

The Philips logo is displayed in a bold, blue, sans-serif font. It is positioned within a white rectangular area that has a rounded bottom-right corner. This white area is set against a dark blue background that also contains the text 'Annual Report 2014' and 'Sustainability selection'. The overall background of the page is a photograph of a surgical team in an operating room, with a large Philips medical device and several monitors visible.

Annual Report
2014

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 2014. The information in this PDF has been derived from the audited financial statements 2014 of Koninklijke Philips N.V. KPMG has issued unqualified auditors' reports on these financial statements.

Innovating for a
healthier, more
sustainable world

Contents

Grey text indicates parts not included in this selection from the Philips Annual Report 2014.

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 Solutions opportunities.

To achieve this transformation, from January 1, 2015, Philips started to integrate the sectors Consumer Lifestyle and Healthcare into one operating company focused on our HealthTech businesses. At the same time Philips is taking the next step in the implementation of its new operating model which will give the company a dedicated, focused and lean management structure, as a result of the planned integration of the relevant sector and group layers.

The establishment of the two stand-alone companies will also involve the split and allocation of the current Innovation, Group & Services sector to each company in 2015. This means that in the course of 2015 the IG&S sector as currently described in this Annual Report will disappear and no longer be presented as a separate segment for reporting purposes.

Philips also started the process to carve out its Lighting business into a separate legal structure and will consider various options for ownership structures for this company with direct access to capital markets. The proposed separation of the Lighting business impacts all businesses and markets as well as all supporting functions and all assets and liabilities of the Group and may require complex and time consuming disentanglement efforts. Philips expects the separation will take approximately 12-18 months and currently estimates separation costs to be in the range of EUR 300-400 million in 2015. However, the separation could take more time than originally planned or anticipated, which may expose Philips to risks of additional cost and other adverse consequences. It should be noted that there is no certainty as to the method or timing of the separation of the Lighting business. For further information on specific risks involved in the separation please refer to chapter 7, Risk management, of this Annual Report.

Finally, Philips is in discussion with external investors for the combined Lumileds and Automotive Lighting businesses and expects to complete a transaction in the first half of 2015. Therefore, the combined businesses of Lumileds and Automotive are reported as discontinued operations in the Consolidated statements of income and cash flows. As a result, Lumileds and Automotive sales and EBITA are no longer included in the Lighting and Group results of continuing operations. Prior-period financial information presented and discussed in this Annual Report have been restated for the treatment of the combined businesses of Lumileds and Automotive as discontinued operations (see note 3, Discontinued operations and other assets classified as held for sale). The applicable assets and liabilities of these combined businesses are reported under Assets and Liabilities classified as held for sale in the consolidated balance sheets as of December 31, 2014.

These developments will have a significant impact on Philips and its organization in many respects. From an external financial reporting perspective, it should be noted that the planned organizational changes will require Philips to transition to a new reporting structure in the course of 2015. At that stage, and in view of applicable IFRS requirements, Philips will report and discuss its financial performance on the basis of different reportable segments than the sectors currently presented and discussed in this Annual Report.

Further updates will be provided in the course of 2015.

IFRS basis of presentation

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

Forward-looking statements and other information

Please refer to chapter 19, Forward-looking statements and other information, of this Annual Report for more information about forward-looking statements, third-party market share data, fair value information, IFRS basis of preparation, use of non-GAAP information, statutory financial statements and management report, and reclassifications.

Dutch Financial Markets Supervision Act

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

Statutory financial statements and management report

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

1 Performance highlights	3
2 Message from the CEO	5
3 Philips in 2014 at a glance	8
4 Our strategic focus	9
4.1 Addressing global challenges	9
4.2 How we create value	11
4.3 Accelerate! journey continues	13
4.4 Lives improved	14
4.5 Global presence	14
4.6 Our strategy in action	15
5 Group performance	20
5.1 Financial performance	20
5.2 Social performance	20
5.3 Environmental performance	26
5.4 Proposed distribution to shareholders	31
5.5 Outlook	31
6 Sector performance	-
7 Risk management	-
8 Management	-
9 Supervisory Board	-
10 Supervisory Board report	-
11 Corporate governance	-
12 Group financial statements	-
13 Company financial statements	-
14 Sustainability statements	32
14.1 Economic indicators	37
14.2 Social statements	37
14.3 Environmental statements	52
14.4 Independent Auditor's Assurance Report	57
14.5 Global Reporting Initiative (GRI) table 4.0	58
15 Reconciliation of non-GAAP information	-
16 Five-year overview	-
17 Investor Relations	-
18 Definitions and abbreviations	69
19 Forward-looking statements and other information	71

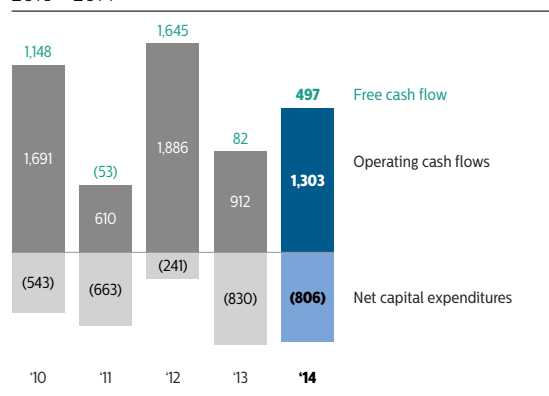
1 Performance highlights

Prior-period financial information has been restated for the treatment of the combined businesses of Lumileds and Automotive as discontinued operations (see note 3, Discontinued operations and other assets classified as held for sale) and for two voluntary accounting policy changes (see note 1, Significant accounting policies). For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report.

Philips Group
Key data in millions of EUR unless otherwise stated
2013 - 2014

	2013	2014
Sales	21,990	21,391
Comparable sales growth	3%	(1)%
EBITA	2,276	821
as a % of sales	10.4%	3.8%
EBIT	1,855	486
as a % of sales	8.4%	2.3%
Net income (loss)	1,172	411
Net income attributable to shareholders per common share in EUR:		
basic	1.28	0.45
diluted	1.27	0.45
Net operating capital	10,238	8,838
Free cash flow	82	497
Shareholders' equity	11,214	10,867
Employees at December 31	116,082	113,678
of which discontinued operations	10,445	8,313

Philips Group
Free cash flow in millions of EUR
2010 - 2014

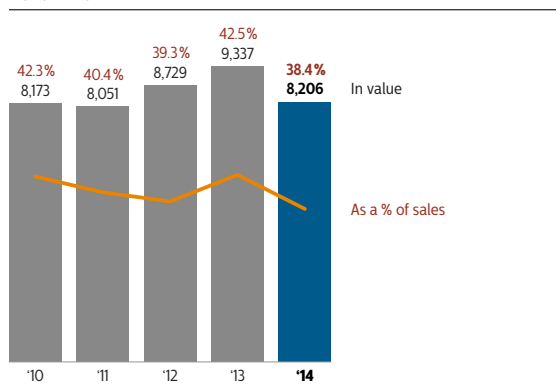


Performance in millions of EUR unless otherwise stated
2013 - 2014

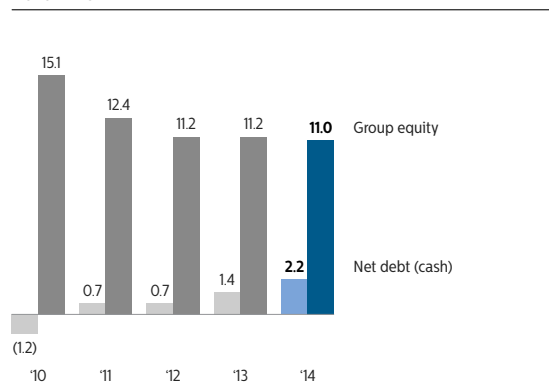
	Group			Healthcare		Consumer Lifestyle			Lighting			
	2013	2014		2013	2014	2013	2014		2013	2014		
Sales	21,990	21,391	3% ▼	9,575	9,186	4% ▼	4,605	4,731	3% ▲	7,145	6,869	4% ▼
Green Product sales	10,997	11,065	1% ▲	3,690	3,508	4% ▼	2,270	2,605	15% ▲	5,037	4,952	2% ▼
Sales in mature geographies ¹⁾	14,322	14,004	2% ▼	7,154	6,890	4% ▼	2,418	2,508	4% ▲	4,254	4,182	2% ▼
Sales in growth geographies ¹⁾	7,668	7,387	4% ▼	2,421	2,296	5% ▼	2,187	2,223	2% ▲	2,891	2,687	7% ▼
EBITA	2,276	821	64% ▼	1,512	616	59% ▼	483	573	19% ▲	580	293	49% ▼
Net operating capital	10,238	8,838	14% ▲	7,437	7,565	2% ▼	1,261	1,353	7% ▼	4,462	3,638	18% ▲

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

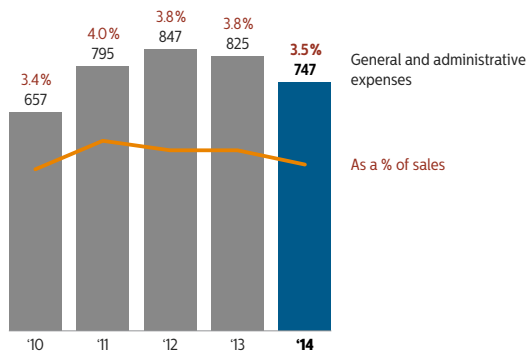
Philips Group
Gross margin in millions of EUR
2010 - 2014



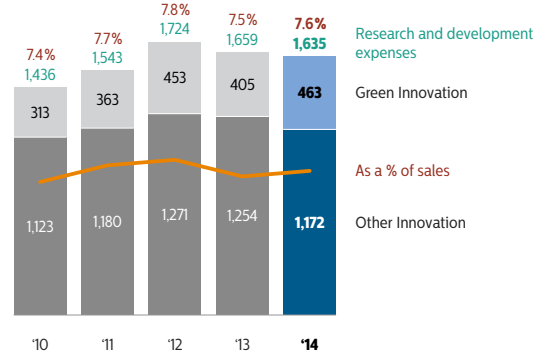
Philips Group
Net debt (cash) to group equity in billions of EUR
2010 - 2014



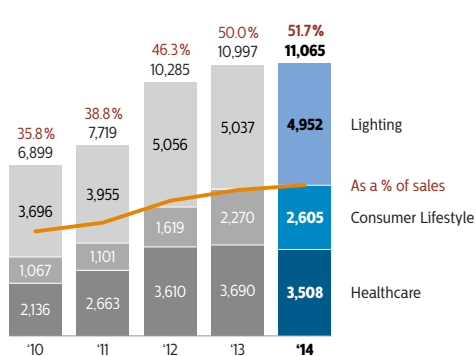
Philips Group
General and administrative expenses in millions of EUR
 2010 - 2014



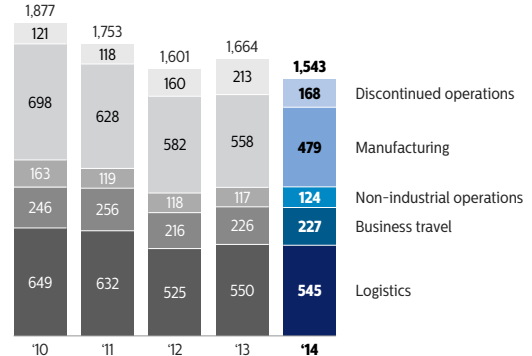
Philips Group
Research and development expenses in millions of EUR
 2010 - 2014



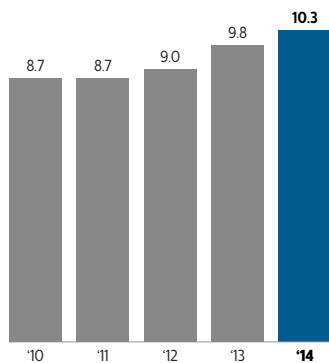
Philips Group
Green Product sales per sector in millions of EUR
 2010 - 2014



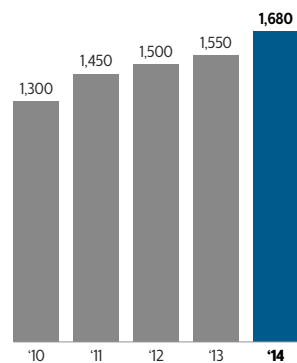
Philips Group
Operational carbon footprint in kilotonnes CO₂-equivalent
 2010 - 2014



Philips Group
Brand value¹⁾ in billions of USD
 2010 - 2014



Philips Group
New patents filed in number of patents
 2010 - 2014



¹⁾ As measured by Interbrand

2 Message from the CEO



“We believe that our active reshaping of the portfolio is the best way to create value for our shareholders and to ensure a successful future for the customers and employees of both companies.” Frans van Houten, CEO Royal Philips

Dear stakeholder,

In 2014 we further sharpened our strategic focus and took the next step on our Accelerate! transformation journey by announcing our plan to establish two pure-play, customer-focused companies in the areas of HealthTech and Lighting Solutions – both leveraging the trusted Philips brand.

In light of the mega-trends that are shaping our world – growing and aging populations, the increase in chronic diseases, urbanization, energy resource constraints, etc. – both companies will be well placed to capture growth opportunities as innovative technology solutions & services partners.

Royal Philips will help address the challenges facing the health care ecosystem through new, more integrated forms of care delivery across the health continuum – aided by Big Data, clinical decision support, and the Internet of Things.

The convergence of our consumer technologies that facilitate healthy living, our medical technologies that help clinicians to deliver better treatment, and our

mobile and cloud-based technologies that allow data sharing will help health care systems to improve patient outcomes, quality of care delivery and cost productivity.

We see considerable scope to grow in this space, both organically and through bolt-on acquisitions. Our acquisition of Volcano is the next step in building out our HealthTech portfolio and will strengthen our leadership in the growing image-guided therapy market.

Similarly, in the Lighting Solutions space, our LED-based connected value propositions are going beyond illumination and transforming the way we use our personal and public spaces. By giving people satisfying and inspiring experiences, solutions such as Power over Ethernet office lighting, city-wide lighting management and our Philips Hue smart home lighting are set to transform the very fabric of modern life.

The separation of our Lighting business into a lean, agile, stand-alone company will ensure it is better positioned to capture growth as the world leader in energy-efficient, digital lighting solutions.

We believe that this active reshaping of the portfolio, including the projected sale of the combined Lumileds and Automotive Lighting components businesses, is the best way to create value for our shareholders and to ensure a successful future for the customers and employees of both companies.

Performance in 2014 - a challenging year

As we had expected, 2014 was a difficult year. We continued to improve operational performance in most businesses, yet saw significant headwinds (e.g. market slowdown, exchange rate fluctuations) and other items (e.g. legal matters, restructuring, internal quality and supply chain issues) denting our results, with EBITA declining by 6.6 percentage points of sales.

Sales were 1% lower on a comparable basis, reflecting sustained softness in a number of markets, including China and Russia, and the voluntary temporary suspension of production at our Cleveland facility. These factors – compounded by currency effects and the delayed ramp-up of production and shipment from our Cleveland facility – also impacted profitability, resulting in reported EBITA of 3.8% of sales.

Having said that, the overall figures mask some encouraging performance and strategic shifts. At Healthcare, a major effort was made to remediate the situation in Cleveland and secure external certification of the updated quality management system – setting the stage for a better 2015 as the resumption of shipments gathers momentum. Expanding its offering to help consumers make healthier choices, Consumer Lifestyle continued to perform very well, posting strong growth and earnings. And, pursuing its four-pillar strategy, Lighting recorded a 32% increase in LED-based sales.

We also took decisive action to address underperformance. At Healthcare in the US we rolled out a new go-to-market model for enterprise-level integrated account management. Also in North America, we strengthened Professional Lighting Solutions' management team and refined a multi-channel go-to-market model to unlock the potential we see in that market. And in Europe, we acted to strengthen Consumer Luminaires' fundamentals and cost structure, including an optimized portfolio and supply chain.

By the end of 2014 we had completed 41% of our EUR 1.5 billion share buy-back program, and we continue working to further improve the efficiency of our balance sheet.

Supported by Accelerate!

Our Accelerate! transformation program helped us manage through this challenging year, driving improvements across the organization, not least in serving our customers better. Strong customer focus was key to securing long-term partnerships with Karolinska University Hospital and Stockholm County Council in Sweden, Mayo Clinic in the US, and Reinier de Graaf hospital in the Netherlands.

We are seeing quarter-to-quarter growth in the number of such deals, which are all about clinical knowledge, in-depth relationships, and integrated solutions rather than discrete products. Customers are not asking for specific items of equipment, but rather our advice and help in devising, for example, a care pathway to ensure a patient is accurately diagnosed as quickly as possible and in the operating room within 90 minutes of having a stroke. Faced with challenges like these, our combination of customer focus, innovative strength and solutions thinking is key to delivering a successful outcome.

In this context, I am very pleased that the KLAS organization presented Philips with the Best in KLAS award for 2014 during a ceremony at the annual RSNA event in Chicago. The Best in KLAS rankings are based on feedback from customers.

In 2014 we continued to apply Lean methodology to transform our customer value chains. This again enabled us to speed up time-to-market for our innovations – locally relevant value propositions, such as our affordable VISIQ ultra-mobile ultrasound system, our smart Air Purifier in China, and our flat SlimStyle LED light bulb. Innovations like these make a real difference to people's lives.

Accelerate! also helped us to deliver gross overhead cost savings of EUR 284 million in the year, keeping us on track to hit our 2016 cumulative target of EUR 1.8 billion.

Other key developments in 2014

In Interbrand's annual ranking of the world's top 100 brands, our brand value rose by 5%, passing the USD 10 billion mark for the first time.

In Philips Research's centenary year, we underscored our commitment to meaningful innovation by investing EUR 1,635 million in Research & Development in line with prior years and achieving our target of EUR 2 billion spend on Green Innovation a year ahead of schedule. Turning investment into intellectual property, we filed 1,680 patent applications. And with a view to capturing opportunities to create a healthier, more sustainable Africa, we set up an Innovation Hub for the continent in Kenya.

We continued to deliver on our EcoVision commitments in 2014, and our sustainability drive again received widespread recognition – a #14 ranking in Interbrand's

top 50 Best Global Green Brands, acknowledgement as a leader in both carbon disclosure and performance by the Carbon Disclosure Project, and top scores in the Dow Jones Sustainability Index. We also continued to upscale our efforts in the area of circular economy, which we believe presents a significant value-creation opportunity. For instance, we opened a new refurbishment center for medical imaging systems in Best (Netherlands), signed an agreement with the island of Aruba to revamp its entire public lighting system, and expanded our partnership with the Ellen MacArthur Foundation, a circular economy advocate.

I am also delighted that we were able to set up the Philips Foundation, a registered charity organization dedicated to helping enable lasting social change in disadvantaged communities through the application of innovation, talent and resources provided by Philips.

An exciting future

With our decision to create two companies in the areas of HealthTech and Lighting Solutions, we have clearly set our strategic direction.

The road ahead is clear, and our determination to succeed absolute. By continuing to execute our Accelerate! program, we will serve our customers better and compete more effectively in the coming years. We will listen closely to our customers, so we continue to understand and anticipate their needs and market requirements.

We will improve operational excellence in everything we do, enhance our capabilities, and implement a standard operating model. Building upon the Philips Business System, this operating model will make us a simpler, more agile company, while also reducing overhead cost.

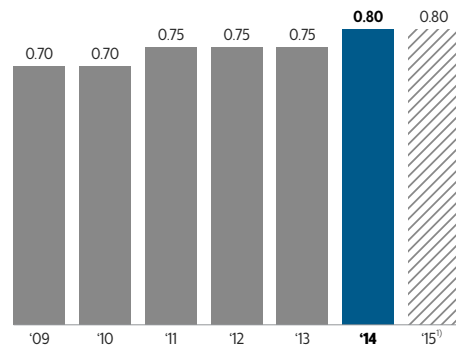
In order to drive growth, we have encouraged locally relevant innovation, invested in developing business with governments, boosted our advertising and promotion investments, and started new business creation in areas such as Healthcare Informatics, Solutions & Services, Healthcare Transformation Services and Personal Health Solutions.

