

## Addressing healthcare challenges through innovation



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 2017. The information in this PDF has been derived from the audited financial statements 2017 of Koninklijke Philips N.V. Ernst & Young Accountants has issued unqualified auditors' reports on these financial statements.

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*Grey text indicates parts not included in this selection from the Philips Annual Report 2017.*

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# 1 Message from the CEO

“I am pleased with our transformation progress to become a focused leader in health technology and see tremendous further potential to grow Philips’ market positions and expand margins.” **Frans van Houten**, CEO Royal Philips

## Dear Stakeholder,

2017 was a good year of solid progress for Philips, as we continued our transformation to become a focused leader in health technology and delivered on our improvement targets for the year. In line with our commitments we delivered 4% comparable sales growth<sup>1</sup>, resulting in a 10-basis-point gain in market share. We also improved operating profitability, with an Adjusted EBITA<sup>1</sup> margin increase of 110 basis points, and generated a strong EUR 1.2 billion free cash flow<sup>1</sup>. This underscores our ability to stay the course, in this case against a background of challenging economic circumstances in Europe and considerable uncertainty in the US around healthcare policy.

Our organic growth initiatives are delivering tangible results. Overall we recorded 6% order growth for the year. In Diagnostic Imaging, for instance, we ended the year with high-single-digit order growth and realized market share gains in China and India, driven by the renewal of 60% of our portfolio. We also noted a strong increase in order intake in our Digital Pathology Solutions business, double-digit growth of our Sleep & Respiratory Care devices, and the continued success of our OneBlade hybrid facial hair styler. And we introduced several important innovations, gained traction with our solutions approach – securing multiple long-term strategic partnerships – and continued to invest in quality and talent.

We further strengthened our portfolio through targeted acquisitions, the largest being Spectranetics, a global leader in vascular intervention and lead management solutions. The integration of these acquisitions is on track. Toward the end of the year we deconsolidated Philips Lighting as we reduced our shareholding to below 30%, in line with our stated aim to fully sell down our stake.

2017 saw the completion of the industry reclassification of our stock to Healthcare at all major indices. Our customers and the financial markets appreciate the way we have pivoted and executed on our strategic roadmap. And we increased our brand value to USD 11.5 billion in the 2017 Interbrand ranking.

Continuing to drive our five-year ‘Healthy people, sustainable planet’ program, with its focus on Circular Economy, Access to Care and Climate Action, we improved the lives of 2.2 billion people around the world in 2017, and we again received top rankings from leading indices such as the Dow Jones Sustainability Index and the Carbon Disclosure Project. At the United Nations in September we made an extended commitment to improve the lives of 300 million people in underserved healthcare communities by 2025.

Overall, I am pleased with the progress we made in 2017. Our purpose is very clear. We are here to improve health and healthcare through innovations! We have a vibrant, highly committed workforce, with employee engagement consistently above the high-performing norm and rising from 74% to 76% this year. We have good momentum on our way to position ourselves for a future with higher growth and earnings potential. Clearly, we can still improve operational excellence: making further progress on product performance and our commitment to quality is our highest priority for 2018. However, I am very confident in our ability to capture the opportunities and deal with the challenges ahead, as we work toward our goal of improving the lives of 3 billion people a year by 2025.

## Innovating with purpose

In the face of growing and aging populations, the rise of chronic diseases, and global resource constraints, health systems the world over are under enormous strain. Digital technology is transforming the healthcare industry, increasingly shifting value towards software and services. It also has the potential to enable more and more people to actively take ownership of their health and well-being.

For Philips – with leadership positions in both personal health and professional healthcare – we see that innovation can transform the delivery of care across the health continuum, enabling new relationships between care providers and patients/consumers, and driving better patient outcomes, higher productivity and a better user experience for all concerned.

<sup>1</sup> Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report

We are driving this transformation in different ways:

- By offering consumers connected solutions – like our Sonicare DiamondClean Smart oral care and DreamWear sleep therapy solutions – that support superior preventive care and those living with chronic disease respectively.
- By giving clinicians the solutions they need to perform care with better outcomes and higher productivity, such as our Healthcare Informatics solutions. These support first-time-right diagnosis and increase productivity by integrating radiology, pathology and genomics information at the point of care, with AI-driven clinical decision support.
- By empowering clinicians to deliver precision treatments supported by ground-breaking innovations for image-guided therapies, including our advanced live image-guidance solutions, hybrid operating rooms and smart devices such as our diagnostic and therapeutic catheters.
- By enabling the seamless flow of data needed to care for patients in real time wherever they are, by ‘joining up the dots’ from the ICU to the home with our HealthSuite digital platforms and patient monitoring solutions, again supported by powerful algorithms that can predict adverse patient incidents hours in advance.

All of this with the objective of supporting the shift to value-based healthcare, a model that aims to improve patient outcomes while at the same time increasing productivity – that is *innovation with purpose*. And there’s more to come from our pipeline, thanks to our consistently high levels of investment in R&D, where some 60% of our people are focused on software and data science.

#### The road forward

Looking ahead, we see significant opportunities to further increase the value we deliver – by boosting growth in our existing core business, growing in adjacencies, and driving customer and operational excellence. We know that our strategy has traction, so now it is execution that matters most.

#### Boosting growth in core business

One of the ways we will capture new growth in our core business is by continuing to leverage products and solutions that have worked well in mature markets and bringing them to growth geographies where we have a strong footprint and brand recognition – as we have done with our Sonicare power toothbrushes in China.

In addition, we are increasingly partnering with hospital customers in new business models, engaging in long-term strategic partnerships to innovate value-added, integrated solutions that deliver better outcomes and higher productivity.

We now have over 110 of these long-term partnerships, up from 60-plus in 2016, and the number continues to rise. The combination of compelling solutions and consultative partnership contracts drives above-average growth rates and a higher proportion of recurring revenues.

#### Growing in adjacencies

We have completed two substantial M&A transactions over the last few years, Volcano and Spectranetics. These were targeted to meet our strategic objectives, to complement our leadership in cardiovascular interventions with smart devices, so that we can support complete vascular procedures. Volcano has worked out very well, having risen to double-digit growth and much improved profitability since we integrated the business; and we have similar expectations of Spectranetics, as we leverage our post-merger integration capabilities to unlock maximum value.

Another route to growth in adjacencies is through organic growth and investments in R&D. To extend our strong portfolio in patient monitoring, for example, we have invested in medical-grade wearables so that patients don’t need to be wired up but can be continuously measured, wherever they are. We continue to invest in Digital Pathology, as we believe the digitization of tissue slides is going to completely transform the clinical practice of pathology. We are pleased we are now able to market our IntelliSite Pathology Solution for primary diagnostic use in the USA, and we have since seen a sharp increase in order growth.

At the same time, we do not need to do everything ourselves. In 2017, for example, we entered into a partnership with B. Braun to innovate and accelerate growth in ultrasound-guided regional anesthesia and vascular access. And we have a host of other value-adding alliances where we have decided we can better expand our capabilities through partnering, rather than going it alone.

