

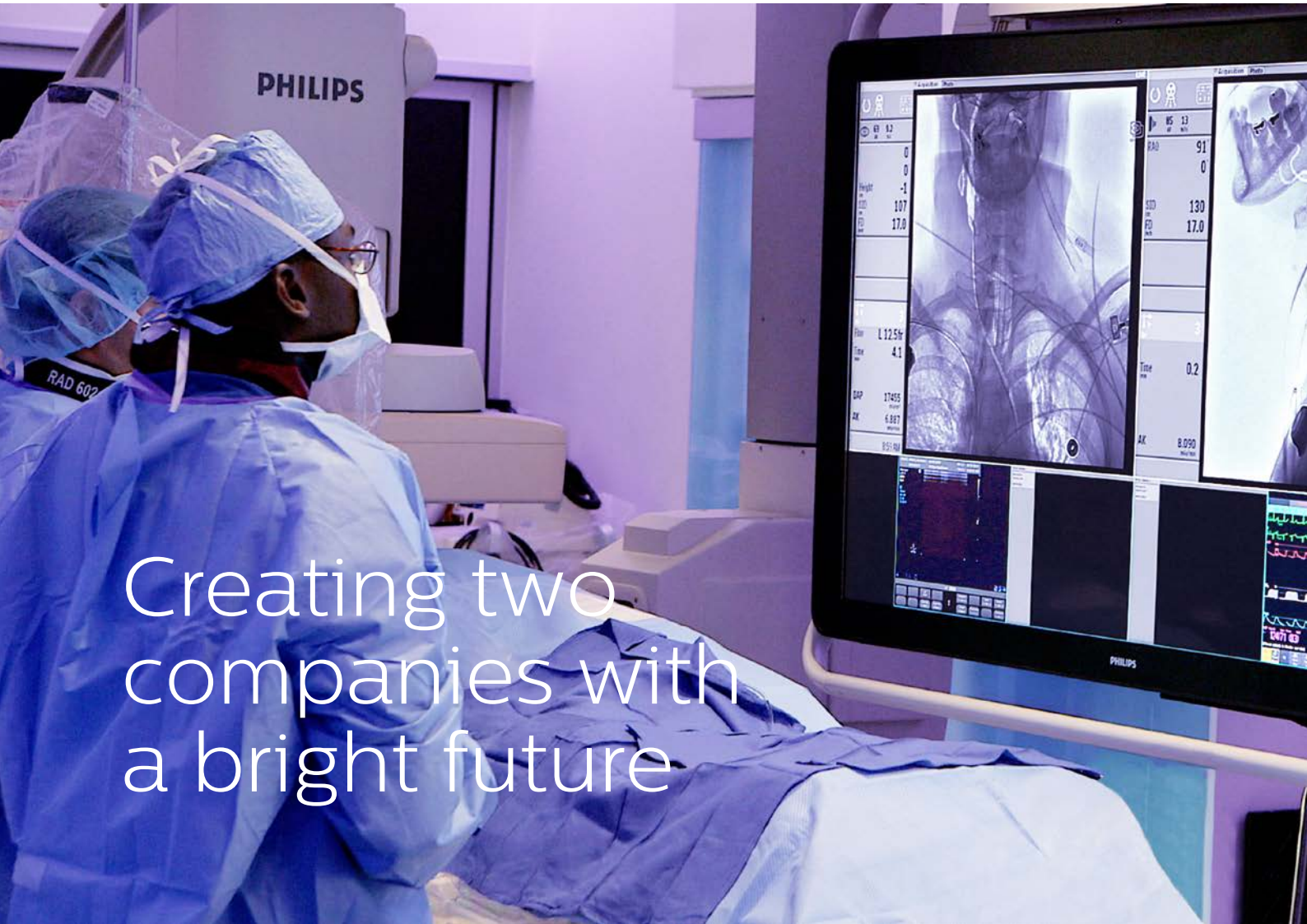


PHILIPS

Annual Report
2015

Employee highlights

Please note: this PDF contains only the pages highlighted in the list of contents below. The contents of this file are qualified in their entirety by reference to the printed version of the Philips Annual Report 2015. The information in this PDF has been derived from the audited financial statements 2015 of Koninklijke Philips N.V. KPMG has issued unqualified auditors' reports on these financial statements.



Creating two
companies with
a bright future

Contents

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

IFRS basis of presentation

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

Dutch Financial Markets Supervision Act

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

Statutory financial statements and management report

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

Significant developments

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

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

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

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

Further updates will be provided in the course of 2016.



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



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

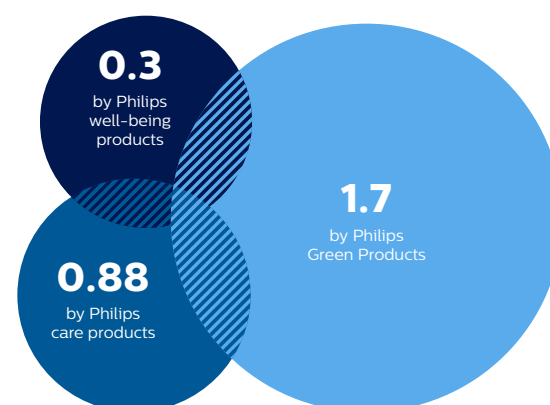
1 Performance highlights	3
2 Message from the CEO	5
3 Philips in 2015 at a glance	8
4 Our strategic focus	9
4.1 Addressing global challenges	9
4.2 How we create value	11
4.3 Accelerate! journey continues	13
4.4 Lives improved	14
4.5 Global presence	14
4.6 Our strategy in action	15
5 Group performance	22
5.1 Financial performance	22
5.2 Social performance	33
5.3 Environmental performance	38
5.4 Proposed distribution to shareholders	44
5.5 Outlook	44
6 Sector performance	45
6.1 Healthcare	46
6.2 Consumer Lifestyle	50
6.3 Lighting	54
6.4 Innovation, Group & Services	59
7 Risk management	-
8 Management	63
9 Supervisory Board	65
10 Supervisory Board report	-
11 Corporate governance	-
12 Group financial statements	-
13 Company financial statements	-
14 Sustainability statements	-
15 Reconciliation of non-GAAP information	-
16 Five-year overview	-
17 Investor Relations	-
18 Definitions and abbreviations	67
19 Forward-looking statements and other information	69

1 Performance highlights

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

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

Philips Group
Lives improved in billions



Total: 2.0 billion (double counts eliminated)

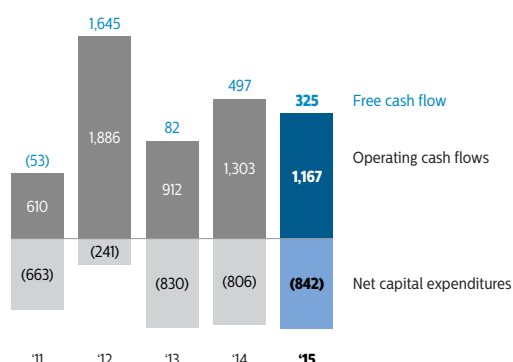
▨ Double counts
 Conceptual drawing, areas do not reflect actual proportions

Performance in millions of EUR unless otherwise stated
 2014 - 2015

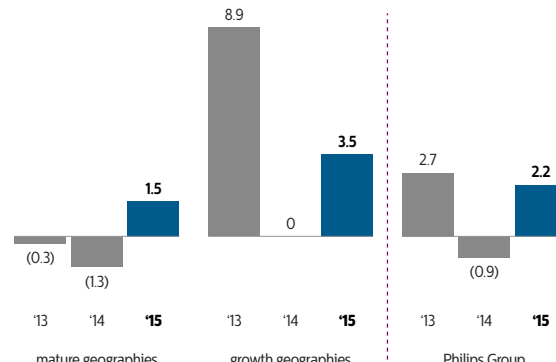
	Group			Healthcare			Consumer Lifestyle			Lighting		
	2014	2015		2014	2015		2014	2015		2014	2015	
Sales	21,391	24,244	13% ▲	9,186	10,912	19% ▲	4,731	5,347	13% ▲	6,869	7,411	8% ▲
Green Product sales	11,065	13,014	18% ▲	3,508	4,580	31% ▲	2,605	3,091	19% ▲	4,952	5,343	8% ▲
Sales in mature geographies ¹⁾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

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

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

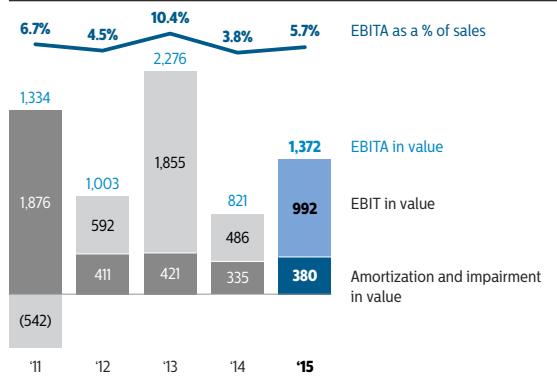


Philips Group
Comparable sales growth by geographic cluster¹⁾ in %
 2013 - 2015



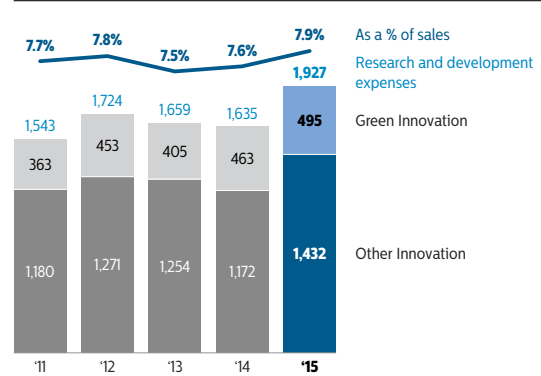
¹⁾ For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

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

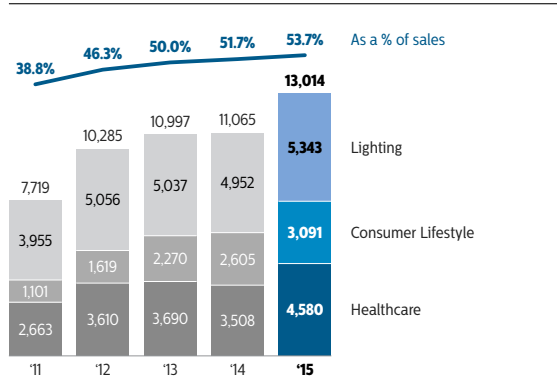


¹⁾ For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

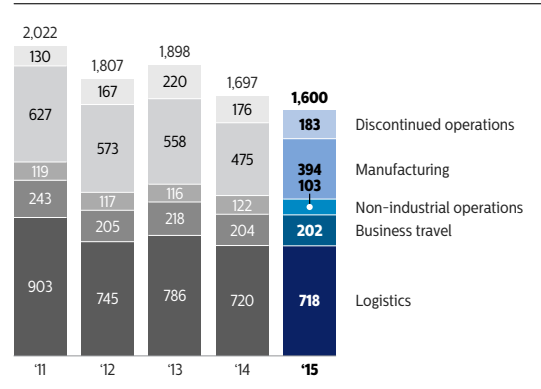
Philips Group
Research and development expenses in millions of EUR
 2011 - 2015



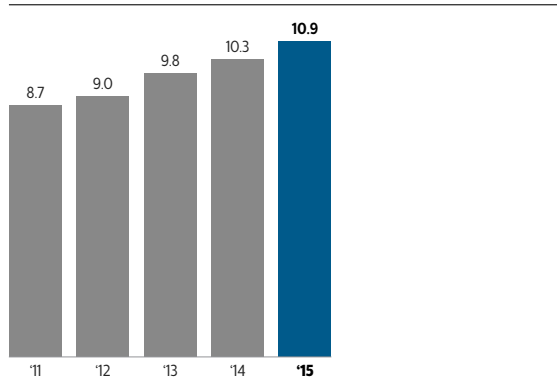
Philips Group
Green Product sales per sector in millions of EUR
 2011 - 2015



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

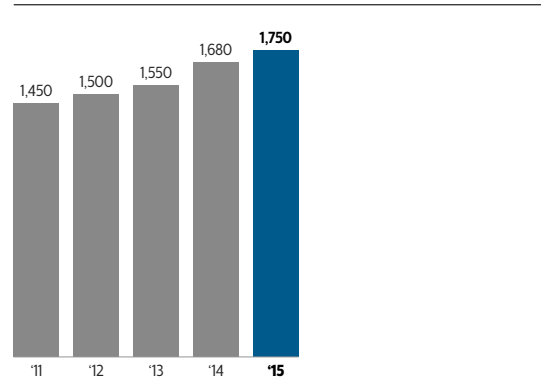


Philips Group
Brand value¹⁾ in billions of USD
 2011 - 2015



¹⁾ As measured by Interbrand

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



2 Message from the CEO



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

Dear stakeholder,

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

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

Two companies with a bright future

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

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

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

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

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

2015 a year of solid progress

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

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

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

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

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

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

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

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

Accelerate! driving performance improvement

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

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

Innovating for a healthier, more sustainable world

In 2015, our innovative solutions and services improved the lives of 2 billion people around the world. Underlining our strength in the creation and protection of intellectual property we filed 1,750 new patents during the year and were named the world's second-largest patent applicant for patents filed at the European Patent Office.

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

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

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

Strategic priorities for 2016

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

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

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

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

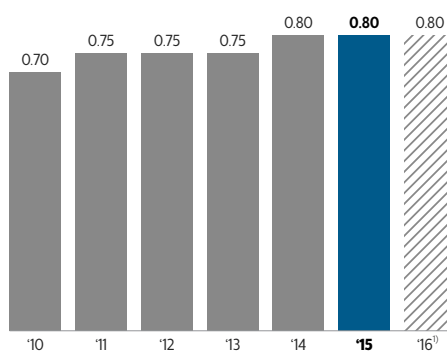
It is my deepest conviction that both Philips and Lighting stand to benefit from the separation, as it will enable greater focus on their respective attractive markets and allow them to capture higher growth and deliver higher profitability.

In conclusion

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

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

Philips Group
Dividend per common share in EUR
2010-2016



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

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

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

Frans van Houten
Chief Executive Officer

3 Philips in 2015 at a glance



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



February 17
Philips completes acquisition of Volcano



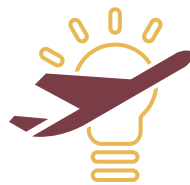
February 26
Philips becomes second-largest patent applicant at the European Patent Office



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



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



April 16
Philips provides Light as a Service to Schiphol Airport



May 7
AGM approves separation of Lighting business from Royal Philips



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



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



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



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



September 3
Philips introduces personal health programs at IFA in Berlin



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



September 10
Philips industry leader in 2015 Dow Jones Sustainability Index



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



October 9
Philips celebrates 90 years of design



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



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



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



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

4 Our strategic focus

4.1 Addressing global challenges

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

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

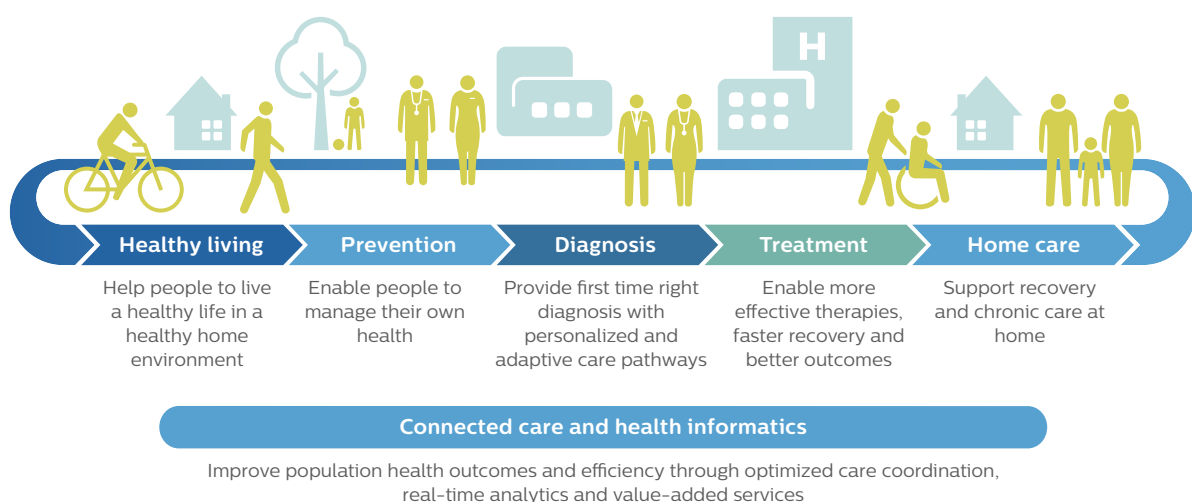
We see a growing need for better health and better care at lower cost

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

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

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

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



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



Healthy living and Prevention



Diagnosis and Treatment



Home care

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

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

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

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

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



More light



More energy-efficient light



Digital light

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

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



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

4.2 How we create value

Understanding and meeting people's needs

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

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

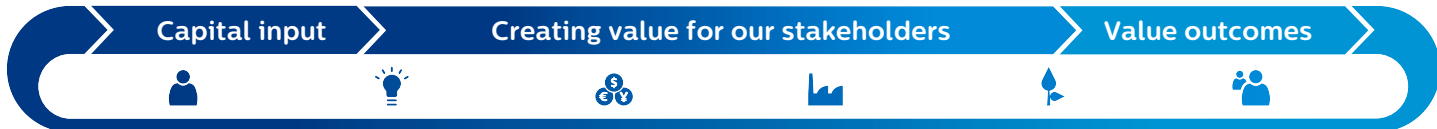
To measure the impact our solutions are having around the world, we have developed our independently verified Lives Improved model. We take a two-dimensional approach – social and ecological – to improving people's lives. Products and solutions that directly support the curative (care) or preventive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

Our business system

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

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

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



Human

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

Intellectual

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

Financial

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

Manufacturing

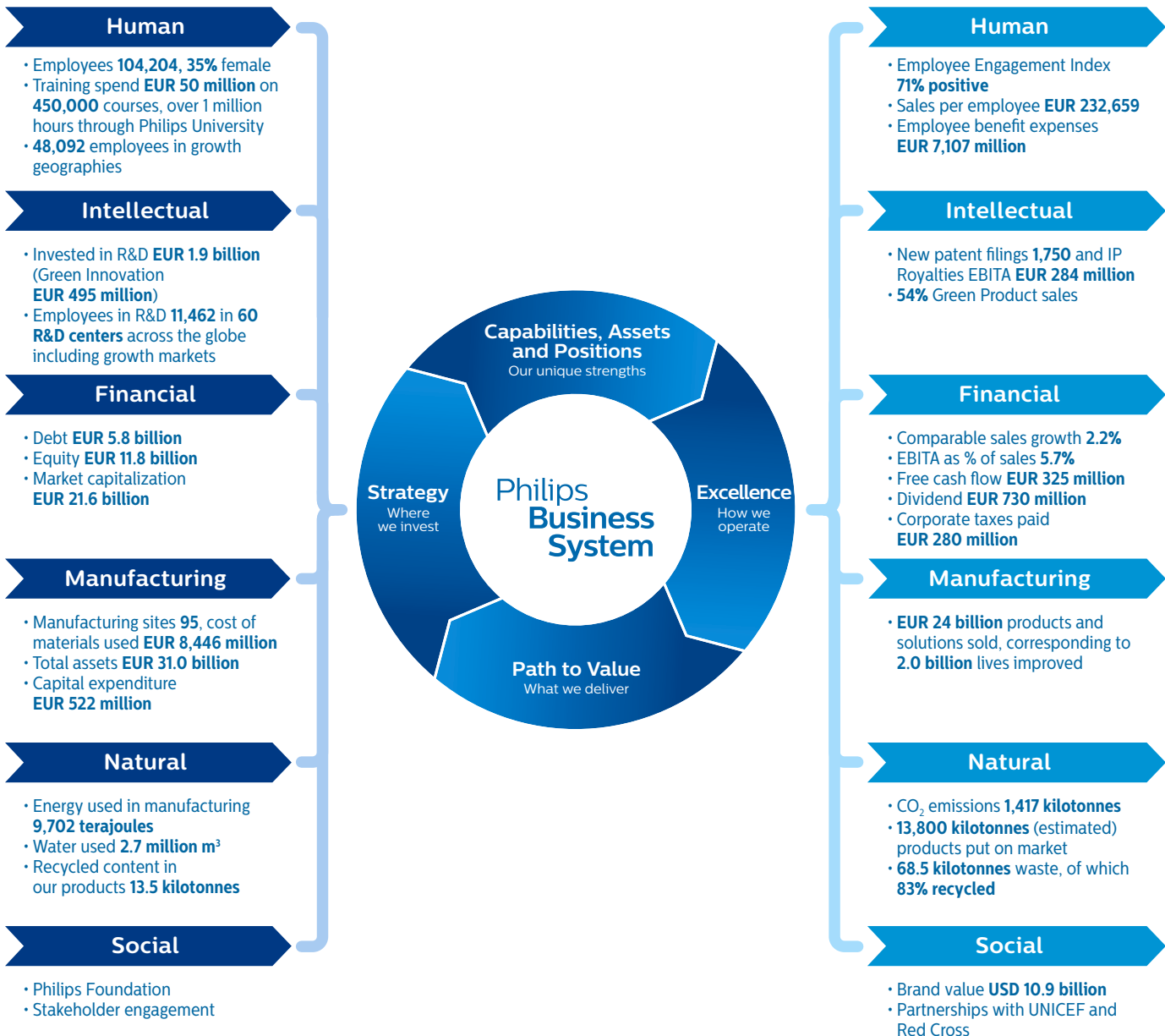
We apply Lean techniques to our manufacturing processes to produce high-quality products. We manage our supply chain in a responsible way.

