dialogues with People Managers and their teams. This proved to be a positive driver of employee action to increase team effectiveness, and, as a result, we ran MAS in each quarter of 2015 as our way of monitoring engagement.

In 2015, MAS had an average employee response rate of 50% across all four quarters, and we recorded an overall engagement score of 71% favorable across the Philips population. This was in line with 2014 results, and we were pleased to see a significant downward trend in the unfavorable score (decreasing from 17% in 2014 to 7% in 2015).

Philips Group
Employee Engagement Index in %
2011 - 2015



¹⁾ Based on 60 pulse surveys conducted in 2012

²⁾ Based on My Accelerate! Surveys

For more information on MAS, please refer to sub-section 14.2.1, Engaging our employees, of this Annual Report.

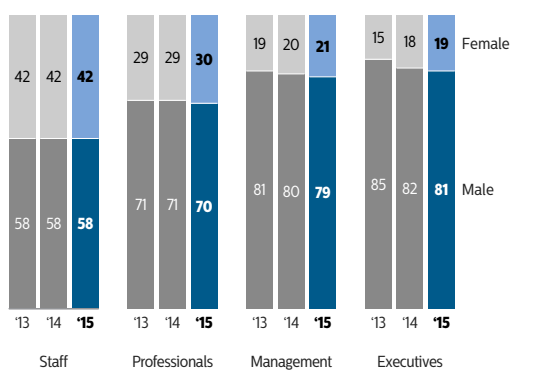
5.2.3 Inclusion

At Philips, we believe that the best place to work is an inclusive place to work. This means celebrating and fostering a work environment in which all of our people's ideas, knowledge, perspectives, experiences and styles are valued. It also means that all individuals are treated fairly and respectfully, have equal access to opportunities and resources, and can contribute fully to Philips' success. In this report we publish data on international, gender and age diversity, as proxies for the wider inclusion we promote.

Philips is a global company, and our executives originate from more than 35 countries. We embrace a global mindset and actively promote and build capability in this area. The composition of our Executive Committee and Supervisory Board likewise reflects our global focus.

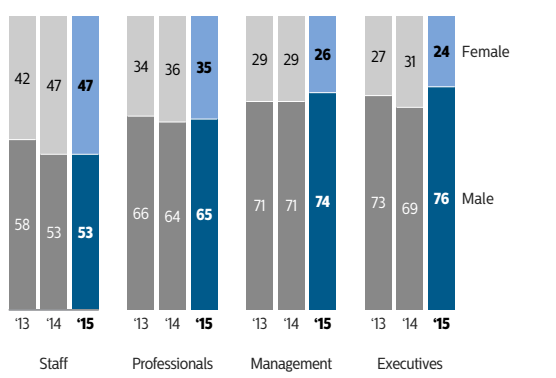
In terms of gender diversity, we recorded an increase in the share of female executives to 19% at year-end 2015 – up from 18% in 2014. We are well on track to achieve our aspiration of 20% female executives by year-end 2016. This is driven both by our active engagement of senior female leaders globally, and also by the fact that our inclusion culture is embedded in our people practices, policies and processes. Overall, 35% of Philips employees in 2015 were female. Philips has 7 persons in the Executive Committee (1 female) and 9 in the Supervisory Board (3 females), which means that 4 out of 16 positions (or 25%) are held by women.

Philips Group
Gender diversity in %
2013 - 2015

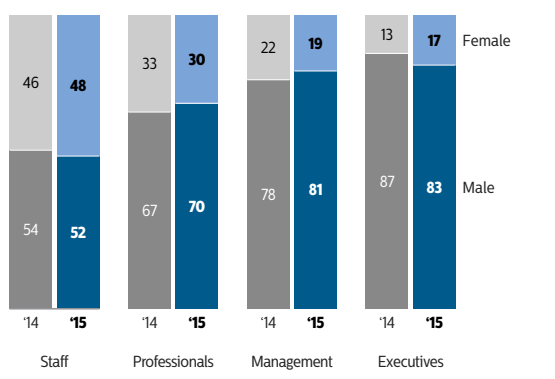


Our comprehensive approach to succession planning for all executives and other key positions ensures we remain on track in terms of our gender targets, and also in terms of our broader inclusion aspirations. This approach drives development and career planning for all individuals, and ensures we build an inclusive work environment not only for today but also for the future. In terms of promotions in 2015, 10% of new Executives promoted internally were women, and women represented 24% of all external Executive hires. The decrease in female Management and Executive new hires compared with 2014 did not impact our overall gender diversity in these categories, as this was mainly offset by the relatively smaller proportion of female Management and Executive exits. Indeed, compared to the percentage of women employed by Philips in 2014, we see a relatively higher outflow of women in the staff categories and a lower outflow of female managers and executives. Overall, gender diversity either increased or was stable across all categories, and we will continue to drive gender-inclusive practices in terms of talent attraction, engagement, development and retention in 2016.

Philips Group
New hire diversity in %
2013 - 2015

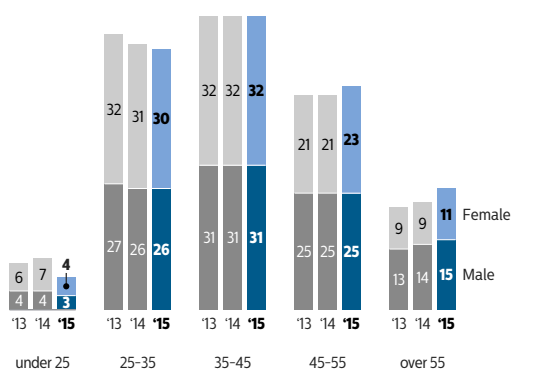


Philips Group
Exit diversity in %
2014 - 2015



In 2015, our age diversity was similar to that of 2014, with relatively larger shifts taking place in the categories of women under 25, between 45 and 55, and over 55. We will continue to monitor age diversity as part of our inclusive culture in 2016.

Philips Group
Employees per age category in %
2013 - 2015



5.2.4 Employment

The total number of Philips Group employees (continuing operations) was 104,204 at the end of 2015, compared to 105,365 at the end of 2014. Approximately 38% were employed in the Healthcare sector, 32% in the Lighting sector and 16% in the Consumer Lifestyle sector.

Philips Group
Employees per sector in FTEs at year-end
2013 - 2015

	2013	2014	2015
Healthcare	37,008	37,065	40,099
Consumer Lifestyle	17,255	16,639	16,254
Lighting	38,671	37,808	33,618
Innovation, Group & Services	12,703	13,853	14,233
Continuing operations	105,637	105,365	104,204
Discontinued operations	10,445	8,313	8,755
Philips Group	116,082	113,678	112,959

Compared to 2014, the number of employees in continuing operations decreased by 1,161. The decrease reflects industrial footprint rationalization at Lighting and a reduction in third-party workers at Consumer Lifestyle, partly offset by the consolidation of the Volcano acquisition at Healthcare.

Approximately 54% of the Philips workforce was located in mature geographies, and about 46% in growth geographies. In 2015, the number of employees in mature geographies increased by 1,081, mainly due to the Volcano acquisition at Healthcare. The number of employees in growth geographies decreased by 2,242 largely driven by footprint rationalization at Lighting.

Philips Group
Employees per geographic cluster in FTEs at year-end
2013 - 2015

	2013	2014	2015
Western Europe	28,944	29,105	28,590
North America	24,401	22,283	23,614
Other mature geographies	3,419	3,643	3,908
Mature geographies	56,764	55,031	56,112
Growth geographies	48,873	50,334	48,092
Continuing operations	105,637	105,365	104,204
Discontinued operations	10,445	8,313	8,755
Philips Group	116,082	113,678	112,959

Philips Group
Employment in FTEs at year-end
2013 - 2015

	2013	2014	2015
Balance as of January 1	118,087	116,082	113,678
Consolidation changes:			
Acquisitions	-	1,506	1,865
Divestments	(705)	(247)	(300)
Changes in discontinued operations	(186)	(2,132)	442
Other changes	(1,114)	(1,531)	(2,726)
Balance as of December 31	116,082	113,678	112,959

In 2016, the number of employees is expected to be below the levels of 2015.

In 2015, employee turnover amounted to 16.6% (of which 9.7% was voluntary) compared to 14.9% (6.4% voluntary) in 2014. 2015 turnover was mainly due to the changing industrial footprint and our overhead reduction program.

Philips Group
Employee turnover in %
2015

	Staff	Professionals	Management	Executives	Total
Female	20.0	12.4	11.3	13.9	16.6
Male	24.0	11.3	10.2	15.2	16.6
Philips Group	22.3	11.6	10.4	14.9	16.6

Philips Group
Voluntary turnover in %
2015

	Staff	Professionals	Management	Executives	Total
Female	11.4	7.7	5.8	8.3	9.7
Male	13.9	6.8	5.1	5.9	9.7
Philips Group	12.9	7.1	5.3	6.4	9.7

5.2.5 Developing our people

Philips University was launched in Q4 2014, and our focus on leader-led learning and building a learning organization as part of our growth and performance culture continued in 2015. We believe that continuous learning maximizes the potential of all employees – and consequently Philips' potential to deliver for customers and consumers. Philips University embraces a philosophy of learning that balances learning carried out on the job, coaching and mentoring, and formal learning methods such as classroom teaching and e-learning. Presently, we are exploring new learning channels to improve capability building and focus on business-critical topics and key roles that will increase the impact of the University.

More than one million hours in total were spent on training through Philips University in 2015.

Training spend

Our external training spend in 2015 amounted to EUR 50.4 million, up from EUR 44.7 million in 2014. This reflects an increase in the number of courses offered through the Philips University, supporting the transformation process at Philips, as well as a strong increase in courses attended.

For more information on our people's development, please refer to sub-section 14.2.2, People development, of this Annual Report.

5.2.6 Health and Safety

Philips strives for an injury-free and illness-free work environment, with a sharp focus on reducing the number of injuries and improving processes. The Lost Workday Injury Cases (LWIC) rate is defined as a KPI, on which we set yearly targets for the company, our individual sectors and Business Groups.

In 2015, we recorded 213 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 227 in 2014, and continues the downward trend since 2010. The LWIC rate decreased to 0.21 per 100 FTEs, compared with 0.23 in 2014. The number of Lost Workdays caused by injuries decreased by 1,087 days (some 12%) to 7,981 days in 2015.

For more information on Health and Safety, please refer to sub-section 14.2.4, Health and Safety performance, of this Annual Report.

5.2.7 General Business Principles

The Philips General Business Principles (GBP) incorporate the fundamental principles for all Philips business. They set the standard for business conduct for both individual employees and for the company itself. They also provide a reference for the business conduct we expect from our business partners and suppliers. Translations are available in 32 languages, allowing almost every employee to read the GBP in their native language. The GBP form an integral part of labor contracts in virtually every country in which Philips operates. 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 can be found at www.philips.com/gbp.

Employees are actively encouraged to engage in dialogue with their colleagues about what constitutes 'acting with integrity' in a given business situation and to speak up if they have any concerns. They can turn to either their manager or a GBP Compliance Officer for advice and support.

The Philips Ethics Line operates globally, allowing employees to dial a toll-free hotline number to report a concern in their local language or to raise a concern online via a web intake form. Since May 2015, third parties have access to the Philips Ethics Line so they can raise any concerns they might have in relation to Philips business. In 2015, 39 parties, among which former employees and contractors, used this option.

The types of concerns filed by external parties follow the overall trends, with most concerns relating to 'Treatment of employees' followed by 'Business integrity'. A standard for investigation is in place to promote consistency and due care in the way concerns are investigated.

For a description of GBP processes and policies, please refer to section 7.1, Our approach to risk management and business control, of this Annual Report.

Business Integrity Survey

In 2013 the first survey was held among our employees to measure the effectiveness of GBP deployment. In June 2015 a follow-up survey was rolled out to all employees in the ten most relevant languages to check status. The overall conclusion that could be drawn from the survey is that the Philips culture continues to provide a sound basis for any GBP- or compliance-related program.

Role of management

The Philips Executive Committee constantly reinforces the message that acting in line with the GBP is not something that is optional, but something that is vital to our business success. Managers at all levels are specifically given the responsibility to engage in dialogue with their teams on what responsible business conduct means for their daily practice. Management is

supported in this by a network of GBP Compliance Officers who operate on different levels in the organization.

Training and awareness

In October of this year all employees with an email account were invited to take the updated GBP e-learning. This training course will be made available in the 22 most relevant languages. At the end of the course employees are asked to confirm that they are committed to acting in line with the GBP. The series of face-to-face training courses for GBP Compliance Officers that was started in 2014 was continued.

More information on the Philips GBP can be found in chapter 7, Risk management, of this Annual Report. The results of the monitoring measures in place are given in sub-section 14.2.5, General Business Principles, of this Annual Report.

5.2.8 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. Working with partners is crucial in delivering on our vision to make the world healthier and more sustainable through innovation. An overview of stakeholders and topics discussed is provided in chapter 14, Sustainability statements, of this Annual Report.

For more information on our stakeholder engagement activities in 2015, please refer to sub-section 14.2.7, Stakeholder Engagement, of this Annual Report.

5.2.9 Supplier sustainability

Philips has a direct business relationship with approximately 10,000 product and component suppliers and 30,000 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 programs

We have developed a number of strategic programs to help our suppliers improve their sustainability performance. These programs cover the assessment of supplier sustainability performance (audits), management of regulated substances, conflict minerals and other responsible sourcing initiatives. More detailed information about our programs is available www.philips.com/suppliers.

Supplier sustainability policies

The Philips Supplier Sustainability policy consists of two core documents: Supplier Sustainability Declaration (SSD) and Regulated Substances List (RSL). Both these documents are an integral part of our supplier contracts.

The list of other applicable policies can be found www.philips.com/suppliers.

Regulated Substances List

All suppliers and brand licensees must ensure that all products or parts and product packaging delivered to Philips, as well as some manufacturing processes used to make Philips parts and brand license products, comply with the applicable requirements in this list.

Supplier Sustainability Declaration

The Declaration is derived from the Electronic Industry Citizenship Coalition (EICC) Code of Conduct and sets out the standards and behaviors we require from our suppliers and their suppliers. We monitor supplier compliance with the Declaration through a system of regular audits.

Supplier Sustainability Audit Program in 2015

In 2015, we audited 195 of our current risk suppliers, including 120 continued conformance audits with suppliers that we had already audited in 2012. This represented some one third of the number of risk suppliers. On top of the audits with current risk suppliers, we also audited 26 potential suppliers during the supplier selection process. These potential suppliers need to close any zero-tolerance issues before they can start delivering to Philips. Below we report on the findings at existing suppliers only; findings at potential suppliers are not included in this report.

As in previous years, the majority of the audits were done in China. Additionally, audits were performed in Brazil, India and Mexico. A smaller number of audits took place also in Belarus, Dominican Republic, Indonesia, Philippines, Russia and Ukraine. These audits directly or indirectly relate to the working conditions of almost 116,000 workers at the production sites that were audited.

Philips Group
Distribution of supplier audits by country
2015



Audit findings

To track improvements, Philips measures the 'compliance rate' for the identified risk suppliers, i.e. the percentage of risk suppliers that were audited within the last three years and do not have any – or have resolved all – major non-compliances. During 2015 we achieved a compliance rate of 86% (2014: 86%).

Please refer to sub-section 14.2.8, Supplier indicators, of this Annual Report for the detailed findings of 2015.

Supplier development and capacity building

In 2015, we continued our focus on capacity-building initiatives which are offered to help suppliers improve their practices. Our supplier sustainability experts in China organized training, visited suppliers for on-site consultancy, conducted pre-audit checks and helped suppliers to train their own employees.

5.2.10 Addressing issues deeper in the supply chain

Philips' shares the concern about issues in the mining of minerals that are used in electronics industry products. Areas of concern include the situation in eastern DRC (Democratic Republic of the Congo), where proceeds from the mining sector are used to finance rebel conflicts in the region, environmental and safety concerns in tin mining in Indonesia, the wide array of issues related to gold mining, and child labor in mining in general.

Philips does not source the minerals directly and the mines are typically seven or more tiers away from our direct suppliers.

We were one of the first companies to survey our suppliers to identify smelters used in the supply chain that produce the metals of concern, and one of the few companies to have our SEC Conflict Minerals Report audited in 2014 and 2015.

For more details and results of our supplier sustainability program, please refer to sub-section 14.2.8, Supplier indicators, of this Annual Report.

5.3 Environmental performance

EcoVision

Philips has a long sustainability history stretching all the way back to our founding fathers. In 1994, we launched our first program and set sustainability targets for our own operations. 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.

Philips publishes every year a full 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. KPMG has provided reasonable assurance on whether the information in chapter 14, Sustainability statements, of this Annual Report, section 5.2, Social performance, of this Annual Report and section 5.3, 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 14.4, Independent Auditor’s Assurance Report, of this Annual Report.

The main elements of the EcoVision program are:

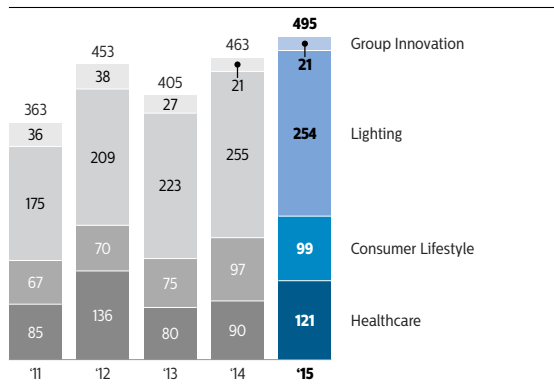
- Improving people’s lives
- Green Product sales
- Green Innovation, including Circular Economy
- Green Operations
- Health and Safety
- Supplier Sustainability

In 2015, our fifth EcoVision program ended. In this Environmental performance section an overview is given of the most important environmental parameters of the program. Improving people’s lives, Health and Safety, and Supplier Sustainability are addressed in the Social performance section. Details of the EcoVision parameters can be found in the chapter 14, Sustainability statements, of this Annual Report. We plan to launch the next 5-year program in the second quarter of 2016.