Continuing the digital transformation of Philips is absolutely fundamental to our future. We continue to invest in our secure HealthSuite digital eco-system platform – to enable digital health propositions that connect consumers and doctors to Philips through the cloud, enabling new business models and unlocking new revenue streams. We currently have over 30 cloud-connected propositions in the market.

Today, we sell a large proportion of our Personal Health products through online channels, aided by digital marketing. And now we are transferring that marketing capability to our health systems channels, so that we become more effective at reaching healthcare professionals. We are also connecting our back-office systems to our customers to enable new recurring

revenue streams and enhanced customer loyalty in Software as a Service and Product as a Service business models.

#### **Driving customer and operational excellence**

To ensure that our solutions are truly customer-centric, we use 'design thinking' and our proven 'Co-create' methodology, whereby we come together with healthcare professionals to explore how our combined knowledge, resources and shared vision could improve the delivery of care.

In our drive for operational excellence we continue with disciplined implementation of the Philips Business System and Lean principles. The adoption of Hoshin methodology to plan and drive execution has yielded significant gains across the group. Our productivity measures will add up to over EUR 1.2 billion over the three-year period 2017–2019, having delivered around EUR 480 million in 2017.

We continue to drive quality and regulatory performance improvement throughout the company. Nevertheless, we did not fully deliver to our 2017 plan as we continue to address two significant regulatory challenges that arose from years ago. We must continue our improvement journey forcefully.

Building on the strong 6% order growth for the full year 2017, consistent execution on these value drivers will enable us to deliver, in 2018, on our medium-term targets of 4-6% comparable sales growth<sup>1</sup> and an average annual improvement in Adjusted EBITA<sup>1</sup> margin of 100 basis points.

#### **In conclusion**

We have made strong progress in our transformation to become a focused leader in health technology. Going forward, we are committed to single-mindedly improve performance and attain higher levels of growth. To this end we are continuing to strengthen our culture – putting our customers first, acting with quality and integrity, teaming up to win, taking ownership to deliver fast, and learning, improving and inspiring each other, every step of the way.

I am confident that, by doing so, we will be able to expand our strong positions across the health continuum, extend our solutions capability to address our customers' unmet needs, and deliver the full benefits of data-enabled connected care.

It only remains for me to thank our customers, shareholders and other stakeholders for the support they continue to give us. And to thank our Philips people around the world for their tremendous engagement and efforts over the past year.

**Frans van Houten**  
*Chief Executive Officer*

<sup>1</sup> Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report

# 2 Our strategic focus

## 2.1 Addressing health challenges through innovation

All around the world, resource constraints are driving a shift to value-based healthcare – a system that aims to increase access to care and improve patient outcomes while also raising cost productivity. At the same time, aging populations and the rise of chronic diseases like heart disease and respiratory conditions are driving up demand for healthcare.

In parallel, a growing focus on healthy living and prevention means more and more people are looking for new ways to proactively monitor and manage their health, also in home and community settings. And the digitalization of healthcare has reached the point where value is shifting from stand-alone products to solutions combining systems, smart devices, software and services, which deliver greater benefits to customers.

Philips sees significant value in more integrated forms of healthcare, unlocking the power of data and artificial intelligence at the point of care, while at the same time optimizing care delivery across the health continuum. This includes putting increased emphasis on both primary and secondary prevention and population health management programs.

At Philips, we are striving to make the world healthier and more sustainable through innovation, with the goal of improving the lives of 3 billion people a year by 2025.

In today's 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 support data sharing and analysis, will be a key enabler of more effective, lower-cost integrated health solutions.

We like to visualize healthcare as a continuum since it suggests the notion of continuous care. And it becomes very compelling when one thinks of this continuum as being *connected*.

By addressing healthcare as a 'connected whole' in this way, we can unlock gains and efficiencies and drive innovations that help deliver on the 'quadruple aim': enhancing the patient experience, improving health outcomes, lowering the cost of care, and improving the work life of care providers.

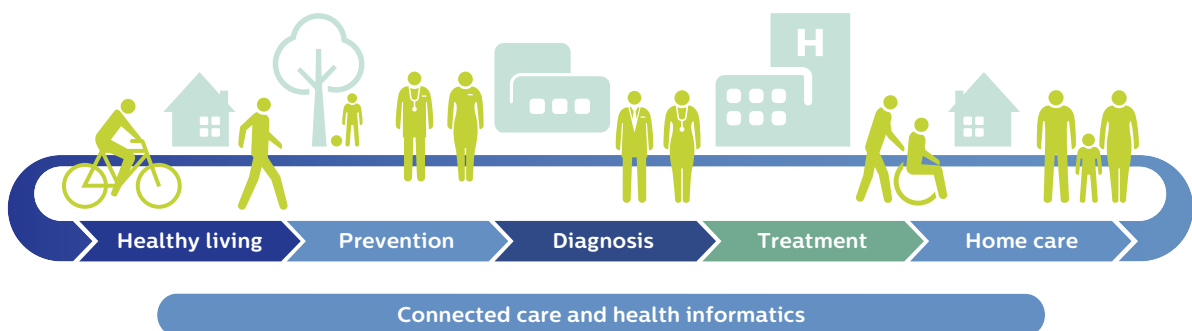
With our global reach, deep insights and leading innovations, we are uniquely positioned in 'the last yard' to consumers and care providers, delivering:

- connected products and services supporting the health and well-being of people
- integrated modalities and clinical informatics to deliver definitive diagnosis
- real-time guidance and smart devices for minimally invasive interventions
- connected therapeutic products and services for chronic care patients.

Underpinning these solutions, and spanning the health continuum, our connected care and health informatics solutions enable us to:

- connect patients and providers for more effective, coordinated, personalized care
- manage population health, leveraging real-time patient data and clinical analytics.

We are focusing on end-to-end pathways – at present primarily cardiology, oncology, respiratory care, and pregnancy and parenting – where we believe our integral approach can add even greater value for our customers.



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.

In this context, we are pioneering new business models that fit our customers' needs better. These include Technology Managed Services, as well as Software as a Service and Product as a Service models. We have also started to take co-accountability for our customers' patient outcomes and productivity.

As we embark on the next phase of our health technology journey, the drivers below are designed to help deliver higher levels of customer value and quality, boost growth, deliver winning solutions, and improve our results:



## 2.2 How we create value

### Meeting people's unmet needs

At Philips, value creation always starts with listening to people in local markets – consumers, doctors, nurses, hospital executives and administrators – so we understand the specific challenges they face in their day-to-day work.

This gives us a deep insight into their needs and aspirations. We then apply our innovative competencies, strong brand, global footprint and talented, engaged people – often in long-term partnerships – to deliver solutions that meet these needs, making the world healthier and more sustainable.

To measure the impact we 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 Products and Solutions portfolio.

### 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.

- **Strategy – Where we invest:** We manage our businesses with clearly defined strategies to deliver solutions across the health continuum and allocate resources to maximize value creation.
- **Capabilities, Assets and Positions – Our unique strengths:** 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 – How we operate:** We are a learning organization that applies common operating principles and practices to deliver to our customers with excellence.
- **Path to Value – What we deliver:** 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. All numbers are for the year ended December 31, 2017.