Natural

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

Social

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



4.3 Accelerate! journey continues

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

The program has three main thrusts:

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

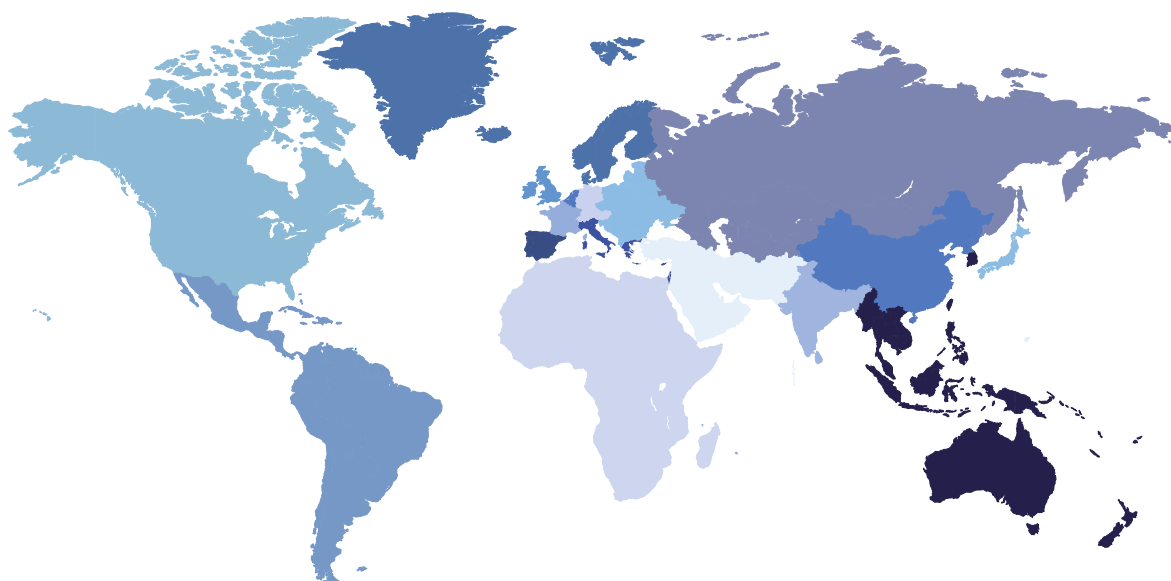
We are now in the fifth year of this transformation process, and our Path to Value is clearly mapped out:

Accelerate! roadmap



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

4.4 Lives improved



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

¹⁾ Source: Philips, double counts eliminated

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

³⁾ Source: IMF, CIA Factbook & Wikipedia

4.5 Global presence

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

4.6 Our strategy in action



Training tomorrow's lifesavers

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

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

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





Addressing the community's primary health needs

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

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

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

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

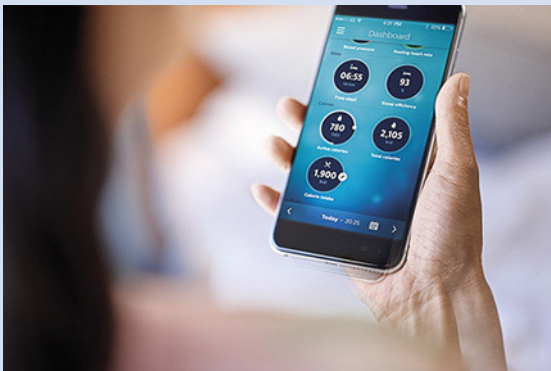




Change your health for life

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

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



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

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

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



Offering new parents peace of mind

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

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

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

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

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



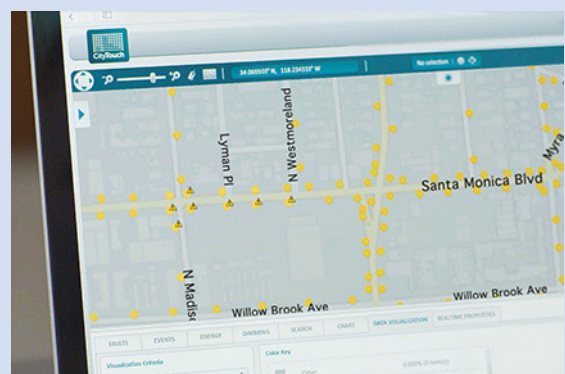
Connected lighting delivering value beyond illumination

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

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

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

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



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



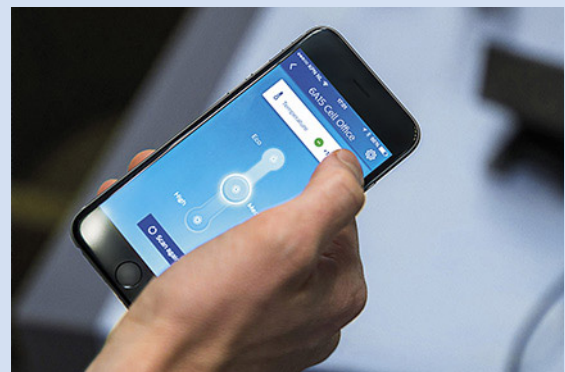
Creating a sustainable office environment

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

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

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

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





Lighting the steel heart

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

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

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

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



5 Group performance



“2015 saw Philips returning to growth and improving profitability in challenging macro-economic conditions as our Accelerate! program continued to deliver results.”

Abhijit Bhattacharya, CFO Royal Philips

5.1 Financial performance

Management summary

The year 2015

- Comparable sales rose 4.5% in our HealthTech portfolio, which combines our Healthcare and Consumer Lifestyle businesses. This illustrates the progress we are making in capturing opportunities in this large and growing market. Overall, comparable sales for the Group increased by 2% to EUR 24.2 billion.
- Our Healthcare business recorded 4% growth. More significantly, our order intake was up 5% for the year. This performance was supported by strong growth in North America and Western Europe – and a substantial rebound in China in Q4.
- Our Consumer Lifestyle business achieved a comparable sales increase of 6% year-on-year, driven by double-digit growth at Health & Wellness and high-single-digit growth at Personal Care.
- Lighting recorded another year of operational improvements, resulting in a substantial increase in profitability. We strongly improved the performance of our LED business, which grew by 25% on a comparable basis and significantly improved profitability. On a full-year basis LED now accounts for 43% of total Lighting sales. In the conventional lamps business we continued to gain market share in a declining market and improved profitability combined with a solid cash flow. The expected decline in conventional lighting led to a comparable sales decrease of 3% for our Lighting business overall.
- In line with our mission to improve people’s lives, we have embedded sustainability at the heart of our business processes, and Green Product sales increased to 54% of total revenues in 2015. In recognition of our sustainability achievements, Philips was named industry leader in the Industrial Conglomerates category in the 2015 Dow Jones Sustainability Index.

- EBITA totaled EUR 1.4 billion, compared to EUR 821 million a year earlier. Our three cost savings programs all delivered ahead of plan in 2015. We achieved EUR 290 million of gross savings in overhead costs, EUR 379 million of gross savings in procurement, and our End2End process improvement program delivered productivity savings of EUR 187 million.
- Net income amounted to EUR 659 million, a 60% increase from EUR 411 million in 2014.
- Free cash flow amounted to EUR 325 million in 2015, which was EUR 172 million lower than in 2014, mainly due to CRT litigation claims, higher outflows related to pension de-risking settlements, and net capital expenditures, partly offset by higher earnings.
- By the end of the year we had also completed 74% of the EUR 1.5 billion- share buy-back program.

Philips Group
Key data in millions of EUR unless otherwise stated
 2013 - 2015

	2013	2014	2015
Condensed statement of income			
Sales	21,990	21,391	24,244
EBITA ¹⁾	2,276	821	1,372
as a % of sales	10.4%	3.8%	5.7%
EBIT	1,855	486	992
as a % of sales	8.4%	2.3%	4.1%
Financial income and expenses	(330)	(301)	(369)
Income tax expense	(466)	(26)	(239)
Results of investments in associates	(25)	62	30
Income from continuing operations	1,034	221	414
Income from discontinued operations - net of income tax	138	190	245
Net income	1,172	411	659
Other indicators			
Net income attributable to shareholders per common share in EUR:			
basic	1.28	0.45	0.70
diluted	1.27	0.45	0.70
Net operating capital (NOC) ¹⁾	10,238	8,838	11,096
Free cash flow ¹⁾	82	497	325
Employees (FTEs)	116,082	113,678	112,959
continuing operations	105,637	105,365	104,204
discontinued operations	10,445	8,313	8,755

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

5.1.1 Sales

The composition of sales growth in percentage terms in 2015, compared to 2014, is presented in the table below.

Philips Group
Sales growth composition in %
 2015 versus 2014

	com-parable growth	currency effects	consoli-dation changes	nominal growth
Healthcare	3.8	11.7	3.3	18.8
Consumer Lifestyle	5.8	7.2	0.0	13.0
Lighting	(2.8)	8.5	2.2	7.9
Innovation, Group & Services	5.4	1.7	(12.2)	(5.1)
Philips Group	2.2	9.4	1.7	13.3

Group sales amounted to EUR 24,244 million in 2015, which represents 13% nominal growth compared to 2014.

Adjusted for a 9% positive currency effect and 2% consolidation impact, comparable sales were 2% above 2014.

Healthcare sales amounted to EUR 10,912 million, which was EUR 1,726 million higher than in 2014 or 4% higher on a comparable basis. Imaging Systems achieved high-single-digit growth, Healthcare Informatics, Solutions & Services posted mid-single-digit growth, Customer Services reported low-single-digit growth, while Patient Care & Monitoring Solutions was in line with 2014. From a geographical perspective, comparable sales in growth geographies showed high-single-digit growth, and mature geographies recorded low-single-digit growth.

Consumer Lifestyle reported sales of EUR 5,347 million, which was EUR 616 million higher than in 2014, or 6% higher on a comparable basis. Health & Wellness achieved double-digit growth, Personal Care reported high-single-digit growth, while Domestic Appliances was in line with 2014. From a geographical perspective, growth geographies achieved high-single-digit growth and mature geographies registered low-single-digit growth.

Lighting sales amounted to EUR 7,411 million, which was EUR 542 million higher than in 2014 and 3% lower on a comparable basis. Both Light Sources & Electronics and Consumer Luminaires recorded a mid-single-digit decline, while Professional Lighting Solutions remained flat year-on-year. From a geographical perspective, comparable sales showed a mid-single-digit decline in growth geographies and a low-single-digit decline in mature geographies.

IG&S reported sales of EUR 574 million, which was EUR 31 million lower than in 2014. A decline in revenues as a result of the OEM remote controls divestment, was partly offset by higher sales from emerging business areas.

5.1.2 Earnings

In 2015, Philips' gross margin was EUR 9,856 million, or 40.7% of sales, compared to EUR 8,206 million, or 38.4% of sales, in 2014. Gross margin in 2015 included EUR 176 million of restructuring and acquisition-related charges, whereas 2014 included EUR 249 million of restructuring and acquisition-related charges. 2015 also included charges of EUR 35 million related to the devaluation of the Argentine peso, a EUR 28 million currency revaluation of the provision for the Masimo litigation and EUR 3 million related to the separation of the Lighting business. Gross margin in 2014 included charges of EUR 366 million related to the provision for the Masimo litigation, EUR 68 million of impairment and other charges related to industrial assets at Lighting, EUR 46 million of mainly inventory write-downs related to the voluntary suspension of production at the Cleveland facility, and a past-service pension cost gain of EUR 17 million. Excluding these items, gross margin as a % of sales was broadly in line with 2014.

Selling expenses increased from EUR 5,124 million in 2014 to EUR 5,815 million in 2015. Selling expenses as a % of total sales remained in line with 2014 at 24.0%. 2015 included EUR 62 million of restructuring and acquisition-related charges, compared to EUR 128 million of restructuring charges in 2014. Selling expenses in 2015 included charges of EUR 31 million related to a legal provision and EUR 69 million related to the separation of the Lighting business, while 2014 included a past-service pension cost gain of EUR 20 million. Excluding these items, selling expenses as a % of sales were in line with 2014.

Research and development costs increased from EUR 1,635 million in 2014 to EUR 1,927 million in 2015. Research and development costs in 2015 included EUR 16 million of restructuring and acquisition-related charges, compared to EUR 34 million in 2014. Research and development costs 2014 also included a past-service pension gain of EUR 22 million and charges of EUR 3 million of mainly write-downs related to the voluntary suspension of production at the Cleveland facility. The year-on-year increase was mainly due to currency impact and higher spend at Healthcare and IG&S. As a percentage of sales, research and development costs increased from 7.6% in 2014 to 7.9% in 2015.

General and administrative expenses amounted to EUR 1,209 million, or 5.0% of sales, in 2015, compared to EUR 747 million, or 3.5% of sales, in 2014. 2015 included EUR 30 million of restructuring and acquisition related charges, compared to EUR 23 million in 2014. 2015 also included charges of EUR 345 million mainly related to settlements for pension de-risking and EUR 111 million related to the separation of the Lighting business, while 2014 included a past-service pension cost gain of EUR 8 million. Excluding these items, the year-on-year decrease was driven by reductions in all operating sectors.

The overview below shows sales, EBIT and EBITA according to the 2015 sector classifications.

Philips Group
Sales, EBIT and EBITA
 in millions of EUR unless otherwise stated
 2014 - 2015

	Sales	EBIT	%	EBITA ¹⁾	%
2015					
Healthcare	10,912	819	7.5%	1,024	9.4%
Consumer Lifestyle	5,347	621	11.6%	673	12.6%
Lighting	7,411	486	6.6%	594	8.0%
Innovation, Group & Services	574	(934)	-	(919)	-
Philips Group	24,244	992	4.1%	1,372	5.7%
2014					
Healthcare	9,186	456	5.0%	616	6.7%
Consumer Lifestyle	4,731	520	11.0%	573	12.1%
Lighting	6,869	185	2.7%	293	4.3%
Innovation, Group & Services	605	(675)	-	(661)	-
Philips Group	21,391	486	2.3%	821	3.8%

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

In 2015, EBIT increased by EUR 506 million year-on-year to EUR 992 million, or 4.1% of sales. Restructuring and acquisition-related charges amounted to EUR 283 million, which included the Volcano acquisition, compared to EUR 434 million in 2014. 2015 EBIT also included charges of EUR 345 million mainly related to settlements for pension de-risking, EUR 183 million relating to the separation of the Lighting business, EUR 35 million related to the devaluation of the Argentine peso, EUR 31 million relating to legal provisions, EUR 28 million related to the currency revaluation of the provision for the Masimo litigation, and a EUR 37 million gain related to the sale of real estate assets. EBIT in 2014 included charges of EUR 366 million related to the provision for the Masimo litigation, EUR 244 million related to the CRT antitrust litigation, EUR 68 million of impairment and other charges related to industrial assets at Lighting, EUR 49 million of mainly inventory write-downs related to the Cleveland facility, and a EUR 67 million past-service pension cost gain.

Amortization and impairment of intangibles, excluding software and capitalized product development costs, amounted to EUR 380 million in 2015, compared to EUR 332 million in 2014. In 2015, goodwill impairment charges amounted to nil, while 2014 included charges of EUR 3 million consisting of impairments on divested businesses in Healthcare and Lighting, see note 11, Goodwill.

EBITA increased from EUR 821 million, or 3.8% of sales, in 2014 to EUR 1,372 million, or 5.7% of sales, in 2015. EBITA showed a year-on-year increase at all sectors except IG&S.

Healthcare

EBITA amounted to EUR 1,024 million, or 9.4% of sales, compared to EUR 616 million, or 6.7% of sales, in 2014. EBITA in 2015 included restructuring and acquisition-related charges of EUR 168 million, which included the Volcano acquisition, compared to EUR 70 million in 2014. 2015 EBITA also included charges of EUR 28 million related to the currency revaluation of the provision for the Masimo litigation, EUR 8 million related to the devaluation of the Argentine peso, and a EUR 31 million legal provision. EBITA in 2014 included charges of EUR 366 million related to the provision for the Masimo litigation, charges of EUR 49 million of mainly inventory write-downs related to Cleveland, and a EUR 16 million past-service pension cost gain. Excluding these items, the increase was largely driven by higher volumes, partly offset by an increase in Quality & Regulatory spend and higher planned expenditure for growth initiatives.

Consumer Lifestyle

EBITA amounted to EUR 673 million, or 12.6% of sales, a year-on-year increase of EUR 100 million. 2015 EBITA included restructuring and acquisition-related charges of EUR 36 million and charges related to the devaluation of the Argentine peso of EUR 13 million. 2014 EBITA included restructuring and acquisition-related charges of EUR 9 million and a EUR 11 million past-service pension cost gain. The year-on-year increase was largely driven by cost productivity, higher volumes, and product mix, partly offset by higher restructuring and acquisition-related charges.

Lighting

EBITA amounted to EUR 594 million, or 8.0% of sales, a year-on-year increase of EUR 301 million. 2015 EBITA included EUR 99 million of restructuring and acquisition-related charges and EUR 14 million of charges related to the devaluation of the Argentine peso. 2014 EBITA included EUR 245 million of restructuring and acquisition-related charges, EUR 68 million of impairment and other charges related to industrial assets, and a EUR 13 million past-service pension cost gain. The increase in EBITA was largely driven by cost productivity, improved LED margins and lower restructuring and acquisition-related charges.

Innovation, Group & Services

EBITA amounted to a net cost of EUR 919 million, compared to EUR 661 million in 2014. EBITA in 2015 included a EUR 20 million net release of restructuring charges, compared to EUR 113 million restructuring charges in 2014. EBITA in 2015 also included charges of EUR 183 million related to the separation of the Lighting business, EUR 345 million mainly related to settlements for pension de-risking, and a EUR 37 million gain related to the sale of real estate assets. EBITA in Q4 2014 also included EUR 244 million of charges related to the CRT antitrust litigation and a EUR 27 million past-service pension cost gain. Excluding these items, the decrease in EBITA was largely driven by higher Group and Regional Costs, mainly related to information security

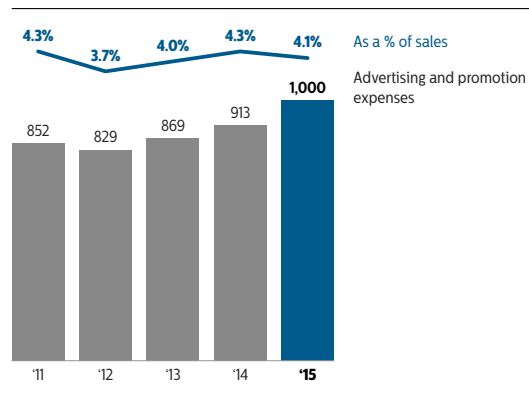
and Quality & Regulatory spend, investments in emerging business areas, and lower licensing revenue in IP Royalties.

5.1.3 Advertising and promotion

Philips' total advertising and promotion expenses were EUR 1,000 million in 2015, an increase of 10% compared to 2014. The increase was mainly due to investments in key growth geographies, such as China and India, and mature geographies such as the United States and Japan. The total advertising and promotion investment as a percentage of sales was 4.1% in 2015, compared to 4.3% in 2014.

Philips brand value increased by 6% to over USD 10.9 billion as measured by Interbrand. In the 2015 listing, Philips is ranked the 47th most valuable brand in the world.