5.3.1 Green Innovation

Green Innovation is the Research & Development spend related to the development of new generations of Green Products and Green Technologies. We announced in 2010 our plan to invest a cumulative EUR 2 billion in Green Innovation during the next 5 years. In 2014, Philips already achieved this EUR 2 billion target a year ahead of schedule. In 2015, we invested some EUR 495 million in Green Innovation, excluding Lumileds and Automotive. Lighting continued to be the largest contributor, mainly as a result of investments in LED. The impact of Lumileds and Automotive on Green Innovation is significant at EUR 93 million in 2015 and EUR 105 million in 2014.

Philips Group
Green Innovation per sector in millions of EUR
2011 – 2015



Healthcare

Healthcare develops innovative solutions across the continuum of care in close collaboration with clinicians and customers, to improve patient outcomes, provide better value, and help secure access to high-quality

care. Healthcare investments in Green Innovation in 2015 amounted to EUR 121 million, a EUR 31 million increase compared to 2014. 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. In 2015, we started to add an energy-efficient CryoCompressor to our MRI systems. 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. Healthcare actively supports 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.

Consumer Lifestyle

Continuous high R&D investments at Consumer Lifestyle are also reflected in Green Innovation spend, which amounted to EUR 99 million in 2015, comparable to EUR 97 million in 2014. The continued green investments resulted in high Green Product sales in all Business Groups. The sector continued its work on improving the energy efficiency of its products, closing the materials loop (e.g. by using recycled materials in products and packaging) and the voluntary phase-out of polyvinyl chloride (PVC), brominated flame retardants (BFR), Bisphenol A (BPA) and phthalates from, among others, food contact products. In particular, more than 80% of the shaving, grooming and oral healthcare products are completely PVC/BFR-free. Green investments during the course of 2015 in Personal Health Solutions are expected to result in the launch of the first Green Products in this product segment in early 2016.

Lighting

At Lighting, we strive to make the world healthier and more sustainable through energy-efficient lighting systems. With a 2015 investment of EUR 254 million in Green Innovation (excluding Lumileds and Automotive), Lighting invested a similar amount as in 2014. Increasing investments in digital lighting solutions and cloud computing have led to further improvements in the area of energy efficiency. In 2015, Los Angeles became the first city in the world to control its street lighting through an advanced Philips management system that uses mobile and cloud-based technologies. Beyond significant energy efficiency benefits, this new Philips CityTouch gives citizens safer lit streets and reports faults and reduces commissioning time to minutes. This system also supports the transition to a more circular economy as the wireless plug-and-play connector nodes protect a city’s existing investment by networking streetlights from any vendor.

Philips Group Innovation

Philips Group Innovation invested EUR 21 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 Group Innovation used the Sustainable Innovations 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 sustainable innovation. As of 2015, transfers of innovation 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.

Philips Green Patent portfolio

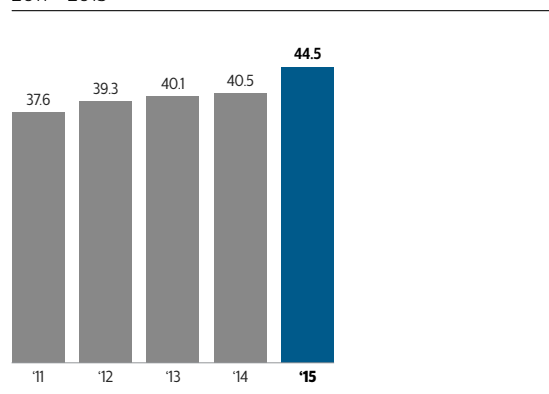
At the end of 2015, Philips' IP portfolio consisted of 6.7% green patent families. All families are labeled with at least one Green Focal Area. In 2015, 6% of our total new patent filings were flagged as green patent family. Energy efficiency is still the most frequently occurring Green Focal Area throughout the portfolio. 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 by incorporating 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.

Energy efficiency of products

Energy efficiency is a key Green Focal Area for our Green Products. According to our analysis, about 97% of the energy consumed during the use phase of our products is attributable to Lighting products. The remaining 3% is split over Consumer Lifestyle and Healthcare. Therefore, we focus on the energy efficiency of our Lighting products in the calculation. The annual energy consumption per product category is calculated by multiplying the power consumption of a product by the average annual operating hours and the annual pieces sold and then dividing the light output (lumens) by the energy consumed (watts). The average energy efficiency of our total product portfolio increased significantly in 2015 to 44.5 lumen per watt, or 10% compared to 2014. The exclusion of Lumileds and Automotive had a limited upward effect on the energy efficiency of the portfolio.

Philips Group
Energy efficiency of total product portfolio in lumen/watt
2011 - 2015



In 2015, LED sales advanced well, as demand for conventional lighting declined. Compared to 2009, the baseline year of our measurement, the average energy efficiency of our portfolio increased by 33%. We expect the energy efficiency to improve further in the coming years as the traditional incandescent lamp is banned in more countries. Our target for 2015 was a 50% improvement compared to the 2009 baseline. In this target setting, assumptions were made about the speed of the regulatory developments in this area, which fell short of expectations.

Further details on this parameter and the methodology can be found here:

[Improving energy efficiency of Philips products.](#)

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.

For more information on our Circular Economy activities, please refer to sub-section 14.3.1, EcoVision, of this Annual Report.

Closing the materials loop

The amount of collection and recycling for 2014 (reported in 2015) was calculated at 28,500 tonnes, a 10% decrease compared to 31,500 tonnes reported in 2014, driven by lower weight of products and components in all sectors. Our target was to double global collection and recycling by 2015 compared to 2009, when the baseline was set around 22,500 tonnes, based on the data retrieved from the Waste Electrical and Electronic Equipment (WEEE) collection schemes and from our own recycling and refurbishment services (mainly Healthcare).

Recycled materials

We calculated the amount of recycled materials used in our products in 2015 at some 13,500 tonnes (2014: 13,000 tonnes) by focusing on the material streams plastics (Consumer Lifestyle), aluminum (Lighting), refurbished products, and spare parts harvesting (Healthcare) depending on their relevance in each sector.

Our target was to double the amount of recycled materials in our products by 2015 compared to 2009, when the baseline was set at 7,500 tonnes.

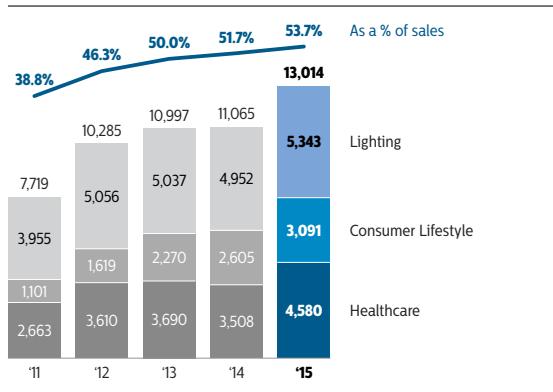
Further details on this parameter and the methodology can be found here: [Closing the materials loop](#).

5.3.2 Green Product sales

Green Products offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Recycling and disposal, and Lifetime reliability. Sales from Green Products, excluding the Lumileds and Automotive business, increased to EUR 13.0 billion in 2015, or 54% of sales (52% in 2014), thereby reaching a record level for Philips.

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

Philips Group
Green Product sales per sector in millions of EUR
2011 – 2015



We aim to create products that have significantly less impact on the environment during their whole lifecycle through our EcoDesign process. Overall, the most significant improvements have been realized in our energy efficiency Green Focal Area, an important objective of our EcoVision program, although there was also growing attention for hazardous substances and recyclability in all sectors in 2015, the latter driven by our Circular Economy initiatives.

New Green Products from each sector include the following examples.

Healthcare

In 2015, Healthcare expanded the Green Product portfolio with 11 new products and redesigned various current Green Products with environmental improvements. These products improve patient outcomes, provide better value, and help secure access to high-quality care, while reducing environmental impact. Examples include a new packaging system for our PCMS medical supplies business, which has enabled a 90% reduction in air space in packaging and a 24% reduction in packaging material weight to support our customers in reducing their waste streams. Another example is our Home Monitoring business which operates by a performance-based service business model that enables 76% re-use of products and parts while maintaining the embedded labor and energy. The Efficia is a new Green Product in our value range of patient monitoring, which is an example of how we aim to support expanded access to care in under-resourced regions while lowering environmental impact as well. We started to add an energy-efficient CryoCompressor to our MRI systems, with energy savings in the various non-scanning modes of 30-40%. Both material (30%) and energy (20%) savings are achieved in our new Access CT system, a compact-designed CT for the value segment market. Sleep and Respiratory Care (SRC) launched the V680 ventilator which includes, besides better performance in uninterrupted invasive or noninvasive ventilation, a product and packaging material weight reduction of 60% and 75% respectively and a reduction in energy usage of 80%. Other new Green Products came from SRC (lightweight masks and sleep therapy devices), MCS group (lightweight battery chargers) and X-Ray systems for the Brazilian market without lead counter ballasts.

Consumer Lifestyle

Consumer Lifestyle focuses on Green Products which meet or exceed our minimum requirements in the areas of energy consumption, packaging, and substances of concern. The sales of Green Products in 2015 surpassed 58% 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 65% of sales consist of PVC/BFR-free products, with the exception of the power cords, for which there are not yet economical viable alternatives available. In the remaining 35% 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.

In 2015, more kitchen appliances, vacuum cleaners, coffee machines and irons were launched with parts made of recycled plastics. In total we have applied some 900 tons of recycled plastics in our products. An example is the new Perfect Care Eco Aqua Steam Generator, with more than 50% recycled plastics.

Lighting

Green Product sales within Philips Lighting increased to 72% in 2015. Connected lighting systems contributed to Green Product sales with solutions in more applications and market segments. In August 2015 the new installation of the connected Philips LED lighting system in the Allianz Arena made it Germany's first and Europe's largest stadium to feature a dynamic and colorful light display on its entire façade. This new energy-efficient lighting system also saves approximately 60% on electricity and 362 tons of CO₂ per year. The maintenance and operating costs are also lower due to the cloud-based Philips ActiveSite platform. The LEDs have an average lifetime of 80,000 operating hours and the system is extremely robust, even under extreme weather conditions.

5.3.3 Green Operations

The Green Operations program focuses on the main contributors to climate change, recycling of waste, reduction of water consumption, and reduction of emissions of restricted and hazardous substances. Full details can be found in chapter 14, Sustainability statements, of this Annual Report.

Carbon footprint and energy efficiency

After achieving our EcoVision4 carbon emissions reduction target in 2012, we continued our energy efficiency improvement programs across different disciplines. This year we have achieved our 2015 emission reduction target that was set at a 40% decrease in CO₂ reductions compared to our 2007 base year. Our carbon footprint decreased by 7% compared to 2014, resulting in a total of 1,417 kilotonnes CO₂, a 41% decrease compared to 2007. This was mainly achieved by emissions reductions of 17% compared to 2014 in our manufacturing facilities, resulting from operational changes and decreased energy usage due to lower load at energy intensive Lighting factories. Additionally the energy intensity for our non-industrial operations decreased resulting in emission reductions of 16%. Business travel emissions showed a slight reduction of 1% compared to 2014. In order to further decrease our business travel emissions we will continue to promote video conferencing as an alternative to travel in 2016. These reductions were, however, offset by a 23% increase in emissions from air transport over the course of 2015, mainly at Healthcare to meet demand.

Our operational energy efficiency improved by 18%, from 1.29 terajoules per million euro sales in 2014 to 1.06 terajoules per million euro sales in 2015 as a result of energy efficiency programs in our industrial sites.

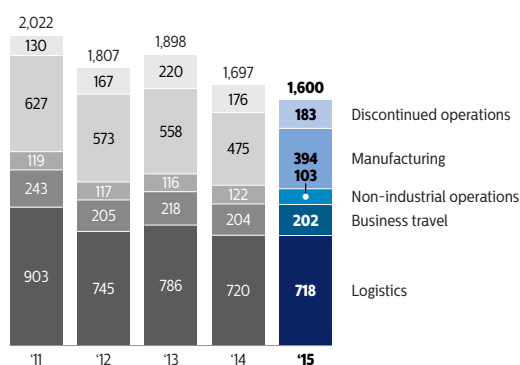
During 2015, the applied emission factors used to calculate our operational carbon footprint have been updated from the previously used DEFRA (UK Department for Environment, Food & Rural Affairs) 2007 and bespoke emission factors to the applicable DEFRA 2015 emission factors for each year respectively. This update affected all historical data and resulted in an overall average increase of our carbon emissions by

11% for all years. We implemented these new emission factors to ensure improved carbon disclosure. The emission factor update did not affect our performance against the base year.

From this year onward our scope 2 emissions reporting will include both the market based method as well as the location based method. Both methods are adopted according to the new Corporate Standard of the Greenhouse Gas (GHG) Protocol as further described in chapter 14, Sustainability statements, of this Annual Report. The market based method will serve as reference for calculating our total operational carbon footprint. As explained in chapter 14, the market based method includes reduction of our emissions resulting from purchasing renewable energy. In 2015, we procured 54% of our electricity from renewable sources. Approximately 60% of our renewable energy is standardly contracted via our energy providers. The remaining 40% was mainly sourced in the United States through procurement of renewable energy certificates.

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 10% over the past 5 years. Emissions from discontinued operations in our industrial activities have been identified exactly. Emissions from our non-industrial facilities and business travel have been estimated based on FTE data. For our logistics emissions the part of discontinued operations has been estimated using revenue share as a proxy where applicable.

Philips Group
Operational carbon footprint in kilotonnes CO₂-equivalent
2011 - 2015



Philips Group
Operational carbon footprint by Greenhouse Gas Protocol scopes in kilotonnes CO₂-equivalent
2011 - 2015

	2011	2012	2013	2014	2015
Scope 1	381	355	361	320	261
Scope 2 (market based)	365	335	313	277	236
Scope 3	1,146	950	1,004	924	920
Philips Group	1,892	1,640	1,678	1,521	1,417
Scope 2 (location based)	579	584	583	546	496

Water

Total water intake in 2015 was 2.7 million m³, about 12% lower than in 2014. This decrease was mainly due to lower production volumes at multiple Lighting sites where water is used for cooling purposes, operational changes and water-saving actions at various sites.

Lighting represents around 64% of total water usage. In this sector, water is used in manufacturing as well as for domestic purposes. The other sectors use water mainly for domestic purposes. The exclusion of Lumileds and Automotive has a significant downward impact on the water consumption of Philips. In 2015, Lumileds and Automotive accounted for 1.7 million m³ of water.

Philips Group
Water intake in thousands of m³
2011 - 2015

	2011	2012	2013	2014	2015
Healthcare	308	421	454	514	439
Consumer Lifestyle	338	303	586	537	537
Lighting	2,249	2,413	2,249	2,052	1,751
Innovation, Group & Services	-	-	-	-	-
Continuing operations	2,895	3,137	3,289	3,103	2,727
Discontinued operations	1,433	1,720	1,755	1,700	1,684
Philips Group	4,328	4,857	5,044	4,803	4,411

In 2015, 72% of water was purchased and 28% was extracted from groundwater wells.

Waste

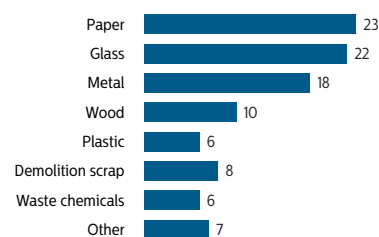
In 2015, total waste decreased by some 9% compared to 2014 to 68.5 kilotonnes, mainly due to operational changes, lower production volumes and less packing waste at Lighting sites. Lighting contributed 66% of total waste, Consumer Lifestyle 17% and Healthcare 17%. The exclusion of Lumileds and Automotive had a 9% downward impact on total waste.

Philips Group
Total waste in kilotonnes
2011 - 2015

	2011	2012	2013	2014	2015
Healthcare	9.3	10.4	9.6	9.8	11.6
Consumer Lifestyle	19.6	12.7	11.4	11.3	11.6
Lighting	58.1	57.5	54.9	53.9	45.3
Innovation, Group & Services	-	-	-	-	-
Continuing operations	87.0	80.6	75.9	75.0	68.5
Discontinued operations	7.0	7.0	16.1	5.4	6.4
Philips Group	94.0	87.6	92.0	80.4	74.9

Total waste consists of waste that is delivered for landfill, incineration or recycling. Materials delivered for recycling via an external contractor comprised 57 kilotonnes, which equals 83% of total waste, an improvement compared to 80% in 2014, as our manufacturing sites continued their recycling programs. Of the 17% remaining waste, 72% comprised non-hazardous waste and 28% hazardous waste; 8.2 kilotonnes of waste was sent to landfill.

Philips Group
Industrial waste delivered for recycling in %
2015



Emissions

Emissions of restricted substances totaled 26 kilos in 2015, mainly caused by one site in China reporting a thinner containing benzene. For the third 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 28,310 kilos to 25,101 kilos (-11%), driven by a reduction in xylene emissions at Consumer Lifestyle, due to lower production of products where these specific lacquers and thinners are used as well as

Philips Group
Ratios relating to carbon emissions and energy use
2011 - 2015

	2011	2012	2013	2014	2015
Operational CO₂ emissions in kilotonnes CO ₂ -equivalent	1,892	1,640	1,678	1,521	1,417
Operational CO₂ efficiency in tonnes CO ₂ -equivalent per million EUR sales	95	74	76	71	58
Operational energy use in terajoules	31,682	28,886	29,586	27,579	25,614
Operational energy efficiency in terajoules per million EUR sales	1.59	1.30	1.35	1.29	1.06

a decrease in styrene emissions at two Lighting sites. Lighting and Consumer Lifestyle have reduction programs for restricted and hazardous substances.