**Capital input**

The capitals (resources and relationships) that Philips draws upon for its business activities

<p><b>Human</b></p> <ul style="list-style-type: none"> <li>Employees <b>73,951, 120</b> nationalities, <b>36%</b> female</li> <li>Philips University <b>1,200</b> new courses, <b>830,000</b> hours, <b>570,000</b> training completions</li> <li><b>27,997</b> employees in growth geographies</li> <li>New <b>Inclusion &amp; Diversity</b> programs</li> </ul>
<p><b>Intellectual</b></p> <ul style="list-style-type: none"> <li>Invested in R&amp;D <b>EUR 1.76 billion</b> (Green Innovation <b>EUR 233 million</b>)</li> <li>Employees in R&amp;D <b>9,787</b> across the globe including growth markets</li> </ul>
<p><b>Financial</b></p> <ul style="list-style-type: none"> <li>Net debt <b>EUR 2.8 billion</b></li> <li>Equity <b>EUR 12.0 billion</b></li> <li>Market capitalization <b>EUR 29.2 billion</b></li> </ul>
<p><b>Manufacturing</b></p> <ul style="list-style-type: none"> <li>Manufacturing sites <b>38</b>, cost of materials used <b>EUR 4.9 billion</b></li> <li>Total assets <b>EUR 25.3 billion</b></li> <li>Capital expenditure <b>EUR 420 million</b></li> </ul>
<p><b>Natural</b></p> <ul style="list-style-type: none"> <li>Energy used in manufacturing <b>3,072 terajoules</b></li> <li>Water used <b>888,000 m<sup>3</sup></b></li> <li>Recycled plastics in our products <b>1,850 tonnes</b></li> </ul>
<p><b>Social</b></p> <ul style="list-style-type: none"> <li>Philips Foundation</li> <li>Stakeholder engagement</li> <li>New volunteering policy</li> </ul>

**Value outcomes**

The result of the application of the capitals to Philips' business activities and processes as shaped by the Philips Business System

<p><b>Human</b></p> <ul style="list-style-type: none"> <li>Employee Engagement Index <b>76%</b> positive</li> <li>Sales per employee <b>EUR 240,429</b></li> <li>Employee benefit expenses <b>EUR 5,824 million</b></li> </ul>
<p><b>Intellectual</b></p> <ul style="list-style-type: none"> <li>New patent filings <b>1,200</b></li> <li>IP Royalties Adjusted EBITA <b>EUR 225 million</b></li> <li><b>165</b> design awards</li> </ul>
<p><b>Financial</b></p> <ul style="list-style-type: none"> <li>Comparable sales growth <b>4%</b></li> <li>Adjusted EBITA<sup>1)</sup> as a % of sales <b>12.1%</b></li> <li>Net cash provided by operating activities <b>EUR 1,870 million</b></li> <li>Net capital expenditures <b>EUR 685 million</b></li> <li>Dividend <b>EUR 742 million</b></li> <li>Corporate taxes paid <b>EUR 349 million</b></li> <li><b>60%</b> Green Revenues</li> </ul>
<p><b>Manufacturing</b></p> <ul style="list-style-type: none"> <li><b>EUR 17.8 billion</b> products and solutions sold, with <b>2.2 billion</b> Lives improved</li> </ul>
<p><b>Natural</b></p> <ul style="list-style-type: none"> <li><b>11%</b> revenues from circular propositions</li> <li>Net CO<sub>2</sub> emissions <b>627 kilotonnes</b></li> <li><b>245,000 tonnes</b> (estimated) products put on the market</li> <li><b>24.6 kilotonnes</b> waste, of which <b>80%</b> recycled</li> <li>Environmental impact Philips' operations <b>EUR 200 million</b></li> </ul>
<p><b>Social</b></p> <ul style="list-style-type: none"> <li>Brand value <b>USD 11.5 billion</b></li> <li>Partnerships with UNICEF, Red Cross and Ashoka</li> </ul>



**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.

<sup>1)</sup> Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.



# 3 Group performance

“2017 was a year of solid progress, as we generated sales of EUR 17.8 billion underpinned by a 4% comparable sales growth, improved our operating profitability margin by 110 basis points, delivered a strong operating cash flow of EUR 1.9 billion, reduced our interest expenses by over EUR 100 million and increased net income from continuing operations to EUR 1,028 million.” **Abhijit Bhattacharya**, CFO Royal Philips

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## 3.1 Financial performance

### 3.2 Social performance

We are a purpose-driven company, aiming to improve the lives of 3 billion people annually by 2025. Our people find this purpose powerful, drawing inspiration from the societal impact we achieve. We have a highly engaged and committed workforce; our employee engagement score is consistently above the high-performing norm of 69%, rising from 71% in 2015, to 76% this year.

Our people strategy supports a constantly evolving workforce, capable of delivering strong business performance and executing our strategy. As such we focus on our Workforce of the Future, and our deep commitment to Inclusion and Diversity across our workforce, supported by a Culture of Performance. The future will require a new type of networked organization, where teams dynamically draw from across the organization and unite around a common purpose.

#### 3.2.1 Improving people's lives

At Philips, we strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025. To guide our efforts and measure our progress, we take a two-dimensional approach – social and ecological – to improving people's lives. Solutions from our portfolio that directly support the curative or preventive side of people's health determine the contribution to the social dimension. This is also our contribution to the UN Sustainable Development Goal 3 (“to ensure healthy lives and promote well-being for all at all ages”). As healthy ecosystems are also needed for people to live a healthy life, the contribution to the ecological dimension is determined by means of our steadily growing Green Solutions portfolio, such as our energy efficient products in our Personal Health businesses.

This is our contribution to Sustainable Development Goal 12 (“to ensure sustainable consumption and production patterns”).

Through Philips products and solutions that support people's health, we improved the lives of 1.34 billion people in 2017 (2016: 1.22 billion), driven by all segments. Our Green Solutions (including Philips Lighting) that contribute to a healthy ecosystem contributed 1.86 billion lives. After the elimination of double counts – people touched multiple times – we arrived at 2.2 billion lives. This is an increase of around 100 million compared to 2016, driven by all segments, mainly in China, India, and North America.

In 2014, Philips pledged to support the United Nation's **Every Woman Every Child** initiative, committing to improve the lives of at least 100 million women and children in Africa and South East Asia by 2025. At the United Nations General Assembly week in September 2017, Philips made an extended commitment to improve the lives of 300 million people in underserved healthcare communities by 2025. Philips thereby recognized the often critical needs of women and children in many communities, but also the added burden arising from the increase in non-communicable diseases (NCDs) in communities already struggling without adequate access to healthcare. To monitor our progress on the extended commitment, we use the same Lives Improved methodology and in 2017 we improved the lives of 153 million people in underserved markets (an increase of 16 million compared to 2016).