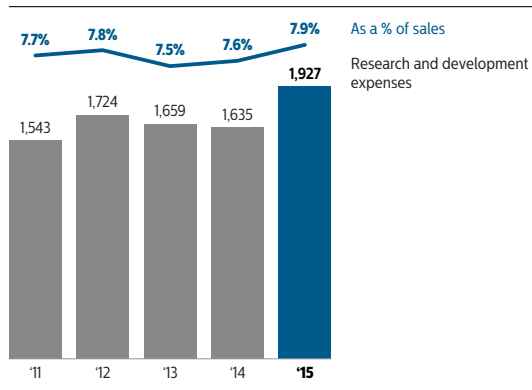
Philips Group
Advertising and promotion expenses in millions of EUR
2011 - 2015



5.1.4 Research and development

Research and development costs increased from EUR 1,635 million in 2014 to EUR 1,927 million in 2015. 2015 included EUR 16 million of restructuring and acquisition-related charges, compared to EUR 34 million in 2014. 2014 also included a past-service pension gain of EUR 22 million and charges of EUR 3 million of mainly inventory write-downs related to Cleveland. The year-on-year increase was mainly due to currency impact and higher spend at Healthcare and IG&S. As a percentage of sales, research and development costs increased from 7.6% in 2014 to 7.9%.

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



Philips Group
Research and development expenses in millions of EUR
 2013 - 2015

	2013	2014	2015
Healthcare	810	822	1,073
Consumer Lifestyle	268	263	301
Lighting	313	330	315
Innovation, Group & Services	268	220	238
Philips Group	1,659	1,635	1,927

5.1.5 Pensions

In 2015, the total costs of post-employment benefits amounted to EUR 559 million for defined benefit plans and EUR 293 million for defined contribution plans, compared to EUR 241 million and EUR 144 million respectively in 2014. Excluding 2015 pension de-risking cost and the 2014 past service cost gain, defined benefit costs decreased by EUR 92 million compared to 2014.

The above costs are reported in Operating expenses except for the net interest cost component which is reported in Financial income and expense. The net interest cost for defined benefit plans was EUR 72 million in 2015 (2014: EUR 59 million).

2015 included settlement costs of EUR 329 million mainly related to the settlement of the UK plan, results of other de-risking actions in the UK prior to the settlement and the settlement of parts of the US pension plan. Past-service costs of EUR 14 million were recognized related to de-risking actions taken in the UK prior to the settlement of the plan, including a past-service cost for GMP Equalization in the same UK plan. Some smaller plan changes in other countries resulted in a small past service cost gain. Due to the above, and the change to defined contribution accounting for the Dutch pension plan, which is explained in the pension note, the Company's Defined Benefit Obligation in 2015 decreased from EUR 27 billion to EUR 4.5 billion at the end of 2015.

2014 included past-service cost gains in the Netherlands of EUR 67 million, which were mainly related to the mandatory plan change in the Netherlands, where a salary cap of EUR 100,000 must be applied to the pension salary with effect from January 1, 2015. This change lowers the Company's Defined Benefit Obligation, which is recognized as a past-service cost gain. Compensatory measures are given in wages for employees impacted.

The overall funded status in 2015 decreased as the surpluses of the Netherlands and the UK plan are no longer included due to their settlements in 2015. The pension deficits recognized in our balance sheet decreased mainly due to the above mentioned de-risking actions in the US. The surpluses of the Netherlands and the UK plan were not recognized in the balance sheet due to the asset ceiling test and therefore their settlement does not impact the pension balances as per the Company's accounting policy.

For further information, refer to note 20, Post-employment benefits.

5.1.6 Restructuring and impairment charges

In 2015, EBIT included net charges totaling EUR 171 million for restructuring. In addition to the annual goodwill-impairment tests for Philips, trigger-based impairment tests were performed during the year, resulting in a goodwill impairment of nil.

2014 included EUR 414 million of restructuring charges and a goodwill impairment of EUR 2 million at Lighting and EUR 1 million at Healthcare.

For further information on sensitivity analysis, please refer to note 11, Goodwill.

In 2015, the most significant restructuring projects related to Lighting and Healthcare and were driven by industrial footprint rationalization and the overhead cost reduction program. Restructuring projects at Lighting centered on the declining conventional lamps industry and Professional Lighting Solutions, the largest of which took place in France and Indonesia. Restructuring projects at Healthcare mainly took place in the US and France. Consumer Lifestyle restructuring projects were mainly related to Italy.

In 2014, the most significant restructuring projects related to Lighting and IG&S and were driven by industrial footprint rationalization and the Accelerate! transformation program. Restructuring projects at Lighting centered on Light Sources & Electronics and Professional Lighting Solutions, the largest of which took place in Belgium, the Netherlands and France. Innovation, Group & Services restructuring projects were mainly related to IT and group and country overheads and centered primarily on the Netherlands, the US and Belgium. Restructuring projects at

Healthcare mainly took place in the US and the Netherlands. Consumer Lifestyle restructuring projects were mainly in the Netherlands.

For further information on restructuring, refer to note 19, Provisions.

Philips Group
Restructuring and related charges in millions of EUR
2013 - 2015

	2013	2014	2015
Restructuring and related charges per sector:			
Healthcare	(6)	68	61
Consumer Lifestyle	10	8	37
Lighting	77	225	93
Innovation, Group & Services	3	113	(20)
Continuing operations	84	414	171
Discontinued operations	33	18	5
Cost breakdown of restructuring and related charges:			
Personnel lay-off costs	95	354	194
Release of provision	(62)	(36)	(88)
Restructuring-related asset impairment	25	57	46
Other restructuring-related costs	26	39	19
Continuing operations	84	414	171
Discontinued operations	33	18	5

5.17 Financial income and expenses

A breakdown of Financial income and expenses is presented in the table below.

Philips Group
Financial income and expenses in millions of EUR
2013 - 2015

	2013	2014	2015
Interest expense (net)	(269)	(251)	(302)
Sale of securities	-	60	20
Impairments	(10)	(17)	(46)
Other	(51)	(93)	(41)
Financial income and expenses	(330)	(301)	(369)

Net interest expense in 2015 was EUR 51 million higher than in 2014, mainly due to a weaker euro against the US dollar in relation to interest expenses on USD bonds.

The gain from the sale of stakes in 2015 amounted to EUR 20 million, mainly from Assembléon Technologies B.V., Silicon & Software Systems and other equity interest.

Impairments amounted to EUR 46 million mainly due to valuation allowances.

Other financial expense amounted to EUR 41 million in 2015, primarily consisting of interest expense related to the jury verdict in the Masimo litigation, and accretion expense associated with other discounted provisions.

For further information, refer to note 7, Financial income and expenses.

5.18 Income taxes

Income taxes amounted to EUR 239 million, compared to EUR 26 million in 2014. The effective income tax rate in 2015 was 38.4%, compared to 14.1% in 2014. The increase was mainly due to a significant change in the geographical mix of actual profits and the absence of various items that reduced the charge in the prior year, in particular favorable tax regulations relating to R&D investments in 2014.

For 2016, we expect our effective tax rate to be in the 30% to 35% range. However, the actual rate will depend on the geographical mix of actual profits.

For further information, refer to note 8, Income taxes.

5.19 Results of investments in associates

Philips Group
Results of investments in associates in millions of EUR
2013 - 2015

	2013	2014	2015
Company's participation in income	5	30	10
Investment impairment and other items	(30)	-	19
Dilution gain	-	32	1
Results of Investments in associates	(25)	62	30

Results related to investments in associates decreased from a gain of EUR 62 million in 2014 to a gain of EUR 30 million in 2015. 2015 included proceeds from the sale of Assembléon Technologies B.V., while 2014 included a EUR 32 million dilution gain related to Philips' stake in Corindus Vascular Robotics.

The Company's participation in income decreased from EUR 30 million in 2014 to EUR 10 million in 2015. The gain in 2015 was mainly attributable to the results of Philips Medical Capital.

For further information, refer to note 5, Interests in entities.

5.1.10 Non-controlling interests

Net income attributable to non-controlling interests amounted to a gain of EUR 14 million in 2015, compared to a loss of EUR 4 million in 2014.

5.1.11 Discontinued operations

Discontinued operations consist primarily of the combined businesses of Lumileds and Automotive, the Audio, Video, Multimedia & Accessories business, and the Television business. The results related to these businesses are reported under Discontinued operations in the Consolidated statements of income and Consolidated statements of cash flows.

In 2014, Philips announced the start of the process to combine the Lumileds and Automotive Lighting businesses into a stand-alone company and explore strategic options to attract capital from third-party investors for this combined business.

As announced on January 22, 2016, Philips and GO Scale Capital have withdrawn their filing with the Committee of Foreign Investment in the United States (CFIUS) and terminated the agreement pursuant to which the consortium led by GO Scale Capital would acquire an 80.1% interest in the combined businesses of Lumileds and Automotive. Despite the parties' extensive efforts to mitigate CFIUS' concern, regulatory clearance has not been granted for this particular transaction. Philips is actively discussing the sale of the business with potential buyers and expects a transaction to be completed in the year 2016.

Income from discontinued operations increased by EUR 55 million to EUR 245 million in 2015. The year-on-year increase was mainly due to the positive impact from the treatment of depreciation and amortization of assets held for sale. Income from discontinued operations mainly consisted of net income of EUR 246 million related to the combined businesses of Lumileds and Automotive and a net loss of EUR 1 million, mainly related to the Audio, Video, Multimedia & Accessories and Television business.

For further information, refer to note 3, Discontinued operations and other assets classified as held for sale.

5.1.12 Net income

Net income increased from EUR 411 million in 2014 to EUR 659 million in 2015. The increase was largely due to higher EBIT of EUR 506 million and net income from discontinued operations of EUR 55 million, partly offset by higher income tax charges of EUR 213 million and lower results from investments in associates of EUR 32 million.

Basic earnings per common share from net income attributable to shareholders increased from EUR 0.45 per common share in 2014 to EUR 0.70 per common share in 2015.

5.1.13 Acquisitions and divestments

Acquisitions

In 2015, Philips completed four acquisitions, the largest were Volcano Corporation, an image-guided therapy company based in the United States, and Blue Jay Consulting, a leading provider of hospital emergency room consulting services. Acquisitions in 2015 and prior years led to post-merger integration charges of EUR 107 million in Healthcare and EUR 5 million in Lighting.

In 2014, Philips acquired Unisensor, a Danish healthcare company, and a 51% interest in General Lighting Company (GLC) based in the Kingdom of Saudi Arabia.

Philips also purchased some minor magnetic resonance imaging (MRI) activities from Hologic, a US healthcare company. Acquisitions in 2014 and prior years led to post-merger integration charges of EUR 1 million in Healthcare, EUR 1 million in Consumer Lifestyle and EUR 19 million in Lighting.

In 2013, there were four minor acquisitions. Acquisitions in 2013 and prior years led to post-merger integration charges of EUR 6 million in Healthcare, EUR 4 million in Consumer Lifestyle EUR, and 6 million in Lighting.

Divestments

In 2015, Philips completed seven divestments, which include, the sale of Assembléon Holding B.V., OEM Remote Controls, Axsun Technologies LLC, and several small businesses within Healthcare and Lighting.

In 2014, Philips completed the divestment of its Lifestyle Entertainment activities to Gibson Brands Inc. Philips also completed two other divestments of business activities which related to Healthcare and Lighting activities.

In 2013, Philips completed several divestments of business activities, mainly related to certain Healthcare activities.

For details, please refer to note 4, Acquisitions and divestments.

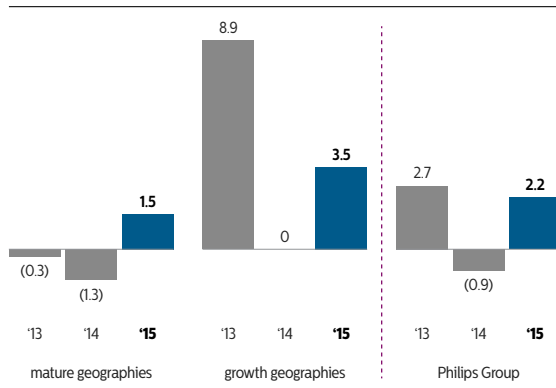
5.1.14 Performance by geographic cluster

In 2015, sales increased 13% nominally, largely due to favorable foreign exchange impacts, and 2% on a comparable basis, driven by Healthcare and Consumer Lifestyle.

Sales in mature geographies were EUR 1,832 million higher than in 2014, or 1% higher on a comparable basis. Sales in Western Europe were 1% higher than in 2014, with growth at Healthcare and Consumer Lifestyle partly offset by a decline at Lighting. Sales in North America increased by EUR 1,417 million, or 1% on a comparable basis. Comparable sales in other mature geographies showed a 3% increase, with growth at Healthcare and Consumer Lifestyle, while Lighting was in line with 2014.

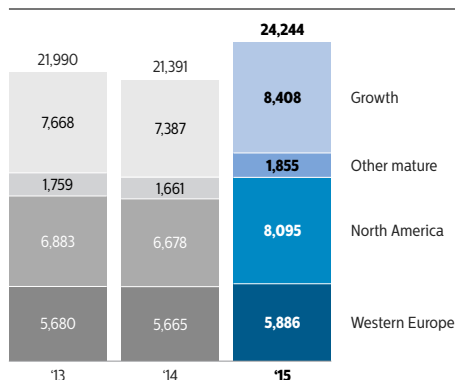
In growth geographies, sales increased by EUR 1,021 million, or 4% on a comparable basis, with high-single-digit growth at Consumer Lifestyle and Healthcare, partly offset by a mid-single digit decline at Lighting. Double-digit growth in Central & Eastern Europe and high-single-digit growth in Asia Pacific and India were partly offset by flat growth year-on-year in China.

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



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

Philips Group
Sales by geographic cluster in millions of EUR
2013 - 2015

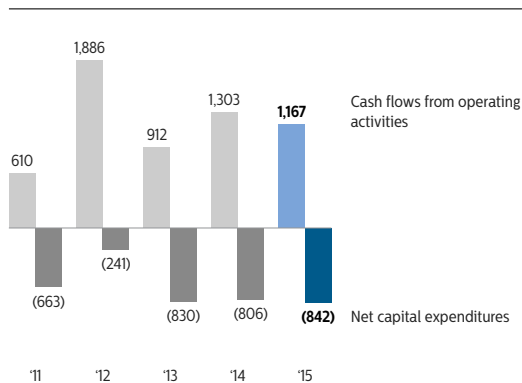


5.1.15 Cash flows provided by continuing operations

Cash flows from operating activities

Net cash flows from operating activities amounted to EUR 1,167 million in 2015, which was EUR 136 million lower than in 2014, mainly due to pension settlement costs and CRT litigation claims, partly offset by higher earnings.

Philips Group
Cash flows from operating activities and net capital expenditures in millions of EUR
2011 - 2015



Condensed consolidated statements of cash flows for the years ended December 31, 2013, 2014 and 2015 are presented below:

Philips Group
Condensed consolidated cash flow statements¹⁾
in millions of EUR
2013 - 2015

	2013	2014	2015
Net income	1,172	411	659
Adjustments to reconcile net income to net cash provided by operating activities	(260)	892	508
Net cash provided by operating activities	912	1,303	1,167
Net cash used for investing activities	(862)	(984)	(1,941)
Cash flows before financing activities²⁾	50	319	(774)
Net cash used for financing activities	(1,241)	(1,189)	508
Cash used for continuing operations	(1,191)	(870)	(266)
Net cash (used for) provided by discontinued operations	(115)	193	79
Effect of changes in exchange rates on cash and cash equivalents	(63)	85	80
Total change in cash and cash equivalents	(1,369)	(592)	(107)
Cash and cash equivalents at the beginning of year	3,834	2,465	1,873
Cash and cash equivalents at the end of year	2,465	1,873	1,766

¹⁾ Please refer to section 12.7, Consolidated statements of cash flows, of this Annual Report

²⁾ Please refer to chapter 15, Reconciliation of non-GAAP information, of this Annual Report

Cash flows from investing activities

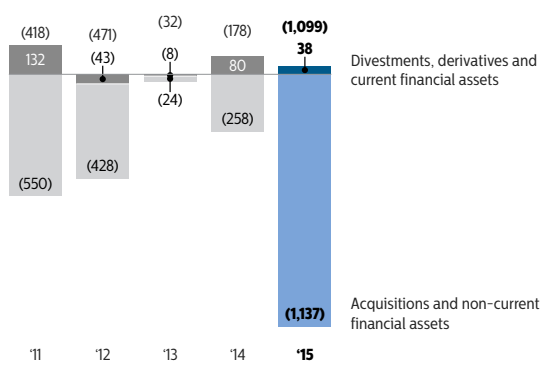
In 2015, cash flows from investing activities resulted in a net outflow of EUR 1,941 million. This was attributable to EUR 1,137 million used for acquisitions of businesses and non-current financial assets, EUR 842 million cash used for net capital expenditures, and EUR 72 million used for derivatives and current financial assets, partly offset by EUR 110 million of net proceeds from non-current financial assets and divestments.

In 2014, cash flows from investing activities resulted in a net outflow of EUR 984 million. This was attributable to EUR 806 million cash used for net capital expenditures, EUR 258 million used for acquisitions of businesses and non-current financial assets, and EUR 7 million used for derivatives and current financial assets, partly offset by EUR 87 million of net proceeds from non-current financial assets and divestments.

Net capital expenditures

Net capital expenditures amounted to a cash outflow of EUR 842 million, compared to an outflow of EUR 806 million in 2014. The year-on-year increase was mainly due to higher investments at Healthcare and Lighting.

Philips Group
Cash flows from acquisitions and financial assets, divestments and derivatives in millions of EUR
 2011 – 2015



Acquisitions and non-current financial assets

The net cash impact of acquisitions of businesses and non-current financial assets in 2015 was a total of EUR 1,137 million. There was a EUR 1,116 million outflow for acquisitions of businesses, mainly related to the acquisition of Volcano and a EUR 21 million outflow for non-current financial assets.

The net cash impact of acquisitions of businesses and non-current financial assets in 2014, was a total of EUR 258 million. There was a EUR 177 million outflow for acquisitions of businesses mainly related to the acquisition of a 51% interest in the General Lighting Company (GLC) in the Kingdom of Saudi Arabia, and a EUR 81 million outflow for non-current financial assets, mainly in the form of a EUR 60 million loan to TPV Technology Limited.

Divestments, derivatives and current financial assets

Cash proceeds of EUR 110 million were received, mainly from the divestment of the Assembléon Holding B.V., the OEM remote control business and Axsun Technologies LLC. Cash flows from derivatives and current financial assets led to a net cash outflow of EUR 72 million.

In 2014, cash proceeds of EUR 87 million were received, mainly from the divestment of the Shakespeare business and the sale of shares in Neusoft. Cash flows from derivatives and current financial assets led to a net cash outflow of EUR 7 million.

Cash flows from financing activities

Net cash provided by financing activities in 2015 was EUR 508 million. Philips' shareholders were given EUR 730 million in the form of a dividend, of which the cash portion of the dividend amounted to EUR 298 million. The net impact of changes in debt was an increase of EUR 1,231 million. Additionally, net cash outflows for share buy-back and share delivery totaled EUR 425 million.

Net cash used for financing activities in 2014 was EUR 1,189 million. 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. The net impact of changes in debt was a decrease of EUR 301 million. Additionally, net cash outflows for share buy-back and share delivery totaled EUR 596 million.

5.1.16 Cash flows from discontinued operations

In 2015, cash inflow from discontinued operations as reported within operating activities amounted to EUR 79 million, mainly attributable to a cash inflow of EUR 115 million from the Automotive and Lumileds businesses, offset by a cash outflow from the Audio, Video, Multimedia & Accessories business of EUR 37 million.

In 2014, cash inflow from discontinued operations amounted to EUR 193 million. Cash flows from the businesses reported in operating activities amounted to a EUR 105 million cash inflow, mainly attributable to a cash inflow from the Automotive and Lumileds businesses of EUR 240 million, offset by cash outflow from the Audio, Video, Multimedia & Accessories business of EUR 107 million. The cash consideration received for the sale of Audio, Video, Multimedia & Accessories business amounted to EUR 88 million and was reported as cash flow from investing activities.