Philips Group
Restricted and hazardous substances in kilos
 2011 – 2015

	2011	2012	2013	2014	2015
Restricted substances	111	67 ¹⁾	37 ¹⁾	29 ¹⁾	26
Hazardous substances	63,604	67,530	35,118	28,310	25,101

¹⁾ Numbers have been restated

For more details on restricted and hazardous substances, please refer to sub-section 14.3.3, Green Operations, of this Annual Report.

Content you didn't download

5.4 Proposed distribution to shareholders

...

14 Sustainability statements

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, which provided details of our social and economic performance in addition to our environmental results.

In 2008, we decided to publish an integrated financial, social and environmental report, reflecting the progress we have made embedding sustainability in our way of doing business. This is also supported by the inclusion of sustainability in the Philips Mission, Vision and the company strategy. For more information, please refer to chapter 4, Our strategic focus, of this Annual Report.

This is our eighth annual integrated financial, social and environmental report which has been prepared in line with the International Integrated Reporting Council (IIRC) Integrated Reporting (IR) framework, including a visualization of our value creation process section 4.2, How we create value, of this Annual Report.

Philips publishes its 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.

Tracking trends

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

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. When appropriate and relevant to our business, we incorporate their feedback on specific areas of our business into our planning and actions. In addition to engagement with our customers, our suppliers, employees, investors, local communities and governments and non-governmental organizations, we participate in meetings and task forces as a member of organizations including the WBCSD, World Economic Forum, Electronic Industry Citizenship Coalition (EICC) and the Ellen MacArthur Foundation.

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 circumstances in the electronics industry in China.

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

In addition to face-to-face meetings, webinars and social media channels provide us with ongoing feedback on our strategy, performance and emerging topics. Our sustainability e-mail account (philips.sustainability@philips.com) enables stakeholders to share their issues, comments and questions with the sustainability team. As described in the Materiality section below, various stakeholder groups have been invited to provide input to the materiality analysis which was updated for the Annual Report 2015. The table below provides an overview of the different stakeholder groups, examples of those stakeholders and topics discussed.

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 5.2, Social performance, of this Annual Report.
Customers	<ul style="list-style-type: none"> - Hospitals - Real estate developers - 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 Pearl and Yangtze river deltas - HP, Randstad, Maersk 	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 14.2.8, Supplier indicators, of this Annual Report.
Governments, municipalities, etc.	<ul style="list-style-type: none"> - European Union - Authorities in Los Angeles, Singapore 	Issues meetings, annual Innovation Experience, research projects, policy and legislative developments, business development
NGOs	<ul style="list-style-type: none"> - Dutch Sustainable Trade initiative (IDH) - Friends of the Earth 	Issues meetings, cross-sector (multi-stakeholder) projects, joint 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

Reporting standards

In this report, we have followed relevant best practice standards and international guidelines; the IIRC Integrated Reporting <IR> framework and the Global Reporting Initiative's (GRI) G4 Sustainability Reporting Guidelines.

Sustainability is integrated in our company strategy and embedded in the organization. We have developed a value creation model (section 4.2, How we create value, of this Annual Report), including the six capitals, in line with the <IR> framework. A detailed overview of the G4 Comprehensive Indicators is provided at the end of this section.

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

As part of our commitment to the Sustainable Development Goals (SDGs), we use this report to communicate on our progress towards the relevant SDGs (please refer to sub-section 14.2.7, Stakeholder Engagement, of this Annual Report), next to our reporting into the SDG Compass reporting tool.

Material aspects and our focus

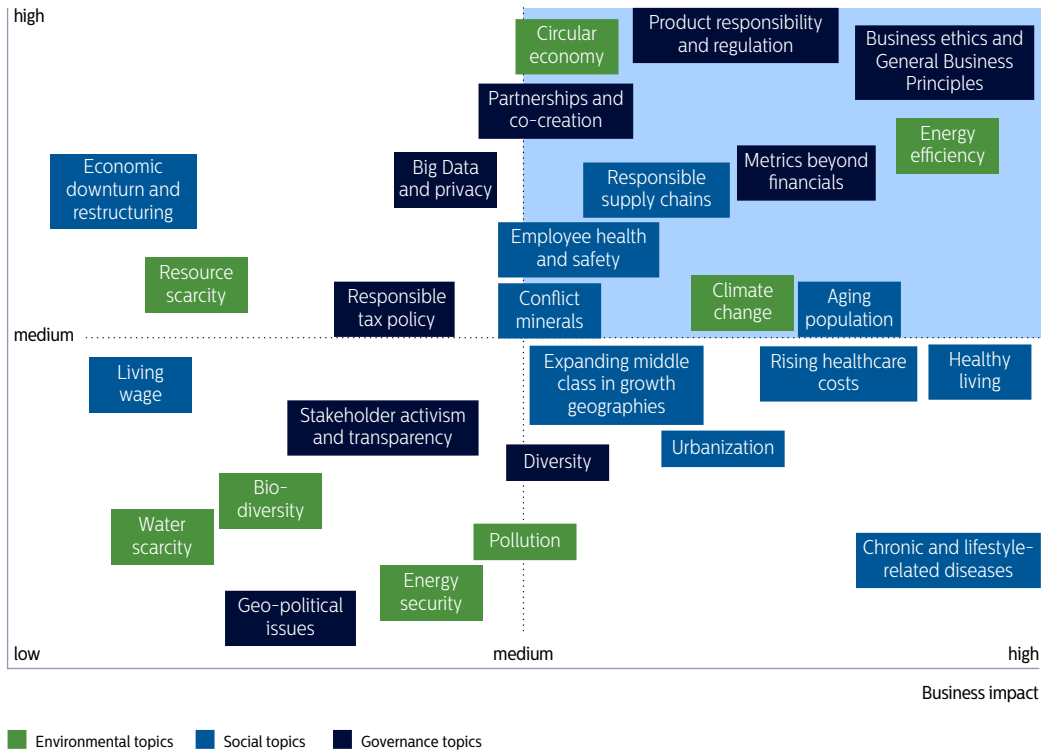
We identify the environmental, social, and governance aspects which have the greatest impact on our business and the greatest level of concern to stakeholders along our value chain. These direct or indirect aspects may represent opportunities and risks and influence our ability to create, preserve or erode economic, environmental and social value for our stakeholders and Philips. Assessing these aspects enables us to prioritize and focus upon the most material issues and effectively address these in our policies and programs as well as measure and understand their implications in financial and non-financial terms.

Our materiality assessment is based on an ongoing trend analysis, media search, and stakeholder input. In 2015, we have updated our assessment by asking a diverse group of stakeholders (incl. customers, suppliers, investors and NGOs) to evaluate the materiality of a long-list of aspects. The results are reflected on the vertical axis of the materiality matrix. The scores on the horizontal axis are based on Philips' assessment to the best of our knowledge. Our materiality assessment has been conducted in the context of the GRI G4 Reporting Framework and the results have been reviewed and approved by the Philips Sustainability Board.

The results of this analysis are given in the matrix below and the key material aspects as well as the links to the relevant sections in this report are provided as well.

Materiality matrix

Importance to Stakeholders



Key material aspects

	Reference ¹⁾	Boundaries
Environmental		
- Climate change	chapter 2, Message from the CEO, of this Annual Report section 4.1, Addressing global challenges, of this Annual Report section 5.3, Environmental performance, of this Annual Report chapter 14, Sustainability statements, of this Annual Report	Supply chain, operations, use phase
- Energy efficiency	section 4.1, Addressing global challenges, of this Annual Report section 5.3, Environmental performance, of this Annual Report chapter 14, Sustainability statements, of this Annual Report	Supply chain, operations, use phase
- Circular Economy	chapter 2, Message from the CEO, of this Annual Report sub-section 5.3.1, Green Innovation, of this Annual Report section 5.3, Environmental performance, of this Annual Report sub-section 14.2.8, Supplier indicators, of this Annual Report	Supply chain, operations, use phase
Societal		
- Aging population	section 4.1, Addressing global challenges, of this Annual Report sub-section 6.1.1, Healthcare landscape, of this Annual Report sub-section 6.2.1, Consumer landscape, of this Annual Report	Use phase
- Responsible Supply Chains	section 5.2, Social performance, of this Annual Report chapter 14, Sustainability statements, of this Annual Report	Supply chain
- Employee health and safety	section 5.2, Social performance, of this Annual Report	Supply chain, operations
- Conflict minerals	sub-section 5.2.10, Addressing issues deeper in the supply chain, of this Annual Report	Supply chain

	Reference ¹⁾	Boundaries
Governance		
- Business ethics and General Business Principles	section 7.5, Compliance risks, of this Annual Report sub-section 5.2.7, General Business Principles, of this Annual Report	Supply chain, operations, use phase
- Partnerships and co-creation	sub-section 6.4.1, About Innovation, Group & Services in 2015, of this Annual Report chapter 14, Sustainability statements, of this Annual Report	Supply chain, use phase
- Metrics beyond financials	section 5.2, Social performance, of this Annual Report section 5.3, Environmental performance, of this Annual Report chapter 14, Sustainability statements, of this Annual Report	Supply chain, operations, use phase
- Product responsibility and regulation	section 7.5, Compliance risks, of this Annual Report sub-section 6.1.2, About Healthcare in 2015, of this Annual Report sub-section 6.2.2, About Consumer Lifestyle in 2015, of this Annual Report sub-section 6.3.2, About Lighting in 2015, of this Annual Report	Supply chain, operations, use phase

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

Programs and targets

Our sustainability commitments are grouped under the label EcoVision, comprising the following key elements, more detailed targets can be found in the respective sections.

Philips Group Sustainability commitments 2015

	baseline year	target 2015	2015 actual
Green Product Sales		50% of total sales	54%
Lives Improved		2 billion	2 billion
Green Innovation			
- Investments	2010	EUR 2 billion (cumulative)	EUR 2.2 billion
- Energy Efficiency	2009	50.3 lumen/watt (up 50%)	44.5 lumen/watt
- Materials			
- Collection & Recycling	2009	45,000 tonnes (up 100%)	28,500 tonnes
- Recycled content	2009	15,000 tonnes (up 100%)	13,500 tonnes
Green Operations			
- CO ₂ reduction	2007	40%	41%
- Health & Safety		0.26 Lost Workday Injury Cases per year	0.21
Supplier Sustainability ¹⁾		72% compliant	86%

¹⁾ For more information see sub-section 14.2.8, Supplier indicators, of this Annual Report

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

Boundaries of sustainability reporting

Our sustainability performance reporting encompasses the consolidated Philips Group activities, following the consolidation criteria detailed in this section. As a result of impact assessments of our value chain we have identified the material topics, determined their relative impact in the value

chain (supply chain, our own operations, and use phase of our products) and report for each topic on the relevant parts of the value chain. More details on our impact are provided in the relevant sections.

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

Comparability and completeness

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

There have been three changes in the Lives Improved model causing a significant change in the results. Firstly, the source of installed base reporting for part of the Healthcare business was discontinued at the end of 2014, a new source has been used in 2015. Historical results could not be recalculated using the new installed base source, however the upward impact of this change has been estimated at a maximum of 4%. Secondly, the inclusion of three types of patient monitors has been added to the model. Historical results have been recalculated for this change and have an upward impact of maximum 2%. Thirdly, in the 2014 Lighting sales data an update on quantities of green products sold has taken place. This has a downward effect of maximum 4%.

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 as from 2014.

In 2015, in line with previous years, the emission factor set for consumed electricity has been 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 three emission factors for business travel and logistics have been 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. There is therefore an inherent uncertainty in our calculations. The figures reported are Philips' best estimate. As our insight increases, we may enhance the methodology in the future.

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

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 if relevant. Where the impact of the exclusion was material, we clearly disclosed the impact.

Data definitions and scope

Lives improved, energy efficiency and materials

The Key Performance Indicators on 'lives improved', 'energy efficiency' and 'materials' and the scope are defined in the respective methodology documents that can be found at www.philips.com/sustainability.

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. The focus of reporting is on work-related injuries and illnesses that predominantly occur in manufacturing operations and Field Services Organizations for incidents leading to at least one lost workday. Fatalities are reported for staff, contractors and visitors and include commuting accidents. From 2016 onward, the annual number of cases leading to a Recordable Case will be reported per 100 FTEs (Total Recordable Case Rate).

General Business Principles

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

Supplier audits

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

- Based on the Maplecroft Human Rights Risk Indexes, risk countries for Supply Management in 2015 were: Belarus, Brazil, China, Dominican Republic, India, Indonesia, Mexico, Philippines, Russia and Ukraine.
- Suppliers of new ventures are included to the extent that the integration process of these ventures has been finalized. Normative integration period is two years after closure of the new venture.

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 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 need to prove leadership in at least one Green Focal Area compared to industry standards, which is defined by a sector specific peer group. This is done either by outperforming reference products (which can be a competitor or predecessor product in the particular product family) by at least 10%, outperforming product-specific eco-requirements or by being awarded with a recognized eco-performance label. Because of different product portfolios, sectors have specified additional criteria for Green Products, including product-specific minimum requirements where relevant.

Green Innovation

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

Environmental data

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

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 Green Operations program 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 to report on the first two scopes to comply with the GHGP reporting standards. As per the updated GHGP Scope 2 reporting guidance, from this year onward our scope 2 emissions reporting will include both the market based method as well as 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 with direct emissions from our industrial and nonindustrial sites in full. Emissions from industrial sites, which consist of direct emissions resulting from processes and fossil fuel combustion on site, are reported in the sustainability reporting system. Energy use and 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 with indirect emissions from our industrial and non-industrial sites in full. 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 using 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 have less emissions per energy 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 within the same energy market as 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-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 (EACS).

- 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 half-yearly 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. Therefore, an increase of our total carbon emissions compared with previous reported results can be observed. 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 cars are based on actual fuel usage and for rental cars 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 flights. Further, emissions from air freight for distribution are calculated based on the amount of tonne-kilometers transported between airports (distinguishing between short, medium and long hauls), including an estimate (based on actual data of the lanes with the largest volumes) for trucking from sites and distribution centers to airports and vice versa. Express shipments are generally a mix of road and air transport, depending on the distance.

Therefore the assumption is applied that shipments over less than 600 km are transported by road and the rest of the shipments by air (those emissions by air are calculated in the same way as air freight). For sea transport, only data on transported volume were available so an estimate had to be made about the average weight of a container. Transportation to and from ports is not registered. This fore and aft part of sea transport was estimated to be around 3% of the total distance (based on actual data of the lanes with the largest volumes), consisting of a mix of modalities, and was added to the total emissions accordingly. 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.

Sustainability governance

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

The Sustainability Board is the highest governing sustainability body in Philips, which was chaired by Jim Andrew, member of the Executive Committee until September 2015, as he left the Company. Three other Executive Committee members sit on the Sustainability Board jointly with sector and functional executives. The Sustainability Board convenes four times per year, defines Philips' sustainability strategy and programs, monitors progress and takes corrective action where needed.

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

External assurance

KPMG has provided reasonable assurance on whether the information in chapter 14, Sustainability statements, of this Annual Report and section 5.2, Social performance, of this Annual Report and section 5.3, 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 14.4, Independent Auditor's Assurance Report, of this Annual Report.

14.1 Economic indicators

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

Philips Group
Distribution of direct economic benefits in millions of EUR
2013 - 2015

	2013	2014	2015
Suppliers: goods and services	12,653	13,185	14,388
Employees: salaries and wages	4,722	5,018	5,533
Shareholders: distribution from retained earnings	678	729	730
Government: corporate income taxes	466	26	239
Capital providers: net interest	269	251	302

Total purchased goods and services as included in cost of sales amounted to EUR 14.4 billion, representing 59% of total revenues of the Philips Group. Of this amount, approximately 65% was spent with global suppliers, the remainder with local suppliers.

In 2015, the salaries and wages totaled EUR 5.5 billion. This amount is some EUR 500 million higher than in 2014, mainly caused by the acquisition of Volcano, unfavorable currency effects and settlement for pension de-risking. See note 6, Income from operations for more information.

Philips' shareholders were given EUR 730 million in the form of a dividend, the cash portion of which amounted to EUR 298 million.

Income taxes amounted to EUR 239 million, compared to EUR 26 million in 2014. The effective income tax rate was 38.4%. The increase in 2015 was mainly due to the non-deductible expenses, new loss carryforwards and temporary differences not expected to be realized which were partly offset by non-taxable income. Non-taxable income is predominantly attributable to favorable tax regulations relating to R&D investments. The comparable effective income tax rate for 2014 was 14.1%.

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

For more information, please refer to [Philips' Tax Principles](#).

14.2 Social statements

This section provides additional information on (some of) the social performance parameters reported in section 5.2, Social performance, of this Annual Report.

14.2.1 Engaging our employees

In 2014 we implemented a team-focused quarterly survey called My Accelerate! Survey (MAS).

In 2015, 76% of respondents agreed with the transformation journey statement: *'In my team we role model the Philips behaviors'*. There was also an increase in areas concerning *'Speed of decision making'*, resulting in an overall engagement score of 71% favorable answers across the Philips population. We also noted that, compared with 2014, we maintained a strong favorable engagement score and saw a significant decrease in the unfavorable score (from 17% down to 7%).

The MAS indicates very high favorable scores within the set of questions referring to Alignment (*'How clear are we about customer needs and business priorities?'*) and Execution (*'How good are we at getting things done?'*) at 81% and 74% favorable respectively. An area for improvement is in the questions referring to Renewal (*'How do we stay effective and adapt?'*). Improvement initiatives to address these are driven at the team level

via Team Performance Dialogues, and we continue to monitor our overall engagement results in Leadership Team quarterly reviews.

14.2.2 People development

The creation of Philips University reflects our Accelerate! transformation, driven by our growth and performance culture, as well as our belief that everyone has talent and can grow and contribute with increasing impact. Philips University offers world-class learning interventions to help our people develop critical capabilities, and it does so in a simplified, standardized and innovative way, with one central Learning Management System accessible to all employees.