Over the coming year we will also maintain our focus on improving gross margins, e.g. through our Design for Excellence (DfX) program. And we will realize productivity gains from the overhaul of our business model architecture, with all businesses adopting one of four standardized business models.

In conclusion

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 stock.

Philips Group
Dividend per common share in EUR
 2009-2015



¹⁾ Subject to approval by the 2015 Annual General Meeting of Shareholders

Looking ahead, we remain cautious about the macro-economic outlook and expect ongoing volatility in some of our end-markets. We also anticipate further restructuring and separation costs in 2015 and 2016.

As of year-end 2014 we are tracking one percentage point behind on the path to achieving each of our 2016 Group financial targets. We are convinced that this does not change our longer-term performance potential, considering the attractiveness of the Lighting Solutions and HealthTech markets and our competitive position. Later this year, as we progress with the separation of Philips and reallocation of IG&S, we will update the market about the integral performance targets for each of the two operating companies.

On behalf of my colleagues on the Executive Committee, I would like to thank all our employees for their hard work over the past year, as well as their willingness to embrace change. And I wish to thank our customers, shareholders and other stakeholders for the trust and support they continue to give us.



Frans van Houten
 Chief Executive Officer

3 Philips in 2014 at a glance

100
years



January 9

Centenary of Philips Research improving people's lives through innovation

February 4

Available in over 100 countries, the Airfryer is now a truly global proposition

March 3

Grand total of 47 prestigious awards at 2014 iF design awards

March 17

Joint venture to create leading lighting player in Saudi Arabia



March 20

Establishment of Innovation Hub in Kenya underlines commitment to Africa

April 14

Red Dot Awards jury acknowledges Philips' design leadership

May 27

Health care partnership with Stockholm County Council and Karolinska University Hospital

June 24

Philips a top riser in Interbrand sustainability ranking



June 26

Strategic alliance with Salesforce to deliver cloud-based health care information technology

June 30

Lumileds and Automotive Lighting to be combined in stand-alone company

July 1

Philips becomes official lighting partner of FC Bayern Munich

September 23

Plan to establish two separate companies in HealthTech and Lighting Solutions

USD 10
billion+



October 9

Brand value reaches a record high in Interbrand ranking

October 15

15-year partnership with Reinier de Graaf hospital to enhance future patient care

October 30

Philips jumps 20 places in Boston Consulting Group's innovation ranking

November 13

Philips opens new imaging systems refurbishment facility in the Netherlands



November 17

Philips Lighting named European Frost & Sullivan Lighting Company of the year

November 29

Philips presented with Best in KLAS award for 2014, based on customer feedback, at RSNA

December 17

Announcement of planned acquisition of Volcano to expand leadership in image-guided therapy

December 19

Philips to upgrade Madrid's entire street lighting system with 225,000 connected, energy-efficient lights

4 Our strategic focus

4.1 Addressing global challenges

For 124 years, Philips has been a leader in building and shaping markets with our meaningful innovations. We have always been guided by our passion to improve people’s lives – true to our vision of making the world healthier and more sustainable through innovation.

In 2014 we announced the next phase of our Accelerate! transformation, moving from a holding company structured around multiple divisions to two stand-alone operating companies – in HealthTech and Lighting Solutions – with the ambition of capturing growth and creating value, both leveraging the trusted Philips brand.

Market opportunities

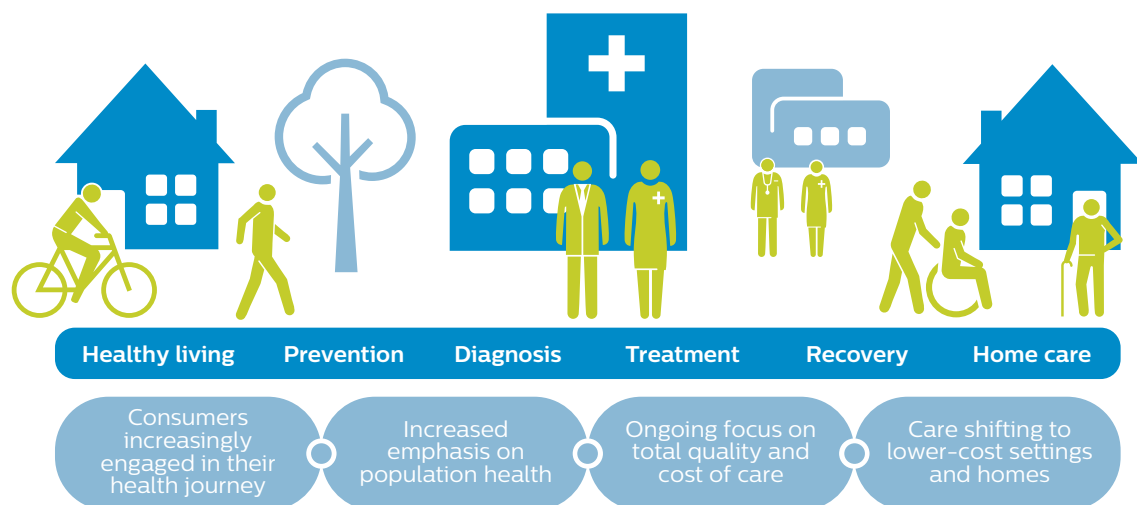
With our understanding of many of the longer-term challenges our world faces, we see major opportunities to apply our innovative competencies and create value for our stakeholders by delivering technology solutions that improve people’s lives more effectively.

We see a growing need for integrated health care delivery

As the population gets older, with more chronic and lifestyle-related diseases, health care systems are struggling to increase access and quality of care while managing spiraling costs. At the same time, people are increasingly looking for new ways to proactively monitor and manage their health. This is driving the convergence of professional health care and consumer end-markets across the health continuum.

With customers expressing a need for integrated solutions, Royal Philips’ businesses in HealthTech – with their combined clinical and consumer capabilities and cloud-based digital health platform – are well positioned to capture growth in an increasingly connected world, where people are wanting to live healthier lives and societies are looking for more effective and lower-cost solutions along the health continuum. Their total addressable market is estimated at over EUR 100 billion.

Health continuum model





We see increasing demand for energy-efficient and digital lighting

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

The rapid rise in the world’s population and in new lighting applications is increasing global demand for light. At the same time, with lighting accounting for 19% of global electricity consumption, the world really 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 also benefit from the compelling new applications that digital light can offer.

As a stand-alone company, the Lighting Solutions business will be better positioned to capture the value which 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 60 billion.

Lighting mega-trends



More light



More energy-efficient light



Digital light

4.2 How we create value

Understanding and meeting people’s needs

At Philips, our starting point is always to understand the specific challenges local people face – whether they be a hospital director, a city planner, a doctor, a real estate developer, a consumer, etc.

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

We measure the impact our solutions are having around the world with 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

To ensure that success is repeatable, i.e. that we create value for our stakeholders time and time again and deliver on our mission and vision, we have adopted the Philips Business System.

Having a single business system reduces complexity, increases speed and, crucially, allows us to spend more time with customers and driving improvement across the company.

Our mission

To improve people’s lives through meaningful innovation

Our vision

At Philips, we strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025. We will be the best place to work for people who share our passion. Together we will deliver superior value for our customers and shareholders.



Group strategy

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

CAPs

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

Excellence

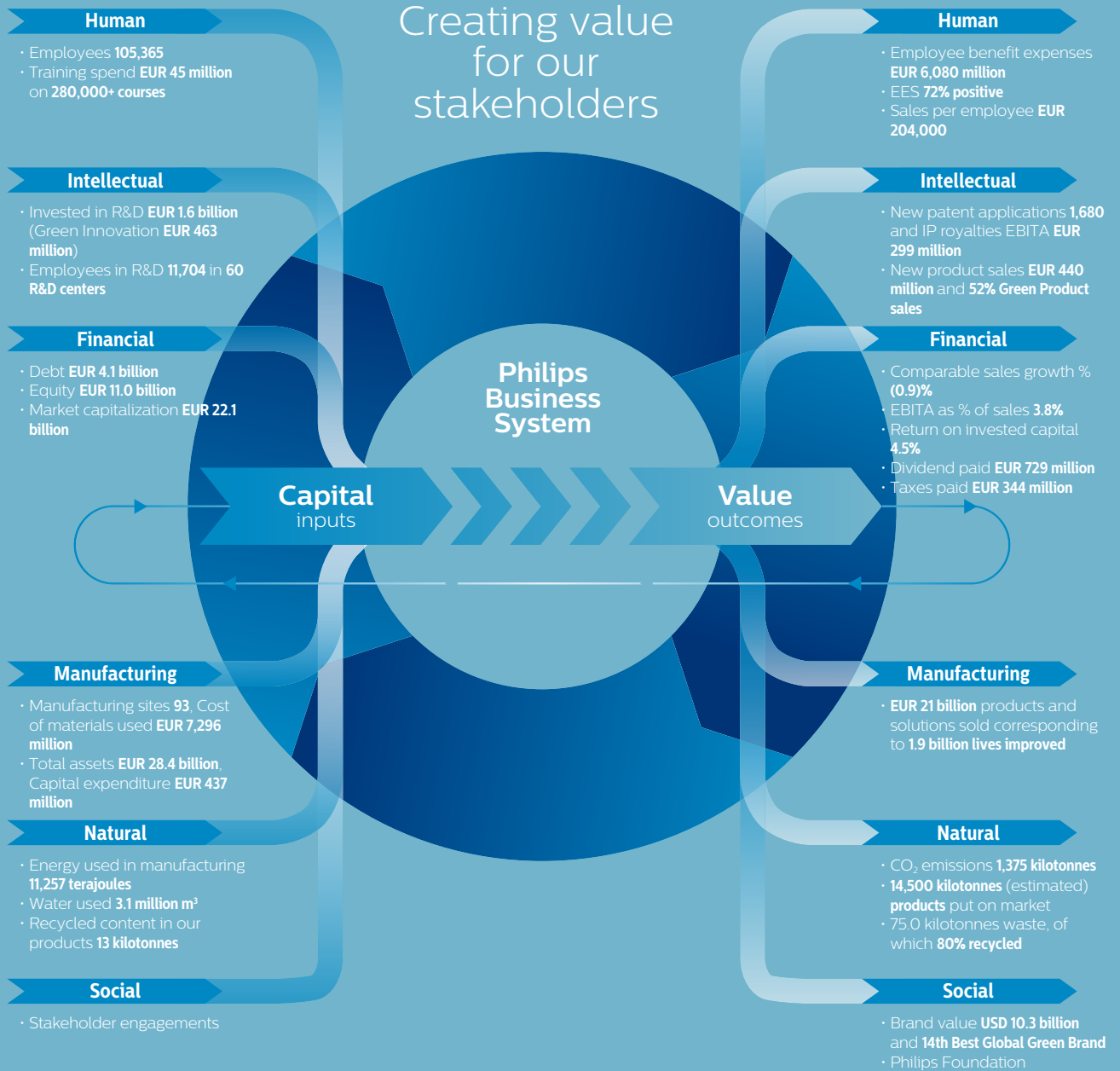
We are a learning organization that applies common operating principles and practices to deliver to our customers with excellence.

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.

Creating value for our stakeholders



Capitals



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 for our businesses from capital providers. We then prioritize our investment opportunities, focusing on those areas offering the best prospects for growth and returns.



Manufacturing

We apply Lean techniques also 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 our products and solutions.



Social

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

4.3 Accelerate! journey continues

Path to Value

In 2011 we embarked upon our multi-year Accelerate! journey of change and performance improvement. This program is made up of five streams intended to:

- make us more customer-focused
- resource our business/market combinations to win
- create lean end-to-end customer value chains
- implement a simpler, standardized operating model
- drive a growth and performance culture

Designed to transform Philips into a truly 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.

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

Philips Group
Path to Value



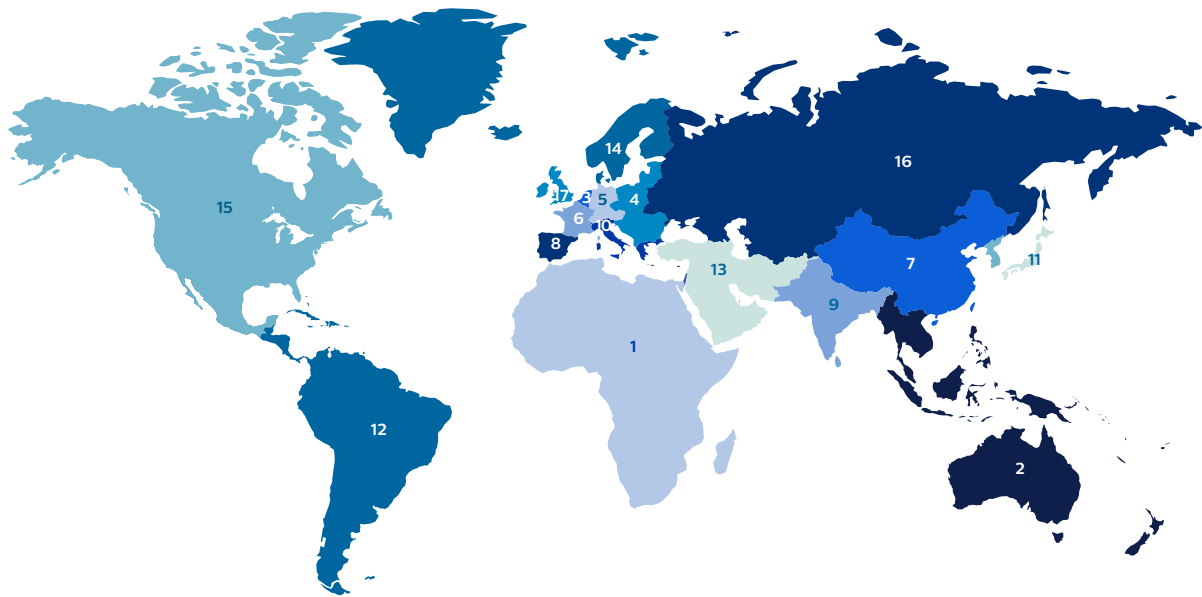
To achieve our value creation goal, we have set ourselves targets to be realized by the end of 2016. These indicate the value we create, as measured by sales growth, profitability and our use of capital.

Group financial targets for 2016

- **Comparable sales growth 4-6%**
- **Reported EBITA margin 11-12%**
- **Return on invested capital >14%**

As of year-end 2014 we are tracking 1 percentage point behind on the path to achieving each of these targets. We are convinced that this does not change our longer-term performance potential, considering the attractiveness of the Lighting Solutions and HealthTech markets and our competitive position. Later in 2015, as we progress with the separation of the Lighting business from the Philips Group and the re-allocation of IG&S, we will update the market about the integral performance targets for each of the two operating companies.

4.4 Lives improved



Markets	Lives improved (millions) ¹⁾	Population (millions) ²⁾	GDP (USD billions) ³⁾
1. Africa	48	1.137	2.504
2. ASEAN	208	938	5.789
3. Benelux	28	28	1.472
4. Central & East Europe	88	130	1.585
5. DACH	91	98	4.939
6. France	59	66	2.909
7. Greater China	334	1.401	11.626
8. Iberia	44	58	1.633
9. Indian Subcontinent	174	1.476	2.330
10. Italy, Israel and Greece	51	79	2.693
11. Japan	26	126	4.770
12. Latin America	127	500	4.697
13. Middle East & Turkey	95	335	3.445
14. Nordics	26	26	1.722
15. North America	349	478	20.511
16. Russia and Central Asia	81	263	2.623
17. UK & Ireland	49	69	3.105

¹⁾ Source: Philips

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

³⁾ Source: IMF, CIA Factbook & Wikipedia

4.5 Global presence

Markets	Sales	Number of employees	Employees female	Employees male	R&D centers	Manufacturing sites	Tangible and intangible assets
Asia & Pacific	6,226	40,049	36%	64%	10	21	1,796
EMEA	7,261	34,417	32%	68%	28	34	2,916
Latin America	1,226	7,910	46%	54%	2	6	110
North America	6,678	22,989	35%	65%	20	32	7,799

4.6 Our strategy in action



Family-centered care for newborns

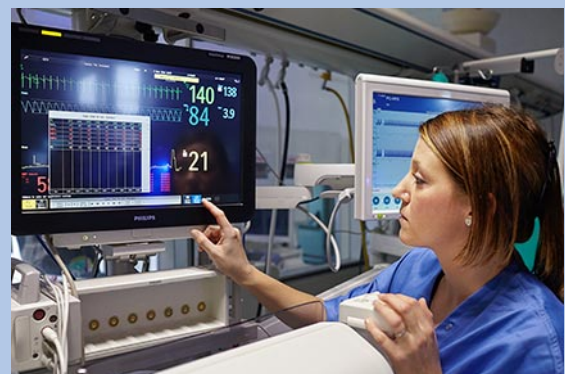
In a child's first precious weeks of life, every parent knows their family is the center of the universe. And when that child is sick, medics need every tool to ensure that family gets the best care.

"Family-centered care is our philosophy, we want to combine technology with humanization and place the mother and newborn at the center of this," says Professor Fabio Mosca, Director of the Intensive Neonatal Unit at Italy's Mangiagalli Hospital.

Instead of his intensive care unit being a place defined by life and death, it has, thanks to Philips, become a unit remarkably attuned to the specific rhythms of mother and baby. The entire unit's environment has been adapted specifically for two main reasons. First, to boost the baby's immune system and, second, to improve a mother's chance of breast-feeding successfully.

This is a great example of the kind of partnership Philips has perfected – improving people's lives through using innovative technologies, skills and know-how throughout the continuum of care. By sharing the

philosophy of the Family Center Care, the collaboration ensures the well-being of all the people involved – the child, the family and the healthcare staff.





Getting to the **heart of health**

Recent research suggests that the ongoing health of our teeth and gums has a connection with the health of our heart.

Which is why some innovative thinking from Philips specifically focused on how to improve dental care has had such a profound effect on the way we manage our lifestyles, no matter how old we are or where we live. Everyone knows that brushing teeth regularly is essential for good oral hygiene, but sometimes to truly improve people's lives, we need a helping hand from technology. As Michael Noack, Professor of Dental Care & Periodontology at the University of Cologne states, the applied technology of the revolutionary Philips Sonicare electric toothbrush protects gums and removes plaque far better than regular toothbrushes. The difference between the two is obvious, he says.

A consumer medical breakthrough that was first developed in the 1980s and which has been continuously perfected since, the Sonicare electric toothbrush is designed to empower people to take control of their personal dental care. It's the very embodiment of the sort of meaningful, impactful innovations that Philips has become synonymous with.



“My personal experience is that patients who use Philips Sonicare have an easier time removing biofilm plaque.” Michael Noack, Professor of Dental Care & Periodontology, University of Cologne



Illumination **and beyond**

Connected lighting systems combine intelligent illumination with data and connectivity to deliver the best possible lighting experience and extraordinary value beyond illumination.

In a connected lighting system, every light point is networked together and digitally controlled, creating a more intelligent, flexible, efficient, and dynamic lighting system.

When merged with the IT network in a building or city and connected to lighting management software, a connected lighting system allows the managers of spaces to simplify and streamline the commissioning, monitoring, and management of lighting in a city or facility, exercise greater control over the ambience and atmosphere of illuminated spaces, and improve energy efficiency.

By outfitting light points with motion, occupancy, and other kinds of sensors, a connected lighting system can provide deeper insight into the usage and activities of indoor and outdoor spaces.