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

#### Lives Improved per market

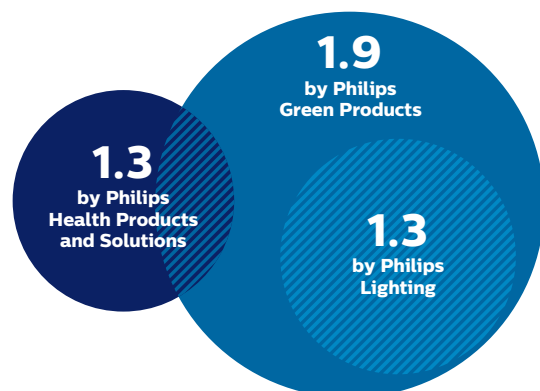
To find out about our Lives Improved metric at global, regional and market level, go to <https://www.results.philips.com/#!/interactive-worldmap>

The following table shows the Lives Improved metric per market.

Philips Group			
Lives Improved per market			
Market	Lives Improved (million) <sup>1)2)</sup>	Population (million) <sup>3)</sup>	GDP (USD billion) <sup>4)</sup>
Africa	54	1,210	2,353
ASEAN and the Pacific	246	961	6,213
Benelux	29	29	1,380
Central & East Europe	96	167	1,616
Germany, Austria and Switzerland	94	100	4,749
France	59	66	2,605
Greater China	477	1,422	12,852
Iberia	46	57	1,524
Indian subcontinent	216	1,531	2,799
Italy, Israel and Greece	55	82	2,508
Japan	38	127	4,884
Latin America	177	636	5,693
Middle East & Turkey	110	358	3,120
Nordics	26	27	1,541
North America	358	362	21,003
Russia and Central Asia	67	244	1,880
UK & Ireland	51	71	2,905

1) Source: Philips, double counts eliminated  
 2) Includes Philips Lighting  
 3) Source: The World Bank, CIA Factbook & Wikipedia  
 4) Source: IMF, CIA Factbook & Wikipedia

Philips Group  
**Lives improved** in billions (includes Philips Lighting)



**Total: 2.2 billion (double counts eliminated)**  
 Double counts  
 Conceptual drawing, areas do not reflect actual proportions

### 3.2.2 Workforce of the Future

Changing workforce demographics, the dynamic business environment and limited availability of strategic skill sets mean that we need to focus on building strategic capabilities that we can offer through location and work arrangements. In 2017 we deepened our Strategic workforce planning practices across our businesses, geographies, and functions and continue to expand on our strategic people’s practices, alongside business strategy and financials.

In Q3 2017 we addressed holistic workforce management, bringing all contingent workers under the responsibility of the HR function and recognizing the significant contribution of the skills and competencies that contingent workers offer. In 2018 we will further manage workforce demand holistically through workforce modelling and talent intelligence, covering 100% of our workforce.

### 3.2.3 Inclusion & Diversity

At Philips, we believe that our workforce should be a reflection of the society in which we operate, a reflection of our customers, and the markets we serve.

We value our full workforce in all aspects of diversity, whether generational, gender, experience, ethnicity, race, sexual orientation, ability, nationality, or other aspects, and believe that an inclusive culture invites a full spectrum of ideas, opinions, and experiences into the decision making.

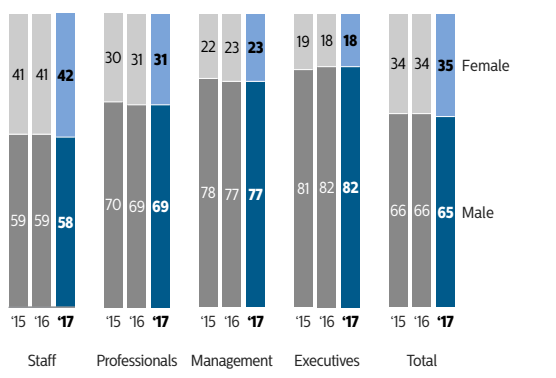
We believe in fairness, that all individuals have the opportunity to be successful, to be heard and to be valued, without prejudice, and we will strive for this to be felt across Philips. We believe that an inclusive culture and diverse workforce correlates to high performance, and therefore consider improvements in Inclusion & Diversity as a key opportunity for sustainable improvements in business performance.

Fostering Inclusion & Diversity will bring deeper customer insight from a place of understanding, which enables faster and more targeted responses to market

changes, ultimately contributing to our collective ability to work together to deliver improved value to our customers.

In 2017 we set a renewed and enhanced intention for Inclusion & Diversity with a number of activations; we set a target for 25% gender diversity of senior leadership by 2020 and provided dashboards for our HR leaders to be able to track diversity for their organizations. We partnered with a leading Inclusion & Diversity training provider to develop unconscious bias training, which will be delivered to our full workforce in 2018. We agreed principles of transparency for appointment and promotion opportunities, whereby we will transparently share open positions, and aim for diverse candidate slates and diverse interview panels for the recruitment of all senior leadership positions. We enhanced our existing Inclusion & Diversity leadership offerings, increasing instances of our Senior Women’s Leadership Program and piloted a Women’s Leadership program focused toward emerging professionals. We also revitalized our existing employee resource groups and launched an Executive Inclusion and Diversity Committee.

Philips Group  
Gender diversity in %  
2015 - 2017



**Data insights**

- 120+ nationalities bringing a rich diversity of capabilities, opinions and perspectives
- Gender diversity figures remained stable at 36% overall, with slight increases in the Staff, Professional and Management categories. Diversity of Executives dipped slightly from 19% to 18% female executives

**I&D awards**

We are delighted to be recognized externally for our inclusive culture externally. This year we achieved three awards in relation to our Life is better when #youareyou campaign, winning ‘Best media representation’ in Workday pride 2017, a Silver award in the category of ‘society’ at the SponsoRing awards, and a silver in the ‘integration award’ for identifying and engaging influencers in the WOMMA awards.

**3.2.4 Culture of Performance**

We have made strong progress in increasing performance. However to succeed as the leading health technology company, we need to further improve how we work and step up all aspects of performance. Our strategy requires us to work together to deliver compelling solutions across the health continuum that bring true value to consumers and customers. Our current behaviors include; winning, taking ownership, teamwork and acting with integrity, yet we can sharpen our focus on customers, delivering with quality, acting fast, and being eager to improve. Living our desired Philips culture is foundational to succeeding in delivering on our vision, and to being the best company in health technology for people who share our passion.

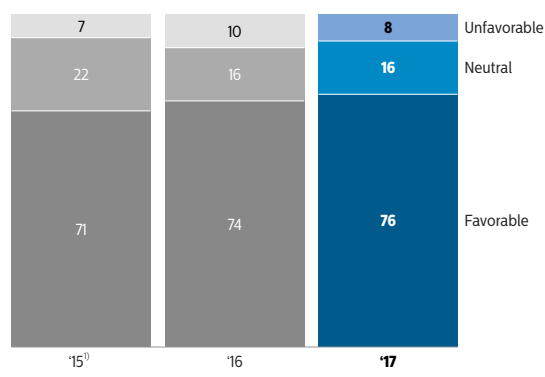
We recognize and value inspiring and inclusive leaders, through smart assessment, development planning, leadership programs, and coaching and sponsoring our talent. In 2017, 87% of Executive-level appointments were internal. We expect to continue to see a low percentage of external hiring at Executive level, where we will increasingly aim to develop and promote our talent from within, complemented with targeted external hiring for critical competencies.