In 2015, more than 800 new courses were made available in the Philips University. By year-end, more than 55,000 unique employees had enrolled for courses in the Philips University. In total, more than one million hours were spent on training through Philips University in 2015, with more than 450,000 training completions. Some of the most popular programs included our Philips Excellence e-learnings, which are being rolled out to all employees as part of our ongoing commitment to operational excellence.

Our belief in an inclusive culture was also embedded in our Philips University programs. The Leadership Academy continued to emphasize inclusion in key programs such as 'Next Generation Women's Leadership', 'Leading Across Cultures', and 'Inclusive Leadership.' Our learning philosophy is likewise inclusive: all our employees have access to content such as the award-winning Harvard Manage Mentor leadership suite, and in 2015 more than 21,000 learners were registered (up from 9,000 in 2014).

Philips University continued to be a key catalyst for transformation and change in 2015, with ongoing support for our end-to-end Accelerate! programs. To support the embedding of our end-to-end ways of working, many engineers and architects, sales and account managers and supply chain employees have been trained and have gone through certification paths, gained new capabilities and brought new ways of working to their daily work. Newly developed Marketing education programs are being rolled out globally with active involvement of leaders as trainers, certified coaches and strong alignment to business and individual development plans.

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 its launch in 1983, more than 12,500 people have participated, and around 70% find a regular job after taking part in the program. In

2015, Philips employed 140 people via the WGP program, including 19 people with autism. As we move into 2016, we will continue to offer an environment for all of our people to thrive and grow.

14.2.3 Global talent acquisition

Top sources of talent

Philips' talent management approach is to build and develop our existing employees continuously, while strategically buying talent where critical capabilities need to be strengthened to achieve our strategic objectives. In 2015, our global Talent Acquisition team recruited talent both internally and externally, hiring over 11,000 people including interns. As in the years before, nearly one third of those vacancies were filled with internal candidates, and the remainder filled with qualified talent from the external labor market.

Further strengthening in-house executive recruitment

Executive Search Services (ESS), Philips' in-house executive recruiting services unit, delivered 72 high-quality senior-level hires in 2015 (over 80% of external executives were placed by the ESS team rather than using external search firms, saving over EUR 5 million for Philips). ESS provides services such as demand-based executive recruiting, executive intelligence & talent consulting services, and executive-specific referral and onboarding programs. The further strengthening of this focused in-house recruiting capability ensures we are able to attract the right profiles into our most business-critical positions.

A strong global employer brand with local relevance in the digital age

Philips knows that it is crucial to attract the best talent in order to deliver on our strategic goals. In 2015, we strengthened our employer brand in our growth markets through dedicated resources and local activations. We also narrowed our focus and strategic recruitment marketing investments on the most critical talent segments that will drive our transformation and growth. For example, Philips launched a digital employer brand campaign that raised awareness and generated preference for Philips as an employer among Engineering, Quality, Marketing and Sales professionals. The campaign is running across key social and digital media channels in 33 countries.

As part of our global Talent Acquisition strategy, we seek to attract talent from proven high-quality sources. In 2015, the top five sources of hire were:

- **Philips employee referral** – Historical data has proven that our top-performing hires are those referred by our own employees. We engage our employees to share their network through a formal employee referral program, which generates close to 30% of our total hires each year.

- **Internal hire** – Part of our Accelerate! transformation is a stated cultural imperative to embed a growth and performance culture and facilitate a mobile, diverse workforce. As a result, we fill nearly one third of our vacancies with internal top performers each year.
- **Proactively sourced by recruiter** – Our dedicated in-house sourcing function focuses solely on building proactive talent pipelines and requires all recruitment professionals to contribute to the proactive identification of passive industry talent.
- **Digital career channel (employee review sites, social media sites, online community groups, etc.)** – In line with our overall focus on increasing our digital footprint, our recruitment marketing team continued to invest in Philips' social employer brand and recruiting activations in 2015, but took a more targeted approach. As a result, we further improved our online reach and delivered over 2,200 hired candidates. Channel-specific indicators included an increase of 3.2% in the Philips Talent Brand Index on LinkedIn and positive trends in our Glassdoor.com employee ratings since late Q3 2015. For employer brand updates and company content, visit the [Philips LinkedIn Careers page](#)
- **Philips careers website** – Our career website attracts talent by emphasizing our Employer Value Proposition through targeted information sharing and storytelling from our employees and leadership teams. The Philips global career website can be found at www.philips.com/careers.

14.2.4 Health and Safety performance

In Philips, Health and Safety performance has continued to improve. A number of sites showed outstanding safety performance, for example the Healthcare Pune site in India reached a significant milestone by achieving over 3 million man-hours without a Lost Workday Injury Case (LWIC) by the end of 2015 (over 3 years without an accident). In Glemsford, UK, Consumer Lifestyle implemented a Lean Behavior Based Safety program resulting in significant improvement in both incident statistics and overall safe behavior for the entire site. It is viewed as an internal best practice program with plans to be deployed globally at all manufacturing units within Philips beginning in 2016.

Philips Group
Lost workday injuries per 100 FTEs
2011 - 2015

	2011	2012	2013	2014	2015
Healthcare	0.20	0.22	0.19	0.20	0.19
Consumer Lifestyle	0.23	0.25	0.24	0.12	0.13
Lighting	0.67	0.47	0.42	0.37	0.34
Innovation, Group & Services	0.04	0.05	0.04	0.02	0.03
Continuing operations	0.38	0.31	0.27	0.23	0.21
Discontinued operations	0.59	0.55	0.37	0.25	0.27
Philips Group	0.38	0.31	0.28	0.23	0.22

Lighting

Lighting achieved a substantial reduction in reported incident rates in recent years. In 2015, the number of LWIC decreased to 119, compared with 132 in 2014. The LWIC rate decreased to 0.34, compared with 0.37 in 2014. The number of Lost Workdays stayed on a similar level with 4,832 days in 2015 due to longer-term absences in a few cases. One major achievement was a zero level of LWIC at 7 significant industrial units (over 100 FTEs) in 2015. Efforts are being continued to further reduce accident rates by focusing on injury prevention. The injury prevention framework was launched in the course of 2015 and is being integrated in the operational Lean framework. It will continue in 2016.

Healthcare

Healthcare Health and Safety performance showed a slight improvement in 2015. The number of LWIC decreased to 69 compared with 72 in 2014. The LWIC rate improved to 0.19 compared with 0.20 in 2014. The total number of Lost Workdays remained stable at 2,240 days compared to 2,242 days in 2014. The Healthcare Field Service Organization (FSO) became the main contributor to the number of LWICs of the sector, which is 54% of the sector total. The number of LWICs increased to 37 from 31 in 2014, the number of Lost Workdays in the FSO increased to 58% of the sector total compared with 33% in 2014. Continued focus on a formalized FSO Health and Safety global structure and an increase in standardized safety program deployment are among the improvement actions for 2016.

A major achievement in Healthcare for 2015 was a zero level of LWIC at 13 industrial sites.

Consumer Lifestyle

Consumer Lifestyle showed a stable number of 21 LWIC compared to 2014. The LWIC rate increased slightly, by 4% compared to 2014, to a level of 0.13. The number of Lost Workdays decreased considerably, from 1608 to 649 days as recovery periods shortened. One major achievement was a zero level of LWIC at 8 of the Consumer Lifestyle industrial units, which is 50% of the total number of Consumer Lifestyle industrial units.

14.2.5 General Business Principles

In 2015, 447 GBP complaints were filed via the Philips Ethics Line and the GBP Compliance Officers. Compared with 2014 (393 complaints), this represents an increase of 14%.

This upward trend in the overall number of concerns reported can be attributed primarily to significantly more concerns being reported in APAC and EMEA. In Europe and the Middle East (24% of the total) (2014: 18%) there was an upward trend in terms of relative and absolute numbers. The number of complaints in the Asia Pacific region (20% of the total) increased compared with 2014 (17%). Latin America fell back down to 25% of the total number of reports (2014: 30%, 2013: 17%), whilst In North America although the percentage

declined the absolute number of complaints remained stable, accounting for 31% of the total number in 2014 (2014: 35%).

This year, for the first time since Philips started operating an ethics hotline, the dominance of the Americas seems to be giving way to a more equal spread between the four regions, due to a continued increase in the number of complaints in Europe, the Middle East and the Asia Pacific region. We believe this continuing increase to be the result of the ongoing intensive communication campaigns to improve employees' awareness across the globe of their rights with regard to the GBP, and the reporting facilities available to them.

Most common types of concerns reported

Treatment of employees

The most commonly reported concern still related to the Treatment of employees category. 242 concerns were reported, which represented 54% of all reports (2014: 52%).

While not as evident as in 2014 (81%), the majority (64%) of the Treatment of employees concerns still related to two issues – Equal and fair treatment and Respectful treatment.

Concerns that fell into the Respectful treatment category related primarily to verbal abuse, (sexual) harassment and a hostile work environment, whilst concerns in the Equal and fair treatment category related primarily to favoritism, discrimination and unfair treatment. Almost 40% of the reports in these two categories originated in North America, with a further 36% being reported in Latin America.

Of the 66 cases in the 'Other' category, the majority related to HR procedural issues, e.g. related to salary payment.

Business integrity

In second place, with 138 reports (31%), were concerns reported in the 'Business Integrity' category (2014: 28%). The majority (40%) of these concerns originated in APAC, followed by Europe and the Middle East (31%), Latin America (16%) and North America (13%).

More information on these categories can be found in the GBP Directives at www.philips.com/gbp.

Substantiated/unsubstantiated concerns

Out of the 447 concerns reported in 2015, 180 are still pending closure, in particular those that were filed towards the end of the year. The table below shows a comparison between those concerns which, after investigation, could be substantiated and those that could not.

This year the investigations into 267 concerns were finalized (2014: 260). Of these concerns 32% were substantiated after investigation. The most notable increase was in the 'Employee treatment' category, where 39% of the concerns were substantiated (2014: 22%, 2013: 20%). The most notable decrease was in the 'Business Integrity' category, with only 21% of concerns being substantiated (2014: 36%, 2013: 50%).

Out of the reported concerns that were substantiated, i.e. concerns for which there was found to be a breach of our General Business Principles, 52 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.

Philips Group
Breakdown of reported GBP concerns in number of reports
2011 - 2015

	2011	2012	2013	2014	2015
Health & Safety	2	11	3	10	9
Treatment of employees	132	205	203	203	242
- Collective bargaining	-	1	5	-	-
- Equal and fair treatment	41	72	80	72	44
- Employee development	-	-	4	-	2
- Employee privacy	1	1	1	3	8
- Employee relations	1	2	5	6	-
- Respectful treatment	71	102	84	93	111
- Remuneration	6	15	15	11	9
- Right to organize	-	1	-	-	-
- Working hours	2	-	3	5	2
- HR other	10	11	6	13	66
Legal	10	19	9	30	35
Business Integrity	107	119	109	110	138
Supply management	3	3	5	6	6
IT	-	-	6	7	4
Other	15	17	-	27	13
Total	269	374	335	393	447

14.2.6 The Philips Foundation

The Philips Foundation was established in 2014 and is a registered charity with the goal to make a difference in the communities and lives of those in most 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. Over 2015, the Foundation has developed a firm program based on the strategic pillars of community development, disaster relief and social entrepreneurship activities. Philips supported the program of the Philips Foundation with a donation of EUR 10 million in 2015 and provides the operating staff,

in kind and the expert support of over 200 skilled employees who support the Foundation's program for part of their time.

The Philips Foundation has established global innovation partnerships with UNICEF and the Red Cross. 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. The Philips Foundation has partnered 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 Blolequin 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 1000 days of children's lives. The Philips Foundation is supporting UNICEF's Global Innovation Center and is a lead partner in the Kenya Maker for Maternal, Newborn and Child Health Project in Nairobi, which is focused on developing and deploying solutions and new business models that improve access to healthcare for mothers and their children in low-resource settings.

In addition, around 30 local projects have been approved to be set up throughout the world, often with local NGOs as partners and are supported and channeled through the Philips Foundation. These projects offer employee engagement opportunities including skilled expert volunteering. Philips employees are further engaging in a variety of fundraising activities, including the global initiative 'Make the difference: a quarter of giving'. Employee donations were also a large part of the Philips Foundation's response to the earthquake in Nepal in April 2015, the floods in Southern India in December 2015, and to the Refugee Crisis in Europe and the Middle East. The Foundation coordinated and matched employee gifts as well as providing in-kind donations of relief goods. In total, Philips employees donated some EUR 225,000 to disaster relief and related projects, which the Foundation matched to EUR 450,000.

More information about the Philips Foundation, its purpose and scope as well as the Philips Foundation Annual Report 2014 can be found [here](#).

Examples of innovation projects supported by the Philips Foundation

Philips Community Light Centers provide solar powered lighting to communities that are not connected or are underserved by the grid, thus providing opportunities for local civilians to improve their social and economic well-being. Philips had installed over 100 Community Light Centers across Africa by the end of 2015, each typically lighting an area comparable to a full-size soccer pitch. Over the years, Philips has partnered with many organizations to optimize the benefits of light, for example by facilitating access to education, health and sanitation. A key partnership utilizing the Community Light Center concept is with KNVB (the Royal Dutch Football Association) and its World Coaches program that aims to train young people in key life skills such as sanitation, HIV prevention and crime prevention. The Philips Foundation is supporting the continuity of this program by ensuring maintenance and sustained ownership of installed set ups.

The prevalence of cardiovascular heart disorders in the young population of Turkey has been noted as the highest in all of Europe. Between 13,000 and 14,000 children are born each year with congenital heart disorders. Most of these children have no access to medical treatment. Supported by the Philips Foundation, the Little Hearts Project aims to create healthier generations by raising awareness of heart disorders, providing early diagnosis and treatment, and improving children's access to preventive health services. As part of the project, 180,000 children will receive heart scans in Southeastern Anatolia, in Turkey. Philips receives support for the project from the Turkish Heart Association and the Turkish Ministry of Development.

Community involvement of Philips employees

In North America, the [Philips Cares](#) program provides ways for employees to work together to improve people's lives by creating healthy, sustainable communities that contribute to the success and well-being of future generations. This can take many forms:

Philips Group
Classification of the concerns investigated in number of reports
 2013 - 2015

	2013		2014		2015	
	substantiated	unsubstantiated	substantiated	unsubstantiated	substantiated	unsubstantiated
Health & Safety	-	2	1	7	3	4
Treatment of employees	33	136	32	112	62	95
Legal	2	2	4	9	4	9
Business Integrity	32	32	25	45	16	62
Supply Management	-	3	1	-	-	1
IT	3	1	2	-	-	2
Other	-	-	4	18	1	8
Total	70	176	69	191	86	181

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 2015 alone, more than 5,000 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, Rebuilding Together, and the March of Dimes.

14.2.7 Stakeholder Engagement

Working in partnerships is crucial in delivering on our vision to make the world healthier and more sustainable through innovation. A number of our partnerships are described below.

Strategic Partner of the World Economic Forum

Philips is a strategic partner of the World Economic Forum. With its mission of “improving the state of the world”, the Forum engages the foremost political, business and other leaders of society to shape global, regional and industry agendas.

Philips is a main contributor to the WEF’s content agenda, as a member of several of its Industry Groups, Global Challenge Initiatives as well as Global Agenda Councils. Philips executives engaged as discussion leaders in numerous panels and were present in all of the regional meetings, in addition to the Annual Meeting in Davos.

As a new initiative, Philips and the International Committee of the Red Cross jointly hosted a dinner dialogue meeting during the Annual Meeting in Davos. Around 20 key opinion leaders in healthcare from around the world, representing government, business, international organizations, academia and civil society, shared their thoughts on the topic ‘Strengthening health systems through collaboration and innovation’.

Cross-sector collaboration to drive the Circular Economy transformation

To create a sustainable world, Philips believes the transition from a linear to a circular economy (CE) is essential. A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using those resources more effectively. To promote cross-industry and cross-sector collaboration, Philips joins forces with thought leaders and conveners. One such initiative is Project Mainstream, driven by the Ellen MacArthur Foundation, the WEF and McKinsey. Frans van Houten is on the Steering Board and leads the work stream Asset-tracking. This project addresses the outer circle of the circular economy concept, the material streams where significantly more traction is needed to scale up to mainstream business and improve material quality. A Research team has developed a white paper to describe innovation opportunities to address CE

challenges. The paper has been widely distributed internally to all Philips businesses to stimulate innovation activities across the company.

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 SDGs provide an integrated development agenda that addresses the interdependence between economic, environmental and social elements of sustainable development. As a key enabler of any development agenda that aims for scale and impact, private sector involvement is recognized as a vital element of the SDG agenda. Good health and access to energy are drivers and outcomes of sustainable development and Philips is committed to working closely with all relevant stakeholders to provide healthcare and energy-efficient solutions to address the issues of health, energy and governance. This is a natural expression of our commitment to improve the lives of billions of people around the world.

Every Woman Every Child pledge

Philips has pledged its support to the United Nations’ “Every Woman, Every Child” global initiative and commits to improve the lives of at least 100 million women and children in sub-Saharan Africa and South East Asia by 2025. Philips’ efforts are focused on strengthening local healthcare infrastructures, developing solutions for healthier and safer living, and promoting healthy and nutritious diets for mothers and children.

In 2015, we conducted a study to understand the needs and aspirations related to breastfeeding for working mothers in Africa. We especially focused on the barriers to breastfeeding and on how innovation can empower working African mothers to continue breastfeeding at the levels recommended by the WHO. The study has yielded a lot of valuable insights, both for Philips as well as the international development community, which we are now converting into an innovation agenda.