With real-time and historical occupancy data, managers can specifically target the distribution of lighting and other resources, such as heating, cooling, and cleaning, to achieve unprecedented levels of energy efficiency and sustainability.

In indoor spaces, light points can also be outfitted with wireless communications. Because lighting is installed virtually everywhere that people go, the lighting system becomes a pervasive platform for information and services.

Businesses can create mobile apps to deliver in-context information and a range of location-based services to the users of indoor spaces, including indoor wayfinding, in-context information, personalization, and targeted discounts.

Connected lighting can also integrate with third-party technologies, creating flexible, scalable systems that can be configured to respond to the specific requirements of professional and public environments.



Small in size, **big in recycled plastics**

With high recycled plastic content and other sustainability credentials, the new SENSEO® Up coffee machine is part of a major initiative to incorporate recycled plastics into product design.

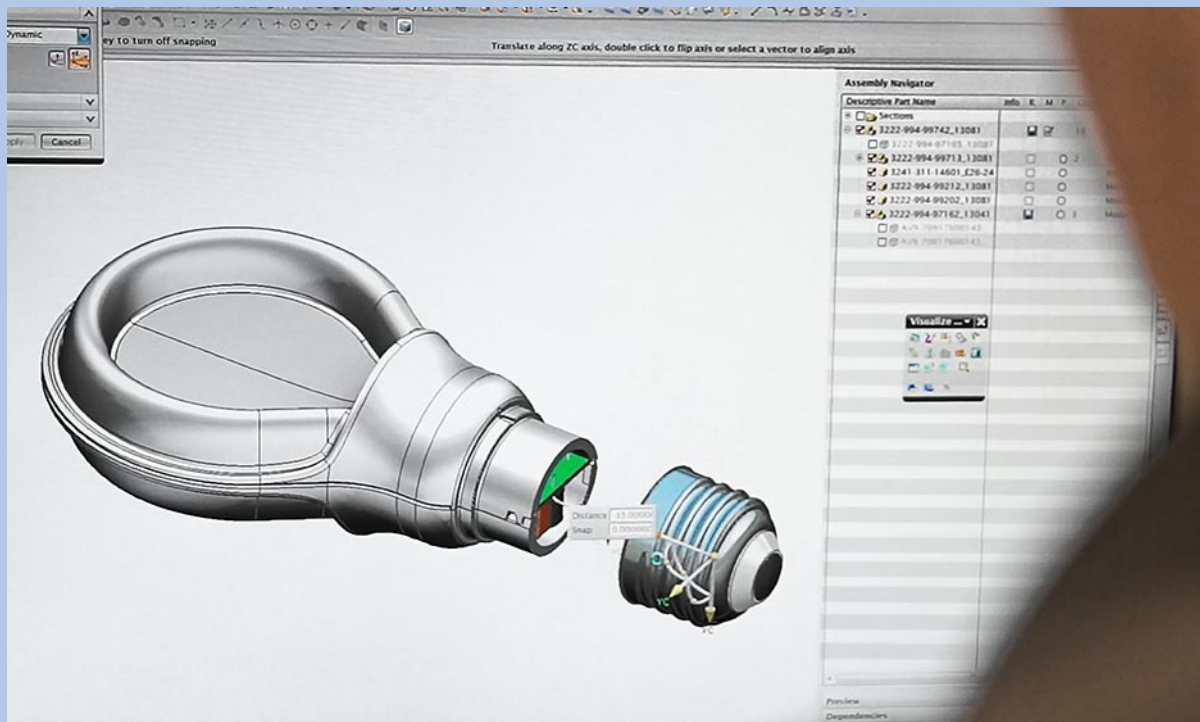
In designing SENSEO® Up – our first one-cup coffee machine aimed at single or double households – we challenged our designers to specify recycled plastics right from the start of the design process.

The designers had to contend with two challenges. The first was a question of aesthetics. Recycled plastics are only available in dark colors, but not a real deep black. We overcame this problem by using a different architecture built around an internal frame that is not visible to the end-user.

The second challenge was to use recycled plastics in the baseplate. First, we textured the part to give the recycled plastic a high-quality look and feel. Then we used one matt black color for the complete range instead of many color variations. And thirdly, we made the baseplate less visible by focusing attention on the colored housing above it. This approach allowed us to make the baseplate from 90% ABS plastic from post-consumer electronic waste.



By designing-in the use of recycled plastics from the outset, we succeeded in launching the new SENSEO® Up with 13% recycled plastics content. SENSEO® Up offers other environmental benefits too. Its compact size means that it needs less packaging and causes fewer emissions in transport. And it goes to off mode immediately after the coffee is brewed, saving 10% energy compared to other SENSEO® machines shutting off automatically.



Slim LED bulb, **slimmer utility bills**

Breaking with traditional design, the Philips SlimStyle LED bulb shows that a value-priced offering can deliver the innovation, energy efficiency and light quality that consumers want.

“The main drive to start the SlimStyle project was to maintain our leadership position in LED lighting worldwide,” says Agnieszka Kudyba, Integral Project Leader at Philips Lighting. “We’re in the midst of the LED revolution. Now we need to make sure we get mass adoption. The challenge was to get a replacement for the 60 W bulb, lasting for 25,000 hours, below 10 dollars. And we had to get it on the shelf within six months in order to strengthen our position as a leader in LED lighting. And we did it!”

The main architectural challenges in this project were to achieve the lowest cost possible and to fulfill US ENERGY STAR requirements. “From past experience we learned that we needed to reduce the number of components of the lamp,” explains Gon Weijers, Architect, Philips Lighting. “So we moved from more than 10 parts to only five parts in this lamp, which makes disassembly and recycling of the lamp much easier. And also, its compactness and low weight reduces shipping costs and CO₂ emissions. The combination of all these insights led us to the design of this lamp, which is flat, functional and innovative.”

Having defined the required design, there were still significant technical hurdles to be overcome. As Peter Bukkems, Senior Mechanical Engineer, Philips Lighting explains: “For me as mechanical engineer the biggest challenge was to combine the thermal and optical disciplines into one product. We solved the thermal performance by removing the expensive aluminum heat sink and making direct contact from the LED board towards the covers. We integrated the optics into the clean plastic materials. We made the assembly complete by using ultrasonic welding – we didn’t use any screws or glue in the design, but simply melted the two covers together.”

Innovative design, affordable price, lasting energy savings, and no compromise on light quality – it’s a winning combination.

5 Group performance

Content you didn't download

5.1 Financial performance

5.2 Social performance

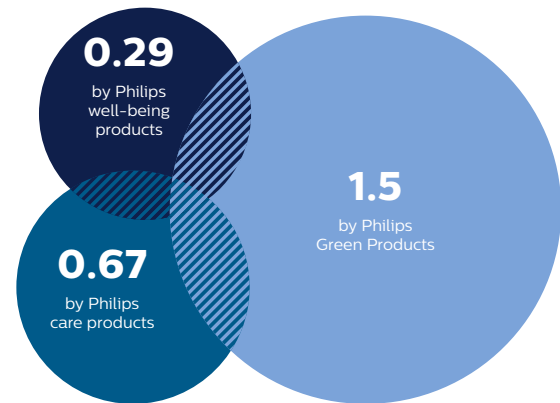
Our businesses provide innovative solutions that address major trends affecting the world – the demand for affordable healthcare, the need for greater energy efficiency, and the desire for personal well-being. Philips further strengthened its focus on sustainability in 2014 through a number of initiatives described in the Social and Environmental performance sections.

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 670 million people in 2014, driven by our Healthcare sector. Additionally, our well-being products that help people live a healthy life, and our Green Products that contribute to a healthy ecosystem, improved the lives of 290 million and 1.5 billion people respectively. After the elimination of double counts – people touched multiple times – we arrived at 1.9 billion lives. This is an increase of 200 million compared to 2013, mainly driven by Consumer Lifestyle in Greater China, Lighting in North America, Central & Eastern Europe, and Middle East & Turkey, and Healthcare in Greater China and the ASEAN countries. Our baseline of 1.7 billion people a year, established in 2012, has been adjusted to 1.6 billion to reflect the impact of the exclusion of the Automotive and Lumileds businesses. More information on this metric can be found in chapter 14, Sustainability statements, of this Annual Report.

Philips Group
Lives improved (in billions)



Total: 1.9 (double counts eliminated)

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

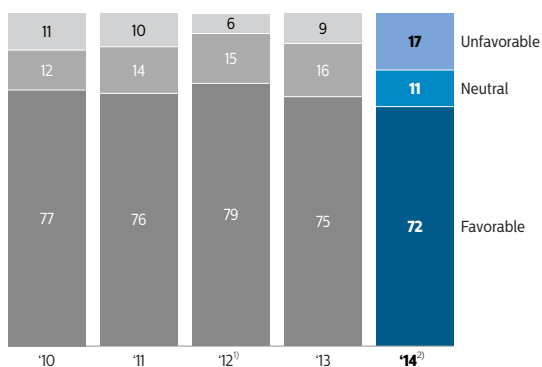
5.2.2 Employee engagement

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

As announced in 2012, we survey Employee Engagement on a bi-annual basis, starting in 2013. In 2014 we implemented a brief, complementary, team-focused survey called My Accelerate! Survey (MAS).

We have observed and shown via research the correlation between the Employee Engagement Index and the Net Promoter Score question “How likely is it you would recommend Philips as a great place to work?” (the measurement that cumulatively covers emotional commitment, pride and active recommendation). We used the Net Promoter Score as a proxy for the EES results in 2014 which was based on survey results of some 17,000 employees. In 2015 we will perform a full Employee Engagement Survey again.

Philips Group
Employee Engagement Index in %
2010 - 2014



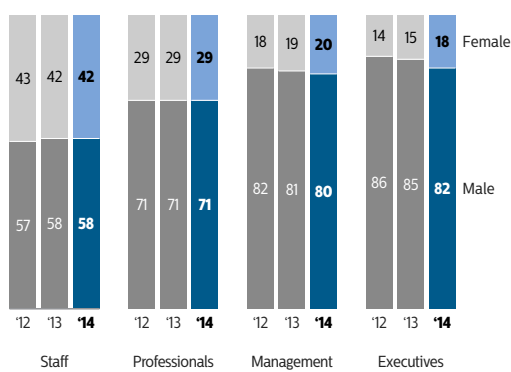
¹⁾ Based on 60 pulse surveys conducted in 2012
²⁾ Based on My Accelerate! Surveys

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

5.2.3 Diversity and inclusion

Based on the deployment of our comprehensive strategy, in 2014 Philips continued making progress on its diversity and inclusion (D&I) agenda. We believe a diverse workforce and an inclusive work environment are essential to a thriving innovative business and we strive to attract employees from a wide range of backgrounds.

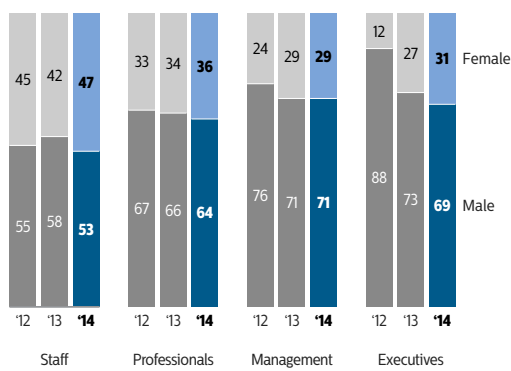
Philips Group
Gender diversity in %
2012 - 2014



Regarding gender diversity, we recorded an increase in the share of female executives to 18% at year-end 2014 – up from 15% in 2013. We are well on track to achieve the aspiration of 20% female executives by year-end 2016 – having embedded D&I objectives in HR processes and culture-building activities, combined with the active engagement of senior female leaders globally.

One of the key drivers of progress is the redesigned talent management approach, which includes a comprehensive approach to succession planning for all executives and other key positions in order to also drive development and career planning for individuals. In 2014, 28% of new executives internally promoted were women, and women represented 31% of all external executive hires. Demonstrating the Group’s commitment to D&I, development of gender diversity has been made a key performance indicator for Philips.

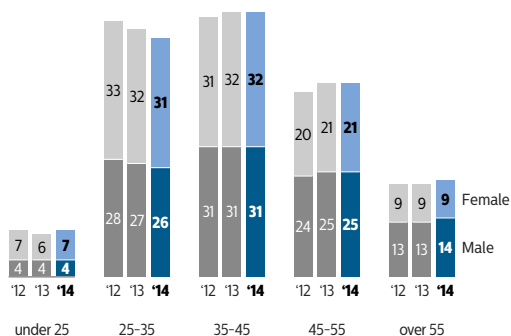
Philips Group
New hire diversity in %
2012 - 2014



Philips has one woman on its Executive Committee and three female members of its Supervisory Board. Our executives originate from more than 30 countries.

In 2014, Philips employed 35% females, the same percentage as in 2013.

Philips Group
Employees per age category in %
2012 - 2014



In 2014, employee turnover amounted to 15.7% (of which 8.7% was voluntary), slightly below 2013 and mainly caused by the changing industrial footprint, the company's overhead reduction program and the high turnover of manufacturing staff in our factories, mainly in the growth markets.

Philips Group
Employee turnover in %
2014

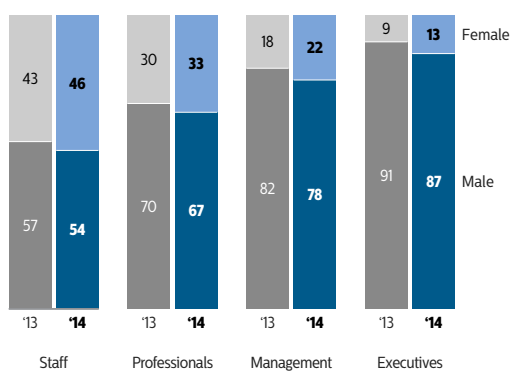
	Staff	Professionals	Management	Executives	Total
Female	22.4	12.0	9.8	9.9	18.2
Male	19.1	10.2	8.8	14.0	14.1
Philips Group	20.5	10.7	9.0	13.3	15.7

Philips Group
Voluntary turnover in %
2014

	Staff	Professionals	Management	Executives	Total
Female	13.5	7.0	5.2	5.9	10.8
Male	10.3	5.5	3.9	7.4	7.5
Philips Group	11.6	5.9	4.2	7.2	8.7

Compared to the percentage of women employed by Philips in 2014, we see a relatively higher outflow of women in the Staff and Professionals categories and a lower outflow of female Executives.

Philips Group
Exit diversity in %
2013 - 2014



5.2.4 Employment

The total number of Philips Group employees (continuing operations) was 105,365 at the end of 2014, compared to 105,637 at the end of 2013. Approximately 36% were employed in the Lighting sector, 35% in the Healthcare sector and approximately 16% in the Consumer Lifestyle sector.

Philips Group
Employees per sector in FTEs at year-end
2012 - 2014

	2012	2013	2014
Healthcare	37,460	37,008	37,065
Consumer Lifestyle	16,542	17,255	16,639
Lighting	41,757	38,671	37,808
Innovation, Group & Services	11,697	12,703	13,853
Continuing operations	107,456	105,637	105,365
Discontinued operations	10,631	10,445	8,313
Philips Group	118,087	116,082	113,678

Compared to 2013, the number of employees in continuing operations decreased by 272. The decrease reflects industrial footprint rationalization at Lighting, divestments at Healthcare, and a reduction in third-party workers at Consumer Lifestyle, partly offset by the consolidation of the General Lighting Company (GLC) acquisition at Lighting and an increase in temporary workers in the IT Service Units at IG&S.

Approximately 52% of the Philips workforce was located in mature geographies, and about 48% in growth geographies. In 2014, the number of employees in mature geographies decreased by 1,733, mainly due to the company's overhead reduction program and the industrial footprint reduction at Lighting. Growth geographies headcount increased by 1,461, largely driven by the GLC acquisition in The Kingdom of Saudi Arabia (KSA).

Philips Group
Employees per geographic cluster in FTEs at year-end
2012 - 2014

	2012	2013	2014
Western Europe	29,803	28,944	29,105
North America	25,375	24,401	22,283
Other mature geographies	3,304	3,419	3,643
Mature geographies	58,482	56,764	55,031
Growth geographies	48,974	48,873	50,334
Continuing operations	107,456	105,637	105,365
Discontinued operations	10,631	10,445	8,313
Philips Group	118,087	116,082	113,678

Philips Group
Employment in FTEs at year-end
2012 - 2014

	2012	2013	2014
Balance as of January 1	125,240	118,087	116,082
Consolidation changes:			
Acquisitions	909	–	1,506
Divestments	(1,024)	(705)	(247)
Changes in discontinued operations	(3,545)	(186)	(2,132)
Other changes	(3,493)	(1,114)	(1,531)
Balance as of December 31	118,087	116,082	113,678

In 2015, the number of employees is expected to remain broadly in line with 2014, with increases from our acquisition of Volcano Corporation to be offset by reductions from footprint-related initiatives.

5.2.5 Developing our people

Our drive to build a learning organization which is leader led has progressed significantly, and the Philips University was launched formally in Q4. Philips University is embracing 70:20:10 as part of the long-term journey to build a learning culture that allows us to become a learning organization: 70% of learning is carried out on the job, 20% through coaching and mentoring (through others), and the remaining 10% through formal learning methods (classroom and e-learning).

Training spend

Our external training spend in 2014 amounted to EUR 44.7 million, a decrease compared to EUR 47.3 million in 2013, which is the result of the rationalization of content made in 2013.

For more information on developing our people, 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 and our individual sectors.

We regret to report that one of our Healthcare Field Service employees passed away after a traffic accident in France whilst traveling home.

In 2014 we recorded 227 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 280 in 2013, and continues the consecutive reduction trend from 2010. The LWIC rate decreased to 0.23 per 100 FTEs, compared with 0.27 in 2013. The number of Lost Workdays caused by injuries increased by 403 days to 9,068 days in 2014.

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 Philips' General Business Principles renewed

Our General Business Principles (GBP) set the standard for how to conduct business, both for individual employees and for the company itself. In our drive for continuous improvement, the GBP were revised in 2014 to help ensure that everyone acts with integrity, and also to better reflect the changing business landscape in which we operate.

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.

The General Business Principles have been rewritten, but without deviating from the fundamental principles for doing business which are firmly rooted in Philips' heritage. Without making substantial changes to these standards, the GBP have been turned into a document that is easy to read and understand for everyone. They have been translated into 32 languages, allowing almost every employee to read them in their native language. The GBP form an integral part of labor contracts in virtually every country in which Philips operates.

Training and awareness

Following the updating of the General Business Principles, a new e-learning was launched in October. In this mandatory online training course employees are informed about the contents of the GBP and the way in which Philips applies them. This course, in which every employee with an e-mail account has been invited to participate, is available in 21 languages and is taken by every new hire joining the company. During the last quarter of 2014, out of the 73,000 employees with an e-mail account, well over 57,000 (77%) took this e-learning. At the end of the training course employees are asked to confirm that they will always act with integrity. In addition, GBP Compliance Officers around the world also attended a series of face-to-face training courses aimed at helping them perform their supporting role more effectively.

The launch of the e-learning was just one of the events that formed part of the global communication campaign on the GBP. These communication efforts culminated in a 'GBP dialog week', for the second year in a row, in which managers were invited to host dialog sessions with their teams about the Philips GBP. Tens of thousands of Philips employees participated in these sessions and managers reported very high levels of engagement.

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. 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, please refer to sub-section 14.2.7, Stakeholder Engagement, of this Annual Report.

5.2.9 Social Investment Programs

2014 was a transition year for Philips' social investment program. With the creation of the Philips Foundation, a new global strategy was rolled out, focusing on disaster relief, local community investment and social entrepreneurship. The Philips Foundation is responsible for the overall strategy and global non-profit partnerships. Philips' country organizations, while aligning with the global strategy, have the ability to drive regional programs that fit the specific needs of local communities.