Realizing a culture of performance is grounded in proper people management practices, high quality feedback, transparency and acting on performance and talent outcomes. We will increase our focus on individuals being able to drive their own career, supporting our employees with automation and Artificial Intelligence. We will ensure transparency of opportunities, and fair and open HR processes.

**3.2.5 Employee engagement**

High employee engagement is foundational to achieving our Philips health technology strategy. Our employee survey consistently reports high levels of employee engagement above the high performing norm of 69%, rising from 71% favorable in 2015 to 76% in 2017.

Philips Group  
Employee Engagement Index in %  
2015 - 2017



<sup>1)</sup> 2015 includes Philips Lighting

At Philips, we care for our people and believe that we are at our best when our team are at theirs. We understand work is only one part of life. That is why we offer a variety of innovative benefits and health programs to help keep our people mentally and physically strong, and foster flexibility to manage life's unexpected moments. We also continue to improve the employee journey, experience and value proposition, from attraction, through employment, development and progression, through to alumni. In 2017 we focused on improving candidate experience and onboarding experience, receiving a Glassdoor interview experience award.

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

### 3.2.6 Employment

In 2017, we built out our health technology portfolio with acquisitions in key areas including image-guided therapy, healthcare consultancy, population health management, digital pathology, and sleep and respiratory care, growing our employee base by a further 1,798.

The total number of Philips Group employees (continuing operations) was 73,951 at the end of 2017, compared to 70,968 at the end of 2016, an increase of 2,983 employees. Following the sale of Lighting, Diagnosis & Treatment is now our largest employee segment with 35%, Personal Health at 31%, Connected Care & Health Informatics at 15% and 19% in HealthTech Other.

Philips Group  
Employees per segment in FTEs at year-end  
2015 - 2017

	2015	2016	2017
Personal Health	21,384	22,530	23,170
Diagnosis & Treatment	23,638	23,791	25,757
Connected Care & Health Informatics	10,290	11,033	10,949
HealthTech Other	11,493	13,570	13,965
Legacy Items		43	109
<b>Continuing operations</b>	<b>66,805</b>	<b>70,968</b>	<b>73,951</b>
<b>Discontinued operations</b>	<b>46,154</b>	<b>43,764</b>	
<b>Philips Group</b>	<b>112,959</b>	<b>114,731</b>	<b>73,951</b>

Philips Group  
Employment in FTEs

	2015	2016	2017
<b>Balance as of January 1</b>	<b>113,678</b>	<b>112,959</b>	<b>114,731</b>
Consolidation changes:			
Acquisitions	1,865	163	1,812
Divestments	(300)	(571)	(332)
Changes in Discontinued operations	442	753	(43763)
Other changes	(2,726)	1,427	1,502
<b>Balance as of December 31</b>	<b>112,959</b>	<b>114,731</b>	<b>73,951</b>

Further to net growth from acquisitions and divestments, we increased our employee base by 1,480 employees, driven by a 6% increase in comparable sales growth (CSG)<sup>1)</sup> in our Personal Health businesses, an increased focus on Quality & Regulatory, and the transition period to our future Global Business Services operating model.

### Geographic footprint

Approximately 62% of the Philips workforce are located in mature geographies and 38% in growth geographies. In 2017, the number of employees in mature geographies increased by 1,774, mainly due to the acquisitions of Spectranetics and others. The number of employees in growth geographies increased by 1,209, driven mainly by the Personal Health sales growth and Global Business Services program.

Philips Group  
Employees per geographic cluster in FTEs at year-end  
2015 - 2017

	2015	2016	2017
Western Europe	21,569	20,657	21,055
North America	19,151	19,828	20,937
Other mature geographies	3,592	3,695	3,962
Mature geographies	44,311	44,180	45,954
Growth geographies	22,494	26,788	27,997
<b>Continuing operations</b>	<b>66,805</b>	<b>70,968</b>	<b>73,951</b>
<b>Discontinued operations</b>	<b>46,154</b>	<b>43,764</b>	
<b>Philips Group</b>	<b>112,959</b>	<b>114,731</b>	<b>73,951</b>

### Employee turnover

In 2017, employee turnover amounted to 13.6% (of which 8.2% was voluntary) compared to 16.0% (9.6% voluntary) in 2016. The lower turnover in 2017 reflects the increasing employee engagement and strength of our health technology strategy.

Philips Group  
Employee turnover in %  
2017

	Staff	Professionals	Management	Executives	Total
Female	19.2	11.3	10.9	21.4	15.0
Male	19.2	9.5	9.3	15.8	12.8
<b>Philips Group</b>	<b>19.2</b>	<b>10.1</b>	<b>9.7</b>	<b>16.8</b>	<b>13.6</b>

<sup>1)</sup> Non-IFRS financial measure. For the definition and reconciliation to the most directly comparable IFRS measure, refer to chapter 5, Reconciliation of non-IFRS information, of this Annual Report.

Philips Group  
Voluntary turnover in %  
2017

	Staff	Professionals	Management	Executives	Total
Female	11.0	7.7	6.4	12.9	9.2
Male	11.5	5.9	4.4	5.2	7.7
<b>Philips Group</b>	<b>11.3</b>	<b>6.5</b>	<b>4.9</b>	<b>6.6</b>	<b>8.2</b>

### 3.2.7 Human Rights

We believe that businesses have the responsibility to respect Human Rights and the ability to contribute to positive Human Rights impacts. This is an area of growing importance to our employees, investors, customers, the communities where we operate and civil society groups. There is therefore both a business case and a moral requirement for ensuring that Human Rights are upheld across our own operations and our value chain.

Our General Business Principles (GBP) express our support and respect for Human Rights. In addition, we have employment-related policies that further reference and protect the rights of our people. In 2017, we developed an overarching **Human Rights policy** that aligns our different Human Rights-related policies towards a single goal: embed the responsibility to respect Human Rights through all our businesses, markets and functions. Philips' Human Rights policy ratifies Philips' commitment not to infringe people's rights and to address any adverse Human Rights impacts that we might cause. To that end, our policy states that we intend to conduct regular Human Rights impact assessments as part of an overall Human Rights due diligence process, and to remediate any negative Human Rights impacts. We are also firmly committed to continuous improvement: we will track and publicly report on progress (on an annual basis) as input to our dialogues with our internal and external stakeholders who are, or could potentially be, affected by our actions.

### 3.2.8 General Business Principles

The Philips General Business Principles (GBP) incorporate and represent the fundamental principles by which all Philips businesses and employees around the globe must abide. They set the minimum standard for business conduct, both for individual employees and for the company and our subsidiaries. Our GBP also serve as a reference for the business conduct we expect from our business partners and suppliers. Translations of the GBP text are available in 32 languages, allowing almost every employee to read the GBP in their native language. Detailed underlying policies, manuals, training, and tools are in place to give employees practical guidance on how to apply and uphold the GBP in their daily work environments. Details can be found at: [www.philips.com/gbp](http://www.philips.com/gbp).