On World Pneumonia Day, Philips announced the introduction of a new device to help diagnose fast breathing in children. Fast breathing is a key vital sign in the diagnosis of childhood pneumonia, which is the main infectious-disease cause of death among children under the age of 5, in low-resource countries. The Children’s Automated Respiration Monitor is aimed to help improve the accuracy of the diagnosis, and subsequently the treatment of pneumonia, potentially preventing many of the 935,000 childhood deaths caused by pneumonia each year. The monitor has been specifically designed for appropriate usage in low resource settings, making it easy to use, power independent and affordable and will assist health workers, in all levels of care, in automatically establishing an accurate breath rate.

Collaborating on locally relevant innovation in Africa

The Philips Africa Innovation Hub in Nairobi, Kenya, is our base for creating locally relevant innovations and business models. The Innovation Hub employs African talents and operates on the concept of open innovation, working in close collaboration with the R&D ecosystem of Kenya and Africa.

In order to strengthen primary care in communities, it developed the concept of Community Life Centers (CLCs), a community hub where technology is bundled with services: solar power, indoor and outdoor LED-lighting, healthcare equipment, laboratory equipment, refrigeration, IT-solutions and water supply and purification. In 2014, the first center was opened in Kenya, which now delivers two babies per day, and receives 13 times more patients than before. Key for success was close co-creation with the local government and involvement of community members. CLC was realized in close public-private partnership with the County Government of Kiambu in Kenya. We also involved community members in the assessment and design in order to create ownership. Healthcare workers at the site were empowered through clinical coaching and education.

Philips entered a partnership with the South-Africa based non-profit organization PET (PowerFree Education Technology) to further develop, test and commercialize a Wind-Up Doppler Ultrasound Fetal Heart Monitor, a unique, power-independent clinical innovation aimed at addressing the high rates of preventable infant mortality across Africa, designed specifically for low-resource settings. Further developed by the Philips Africa Innovation Hub, the Wind-up Fetal Doppler is a device to detect a slowing of the fetal heart rate while the mother is in labor, an important indicator that the fetus is not receiving enough oxygen and may suffer brain damage or die. If this is detected early enough, a midwife or delivering nurse can take the necessary actions to save the child.

Philips and the Medical Credit Fund, part of the PharmAccess Group, started a partnership to improve access to quality health care in Africa. Through the partnership small and medium-sized private clinics in Africa will have access to financing for innovative medical technologies and services from Philips, which is often difficult to obtain from banks due to the high investment risks. The Medical Credit Fund works with African banks to provide these clinics with affordable loans, combined with management training and a quality improvement program, which enhances trust in the clinics among both patients and financial institutions.

Working on global issues

In 2015, a number of important developments and events took place in the areas of sustainable development and climate change. At Philips we continued and expanded existing initiatives and

partnerships. The events and conferences included Climate Week NYC in New York, and COP21, the United Nations Climate Change Conference in Paris, where we joined world leaders and made a commitment to become carbon-neutral by 2020, regarding our greenhouse gas emissions from manufacturing and non-manufacturing operations, business travel and logistics.

It was encouraging to see that the Global Energy Efficiency Accelerator Platform, which runs under the UN's SE4All program (and of which we are a co-founder), is gaining traction. This program, built with the lighting sector transition and the en.lighten initiative as an example, now covers the entire spectrum of energy efficiency sectors, and works with a growing number of (sub)national governments.

With The Climate Group, the global 'LED city consultation program' that was initiated at WEF in Davos two years ago, launched a landmark study 'The Big Switch' at Climate Week NYC, summarizing the learnings and insights from the workshops held across the world over the last two years. We expect that this work will lead to a further acceleration of the transition to (connected) LED street lighting in cities in all regions.

During 2015 we participated as global patron sponsor in the UNESCO-led International Year of Light, where our main messaging focused on the need to eradicate light poverty by 2030. It is our aim to continue our work in this area so that the currently 1.1 billion people who lack access to electricity will be able to benefit from the socio-economic development opportunities that will be unlocked once solar LED lighting is available to them.

Innovation Experience

Philips organized Innovation Experiences in 2015 in Sao Paolo, Sydney, Singapore, Jakarta, Milan, Buenos Aires, and Johannesburg, which were attended by over 2,200 journalists, customers, scientists, partners and employees.

At the events Philips explored how technology can make our homes healthier and more tailored to our lifestyles, how cloud-based solutions can provide care across the health continuum and connect the patient from the hospital to their home, and how personalized digital solutions can help people living with disabilities or chronic diseases manage their condition from the comfort of their own home.

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

Philips also sponsored the Dutch Pavilion at the World Expo 2015 in Milan, Italy, with an installation focused on healthy farming, healthy cooking, and healthy living.

14.2.8 Supplier indicators

Philips has a direct business relationship with approximately 10,000 product and component suppliers and 30,000 service providers, and in many cases the sustainability issues deeper in our supply chain require us to intervene beyond tier 1 of the chain.

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 to develop our supplier sustainability strategy. We then translate this strategy into dedicated programs.

Philips Supplier Sustainability Declaration

The Philips Supplier Sustainability Declaration is based on the EICC Code of Conduct and in line with our General Business Principles. The topics covered include labor and human rights, worker health and safety, environmental impact, ethics, and management systems. We monitor supplier compliance to the Declaration through a system of regular audits.

We rolled-out the Declaration via the purchasing contracts signed with suppliers, and via all trainings and audits.

The Declaration requires suppliers to cascade the EICC Code down to their next-tier suppliers. Suppliers must regard the Code as a total supply chain initiative and, at a minimum, also require their next-tier suppliers to acknowledge and implement the Code.

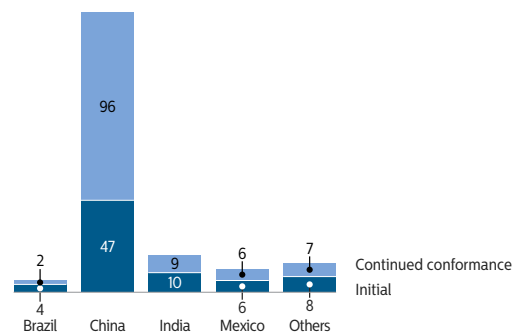
2015 supplier audits in risk countries

In 2015, we audited 195 of our current risk suppliers, including 120 continued conformance audits with suppliers that we had already audited in 2012. As in previous years, the majority of the audits were done in China. There were also audits performed in Brazil, India and Mexico. A small number of audits took place in Belarus, Dominican Republic, Indonesia, Philippines, Russia and Ukraine. With these audits we directly or indirectly impacted almost 116,000 workers employed at the production sites that were audited.

On top of the audits with current risk suppliers, we also audited 26 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 and do not have - or have resolved all - major NCs. During 2015 we achieved a compliance rate of 86% (2014: 86%).

Philips Group
Number of initial and continual conformance audits
2015



Audit findings

The table below shows the results of the full scope audits done during 2015; potential suppliers are not included. When the audit reveals areas of non-compliance we request suppliers to implement corrective actions and our sustainability experts and independent third-party auditors monitor the implementation during resolution audits. The results of the resolution audits are not included in the table. Four suppliers proved outstanding performance during their initial audit, without NCs found.

To prevent audit fatigue and limit the burden of audit preparation and follow-up at a single supplier site, Philips has agreed with some of the other EICC members to share audit results. This eliminates the need for multiple audits and enables a stronger focus on corrective actions and their follow-up.

Most frequent areas of non-compliance in 2015:

- Certified Management System (ISO9001, ISO14001, and OHSAS18001)
- Emergency Preparedness
- Working Hours

Philips Group

Summary of 2015 audit findings per region

Suppliers without any major non-compliances per category (in % of suppliers audited in 2015).

	China	Asia excl. China	LATAM	EMEA	Total
No. of audits	143	25	20	7	195
Initial audits	47	11	11	6	75
Continued conformance audits	96	14	9	1	120
Average number of non-compliances per audit	11.2	20.4	18.0	10.4	13.0
Workers employed at sites audited	92,358	11,263	10,382	2,097	116,100
Labor					
Freely Chosen Employment ¹⁾	>75%	25-50%	50-75%	100%	>75%
Child labor prohibition /young worker management ²⁾	>75%	100%	100%	100%	>75%
Working hours	25-50%	50-75%	>75%	100%	50-75%
Wages and Benefits	50-75%	50-75%	>75%	100%	50-75%
Humane Treatment	100%	>75%	>75%	100%	>75%
Non-discrimination	>75%	100%	>75%	100%	>75%
Freedom of association	100%	>75%	100%	100%	>75%
Health & Safety					
Occupational Safety	50-75%	50-75%	50-75%	50-75%	50-75%
Emergency Preparedness	50-75%	25-50%	25-50%	10-25%	25-50%
Occupational Injury and Illness	>75%	25-50%	50-75%	100%	50-75%
Industrial Hygiene	50-75%	50-75%	50-75%	>75%	50-75%
Physically demanding work	>75%	>75%	50-75%	100%	>75%
Machine safeguarding	>75%	>75%	>75%	100%	>75%
Food Sanitation and Housing	50-75%	>75%	50-75%	>75%	50-75%
Environment					
Environmental Permits and Reporting	>75%	50-75%	>75%	100%	>75%
Pollution prevention and resource reduction	>75%	50-75%	50-75%	100%	>75%
Hazardous substances	>75%	50-75%	50-75%	>75%	50-75%
Waste water and solid waste	>75%	100%	>75%	100%	>75%
Air emissions	>75%	>75%	50-75%	100%	>75%
Product content restrictions	100%	100%	100%	100%	100%
Management systems					
Certified management system (SA8000, etc.)	10-25%	10-25%	25-50%	10-25%	10-25%
Company commitment	>75%	50-75%	50-75%	50-75%	>75%
Management accountability and responsibility	50-75%	25-50%	25-50%	25-50%	50-75%
Legal and customer requirements	50-75%	25-50%	25-50%	50-75%	50-75%
Risk assessment and risk management	50-75%	10-25%	25-50%	50-75%	50-75%
Improvement objectives	50-75%	25-50%	25-50%	50-75%	50-75%
Training	50-75%	25-50%	25-50%	50-75%	50-75%
Communication	50-75%	25-50%	50-75%	50-75%	50-75%
Worker feedback and participation	>75%	>75%	50-75%	50-75%	>75%
Audits and assessments	50-75%	25-50%	25-50%	50-75%	50-75%
Corrective action process	50-75%	25-50%	50-75%	50-75%	50-75%
Documentation and records	>75%	25-50%	25-50%	50-75%	50-75%
Supplier responsibility	50-75%	10-25%	25-50%	25-50%	50-75%
Ethics					
Business Integrity	>75%	25-50%	25-50%	100%	50-75%
No improper advantage	>75%	>75%	50-75%	100%	>75%
Disclosure of information	>75%	100%	100%	100%	>75%
Protection of Intellectual Property	>75%	>75%	>75%	100%	>75%
Fair business, advertising and competition	>75%	100%	100%	100%	>75%
Protection of identity	>75%	>75%	>75%	100%	>75%
Responsible sourcing of minerals	>75%	100%	100%	100%	>75%
Privacy	100%	100%	100%	100%	100%
Non-retaliation	>75%	100%	100%	100%	>75%
General					
EICC Code	>75%	50-75%	>75%	>75%	>75%

">75%" means that >75% of the audits done in 2015 showed compliance for a certain category

¹⁾ Freely Chosen Employment: these cases are related to workers not receiving a contract in their mother language

²⁾ Child labor avoidance /young worker management: No cases of child labor were found. The non-compliances identified are related to missing procedures to adequately prevent child labor.

Implementing corrective actions

On average we see 13 major NCs per supplier audit (2014: 11) and work with each supplier to resolve these NCs within 90 days where possible. The goal is to improve conditions in the supplier factories. Therefore, we focus on training, supplier development and implementation of corrective action plans with those suppliers.

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

Collaboration Road with IPE in Environment Protection

Since 2011, Philips' Supplier Sustainability Office has partnered with the Institute of Public & Environmental Affairs (IPE) to monitor and improve China supplier environment performance via pollution index from Water and Air pollution Maps.

In 2015, Philips continued teaming up with IPE to address Water and Air pollution in China. We established a mechanism to screen suppliers' environmental performance and oversee corrective plans and monitor every implementation at the suppliers. High environmental impact suppliers were identified and asked to extend environment performance governance to their suppliers and even their suppliers' suppliers. In such way Philips successfully helped suppliers with environment issues in Guangdong and Zhejiang to make and implement corrective plans in sewage treatment.

In 2016, Philips will continue its environmental collaboration with the IPE by intensifying its surveillance over our supplier environmental performance, in order to build a sustainable green supply chain in China.

Supplier training and capacity building

We provide classroom training sessions for suppliers, Philips sustainability experts regularly visit suppliers to provide on-site consultancy and training, and we invite suppliers to participate in trainings provided by the EICC. In 2015, we organized 11 training sessions on the EICC Code of Conduct which were attended by more than 500 suppliers globally.

To address emerging issues we also provide in-depth capacity building programs for our suppliers on specific topics.

IDH Electronics program

Philips is one of the initiators of the **IDH Electronics Program**, an innovative multi-stakeholder initiative sponsored by the Dutch government and the Sustainable Trade Initiative (IDH) together with Dell, HP, Philips and civil society organizations.

In 2013, IDH was extended from the Pearl River Delta Area to the Yangtze River Delta, and a total of 19 Philips suppliers are now involved in the Program, which has identified more than 200 major corrective actions with suppliers and helped improve the working conditions and the relationship between employees and management for more than 70,000 employees. In 2015, Philips introduced the IDH Fast Track Program, which is a one-year program aimed at helping even more suppliers to further improve their labor management, environment, Health and Safety via professional on-site assessment, analysis and correction plan. Seven additional Chinese suppliers were involved through the IDH Fast Track Program.

In 2015, the Sustainable Trade Initiative (IDH) capped its Electronics Program by holding review and exchange meetings in Shenzhen and Shanghai. The meetings also marked the last phase of the 4-year IDH program. Nearly 200 people participated in the meetings, including representatives from Philips, and other brands, as well as implementation parties, NGOs and suppliers.

When the program is completed in 2016, Philips will continue to support its suppliers by further enhancing their management-employee communication, so that the outcomes of the IDH program will be applied to drive sustainability.

More information on the Supplier Sustainability Audit Program can be found here:

[Supplier Sustainability Goals and Progress.](#)

Responsible Sourcing of Minerals: Addressing issues deeper in the supply chain

Global supply chains in the electronics and health-tech industry are long and complex; typically with more than 7 layers between the finished product and the very source of the raw materials used in its manufacturing.

Addressing all issues deep in the supply chains is not going to be easy, and it will not happen overnight. However, Philips' mission to improve people's lives does not stop with its customers or even its first-tier suppliers. Philips has already demonstrated this commitment by becoming a frontrunner with its advanced Conflict Minerals program.

Conflict-free minerals

Responsible sourcing of minerals is an important part of our supplier sustainability commitment and we implement measures in our chain to ensure that our products are not directly or indirectly funding atrocities in the Democratic Republic of Congo (DRC).

Philips works towards the following goals:

- Eliminate all illicit minerals from the market by steering our supply chain towards sourcing from the conflict free validated smelters only, while working with all relevant industries to increase the number of audited smelters.
- Enable legitimate minerals from the region to enter global supply chains, thereby supporting the Congolese economy and the local communities that depend on these exports.

Conflict-free minerals from the DRC region

Many companies have ceased buying minerals from the Democratic Republic of Congo (DRC) to eliminate any chance of supporting the conflict by which they created a de facto embargo in a region where mining is often the only source of income for local communities. To help break this regional boycott, Philips has helped set a conflict free supply chain of tin from the region. In 2015 the project has been scaled up also to tantalum and tungsten and 2 additional countries, currently covering over 800 active mines. Responsibly sourced minerals from DRC and surrounding countries are now part of many different Philips products globally.

Conflict-free minerals policy and Supply chain due diligence

Philips does not directly source minerals from mines in the DRC or elsewhere, and the supply chain for these metals consists of many tiers, including mines, traders, exporters, smelters, refiners, alloy producers and component manufacturers, before reaching Philips' direct suppliers. Philips has committed not to purchase raw materials, subassemblies, or supplies which are found to contain conflict minerals.

Philips continued its active contribution to the Conflict-Free Sourcing Initiative which brings together the electronics, automotive and other industries to jointly improve conditions in the extractives industry (www.conflictreesourcing.org). We also engaged with relevant other stakeholders including the EU institutions and local as well as international NGOs.

In 2015, we continued our work with some 400 priority suppliers selected based on largest purchasing spend and metal usage. Philips Conflict Minerals Support Center was set up to help suppliers in undertaking this

sometimes daunting task to investigate their long and complex supply chains. Philips requests its suppliers to adopt and implement a conflict-free minerals policy, to investigate their supply chain and share all smelter names used in their supply chains to produce the metals. Suppliers are also asked to cascade Philips' request to only source from smelters validated as conflict free further into the chain.

We carefully review the information received via the Conflict Minerals Reporting Template from each supplier against the Philips requirements. We developed additional training materials in 2015 to assist suppliers with improving their due diligence performance, e.g. smelter data quality.

Responsible Sourcing Network

Progress identification conflict-free smelters

Smelters mix minerals from many sources and refine them into metal used in our industry. The smelter is at a key point in the supply chain to enforce responsible sourcing by implementing due diligence in selecting their mineral sources. The Conflict-Free Smelter Program (CFSP) identifies smelters that can demonstrate through an independent third-party assessment that the minerals they procure are conflict-free. During 2015 impressive progress was made in validating additional conflict-free smelters, from 186 in January 2015 to 253 in January 2016. Philips is actively directing its supply chain towards these smelters. See www.conflictreesmelter.org for more details.

After having identified smelters in our supply chain, we published our [smelter list](#) as part of Philips' Conflict Minerals declaration. Back in 2012 Philips was the first company to make its smelter list public. We did this to drive awareness and create a call for action for smelters and all users of these metals. We regularly update the Philips smelter list with new information received from our suppliers.