5.1.17 Financing

Condensed consolidated balance sheets for the years 2013, 2014 and 2015 are presented below:

Philips Group
Condensed consolidated balance sheet¹⁾ in millions of EUR
 2013 – 2015

	2013	2014	2015
Intangible assets	9,766	10,526	12,216
Property, plant and equipment	2,780	2,095	2,322
Inventories	3,240	3,314	3,463
Receivables	4,892	5,040	5,287
Assets held for sale	507	1,613	1,809
Other assets	2,909	3,891	4,113
Payables	(5,435)	(5,293)	(5,652)
Provisions	(2,554)	(3,445)	(3,225)
Liabilities directly associated with assets held for sale	(348)	(349)	(407)
Other liabilities	(3,094)	(4,193)	(4,152)
Net asset employed	12,663	13,199	15,774
Cash and cash equivalents	2,465	1,873	1,766
Debt	(3,901)	(4,104)	(5,760)
Net debt	(1,436)	(2,231)	(3,994)
Non-controlling interests	(13)	(101)	(118)
Shareholders' equity	(11,214)	(10,867)	(11,662)
Financing	(12,663)	(13,199)	(15,774)

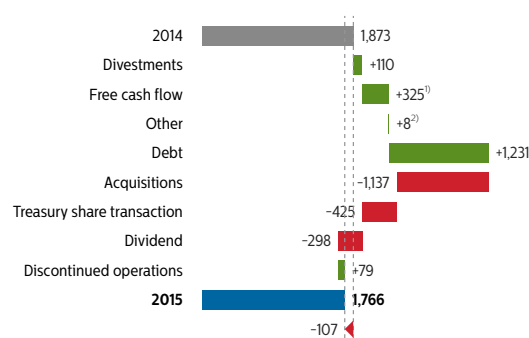
¹⁾ Please refer to section 12.6, Consolidated balance sheets, of this Annual Report

Philips expects the financing in 2016 to be broadly in line with 2015.

5.1.18 Cash and cash equivalents

In 2015, cash and cash equivalents decreased by EUR 107 million to EUR 1,766 million at year-end. The decrease was mainly attributable to an outflow of EUR 1,137 on acquisitions mainly related to Volcano, cash outflows for treasury share transactions of EUR 425 million, and a cash dividend payout of EUR 298 million. This was partly offset by EUR 1,231 million from increases in debt, EUR 325 million free cash flow and EUR 110 million related to divestments.

Philips Group
Cash balance movements in millions of EUR
2015



¹⁾ Please refer to chapter 15, Reconciliation of non-GAAP information, of this Annual Report

²⁾ Includes cash flow for derivatives and currency effect

5.1.19 Debt position

Total debt outstanding at the end of 2015 was EUR 5,760 million, compared with EUR 4,104 million at the end of 2014.

Philips Group
Changes in debt in millions of EUR
2013 - 2015

	2013	2014	2015
New borrowings	(64)	(69)	(1,335)
Repayments	471	370	104
Currency effects and consolidation changes	226	(504)	(425)
Changes in debt	633	(203)	(1,656)

In 2015, total debt increased by EUR 1,656 million. New borrowings of EUR 1,335 million were mainly due to a short-term bridging loan with low interest rate used for the Volcano acquisition, while repayments amounted to EUR 104 million. Other changes resulting from consolidation and currency effects led to an increase of EUR 425 million.

In 2014, total debt increased by EUR 203 million. New borrowings of EUR 69 million consisted mainly of replacements to lease contracts. Repayment of EUR 370 million included a EUR 250 million repayment of a five-year loan. Other changes resulting from consolidation and currency effects led to an increase of EUR 504 million.

At the end of 2015, long-term debt as a proportion of the total debt stood at 71% with an average remaining term of 10.7 years, compared to 90% and 11.6 years at the end of 2014.

For further information, please refer to note 18, Debt.

5.1.20 Shareholders' equity

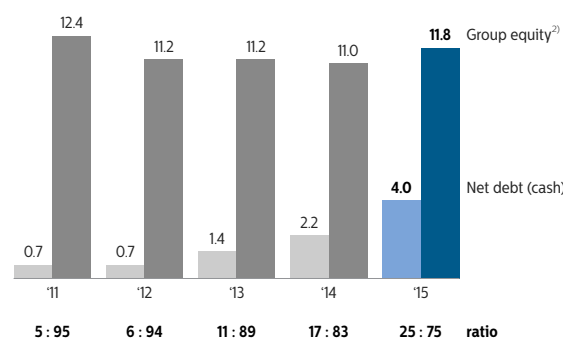
Shareholders' equity increased by EUR 795 million in 2015 to EUR 11,662 million at December 31, 2015. The increase was mainly a result of EUR 645 million net income and EUR 791 million of other comprehensive income, partially offset by EUR 507 million related to the purchase of shares for the share buy-back program. The dividend payment to shareholders in 2015 reduced equity by EUR 298 million including tax and service charges, while the delivery of treasury shares increased equity by EUR 82 million and net share-based compensation plans increased equity by EUR 82 million.

The number of outstanding common shares of Royal Philips at December 31, 2015 was 917 million (2014: 914 million). At the end of 2015, the Company held 11.8 million shares in treasury to cover the future delivery of shares (2014: 17.1 million shares). This was in connection with the 39.1 million rights outstanding at the end of 2015 (2014: 40.8 million rights) under the Company's long-term incentive plans. At the end of 2015, the Company held 2.2 million shares for cancellation (2014: 3.3 million shares).

5.1.21 Net debt to group equity

Philips ended 2015 in a net debt position (total debt less cash and cash equivalents) of EUR 3,994 million, compared to a net debt position of EUR 2,231 million at the end of 2014.

Philips Group
Net debt to group equity¹⁾ in billions of EUR
2011 - 2015



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

²⁾ Shareholders' equity and non-controlling interests

5.1.22 Liquidity position

Including the Company's cash position (cash and cash equivalents), as well as its EUR 1.8 billion committed revolving credit facility, the Company had access to available liquidity of EUR 3,566 million vs. Gross Debt (including short and long-term) of EUR 5,760 million as of December 31, 2015.

Including the Company's cash position (cash and cash equivalents), as well as its EUR 1.8 billion committed revolving credit facility, the Company had access to available liquidity of EUR 3,673 million vs. Gross Debt (including short and long-term) of EUR 4,104 million as of December 31, 2014.

Philips Group
Liquidity position in millions of EUR
2013 - 2015

	2013	2014	2015
Cash and cash equivalents	2,465	1,873	1,766
Committed revolving credit facility/CP program/Bilateral loan	1,800	1,800	1,800
Liquidity	4,265	3,673	3,566
Available-for-sale financial assets at fair value	65	75	75
Short-term debt	(592)	(392)	(1,665)
Long-term debt	(3,309)	(3,712)	(4,095)
Net available liquidity resources	429	(356)	(2,119)

Philips has a EUR 1.8 billion committed revolving credit facility that can be used for general group purposes and as a backstop of its commercial paper program and will mature in February 2018. The commercial paper program amounts to USD 2.5 billion, under which Philips can issue commercial paper up to 364 days in tenor, both in the US and in Europe, in any major freely convertible currency. There is a panel of banks, in Europe and in the US, which service the program. The interest is at market rates prevailing at the time of issuance of the commercial paper. There is no collateral requirement in the commercial paper program. Also, there are no limitations on Philips' use of funds from the program. As at December 31, 2015, Philips did not have any loans outstanding under these facilities.

Philips' existing long-term debt is rated Baa1 (with stable outlook) by Moody's and BBB+ (with stable outlook) by Standard & Poor's. Our net debt position is managed in such a way that we expect to retain a strong investment grade credit rating. Furthermore, the Group's aim when managing the net debt position is dividend stability and a pay-out ratio of 40% to 50% of continuing net income. Following the intended separation of the Lighting business, the dividend pay-out ratio with respect to future years could be subject to change. The Company's outstanding long-term debt and credit facilities do not contain financial covenants or cross-acceleration provisions that are based on adverse changes in ratings or on material adverse change.

As at December 31, 2015, Philips had total cash and cash equivalents of EUR 1,766 million. Philips pools cash from subsidiaries to the extent legally and economically feasible. Cash not pooled remains available for local operational or investment needs.

Philips believes its current liquidity and direct access to capital markets is sufficient to meet its present working capital requirements.

5.1.23 Cash obligations

Contractual cash obligations

Presented below is a summary of the Group's contractual cash obligations and commitments at December 31, 2015.

Philips Group
Contractual cash obligations¹⁾ in millions of EUR
2015

	total	Payments due by period			
		less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt ²⁾	4,034	84	1,152	1	2,797
Finance lease obligations	242	72	92	36	42
Short-term debt	1,515	1,515	-	-	-
Operating leases	952	243	280	162	267
Derivative liabilities	995	253	383	156	203
Interest on debt ³⁾	2,767	221	438	334	1,774
Purchase obligations ⁴⁾	175	68	69	30	8
Trade and other payables	2,673	2,673	-	-	-
Contractual cash obligations	13,353	5,129	2,414	719	5,091

¹⁾ Obligations in this table are undiscounted

²⁾ Long-term debt includes short-term portion of long-term debt and excludes finance lease obligations

³⁾ Approximately 32% of the debt bears interest at a floating rate. The majority of the interest payments on variable interest rate loans in the table above reflect market forward interest rates at the period end and these amounts may change as the market interest rate changes

⁴⁾ Philips has commitments related to the ordinary course of business which in general relate to contracts and purchase order commitments for less than 12 months. In the table, only the commitments for multiple years are presented, including their short-term portion

Philips has no material commitments for capital expenditures.

Additionally, Philips has a number of commercial agreements, such as supply agreements, which provide that certain penalties may be charged to the Company if it does not fulfill its commitments.

Certain Philips suppliers factor their trade receivables from Philips with third parties through supplier finance arrangements. At December 31, 2015 approximately EUR 395 million of the Philips accounts payable were known to have been sold onward under such arrangements whereby Philips confirms invoices.

Philips continues to recognize these liabilities as trade payables and will settle the liabilities in line with the original payment terms of the related invoices.

Other cash commitments

The Company and its subsidiaries sponsor post-employment benefit plans in many countries in accordance with legal requirements, customs and the local situation in the countries involved. For a discussion of the plans and expected cash outflows, please refer to note 20, Post-employment benefits.

The Company had EUR 297 million restructuring-related provisions by the end of 2015, of which EUR 228 million is expected to result in cash outflows in 2016. Refer to note 19, Provisions for details of restructuring provisions.

A proposal will be submitted to the upcoming Annual General Meeting of Shareholders to declare a dividend of EUR 0.80 per common share (up to EUR 740 million), in cash or shares at the option of the shareholder, against the net income for 2015 and retained earnings. Further details will be given in the agenda for the Annual General Meeting of Shareholders, to be held on May 12, 2016.

Guarantees

Philips' policy is to provide guarantees and other letters of support only in writing. Philips does not provide other forms of support. At the end of 2015, the total fair value of guarantees recognized on the balance sheet amounted to EUR nil million (December 31, 2014: EUR nil million). Remaining off-balance-sheet business and credit-related guarantees provided on behalf of third parties and associates increased by EUR 16 million during 2015 to EUR 37 million (December 31, 2014: EUR 21 million).

5.1.24 Analysis of 2014 compared to 2013

The analysis of the 2014 financial results compared to 2013, and the discussion of the critical accounting policies, have not been included in this Annual Report. These sections are included in Philips' Form 20-F for the financial year 2015, which will be filed electronically with the US Securities and Exchange Commission.

5.2 Social performance

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

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

Our people

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

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

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

Denise Haylor

Chief Human Resources Officer

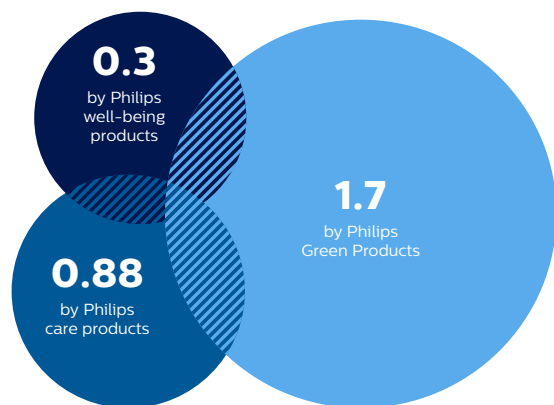
5.2.1 Improving people's lives

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

Through Philips products and solutions that directly support the curative or preventive side of people's health, we improved the lives of 881 million people in 2015, driven by our Healthcare sector. Additionally, our

well-being products that help people live a healthy life improved the lives of 304 million, and our Green Products that contribute to a healthy ecosystem 1.7 billion people. After the elimination of double counts – people touched multiple times – we arrived at 2.0 billion lives. This is an increase of around 140 million compared to 2014, mainly driven by Healthcare in Greater China and North America, Consumer Lifestyle in Greater China, ASEAN and North America, and Lighting in North America and the Indian subcontinent.

Philips Group
Lives improved in billions



Total: 2.0 billion (double counts eliminated)

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

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

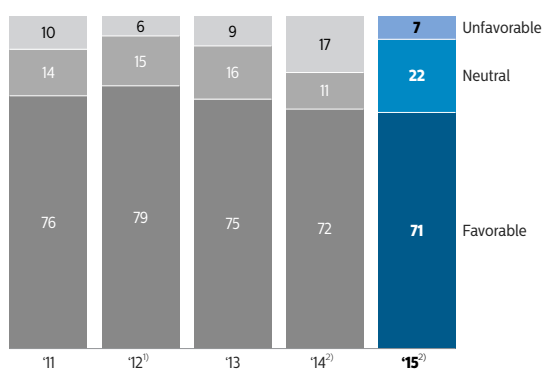
5.2.2 Employee engagement

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

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

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

Philips Group
Employee Engagement Index in %
2011 - 2015



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

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

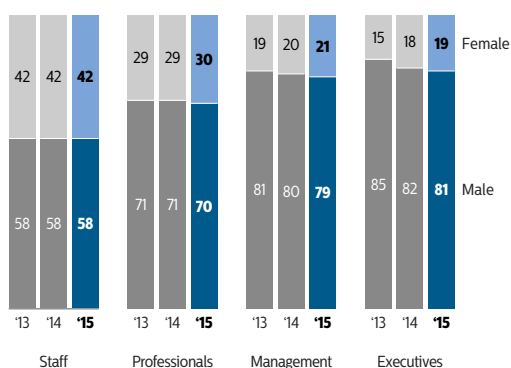
5.2.3 Inclusion

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

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

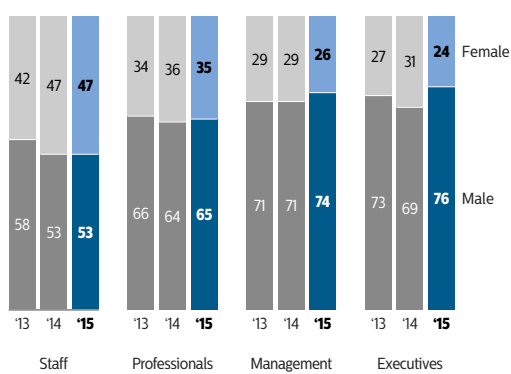
In terms of gender diversity, we recorded an increase in the share of female executives to 19% at year-end 2015 – up from 18% in 2014. We are well on track to achieve our aspiration of 20% female executives by year-end 2016. This is driven both by our active engagement of senior female leaders globally,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

Philips Group
Gender diversity in %
2013 - 2015

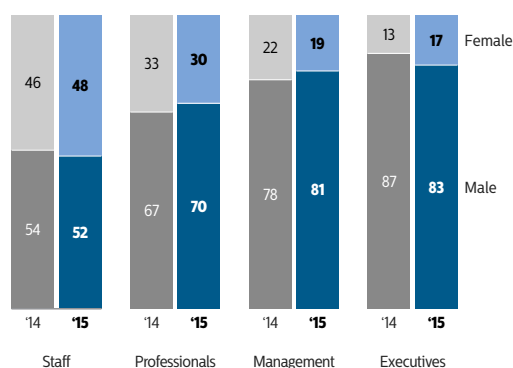


Our comprehensive approach to succession planning for all executives and other key positions ensures we remain on track in terms of our gender targets, and also in terms of our broader inclusion aspirations. This approach drives development and career planning for all individuals, and ensures we build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

Philips Group
New hire diversity in %
2013 - 2015

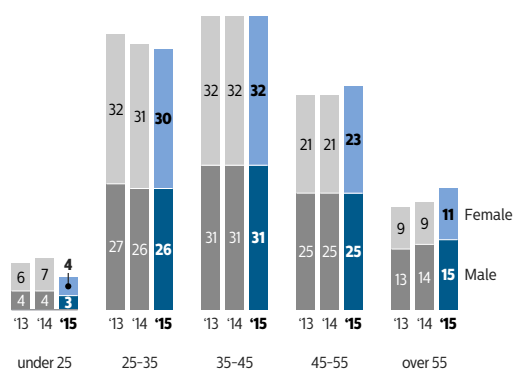


Philips Group
Exit diversity in %
2014 - 2015



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

Philips Group
Employees per age category in %
2013 - 2015



5.2.4 Employment

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

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

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

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

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

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

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

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

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

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

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

Philips Group
Employee turnover in % 2015

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

Philips Group
Voluntary turnover in % 2015

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

5.2.5 Developing our people

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

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

Training spend

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

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

5.2.6 Health and Safety

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

In 2015, we recorded 213 LWIC, i.e. occupational injury cases where the injured person is unable to work one or more days after the injury. This represents a significant decrease compared with 227 in 2014, and continues the downward trend since 2010. The LWIC rate decreased to 0.21 per 100 FTEs, compared with 0.23 in 2014. The number of Lost Workdays caused by injuries decreased by 1,087 days (some 12%) to 7,981 days in 2015.

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

5.2.7 General Business Principles

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

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

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

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

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

Business Integrity Survey

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

Role of management

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

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

Training and awareness

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

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

5.2.8 Working with stakeholders

In organizing ourselves around customers and markets, we create dialogues with our stakeholders in order to explore common ground for addressing societal challenges, building partnerships and jointly developing supporting ecosystems for our innovations around the world. Working with partners is crucial in delivering on our vision to make the world healthier and more sustainable through innovation. An overview of stakeholders and topics discussed is provided in chapter 14, Sustainability statements, of this Annual Report.

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

5.2.9 Supplier sustainability

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

Supplier sustainability programs

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

Supplier sustainability policies

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

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

Regulated Substances List

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

Supplier Sustainability Declaration

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

Supplier Sustainability Audit Program in 2015

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

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

Philips Group
Distribution of supplier audits by country
2015



Audit findings

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

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

Supplier development and capacity building

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

5.2.10 Addressing issues deeper in the supply chain

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

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

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

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

5.3 Environmental performance

EcoVision

Philips has a long sustainability history stretching all the way back to our founding fathers. In 1994, we launched our first program and set sustainability targets for our own operations. Next, we launched our second program in 1998, which focused on the environmental dimension of our operations and products. We also started to focus on sustainability in our supply chain in 2003. We extended our scope further in 2010 by including the social dimension of products and solutions, which is now reflected in our company vision:

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

Philips publishes every year a full Integrated Annual Report with the highest (reasonable) assurance level on the financial, social and environmental performance. With that overall reasonable assurance level Philips is a frontrunner in this field. KPMG has provided reasonable assurance on whether the information in chapter 14, Sustainability statements, of this Annual Report, section 5.2, Social performance, of this Annual Report and section 5.3, Environmental performance, of this Annual Report presents fairly, in all material

respects, the sustainability performance in accordance with the reporting criteria. Please refer to section 14.4, Independent Auditor's Assurance Report, of this Annual Report.

The main elements of the EcoVision program are:

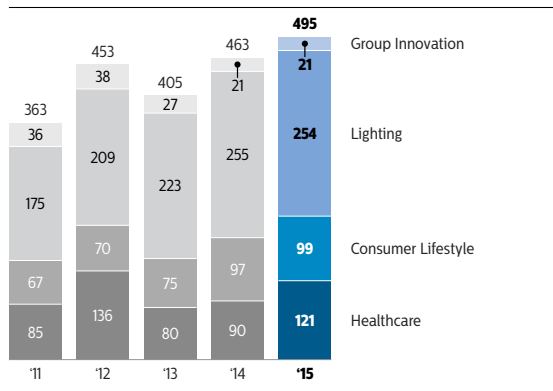
- Improving people's lives
- Green Product sales
- Green Innovation, including Circular Economy
- Green Operations
- Health and Safety
- Supplier Sustainability

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

5.3.1 Green Innovation

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

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



Healthcare

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

care. Healthcare investments in Green Innovation in 2015 amounted to EUR 121 million, a EUR 31 million increase compared to 2014. All Philips Green Focal Areas are taken into account while we aim to reduce environmental impact over the total lifecycle. Energy efficiency is an area of focus, especially for our large imaging systems such as MRI. In 2015, we started to add an energy-efficient CryoCompressor to our MRI systems. Closing the materials loop is another area, where our focus on developing upgrading pathways has enabled extended product life and therefore reduced materials use and lower cost. Healthcare actively supports a voluntary industry initiative to improve the energy efficiency of medical imaging equipment. Moreover, we are actively partnering with multiple leading care providers to look together for innovative ways to reduce the environmental impact of healthcare, for example by maximizing energy-efficient use of medical equipment and optimizing lifecycle value.