In 2017, a total of 382 concerns were reported via the Philips Ethics Line and through our network of GBP Compliance Officers. The previous reporting period (2016) saw a total of 339 concerns, resulting in an increase of 13% in the number of reports.

This is a continuation of the upward trend reported since 2014, the year in which Philips updated its General Business Principles and deployed a strengthened global communication campaign. We believe this trend continues to be in line with our multi-year efforts to encourage our employees to speak up.

More information on the Philips GBP can be found in chapter 6, Risk management, of this Annual Report. The results of the monitoring measures in place are given in **sub-section 13.3.6, General Business Principles**, of this Annual Report.

### 3.2.9 Health and Safety

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

We recorded 234 TRCs in 2017, a small decrease compared to 239 in 2016. These are cases where an injured employee is unable to work for one or more days, had medical treatment, or sustained an industrial illness. We will continue to monitor this KPI and actively set reduction targets for all our businesses in 2018.

In 2017, we recorded 113 LWICs. These are occupational injury cases where an injured person is unable to work for one or more days after the injury. This represents a 10% increase compared with 103 in 2016. The LWIC rate increased to 0.17 per 100 FTEs in 2017, compared with 0.16 in 2016. The number of Lost Workdays caused by injuries increased by 965 days (30%) to 4,170 days in 2017, mainly caused by longer recovery periods related to a limited number of incidents.

For more information on Health and Safety, please refer to **sub-section 13.3.7, Health and Safety performance**, of this Annual Report.

### 3.2.10 Working with stakeholders

In organizing ourselves around customers and markets, we conduct 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. An overview of stakeholders and topics discussed is provided in **chapter 13, Sustainability statements**, of this Annual Report.

For more information on our stakeholder engagement activities in 2017, please refer to [sub-section 13.3.8, Stakeholder engagement](#), of this Annual Report.

### 3.2.11 Supplier sustainability

Royal Philips has a direct business relationship with approximately 4,600 product and component suppliers and 18,000 service providers. In many cases the sustainability issues deeper in our supply chain require us to intervene beyond tier 1 of the chain.

#### Supplier sustainability strategy

Managing our large and complex supply chain in a socially and environmentally responsible way requires a structured and innovative approach while being transparent and engaging with a wide variety of stakeholders. Insights gained through our regular stakeholder engagement process are used as an input to manage our supplier sustainability strategy.

Please refer to [sub-section 13.3.9, Supplier indicators](#), of this Annual Report and to the Philips supplier sustainability [website](#) for more details on the Philips supplier sustainability program.

### 3.3 Environmental performance

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

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

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

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

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

More details on the program, as well as the results in 2017, have been addressed in this report.

Every year, Royal Philips publishes a full Integrated Annual Report. Our independent auditor Ernst & Young (EY) has not only audited our financial information but has also provided reasonable (highest level) assurance on Sustainability Information in [chapter 13, Sustainability statements](#), of this Annual Report and sections [section 3.2, Social performance](#), of this Annual Report and [section 3.3, Environmental performance](#), of this Annual Report. Please refer to section 13.5, Assurance report of the independent auditor, of this Annual Report. With this, Philips is a frontrunner in this field.

In this Environmental performance section an overview is given of the most important environmental parameters of the new program. Improving people's lives, Health and Safety, and Supplier Sustainability are addressed in the Social performance section. Details of the 'Healthy people, sustainable planet' parameters can be found in the [chapter 13, Sustainability statements](#), of this Annual Report.

#### Environmental impact

Philips has been performing Life-Cycle Assessment (LCAs) since the 1990s. These assessments provide insight into the environmental impacts of our products from cradle to grave, including the supply chain, manufacturing process at Philips, use phase and disposal phase. The insights are used to steer our EcoDesign efforts and to grow our Green solutions portfolio.

As a logical next step we have measured our environmental impact on society at large via a so-called Environmental Profit & Loss (EP&L) account which includes the hidden environmental costs associated with our activities and products, again from cradle to grave. It will support our 'Healthy people, sustainable planet' program by providing insights into the main environmental hotspots from an overall business point of view.

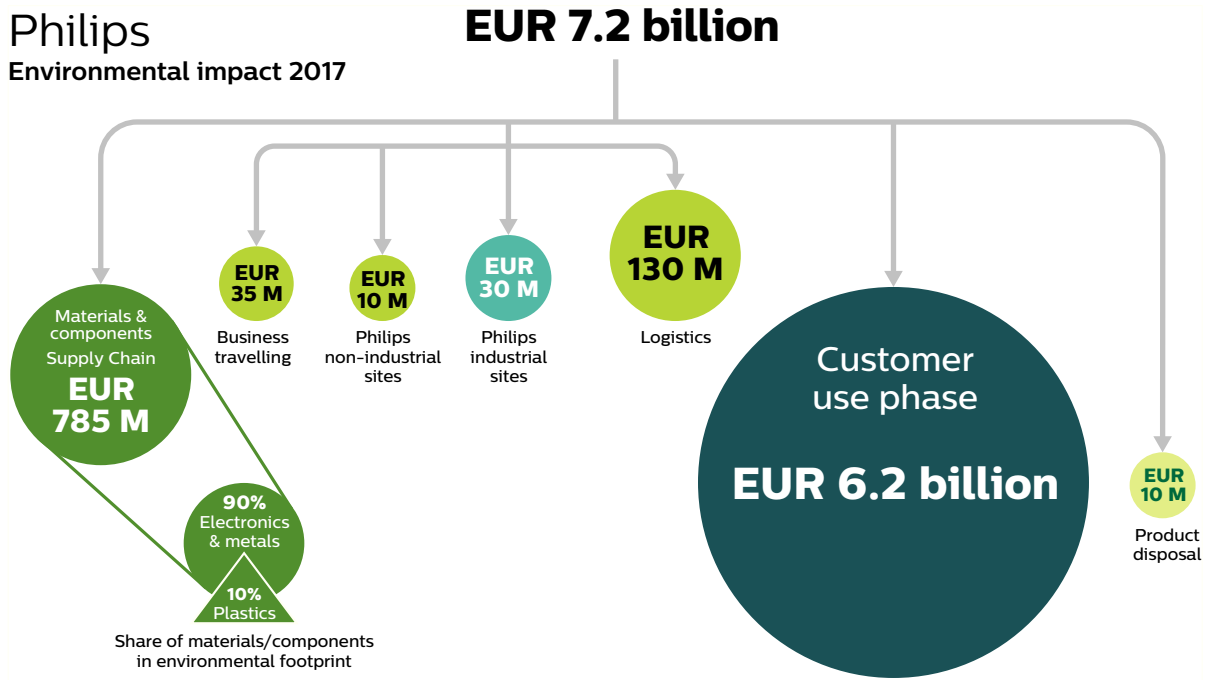
The EP&L account is based on LCA methodology in which the environmental impacts are expressed in monetary terms using conversion factors as developed by [CE Delft](#). We used expert opinions and estimates for some parts of the calculations. The figures reported are Philips' best possible estimate. As we gain new insights and retrieve more and better data, we may enhance the methodology and accuracy of results in the future. For more information we refer to our [methodology report](#).