Conflict Minerals Report

The results of Philips' supply chain investigation, Reasonable Country of origin Inquiry (RCOI) and smelter analysis findings are available in the [Philips Conflict Minerals Report \(CMR\)](#) which is updated annually after the SEC filing and is available on the Philips website.

In line with the US Dodd-Frank Act, we published the second Philips Conflict Minerals Report (CMR) in May 2015, describing our due diligence process and results. We engaged external auditors to perform an independent private sector audit (IPSA) of this report. Among thousands of companies that published their reports, Philips is one of only 6 companies that chose to do this voluntary audit. The next update is scheduled for May 2016.

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. The intensity of tin mining, the illegal small-scale miners and the irresponsible way it is carried out cause environmental devastation and safety risks for miners.

Philips does not directly source tin from Indonesia and there are typically 7 or more tiers in the supply chain between a mine and a Philips supplier. Being highly concerned about the situation, Philips teamed up with other multinationals, the tin industry and civil society in the Indonesian Tin Working Group (TWG), coordinated by the Dutch Sustainable Trade Initiative.

The Tin Working Group has achieved several important milestones in 2015, including an official written endorsement of relevant Indonesian ministries and securing a commitment of several front running mining companies. In collaboration with the local industry and government a roadmap to sustainable tin mining was drafted, defining improvement areas for onshore land reclamation and offshore low impact mining.

In 2016, implementation of the roadmap will start with first pilots kick off, governed by the local steering committee. Philips was one of the first companies to commit to co-funding the next phase of TWG and to support the sustainable mining practices through promoting responsible sourcing in Philips supply chain.

“We (IDH, the Sustainable Trade Initiative) are very impressed with the commitment and engagement that Philips has showed over the past years as member of the Tin Working Group to address the non-sustainable tin mining practices in Bangka island in Indonesia. This was again demonstrated in December 2015 during the visit of a TWG delegation to the Indonesian government and tin mining representatives in which Philips actively participated in the dialogue to create a systemic value chain intervention. This is clearly CSR leadership behavior from Philips!”

Ted van der Put
Program Director, IDH

Other sustainability initiatives in our supply chain

Managing CO₂ emissions in our supply chain

In addition to developing energy-efficient products and becoming carbon-neutral by 2020, Philips will continue to tackle scope 3 emissions in its upstream supply chain. Via collaborative initiatives like the Carbon Pact, supplier development projects with upstream partners and by organizing awareness sessions for suppliers Philips proactively initiates, develops and supports carbon emission reduction activities in the supply chain.

Via collaborative initiatives like the Carbon Pact between Philips and Mærsk Line, Supplier Development projects with upstream partners and by organizing awareness sessions for suppliers Philips proactively initiates, develops and supports Carbon Emission reduction activities in the supply chain.

Partnership in the Supply Chain

In 2015, Maersk Line and Philips expressed their mutual values for achieving sustainable growth by signing a Carbon Pact. As part of the Carbon Pact Maersk and Philips intend to:

- Create transparency on the environmental impact of the supply chain
- Reduce Philips' CO₂ emissions per container moved with Maersk Line by 20% from 2016–2020
- Integrate CO₂ and other sustainability indicators into the commercial relationship

Using the [CDP Supply Chain program](#) Philips has reached out to over 500 suppliers (four times more than in 2014), allowing information sharing on CO₂ emissions and climate strategies. As a founding member of the [CDP Action Exchange program](#) we continued connecting our suppliers to globally recognized solutions providers in the field of energy-efficient technology. Our suppliers have indicated that this initiative has been helpful in their search for innovative solutions to reduce their footprint.

In 2016 we will stimulate and facilitate further improvement in our supply chain. A growing number of suppliers will be assisted in supplier development projects using Lean methodologies to reduce energy usage. Using the CDP platform Philips will continue to connect to suppliers, monitoring development, sharing best practices and identifying new improvement opportunities.

Circular Procurement

Procurement is a key driver in the transition towards embracing the concept of Circular Economy. Timely decisions in the product creation process are a pre-requisite to closing the materials loop at the end of the product life, with products made for repair or refurbishment and re-use from the start.

The focus is on innovative performance- or usage-based business models replacing the traditional “ownership” models. This is of course only possible while nurturing long-term business relationships with suppliers and customers.

In 2014, Philips joined Dutch [GreenDeal Circular Procurement](#), which is facilitated by organizations such as [MVO Nederland](#), NEVI, and the Dutch government. Its goal is to accelerate the

transition towards a Circular Economy by implementing circular procurement within purchasing processes, policies and strategy by the end of 2016.

Philips is currently involved in over 20 Circular Economy projects and most of them involve procurement. Circular Economy (Value Leakage model) is now part of the DfX training (Design for X), which is a program and toolbox for proactively including end-user experience in the product development phase. As such, 90% of our procurement colleagues have been trained in this concept so far. The first Circular Economy DfX convention was held in 2015, focusing on refurbishing returned garment care steam generators.

More successful applications of circular procurement can be found in non-product-related procurement such as services or equipment. In 2015, we continued in our successful partnership with HP to create a secure and compliant global process for the disposal of retired IT hardware.

HP Case Study

Over the past years the Philips-HP relationship has managed over 60,000 assets across 22 countries spanning 4 continents. The process has been covering activities from data wiping, which comprehensively mitigates security and privacy risks, through to remarketing and recycling.

Notwithstanding the significant volume of assets, coming from so many locations, the HP Asset Recovery service has been able to remarket 90% of them, ensuring that even after their useful life within the Philips business has ended, these assets can return value as part of a well-structured end-of-life asset management process. For the remaining 10% of products, HP provides a full recycling service that recovers valuable raw materials and ensures compliance with our zero landfill policy.

“Philips stands out as an organization that truly understands the importance of managing their legacy IT, both from a perspective of recognizing the maximum value of their IT Assets but also and arguably more importantly, recognizing their corporate social responsibility to ensure they manage their disposal process with minimal environmental impact. It’s for this reason that HP is proud to be Philips partner of choice for Asset Recovery Services and will continue to collaborate on our shared circular economy objectives.”

Dr. Kirstie McIntyre

HP Social and Environmental Responsibility Director, EMEA

Process chemicals

Process chemicals are and will remain a topic of high concern for Philips and as such we will continue addressing it through industry collaboration (EICC taskforce) as well as via the new Philips approach to supplier assessment and capacity building which will be launched in 2016.

In our new supplier sustainability approach we aim to structurally improve the sustainability performance at our suppliers. Within this new approach, one of the key areas to address is Health & Safety at our supplier sites. Philips will focus on training suppliers to manage process chemicals, from integration into management systems, information sharing, handling and protective measures, to their reduction and full elimination.

The EICC taskforce on process chemicals in the supply chain initiated by Philips in 2014 focuses on high-risk production processes. The taskforce is working towards one industry approach with the final goal of eliminating hazardous process chemicals, or – if no alternatives are available – minimizing the health risks for workers handling these chemicals. We are continuing an active multi-stakeholder engagement dialogue and working towards defining one list of ‘process chemicals of concern’ that can be used across different industries, including a plan for substitution or elimination.

Chemical management is a critical component of the EICC Code of Conduct, as reflected in Section B – Health and Safety, and Section C – Environment. These two sections have been a point of emphasis in the EICC Validated Audit Process auditor training in 2015. Chemical management is also a point of emphasis in the EICC training programs, with course offerings in four categories.

14.3 Environmental statements

This section provides additional information on (some of) the environmental performance parameters reported in section 5.3, Environmental performance, of this Annual Report.

14.3.1 EcoVision

Our latest EcoVision program includes key performance indicators in relation to Green Product sales, Improving people’s lives, Green Innovation, Green Operations, Health & Safety, Employee Engagement and Supplier Sustainability and ended in 2015. We plan to announce our next five-year sustainability program in the second quarter of 2016.

Improving people’s lives

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

Through Philips products and solutions that directly support the curative or preventive side of people’s health, we improved the lives of 881 million people in

2015, driven by our Healthcare sector. Additionally, our well-being products that help people live a healthy life, and our Green Products that contribute to a healthy ecosystem, improved the lives of 304 million and 1.7 billion people respectively. After the elimination of double counts – people touched multiple times – we arrived at 2.0 billion lives. This is an increase of around 140 million compared to 2014.

Examples of products in the ‘well-being’ category that help people live a healthier life are air purifiers, juicers, blenders, air fryers, but also mother and childcare products. Examples of Green Products, products offering a significant environmental improvement in one or more Green Focal Areas, can be found in subsection 5.3.2, Green Product sales, of this Annual Report. Further details on this parameter and the methodology can be found in the document ‘Improving people’s lives’.

The circular economy program

The circular economy program at Philips ran for the third year in 2015 and consists of four strategic pillars:

1. Connect to stakeholders outside Philips
2. Internal employee engagement
3. Create proof points and metrics
4. Embed circular economy in Philips processes

Philips leverages the global partnership with the Ellen MacArthur Foundation, which includes the CE100 events and education. But partnerships with Circle Economy Netherlands, Turntoo, World Economic Forum, US Chamber of Commerce Foundation and The Guardian also help Philips to take a leading position in driving circular thinking. For example, Philips opened the doors of its refurbishment facilities in Bothell, USA and hosted a Business Delegation Tour, co-organized by Ecova and the US Chamber of Commerce Foundation, showcasing to a growing number of interested North-American businesses how the circular economy looks like in action.

Through internal events, presentations, brochures, internal communications, social media, etc. Philips’ employees are inspired and stimulated to start or become involved in circular economy projects. For example, new circular design criteria for luminaires were road-tested by Philips engineers at multiple sites, creating the basis for a new range of modular lighting products to be developed in the coming years.

In many Philips business groups circular economy projects have started. These are either linked to customer access over ownership (pay for performance), business model innovations (from transactions to relationships via service and solution models) or reverse cycles (remanufacturing, refurbishment and parts harvesting). To measure progress, a circular economy scorecard has been developed. As the circular economy touches many different business areas (strategy, design, business development,

marketing, finance, etc.) it is important to have the right processes and procedures developed and embedded throughout the company. This is done as part of the development of the Philips Excellence Process Framework.

More information can be found on the [circular economy website](#).

Operational carbon footprint and energy efficiency - 2015 details

This year we have achieved our 2015 EcoVision reduction target that was set at a 40% decrease in CO₂ reductions compared to our 2007 base year. Our carbon footprint decreased by 7% compared to 2014, resulting in a total of 1,417 kilotonnes CO₂, a 41% decrease compared to 2007. The 2015 results can be attributed to several factors:

- Accounting for 28% 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; additionally the share coming from renewable sources increased.
- CO₂ emissions from non-industrial operations (offices, warehouses, etc.) represent 7% of the total. This year the overall floor space in our non-industrial real estate portfolio decreased by 6%. Combined with increased renewable energy usage, emissions decreased by 16% compared to 2014. In 2016, 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 slight decrease of 1% compared to 2014. The 2% reductions achieved within business flights mitigated the increase of 7% in our rental car emissions.
- Overall CO₂ emissions from logistics, representing 51% of the total, showed a slight decrease of 0.3% compared to 2014. We recorded an increase in emissions from air and parcel freight. However, reduced emissions from road and ocean freight resulted in a downward change for logistics as a whole.

Philips Group
Operational carbon footprint for logistics
in kilotonnes CO₂-equivalent
2011 - 2015

	2011	2012	2013	2014	2015
Air transport	389	366	385	348	429
Road transport	275	169	174	164	118
Ocean transport	239	210	227	208	171
Philips Group	903	745	786	720	718

14.3.2 Biodiversity

Philips recognizes the importance of healthy ecosystems and rich biodiversity for our company, our employees, and society as a whole. We aim to minimize any negative impacts and actively promote ecosystem

restoration activities including biodiversity restoration projects with social components, sustainable development, and poverty relief.

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 on the management level. Most initiatives were led by the Philips Leaders for Nature (LFN) team, site management, local sustainability organizations worldwide and Group Sustainability in Eindhoven, the Netherlands. We continued our global partnership with the International Union for the Conservation of Nature (IUCN) Netherlands Committee and our participation in the IUCN LFN program which brings companies, NGOs and governments together to work on the topic of business and biodiversity. Next, we made intensive use of the internal company-wide social network platform to create and share activities and achievements including training programs.

In 2014, a biodiversity impact assessment was performed for all our industrial sites, using the geo-locations of these sites and the Integrated Biodiversity Assessment Tool (IBAT). For every industrial site the nearest Key Biodiversity Area or IUCN protected area was determined as well as the distance to such area.

The results of our assessment for all industrial sites can be found here: [GRI Biodiversity](#).

Philips participated in 2015 in the development of the Natural Capital Protocol and volunteered as a pilot company. These activities will continue in 2016. The environmental impact of Philips itself is limited as the company is not very energy-intensive and does 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 at sub-section 14.2.8, Supplier indicators, of this Annual Report. In this Annual Report, Philips has also followed the IIRC Integrated Reporting <IR> framework which includes natural capital as a source of value creation. Together with the WBCSD we are further developing the EP&L concept and methodology, including environmental benefits.

14.3.3 Green Operations

Our Green Operations program, related to improving the environmental performance of our manufacturing facilities, focuses on most contributors to climate change, but also addresses water, recycling of waste and chemical substances.

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

Philips Group
Green Operations in % unless otherwise stated
2015

	2007 baseline year	2015 target ¹⁾	2015 actual ¹⁾
Total CO ₂ from manufacturing	883 kilotonnes CO ₂ -equivalent	(25)	(58)
Water	4.0 million m ³	(10)	(32)
Materials provided for recycling via external contractor per total waste	79	80	83
Restricted substances:			
Benzene emission	52 kg	(50)	(65)
Mercury emission	185 kg	(100)	(96)
CFCs, HCFCs	156 kg	(100)	(100)
Hazardous substances			
Lead emission	1,838 kg	(100)	(100)
PFCs	1,534 kg	(35)	(100)
Toluene emission	2,210 kg	(90)	(93)
Xylene emission	4,502 kg	(90)	345
Styrene	80,526 kg	(90)	(94)
Antimony, Arsenic and their compounds	18 kg	(100)	(100)

¹⁾ Against the base year 2007

Energy use in manufacturing

Total energy usage in manufacturing amounted to 9,702 terajoules in 2015, of which Lighting consumed about 70%. Compared to 2014, energy consumption at Philips went down by 14%. This was driven by a decrease in activities in high energy-intensive operations in Lighting, organizational changes, and energy efficiency improvements, partly offset by one manufacturing site reporting for the first time. The energy use of our discontinued operations amounted to 2,179 terajoules in 2015 (2014: 2,160 terajoules).

Philips Group
Total energy consumption in manufacturing in terajoules
2011 - 2015

	2011	2012	2013	2014	2015
Healthcare	1,541	1,798	1,794	1,773	1,808
Consumer Lifestyle	1,252	1,104	1,142	1,115	1,131
Lighting	9,237	9,112	9,027	8,369	6,763
Innovation, Group & Services	-	-	-	-	-
Philips Group	12,030	12,014	11,963	11,257	9,702

Carbon emissions in manufacturing

The greenhouse gas emissions of our manufacturing operations totaled 371 kilotonnes CO₂-equivalent in 2015, 21% lower than in 2014. This is the result of the decreased energy usage related to decreased production and operational changes. Indirect CO₂ emissions decreased overall, mainly due to decreased usage of electricity at various Lighting sites. The carbon emissions of our discontinued operations amounted to 145 kilotonnes CO₂-equivalent in 2015 (2014: 141 kilotonnes CO₂-equivalent).

Philips Group
Total carbon emissions in manufacturing
 in kilotonnes CO₂-equivalent
 2011 - 2015

	2011	2012	2013	2014	2015
Direct CO ₂ ¹⁾	290	278	276	253	200
Indirect CO ₂	238	252	208	185	148
Other greenhouse gases	4	6	7	6	6
From glass production	28	27	27	24	17
Philips Group²⁾	560	563	518	468	371

¹⁾ From energy

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

CO₂ emissions decreased at Healthcare due to increased use of electricity generated by renewable sources.

At Consumer Lifestyle, CO₂ emissions increased slightly due to a decrease in the use of electricity generated by renewable sources. Lighting decreased its CO₂ emissions due to lower load of energy-intensive activities and organizational changes.

Philips Group
Total carbon emissions in manufacturing per sector
 in kilotonnes CO₂-equivalent
 2011 - 2015

	2011	2012	2013	2014	2015
Healthcare	57	78	57	50	47
Consumer Lifestyle	41	42	37	34	37
Lighting	462	443	424	384	287
Innovation, Group & Services	-	-	-	-	-
Philips Group	560	563	518	468	371

Restricted substances

Emissions of restricted substances totaled 26 kilos in 2015. Mercury, only used in Lighting, accounted for 8 kilos of emissions in this category. With the Green Operations program we continue to focus on a reduction of a selection of the most important substances in our processes. The Lumileds and Automotive operations did not have emissions of restricted substances.

Philips Group
Restricted substances in kilos
 2011 - 2015

	2011	2012	2013	2014	2015
Benzene and benzene compounds	55	12 ¹⁾	28 ¹⁾	20 ¹⁾	18
Mercury and mercury compounds	51	54	8	8	8
CFCs/HCFCs ²⁾	5	1	1	1	-
Restricted substances	111	67	37	29	26

¹⁾ Numbers have been restated

²⁾ Excluding cooling systems

Benzene

Benzene was used by one site in China in a thinner and will be phased out in 2016.

Mercury

Mercury emissions in Lighting remained stable at 8 kilos in 2015 and 2014. As a result of changes in the manufacturing process, for the third year in a row, Lighting's mercury emissions were at the 'as low as reasonably achievable' level, according to our assessment.

CFCs/HCFCs

In 2015, total emissions from CFCs/HCFCs remained at very low levels, at less than 1 kg.

Hazardous substances

As described above, reduction targets have been set on a selected number of hazardous substances in our Green Operations program. In the following section our results are described. The Lumileds and Automotive data was excluded from the overview. Emissions from PFCs are material for a Lumileds site in Asia.