Consumer Lifestyle

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

Lighting

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

Philips Group Innovation

Philips Group Innovation invested EUR 21 million in Green Innovations, spread over projects focused on global challenges related to water, air, energy, food, Circular Economy, and access to affordable healthcare. The Research organization within Group Innovation used the Sustainable Innovations Assessment tool, in which innovation projects are evaluated and scored along the environmental and social dimensions, in order to identify those projects that most strongly drive sustainable innovation. As of 2015, transfers of innovation projects include a Lives Improved calculation to assess what the project's contribution will be to Philips' vision to improve the lives of 3 billion people a year by 2025.

Philips Green Patent portfolio

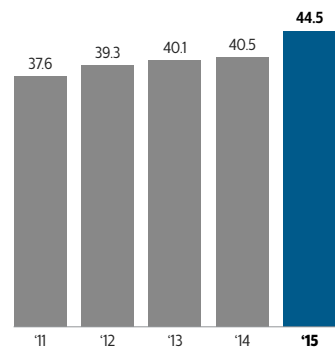
At the end of 2015, Philips' IP portfolio consisted of 6.7% green patent families. All families are labeled with at least one Green Focal Area. In 2015, 6% of our total new patent filings were flagged as green patent family. Energy efficiency is still the most frequently occurring Green Focal Area throughout the portfolio. As IP is an extension of Philips' innovation efforts, the portfolio percentage related to green patents is multiplied by our annual patent portfolio costs to determine Philips' yearly investment in Green IP.

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

Energy efficiency of products

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

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



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

Further details on this parameter and the methodology can be found here: [Improving energy efficiency of Philips products.](#)

Circular Economy

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

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

Closing the materials loop

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

Recycled materials

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

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

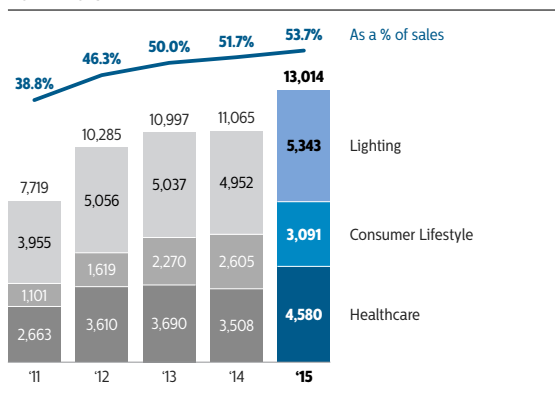
Further details on this parameter and the methodology can be found here: [Closing the materials loop](#).

5.3.2 Green Product sales

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

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

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



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

New Green Products from each sector include the following examples.

Healthcare

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

Consumer Lifestyle

Consumer Lifestyle focuses on Green Products which meet or exceed our minimum requirements in the areas of energy consumption, packaging, and substances of concern. The sales of Green Products in 2015 surpassed 58% of total sales. All our Green Products with rechargeable batteries (like toothbrushes, shavers, and grooming products) exceed the stringent California energy efficiency norm by at least 10%. We are making steady progress in developing PVC/BFR-free products. More than 65% of sales consist of PVC/BFR-free products, with the exception of the power cords, for which there are not yet economical viable alternatives available. In the remaining 35% of product sales, PVC/BFR has already been phased out to a significant extent, but the products are not yet completely free of these substances.

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

Lighting

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

5.3.3 Green Operations

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

Carbon footprint and energy efficiency

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

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

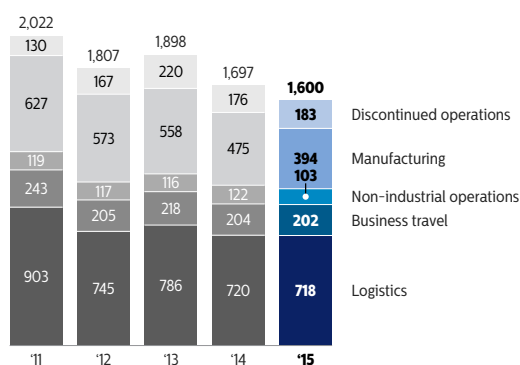
During 2015, the applied emission factors used to calculate our operational carbon footprint have been updated from the previously used DEFRA (UK Department for Environment, Food & Rural Affairs) 2007 and bespoke emission factors to the applicable DEFRA 2015 emission factors for each year respectively.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

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

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

The impact of the exclusion of Lumileds and Automotive is displayed as discontinued operations in the next graph; the size of which varies over the years, but averages around 10% over the past 5 years. Emissions from discontinued operations in our industrial activities have been identified exactly. Emissions from our non-industrial facilities and business travel have been estimated based on FTE data. For our logistics emissions the part of discontinued operations has been estimated using revenue share as a proxy where applicable.

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



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

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

Water

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

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

Philips Group
Water intake in thousands of m³
2011 - 2015

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

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

Waste

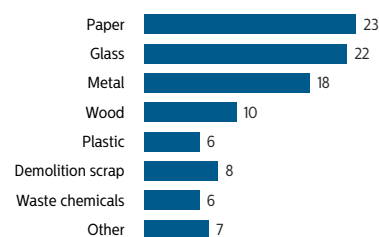
In 2015, total waste decreased by some 9% compared to 2014 to 68.5 kilotonnes, mainly due to operational changes, lower production volumes and less packing waste at Lighting sites. Lighting contributed 66% of total waste, Consumer Lifestyle 17% and Healthcare 17%. The exclusion of Lumileds and Automotive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

Philips Group
Total waste in kilotonnes
2011 - 2015

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

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

Philips Group
Industrial waste delivered for recycling in %
2015



Emissions

Emissions of restricted substances totaled 26 kilos in 2015, mainly caused by one site in China reporting a thinner containing benzene. For the third year in a row, mercury emissions at Lighting were as low as reasonably achievable, according to our assessment. The level of emissions of hazardous substances decreased from 28,310 kilos to 25,101 kilos (-11%), driven by a reduction in xylene emissions at Consumer Lifestyle, due to lower production of products where these specific lacquers and thinners are used as well as

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

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

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

Philips Group
Restricted and hazardous substances in kilos
 2011 – 2015

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

¹⁾ Numbers have been restated

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

5.4 Proposed distribution to shareholders

Pursuant to article 34 of the articles of association of Royal Philips, a dividend will first be declared on preference shares out of net income. The remainder of the net income, after reservations made with the approval of the Supervisory Board, shall be available for distribution to holders of common shares subject to shareholder approval after year-end. As of December 31, 2015, the issued share capital consists only of common shares; no preference shares have been issued. Article 33 of the articles of association of Royal Philips gives the Board of Management the power to determine what portion of the net income shall be retained by way of reserve, subject to the approval of the Supervisory Board.

A proposal will be submitted to the upcoming Annual General Meeting of Shareholders to declare a dividend of EUR 0.80 per common share (up to EUR 740 million), in cash or in shares at the option of the shareholder, against the net income for 2015 and retained earnings.

Shareholders will be given the opportunity to make their choice between cash and shares between May 18, 2016 and June 10, 2016. If no choice is made during this election period the dividend will be paid in shares. On June 10, 2016 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume weighted average price of all traded common shares Koninklijke Philips N.V. at Euronext Amsterdam on June 8, 9 and 10, 2016. The Company will calculate the number of share dividend rights entitled to one new common share (the 'ratio'), such that the gross dividend in shares will be approximately equal to the gross dividend in cash. On June 14, 2016 the ratio and the number of shares to be issued will be announced. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 15, 2016. The distribution of dividend in cash to holders of New York Registry shares will be made in USD at the USD/EUR rate fixed by the European Central Bank on June 13, 2016.

Dividend in cash is in principle subject to 15% Dutch dividend withholding tax, which will be deducted from the dividend in cash paid to the shareholders. Dividend in shares paid out of net income and retained earnings is subject to 15% dividend withholding tax, but only in respect of the par value of the shares (EUR 0.20 per share).

In 2015, a dividend of EUR 0.80 per common share was paid in cash or shares, at the option of the shareholder. For 59.2% of the shares, the shareholders elected for a share dividend resulting in the issue of 17,671,990 new common shares, leading to a 1.9% dilution. EUR 298 million was paid in cash. For additional information, see chapter 17, Investor Relations, of this Annual Report.

The balance sheet presented in this report, as part of the Company financial statements for the period ended December 31, 2015, is before appropriation of the result for the financial year 2015.

5.5 Outlook

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

6 Sector performance

Our structure in 2015

Koninklijke Philips N.V. (Royal Philips or the 'Company') is the parent company of the Philips Group ('Philips' or the 'Group'). The Company is managed by the members of the Board of Management and Executive Committee under the supervision of the Supervisory Board. The Executive Committee operates under the chairmanship of the Chief Executive Officer and shares responsibility for the deployment of Philips' strategy and policies, and the achievement of its objectives and results.

In 2015, Philips' activities in the field of health and well-being were organized on a sector basis, with each operating sector – Healthcare, Consumer Lifestyle and Lighting – being responsible for the management of its businesses worldwide.

The Innovation, Group & Services sector includes the activities of Group Innovation and Group and regional management organizations. Additionally, the global shared business services for procurement, finance, human resources, IT and real estate are reported in this sector, as well as certain pension costs.

At the end of 2015, Philips had 95 production sites in 25 countries, sales and service outlets in approximately 100 countries, and 112,959 employees.

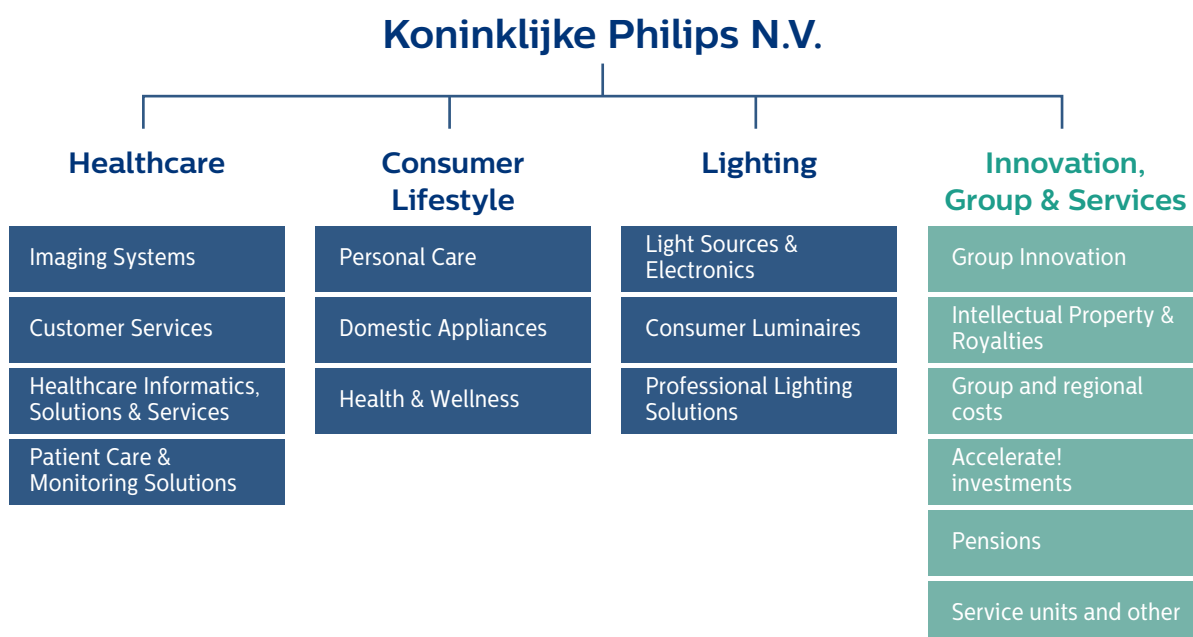
2016 and beyond

In September 2014, Philips announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on the HealthTech and Lighting opportunities respectively. We have established a stand-alone structure for Philips Lighting within the Philips Group, effective February 1, 2016. We expect to be able to announce the separation of the Lighting business in the first half of 2016, subject to market conditions and other relevant circumstances. Accordingly, Innovation, Group & Services will be split and allocated to Philips and Philips Lighting.

In light of its focus on health technology, Philips has eliminated the Healthcare and Consumer Lifestyle sector layers in order to drive the convergence of consumer health and professional healthcare as well as to reduce overhead costs. We plan to change the reporting of Philips' health technology activities to three segments (Personal Health, Diagnosis & Treatment, Connected Care & Health Informatics) with effect from Q1 2016.

Further updates will be provided in the course of 2016.

Our structure in 2015



6.1 Healthcare



“By leveraging our world-class innovation capability, deep clinical and consumer insights, long-standing customer relationships with healthcare providers, and our integrated solutions portfolio, we provide greater value while helping lower the cost of care across the health continuum.”

Frans van Houten, CEO Royal Philips

- We are gaining momentum in delivering large-scale end-to-end healthcare solutions globally with clients like Westchester Medical Center (USA), Mackenzie Health (Canada) and the Kenyan Ministry of Health.
- Our Accelerate! program continues to drive improvements in healthcare, resulting in enhanced customer centricity and service levels, faster time-to-market for our innovations, strengthened quality and compliance systems, and better cost productivity. We increased our investments in, among others, healthcare informatics, personal health solutions and our quality systems. We also strengthened our ability to offer integrated solutions in the growing image-guided therapy market through the acquisition of Volcano.
- We continue to expand the capabilities of Philips' HealthSuite digital platform, which enables connected health propositions to improve the delivery of care at lower cost, which allow us to build recurring revenue streams.

6.1.1 Healthcare landscape

Healthcare systems around the world are under increasing economic pressure. More people are living longer, and more are living with chronic conditions – driving healthcare spending to unsustainable levels. Shortages of healthcare professionals are also adding to the relentless challenge of delivering better care at lower cost to growing patient populations.

Fundamental transformative changes are already taking place in the healthcare industry to enable the provision of affordable, quality care to those who need it. A shift is under way towards value-based healthcare, which places greater emphasis on results, driving the reduction of waste and inefficiency, increasing access and improving outcomes, while at the same time reducing costs.

Consumers are becoming increasingly engaged in managing their own health, with greater attention being focused on the benefits of healthy living and home care. Mobile and digital technologies are significant enablers of this trend, leading to new care delivery models –

founded upon integrated care, real-time analytics and value-added solutions and services – that give patients greater control over and responsibility for their health.

6.1.2 About Healthcare in 2015

At Philips, we deliver innovative, integral technology solutions designed to create value by improving the quality and delivery of care while lowering cost. Our broad and deep clinical expertise and technology leadership across the health continuum and commitment to customer collaboration are core to our business and truly differentiate us.

Philips is one of the world's leading healthcare companies (based on sales) along with General Electric and Siemens. The competitive landscape in the healthcare industry is evolving with the emergence of a considerable number of new market players. The United States, our largest market, represented 43% of Healthcare's global sales in 2015, followed by China, Japan and Germany. Growth geographies accounted for 25% of Healthcare sales. In 2015, Philips Healthcare had approximately 40,000 employees worldwide.

In 2015, our Healthcare business (which was organized in six business groups) reported on four segments:

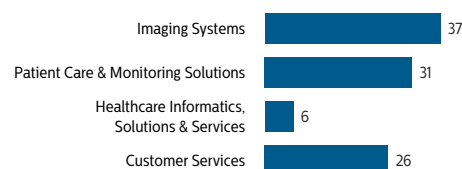
- **Imaging (comprising the business groups Diagnostic Imaging, Image-Guided Therapy, Ultrasound):**

Diagnostic imaging solutions, including computed tomography (CT), magnetic resonance imaging (MRI), advanced molecular imaging (AMI) and diagnostic X-ray, which includes digital X-ray and mammography; integrated clinical solutions, which include radiation oncology planning, disease specific oncology solutions and X-Ray dose management; image-guided therapy solutions including interventional X-ray systems, encompassing cardiology, radiology and surgery, and interventional imaging and therapy devices that include Intravascular Ultrasound (IVUS), Fractional Flow Reserve (FFR) and atherectomy; and ultrasound, a modality with diverse customers and broad clinical presence.

- **Patient Care & Monitoring Solutions:** Enterprise-wide patient monitoring solutions, from value solutions to sophisticated connected solutions, for real-time clinical information at the patient's bedside; patient analytics, patient monitoring and clinical decision support systems; therapeutic care, including cardiac resuscitation, emergency care solutions, invasive and non-invasive ventilators for acute and sub-acute hospital environments, and respiratory monitoring devices; consumables across the patient monitoring and therapeutic care businesses; and customer service, including clinical, IT, technical, and remote customer propositions.
- **Customer Services:** Product and solution services and support, including clinical support and performance services; education and value-added services; installation; remote proactive monitoring; and customer service agreements.

- **Healthcare Informatics, Solutions & Services:** Advanced Healthcare IT, clinical and imaging informatics for radiology and cardiology departments, Picture Archiving and Communication systems (PACS) and fully integrated Electronic Medical Record (EMR) systems; technology-enabled services including telehealth, remote patient monitoring, care coordination to make aging and chronic condition experiences better; a professional services business (Healthcare Transformation Services) spanning consulting, education, clinical and business performance improvement, program management, system integration services. All solutions and software businesses will be supported by the Philips HealthSuite digital platform to enable interoperability, Big Data analytics, optimized workflows and care pathways, rapid application development, enhanced patient centricity and engagement.

Philips Healthcare
Total sales by business as a %
2015



Sales at Philips' health systems businesses are generally higher in the second half of the year, largely due to the timing of new product availability and customer spending patterns.

Commitment to quality

The implementation of the Philips Business System is embedding a fundamental commitment to quality across all our processes, products, systems and services. This commitment is of vital importance in the extensively regulated health equipment and system business. We are committed to compliance with regulatory product approval and quality system requirements in every market we serve, by addressing specific terms and conditions of local and national regulatory authorities including the US FDA, the CFDA in China and comparable agencies in other countries. Obtaining regulatory approval is costly and time-consuming, but a prerequisite for market introduction.

Further progress was made in 2015 in the remediation of the quality management systems at our Healthcare facility in Cleveland, Ohio, with the ramp-up of production and shipments continuing through the year.

With regard to sourcing, please refer to sub-section 14.2.8, Supplier indicators, of this Annual Report.

6.1.3 2015 business highlights

Leveraging our portfolio, insights and capabilities across the health continuum, Philips Healthcare continued to create value for healthcare providers and consumers around the world in 2015, with a strong focus on collaborative innovation, including large-scale partnerships, co-created solutions, and strategic alliances.

We strengthened our leadership position in the fast-growing image-guided therapy market by completing the acquisition of Volcano Corporation, a global leader in catheter-based imaging and measurement solutions for cardiovascular applications. Volcano's complementary portfolio and expertise will create opportunities to accelerate revenue growth for our image-guided therapy business.

Philips and Westchester Medical Center entered into a multi-year, USD 500 million managed services partnership to transform and improve healthcare for 3 million patients. The agreement includes consulting services, medical technologies and clinical informatics solutions, and aims to improve all care areas, including radiology, cardiology, neurology, oncology and pediatrics.

We introduced our Lumify app-based ultrasound solution in the US. Combining a dedicated Philips ultrasound transducer, a compatible smart device and app, and secure cloud-enabled services, Lumify has been designed to enable faster diagnosis, improve patient satisfaction and reduce costs, while generating recurring revenues.

With more than 800,000 patient monitors installed and 275 million patients tracked every year, we are leveraging our installed base for expansion of our services and efficient roll-out of our innovations. For example, CareEvent, an enterprise event management solution, which includes a mobile application to send informative alerts directly to a caregiver's smartphone for informed decision making and timely interventions when required.

Philips acquired Blue Jay Consulting, a leading provider of consulting services to hospital emergency departments in the US. Blue Jay's offering complements Philips' enterprise-wide consulting services to help improve clinical care and operational effectiveness across the health continuum.

We expanded the capabilities of our HealthSuite digital platform, a secure cloud infrastructure for health data and devices, and strengthened the associated ecosystem through our collaborations with Amazon Web Services, Radboud University Medical Center and Salesforce.