For example, in 2014, Philips Brazil rolled out the program "Light Up Your Game" across 10 countries in Latin America. Working together with non-profit organizations such as the KNVB and IDEAAS, they were able to install over 27 solar and semi-solar Community Light Centers, which provide safe and functional space for sports and other community activities after dark.

In North America, the [Philips Cares](#) program provides ways for employees to work together to improve people's lives by creating healthy, sustainable communities that contribute to the success and well-being of future generations. This can take many forms: from helping a child to excel in math, or providing safety and energy-efficient home improvements for the disadvantaged, to raising awareness about the importance of cardiac health. In 2014 alone, more than 5,000 employee volunteers participated in community outreach projects that suited their needs, schedules, and passions through partnerships with organizations such as the American Heart Association, Rebuilding Together, and the National 4-H Council.

In 2015 and beyond, all programs run by Philips country organizations on social investments will come under the umbrella of the Philips Foundation.

More information about the Philips Foundation and its purpose and scope can be found at sub-section 14.2.6, The Philips Foundation, of this Annual Report.

5.2.10 Supplier sustainability

Many of our products are being created and manufactured in close cooperation with a wide range of business partners, both in the electronics industry and other industries. Philips needs suppliers to share our commitment to sustainability, and not just in the development and manufacturing of products but also in the way they conduct their business. We require suppliers to provide a safe working environment for their workers, to treat workers with respect, and to work in an environmentally sound way. Our programs are designed to engage and support our suppliers on a shared journey towards continuous improvement in supply chain sustainability.

As a leading company in sustainability, Philips acts as a catalyst and supports our suppliers in their pursuit of continuous improvement in social and environmental performance. We recognize that this is a huge challenge requiring an industry-wide effort in collaboration with other societal stakeholders. Therefore, we take a leading role, together with peers in the industry, in the Electronic Industry Citizenship Coalition (EICC) and encourage our strategic suppliers to join the EICC too. In 2014, Philips initiated a new EICC taskforce on process chemicals in the supply chain. We will also continue to seek active cooperation and dialogue with other societal stakeholders including governments and civil society organizations, either directly or through institutions like the EICC, the multi-stakeholder programs of the Sustainable Trade Initiative IDH, and the OECD.

Supplier Sustainability Involvement Program

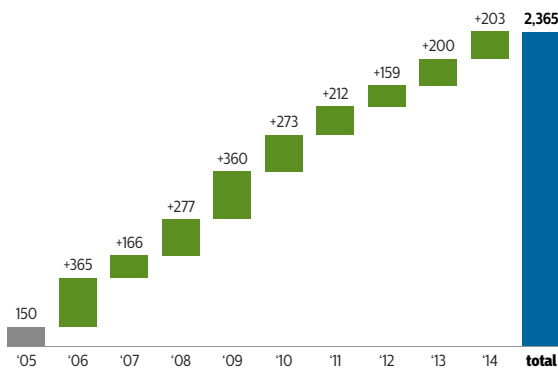
The Philips Supplier Sustainability Involvement Program is our overarching program to help improve the sustainability performance of our suppliers. We create commitment from our suppliers by requiring them to comply with our Regulated Substances List and the Philips Supplier Sustainability Declaration, which we include in all purchasing contracts. The Declaration is based on the EICC code of conduct and we have added requirements on Freedom of Association and Collective Bargaining. The topics covered in the Declaration are listed below. We monitor supplier compliance with the Declaration through a system of regular audits.

Labor	Health and Safety
<ul style="list-style-type: none"> • Freely chosen employment • Child labor prohibition • Working hours • Wages and benefits • Humane treatment • Non-discrimination • Freedom of association 	<ul style="list-style-type: none"> • Occupational safety • Emergency preparedness • Occupational injury and illness • Industrial hygiene • Physically demanding work • Machine safeguarding • Sanitation, food and housing
Environmental	Ethics
<ul style="list-style-type: none"> • Environmental permits and reporting • Pollution prevention and resource reduction • Hazardous substances • Waste water and solid waste • Air emissions • Product content restrictions 	<ul style="list-style-type: none"> • Business integrity • No improper advantage • Disclosure of information • Intellectual property • Fair business, advertising and competition • Protection of identity • Responsible sourcing of minerals • Privacy • Non-retaliation
Management system	
<ul style="list-style-type: none"> • Company commitment • Risk assessment and risk management • Management accountability and responsibility • Improvement objectives • Legal and customer requirements 	<ul style="list-style-type: none"> • Training • Communication • Corrective action process • Worker feedback and participation • Documentation and records • Audits and assessments • Supplier responsibility

2014 supplier audits in risk countries

In 2014, Philips conducted 203 full-scope audits. Additionally, 35 audits of potential suppliers were performed. Potential suppliers are audited as part of the supplier approval process, and they need to close any zero-tolerance issues before they can start delivering to Philips. In our new audit approach, we place more focus on capacity-building programs to realize structural improvements leading to better audit results.

Philips Group
Accumulative number of initial and continual conformance audits
 2005 - 2014



As in previous years, the majority of the audits in 2014 were done in China. The total number of full-scope audits carried out since we started the program in 2005 is 2,365. This number includes repeated audits (129 in 2014), since we execute a full-scope audit at our risk suppliers every three years. The audit program covers 90% of our spend with risk suppliers.

Philips Group
Distribution of supplier audits by country
 2014



Audit findings

We believe it is important to be transparent about the issues we observe during the audits. Therefore we have published a detailed list of identified major non-compliances in our Annual Report since 2010.

To track improvements, Philips measures the 'compliance rate' for the identified risk suppliers, i.e. the percentage of risk suppliers that were audited within the last three years and do not have any – or have resolved all – major non-compliances. During 2014 we achieved a compliance rate of 86% (2013: 77%).

Please refer to sub-section 14.2.8, Supplier indicators, of this Annual Report for the detailed findings of 2014.

Supplier development and capacity building

Based on many years of experience with the audit program, we know that a combination of audits, capacity building, consequence management and structural attention from management is crucial to realize structural and lasting changes at supplier production sites. In 2014 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 on topics like occupational health and safety, emergency preparedness, chemicals management, dust explosion and prevention, and fire safety.

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

also cover supplier factories in the Yangtze River Delta area. A total of 21 Philips suppliers are now participating in the program.

5.2.11 **Conflict minerals: issues further down the chain**

In line with Philips' commitment to supply-chain sustainability, we are concerned about the situation in eastern DRC (the Democratic Republic of the Congo), where proceeds from the mining sector are used to finance rebel conflicts in the region. Philips does not directly source minerals from the DRC and the mines are typically seven or more tiers away from our direct suppliers. Philips nevertheless feels obliged to address this issue through the means and influencing mechanisms available to us.

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 four companies to have our SEC Conflict Minerals report audited in 2014. We are cooperating with industry to drive the identified smelters to become compliant with the Conflict-Free Smelter Program or an equivalent third-party audit program. We also realize how important it is not to boycott the minerals from the DRC and neighboring countries entirely. That is why we are supporting verified conflict-free supply chains that contribute to economic development in the DRC region.

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 first EcoVision 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. We refer to section 14.4, Independent Auditor's Assurance Report, of this Annual Report.

The main elements of the EcoVision program are:

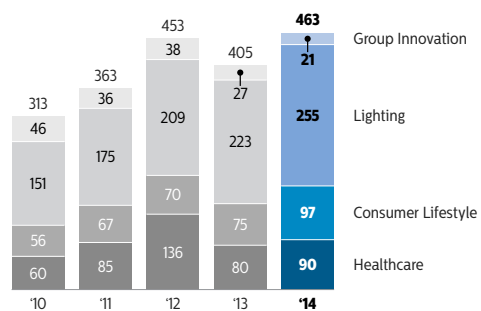
- Improving people's lives
- Green Product sales
- Green Innovation, including Circular Economy
- Green Operations
- Health and Safety
- Supplier Sustainability

In 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.

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 coming 5 years. In 2014, Philips already achieved this EUR 2 billion target a year ahead of schedule as we invested some EUR 463 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 105 million in 2014 and EUR 104 million in 2013.

Philips Group
Green Innovation per sector in millions of EUR
2010 - 2014



Healthcare

Healthcare develops innovative solutions across the continuum of care in collaboration with clinicians and customers, to improve patient outcomes, provide better value, and expand access to care. Healthcare investments in Green Innovation in 2014 amounted to EUR 90 million, an increase of EUR 10 million compared to 2013. In hardware innovation, we take into account

all Green Focal Areas and aim to reduce environmental impact over the total lifecycle, with a focus on energy efficiency and substance management. Other areas covered include increased levels of recycled content in our products, remote servicing and closing the materials loop contributing to a circular economy, e.g. through upgrading strategies, parts harvesting and refurbishing. Healthcare actively supports a voluntary industry initiative (COCIR) for improving the energy efficiency of imaging equipment. Moreover, we are actively partnering with care providers to look together for innovative ways to reduce the environmental impact of healthcare, for example by optimizing energy efficient use of medical equipment.

Consumer Lifestyle

Increased R&D investments at Consumer Lifestyle are also reflected in increased Green Innovation which amounted to EUR 97 million in 2014 compared to EUR 75 million in 2013. This increase resulted in higher Green Product sales in all Business Groups. The sector continued its work on improving the energy efficiency of its products, closing the materials loop (e.g. by using recycled materials in products and packaging) and the voluntary phase-out of polyvinyl chloride (PVC), brominated flame retardants (BFR) and Bisphenol A (BPA) from food contact products. In particular, more than 80% of the shaving, grooming and oral healthcare products are completely PVC/BFR-free.

Lighting

At Lighting, we strive to make the world healthier and more sustainable through energy-efficient lighting systems. With a 2014 investment of EUR 255 million in Green Innovation (excluding Lumileds and Automotive at EUR 105 million), Lighting invested EUR 32 million more than in 2013. Increasing investments in digital lighting solutions have led to further improvements in the area of energy efficiency. In 2014, Lighting piloted a breakthrough connected lighting system for offices, featuring Power-over-Ethernet (PoE-enabled) luminaires. By offering employees personal control of the lighting above their desks, the system delivers appropriate task lighting levels while keeping general lighting levels lower, enhancing both worker efficiency and energy efficiency. The connected lighting system integrates with other building systems such as heating, ventilation, and IT services to realize significant energy savings — not only on lighting, but also on HVAC and other services, which together account for up to 70% of a building's energy usage.

Beyond significant energy efficiency benefits, the connected lighting system supports the transition to a more circular economy. PoE-enabled luminaires eliminate the need for power cabling, simplifying installation and lowering initial costs. A flexible and open system architecture streamlines servicing and maintenance, affords an easy upgrade path, and extends system lifetime.

Philips Group Innovation

Philips Group Innovation invested EUR 21 million in Green Innovations, spread over projects focused on global challenges related to water, air, waste, energy, food and access to affordable healthcare. Group Innovation used the Sustainable Innovations Assessment tool, in which innovation projects are mapped, categorized and scored along the environmental and social dimension in order to identify those innovation projects that drive sustainable innovation.

Philips Green Patent portfolio

At the end of 2014, Philips' IP portfolio comprised 8% green patent families, which means that all these patent families were labeled with at least one Green Focal Area. In 2014, 10% of our total patent filings were flagged as green patent family. Energy efficiency is the most frequently occurring Green Focal Area throughout the portfolio. Multiplying the portfolio percentage with our annual patent portfolio cost in 2014 determines the amount that we invest in Green IP, which constitutes part of Philips investment in Green Innovation.

While a product can become green by incorporating an environmentally friendly technology, such technology cannot necessarily be protected in a patent because of lack of patentability over the state-of-the-art technology. Therefore not all Green Technologies implemented in our Green Products can be captured in patents.

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 slightly in 2014 to 40.5 lumen per watt (but improved 21% compared to 2009, the baseline year). The exclusion of Lumileds and Automotive has a limited upward effect on the energy efficiency of the portfolio.

In 2014 LED sales advanced well, but demand for conventional lighting remained fairly stable due to the challenging economic environment. Since the number of traditional lamps sold is significantly higher than LEDs, the energy efficiency improvement of the total Lighting portfolio in 2014 was limited. We expect the energy efficiency to improve in the coming years as the traditional incandescent lamp is banned in more countries. Our target for 2015 is 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. Therefore, in 2015 the target of 50% improvement will not yet be achieved. Further details on this parameter and the methodology can be found in the document 'Energy efficiency of Philips products' at www.philips.com/sustainability.

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 2013 (reported in 2014) was calculated at 31,500 tonnes, a 3% increase compared to 31,000 tonnes reported in 2013, mainly driven by lower weight of products and components in Healthcare, offset by higher volumes in Lighting. The 2009 baseline for global collection and recycling amounts was around 22,500 tonnes, based on the data retrieved from the 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 2014 at some 13,000 tonnes (2013: 14,000 tonnes), by focusing on the material streams plastics (Consumer Lifestyle), aluminum (Lighting), refurbished products, and spare parts harvesting (Healthcare) depending on the relevance in each sector.

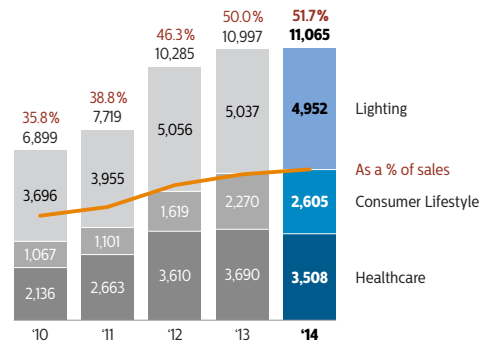
Our target is to double global collection and recycling and the amount of recycled materials in our products by 2015 compared to 2009, when the baseline was set at 7,500 tonnes. Further details on this parameter and the methodology can be found in the document 'Closing the materials loop' at www.philips.com/sustainability.

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 11.1 billion in 2014, or 52% of sales (50% in 2013), 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
2010 - 2014



Through our EcoDesign process, we aim to create products that have significantly less impact on the environment during their whole lifecycle. Overall, the most significant improvements have been realized in our energy efficiency Green Focal Area, an important objective of our EcoVision program, although there was also growing attention for hazardous substances and recyclability in all sectors in 2014, the latter driven by our Circular Economy initiatives.

New Green Products from each sector include the following examples.

Healthcare

During 2014, Healthcare expanded the Green Product portfolio with seven new products, although Green Product sales decreased slightly due to the Cleveland production suspension. The newly introduced products improve patient outcomes, provide better value, and expand access to care, while reducing environmental impact. Philips' new Affinity platform, for example, delivers superb image quality and performance, and features a modern and elegant cart design with a simple-to-use touchscreen-based control panel, and ease-of-use imaging workflow. At the same time it reduces energy use by almost 40% compared to its predecessor model. Other examples are new X-ray systems such as DuraDiagnost compact and MobileDiagnost Opta systems, which feature significantly lower product and packaging weight (ranging between 20% and 38%), and, in the case of the MobileDiagnost Opta, a 67% reduction in energy usage compared to its predecessor model. Green Products from Patient Care & Monitoring Systems include the MX550 patient monitor, Avalon CL fetal monitor and PageWriter TC10 cardiograph, for which product weight, energy consumption and packaging weight have been significantly reduced (by between 24% and 62%).

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 2014 surpassed 55% 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 60% 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 2014, more vacuum cleaners, coffee machines and irons were launched with parts made of recycled plastics. In total we have applied some 625 tons of recycled plastics in our products. An example is the new SENSEO® Up, the plastic parts of which consist of 13% recycled material.

Lighting

Green Product sales within Lighting increased from 70% in 2013 to 72% in 2014. Connected lighting systems contributed to Green Product sales with solutions like CityTouch, a system for outdoor lighting management. CityTouch offers simple web applications to remotely control street lights and analyze related data. This gives cities the flexibility to dim lights to low levels wherever possible to save energy, or to boost light levels at the touch of a button when more light is needed (for example, in the case of an accident). The system helps cities save energy and operate more efficiently, while increasing citizens' feeling of safety.

CityTouch technology is spreading around the world, with installations in Buenos Aires, Rotterdam, and Markham, Ontario, Canada. In the Spanish town of Salobre, CityTouch software combines with LED luminaires to reduce the municipality's energy consumption by more than 70% and cut CO₂ emissions by 29 tons per year. In a number of London boroughs, over 70,000 light points will be managed by CityTouch.

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

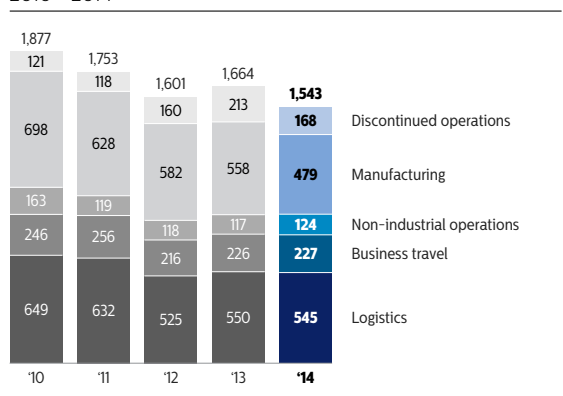
After achieving our EcoVision4 carbon emissions reduction target in 2012, we continued our energy efficiency improvement programs across different disciplines. In 2014 our carbon footprint decreased by 5% compared to 2013, resulting in a total of 1,375

kilotonnes CO₂. This was mainly achieved by emissions reductions in our manufacturing facilities, resulting from operational changes and decreased energy usage due to lower load with an increased share coming from renewable sources (some 55% in 2014), and less transport activities. These reductions were, however, partly offset by increased emissions from our non-industrial activities, the floor space of our global non-industrial property portfolio increased by 2%. Business travel emissions remained stable compared to 2013, however we have noted a decrease in emissions from lease cars due to our successful Green Lease car program, whilst air travel increased over the course of 2014. We continue to promote video conferencing as an alternative to travel.

Our operational energy efficiency increased 2% from 1.17 terajoules per million euro sales in 2013 to 1.14 terajoules per million euro sales in 2014 as a result of energy efficiency programs in our industrial sites.

The impact of the exclusion of Lumileds and Automotive is displayed as discontinued operations in the graph below; 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 2010 - 2014



Philips Group
Operational carbon footprint by Greenhouse Gas Protocol scopes in kilotonnes CO₂-equivalent 2010 - 2014

	2010	2011	2012	2013	2014
Scope 1	403	378	355	360	320
Scope 2	458	368	345	315	283
Scope 3	895	889	741	776	772
Philips Group	1,756	1,635	1,441	1,451	1,375

Philips Group
Ratios relating to carbon emissions and energy use
 2010 - 2014

	2010	2011	2012	2013	2014
Operational CO₂ emissions in kilotonnes CO ₂ -equivalent	1,756	1,635	1,441	1,451	1,375
Operational CO₂ efficiency in tonnes CO ₂ -equivalent per million EUR sales	91	82	65	66	64
Operational energy use in terajoules	28,030	26,570	25,052	25,646	24,464
Operational energy efficiency in terajoules per million euro sales	1.45	1.33	1.13	1.17	1.14

Water

Total water intake in 2014 was 3.1 million m³, about 6% lower than in 2013. This decrease was mainly due to lower production volumes at multiple Lighting sites as well as a significant reduction at a Consumer Lifestyle site in China which implemented various water savings actions. This was partly offset by one Healthcare site that cooled magnets with water instead of helium. Many Philips sites have water savings programs.

Lighting represents around 66% of total water usage. In this sector, water is used in manufacturing as well as for domestic purpose. The other sectors use water mainly for domestic purposes. The exclusion of Lumileds and Automotive has a significant downward impact on the water consumption of Philips. In 2014, Lumileds and Automotive accounted for 1.7 million m³ of water.