Philips Group
Hazardous substances in kilos
 2011 - 2015

	2011	2012	2013	2014	2015
Lead and lead compounds	44	73	1	8	6
PFCs (Per Fluorinated Compounds) ¹⁾	1	-	-	-	-
Toluene	5,745	6,184	1,188	162	163
Xylene	37,889	18,944	28,176	22,979	20,025
Styrene	19,920	42,329	5,753	5,161	4,907
Antimony, Arsenic and their compounds	5	-	-	-	-
Hazardous substances	63,604	67,530	35,118	28,310	25,101

¹⁾ Excluding cooling systems

Lead and lead compounds

The consumption of lead and lead compounds went down significantly (by 41%) in Lighting production due to portfolio changes, which resulted in lower emissions in 2015, 6 kilos compared to 8 kilos in 2014.

PFCs

PFCs were only used in Lumileds sites. Emissions by Lumileds amounted to 4,174 kilos in 2015, a 23% increase compared to 2014.

Toluene

The emission of toluene remained at the same level as 2014, mainly reported in Lighting. In Lighting, toluene is no longer used as a basic carrier in solvents and lacquers. The latter process has been gradually replaced by powder coating processes, resulting in decreased emissions compared to the start of the Green Operations program.

Xylene

Xylene emissions decreased by 13% due to lower production of products where these specific lacquers and thinners are used at Consumer Lifestyle.

Styrene

Two sites in Consumer Lifestyle emitted 3,670 kilos of styrene (22% increase compared to 2014); emissions decreased at two Lighting sites due to portfolio changes.

Antimony, arsenic and their compounds

In 2015, total emissions from antimony remained at very low levels, at less than 1 kg.

ISO 14001 certification

In 2015, 78% of reporting manufacturing sites were certified, a slight decrease compared to 2014. In Lighting, several certified sites were closed, whereas one site was certified. In Healthcare, one site that started to report was not yet certified. In 2015, Healthcare completed a project to align most of its global manufacturing units under a 'One Healthcare ISO14001 Certificate' covering 19 manufacturing sites.

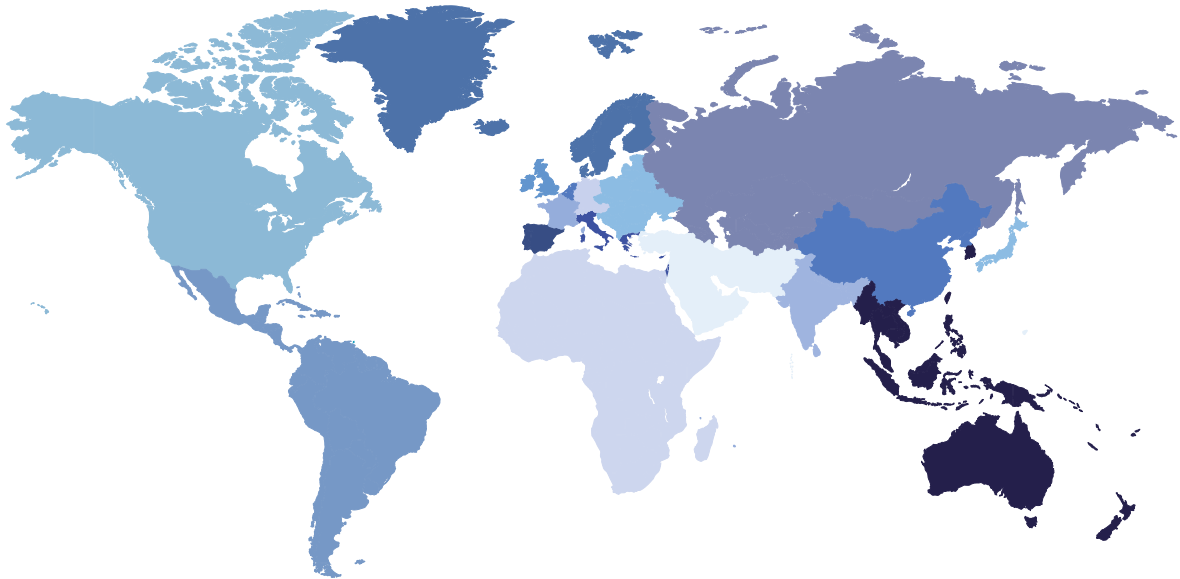
Philips Group
ISO 14001 certification as a % of all reporting organizations
 2011 - 2015

	2011	2012	2013	2014	2015
Philips Group	87	69	79	79	78

Environmental Incidents

In 2015, one environmental incident with an oil spill was reported in Healthcare. Consumer Lifestyle reported one non-compliance in soil, followed by a remediation plan and one environmental incident which did not result in a fine. Three non-compliances were reported at Lighting. One related to emissions, resulting in a non-material fine. For discontinued operations, one spillage occurred; non-compliances were not reported.

Sustainability world map



Markets	Manufacturing sites	Lost Workday Injury rate ¹⁾	CO ₂ emitted (Tonnes CO ₂)	Total waste		Water (m ³)	Emissions (kg)	
				Waste (Tonnes)	Recycled (%)		Restricted substances	Hazardous substances
Africa	-	0.00	-	-	-	-	-	-
ASEAN ²⁾	3	0.09	29,252	2,979	46%	98,741	-	1,822
Benelux	10	0.22	20,219	9,472	79%	466,848	-	167
Central & Eastern Europe	7	0.34	65,342	16,725	89%	374,427	1	11,962
Germany, Austria & Switzerland	4	0.31	4,986	2,282	87%	48,669	-	4
France	2	0.81	1,443	411	72%	8,951	-	22
Greater China ²⁾	12	0.09	89,979	5,203	86%	752,810	20	536
Iberia	2	0.94	4,647	4,415	97%	36,337	-	-
Indian Subcontinent	5	0.03	64,208	5,964	99%	225,605	-	3,673
Italy, Israel and Greece	4	0.52	5,123	1,428	65%	28,179	-	4,802
Japan	-	0.16	-	-	-	-	-	-
Latin America ²⁾	11	0.19	12,468	5,999	90%	74,790	-	1,910
Middle East & Turkey ³⁾	3	0.38	-	-	-	-	-	-
Nordics	1	0.00	245	98	69%	2,400	-	-
North America ³⁾	29	0.23	71,646	12,303	73%	520,949	5	197
Russia and Central Asia	-	0.00	-	-	-	-	-	-
UK & Ireland	2	0.11	1,051	1,135	77%	88,403	-	6

¹⁾ Includes manufacturing and non-manufacturing sites

²⁾ One manufacturing site had not yet started to report environmental data

³⁾ Three manufacturing sites had not yet started to report environmental data

Content you didn't download

14.4 Independent Auditor's Assurance Report

14.5 Global Reporting Initiative (GRI) table 4.0

KPMG has audited chapter 12, Group financial statements, of this Annual Report and chapter 13, Company financial statements, of this Annual Report, as well as sections section 5.2, Social performance, of this Annual Report, section 5.3, Environmental performance, of this Annual Report and chapter 14, Sustainability statements, of this Annual Report. Where in the table cross-reference is made to these parts, the information is included in the scope of one of these audits. For the other information in the report, KPMG has assessed whether this information is consistent with the information in the aforementioned parts. Where there is no cross-reference to a section in the Report, assurance is not applicable. Please refer to section 13.5, Independent auditor's report, of this Annual Report and section 14.4, Independent Auditor's Assurance Report, of this Annual Report.

General Standard Disclosures

profile disclosure	description	cross-reference
Strategy and analysis		
G4-1	Statement from the most senior decision-maker of the organization (incl. strategy relates to sustainability, impacts of the activities in relation to the stakeholders)	chapter 2, Message from the CEO
G4-2	Description of key impacts, risks, and opportunities	chapter 2, Message from the CEO section 7.2, Risk categories and factors section 7.3, Strategic risks section 7.4, Operational risks section 7.5, Compliance risks section 7.6, Financial risks section 7.7, Separation risk chapter 14, Sustainability statements - "Material aspects and our focus"

profile disclosure	description	cross-reference
Organizational profile		
G4-3	Name of the organization	chapter 11, Corporate governance
G4-4	Primary brands, products, and/or services	section 4.2, How we create value sub-section 6.1.2, About Healthcare in 2015 sub-section 6.2.2, About Consumer Lifestyle in 2015 sub-section 6.3.2, About Lighting in 2015
G4-5	Location of organization's headquarters	section 11.5, Investor Relations
G4-6	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	chapter 6, Sector performance note 2, Information by sector and main country note 5, Interests in entities Related content: Philips industrial sites
G4-7	Nature of ownership and legal form	chapter 11, Corporate governance
G4-8	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries)	chapter 1, Performance highlights section 4.4, Lives improved section 4.5, Global presence chapter 6, Sector performance
G4-9	Scale of the reporting organization	chapter 1, Performance highlights section 4.2, How we create value section 5.1, Financial performance note 2, Information by sector and main country note 5, Interests in entities note 6, Income from operations
G4-10	Total workforce by employment type, gender, employment contract and region	sub-section 5.2.3, Inclusion sub-section 5.2.4, Employment note 6, Income from operations
G4-11	Percentage of employees covered by collective bargaining agreements	For all Philips businesses, guidance is applicable regarding collective bargaining agreements. See General Business Principles . The actual percentage of employees covered by collective bargaining agreements is managed and monitored at local level. Philips considers this percentage on consolidated level not relevant.
G4-12	Describe the organization's supply chain (incl. product or service providers, engaged suppliers in total number, type, and location, payments made to suppliers)	chapter 14, Sustainability statements section 14.1, Economic indicators sub-section 14.2.8, Supplier indicators Related content: Supplier Sustainability Goals and Progress
G4-13	Significant changes during the reporting period relating to size, structure, or ownership or its supply chain (incl. changes in location, operations, facilities, capital information and supplier information)	sub-section 5.1.11, Discontinued operations sub-section 5.1.13, Acquisitions and divestments sub-section 5.1.15, Cash flows provided by continuing operations sub-section 5.1.16, Cash flows from discontinued operations section 17.2, Share information note 3, Discontinued operations and other assets classified as held for sale note 4, Acquisitions and divestments chapter 14, Sustainability statements sub-section 14.2.8, Supplier indicators
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organization	section 7.1, Our approach to risk management and business control section 11.1, Board of Management - "Risk management approach"
G4-15	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	sub-section 5.2.8, Working with stakeholders chapter 14, Sustainability statements sub-section 14.2.8, Supplier indicators - "IDH Electronics program" sub-section 14.2.7, Stakeholder Engagement
G4-16	Memberships in associations (such as industry associations)	chapter 14, Sustainability statements - "Stakeholders" sub-section 14.2.7, Stakeholder Engagement
Identified material aspects and boundaries		
G4-17	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures (List all entities in the consolidated financial statements)	chapter 1, Performance highlights chapter 6, Sector performance note 2, Information by sector and main country
G4-18	Process for defining report content and the Aspect Boundaries and explain how the Reporting Principles has been implemented	chapter 14, Sustainability statements
G4-19	List all the material Aspects identified	chapter 14, Sustainability statements
G4-20	The Aspect Boundary within the organization:	chapter 14, Sustainability statements

profile disclosure	description	cross-reference
	Whether the Aspect is material within the organization; The list of entities included in G4-17 for which the Aspect is or is not material; Specific limitation regarding the Aspect Boundary within the organization	
G4-21	The Aspect Boundary outside the organization: Whether the Aspect is material outside the organization; The list of entities for which the Aspect is material, relate to geographical location; Specific limitation regarding the Aspect Boundary outside the organization	chapter 14, Sustainability statements
G4-22	Explanation of the effect of any re-statements	note 3, Discontinued operations and other assets classified as held for sale note 4, Acquisitions and divestments chapter 14, Sustainability statements - "Comparability and completeness"
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	chapter 14, Sustainability statements

profile disclosure	description	cross-reference
Stakeholder engagement		
G4-24	List of stakeholder groups engaged by the organization	sub-section 5.2.8, Working with stakeholders chapter 14, Sustainability statements - "Stakeholders"
G4-25	Basis for identification and selection of stakeholders with whom to engage	sub-section 5.2.8, Working with stakeholders chapter 14, Sustainability statements - "Stakeholders"
G4-26	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	sub-section 5.2.8, Working with stakeholders chapter 14, Sustainability statements - "Stakeholders"
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting; Report the stakeholder groups that raised each of the key topics and concerns	sub-section 5.2.8, Working with stakeholders chapter 14, Sustainability statements sub-section 14.2.7, Stakeholder Engagement

profile disclosure	description	cross-reference
Report profile		
G4-28	Reporting period	section 12.1, Management's report on internal control chapter 14, Sustainability statements
G4-29	Date of most recent previous report	chapter 16, Five-year overview
G4-30	Reporting cycle	chapter 16, Five-year overview
G4-31	Contact point for questions regarding the report or its contents	section 17.6, Investor contact
G4-32	Table identifying the location of the Standard Disclosures in the report	chapter 14, Sustainability statements - "Reporting standards" section 14.5, Global Reporting Initiative (GRI) table 4.0
G4-33	Policy and current practice with regard to seeking external assurance for the report	section 10.3, Report of the Audit Committee section 11.4, Meeting logistics and other information - "Auditor information" & "Auditor policy" section 12.1, Management's report on internal control section 12.2, Report of the independent auditor section 12.3, Independent auditors' report on internal control over financial reporting section 13.5, Independent auditor's report note 6, Income from operations - "Audit fees" section 13.5, Independent auditor's report chapter 14, Sustainability statements - "External assurance" section 14.4, Independent Auditor's Assurance Report

profile disclosure	description	cross-reference
Governance		
G4-34	Governance structure of the organization (incl. report the committees responsible)	chapter 11, Corporate governance section 11.1, Board of Management section 11.2, Supervisory Board

profile disclosure	description	cross-reference
	for decision-making on economic, environmental and social impacts)	section 11.3, General Meeting of Shareholders section 11.4, Meeting logistics and other information chapter 14, Sustainability statements - "Sustainability governance"
G4-35	Process for delegating authority for economic, environmental and social topics	section 11.1, Board of Management section 11.2, Supervisory Board chapter 14, Sustainability statements - "Sustainability governance"
G4-36	Whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body	chapter 8, Management section 11.1, Board of Management section 11.2, Supervisory Board chapter 14, Sustainability statements - "Sustainability governance"
G4-37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics (to whom, any feedback)	sub-section 5.2.2, Employee engagement sub-section 5.2.8, Working with stakeholders section 11.5, Investor Relations chapter 14, Sustainability statements - "Stakeholders" sub-section 14.2.7, Stakeholder Engagement section 17.6, Investor contact
G4-38	The composition of the highest governance body and its committees	chapter 8, Management chapter 9, Supervisory Board section 11.1, Board of Management section 11.2, Supervisory Board chapter 14, Sustainability statements - "Sustainability governance"
G4-39	Indicate whether the Chair of the highest governance body is also an executive officer	section 11.1, Board of Management
G4-40	Process for determining the qualifications and expertise of the members of the highest governance body	chapter 10, Supervisory Board report section 10.1, Report of the Corporate Governance and Nomination & Selection Committee section 11.2, Supervisory Board
G4-41	Processes in place for the highest governance body to ensure, that conflicts of interest are avoided	section 11.1, Board of Management section 11.2, Supervisory Board
G4-42	Roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals	chapter 10, Supervisory Board report section 11.1, Board of Management section 11.2, Supervisory Board section 11.3, General Meeting of Shareholders section 11.4, Meeting logistics and other information chapter 14, Sustainability statements - "Sustainability governance"
G4-43	The measures taken to develop and enhance the highest governance body's collective knowledge	chapter 10, Supervisory Board report section 11.1, Board of Management section 11.2, Supervisory Board
G4-44	Processes for evaluating the highest governance body's own performance	section 7.1, Our approach to risk management and business control chapter 10, Supervisory Board report section 11.1, Board of Management section 11.2, Supervisory Board chapter 14, Sustainability statements - "Sustainability governance"
G4-45	Procedures of the highest governance body for overseeing the organization's identification and management of performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles	section 7.1, Our approach to risk management and business control chapter 10, Supervisory Board report chapter 11, Corporate governance section 11.1, Board of Management section 11.2, Supervisory Board
G4-46	The highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics	section 7.1, Our approach to risk management and business control section 10.3, Report of the Audit Committee section 11.1, Board of Management chapter 14, Sustainability statements - "Sustainability governance"
G4-47	The frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities	section 7.1, Our approach to risk management and business control section 10.3, Report of the Audit Committee section 11.1, Board of Management chapter 14, Sustainability statements - "Sustainability governance"
G4-48	The highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered	chapter 10, Supervisory Board report chapter 14, Sustainability statements - "Sustainability governance"
G4-49	The process for communicating critical concerns to the highest governance body	sub-section 5.2.7, General Business Principles section 7.1, Our approach to risk management and business control section 11.1, Board of Management

profile disclosure	description	cross-reference
G4-50	The nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them	sub-section 14.2.5, General Business Principles
G4-51	Linkage between compensation for members of the highest governance body, senior managers, and executives, and the organization's performance	section 10.2, Report of the Remuneration Committee note 29, Information on remuneration
G4-52	The process for determining remuneration; Whether remuneration consultants are involved	section 10.2, Report of the Remuneration Committee section 11.1, Board of Management section 11.2, Supervisory Board note 29, Information on remuneration
G4-53	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	section 11.3, General Meeting of Shareholders section 11.4, Meeting logistics and other information section 11.5, Investor Relations
G4-54	The ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country	Philips does not consider this indicator relevant, Philips makes an impact on local communities by the salaries it pays its employees. Salaries are based on industry norms as described in General Business Principles .
G4-55	The ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country	Philips does not consider this indicator relevant, Philips makes an impact on local communities by the salaries it pays its employees. Salaries are based on industry norms as described in General Business Principles .