In 2015, we entered the fifth year of our Accelerate! journey, which continued to drive improvements in operational performance, as we focused on strengthening our innovation pipeline while making progress on cost savings.

6.1.4 2015 financial performance

Philips Healthcare
Key data in millions of EUR unless otherwise stated
2013 - 2015

	2013	2014	2015
Sales	9,575	9,186	10,912
Sales growth			
% increase (decrease), nominal	(4)%	(4)%	19%
% increase (decrease), comparable ¹⁾	1%	(2)%	4%
EBITA ¹⁾	1,512	616	1,024
as a % of sales	15.8%	6.7%	9.4%
EBIT	1,315	456	819
as a % of sales	13.7%	5.0%	7.5%
Net operating capital (NOC) ¹⁾	7,437	7,565	9,212
Cash flows before financing activities ¹⁾	1,292	910	81
Employees (in FTEs)	37,008	37,065	40,099

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

In 2015, sales amounted to EUR 10,912 million, 19% higher than in 2014 on a nominal basis. Excluding a 12% positive currency effect and a 3% positive effect from portfolio changes, mainly related to Volcano, comparable sales increased by 4%. Healthcare Informatics, Solutions & Services achieved mid-single-digit growth, Imaging Systems posted high-single-digit growth, Customer Services reported low-single-digit growth, while Patient Care & Monitoring Solutions was in line with 2014. Green Product sales amounted to EUR 4,580 million, or 42% of sector sales.

From a geographical perspective, comparable sales in growth geographies showed high-single-digit growth, and mature geographies recorded low-single-digit growth.

EBITA amounted to EUR 1,024 million, or 9.4% of sales, compared to EUR 616 million, or 6.7% of sales, in 2014. EBITA in 2015 included restructuring and acquisition-related charges of EUR 168 million, which included the Volcano acquisition, compared to EUR 70 million in 2014. 2015 EBITA also included charges of EUR 28 million related to the currency revaluation of the provision for the Masimo litigation, EUR 8 million related to the devaluation of the Argentine peso, and a EUR 31 million legal provision.

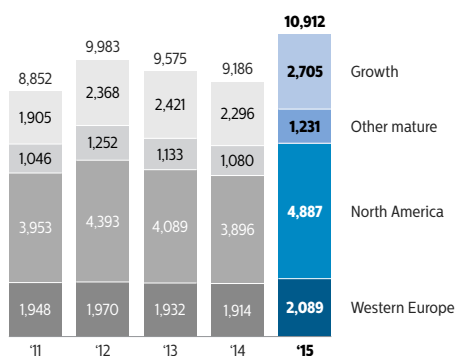
EBITA in 2014 included charges of EUR 366 million related to the provision for the Masimo litigation, charges of EUR 49 million of mainly inventory write-downs related to Cleveland and a EUR 16 million past-service pension cost gain.

EBIT amounted to EUR 819 million, or 7.5% of sales, and included EUR 205 million of charges related to acquired intangible assets.

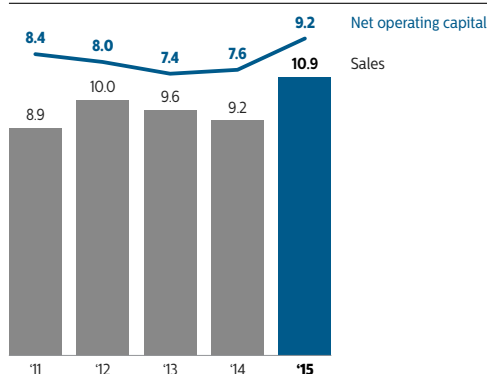
Net operating capital increased by EUR 1,647 million to EUR 9,212 million, mainly driven by the Volcano acquisition and currency impacts.

Cash flows before financing activities decreased from EUR 910 million in 2014 to EUR 81 million in 2015, largely due to higher cash outflows for investments at Imaging Systems.

Philips Healthcare
Sales per geographic cluster in millions of EUR
2011 - 2015

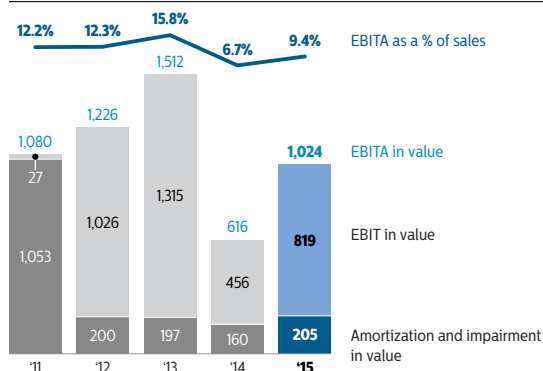


Philips Healthcare
Sales and net operating capital¹⁾ in billions of EUR
2011 - 2015



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

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



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

6.1.5 Delivering on EcoVision sustainability commitments

A growing and aging population, the rise of chronic and lifestyle-related diseases and global resource constraints pose a number of challenges, including pollution and stressed healthcare systems. Philips continues to improve lives around the globe by developing solutions that help secure access to care, while at the same time respecting the boundaries of natural resources.

In 2015, Green Product sales in Healthcare amounted to EUR 4,580 million and we introduced 11 new Green Products to support energy efficiency, materials reduction and other sustainability goals. We also actively collaborate with care providers around the globe to look for ways to minimize the environmental impact of healthcare, for example by reducing the energy use of medical equipment. Supporting the transition to a circular economy, we have continued to focus on expanding the Diamond Select refurbishment program and also the SmartPath upgrading program.

Philips was presented with the 'Champion for Change' Award by Practice Greenhealth for the second consecutive year. This award honors businesses that go beyond taking steps to improve their own green practices, but also help their clients and associates to expand their sustainable practices.

6.1.6 2016 and beyond

In September 2014, Philips announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on the HealthTech and Lighting opportunities respectively. Philips has transferred its Lighting business into a stand-alone structure effective February 1, 2016 and has moved from a holding company model to an operating company model.

In light of its focus on health technology, Philips has eliminated the Healthcare and Consumer Lifestyle sector layers in order to drive the convergence of consumer health and professional healthcare as well as to reduce overhead costs. We plan to change the reporting of Philips' health technology activities to three segments (Personal Health, Diagnosis & Treatment, Connected Care & Health Informatics) with effect from Q1 2016. For more details on the new segment reporting in 2016 and onwards, please refer to the introduction of Sector performance.

Further updates will be provided in the course of 2016.

6.2 Consumer Lifestyle



“Across the world people are increasingly engaged in their personal health and are looking for solutions to stay healthy and prevent illness. We are leveraging our deep consumer expertise and extensive healthcare know-how to drive the consumerization of health. We’re supporting people to live a healthy life in a healthy home environment; enabling them to proactively manage their own health.”

Pieter Nota, CEO Philips Consumer Lifestyle

- We are executing our strategy, with locally relevant innovation delivering strong growth and driving profitability.
- Future growth drivers are clearly set: grow the core businesses through local and global innovation platforms, and geographical expansion of proven propositions; further expand in the domain of personal health by exploring new business adjacencies and new business areas; leverage connectivity as a further growth driver.
- In 2015, Consumer Lifestyle made further strong progress to reposition towards healthy living and prevention across the health continuum in more attractive markets, with better margins.
- Our multi-year Accelerate! program has transformed the sector into a market-driven organization, by changing our operating model and instilling a strong performance culture and end-to-end approach.

6.2.1 Consumer landscape

Across the world, consumers are looking for solutions that help them to be healthy, live well and enjoy life. They are increasingly tracking their personal health through a combination of hardware and software devices and services, which they expect will deliver insights that are real-time, highly personal and direct them towards better health.

In a connected, digital world, consumers are looking for smart, personalized solutions. Purchase decisions are increasingly made or influenced online. In 2015, economic headwinds, especially in growth markets, created pressure on consumer spending. However, living a healthy life remained a high priority for consumers.

6.2.2 About Consumer Lifestyle in 2015

Through our various businesses, we aim to make a difference to people's lives by enabling them to make healthy choices every day based on locally relevant innovation. In recent years we have been responding to the need and desire of consumers to take charge of their personal health journey. We service our customers across the health continuum, delivering innovation in healthy living and disease prevention. In doing so, we target more attractive markets with better margins.

We are focused on value creation through category leadership and operational excellence, driving global leadership positions. We are increasing the quality and local relevance of product innovation, the speed with which we innovate, and expanding our distribution to capture increasing spending power in growth geographies.

Through 2015, Consumer Lifestyle has been built around businesses and markets, enabling us to direct investments to where the growth is, addressing locally relevant consumer needs. We create global platforms that can be adapted for local relevance.

Our end-to-end approach is accelerating specialist capability development in mature markets, to enable effective partnerships with customers and consumers, and in growth geographies, to enable development of go-to-market strategies.

In 2015, the Consumer Lifestyle sector consisted of the following areas of business:

- Health & Wellness: mother and child care, oral healthcare, pain management
- Personal Care: male grooming, beauty
- Domestic Appliances: kitchen appliances, coffee, air purification, garment care, floor care

Philips Consumer Lifestyle
Total sales by business as a %
2015



Through our personal health businesses, we offer a broad range of products from high to low price/value quartiles, necessitating a diverse distribution model. We continue to expand our portfolio and increase its accessibility, particularly in lower-tier cities in growth geographies. We are well positioned to increasingly capture growth in online sales and are building our digital and e-commerce capabilities across the company. We are adapting our web functionality to offer consumers a better user experience via smaller screens, driving improvements from conversion to sales.

We are leveraging connectivity to engage consumers in new and impactful ways through social media and digital innovation. For example, in 2015 we launched Philips Avent uGrow, a new digital parenting platform which supports the healthy development of babies, and also the latest Philips Sonicare for Kids Connected toothbrush.

Under normal economic conditions, Philips' personal health businesses experience seasonality, with higher sales in the fourth quarter.

In 2015, Consumer Lifestyle employed approximately 16,000 people worldwide. The global sales and service organization covered more than 50 developed and growth geographies. In addition, we operated manufacturing and business creation organizations in Argentina, Austria, Brazil, China, India, Indonesia, Italy, the Netherlands, Romania, the UK and the US.

Commitment to quality

The implementation of the Philips Business System is embedding a fundamental commitment to quality across all our processes, products, systems and services. Philips' personal health businesses are subject to regulatory requirements in the markets where it operates. This includes the European Union's Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS), Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), Energy-use of Products (EuP) requirements and Product Safety Regulations. We have a growing portfolio of medically regulated products in our Health & Wellness and Personal Care businesses. For these products we are subject to the applicable requirements of the US FDA, the European Medical Device Directive, the CFDA in China and comparable regulations in other countries. Through our growing beauty, oral healthcare and mother and child care product portfolio the range of applicable regulations has been extended to include requirements relating to cosmetics and, on a very small scale, pharmaceuticals.

With regard to sourcing, please refer to sub-section 14.2.8, Supplier indicators, of this Annual Report.

6.2.3 2015 business highlights

- The success of established propositions like the Philips Sonicare DiamondClean and the Philips Sonicare AirFloss Ultra, along with new innovations like Philips Sonicare for Kids Connected, drove continued growth across the world, in particular in China, Japan, Germany and North America.
- Continuing the geographical expansion of Philips product innovations, we reached the milestone of 5 million Philips Airfryers sold. Philips is the market leader in the world's low-fat fryer market.
- Delivering on its male grooming growth strategy to drive loyalty and create more value among existing users, Philips launched the Philips Smart Shaver Series 7000.

- The new Philips Smart Air Purifier 8000i series is a high-performing air purifier that helps to quickly improve indoor air quality – even in larger rooms.
- At Kind + Jugend, the leading international baby and toddler trade fair in Germany, Philips reinforced its industry leadership, showcasing the Philips Avent uGrow Platform, a new digital parenting platform which supports the healthy development of babies.
- Empowering consumers to take greater control of their health, Philips personal health programs were announced at IFA Berlin, one of the world's leading trade shows for home appliances. Built upon the Philips HealthSuite digital platform, each program comprises connected health measurement devices, an app-based personalized program with coaching, and secure, cloud-based data analysis.

6.2.4 2015 financial performance

Philips Consumer Lifestyle
Key data in millions of EUR unless otherwise stated
 2013 - 2015

	2013	2014	2015
Sales	4,605	4,731	5,347
Sales growth			
% increase, nominal	7%	3%	13%
% increase, comparable ¹⁾	10%	6%	6%
EBITA ¹⁾	483	573	673
as a % of sales	10.5%	12.1%	12.6%
EBIT	429	520	621
as a % of sales	9.3%	11.0%	11.6%
Net operating capital (NOC) ¹⁾	1,261	1,353	1,453
Cash flows before financing activities ¹⁾	480	553	589
Employees (in FTEs)	17,255	16,639	16,254

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

Sales amounted to EUR 5,347 million, a nominal increase of 13% compared to 2014. Excluding a 7% positive currency impact, comparable sales were 6% higher year-on-year. Health & Wellness achieved double-digit growth, Personal Care reported high-single-digit growth, while Domestic Appliances was in line with 2014. Green Product sales amounted to EUR 3,091 million, or 58% of total sector sales.

From a geographical perspective, growth geographies achieved high-single-digit growth and mature geographies registered low-single-digit growth. In growth geographies, the increase was mainly driven by Central & Eastern Europe, Asia Pacific and India, primarily in the Health & Wellness and Personal Care businesses. Growth geographies' share of sector sales was 48%, compared to 47% in 2014.

EBITA increased from EUR 573 million, or 12.1% of sales, in 2014 to EUR 673 million, or 12.6% of sales, in 2015. Restructuring and acquisition-related charges amounted to EUR 36 million in 2015, compared to EUR 9 million in 2014. EBITA in 2015 also included charges related to the devaluation of the Argentine peso of EUR

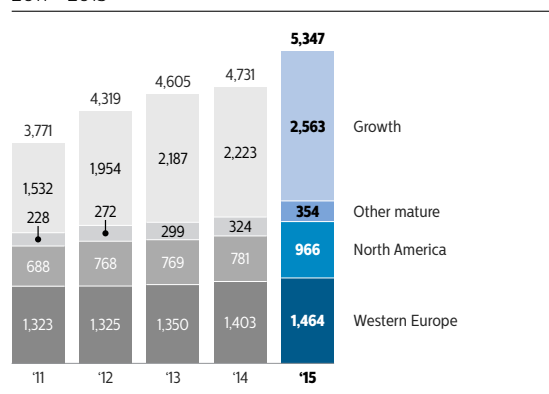
13 million. EBITA in 2014 also included a EUR 11 million past-service pension cost gain. The year-on-year EBITA increase was mainly driven by improved earnings at Health & Wellness and Personal Care.

EBIT amounted to EUR 621 million, or 11.6% of sales, which included EUR 52 million of amortization charges, mainly related to acquired intangible assets at Health & Wellness and Domestic Appliances.

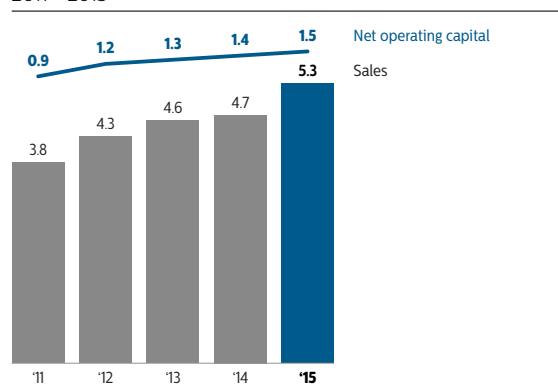
Net operating capital increased from EUR 1,353 million in 2014 to EUR 1,453 million in 2015, due to higher working capital, partly offset by a reduction in intangible fixed assets.

Cash flows before financing activities increased from EUR 553 million in 2014 to EUR 589 million in 2015, mainly due to higher earnings.

Philips Consumer Lifestyle
Sales per geographic cluster in millions of EUR
 2011 - 2015

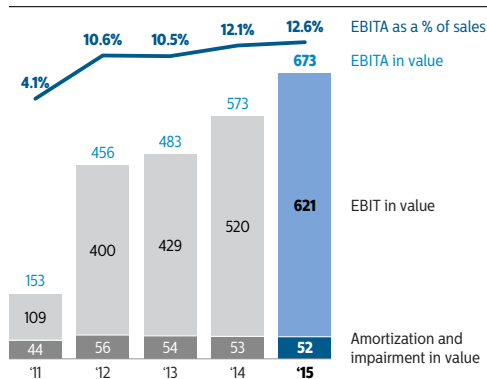


Philips Consumer Lifestyle
Sales and net operating capital¹⁾ in billions of EUR
 2011 - 2015



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

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



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

6.2.5 Delivering on EcoVision sustainability commitments

Sustainability continued to play an important role at Consumer Lifestyle in 2015, with the main focus on optimizing the sustainability performance of our products and operations. Green Products, which meet or exceed our minimum requirements in the area of energy consumption, packaging and/or substances of concern, accounted for 58% of total sales in 2015. All Green Products with rechargeable batteries exceed the stringent California energy efficiency standard by at least 10%. And over 65% of total sales are PVC- and/or BFR-free products (excluding power cords). In 2015, we continued to increase the use of recycled materials in our products. Over 900 tons of recycled plastics were used in kitchen appliances, vacuum cleaners, irons and coffee machines, compared to 625 tons in 2014.

As concrete examples of our commitment to sustainability we launched the new Perfect Care Eco Aqua Steam Generator, of which the plastic parts consist of 50% recycled material, and the Performer Expert vacuum cleaner, which is free of PVC/BFR, has an A-class energy label and contains 50% recycled plastics.

In our operations we continue to use most of our electricity from renewable sources, with the ultimate aim of having CO₂-neutral production sites by 2020. In 2015, 65% of the electricity used in manufacturing sites came from renewable sources and 82% of the industrial waste was recycled.

6.2.6 2016 and beyond

In September 2014, Philips announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on the HealthTech and Lighting opportunities respectively. Philips has transferred its Lighting business into a stand-alone structure effective February 1, 2016 and has moved from a holding company model to an operating company model.

In light of its focus on health technology, Philips has eliminated the Healthcare and Consumer Lifestyle sector layers in order to drive the convergence of consumer health and professional healthcare as well as to reduce overhead costs. We plan to change the reporting of Philips' health technology activities to three segments (Personal Health, Diagnosis & Treatment, Connected Care & Health Informatics) with effect from Q1 2016. For more details on the new segment reporting in 2016 and onwards, please refer to the introduction of Sector performance.

Further updates will be provided in the course of 2016.

6.3 Lighting



“We are successfully leading the industry transformation from conventional lighting to innovative LED and connected lighting systems that unlock new value and experiences for our customers and partners. Embedding lighting into the Internet of Things, we will capture growth opportunities and adjacent value from new services-based business models. Our leadership positions, innovations and strong brand present a catalyst for value creation, growth and a solid foundation on which to become a stand-alone lighting company.” Eric Rondolat, CEO Philips Lighting

- The lighting industry is undergoing a radical transformation.
- The lighting market is being driven by the transition to LED and connected lighting applications.
- Recognizing that the growth and profit pool will shift to digitally connected lighting products, systems and services, our goal is to become a lighting solutions company capturing superior growth and profitability.
- We continue on our Accelerate! journey to achieve operational excellence across our businesses.
- The separation process is fully under way and is expected to be completed in the first half of 2016.

6.3.1 Lighting landscape

We are witnessing a number of trends and transitions that are affecting the lighting industry and changing the way people use and experience light.

We serve a large and attractive market that is driven by the need for more light, the need for energy-efficient lighting, and the need for digital and connected lighting. The world's population is forecast to grow from 7 billion today to over 9 billion by 2050. At the same time, we are witnessing rapid urbanization, with over 70% of the world's population expected to live in urban areas by 2050. These trends will increase demand for light. In addition, in the face of resource constraints and climate change, the world needs that light to be energy-

efficient. At the same time, the lighting industry is moving from conventional to LED lighting, which is changing the way people use, experience and interact with light. Digital technologies enable connectivity and seamless integration in software architectures, systems and services. Connected lighting allows light points to be used as information pathways opening up new functionalities and services based on the transmission and analysis of data.

The lighting market is expected to grow by 2-4% per annum between 2015 and 2019 (source: BCG). The majority of this growth will be driven by LED-based solutions and applications – heading towards a 60-65% share by 2018.

6.3.2 About Lighting in 2015

Philips Lighting is a global market leader with recognized expertise in the development, manufacture and application of innovative, energy-efficient lighting products, systems and services that improve people's lives. We have pioneered many of the key breakthroughs in lighting over the past 125 years, laying the basis for our current strength and leading position in the digital transformation.