Philips Group
Water intake in thousands of m³
 2010 - 2014

	2010	2011	2012	2013	2014
Healthcare	256	308	421	454	514
Consumer Lifestyle	351	338	303	586	537
Lighting	2,282	2,249	2,413	2,249	2,052
Innovation, Group & Services	7	-	-	-	-
Continuing operations	2,896	2,895	3,137	3,289	3,103
Discontinued operations	1,322	1,433	1,720	1,755	1,700
Philips Group	4,218	4,328	4,857	5,044	4,803

In 2014, 72% of water was purchased and 28% was extracted from groundwater wells.

Waste

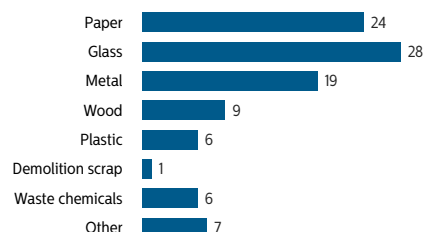
In 2014, total waste was comparable to 2013 at 75 kilotonnes. Lighting contributed to 72% of total waste, Consumer Lifestyle to 15% and Healthcare to 13%. Waste generated by 8 new reporting sites was offset by 5 discontinued sites. The exclusion of Lumileds and Automotive had a 7% downward impact on total waste. In 2013, an Automotive site in the Netherlands reported 10 kilotonnes of demolition scrap.

Philips Group
Total waste in kilotonnes
 2010 - 2014

	2010	2011	2012	2013	2014
Healthcare	11.2	9.3	10.4	9.6	9.8
Consumer Lifestyle	23.2	19.6	12.7	11.4	11.3
Lighting	61.7	58.1	57.5	54.9	53.9
Innovation, Group & Services	0.1	-	-	-	-
Continuing operations	96.2	87.0	80.6	75.9	75.0
Discontinued operations	8.4	7.0	7.0	16.1	5.4
Philips Group	104.6	94.0	87.6	92.0	80.4

Total waste consists of waste that is delivered for landfill, incineration or recycling. Materials delivered for recycling via an external contractor comprised 60 kilotonnes, which equals 80% of total waste, an improvement compared to 79% in 2013, as our manufacturing sites implemented recycling programs. Of the 20% remaining waste, 75% comprised non-hazardous waste and 25% hazardous waste.

Philips Group
Industrial waste delivered for recycling in %
 2014



Emissions

Emissions of restricted substances totaled 9 kilos in 2014, on par with 2013, as our mercury emissions at Lighting were for the second year in a row as low as reasonably achievable, according to our assessment. The level of emissions of hazardous substances decreased from 35,118 kilos to 28,310 kilos (-19%), driven by a reduction of Xylene emissions at various Consumer Lifestyle sites, due to a decrease in use of specific lacquers and thinners. All sectors have reduction programs for the restricted and hazardous substances.

Philips Group
Restricted and hazardous substances in kilos
 2010 - 2014

	2010	2011	2012	2013	2014
Restricted substances	188	111	55	9	9
Hazardous substances	60,272	63,604	67,530	35,118	28,310

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

In 1999 Philips published its first environmental Annual Report. This was expanded in 2003, with the launch of our first sustainability Annual Report, which provided details of our social and economic performance in addition to our environmental results.

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

This is our seventh annual integrated financial, social and environmental report which has been prepared in line with the International Integrated Reporting Council (IIRC) Integrated Reporting <IR> framework.

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, and non-governmental organizations, 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 electronic companies was started in 2011 and continued in 2014. 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.

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. 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, Employee Engagement Survey, 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
Suppliers	<ul style="list-style-type: none"> - Chinese suppliers in the Pearl and Yangtze river deltas - HP, Randstad, Maersk 	Supplier development activities, 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 - Municipalities of Madrid, Rotterdam 	Issues meetings, 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
Investors	<ul style="list-style-type: none"> - Mainstream investors - ESG investors 	Webinars, roadshows, capital markets days, 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.

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 2014, we have broadened our approach by asking a large 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. 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.



Key material aspects

Reference ¹⁾		
Environmental		Boundaries
- 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

Reference ¹⁾		
Societal		Boundaries
- Expanding middle class in growth geographies	chapter 2, Message from the CEO, of this Annual Report section 6.2, Consumer Lifestyle, of this Annual Report	Use phase
- Rising cost of healthcare	section 4.1, Addressing global challenges, of this Annual Report sub-section 6.1.1, Health care landscape, of this Annual Report	Use phase
- Healthy living	section 4.1, Addressing global challenges, of this Annual Report sub-section 6.2.1, Lifestyle retail 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
- Demographic shift and urbanization	sub-section 6.3.1, Lighting business landscape, of this Annual Report	Use phase
- Employee health and safety	section 5.2, Social performance, of this Annual Report	Supply chain, operations

Reference ¹⁾		
Governance		Boundaries
- Business ethics and General Business Principles	section 7.5, Compliance risks, of this Annual Report sub-section 5.2.7, Philips' General Business Principles renewed, of this Annual Report	Supply chain, operations, use phase
- Partnerships and co-creation	sub-section 6.4.1, About Innovation, Group & Services, 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 Philips Healthcare, of this Annual Report sub-section 6.2.2, About Philips Consumer Lifestyle, of this Annual Report sub-section 6.3.2, About Philips Lighting, 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 2014

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

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.

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. Historical comparisons may not be available, however.

In 2014 the latest DEFRA (UK Department of Environment, Food and Rural Affairs) natural gas emission factor has been applied to the 2014 reporting period. This had an upward impact year-on-year on our CO₂ emissions of some 0.6%.

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.

Prior-period sustainability data have been restated where relevant for the treatment of the Lumileds and Automotive business as discontinued operations. As a result, baseline adjustments have been made for Lives Improved, Energy Efficiency, Carbon Footprint and environmental indicators (energy, water, waste and emissions).

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 for units with over 50 FTEs (full-time equivalents) and is voluntary for smaller units. Health and safety data are reported and validated monthly. The focus is on reporting work-related injuries, which predominantly occur in manufacturing operations and Field Services Organizations. The annual number of cases leading to at least one lost workday is reported per 100 FTEs (full-time equivalents). Fatalities are reported for staff, contractors and visitors and include commuting accidents.

General Business Principles

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

Supplier audits

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

- Based on the Maplecroft Human Rights Risk Indexes, risk countries for Supply Management in 2014 were: Brazil, China, India, Indonesia, Mexico, Ukraine, and Russia.
- 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 life cycle approach is used to determine a product's overall environmental improvement. It calculates the environmental impact of a product over its total life cycle (raw materials, manufacturing, product use and disposal).

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

Green Innovation

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

Environmental data

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

Internal validation processes 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

The Philips operational carbon footprint (Scope 1, 2 and 3) is calculated on a half-yearly basis and includes:

- Industrial sites – manufacturing and assembly sites
- Non-industrial sites – offices, warehouses, IT centers and R&D facilities
- Business travel – lease and rental cars and airplane travel
- Logistics – air, sea and road transport

All emission factors used to transform input data (for example, amount of tonne-kilometers transported) into CO₂ emissions are from the Greenhouse Gas Protocol (GHGP), except for business travel, where the service providers supplied CO₂ data based on their own verified methodology. The GHGP distinguishes three scopes. It is mandatory to report on the first two to comply with the GHGP reporting standards.

- Scope 1 – direct CO₂ emissions – is reported on with direct emissions from our industrial and non-industrial sites in full. Emissions from industrial sites, which consist of direct emissions resulting from processes and fossil fuel combustion on site, are reported in the sustainability reporting system. Energy use and CO₂ emissions from non-industrial sites are based on actual data where available. If this is not the case, they are estimated based on square meters, taking the geographical location and building type of the site into account.
- Scope 2 – CO₂ emissions resulting from the generation of purchased electricity for our premises – is reported on with electricity use from industrial and non-industrial sites in full. Indirect CO₂ emissions resulting from purchased electricity, steam and heat are reported in the sustainability reporting system. Those emissions of industrial sites not yet reporting are calculated on the same basis as described in Scope 1. Indirect emissions of non-industrial sites are calculated in the same manner as described in Scope 1.
- Scope 3 – other CO₂ emissions related to activities not owned or controlled by the Group is reported on for our business travel and distribution activities. Commuting by our employees, upstream distribution (before suppliers ship to us), outsourced activities and emissions resulting from product use by our customers are not included in our operational carbon footprint. The calculations for business travel by lease cars are based on actual fuel usage and for rental cars on distance traveled. 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. If data were incomplete, the emissions were estimated based on sales volumes. Return travel of vehicles is not included in the data for sea and road distribution.

Sustainability governance

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

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

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

External assurance

KPMG has provided reasonable assurance on whether the information in chapter 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. We 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
 2012 – 2014

	2012	2013	2014
Suppliers: goods and services	13,505	12,653	13,185
Employees: salaries and wages	5,221	4,722	5,018
Shareholders: distribution from retained earnings	687	678	729
Government: corporate income taxes	218	466	26
Capital providers: net interest	326	269	251

Total purchased goods and services amounted to EUR 13.2 billion, representing 62% of total revenues of the Philips Group. Of this amount, 64% was spent with global suppliers, the remainder with local suppliers.

In 2014, the salaries and wages totaled EUR 5.0 billion. This amount is some EUR 300 million higher than in 2013, mainly caused by higher restructuring costs. See note 6, Income from operations for more information.

Philips' shareholders were given EUR 729 million in the form of a dividend, of which the cash portion of the dividend amounted to EUR 292 million.

Income taxes amounted to EUR 26 million, compared to EUR 466 million in 2013. The effective income tax rate was 14.1%. The decrease in 2014 was mainly due to lower income before tax and application of favorable tax regulations relating to R&D investments. The comparable effective income tax rate for 2013 was 30.6%.

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 brief, complementary, team-focused survey called My Accelerate! Survey (MAS). The format and set of questions in the MAS allowed a shift of accountability to where it has the biggest impact

– at individual team level. The MAS survey, which measures the quantitative data on team effectiveness, helps our leaders to increase team performance through structural interventions and actions.

Whilst the MAS results are not directly comparable to our historical matrix of Employee Engagement, we see that 83% of our (targeted) employees provided a favorable answer to the transformation journey question: *“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 score of 77% favorable answers across the Philips population.

In terms of results, 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?”*).

There are also some improvement areas, particularly within the questions categorized under Renewal (*“How do we stay effective and adapt?”*). These improvement areas are structurally addressed by our leadership teams.

The MAS is proving to be a very lean and effective diagnostic in increasing effectiveness and the team's capacity to solve challenges as and when they occur.

14.2.2 People development

The creation of the Philips University in itself is a great example of raising quality and user friendliness through a central approach of standardization, simplification and innovation, offering world-class learning interventions, supported by one central Learning Management System and accessible through the personalized University Portal.

Over 400 new courses are available including 24 flagship programs on the new Learning Management System. By year-end, all Philips employees with an e-mail account had access to the Philips University, there were close to 2,000 active courses, and some 280,000 enrolments.

As part of our Accelerate! transformation, we are developing our Philips Excellence capabilities globally to deliver faster and better to our customers. Embracing continuous improvement and learning is a fundamental element of our Philips Business System. Philips University underpins our ambition to become operationally excellent by supporting learning and building of Lean capabilities including Continuous Improvement, Change Management, Process Management, Project Management and Performance Management.

The Leadership Academy delivered a simplified and comprehensive system of leadership development initiatives specifically structured to develop a long term

leadership pipeline at all levels and across all parts of Philips and to help deliver the business transformation. It significantly boosted the focus on women in leadership, diversity and inclusion via the ‘Next Generation Women's Leadership’ and ‘Leading Across Cultures’ programs.

The award winning Harvard Manage Mentor leadership suite was also introduced, with more than 9,000 learners registered and more than 17,000 management learning experiences completed.

Transformation and change

In 2014, we continued our commitment to strengthening our leaders' and our teams' transformational capabilities to drive change in the organization. As part of this commitment, over 1,400 leading executives have participated in our Accelerate! Leadership Program (ALP) since the start of the program in 2011. In addition to the ALP, the Accelerate! Team Performance (ATP) is a key team effectiveness session designed to accelerate the adoption of new ways of working by addressing behavioral shifts. In 2014 alone, more than 230 teams and 4,000 participants took part in an ATP session, which also reached more than 4,000 employees via viral sessions.

To further enhance team performance, we have continued to build the capability of internal facilitators from the business to deliver our ATP programs. To date, we have trained and certified a total of 80 facilitators, 30 of whom were certified in 2014. We have begun developing a Team Performance Toolkit of simple, accessible tools from the ATP, which managers and team members can apply themselves. This Toolkit will be introduced in 2015.

Other programs

In The Netherlands a special employment program called Werkgelegenheidsplan (WGP) is running. Via this WGP, we offer vulnerable groups of external jobseekers a work experience placement, usually combined with some kind of training. The program started in 1983 and over 12,500 people have participated since. After participating in the program, about 70% find a job. In 2014, Philips employed some 185 persons via the WGP program, including young people with autism who are training to become a test engineer. Of the current group of 8 autistic persons, 6 found a job, and 2 are still working as WGP candidate within Philips.

14.2.3 Global talent acquisition

Top sources of talent

Philips' talent management approach is to continuously build and develop its existing employees, while strategically buying talent where competency areas can be strengthened. In 2014, we recruited talent both internally and externally into over 10,000 vacancies. With an increasing trend, nearly one third of

those vacancies were filled with internal candidates, and the remainder filled with qualified talent from the external labor market.

In-sourcing executive recruitment

Executive Search Services (ESS), Philips' in-house executive recruiting services division launched in Q1 2014, delivered 80 high-quality senior-level hires in 2014. ESS provides services such as demand-based executive recruiting, executive intelligence & talent consulting services, and executive-specific referral and onboarding programs. The addition of this focused in-house recruiting capability ensures we are able to offer the most appropriate service to our internal customers.

A strong employer brand as a driver for talent attraction

Philips realizes that it is crucial to attract the best talent in order to deliver on our strategic goals. In 2014 we activated our global Employer Value Proposition by leveraging our recently re-positioned 'innovation and you' brand platform, aligned with audience insights to raise awareness and preference. For employer brand updates and company content, visit the [Philips LinkedIn Careers page](#).

As part of its global Talent Acquisition strategy, Philips seeks to attract talent from proven high quality sources. In 2014, the top 5 sources of hire were:

- **Philips employee referral** – Historical data has proven that the top performing hires for Philips are those referred by its own employees. Philips engages its employees to share their network through a formal employee referral program which generates close to 30% of its total hires each year.
- **Internal hire** – Embedded within the Accelerate! Transformation is a stated cultural imperative to embed a growth and performance culture and facilitate a mobile, diverse workforce. As a result, Philips filled nearly one third of its vacancies with internal top performers each year.
- **Proactively sourced by recruiter** – Philips has a dedicated in-house sourcing function that focuses solely on building proactive talent pipelines and requires all its recruitment professionals to contribute to the proactive identification of passive industry talent.
- **Digital career channel (job board, social media site, etc.)** – In line with the company's overall focus on increasing its digital footprint, Philips' recruitment marketing team invested more heavily in its digital footprint in 2014. As a result, Philips increased its LinkedIn Talent Brand Index by 2.1% and delivered over 1,000 hired candidates.
- **Philips careers website** – Philips career website attracts talent by emphasizing its Employer Value Proposition through targeted information sharing and storytelling from its employees and leadership teams. Philips global career website can be found at www.philips.com/careers.

14.2.4 Health and Safety performance

A number of sites showed outstanding safety performance, for example the Healthcare Pune site in India, which reached a significant milestone by achieving over 2 million man-hours without an LWIC by the end of 2014 (over 2 years without an accident). The Consumer Lifestyle facility in Varginha, Brazil achieved 4 years without an LWIC by the end of 2014.

Philips Group
Lost workday injuries per 100 FTEs
2010 - 2014

	2010	2011	2012	2013	2014
Healthcare	0.25	0.20	0.22	0.19	0.20
Consumer Lifestyle	0.26	0.23	0.25	0.24	0.12
Lighting	0.73	0.67	0.47	0.42	0.37
Innovation, Group & Services	0.13	0.04	0.05	0.04	0.02
Continuing operations	0.45	0.38	0.31	0.27	0.23
Discontinued operations	0.84	0.59	0.55	0.37	0.25
Philips Group	0.50	0.38	0.31	0.28	0.23

Lighting

Lighting achieved a strong decline in reported accident rates in recent years. In 2014, the number of LWIC decreased to 132, compared with 165 in 2013. The LWIC rate decreased to 0.37, compared with 0.42 in 2013. The number of Lost Workdays decreased by 3% to 4,700 days. One major achievement was a zero level of LWIC at 12 significant industrial units (over 100 FTEs) in 2014. Efforts are being made to further reduce these rates through an emphasis on prevention and Behavior-Based Safety, supported by senior management involvement.

In 2014, Health and Safety management in Turnkey Lighting projects was a key focus area. A Health and Safety global framework has been launched to support and provide training for project managers and their teams in the commercial organizations, including contractors. This framework will continue to be rolled out in 2015.

Healthcare

The Health and Safety performance of Healthcare was relatively stable in 2014. The number of LWIC and the LWIC rate remained constant compared to 2013 at 72 and 0.2 respectively. However, the total number of Lost Workdays decreased by 10% year-on-year to 2,242 days. Healthcare continued to focus on Health and Safety improvement actions within their Field Service Organization (FSO), including the launch of a formalized Health and Safety management framework as well as the deployment of renewed targeted trainings for high-risk areas such as radiation and electrical safety. FSO Lost Workdays decreased to 33% of the Sector total compared with 37% in 2013, although the number of LWIC increased to 31 from 28 in 2013.

Consumer Lifestyle

Consumer Lifestyle showed a significant decrease in LWIC from 39 in 2013 to 21 in 2014. The LWIC rate fell by 49% year-on-year to an internal benchmark level of 0.12. The number of Lost Workdays increased, however, from 842 to 1,608 days as recovery periods increased. The new governance structure launched in the Consumer Lifestyle organization in 2013, to embed Health and Safety performance reviews and ownership in the businesses, proved successful.

14.2.5 General Business Principles

In 2014 393 GBP complaints were filed via the Philips Ethics Line and the GBP Compliance Officers. Compared with 2013 (335 complaints), this represents an increase of 17%.

This upward trend in the overall number of concerns can be attributed primarily to significantly more concerns being reported in Latin America (more specifically in Brazil), which now account for 30% of the total number of reports (2013: 17%). Europe and the Middle East (18% of the total) also showed an upward trend in terms of absolute numbers. In EMEA there were 44% more complaints than in 2013. This overall increase is believed to be due to the intensive communication campaigns to increase awareness of employees' rights with regard to the GBP, as well as to the reporting facilities that are available to them. The number of complaints in the Asia Pacific region (17% of the total) decreased compared with 2013, making the current percentage more comparable with that in 2012 (18%). In North America the absolute number of complaints declined somewhat, accounting for 35% of the total number in 2014 (2013: 43%). We believe the continued dominance of North America and, since the beginning of 2014, Latin America as well, is due to the employees' very high level of awareness of compliance issues and their ability to assert their rights in this respect.

The most common types of concerns are listed below.

Treatment of employees

As in other years, the most commonly reported concern related to the Treatment of employees, and accounted for 52% of the total. The vast majority of these complaints can be classified as either 'Equal and fair treatment' or 'Respectful treatment', and together they accounted for 81% of employee-related concerns.

Concerns that fall under 'Equal and fair treatment' related primarily to favoritism, discrimination and unfair treatment. More than 33% of these reports originated in the United States, with a further 20% being reported in Brazil. Looking at the 'Respectful treatment' category, which concerns primarily reports of verbal abuse, (sexual) harassment and a hostile work environment, again about one third of the complaints originated in the US, with another third coming from Brazil. Some 58% of all complaints filed in Brazil related to these two topics. For the US, this was 50%.