profile disclosure	description	cross-reference
Ethics and integrity		
G4-56	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	sub-section 5.2.7, General Business Principles section 7.1, Our approach to risk management and business control See General Business Principles .
G4-57	The internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines	sub-section 5.2.7, General Business Principles section 7.1, Our approach to risk management and business control
G4-58	The internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines	sub-section 14.2.5, General Business Principles

Specific Standard Disclosures

profile disclosure	description	cross-reference
Economic		
Economic performance		
G4-EC1	Direct economic value generated and distributed, including revenues, operating costs, employee wages and benefits, payments to providers of capital, payments to government (by country) and community investments; EVG&D separately at country, regional or market level	chapter 1, Performance highlights section 4.2, How we create value sub-section 14.2.6, The Philips Foundation note 2, Information by sector and main country section 14.1, Economic indicators
G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	sub-section 5.3.1, Green Innovation sub-section 5.3.2, Green Product sales section 7.4, Operational risks - "Any damage to Philips' reputation could have an adverse effect on its businesses." sub-section 14.3.1, EcoVision - "Operational carbon footprint and energy efficiency - 2015 details" sub-section 14.3.3, Green Operations
G4-EC3	Coverage of the organization's defined-benefit plan obligations	note 20, Post-employment benefits
G4-EC4	Significant financial assistance received from government	Philips does not receive significant financial assistance from governments.

	profile disclosure	description	cross-reference
Market presence			
	G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	For all Philips businesses, guidance is applicable regarding equal and fair treatment and wages and payment. See General Business Principles - "1.1 Fair employment practices". Actual ratios are managed and monitored at local level. Philips considers this ratio on consolidated level not relevant.
	G4-EC6	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	sub-section 5.2.3, Inclusion sub-section 5.2.4, Employment
Indirect economic impacts			
	G4-EC7	Development and impact of infrastructure investments and services supported	sub-section 5.2.8, Working with stakeholders sub-section 14.2.6, The Philips Foundation sub-section 6.1.3, 2015 business highlights sub-section 6.3.3, 2015 business highlights
	G4-EC8	Significant indirect economic impacts, including the extent of impacts	sub-section 14.2.7, Stakeholder Engagement sub-section 5.2.8, Working with stakeholders sub-section 14.2.6, The Philips Foundation sub-section 6.1.3, 2015 business highlights sub-section 6.3.3, 2015 business highlights sub-section 14.2.7, Stakeholder Engagement
Procurement practices			
	G4-EC9	Proportion of spending on local suppliers at significant locations of operation	section 14.1, Economic indicators Related content: Supplier Sustainability Goals and Progress
	profile disclosure	description	cross-reference
Environment			
Materials			
	G4-EN1	Materials used by weight or volume	section 4.2, How we create value sub-section 5.3.1, Green Innovation sub-section 5.3.2, Green Product sales sub-section 6.2.5, Delivering on EcoVision sustainability commitments chapter 16, Five-year overview
	G4-EN2	Percentage of materials used that are recycled input materials	section 4.2, How we create value sub-section 5.3.1, Green Innovation sub-section 5.3.2, Green Product sales sub-section 6.2.5, Delivering on EcoVision sustainability commitments chapter 16, Five-year overview
Energy			
	G4-EN3	Energy consumption within the organization	sub-section 5.3.3, Green Operations sub-section 14.3.3, Green Operations
	G4-EN4	Energy consumption outside of the organization	sub-section 14.2.8, Supplier indicators - "Other sustainability initiatives in our supply chain"
	G4-EN5	Energy intensity	sub-section 5.3.3, Green Operations sub-section 14.3.1, EcoVision
	G4-EN6	Reduction of energy consumption	sub-section 5.3.3, Green Operations sub-section 14.3.3, Green Operations
	G4-EN7	Reductions in energy requirements of products and services	sub-section 5.3.1, Green Innovation sub-section 5.3.2, Green Product sales chapter 14, Sustainability statements
Water			
	G4-EN8	Total water withdrawal by source	sub-section 5.3.3, Green Operations sub-section 14.3.3, Green Operations
	G4-EN9	Water sources significantly affected by withdrawal of water	Philips is not a water-intensive company, so this indicator is not applicable for Philips.
	G4-EN10	Percentage and total volume of water recycled and reused	Philips is not a water-intensive company, so this indicator is not applicable for Philips.
Biodiversity			
	G4-EN11	Location and size of land owned, leased, managed in or adjacent to protected areas and areas of high biodiversity value outside protected areas	sub-section 14.3.2, Biodiversity
	G4-EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	sub-section 14.3.2, Biodiversity

	profile disclosure	description	cross-reference
	G4-EN13	Habitats protected or restored	sub-section 14.3.2, Biodiversity
	G4-EN14	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	sub-section 14.3.2, Biodiversity
Emissions			
	G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	sub-section 5.3.3, Green Operations sub-section 14.3.3, Green Operations
	G4-EN16	Indirect greenhouse gas (GHG) emissions (Scope 2)	sub-section 5.3.3, Green Operations sub-section 14.3.3, Green Operations
	G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	sub-section 5.3.3, Green Operations sub-section 14.2.8, Supplier indicators
	G4-EN18	Greenhouse gas (GHG) emissions intensity	sub-section 5.3.3, Green Operations
	G4-EN19	Emissions of ozone-depleting substances (ODS)	sub-section 14.3.3, Green Operations
	G4-EN20	Emissions of ozone-depleting substances by weight	sub-section 14.3.3, Green Operations
	G4-EN21	NOx, SOx, and other significant air emissions	Philips does not report this indicator in the Annual Report, but in the Carbon Disclosure Project (CDP) reporting.
Effluents and Waste			
	G4-EN22	Total water discharge by quality and destination	Philips is not a water-intensive company, so this indicator is not applicable for Philips.
	G4-EN23	Total weight of waste by type and disposal method	sub-section 5.3.3, Green Operations sub-section 14.3.3, Green Operations
	G4-EN24	Total number and volume of significant spills	sub-section 14.3.3, Green Operations
	G4-EN25	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention ² Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	sub-section 14.3.3, Green Operations
	G4-EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff	sub-section 14.3.2, Biodiversity - "GRI Biodiversity"
Products and Services			
	G4-EN27	Extent of impact mitigation of environmental impacts of products and services	sub-section 5.3.1, Green Innovation
	G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category	sub-section 5.3.1, Green Innovation
Compliance			
	G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	note 26, Contingent assets and liabilities sub-section 14.3.3, Green Operations - "Environmental Incidents"
Transport			
	G4-EN30	Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce	sub-section 5.3.3, Green Operations
Overall			
	G4-EN31	Total environmental protection expenditures and investments by type	chapter 14, Sustainability statements sub-section 14.2.7, Stakeholder Engagement - "Working on global issues" sub-section 14.3.2, Biodiversity Philips does not monitor such expenditures at Group level
Supplier environmental assessment			
	G4-EN32	Percentage of new suppliers that were screened using environmental criteria	sub-section 5.2.9, Supplier sustainability chapter 14, Sustainability statements - "Supplier audits"
	G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	sub-section 14.2.8, Supplier indicators
Environmental grievance mechanisms			

profile disclosure	description	cross-reference
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	sub-section 14.3.3, Green Operations - "Environmental Incidents"
profile disclosure	description	cross-reference
Labor practices and decent work		
Employment		
G4-LA1	Total workforce by employment type, employment contract and region	sub-section 5.2.3, Inclusion sub-section 5.2.4, Employment note 6, Income from operations
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Benefits provided are fully compliant with all applicable national laws. See General Business Principles .
G4-LA3	Return to work and retention rates after parental leave, by gender	For all Philips businesses, guidance is applicable regarding equal and fair treatment. See General Business Principles . Actual rates are managed and monitored at local level. Philips considers this rate on consolidated level not relevant.
Labor/Management relations		
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	For all Philips businesses, guidance is applicable regarding Employment conditions. See General Business Principles . Notice periods are managed and monitored at local level. Philips considers this data on consolidated level not relevant.
Occupational health and safety		
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	On sector level, different initiatives exist to help decrease the number and severeness of Lost Workday Injuries cases. See sub-section 5.2.6, Health and Safety The percentage of total workforce represented is managed and monitored at local level. Philips considers this data on consolidated level not relevant.
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	sub-section 5.2.6, Health and Safety sub-section 14.3.3, Green Operations - "Sustainability world map" On site level, insights exist in gender specific information. Philips considers this data on consolidated level not relevant.
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	sub-section 5.2.6, Health and Safety
G4-LA8	Health and safety topics covered in formal agreements with trade unions	See General Business Principles . The content of formal agreements with trade unions varies per country. The inclusion of Health and Safety topics in these agreements is monitored locally and not considered relevant to be reported at Group level.
Training and education		
G4-LA9	Average hours of training per year per employee by gender, and by employee category	sub-section 5.2.5, Developing our people The number of enrollments and the training spend are managed and monitored on consolidated level. The hours of training per year per employee are managed and monitored on local level. Philips considers these data on consolidated level not relevant.
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	sub-section 5.2.5, Developing our people
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	sub-section 5.2.5, Developing our people Philips implemented a semi-annual performance review, but does not track the percentage of employees benefitting from this centrally.
Diversity and equal opportunity		
G4-LA12	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity	sub-section 5.2.3, Inclusion section 11.1, Board of Management section 11.2, Supervisory Board
Equal remuneration for women and men		
G4-LA13	Ratio of basic salary and remuneration of women to men by employee	For all Philips businesses, guidance is applicable regarding equal and fair treatment and wages and payment. See General Business Principles .

profile disclosure	description	cross-reference
	category, by significant locations of operation	Actual ratios are managed and monitored at local level. Philips considers this ratio on consolidated level not relevant.
Supplier assessment for labor practices		
G4-LA14	Percentage of new suppliers that were screened using labor practices criteria	sub-section 5.2.9, Supplier sustainability chapter 14, Sustainability statements - "Supplier audits"
G4-LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	sub-section 14.2.8, Supplier indicators
Labor practices grievance mechanisms		
G4-LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	sub-section 5.2.9, Supplier sustainability sub-section 14.2.5, General Business Principles sub-section 14.2.8, Supplier indicators See General Business Principles .
profile disclosure	description	cross-reference
Human rights		
Investment		
G4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	sub-section 5.2.9, Supplier sustainability chapter 14, Sustainability statements See General Business Principles . Philips does not monitor the percentage centrally.
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	sub-section 5.2.7, General Business Principles sub-section 14.2.5, General Business Principles sub-section 14.2.8, Supplier indicators For all Philips businesses, guidance is applicable regarding employee training on human rights policies as part of the GBP. Total hours of employee training are managed and monitored at local level. Philips considers these data on consolidated level not relevant.
Non-discrimination		
G4-HR3	Total number of incidents of discrimination and actions taken	sub-section 14.2.5, General Business Principles sub-section 14.2.8, Supplier indicators
Freedom of association and collective bargaining		
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	sub-section 14.2.5, General Business Principles sub-section 14.2.8, Supplier indicators
Child Labor		
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	sub-section 14.2.5, General Business Principles sub-section 14.2.8, Supplier indicators
Forced or compulsory labor		
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	sub-section 14.2.5, General Business Principles sub-section 14.2.8, Supplier indicators
Security practices		
G4-HR7	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations	The actual percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations is managed and monitored at local level. Philips considers this data on consolidated level not relevant.
Indigenous rights		
G4-HR8	Total number of incidents of violations involving rights of indigenous people and actions taken	Philips is not operational in areas with indigenous people. Therefore this indicator is not relevant.
Assessment		
G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	The total number and percentage of operations that have been subject to human rights reviews or impact assessments are managed and monitored at local level. Philips considers this data on consolidated level not relevant.

	profile disclosure	description	cross-reference
Supplier human rights assessment			
	G4-HR10	Percentage of new suppliers that were screened using human rights criteria	sub-section 5.2.9, Supplier sustainability sub-section 5.2.10, Addressing issues deeper in the supply chain chapter 14, Sustainability statements - "Supplier audits"
	G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	sub-section 14.2.8, Supplier indicators
Human rights grievance mechanisms			
	G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	sub-section 5.2.9, Supplier sustainability sub-section 14.2.5, General Business Principles sub-section 14.2.8, Supplier indicators See General Business Principles .
	profile disclosure	description	cross-reference
Society			
Local Communities			
	G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	sub-section 5.2.8, Working with stakeholders sub-section 6.1.3, 2015 business highlights sub-section 6.3.3, 2015 business highlights sub-section 14.2.7, Stakeholder Engagement Philips has groupwide community involvement programs and policies that its sites implement and evaluate at local level. Philips does not consider the calculation of an overall percentage as relevant in this context.
	G4-SO2	Operations with significant actual or potential negative impacts on local communities	sub-section 14.3.3, Green Operations - "Sustainability world map"
Anti-corruption			
	G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	section 7.1, Our approach to risk management and business control sub-section 14.2.5, General Business Principles
	G4-SO4	Communication and training on anti-corruption policies and procedures	sub-section 5.2.7, General Business Principles
	G4-SO5	Confirmed incidents of corruption and actions taken	sub-section 14.2.5, General Business Principles
Public Policy			
	G4-SO6	Total value of political contributions by country and recipient/beneficiary	Philips does not make political contributions as defined in General Business Principles - 2.5 Dealing responsibly with government, political parties and politicians.
Anti-competitive Behavior			
	G4-SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	section 7.5, Compliance risks
Compliance			
	G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	note 26, Contingent assets and liabilities
Supplier assessment for impacts on society			
	G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	sub-section 5.2.9, Supplier sustainability chapter 14, Sustainability statements
	G4-SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	sub-section 14.2.8, Supplier indicators
Grievance mechanisms for impacts on society			
	G4-SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	sub-section 5.2.9, Supplier sustainability sub-section 14.2.5, General Business Principles sub-section 14.2.8, Supplier indicators sub-section 14.3.3, Green Operations See General Business Principles .

profile disclosure	description	cross-reference
Product responsibility		
Customer health and safety		
G4-PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	All significant products are assessed in terms of Health and Safety impact during the design phase as part of our EcoDesign procedure, but also during the sourcing phase. For more information on EcoDesign refer to sub-section 5.3.1, Green Innovation, for more information on our sourcing refer to sub-section 14.2.8, Supplier indicators.
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	As defined in the G4 Implementation Manual, no incidents of non-compliance related to any type of court order took place in 2015. Information on current consumer product recalls can be found on www.recall.philips.com
Product and service labeling		
G4-PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	The type of product and service information provided on our products is based on local and/or regional requirements e.g. EU-CE safety marking and performance markings based on ErP directive. For all significant products certain kind of labelling is needed based on different regulations.
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	As defined in the G4 Implementation Manual, no incidents of non-compliance related to any type of court order took place in 2015.
G4-PR5	Results of surveys measuring customer satisfaction	Philips measures the Net Promoter Scores, but does not disclose these for confidentiality reason.
Marketing communications		
G4-PR6	Sale of banned or disputed products	To the best of our knowledge, Philips did not sell any banned or disputed products in 2015.
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	As defined in the G4 Implementation Manual, no incidents of non-compliance related to any type of court order took place in 2015.
Customer privacy		
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	To the best of our knowledge, Philips did not receive any substantiated complaints regarding breaches of customer privacy and losses of customer data in 2015.
Compliance		
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	note 26, Contingent assets and liabilities

Disclosure of management approach

Material Aspects	DMA and Indicators	Omissions	External Assurance
chapter 14, Sustainability statements - "Key material aspects"	chapter 14, Sustainability statements - "Key material aspects" section 14.5, Global Reporting Initiative (GRI) table 4.0 - "Specific Standard Disclosures"	section 14.5, Global Reporting Initiative (GRI) table 4.0 - "Cross-reference"	section 14.4, Independent Auditor's Assurance Report

18 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).

Cash flow before financing activities

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

Chlorofluorocarbon (CFC)

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

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.

Comparable sales

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

Continuing net income

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

Dividend yield

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

EBITA

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

EBITA per common share

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

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.

Free cash flow

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

Full-time equivalent employee (FTE)

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

Hydrochlorofluorocarbon (HCFC)

Hydrochlorofluorocarbon is a fluorocarbon that is replacing chlorofluorocarbon as a refrigerant and propellant in aerosol cans.

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.

Net debt : group equity ratio

The percentage distribution of net debt over group equity plus net debt.

Non-Governmental Organization (NGO)

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

OEM

Original Equipment Manufacturer.

Operational carbon footprint

A carbon footprint is the total set of greenhouse gas emissions caused by an organization, event, product or person; usually expressed in kilotonnes 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).

Perfluorinated compounds (PFC)

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

Polyvinyl chloride (PVC)

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

Productivity

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

Regulation on Hazardous Substances (RoHS)

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

Return on equity (ROE)

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

Return on invested capital (ROIC)

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

SF₆

SF₆ (Sulfur hexafluoride) is used in the electrical industry as a gaseous dielectric medium.

Turnover rate of net operating capital

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

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.

19 Forward-looking statements and other information

Forward-looking statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items, in particular section 5.5, Outlook, of this Annual Report. Examples of forward-looking statements include statements made about our strategy, estimates of sales growth, future EBITA and future developments in our 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 7, Risk management, of this Annual Report.

Third-party market share data

Statements regarding market share, contained in this document, including those regarding Philips' competitive position, are based on outside sources such as specialized research institutes, industry and dealer panels in combination with management estimates. Where full-year information regarding 2015 is not yet available to Philips,

those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.

Fair value information

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

IFRS basis of presentation

The financial information included in this document is based on IFRS, as explained in the significant accounting policies, unless otherwise indicated. As used in this document, the term EBIT has the same meaning as Income from operations (IFO).

Use of non-GAAP information

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

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

Statutory financial statements and management report

The chapters Group financial statements and Company financial statements contain the statutory financial statements of the Company.

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