We have a firm strategy which is based upon six priorities:

- Optimize value from conventional products to support growth
- Innovate in LED products commercially and technologically to outgrow the market
- Lead the shift to systems, building the largest connected installed base
- Capture adjacent value through new services business models
- Be our customers' best business partner locally, leveraging our global scale
- Use our Accelerate! program to improve our operational excellence

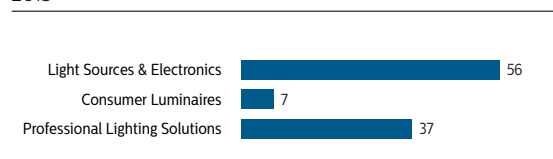
We aim to further invest to support our leadership in LED and connected lighting systems and services while at the same time capitalizing on our broad portfolio, distribution and brand in conventional lighting by flexibly anticipating and managing the phase-out and declining sales of conventional products.

We address people's lighting needs across a full range of market segments. Indoors, we offer lighting products, systems and services for homes, shops, offices, schools, hotels, factories and hospitals. Outdoors, we offer products, systems and services for roads, streets, public spaces, residential areas and sports arenas, as well as solar-powered LED off-grid lighting. In addition, we address the desire for light-inspired experiences through architectural projects. Finally, we offer specific applications of lighting in specialized areas, such as entertainment, horticulture, and water purification.

In 2015, Philips Lighting spanned a full-service lighting value chain – from lamps, luminaires, electronics and controls to connected and application-specific systems and services – through the following businesses:

- Light Sources & Electronics: LED, eco-halogen, (compact) fluorescent, high-intensity discharge and incandescent light sources, plus electronic and electromagnetic gear, modules and drivers
- Consumer Luminaires: functional, decorative, lifestyle, scene-setting luminaires
- Professional Lighting Solutions: controls and luminaires for city beautification, road lighting, sports lighting, office lighting, shop/hospitality lighting, industry lighting

Philips Lighting
Total sales by business as a %
2015



In 2015, the Light Sources & Electronics business conducted its sales and marketing activities through the professional, OEM and consumer channels, the latter also being used by our Consumer Luminaires business. Professional Lighting Solutions was organized in a project solutions business (project luminaires, systems and services).

The conventional lamps industry has been highly consolidated, with GE and Osram as main key competitors. The LED lighting market, on the other hand, is very dynamic. We face new competition from Asia and new players from the semiconductor and building management sectors. The luminaires industry is fragmented, with our competition varying per region and per market segment.

Under normal economic conditions, Lighting's sales are generally not materially affected by seasonality.

Philips Lighting has manufacturing facilities in some 25 countries in all major regions of the world, and sales organizations in more than 60 countries. Commercial activities in other countries are handled via distributors working with our International Sales organization. Lighting has approximately 34,000 employees worldwide.

Commitment to quality

The implementation of the Philips Business System is embedding a fundamental commitment to quality across all our processes, products, systems and services. Lighting is subject to significant regulatory requirements in the markets where it operates. These include the European Union's Waste from Electrical and Electronic Equipment (WEEE), Restriction of

Hazardous Substances (RoHS), Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), Energy-using Products (EuP) and Energy Performance of Buildings (EPBD) directives.

With regard to sourcing, please refer to sub-section 14.2.8, Supplier indicators, of this Annual Report.

6.3.3 2015 business highlights

In 2015, our lighting innovations supported our six strategic priorities aimed at delivering even greater value for our customers and other stakeholders. These highlights showcase our leading innovations in connected lighting, systems and services, our aspiration to be *the* lighting company for the Internet of Things for both professional and consumer markets.

Philips expanded its portfolio of connected lighting products for the home by introducing Philips Hue Phoenix, a luminaire providing tunable white light, Philips Hue Go, a portable wireless luminaire, Philips Lightstrip Plus, a flexible LED light strip, and a new bridge enabling Philips Hue to interact with other Apple HomeKit devices and become voice-controlled.

Philips and Cisco formed a global strategic alliance that will help enable facilities managers, building owners and office workers to reap the benefits of the Internet of Things in offices. The alliance combines Philips' connected office lighting system with Cisco's highly secure network technology, to increase energy efficiency, provide data to optimize user comfort and improve the office environment.

Philips made further inroads with its Philips CityTouch lighting system, with Los Angeles adopting an advanced Philips management system that uses wireless and cloud-based technologies to control its street lighting. Philips' CityTouch connected lighting management system is now used in more than 262 projects in over 30 countries across the world.

In Lille, France, Carrefour installed 2.5 kilometers of Philips LED lighting that uses light to transmit a location signal to a shopper's smartphone, triggering an app to provide location-based services. This enables Carrefour to provide new services to its shoppers, such as helping them to navigate and find promotions across the 7,800 m² shop floor. It is the world's largest connected lighting indoor positioning system for retail and has reduced the total lighting-based electricity consumption of the hypermarket by 50%.

Philips provided a connected LED lighting system for the New NY Bridge in New York. It will combine roadway and architectural lighting, an industry first, on what will be the most technologically advanced bridge in North America. The system will feature remotely programmed lights that produce dynamic colorful effects and use Philips ActiveSite and Philips CityTouch cloud-based monitoring and management systems.

Philips continues to light up iconic buildings around the world with colorful and dynamic connected LED lighting. New illuminations in 2015 include Europe's largest mosque located in Moscow, Le Meurice hotel in Paris, the Cairo Opera House, the Accra Theater in Ghana, the Big Four Bridge in Louisville, US, the Nanjing Tower in China, and the Edirne Bridge and Butterfly Valley in Turkey.

Philips launched LifeLight, a solar-powered LED lighting range for homes in Kenya and other African countries. The range eliminates the need to use kerosene lamps, with their harmful fumes, in homes in off-grid areas, and also increases productivity and community life by enabling activities to continue after dark.

6.3.4 2015 financial performance

Philips Lighting
Key data in millions of EUR unless otherwise stated
2013 - 2015

	2013	2014	2015
Sales	7,145	6,869	7,411
Sales growth			
% increase (decrease), nominal	(2)%	(4)%	8%
% increase (decrease), comparable ¹⁾	1%	(3)%	(3)%
EBITA ¹⁾	580	293	594
as a % of sales	8.1%	4.3%	8.0%
EBIT	413	185	486
as a % of sales	5.8%	2.7%	6.6%
Net operating capital (NOC) ¹⁾	4,462	3,638	3,813
Cash flows before financing activities ¹⁾	418	442	642
Employees (in FTEs)	38,671	37,808	33,618

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

In 2015, sales amounted to EUR 7,411 million, 8% higher on a nominal basis. Excluding a 9% positive currency effect and a 2% positive effect from portfolio changes, comparable sales decreased by 3%. Both Light Sources & Electronics and Consumer Luminaires recorded a mid-single-digit decline, partly due to the anticipated decline in conventional lighting, while Professional Lighting Solutions remained flat year-on-year.

From a geographical perspective, comparable sales in growth geographies showed a mid-single-digit decrease, largely driven by declines across all businesses in China and at Light Sources & Electronics and Professional Lighting in Middle East & Turkey. Sales in growth geographies increased from 39% of total sales in 2014 to 40% in 2015. Comparable sales in mature geographies showed a low-single-digit decline, with Western Europe and North America recording a low-single-digit decline and other mature geographies remaining flat year-on-year.

Sales of LED-based products grew to 43% of total sales, up from 34% in 2014, driven by Light Sources & Electronics and Professional Lighting Solutions. Sales of energy-efficient Green Products exceeded EUR 5,343 million, or 72% of sector sales.

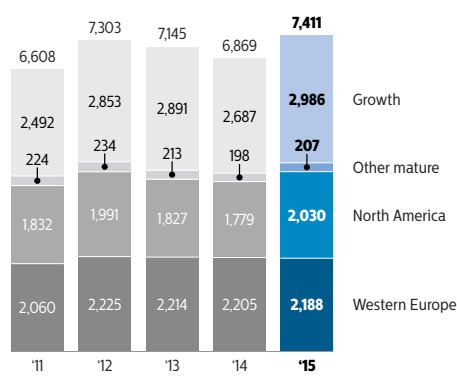
EBITA increased from EUR 293 million, or 4.3% of sales, in 2014 to EUR 594 million, or 8.0% of sales in 2015. Restructuring and acquisition-related charges amounted to EUR 99 million in 2015, compared to EUR 245 million in 2014. EBITA in 2015 also included EUR 14 million of charges related to the devaluation of the Argentine peso, while 2014 included a EUR 13 million past-service pension cost gain and EUR 68 million of impairment and other charges related to industrial assets. The increase in EBITA was mainly attributable to lower restructuring and acquisition-related charges, cost productivity and improved LED gross margins.

EBIT amounted to EUR 486 million, or 6.6% of sales, which included EUR 108 million of amortization charges, mainly related to acquired intangible assets at Professional Lighting Solutions.

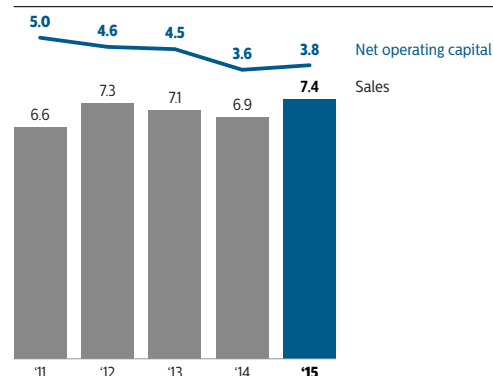
Net operating capital increased by EUR 175 million to EUR 3.8 billion. The current-year increase was mainly due to currency translation effects.

Cash flows before financing activities increased from EUR 442 million in 2014 to EUR 642 million due to higher earnings and a decrease in working capital.

Philips Lighting
Sales per geographic cluster in millions of EUR
2011 - 2015

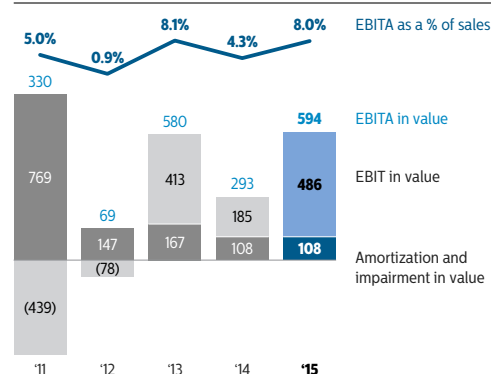


Philips Lighting
Sales and net operating capital¹⁾ in billions of EUR
2011 - 2015



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

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



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

6.3.5 Delivering on EcoVision sustainability commitments

Early in 2015, Philips Lighting engaged in a 'Light as a Service' business arrangement with Amsterdam Airport Schiphol. Under the terms of this agreement Philips will retain ownership of the lighting equipment and Schiphol will pay for the light used. The project will utilize LED-based products that will deliver 50% energy savings relative to legacy lighting. Light as a Service is starting to gain traction in the market as a new business model, because it offers state-of-the-art lighting hassle-free, does not require any customer investment, provides energy efficiency (lower CO₂ emissions), and supports the circular economy (less waste to landfill).

Within the framework of the Green Operations 2015 program, Philips Lighting has reduced its carbon footprint in manufacturing (scope 1 and 2 emissions) by approximately 58% since the baseline year of 2007. In 2015, 85% of our total industrial waste was re-used as a result of recycling. In December 2015, while speaking at COP 21 in Paris, Eric Rondolat announced Philips' commitment to making its operations carbon-neutral by 2020, both for Royal Philips and for Philips Lighting.

6.3.6 2016 and beyond

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

From an external financial reporting perspective, it should be noted that Royal Philips will introduce new segment reporting, from Q1 2016 onwards. The Lighting segment will represent the Philips Lighting businesses and include the relevant allocation of the current Innovation, Group & Services. For more details on the new segment reporting in 2016 and onwards, please refer to the introduction of Sector performance.

Further updates will be provided in the course of 2016.

6.4 Innovation, Group & Services

- Philips moved its North American Research organization to the Cambridge, Mass. area to benefit from the vibrant innovation ecosystem and to facilitate collaboration with Massachusetts Institute of Technology (MIT), academic hospitals, and business partners. Also the new site will be truly interdisciplinary, co-locating various functions like upstream marketing, strategy, design, digital accelerator, and early-stage ventures.
- Philips became the second-largest patent applicant in the world for patents filed at the European Patent Office (EPO).
- Philips Design celebrated 90 years of design legacy with a record-breaking 156 design awards.

Introduction

In 2015, Innovation, Group & Services comprised the activities of Philips Group Innovation, Group headquarters, including country and regional management, and certain costs of pension and other post-retirement benefit plans. Additionally, the global shared business services for procurement, finance, human resources, IT and real estate are reported in this sector.

6.4.1 About Innovation, Group & Services in 2015

Philips Group Innovation

At Philips, our innovation efforts are closely aligned with our business strategy. Philips Group Innovation (PGI) feeds the innovation pipeline, enabling its business partners – the Philips operating businesses – to create new business options through new technologies, new business creation, and intellectual property management and development. Focused research and development improvement activities drive time-to-market efficiency and increased innovation effectiveness.

PGI boosts innovation from idea to product as co-creator and strategic partner for the Philips businesses and complementary Open Innovation ecosystem partners. It does so through cooperation between research, design, marketing, strategy and businesses in interdisciplinary teams along the innovation chain, from front-end to first-of-a-kind product development. In addition, PGI opens up new value spaces beyond the direct scope of current businesses (Emerging Business Areas), manages the Company-funded R&D portfolio, and creates synergies for cross-sector initiatives.

PGI encompasses Philips Research, Philips Innovation Services, the Philips Innovation Campus in Bangalore, the Philips Innovation Center Shanghai, the Philips Innovation Labs in Cambridge (USA), the Philips Africa Innovation Hub, Philips Design, the Philips HealthTech Incubator, and the Emerging Business Areas. In total, PGI employs some 5,000 professionals around the globe.

PGI actively participates in Open Innovation through relationships with academic and industrial partners, as well as via European and regional projects, in order to improve innovation effectiveness and efficiency, capture and generate new ideas, enhance technology partnering capabilities, and share the related financial exposure. The High Tech Campus in Eindhoven (Netherlands), the Philips Innovation Campus in Bangalore (India), the Philips Innovation Center in Shanghai (China) and the Philips Cambridge Innovation Labs (USA) are prime examples of environments enabling Open Innovation.

Through Open Innovation, Philips seeks to apply new thinking to solving major societal issues. A great example is the five-year alliance between Philips Research and Massachusetts Institute of Technology (MIT) aimed at speeding up advancements in health technology solutions to help address society's most pressing challenges in healthcare, as well as digital connected lighting systems to address the need to make cities more livable and sustainable. With a total budget of USD 25 million for the five-year term, this is the largest research alliance undertaken by the company in the region. Philips researchers will be collaborating intensely with MIT faculty and PhD students on jointly defined research programs and Open Innovation projects.

Philips Research

Philips Research is the main partner of Philips' operating businesses for technology-enabled innovation. It creates new technologies and the related intellectual property, which enables Philips to grow in businesses and markets. Together with the businesses and the markets, Philips Research co-creates innovations to strengthen the core businesses as well as to open up new opportunities in adjacent business areas. Research's innovation pipeline is aligned with Philips' vision and strategy and inspired by unmet customer needs as well as major societal challenges.

In the area of Healthcare, we continue to engage with customers in novel ways to discover unmet needs and co-create solutions with our partners. The Digital Accelerator and the recently opened HealthSuite Lab at the High Tech Campus in Eindhoven, for example, enable us to fast-track the development and execution of new care models and solutions, together with partners and customers such as hospital networks, supported by the latest digital technologies and rapid prototyping. Through research partnerships, such as our agreements with Stockholm County Council and Karolinska University Hospital, researchers from different industries, hospitals and academia are brought together to facilitate closer links between the delivery of care and clinical research.

In the area of Lighting, we remain highly focused on offering solutions across the lighting value chain, including software, controls, luminaires, light sources and modules. We are shifting our lighting portfolio from individual products towards connected LED lighting systems and services, LED luminaires and LED lamps for the professional and consumer markets. In close collaboration with the US Department of Defense/US Army Base Fort Sill (Oklahoma) in North America, Philips Research demonstrated how the use of advanced LED light sources and smart lighting controls can result in substantial energy and cost savings while improving the quality of light in terms of color rendering and brightness. The initiative was honored with the ESTCP (Environmental Security Technology Certification Program) 2015 'Project of the Year Award' for Energy and Water.

Philips Innovation Services

Philips Innovation Services offers a wide range of expert services in development, realization & consulting. Innovation Services' skills are leveraged by Philips Businesses, Markets and Philips Group Innovation in all regions.

Together with Research and a new dedicated Connected Digital Proposition team, Innovation Services has helped realize various connected products as part of personal health programs launched at IFA in Berlin – the health watch, blood pressure monitor, body analysis scale and ear thermometer – as well as the recently announced cooperation with Charité – Universitätsmedizin Berlin on preventing delirium in critical care with lighting and acoustics concepts.

Philips Innovation Services also supported projects such as Philips LifeLight, the new zero-energy, solar-powered LED lighting range designed for homes in off-grid rural and semi-urban communities, as part of Philips' drive to deliver innovations that are locally relevant.

Philips Innovation Campus Bangalore

Philips Innovation Campus Bangalore (PIC) hosts activities from most of our operating businesses, Philips Research, Design, IP&S, and IT. Healthcare is the largest R&D organization at PIC, with activities in Imaging Systems, Patient Care & Monitoring Solutions, and Healthcare Informatics, Solutions & Services. While PIC originally started as a software center, it has since developed into a broad product development center (including mechanical, electronics, and supply chain capabilities). Several Healthcare businesses have also located business organizations focusing on growth geographies at PIC.

Philips Innovation Center Shanghai

Philips Research China is Philips' second-largest research lab globally. The organization has staff working in the Healthcare, Consumer Lifestyle and Lighting programs and cooperates extensively with

Philips labs across the world. Research China anchors our broader commitment to our Shanghai R&D campus as an innovation hub.

Philips Cambridge Innovation Labs (USA)

The new Philips Cambridge Innovation Labs that opened in October 2015 are situated in the hub of the Cambridge/Boston ecosystem. The labs are the new home to approximately 100 Philips Research North America employees and another 150 Philips employees from other innovation functions and ventures. Being within close proximity to the MIT campus allows researchers to collaborate easily with MIT faculties and PhD students on jointly defined research programs, as well as to participate in Open Innovation projects. The joint teams are working on advancements in healthcare and connected lighting systems

Philips Africa Innovation Hub

The Philips Africa Innovation Hub in Nairobi, Kenya, creates locally relevant innovations 'in Africa, for Africa', with particular focus on improving access to lighting and affordable healthcare. The Africa Innovation Hub is a collaboration between Philips Group Innovation and Philips' Africa market organization.

Philips Design

Celebrating its 90th anniversary in 2015, Philips Design is the global design function for the company, ensuring that innovations are meaningful, people-focused and locally relevant. The Design group is also tasked with ensuring that the Philips brand experience is differentiating, consistently expressed and drives customer preference.

Philips Design partners with the Philips businesses, Group Innovation and functions, championing a multidisciplinary co-create approach that brings teams together to understand the different factors that influence how a new product or solution will appear, perform and behave. Philips Design is widely recognized as a world leader in design and in 2015 alone received 156 design awards, including the IDSA silver award for the Connected NICU (Neo-Natal Intensive Care Unit), a concept aimed at supporting family-centered and developmental care, improved parental experience, long-term development and quality of life for pre-term babies.

Increasingly we are leveraging our design capabilities and processes to work directly with our customers and our customer-facing teams. For example, the long-term deals announced in 2015 with Mackenzie Health in Canada and Westchester Medical Center include innovation and design consulting. Innovating directly with our customers enables Philips Design to deliver people-focused improvements that optimize the patient experience and overall performance of their healthcare systems across the health continuum.

Philips Healthcare Incubator

The Philips Healthcare Incubator is a group dedicated to identifying, developing and bringing breakthrough products and services to market that will drive the future of healthcare. One of the ventures is Digital Pathology Solutions, which empowers pathologists with a complete connected digital pathology solution that is designed to optimize productivity and workflow, and ultimately to improve the quality of diagnosis.