Business integrity

The second most-reported topic, which accounted for 28% of all reported cases, was Business integrity (2013: 33%). The majority (40%) of these concerns originated in the Asia Pacific region, followed by Europe and the Middle East (34%), Latin America (15%) and North America (11%).

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

Philips Group
Breakdown of reported GBP concerns in number of reports
2010 - 2014

	2010	2011	2012	2013	2014
Health & Safety	3	2	11	3	10
Treatment of employees	184	132	205	203	203
- Collective bargaining	1	-	1	5	-
- Equal and fair treatment	64	41	72	80	72
- Employee development	1	-	-	4	-
- Employee privacy	2	1	1	1	3
- Employee relations	4	1	2	5	6
- Respectful treatment	96	71	102	84	93
- Remuneration	12	6	15	15	11
- Right to organize	-	-	1	-	-
- Working hours	4	2	-	3	5
- HR other	-	10	11	6	13
Legal	13	10	19	9	30
Business Integrity	112	107	119	109	110
Supply management	4	3	3	5	6
IT	-	-	-	6	7
Other	22	15	17	-	27
Total	338	269	374	335	393

Substantiated/unsubstantiated concerns

Out of the 393 concerns reported in 2014, 133 are still pending closure, especially those that were filed towards the end of the year. The table below shows a comparison between those complaints which, after investigation, could be substantiated and those that could not.

Out of the 260 complaints investigated, 27% were substantiated after investigation. This is approximately the same level as in 2013 (28%) and 2012 (26%). Also, looking at the various types of issue, there were no striking differences in the percentage of substantiated complaints compared to 2013. The biggest difference is the number of substantiated Business integrity complaints, which now stands at 36% compared to 50% in 2013.

Substantiated complaints, i.e. complaints in which a breach of our General Business Principles was detected, were followed up with a range of disciplinary and corrective measures. The action taken varied from

termination of employment, written warnings and suspension, to training aimed at raising awareness of organizational measures.

Philips Group
Classification of the concerns investigated in number of reports
 2012 – 2014

	2012		2013		2014	
	substantiated	unsubstantiated	substantiated	unsubstantiated	substantiated	unsubstantiated
Health & Safety	2	7	–	2	1	7
Treatment of employees	22	150	33	136	32	112
Legal	5	8	2	2	4	9
Business Integrity	37	51	32	32	25	45
Supply Management	1	–	–	3	1	–
IT	–	–	3	1	2	–
Other	11	4	–	–	4	18
Total	78	220	70	176	69	191

14.2.6 The Philips Foundation

In 2014, Philips established the Philips Foundation, a new initiative dedicated to helping enable lasting social change in disadvantaged communities through the provision and application of innovation, talent and resources provided by Philips. Together with key non-profit partners, the Philips Foundation seeks to identify challenges where a combination of Philips expertise and partner experience can be used to create meaningful solutions that improve people's lives. The Philips Foundation will provide the vehicle for the Corporate Social Responsibility and social investment program of Philips going forward.

During 2014, the Foundation developed its strategy, governance and operational structure. It established its first strategic partnerships with the International Red Cross and UNICEF with the aim of co-creating innovative solutions for disaster relief and community development and supporting social entrepreneurship. In addition to programs with these global partners, the Foundation will fund local projects run by the Philips markets that are in line with the Foundation strategy. The Foundation also stepped up to coordinate Philips' contribution to the international fight against Ebola. It provided the opportunity for employees to make a donation to support the work of the Red Cross in West Africa and doubled the amount raised to almost EUR 60,000. Furthermore, several products were donated in response to requests from the Red Cross and other NGOs.

More information about the Philips Foundation and its purpose and scope can be found at www.philips-foundation.com.

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

The World Economic Forum engages business, political, academic and other leaders of society to shape global, regional and industry agendas in an informal, action focused way. Philips is now entering its third year as Strategic Partner.

2014 was the year Philips substantially strengthened its position in Digital Innovation, Internet of Things and Emerging Technologies. Moreover, health care gained a more prominent place on the global economic agenda at WEF creating many opportunities for Philips in building new relationships and strengthening our business in a transformational industry. The Sustainable Development Agenda was discussed at WEF as well, Philips welcomes the opportunity to contribute to these discussions and shape the global agenda.

Despite the impact of geo-politics on the global economic agenda, our engagements contributed substantially to our objectives of positioning Philips as technology leader in Health & Sustainability, gaining new insights that are relevant for future business, and creating new business opportunities.

Cross-sector collaboration to drive the Circular Economy transformation

For a sustainable world, Philips sees the transition from a linear to a circular economy (CE) as a necessary boundary condition. A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using those resources more effectively. 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 in 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 of Philips businesses to stimulate innovation activities across the company.

Every Woman Every Child pledge

In 2014, Philips has pledged its support to the United Nations global initiative “Every Woman Every Child”. With a special focus on sub-Saharan Africa and South East Asia, we aim to improve the lives of at least 100 million women and children by 2025 in these regions by committing to the following:

- Deliver the next generation of care for mothers and their children by improving healthcare infrastructures, transformation and revitalization, clinical education and skills training.
- Provide better access to health care and create solutions which enable healthier and safer living. Examples include clean cooking stoves, automated respiration monitors, eHealth and mHealth solutions.
- Promote healthy and nutritious diets for mothers and children, understanding barriers to breastfeeding and supporting breastfeeding in the workplace.

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, health care 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. Health care 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 2014, Philips continued its engagement in a number of international conferences, events and partnerships that are focused on sustainable development and climate change. The events and conferences include the UN Climate Summit organized by UN Secretary General Ban Ki Moon in New York, the World Summit of Regions organized by Regions20 in Paris, as well as the United Nations Climate Change Conference in Lima, Peru. Most notably we were a co-founder of the Global Energy Efficiency Accelerator Platform that was announced at the UN Climate Summit.

The Global Energy Efficiency Accelerator Platform is a multi-stakeholder partnership between the UN (Sustainable Energy for All - SE4All), (sub)national governments and progressive companies. The objective is to double the rate of Energy Efficiency improvement from the current bandwidth of 1 to 1.5% towards 2.5 to 3% per year. Such doubling of the rate of energy efficiency improvement is a potent driver of economic development (creating jobs in the renovation of city infrastructure and reducing budget deficits), as well as in significantly reducing carbon emissions.

On partnerships the UNEP En.lighten initiative continues to gain traction. Philips is one of the founders of this public private partnership where now 66 emerging and developing countries have committed to phase out incandescent lamps by 2016. This program as well as the Global Energy Efficiency Accelerator will further develop towards COP21 in Paris in December 2015.

With The Climate Group a global ‘LED city consultation program’ was launched at WEF in Davos in January. This is a follow-through of The Climate Group’s ‘Light Savers’ program that has piloted LED street lighting in 12 cities in all regions (including Sydney, Kolkata, London, NYC, Toronto, and Rio de Janeiro) which results were published in partnership with Philips

Lighting at Rio+20. The LED City consultation process is identifying and addressing the (remaining) hurdles in the accelerated transition to LED street lighting. Workshops held in 2014 included London, Dubai, Singapore, Austin (Texas), Sao Paulo, and Beijing.

Innovation Experience

Philips organized Innovation Experiences in 2014 in Eindhoven, Dubai and Zurich which were attended by over 2,000 journalists, customers, scientists, partners and employees.

At the event 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.

14.2.8 Supplier indicators

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

Philips has a direct business relationship with approximately 10,000 product and component suppliers and 30,000 service providers. Given the size and complexity of our supply chain we need to focus our efforts. Therefore, we developed an approach based on the supplier’s sustainability risk profile related to spend, country of production, business risk and type of supplier relationship. The risk profile is used to select suppliers for inclusion in our sustainability audit program, conflict minerals, and IDH Electronics program.

Philips Supplier Sustainability Declaration

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

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 its next tier suppliers to acknowledge and implement the Code. This roll-out to

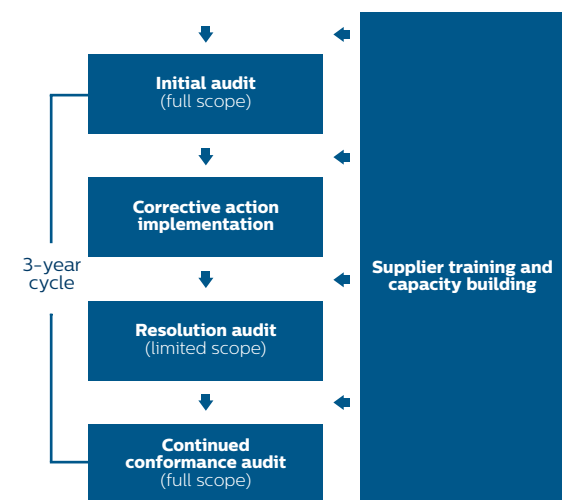
deeper levels in the supply chain is reviewed during the on-site audits, where it is assessed how requirements have been communicated to the next tier suppliers and whether there is an effective process in place to ensure that the next tier suppliers implement the Code.

Risk suppliers with whom we have a direct business relationship are included in the supplier sustainability audit program, and most of these are tier 1 suppliers. However, sometimes Philips also selects and prescribes the tier 2 suppliers, in which case these tier 2 suppliers will also be included in the audit program.

Supplier Sustainability Audit Program

We monitor supplier compliance with the Declaration through a system of regular audits. During these audits, an independent external party visits the supplier’s site for several man-days to hold interviews with workers and management, do a factory tour, and review documentation. Based on their risk profile, 576 risk suppliers are included in the supplier audit and development program; the majority of these are in China. During the audits, compliance with all sections of the Declaration is reviewed. In the event of non-compliance (NC) we require suppliers to make a corrective action plan, and we monitor its implementation until all major NCs are resolved. Full-scope audits are conducted in a 3-year cycle; to date we have audited 99% of all identified risk suppliers.

Philips Group
Audit cycle
2014



Identifying improvement areas

2014 Audits

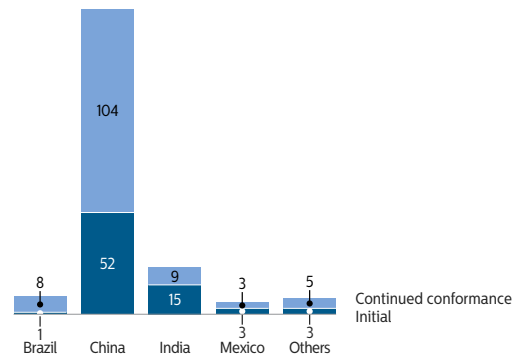
In 2014 we audited 203 of our current risk suppliers, including 129 continued conformance audits with suppliers that we already audited in 2011. This includes 7 suppliers from discontinued operations. Risk suppliers from recently acquired companies are also included, and this year we audited 11 suppliers from the acquisitions of Povos and Preethi. As in previous years,

the majority of the audits were done in China. Also in Brazil, India and Mexico audits were done, as well as a small number of audits in Indonesia, Russia and Ukraine. With these audits we directly or indirectly impacted almost 160,000 workers employed at the production sites that were audited.

On top of the audits with current risk suppliers, we also audited 35 potential suppliers during the supplier selection process. These potential suppliers need to close any zero-tolerance issues before they can start delivering to Philips. Below we report on the findings at existing suppliers only; findings at potential suppliers are not included in this report since these suppliers are not (yet) part of Philips' supply base.

To track improvements Philips measures the 'compliance rate' for the identified risk suppliers, being the percentage of risk suppliers audited within the last 3 years and don't have - or have resolved all - major NCs. During 2014 we achieved a compliance rate of 86% (2013: 77%).

Philips Group
Number of initial and continual conformance audits
 2014



Audit findings

Below table shows the results of the full scope audits done during 2014. When the audit reveals areas of non-compliance we request suppliers to implement corrective actions and our sustainability experts and independent third-party auditors monitor the implementation during resolution audits. The results of the resolution audits are not included in the table below.

Philips Group

Summary of 2014 audit findings per regionSuppliers without any major non-compliances per category (in % of suppliers audited in 2014)
“>90%” means that >90% of the audits done in 2014 showed compliance for a certain category

	China	Asia excl. China	LATAM	EMEA	Total
No. of audits	156	29	15	3	203
Initial audits	52	15	4	3	74
Continued conformance audits	104	14	11	-	129
Average number of non-compliances per audit	9	22	11	1	11
Workers employed at sites audited	145,453	6,356	5,510	455	157,774
Labor					
Freely Chosen Employment ¹⁾	75-90%	10-25%	>90%	100%	75-90%
Child labor prohibition /young worker management ²⁾	75-90%	100%	100%	100%	75-90%
Working hours	25-50%	25-50%	100%	100%	50-75%
Wages and Benefits	50-75%	25-50%	100%	100%	50-75%
Humane Treatment	100%	>90%	>90%	100%	>90%
Non-discrimination	>90%	100%	100%	100%	>90%
Freedom of association	100%	>90%	100%	100%	>90%
Health & Safety					
Occupational Safety	50-75%	25-50%	50-75%	100%	50-75%
Emergency Preparedness	50-75%	10-25%	25-50%	100%	50-75%
Occupational Injury and Illness	50-75%	25-50%	50-75%	50-75%	50-75%
Industrial Hygiene	50-75%	75-90%	75-90%	100%	50-75%
Physically demanding work	100%	75-90%	50-75%	100%	>90%
Machine safeguarding	75-90%	75-90%	75-90%	100%	75-90%
Food Sanitation and Housing	50-75%	75-90%	50-75%	100%	50-75%
Environment					
Environmental Permits and Reporting	75-90%	50-75%	>90%	100%	75-90%
Pollution prevention and resource reduction	>90%	50-75%	100%	100%	>90%
Hazardous substances	50-75%	75-90%	50-75%	100%	50-75%
Waste water and solid waste	>90%	100%	50-75%	100%	>90%
Air emissions	>90%	50-75%	50-75%	100%	75-90%
Product content restrictions	100%	100%	100%	100%	100%
Management systems					
Certified management system	25-50%	10-25%	10-25%	50-75%	25-50%
Company commitment	>90%	50-75%	50-75%	100%	75-90%
Management accountability and responsibility	75-90%	25-50%	50-75%	50-75%	50-75%
Legal and customer requirements	75-90%	25-50%	50-75%	100%	75-90%
Risk assessment and risk management	75-90%	25-50%	25-50%	100%	50-75%
Improvement objectives	75-90%	25-50%	50-75%	100%	50-75%
Training	75-90%	25-50%	50-75%	100%	75-90%
Communication	75-90%	25-50%	75-90%	100%	75-90%
Worker feedback and participation	>90%	50-75%	50-75%	100%	75-90%
Audits and assessments	50-75%	25-50%	25-50%	100%	50-75%
Corrective action process	75-90%	25-50%	50-75%	100%	75-90%
Documentation and records	75-90%	25-50%	>90%	100%	75-90%
Supplier responsibility	75-90%	25-50%	25-50%	100%	50-75%
Ethics					
Business Integrity	75-90%	10-25%	50-75%	100%	50-75%
No improper advantage	>90%	50-75%	75-90%	100%	75-90%
Disclosure of information	100%	100%	100%	100%	100%
Protection of Intellectual Property	>90%	50-75%	100%	100%	>90%
Fair business, advertising and competition	>90%	75-90%	100%	100%	>90%
Protection of identity	>90%	50-75%	75-90%	100%	75-90%
Responsible sourcing of minerals	>90%	100%	100%	100%	>90%
Privacy	100%	100%	100%	100%	100%
Non-retaliation	>90%	75-90%	100%	100%	>90%
General					
EICC Code	100%	25-50%	100%	100%	>90%

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.

Most frequent areas of non-compliance in 2014

1. Certified Management System (ISO9001, ISO14001, and OHSAS18001)
2. Emergency Preparedness
3. Working Hours

Positive trends compared to last year

- Working Hours (10% less NCs)
- EICC Code: understanding and commitment of Code and requirements (5% less NCs)
- Wages and Benefits (5% less NCs)

Negative trends compared to last year

We see an increase of 5% in the NCs for the following areas:

- Protection of Identity
- Food, Sanitation and Housing
- Occupational Injury and Illness

Philips Group
Audit progress and targets

2014 Goals	Progress
75% of corrective actions implemented within 90 days (for major NCs found in 2014 audits)	Average NC closure time was around 6 months, mainly due to longer resolution times for working hour issues. Before closing working hours NCs Philips requires at least 3 months' time records
2015 Goals	
Improve H&S performance of suppliers with 10%	

Implementing corrective actions

On average we see 11 major NCs per supplier audit (2013: 12) and work with each supplier to resolve these NCs within 90 days where possible. Goal is to improve the conditions in the supplier factories. Therefore, we focus on training, supplier development and implementation of corrective action plans with those suppliers. In exceptional cases where the supplier is unwilling to improve, we will decide to end the business relationship, which we did for 3 suppliers in 2014.

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.

Management systems

There may be areas where our audits reveal compliance in actual practice, but the related underlying management systems to safeguard continued compliance may not be sufficient. Therefore, also management systems are reviewed during the audits. Although the 2014 audits show improvements compared to previous years, we see this as a continued weak area at suppliers where further capacity building is necessary. Related to management systems the most frequently observed NCs are:

- Certified management system (missing certificate for one or more of these systems: ISO9001, ISO14001, and OHSAS18001)
- Audits and assessments (no regular self-assessments and follow-up done by supplier)
- Supplier responsibility (EICC Code requirements have not been communicated to the next tier suppliers)

Collaboration Philips, IPE and suppliers

Next to the supplier sustainability audits that we perform at our suppliers, we also look at insights from external stakeholders to help monitor the performance of our suppliers. For example, we work with the Institute of Public & Environmental Affairs (IPE) who publishes a map of Chinese factories linked to water and air pollution. When we know that one of the mentioned factories is a Philips supplier, we will inform that company to implement corrective actions and will ask IPE to perform a third-party assessment to verify adequate resolution of the issues. By working this way, we effectively resolved a case of water pollution at a supplier in Guangdong province, China.

Supplier training and capacity building

Based on many years of experience with the audit program, we know that a combination of audits, capacity building, consequence management and structural attention from management is crucial to realize structural and lasting changes at supplier production sites.

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. Since 2012 we extended our capacity building initiatives which are offered to help suppliers improve their practices, and we have organized 24 training sessions on the EICC Code of Conduct which were attended by more than 500 Chinese suppliers. We continued our training programs for Philips buyers and quality managers, supporting them to further integrate sustainability in their daily work with suppliers.

To address emerging issues we also provide in-depth capacity building programs to our suppliers on specific topics. These are the highlights from 2014:

- **China Health and Safety Program** - In August 2014 we kicked-off a program to improve supplier's health and safety management. It addresses the underlying fundamentals to structurally improve health and safety for workers, e.g. by establishing the necessary management commitment and cultivating a 'safety first' culture. Together with 7 pilot suppliers we

developed scorecards to measure progress at their production sites. The program now reaches 7,000 workers and will be scaled up in the coming years.

- **Dust Explosion and Prevention** - Our safety scans identified 30 suppliers with an unacceptable high safety risk related to dust explosion. We worked on raising awareness with these suppliers, provided training and coaching, and carried out targeted follow-up inspections to ensure suppliers put in place proper controls.
- **Fire Safety** - On Philips request, 20 large warehouse suppliers started with monthly self-assessments to improve the fire safety conditions at their storage facilities.
- **Supplier Sustainability Communication Platform** - To intensify the transfer of sustainability knowledge and best practices sharing between suppliers, we rolled out an Internet-based information sharing platform. It connects environmental and Health & Safety officers, human resource managers and general managers from 500 suppliers.