The current EP&L account only includes the hidden environmental costs along the complete lifecycle of our products and solutions. It does not yet include the benefits to society that Philips generates by improving people's lives through our products and solutions, e.g. our healthcare or healthy food preparation solutions. We have a well-established methodology to calculate the number of lives we positively touch with our products and solution. It is our aim to look into valuing these societal benefits in monetary terms as well and include them in our future EP&L account, where possible.

#### Results 2017

In 2017, Philips had an environmental impact (loss) of EUR 7.2 billion of which EUR 200 million (3%) is directly caused by Philips' own operations, mainly driven by energy consumption at our factories. The main environmental impact, 86% of total, is related to the usage of our products which is due to electricity consumption. Particulate matter formation and climate change are the main environmental impacts accounting for respectively 43% and 28% of the total impact.

## Philips Environmental impact 2017



Conceptual drawing, areas do not reflect actual proportions

The environmental loss includes the environmental impact of the full life-time of our products that we put on the market in 2017, e.g. an average 7 years of usage in case of a vacuum cleaner or 10 years on average in case of a MRI system.

The environmental loss has been positively influenced over the years by our efforts to increase the energy efficiency of our products. This will be enhanced by society's transition to a renewable energy system. We also expect a shift in our environmental impact from the use phase to our supply chain, i.e. the materials we use in our products. Our supply chain currently has an environmental impact of some EUR 800 million, which is 11% of our total environmental impact. The main contributors are the electronic components, cables and steel used in our products. Through our Circular Economy and Supplier Sustainability programs we will continue to focus on reducing the environmental impact caused by the materials we source and apply in our products.

### 3.3.1 Green Innovation

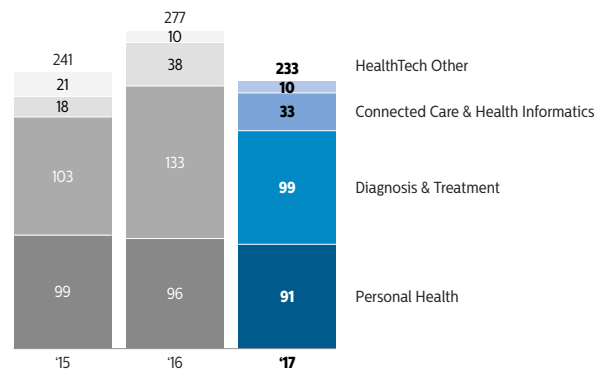
Green Innovation is the Research & Development spend related to the development of new generations of Green Products and Solutions and Green Technologies.

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

set a target of EUR 7.5 billion (cumulative) for its health technology businesses for the period 2016 - 2020 as part of the 'Healthy people, sustainable planet' program.

In 2017, Philips invested EUR 233 million in Green Innovation while the health technology businesses invested some EUR 1.4 billion in Sustainable Innovation.

Philips Group  
Green Innovation per segment in millions of EUR  
2015 - 2017



### Diagnosis & Treatment businesses

Philips develops innovative diagnosis and treatment solutions that enable first-time right diagnosis, precision interventions and therapy, while respecting the boundaries of natural resources. Investments in Green Innovation in 2017 amounted to EUR 99 million, a decrease compared to 2016, as a number of large innovation projects had been completed in 2016. All Philips Green Focal Areas are taken into account as 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. Philips also pays particular attention to enabling the upgrading of pathways, so our customers can benefit from the most advanced enhancements in workflow, dose management, and imaging quality with the equipment that they already own which enables reduced materials use and lower cost. Our Diagnosis & Treatment businesses actively support a voluntary industry initiative to improve the energy efficiency of medical imaging equipment. Moreover, we are actively partnering with multiple leading care providers to look together for innovative ways to reduce the environmental impact of healthcare, for example by maximizing energy-efficient use of medical equipment and optimizing lifecycle value.

#### Connected Care & Health Informatics businesses

Philips innovates with connected health IT solutions that integrate, collect, combine and deliver quality data for actionable insights to help improve access to quality care, while respecting the boundaries of natural resources. It is our belief that well-designed e-health solutions can reduce the travel-related carbon footprint of healthcare, and improve access to care and outcomes. Investments in Green Innovation in 2017 amounted to EUR 33 million, in line with previous years. All Philips Green Focal Areas are taken into account as we aim to reduce environmental impact over the total lifecycle. Energy efficiency and material reduction are the main areas of focus.

#### Personal Health businesses

Continuous high R&D investments at our Personal Health businesses are also reflected in Green Innovation spend, which amounted to EUR 91 million in 2017, compared with EUR 96 million in 2016. The investments resulted in high Green Revenues in all business groups. The Personal Health businesses continued their work on improving the energy efficiency of their products, closing the materials loop (e.g. by using recycled materials in products and packaging) and the voluntary phase-out of polyvinyl chloride (PVC), brominated flame retardants (BFR), Bisphenol A (BPA) and phthalates from, among others, food contact products. A breakthrough has been achieved with the implementation of PVC-free internal wiring in our SENSEO® portfolio and the application of recycled plastics in our air purification and coffee portfolio. Regarding the phase-out of PVC/BFR, close to 100% of the oral healthcare, mother and child care, male grooming, skincare and female depilation products are PVC/BFR-free. Our new green battery-charged devices outperform the most stringent energy efficiency standard in the world (USA Federal).

#### HealthTech Other

HealthTech Other invested EUR 10 million in Green Innovations, spread over projects focused on global challenges related to water, air, energy, food, Circular Economy, and access to affordable healthcare. The Research organization within HealthTech Other used the Sustainable Innovation Assessment tool, in which innovation projects are evaluated and scored along environmental and social dimensions, in order to identify those projects that most strongly drive sustainability. Transfers of Research projects include a Lives Improved calculation to assess what the project's contribution will be to Philips' vision to improve the lives of 3 billion people a year by 2025. In a Philips Research demonstration project, for example, a new and innovative 'Philips Unified Monitoring Architecture' was developed containing standardized components for next-generation patient monitoring, which helps streamline workflows and improve monitoring across the health continuum. Sustainability impact assessment has shown significant improvements in both environmental and social areas. This could be realized by smart concepts for smaller low-power and light-weight modules, and increased battery lifetimes. Herewith a sustainability improvement of over 30% has been demonstrated, while avoiding restricted materials.

#### Circular Economy

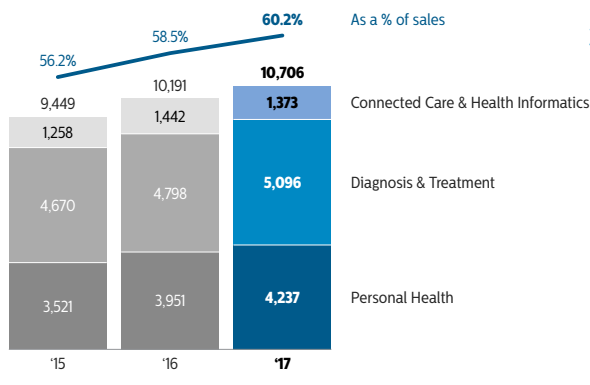
The transition from a linear to a circular economy is essential if we are to create a sustainable world. A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using these resources more effectively. It is a driver of innovation in the areas of material,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

For more information on our Circular Economy activities and the progress towards targets in 2017, please refer to [sub-section 13.4.1, Circular Economy](#), of this Annual Report.