Another venture is Handheld Diagnostics, with its Minicare proposition, which provides direct diagnostic information at the patients' bedside, enabling physicians to make medical decisions on the spot. Based on innovative technologies, we have designed easy-to-use, patient-centric IVD (in-vitro diagnostics)-enabled solutions and connected services that have the potential to revolutionize health management and improve existing workflows. The Home Clinical Monitoring venture performs remote monitoring to support patients during chemotherapy. Finally, the acquisition of the Danish medical technology company Unisensor led to the establishment of Philips Biocell, which has released the oCelloScope System, an analytical instrument that is, among other applications, used within microbiological studies on a research application basis.

Philips Emerging Business Areas

Philips Emerging Business Areas identify, create and grow new activities that are outside the scope of the current operating businesses. The portfolio is managed on a venturing basis. The opportunities and business models identified by the individual new business activities determine the approach to commercial partnerships, sourcing of technology, and platforms to reach customers. Current examples of successful new solution businesses or enablers for these include Horticulture LED Solutions*, Light for Health, Photonics, Wearable Sensing Technologies, Elder Care Solutions and Mental Vitality.

Philips Horticulture LED Solutions stands for solutions that improve growers' business performance. With customized 'light recipes' we can help optimize crop yield and quality. We combine crop growth knowledge and technology, and value long-term partnerships in business and research. Hundreds of projects have been realized in different regions in different segments. In July 2015, Philips CEO Frans van Houten opened the state-of-the-art GrowWise Center at the High Tech Campus in Eindhoven, the Netherlands. Research being conducted by Philips will provide tailor-made LED light recipes, making it possible for producers to increase their yields and grow tasty and healthy food indoors all year round, while reducing waste, limiting food miles and using practically no land or water.

Leveraging its advanced understanding of the biological effects of light, a team of Philips Light for Health researchers, collaborating with leading research

institutions and hospitals, has developed a number of products like Philips BlueControl, which feature LED light and offer proven medical benefits.

Philips Photonics is a global leader in VCSEL technology and designs, manufactures, markets and sells VCSEL-based solutions for data communications, consumer and industrial applications. VCSELs are LED-like lasers enabling applications like gesture control, environmental sensing, precise scene illumination for surveillance cameras, and ultra-fast data communication. Philips Photonics has enabled the introduction of laser-based PC mice and high-bit-rate active optical cables, as well as introducing VCSEL-based solutions for industrial processing of plastic materials.

* Philips Horticulture LED Solutions will move to Philips Lighting in 2016.

Philips Intellectual Property & Standards

Philips IP&S proactively pursues the creation of new Intellectual Property (IP) in close co-operation with Philips' operating businesses and Philips Group Innovation. IP&S is a leading industrial IP organization providing world-class IP solutions to Philips' businesses to support their growth, competitiveness and profitability.

Philips' IP portfolio currently consists of 76,000 patent rights, 47,000 trademarks, 91,000 design rights and 5,000 domain names. Philips filed 1,750 patents in 2015, with a strong focus on the growth areas in health and well-being.

IP&S participates in the setting of standards to create new business opportunities for the Philips operating businesses. A substantial portion of revenue and costs is allocated to the operating businesses. Philips believes its business as a whole is not materially dependent on any particular patent or license, or any particular group of patents and licenses.

Group and Regional Costs

Group and Regional organizations support the creation of value, connecting Philips with key stakeholders, especially our employees, customers, governments and society. These organizations include the Executive Committee, Brand Management, Sustainability, New Venture Integration, the Group functions related to strategy, human resources, legal and finance, as well as country and regional management.

Accelerate! investments

Innovation, Group & Services plays an important role in the Accelerate! program, notably by helping to improve the end-to-end value chain. The End2End approach consists of three core processes: Idea-to-Market, Market-to-Order, and Order-to-Cash. Innovation, Group & Services supports a more efficient and effective Idea-to-Market process in five focal areas: speeding up time-to-market, portfolio optimization, driving

breakthrough innovation, improving innovation competencies, and strengthening the position of Philips as an innovation leader.

Pensions

Pensions manage and oversee post-employment benefits of all Philips employees.

Service Units and Other

Service Units and Other provide shared functional services to businesses in areas such as IT, Real Estate and Accounting, thereby helping to drive global cost efficiencies.

6.4.2 2015 financial performance

Philips Innovation, Group & Services
Key data in millions of EUR unless otherwise stated
 2013 – 2015

	2013	2014	2015
Sales	665	605	574
Sales growth			
% increase (decrease), nominal	6%	(9)%	(5)%
% increase (decrease), comparable ¹⁾	0%	(12)%	5%
EBITA of:			
Group Innovation	(134)	(197)	(222)
IP Royalties	312	299	284
Group and regional costs	(175)	(205)	(569)
Accelerate! investment	(137)	(131)	(113)
Pensions	(41)	(12)	(355)
Service units and other	(124)	(415)	56
EBITA ¹⁾	(299)	(661)	(919)
EBIT	(302)	(675)	(934)
Net operating capital (NOC) ¹⁾	(2,922)	(3,718)	(3,382)
Cash flows before financing activities ¹⁾	(2,140)	(1,586)	(2,086)
Employees (in FTEs)	12,703	13,853	14,233

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

In 2015, sales amounted to EUR 574 million, and were mainly related to IP Royalties. Sales were EUR 31 million lower than in 2014, mainly due to the divestment of the OEM remote control business, partly offset by higher sales at Philips' emerging businesses such as Digital Pathology and Photonics.

EBITA amounted to a net cost of EUR 919 million, compared to EUR 661 million in 2014. EBITA in 2015 included a EUR 20 million net release of restructuring charges, compared to EUR 113 million restructuring charges in 2014. EBITA in 2015 also included charges of EUR 183 million related to the separation of the Lighting business, EUR 345 million mainly related to settlements for pension de-risking, and a EUR 37 million gain related to the sale of real estate assets. EBITA in 2014 included EUR 244 million of charges related to the CRT settlement and a EUR 27 million past-service pension cost gain.

EBITA at Group Innovation was a EUR 25 million higher net cost than in 2014, mainly due to higher investments in emerging business areas.

EBITA at Group and Regional costs were EUR 364 million lower than in 2014, reflecting EUR 183 million related to the separation of the Lighting business and higher charges mainly related to information security and Quality & Regulatory.

Accelerate! investments amounted to EUR 113 million in 2015 and included investments in IT infrastructure, internal departments and external consultancy dedicated to the Accelerate! program.

EBITA at Pensions amounted to a net cost of EUR 355 million and represents costs related to deferred pensioners covered by company plans. 2015 included charges of EUR 345 million related to pension de-risking settlements.

EBITA at Service Units and Other increased from a loss of EUR 415 million in 2014 to a gain of EUR 56 million in 2015. The increase of EUR 471 million was largely due to lower restructuring costs and CRT antitrust litigation charges reported in 2014.

Net operating capital improved to negative EUR 3.4 billion, mainly due to a decrease in provisions.

Cash flows before financing activities decreased from an outflow of EUR 1,586 million in 2014 to an outflow of EUR 2,086 million.

6.4.3 2016 and beyond

From an external financial reporting perspective, it should be noted that Royal Philips will introduce new segment reporting from Q1 2016 onwards. The current Innovation, Group & Services will be split and allocated to the segments of Royal Philips and Philips Lighting. The remaining unallocated corporate items will contain certain legacy items and separation costs. For more details on the new segment reporting in 2016 and onwards, please refer to the introduction of chapter 6, Sector performance, of this Annual Report.

Further updates will be provided in the course of 2016.

8 Management

Koninklijke Philips N.V. is managed by an Executive Committee which comprises the members of the Board of Management and certain key officers from functions, businesses and markets.

The Executive Committee operates under the chairmanship of the Chief Executive Officer and shares responsibility for the deployment of Philips' strategy and policies, and the achievement of its objectives and results.

In September 2014 Philips announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on the HealthTech and Lighting opportunities respectively. Early 2016, a stand-alone structure for Philips Lighting was established, within the Royal Philips Group. Until the right strategic option for its future is identified and executed, the Royal Philips Executive Committee will, under the supervision of the Supervisory Board, continue to oversee the Philips Lighting business.

Under Dutch Law, the Board of Management is accountable for the actions of the Executive Committee and has ultimate responsibility for the management and external reporting of Koninklijke Philips N.V. and is answerable to shareholders at the Annual General Meeting of Shareholders. Pursuant to the two-tier corporate structure, the Board of Management is accountable for its performance to a separate and independent Supervisory Board.

The Rules of Procedure of the Board of Management and Executive Committee are published on the Company's website (www.philips.com/investor).

Corporate governance

A full description of the Company's corporate governance structure is published in chapter 11, Corporate governance, of this Annual Report.



Frans van Houten
Born 1960, Dutch

President/Chief Executive Officer (CEO)

Chairman of the Board of Management since April 2011

Group responsibilities: Chairman of the Executive Committee, Health Systems, Internal Audit, Information Technology, Supply Management, Innovation & Strategy, Sustainability, Accelerate! - Overall transformation, End2End, Quality and Regulatory Compliance



Abhijit Bhattacharya
Born 1961, Indian

Executive Vice President & Chief Financial Officer (CFO)

Member of the Board of Management since December 2015

Group responsibilities: Finance, Capital structure, Mergers & Acquisitions, Investor Relations, Accelerate! - Operating Model



Marnix van Ginneken
Born 1973, Dutch/American

Executive Vice President & Chief Legal Officer

Group responsibilities: Legal and General Secretary



Denise Haylor
Born 1964, British/American

**Executive Vice President &
Chief Human Resources Officer**
Group responsibilities: Human Resources, Accelerate! - Culture



Eric Rondolat
Born 1966, Italian/French

**Executive Vice President &
Chief Executive Officer Philips Lighting**
Group responsibilities: Philips Lighting



Ronald de Jong
Born 1967, Dutch

**Executive Vice President &
Chief Market Leader**
Group responsibilities: Markets, Countries (all except Greater China & North America), Government Affairs, Accelerate! - Customer centricity



Pieter Nota
Born 1964, Dutch

**Executive Vice President & Chief Executive Officer of Personal Health,
Chief Marketing Officer, Member of the Board of Management since April
2011**
Group responsibilities: Sector Consumer Lifestyle, Accelerate! - Resource to Win, Marketing

9 Supervisory Board

The Supervisory Board supervises the policies of the executive management and the general course of affairs of Koninklijke Philips N.V. and advises the executive management thereon. The Supervisory Board, in the two-tier corporate structure under Dutch law, is a separate and independent corporate body.

The Rules of Procedure of the Supervisory Board are published on the Company's website. For details on the activities of the Supervisory Board, see chapter 10, Supervisory Board report, of this Annual Report and section 11.2, Supervisory Board, of this Annual Report.

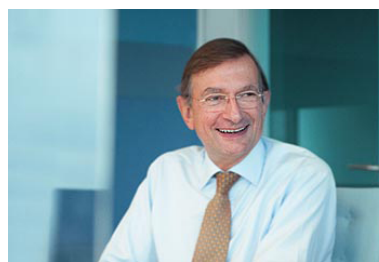
¹⁾ member of the Audit Committee

²⁾ member of the Remuneration Committee

³⁾ member of the Corporate Governance and Nomination & Selection Committee

⁴⁾ member of the Quality & Regulatory Committee

⁵⁾ member of the Separation Committee



Jeroen van der Veer

Born 1947, Dutch ^{2),3),5)}

Chairman

Chairman of the Corporate Governance and Nomination & Selection Committee

Member of the Supervisory Board since 2009; second term expires in 2017

Former Chief Executive and Non-executive Director of Royal Dutch Shell and currently Chairman of the Supervisory Board of ING Group. Member of the Supervisory Board of Concertgebouw N.V. and Royal Boskalis Westminster N.V.



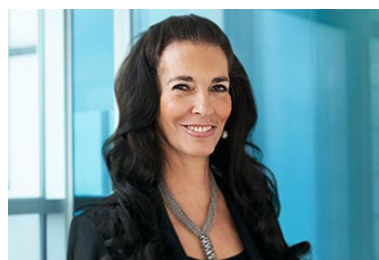
Neelam Dhawan

Born 1959, Indian ¹⁾

Member of the Supervisory Board since 2012;

first term expires in 2016

Currently Managing Director of Hewlett-Packard Enterprise India



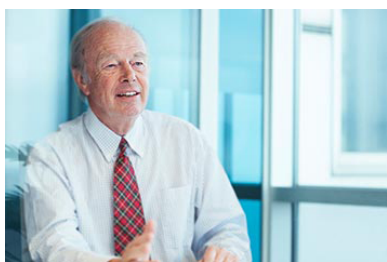
Orit Gadiesh

Born 1951, Israeli/American ¹⁾

Member of the Supervisory Board since 2014;

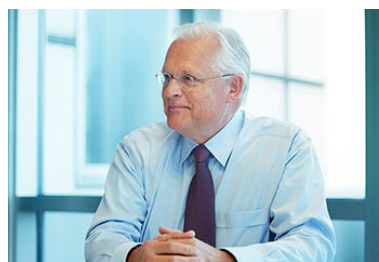
first term expires in 2018

Currently Chairman of Bain & Company and the International Business Leaders' Advisory Council for the Mayor of Shanghai (IBLAC). Member of the Foundation Board of the World Economic Forum (WEF). Also serves on the Advisory Board for the British-American Business council



Ewald Kist
Born 1944, Dutch ²⁾

Member of the Supervisory Board since 2004;
third term expires in 2016
Former Chairman of the Executive Board of ING Group and currently member of the Supervisory Boards of the Dutch Central Bank, DSM and Moody's Investor Service



Heino von Prondzynski
Born 1949, Swiss/German ^{2),3),4)}

Chairman of the Remuneration Committee
Member of the Supervisory Board since 2007;
third term expires in 2019
Former member of the Corporate Executive Committee of the F. Hoffmann-La Roche Group and former CEO of Roche Diagnostics, currently Chairman of the Supervisory Boards of HTL Strefa and Epigenomics AG. Member of the Supervisory Board of Quotient Ltd.



Kees van Lede
Born 1942, Dutch ⁵⁾

Chairman of the Separation Committee
Member of the Supervisory Board since 2003;
fourth term expires in 2017
Former Chairman of the Board of Management of Akzo Nobel. Currently member of the Supervisory Boards of AirFrance/KLM and Senior Advisor JP Morgan Plc.



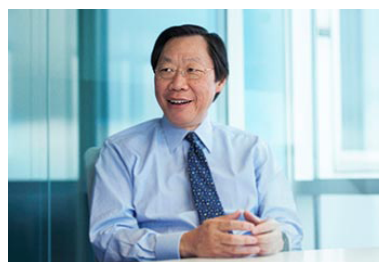
David Pyott
Born 1953, British ^{1),4)}

Member of the Supervisory Board since 2015;
first term expires in 2019
Former Chairman and Chief Executive Officer of Allergan, Inc. (since 2001 and 1998, respectively, until 2015). Currently Director of Avery Dennison Corporation and its Lead Independent Director (since 1999 and 2010, respectively). Member of the Board of Directors of Alnylam Pharmaceuticals Inc. and of BioMarin Pharmaceutical Inc. Also member of the Board of Trustees of Chapman University, member of the Governing Board of the London Business School, President of the International Council of Ophthalmology Foundation and member of the Advisory Board of the Foundation of the American Academy of Ophthalmology.



Christine Poon
Born 1952, American ^{2),3),4)}

Vice-chairman and Secretary
Chairman of the Quality & Regulatory Committee
Member of the Supervisory Board since 2009;
second term expires in 2017
Former Vice-Chairman of Johnson & Johnson's Board of Directors and Worldwide Chairman of the Pharmaceuticals Group and former dean of Ohio State University's Fisher College of Business. Currently member of the Board of Directors of Prudential and Regeneron



Jackson Tai
Born 1950, American ^{1),4),5)}

Chairman of Audit Committee
Member of the Supervisory Board since 2011;
second term expires in 2019
Former Vice-Chairman and CEO of DBS Group and DBS Bank Ltd and former Managing Director at J.P. Morgan & Co. Incorporated. Currently a member of the Boards of Directors of The Bank of China Limited, MasterCard Incorporated and Eli Lilly and Company. Also Non-Executive Director of privately-held Russell Reynolds Associates and of Vaporstream

18 Definitions and abbreviations

BMC

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

Brominated flame retardants (BFR)

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

CO₂-equivalent

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

Cash flow before financing activities

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

Chlorofluorocarbon (CFC)

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

Circular economy

A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using those resources more effectively. By definition it is a driver for innovation in the areas of material-, component- and product reuse, as well as new business models such as solutions and services. In a Circular Economy, the more effective use of materials enables to create more value, both by cost savings and by developing new markets or growing existing ones.

Comparable sales

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

Continuing net income

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

Dividend yield

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

EBITA

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

EBITA per common share

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

Electronic Industry Citizenship Coalition (EICC)

The Electronic Industry Citizenship Coalition was established in 2004 to promote a common code of conduct for the electronics and information and communications technology (ICT) industry. EICC now includes more than 100 global companies and their suppliers.

Employee Engagement Index (EEI)

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

Energy-using Products (EuP)

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

Free cash flow

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

Full-time equivalent employee (FTE)

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

Global Reporting Initiative (GRI)

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

Green Innovation

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

Green Products

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

Growth geographies

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

Hydrochlorofluorocarbon (HCFC)

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

Income from continuing operations

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

Initiatief Duurzame Handel (IDH)

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

International Standardization Organization (ISO)

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

Light-Emitting Diode (LED)

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

Lives improved by Philips

To calculate how many lives we are improving, market intelligence and statistical data on the number of people touched by the products contributing to the social or ecological dimension over the lifetime of a product are multiplied by the number of those products delivered in a year. After elimination of double counts – multiple different product touches per individual are only counted once – the number of lives improved by our innovative solutions is calculated. We established our 2012 baseline at 1.6 billion a year.

Mature geographies

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

Net debt : group equity ratio

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

Non-Governmental Organization (NGO)

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

OEM

Original Equipment Manufacturer.

Operational carbon footprint

A carbon footprint is the total set of greenhouse gas emissions caused by an organization, event, product or person; usually expressed in kilotonnes CO₂-equivalent. The Philips operational carbon footprint is calculated on a half-year basis and includes industrial sites (manufacturing and assembly sites), non-industrial sites (offices, warehouses, IT centers and R&D facilities), business travel (lease and rental cars and airplane travel) and logistics (air, sea and road transport).

Perfluorinated compounds (PFC)

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

Polyvinyl chloride (PVC)

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

Productivity

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

Regulation on Hazardous Substances (RoHS)

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

Return on equity (ROE)

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

Return on invested capital (ROIC)

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

SF₆

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

Turnover rate of net operating capital

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

Voluntary turnover

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

Waste Electrical and Electronic Equipment (WEEE)

The Waste Electrical and Electronic Equipment Directive (WEEE Directive) is the European Community directive on waste electrical and electronic equipment which became European Law in February 2003, setting collection, recycling and recovery targets for all types of electrical goods. The directive imposes the responsibility for the disposal of waste electrical and electronic equipment on the manufacturers of such equipment.

Weighted Average Statutory Tax Rate (WASTR)

The reconciliation of the effective tax rate is based on the applicable statutory tax rate, which is a weighted average of all applicable jurisdictions. This weighted average statutory tax rate (WASTR) is the aggregation of the result before tax multiplied by the applicable statutory tax rate without adjustment for losses, divided by the group result before tax.

19 Forward-looking statements and other information

Forward-looking statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items, in particular section 5.5, Outlook, of this Annual Report. Examples of forward-looking statements include statements made about our strategy, estimates of sales growth, future EBITA and future developments in our business. Forward-looking statements can be identified generally as those containing words such as “anticipates”, “assumes”, “believes”, “estimates”, “expects”, “should”, “will”, “will likely result”, “forecast”, “outlook”, “projects”, “may” or similar expressions. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

These factors include, but are not limited to, domestic and global economic and business conditions, developments within the euro zone, the successful implementation of our strategy and our ability to realize the benefits of this strategy, our ability to develop and market new products, changes in legislation, legal claims, changes in exchange and interest rates, changes in tax rates, pension costs and actuarial assumptions, raw materials and employee costs, our ability to identify and complete successful acquisitions and to integrate those acquisitions into our business, our ability to successfully exit certain businesses or restructure our operations, the rate of technological changes, political, economic and other developments in countries where Philips operates, industry consolidation and competition, and the state of international capital markets as they may affect the timing and nature of the dispositions by Philips of its interests in the Lighting business and the Lumileds and Automotive business.

As a result, Philips' actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, see also chapter 7, Risk management, of this Annual Report.

Third-party market share data

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

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

Fair value information

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

IFRS basis of presentation

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

Use of non-GAAP information

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

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

Statutory financial statements and management report

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

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