Philips Group
Supplier training and capacity building

2014 Goals	Progress
Roll-out best practices and learnings from IDH electronics program to Chinese suppliers included in audit program	During the supplier classroom trainings we included insights from the IDH program. We paid special attention to the relation between worker satisfaction and worker turnover rates, and how factory management can improve these by establishing a communication bridge with workers
Start dedicated 3-year program to improve Health & Safety conditions in supplier factories. Start roll-out to 20% of the Chinese suppliers in 2014	57 out of 410 Chinese suppliers now in the program (14%)
2015 Goals	
Train 150 suppliers during at least 8 two-day sustainability training sessions to address top sustainability issues from 2014 audits	
Implement corrective actions to close all major NCs identified at supplier sites during 2014. Provide tailor made and on-site capacity building for 90% of the related suppliers in China	

IDH Electronics program

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

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

Participating suppliers are given an 'Entry Point Assessment' to identify issues that affect factory management and employees, such as worker-management communication, occupational health and safety, production, performance management and environmental issues. This is then used to develop a tailor-made action plan with each supplier, based on improved dialogue between management and employees. Suppliers receive support over a period of up to 24 months, and the cost of the program is shared between the supplier, Philips, and IDH.

In 2013, the program was extended from the Pearl River Delta Area to include the Yangtze River Delta area. Next to Philips, also Apple, Nokia, Dell and Hewlett-Packard and their suppliers are participating in the program. As of year-end 2014, 54 suppliers participate including 21 Philips suppliers.

Philips Group
IDH Electronics Program

2014 Goals	Progress
Increase number of participating suppliers to 20	21 Philips suppliers are now participating
All participating suppliers identify their top 3 improvement actions and develop their work plans	Completed for all 21 suppliers
70% of all identified top 3 improvement actions implemented by end 2014	90% implemented by year-end 2014
2015 Goals	
3 out of 4 top improvement actions identified for each IDH supplier implemented by end 2015	

Example: IDH case study

N is a Philips supplier participating in the IDH Electronics program since 2013. During their Entry Point Assessment, it quickly became clear that N's workers and management prioritized two topics: low worker satisfaction and high worker turnover rates. With the help of IDH, the management and workers jointly developed an action plan around three main themes:

- Worker-management dialogue - A worker representative team was elected to help bring messages from the factory floor to top management, including improvement recommendations and worker concerns
- Worker well-being - Workers designed and implemented a canteen improvement program
- Working environment - Implementing the 5S methodology to organize the work space for efficiency and effectiveness, including professional working skills training

During the implementation of above actions in 2014, worker satisfaction increased and N's management team became increasingly enthusiastic to continue the program in 2015 as worker turnover rates started to decrease and production efficiency improved.

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

Addressing issues deeper in the supply chain

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 DRC. Philips works towards the following goals:

- Stop trade in conflict minerals that benefit armed groups in the DRC or an adjoining country

- Enable legitimate minerals from the region to enter global supply chains, thereby supporting the Congolese economy and the local communities that depend on these exports.

What are conflict minerals?

Tin, tantalum, tungsten, and gold are used in many different products such as cars, planes, chemicals, jewelry, packaging, and electronics equipment. They come from mines around the world, including mines in the DRC which are estimated to provide 18% of global tantalum production and 2-4% of tin, tungsten, and gold. In the Eastern parts of the DRC a decade-long civil war is continuing. Illegal armed groups control mines and transit routes and use mining profits to fund their violent operations.

The Conflict Free Tin Initiative

Although the DRC has a rich supply of minerals, its economy has collapsed due to decades of ongoing conflict. In an effort to prevent minerals from financing war, many companies worldwide have shied away from purchasing minerals from the DRC, creating a de facto embargo in a region where mining is often the only source of income for local communities. We decided to take the more difficult road, supporting the verifiably conflict-free sourcing from the DRC.

To promote cooperation and economic growth in the DRC region outside the control of the rebels, we launched the Conflict-Free Tin Initiative in 2012 in collaboration with the Dutch Government and other industry partners. This initiative introduced a tightly controlled conflict-free supply chain of tin from a mine in the DRC all the way down to an end-product. The initiative expanded to other mines in the DRC this year and received additional funding from the Dutch Ministry to continue for the next few years. In 2014 we took the decision to include this tin in the regular supply of solder, meaning it is now contained in many different Philips products sold globally.

Conflict-free minerals policy and Supply chain due diligence

Philips has committed not to purchase raw materials, subassemblies, or supplies which we know contain conflict minerals.

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.

Cooperation amongst these different tiers in the supply chain, as well as amongst different industries that use these metals, is crucial in effectively breaking the link between mining and conflict financing in the DRC. Therefore 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 continued our engagement with relevant other stakeholders including the European Parliament and local as well as international NGOs.

Philips Group
Supplier sustainability
2014



In 2014 we continued our work with 392 priority suppliers – including 13 from discontinued operations – to raise awareness and conduct supply chain investigations into the metal's country of origin. These suppliers were selected based on largest purchasing spend and metal usage. The Philips conflict minerals support center helps suppliers in undertaking this

sometimes daunting task to investigate their long and complex supply chains. We work with suppliers to clarify our expectations, provide support and training, and share our experience and best practices.

We requested our suppliers to adopt and implement a conflict-free minerals policy, to investigate their supply chain and to disclose to us which smelters are used in their supply chains to produce the metals. We carefully reviewed the information received from each supplier, and requested follow-up in case of inconsistent or incomplete answers. The main challenges for suppliers were lack of awareness, limited insight and cooperation at suppliers deeper in the supply chain in order to identify smelters, and the adoption and roll out of a conflict-free supply chain policy.

In line with the US Dodd-Frank Act, we published the first Philips conflict minerals report in June 2014, describing our due diligence process and results. We engaged external auditors to perform an independent private sector audit on this report. Amongst thousands of companies that published their first year reports, Philips is one of only 4 companies that chose to do this voluntary audit.

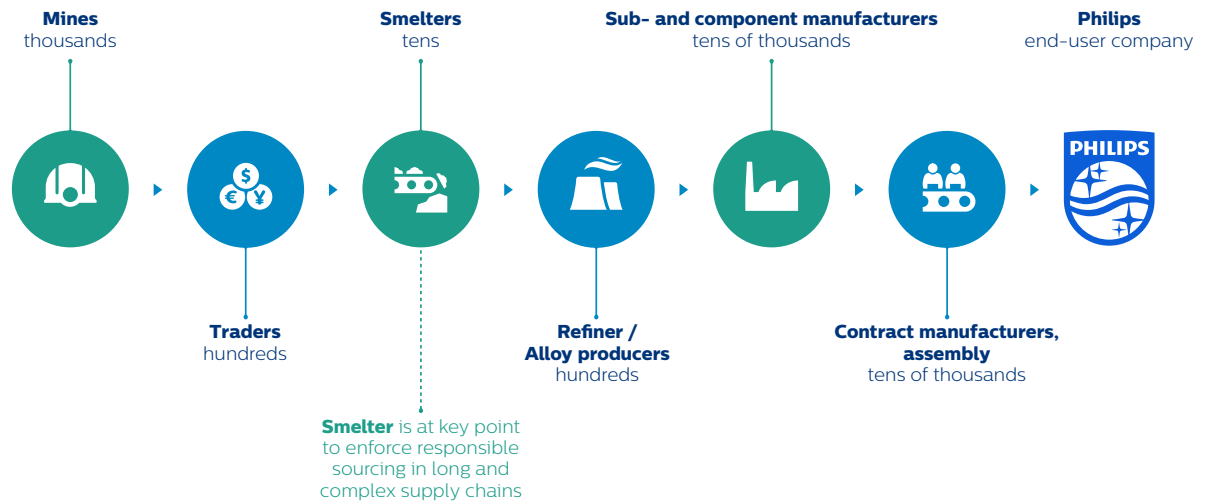
“ I'm impressed that Philips went beyond expectations with its first Conflict Minerals Report, and pleased that the company took a number of actions we consider 'leading practice'. Philips detailed the supply chain due diligence it undertook, published a list of its identified smelters, and was one of only four companies that had its report independently audited.”

Patricia Jurewicz
Director
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 2014 impressive progress was made in validating additional conflict-free smelters, from 64 to 121. As sufficient conflict-free smelters for all four metals become available, Philips will direct its supply chain towards these smelters. See www.conflictreesmelter.org for more details.

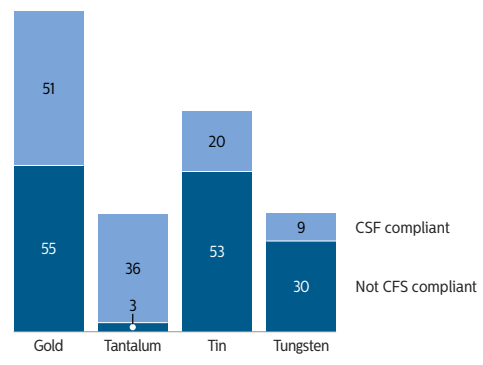
Simplified tin supply chain



After having identified smelters in our supply chain, we published our [smelter list](#). 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. We request the identified smelters to participate in the CFSP.

So far, a total of 257 smelters are included in the Philips smelter list. Majority of these smelters are located in Asia, especially China. 45% (116) of the identified smelters in our chain completed the Conflict-Free Smelter audit (2013: 29%). Within the group of smelters that successfully passed their conflict-free smelter audit, 14 smelters were sourcing conflict-free minerals from the DRC region.

Philips Group
Number of identified smelters per metal
2014



Philips Group Conflict minerals 2014 - 2015

2014 Goals	Progress
Publish a Philips Conflict Minerals Report validated by external auditors	First Conflict Minerals Report was published and Philips was one of the only 4 companies that had their report audited
Implement augmented expectations for supply chain investigations, including stricter criteria for data collection from priority suppliers	In 2014 we worked with suppliers to implement and roll-out a CM policy, collect more information from their next-tier suppliers and disclose additional smelters
Collect Conflict Minerals Reporting Templates from at least 80% of priority suppliers, applying stricter criteria on data quality and completeness than previous year	98% of the priority suppliers filled out the template questionnaire. 86% were meeting or exceeding the Philips minimum criteria
Conflict Free Tin Initiative: include DRC tin in mainstream solder supply (move from pilot to normal business)	CFTI tin is now part of the regular supply of solder and used in different Philips products
2015 Goals	
Request direct suppliers to steer their supply chain towards using only smelters verified as conflict-free by third-party auditors	
Confirm that all active, identified tantalum smelters in our supply chain are verified as conflict-free by third-party auditors	

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

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. Philips is alerted by reports about environmental and social issues associated with this tin production. It is reported that 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. Nevertheless, in 2013 we decided to investigate how we can support the move towards more sustainable mining practices in Indonesia.

We teamed up with other frontrunner companies, the tin industry and civil society in the Indonesian Tin Working Group (TWG), coordinated by the Dutch Sustainable Trade Initiative. The group's goal is to positively contribute to addressing the sustainability challenges of tin mining and smelting in Bangka and Belitung while recognizing the economic benefits of the sector in terms of development and poverty reduction.

In 2014 the TWG entered the next phase which was co-funded by IDH, Philips and other TWG members. By working with local stakeholders we aim to support Indonesian Government, businesses and civil society efforts, to better formalize Indonesian tin production, make it economically beneficial for local communities, and to reduce negative social and environmental impacts.

“ Philips was one of the first companies to step up and show their commitment to supply chain responsibility by working on improving conditions at the deepest level of the supply chain, mineral sourcing. They have taken a proactive leadership role in forming and supporting the IDH Indonesian Tin Working Group in cooperation with Milieudefensie / Friends of the Earth.”

Evert Hassink
Friends of the Earth Netherlands

Other sustainability initiatives in our supply chain

Carbon footprint of our supply chain

To understand the climate change impact of our supply chain, Philips has undertaken two initiatives:

1. In 2014, we engaged with Trucost to quantify the carbon emissions in our supply chain. Based on supplier spend data analysis by Trucost and extrapolation, estimated CO₂ emissions from purchased goods and services were at approximately 4,200 kilotonnes for the year 2013. This is nearly triple the Philips operational carbon footprint as presented in this report.
2. Using the CDP (formerly Carbon Disclosure Project) we gain insights into supplier's climate strategy and carbon footprint to jointly work on reducing emissions in the supply chain. To address our supply chain footprint, we work with first-tier manufacturing and transportation-related suppliers.

Sustainability initiatives with our first tier suppliers



CDP supply chain

In 2014 we extended the CDP Supply Chain program to involve an increased number of suppliers by selecting additional suppliers based on spend and expected footprint reduction potential. As a result, we almost

doubled the number of suppliers that reported on their carbon footprint and reduction progress. A total of 128 suppliers participated in the CDP Supply Chain program, covering 25% of our procurement spend.

CDP Action Exchange

Having more insight in supplier's carbon emissions is a first but important step. The next step is footprint reduction by identifying the most impactful interventions in the supply chain. The [CDP Action Exchange program](#) supports this second step by connecting suppliers to globally recognized solution providers in the field of energy efficient technology. Philips is a founding member of the CDP Action Exchange program, driven by a willingness to increase focus on energy efficiency in Philips supply chain and to support Philips suppliers to manage their energy strategically and stay competitive.

This year we invited 76 suppliers with the highest CO₂ reduction potential into the CDP Action Exchange program. 24 of these suppliers committed to participate and submitted the necessary information.

Supplier energy scan

As part of the CDP Action Exchange program we piloted a new initiative: the energy scan. This on-site assessment by CDP and the Institute for Industrial Productivity (IIP) looked at energy use, emissions reduction and energy efficiency opportunities and was performed at two supplier facilities in China. The identified savings opportunities are mainly related to optimized energy (re)use and installing more energy efficient technology. The identified energy cost savings potential lies in the range of 3 to 8% with a typical payback period of 1 to 1½ year.

Going forward we plan to extend the CDP Supply Chain and Action Exchange programs to an increasing number of suppliers and to offer more suppliers energy scans, with the ambition to further reduce our supply chain carbon footprint.

Philips Group Carbon footprint of our supply chain

2015 Goals

Extend the CDP Supply Chain invitations to cover top 80% spend from manufacturing and transportation suppliers

Based on CDP Supply Chain results, offer CDP Action Exchange to top 100 suppliers with highest CO₂ reduction potential

Circular Procurement

A key driver in the transition towards a circular economy lies within procurement (see sub-section 14.3.1, EcoVision, of this Annual Report). Circular procurement is about making the right choices early on, in the procurement process, to enable reuse of materials at the end-of-use stage. In 2014 initial thoughts and ideas were captured to start making the transition to circular procurement. The expected areas of increased value include:

- Extended and intensified long term business relationships with suppliers and customers
- Innovative business models addressing access to services and products instead of ownership
- Re-use of parts and components

Philips joined the Dutch GreenDeal Circular Procurement in 2014 and it is our objective to actively engage procurement in the realization of a circular economy. 33 organizations are participating in this GreenDeal and it is facilitated by organizations like 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 Group Circular Procurement

2015 Goals

Start 2 circular procurement projects

Train 40% of procurement commodity teams on circular procurement

Process chemicals

In the production process of our products different chemicals are used which can potentially cause environmental and health hazards when used incorrectly. In 2014 we started a new initiative striving to eliminate the usage of hazardous process chemicals in our supply chain and – when no alternatives are available – to minimize the health risks for workers dealing with these chemicals. Philips initiated a new EICC taskforce on process chemicals in the supply chain, which had its start-up meeting in October 2014 in San Francisco.

Objectives of the taskforce are:

- Ensure a safe working environment in supplier factories
- Develop and define one common industry approach to eliminate hazardous process chemicals
- Define and maintain one list of “process chemicals of concern” that can be used across different industries, including a plan for substitution or elimination
- Maintain an active multi-stakeholder dialogue with NGOs and authorities, and share best practices and results

We will initially focus our efforts on high-risk production processes, including e.g. component manufacturing, sub-assembly and finished goods assembly. A detailed work plan including milestones will be provided by the EICC task force beginning of 2015.

14.3 Environmental statements

This section provides additional information on (some of) the environmental performance parameters reported 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.

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 670 million people in 2014, driven by our Healthcare sector. Additionally, our well-being products that help people live a healthy life, and our Green Products that contribute to a healthy ecosystem, improved the lives of 290 million and 1.5 billion people respectively. After the elimination of double counts - people touched multiple times - we arrived at 1.9 billion lives. This is an increase of 200 million compared to in 2013.

Examples of products in the 'well-being' category that help people live a healthier life are juicers, blenders, air fryers, but also mother and childcare products.

Examples of Green Products, products offering a significant environmental improvement in one or more Green Focal Areas, can be found in sub-section 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 in Philips has been running for its second year in 2014 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
1. Philips takes advantage of the global partnership with the Ellen MacArthur Foundation which includes the CE100 events and education. But also partnerships with Circle Economy Netherlands, Turntoo, World Economic Forum and The Guardian support Philips to take a leading position in driving circular thinking. For example, the opening of the Philips Healthcare Refurbishment factory was followed by a panel discussion on circular economy with Philips, IBM, Ricoh and the Ellen MacArthur Foundation.
 2. 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, during the Philips Innovation Experience the circular economy framework was explained in detail and demonstrated.

3. 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. For example, various Light-as-a-Service projects have started in different areas of the world like in Washington DC with lighting in parking garages of the Washington Metropolitan Area Transit Authority.
4. 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 - 2014 details

Our operational carbon footprint in 2014 amounted to 1,375 kilotonnes CO₂-equivalent, a reduction of 36% compared to our 2007 baseline and close to our 40% reduction target for 2015. The 2014 results can be attributed to several factors:

- Accounting for 35% of the total footprint, total CO₂ emissions from manufacturing decreased due to operational changes and decreased energy usage, due to lower load, with an increased share coming from renewable sources. The decrease was in part offset by new acquisitions reporting for the first time.
- CO₂ emissions from non-industrial operations (offices, warehouses, etc.) represent 9% of the total. The overall floor space in our real estate portfolio increased by 2%. As a result, emissions increased slightly compared to 2013. In 2015 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 17% of our carbon footprint remained stable compared to 2013. This is mainly attributable to the success of our Green Lease Car policy, as emissions from lease cars decreased by 7%. This mitigated the increase of 5% in our air travel emissions.

- Overall CO₂ emissions from logistics, representing 39% of the total, decreased slightly by 1% compared to 2013. We recorded an increase of emissions coming from air and parcel freight. However, reduced emissions from road and ocean freight resulted in a downward change for logistics as a total. Due to operational changes, data availability for our road freight activities of Consumer Lifestyle and Healthcare in the APAC region was limited. Therefore, this year we have had to estimate emissions based on revenue trend. During 2015 we will find a suitable solution to ensure data availability.

Philips Group
Operational carbon footprint for logistics
 in kilotonnes CO₂-equivalent
 2010 - 2014

	2010	2011	2012	2013	2014
Air transport	332	316	295	308	316
Road transport	150	164	98	101	96
Sea transport	167	152	132	141	133
Philips Group	649	632	525	550	545

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, 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. After further validation with our industrial site staff, it appeared that only our Glemsford (UK) site is located within a radius of 1 kilometer from such an area, the Glemsford Pits, but has no impact on its biodiversity. The results of our assessment for all industrial sites can be found at www.philips.com/sustainability.

Philips continued in 2014 to work with Trucost and performed an Environmental Profit and Loss (EP&L) analysis to help identify natural capital dependency “hot spots” and place a financial value on Philips environmental impacts. The environmental impact of Philips itself is limited as the company is not very energy intensive and is not emitting 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 the 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.

In the course of 2013 we implemented an improved process to report chemicals used in processes in more detail. New chemicals on which we will focus our reduction efforts and new reduction targets will be incorporated in the next Green Operations program.

Philips Group
Green Operations in % unless otherwise stated
 2014

	2007 baseline year	2014 actual ¹⁾	2015 target ¹⁾
Total CO ₂ from manufacturing	873 kilotonnes CO ₂ -equivalent	(46)	(25)
Water	4.0 million m ³	(21)	(10)
Materials provided for recycling via external contractor per total waste	79	80	80
Restricted substances:			
Benzene emission	52 kg	(100)	(50)
Mercury emission	185 kg	(96)	(100)
CFCs, HCFCs	156 kg	(100)	(100)
Hazardous substances:			
Lead emission	1,838 kg	(100)	(100)
PFCs	1,534 kg	(100)	(35)
Toluene emission	2,210 kg	(93)	(90)
Xylene emission	4,502 kg	410	(90)
Styrene	80,526 kg	(94)	(90)
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 11,257 terajoules in 2014, of which Lighting consumes about 74%. Compared to 2013, energy consumption at Philips went down by 6%. This was driven by a decrease

of activities in high energy intensive operations in Lighting, organizational changes, and energy efficiency improvements, partly offset by new acquisitions reporting for the first time. The energy use of our discontinued operations amounted to 2,160 terajoules in 2014 (2013: 2,197 terajoules).

Philips Group
Total energy consumption in manufacturing in terajoules
2010 – 2014

	2010	2011	2012	2013	2014
Healthcare	1,545	1,541	1,798	1,794	1,773
Consumer Lifestyle	1,274	1,252	1,104	1,142	1,115
Lighting	9,618	9,237	9,112	9,027	8,369
Innovation, Group & Services	27	–	–	–	–
Philips Group	12,464	12,030	12,014	11,963	11,257

Carbon emissions in manufacturing

The greenhouse gas emissions of our manufacturing operations totaled 474 kilotonnes CO₂-equivalent in 2014, 10% lower than in 2013. This is the result of the decreased energy usage, operational changes, partly offset with new acquisitions reporting for the first time. Indirect CO₂ emissions overall decreased mainly due to increased usage of electricity generated by renewable sources. The carbon emissions of our discontinued operations amounted to 144 kilotonnes CO₂-equivalent in 2014 (2013: 187 kilotonnes CO₂-equivalent). Lumileds operations also reduced the carbon emission due to decreased usage of SF₆, a substance with very high Global Warming Potential (GWP).

Philips Group
Total carbon emissions in manufacturing
in kilotonnes CO₂-equivalent
2010 – 2014

	2010	2011	2012	2013	2014
Direct CO ₂ ¹⁾	295	290	278	276	253
Indirect CO ₂	287	238	253	214	191
Other greenhouse gases	5	4	6	7	6
From glass production	25	28	27	27	24
Philips Group ²⁾	612	560	564	524	474

¹⁾ From energy

²⁾ Excluding new acquisitions therefore different from Operational carbon footprint

CO₂ emissions decreased at Healthcare due to energy efficiency improvements and increased use of electricity generated by renewable sources; this was however partly mitigated by new acquisitions reporting for the first time.

At Consumer Lifestyle, CO₂ emissions decreased due to the energy saving programs which more than offset the increase caused by two new reporting sites. Lighting decreased its CO₂ emissions due to lower load of energy intense activities, organizational changes and using more electricity generated by renewable sources.

Philips Group
Total carbon emissions in manufacturing per sector
in kilotonnes CO₂-equivalent
2010 – 2014

	2010	2011	2012	2013	2014
Healthcare	60	56	79	58	52
Consumer Lifestyle	44	41	39	38	34
Lighting	507	463	446	428	388
Innovation, Group & Services	1	–	–	–	–
Philips Group	612	560	564	524	474

Restricted substances

Emissions of restricted substances totaled 9 kilos in 2014, on par with 2013. Mercury, only used in Lighting, accounts 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
2010 – 2014

	2010	2011	2012	2013	2014
Benzene and Benzene compounds	101	55	–	–	–
Mercury and Mercury Compounds	83	51	54	8	8
CFCs/HCFCs ¹⁾	4	5	1	1	1
Restricted substances	188	111	55	9	9

¹⁾ Excluding cooling systems

Benzene

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

Mercury

Mercury emissions in Lighting remained stable at 8 kilos in 2013 and 2014. As a result of changes in the manufacturing process, for the second year in a row, Lighting achieved its mercury emission at the as low as reasonably achievable level, according to our assessment.

CFCs/HCFCs

In 2014 total emissions from CFCs/HCFCs remained at 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. The emissions from PFCs is material for a Lumileds site in Asia.

Philips Group
Hazardous substances in kilos
 2010 - 2014

	2010	2011	2012	2013	2014
Lead and lead compounds	108	44	73	1	8
PFCs (Per Fluorinated Compounds)	1	1	-	-	-
Toluene	6,745	5,745	6,184	1,188	162
Xylene	30,491	37,889	18,944	28,176	22,979
Styrene	22,920	19,920	42,329	5,753	5,161
Antimony, Arsenic and their compounds	7	5	-	-	-
Hazardous substances	60,272	63,604	67,530	35,118	28,310

Lead and lead compounds

The very limited increase from 1 kilo in 2013 to 8 kilos in 2014 in lead emissions were the result of adjustments in the calculation method.

PFCs

PFCs were only used in Lumileds sites. As a result of the exclusion of Lumileds and Automotive, Philips does not report any PFCs in 2014. Emissions by Lumileds were 3,392 kilos in 2014, a reduction of 36% compared to 2013.

Toluene

The emission of toluene, mainly used in wet lacquers, decreased by 86% in 2014 largely as a result of phase out programs in 2 sites in Consumer Lifestyle.

Xylene

The use of xylene decreased by 18% in 2014 due to the reduction in use of specific lacquers and thinners in Consumer Lifestyle combined with portfolio changes in Lighting.

Styrene

Two new reporting sites in Consumer Lifestyle emitted some 3,000 kilos of styrene which was mitigated by the termination of activities of a Lighting site in the USA.

Antimony, Arsenic and their compounds

Lighting was successful in phasing-out these substances as of 2012.

ISO 14001 certification

In 2014, 79% of reporting manufacturing sites were certified, the same level as in the previous year. In Lighting, several certified sites were closed, whereas new certificates were obtained by other sites. After Consumer Lifestyle, in 2014 Philips obtained a "One Lighting Certificate" covering most of the Lighting manufacturing sites. All sectors have plans for new acquisitions to be certified.

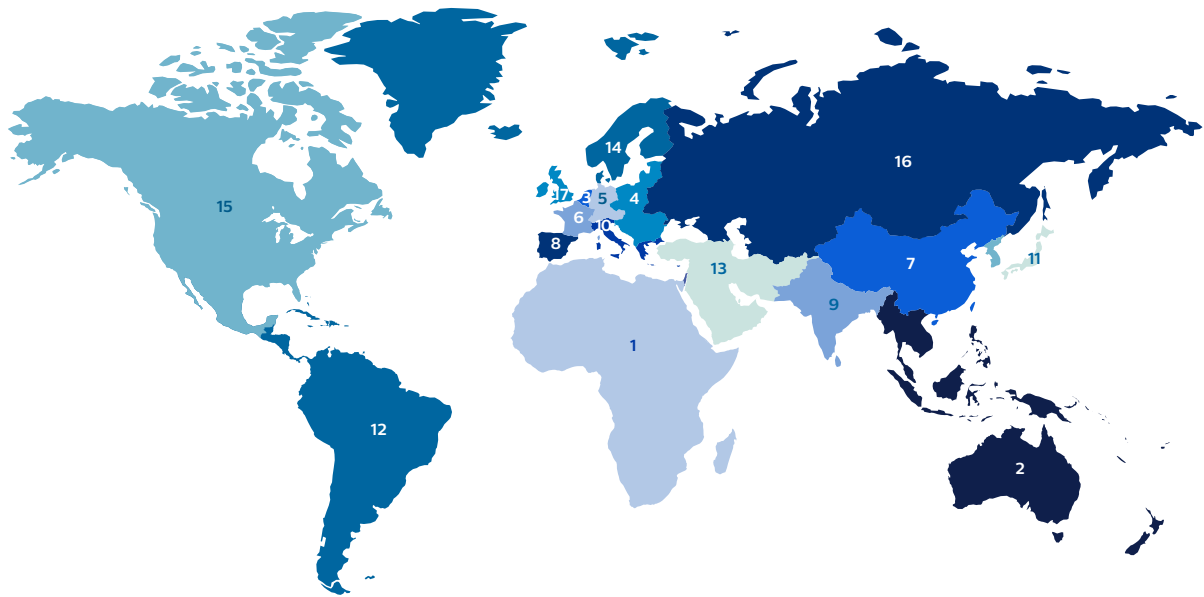
Philips Group
ISO 14001 certification as a % of all reporting organizations
 2010 - 2014

	2010	2011	2012	2013	2014
Philips Group	94	87	69	79	79

Environmental Incidents

In 2014, there were neither incidents nor fines reported in Healthcare. Consumer Lifestyle reported two incidents related to waste water and a leakage, and a non-compliance with water which did not result in a fine. Three non-compliances were reported in Lighting relating to emissions, as well as one incident related to waste water. The two fines related to non-compliance which were reported in our sustainability reporting tool were not material. For discontinued operations an incident was reported related to waste and two non-compliances were reported which resulted in one non-material fine.

Sustainability world map



Markets	Manufacturing sites	Lost Workday Injury rate ¹⁾	CO ₂ emitted (Tonnes CO ₂)	Total waste			Emission (kg)	
				Waste (Tonnes)	Recycled (%)	Water (m ³)	Restricted substances	Hazardous substances
Africa	0	0.00	-	-	-	-	-	-
ASEAN ²⁾	5	0.11	92,635	5,165	61%	210,934	-	536
Benelux	11	0.24	27,396	9,433	78%	597,615	1	109
Central & East Europe	7	0.24	70,804	17,744	88%	482,069	2	18,258
DACH	4	0.48	3,829	2,258	87%	63,867	1	12
France	2	0.94	1,336	538	69%	10,071	-	25
Greater China	11	0.13	91,134	5,735	89%	745,281	2	449
Iberia	2	0.81	2,594	1,617	74%	44,673	-	0
Indian Subcontinent	5	0.05	73,087	8,354	99%	259,529	-	3,030
Italy, Israel and Greece	4	0.54	5,062	1,542	65%	25,397	-	2,764
Japan	0	0.00	-	-	-	-	-	-
Latin America	6	0.03	508	1,065	93%	26,204	-	788
Middle East & Turkey	0	0.00	-	-	-	-	-	-
Nordics	2	0.00	45	139	100%	3,828	-	0
North America ³⁾	32	0.28	105,004	20,100	69%	599,894	3	2,332
Russia and Central Asia	0	0.00	-	-	-	-	-	-
UK & Ireland	2	0.20	1,059	1,332	83%	33,708	-	7

¹⁾ Includes manufacturing and non-manufacturing sites

²⁾ One manufacturing site did not start to report environmental data yet

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

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 Philips Healthcare sub-section 6.2.2, About Philips Consumer Lifestyle sub-section 6.3.2, About Philips Lighting
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 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, Diversity and 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 Involvement program
G4-13	Significant changes during the reporting period relating to size, structure, or ownership or its supply chain (incl. changes in location, operations, facilities, capital information and supplier information)	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

profile disclosure	description	cross-reference
G4-16	Memberships in associations (such as industry associations)	chapter 14, Sustainability statements - "Stakeholders" sub-section 14.2.7, Stakeholder Engagement

profile disclosure	description	cross-reference
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: Whether the Aspect is material within the organization; The list of entities included in G4-17 for which the Aspect is or is not material; Specific limitation regarding the Aspect Boundary within the organization	chapter 14, Sustainability statements
G4-21	The Aspect Boundary outside the organization: Whether the Aspect is material outside the organization; The list of entities for which the Aspect is material, relate to geographical location; Specific limitation regarding the Aspect Boundary outside the organization	chapter 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"

profile disclosure	description	cross-reference
		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 - "Audit of the financial reporting and the position of the external auditor" 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 B, 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 for decision-making on economic, environmental and social impacts)	chapter 11, Corporate governance section 11.1, Board of Management section 11.2, Supervisory Board section 11.3, General Meeting of Shareholders section 11.4, 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 - "Executive Vice President & Chief Strategy and Innovation Officer" 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 - "Executive Vice President & Chief Strategy and Innovation Officer" 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	section 7.1, Our approach to risk management and business control chapter 10, Supervisory Board report chapter 11, Corporate governance

profile disclosure	description	cross-reference
	opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles	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, Philips' General Business Principles renewed section 7.1, Our approach to risk management and business control section 11.1, Board of Management
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, Philips' General Business Principles renewed 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, Philips' General Business Principles renewed 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 5.2.9, Social Investment Programs 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 - 2014 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.
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, Diversity and 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 5.2.9, Social Investment Programs sub-section 6.1.3, 2014 highlights sub-section 6.3.3, 2014 highlights sub-section 14.2.7, Stakeholder Engagement
	G4-EC8	Significant indirect economic impacts, including the extent of impacts	sub-section 5.2.8, Working with stakeholders sub-section 5.2.9, Social Investment Programs sub-section 6.1.3, 2014 highlights sub-section 6.3.3, 2014 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 Involvement program
	profile disclosure	description	cross-reference
Environment			
Materials			
	G4-EN1	Materials used by weight or volume	sub-section 5.3.3, Green Operations sub-section 14.3.3, Green Operations
	G4-EN2	Percentage of materials used that are recycled input materials	sub-section 5.3.1, Green Innovation sub-section 5.3.3, Green Operations chapter 14, Sustainability statements sub-section 14.3.3, Green Operations
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

	profile disclosure	description	cross-reference
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
	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
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			

	profile disclosure	description	cross-reference
	G4-EN31	Total environmental protection expenditures and investments by type	chapter 14, Sustainability statements 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 5.2.10, 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			
	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, Diversity and 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	sub-section 5.2.5, Developing our people

profile disclosure	description	cross-reference
	development reviews, by gender and by employee category	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, Diversity and 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 category, by significant locations of operation	For all Philips businesses, guidance is applicable regarding equal and fair treatment and wages and payment. See General Business Principles . 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 5.2.10, 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 5.2.10, 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 5.2.10, 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, Philips' General Business Principles renewed 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

	profile disclosure	description	cross-reference
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.
Supplier human rights assessment			
	G4-HR10	Percentage of new suppliers that were screened using human rights criteria	sub-section 5.2.10, Supplier sustainability sub-section 5.2.11, Conflict minerals: issues further down the 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 5.2.10, 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 5.2.9, Social Investment Programs sub-section 6.1.3, 2014 highlights sub-section 6.3.3, 2014 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, Philips' General Business Principles renewed
	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			

profile disclosure	description	cross-reference
G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	sub-section 5.2.10, 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 5.2.10, Supplier sustainability sub-section 14.2.5, General Business Principles sub-section 14.2.8, Supplier indicators sub-section 14.3.3, Green Operations - "Environmental incidents" 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	Philips plans to report on this indicator 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	Philips plans to report on this indicator 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	Philips did not sale any banned or disputed products in 2014.
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	Philips did not experience any non-compliance related to marketing communications in 2014.
Customer privacy		
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	section 7.5, Compliance risks - "Philips is exposed to non-compliance with data privacy and product safety laws."
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.

Electronic Industry Citizenship Coalition (EICC)

The Electronic Industry Citizenship Coalition was established in 2004 to promote a common code of conduct for the electronics and information and communications technology (ICT) industry. EICC now includes more than 40 global companies and their suppliers.

Employee Engagement Index (EEI)

The Employee Engagement Index (EEI) is the single measure of the overall level of employee engagement at Philips. It is a combination of perceptions and attitudes related to employee satisfaction, commitment and advocacy.

Energy-using Products (EuP)

An energy-using product is a product that uses, generates, transfers or measures energy (electricity, gas, fossil fuel). Examples are boilers, computers, televisions, transformers, industrial fans, industrial furnaces etc.

Free cash flow

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

Full-time equivalent employee (FTE)

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

Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) is a network-based organization that pioneered the world's most widely used sustainability reporting framework. GRI is committed to the framework's continuous improvement and application worldwide. GRI's core goals include the mainstreaming of disclosure on environmental, social and governance performance.

Green Innovation

Green Innovation comprise all R&D activities directly contributing to the development of Green Products or Green Technologies.

Green Products

Green Products offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Recycling and disposal and Lifetime reliability. The life cycle approach is used to determine a product's overall environmental improvement. It calculates the environmental impact of a product over its total life cycle (raw materials, manufacturing, product use and disposal). Green Products need to prove leadership in at least one Green Focal Area compared to industry standards, which is defined by a sector specific peer group. This is done either by outperforming reference products (which can be a competitor or predecessor product in the particular product family) by at least 10%, outperforming product specific eco-requirements or by being awarded with a recognized eco-performance label. Because of different product portfolios, sectors have specified additional criteria for Green Products, including product specific minimum requirements where relevant.

Growth geographies

Growth geographies are the developing geographies comprising of Asia Pacific (excluding Japan, South Korea, Australia and New Zealand), Latin America, Central & Eastern Europe, the Middle East (excluding Israel) and Africa.

Hydrochlorofluorocarbon (HCFC)

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

Income from continuing operations

Net income from continuing operations, or net income excluding discontinued operations.

Initiatief Duurzame Handel (IDH)

IDH is the Dutch Sustainable Trade Initiative. It brings together government, frontrunner companies, civil society organizations and labor unions to accelerate and up-scale sustainable trade in mainstream commodity markets from the emerging countries to Western Europe.

International Standardization Organization (ISO)

The International Standardization Organization (ISO) is the world's largest developer and publisher of International Standards. ISO is a network of the national standards institutes of more than 160 countries, one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system. ISO is a non-governmental organization that forms a bridge between the public and private sectors.

Light-Emitting Diode (LED)

Light-Emitting Diode (LED), in electronics, is a semiconductor device that emits infrared or visible light when charged with an electric current. Visible LEDs are used in many electronic devices as indicator lamps, in automobiles as rear-window and brake lights, and on billboards and signs as alphanumeric displays or even full-color posters. Infrared LEDs are employed in autofocus cameras and television remote controls and also as light sources in fiber-optic telecommunication systems.

Lives improved by Philips

To calculate how many lives we are improving, market intelligence and statistical data on the number of people touched by the products contributing to the social or ecological dimension over the lifetime of a product are multiplied by the number of those products delivered in a year. After elimination of double counts – multiple different product touches per individual are only counted once – the number of lives improved by our innovative solutions is calculated. In 2012 we established our baseline at 1.7 billion a year.

Mature geographies

Mature geographies are the highly developed markets comprising of Western Europe, North America, Japan, South Korea, Israel, Australia and New Zealand.

Net debt : group equity ratio

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

Non-Governmental Organization (NGO)

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

OEM

Original Equipment Manufacturer.

Operational carbon footprint

A carbon footprint is the total set of greenhouse gas emissions caused by an organization, event, product or person; usually expressed in kilotonnes 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 PCBs, they are not known to degrade by any natural processes due to the strength of the carbon-fluorine bond.

Polyvinyl chloride (PVC)

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

Productivity

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

Regulation on Hazardous Substances (RoHS)

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

Return on equity (ROE)

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, the successful implementation of our strategy and our ability to realize the benefits of this strategy, our ability to develop and market new products, changes in legislation, legal claims, changes in exchange and interest rates, changes in tax rates, pension costs and actuarial assumptions, raw materials and employee costs, our ability to identify and complete successful acquisitions and to integrate those acquisitions into our business, our ability to successfully exit certain businesses or restructure our operations, the rate of technological changes, political, economic and other developments in countries where Philips operates, industry consolidation and competition. As a result, Philips' actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, see also chapter 7, Risk management, of this Annual Report.

Third-party market share data

Statements regarding market share, contained in this document, including those regarding Philips' competitive position, are based on outside sources such as specialized research institutes, industry and dealer panels in combination with management estimates. Where full-year information regarding 2014 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).