### 3.3.2 Green Revenues

Green Revenues are generated through products and solutions which offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Circularity, and Lifetime reliability. Green Revenues increased to EUR 10.7 billion in 2017, or 60.2% of sales (58.5% in 2016), thereby reaching a record level for Philips.

Philips Group  
**Green Revenues per segment**  
 in millions of EUR unless otherwise stated  
 2015 – 2017



Through our EcoDesign process we aim to create products and solutions that have significantly less impact on the environment during their whole lifecycle. Overall, the most significant improvements have been realized in our energy efficiency Green Focal Area, an important objective of our program, although there was also growing attention for hazardous substances and recyclability in all segments in 2017, the latter driven by our Circular Economy initiatives.

**Diagnosis & Treatment businesses**

In 2017, our Diagnosis & Treatment businesses maintained their Green Product and Solutions portfolio with redesigns of various Green Products with further environmental improvements. These products improve patient outcomes, provide better value, and help secure access to high-quality care, while reducing environmental impact. We received third-party confirmation in 2017 that the Philips portfolio of 1.5T MRI scanners leads the industry in terms of their energy efficiency according to the COCIR SRI methodology.

**Connected Care & Health Informatics businesses**

Our Connected Care & Health Informatics businesses maintained its Green Product and Solutions portfolio in 2017.

**Personal Health businesses**

Our Personal Health businesses focus on Green Products and Solutions which meet or exceed our minimum requirements in the areas of energy consumption, packaging, and substances of concern. Green Revenues in 2017 surpassed 58% of total sales, compared to 56% in 2016. All our new consumer Green Products with rechargeable batteries (like toothbrushes, shavers, and grooming products) outperform the world’s most stringent energy efficiency norm set by the US Federal government. We are making steady progress in developing PVC/BFR-free products. More than 70% of our consumer product sales consist of PVC/BFR-free products, with the exception of the power cords, for which there are not yet economically viable alternatives available. In the remaining 30% of

consumer product sales, PVC/BFR has already been phased out to a significant extent, but the products are not yet completely free of these substances.

**3.3.3 Sustainable Operations**

Philips’ Sustainable Operations programs focus on the main contributors to climate change, recycling of waste, reduction of water consumption, and reduction of emissions. Full details can be found in [chapter 13, Sustainability statements](#), of this Annual Report.

**Carbon footprint and energy efficiency**

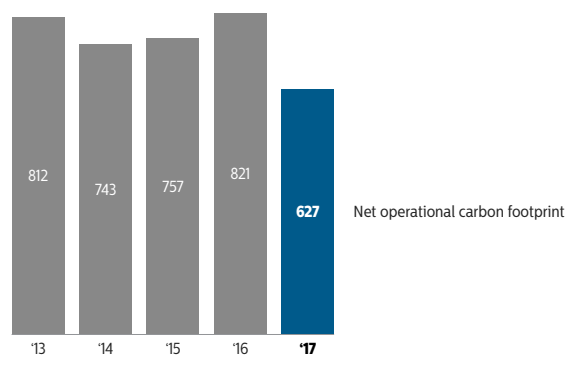
Philips has committed to the ambition of becoming 100% carbon-neutral in our operations and sourcing all our electricity usage from 100% renewable sources by 2020.

As of 2008, Philips reports its climate performance to CDP (formerly known as the Carbon Disclosure Project), a global NGO that assesses the greenhouse gas (GHG) emission performance and management of reporting companies. For the fifth year in a row we received the Climate Leadership (A) score in 2017. In order to deliver on the carbon neutrality commitment we have set ambitious reduction targets.

In 2017, our greenhouse gas emissions resulted in 847 kilotonnes of carbon dioxide-equivalent (CO<sub>2</sub>e), but because of our carbon neutrality program, some of our emissions have been compensated for via carbon offsets, resulting in a total of 627 kilotonnes carbon dioxide-equivalent (CO<sub>2</sub>e).

Philips reports all its emissions in line with the Greenhouse Gas Protocol (GHGP) as further described in [chapter 13, Sustainability statements](#), of this Annual Report.

Philips Group  
**Net operational carbon footprint**  
 in kilotonnes CO<sub>2</sub>-equivalent  
 2013 – 2017



In 2017, our operational carbon intensity (in tonnes CO<sub>2</sub>e/EUR million sales) improved by 2%, even as our company recorded 4% comparable sales growth. This still excludes the acquired carbon offsets. As part of our

'Healthy people, sustainable planet' program we are continuing our efforts to decouple economic growth from our environmental impact.

The significant reductions in our scope 2 (indirect) emissions are mainly driven by our increased global renewable electricity share from 62% in 2016 to 79% in 2017.

We achieved a major milestone as 100% of our US operations are now powered by renewable electricity from the Los Mirasoles windfarm. In addition, our renewable electricity purchasing consortium with AkzoNobel, DSM and Google closed the second wind energy transaction in the Netherlands in 2017 – the Bouwdokken windfarm in the province of Zeeland. We expect the first Dutch wind energy to be delivered in 2018 and the two Dutch windfarms will power all our operations in the Netherlands by 2019.

Combined with the achieved energy reductions this led to a 53% carbon reduction from our electricity consumption (scope 2) in 2017 compared to 2016.

Our business travel emissions showed a reduction of 15% compared to 2016, driven by an air travel limitation introduced in 2017, which led to an air travel emission reduction of 9%. The emissions resulting from our lease cars decreased by 23% and the emissions from rental cars went down by 5%. In order to further decrease our business travel emissions we will continue to promote video conferencing as an alternative to travel, promote alternative modes of transport and set new fuel efficiency targets in our lease car policy.

As our sales grew, we recorded an increase of 23% in our logistics operations compared to 2016. This mainly resulted from a strong increase in air freight shipments to meet demand. We plan to introduce various measures to drive down air freight shipments by introducing a stricter air freight policy and by optimizing our warehouse locations.

In 2017 we kicked off our carbon neutrality program by compensating 220 kilotonnes of carbon emissions, equivalent to the annual uptake of approximately 6 million medium-sized oak trees. This covers the total emissions of our direct emissions in our sites, all our business travel emissions and part of our logistics emissions. We do so by financing carbon reduction projects in emerging regions that have a strong link with SDG 3 and SDG 12.

We are investing in several carbon emission reduction projects to gradually drive down our emissions to zero by 2020. We have selected projects in emerging regions that, in addition to generating emission reductions, also drive social, economic and additional environmental progress for the communities in which they operate, such as:

#### Providing access to safe drinking water while reducing wood consumption

These carbon emission reduction projects will provide millions of liters of safe drinking water in Uganda and Ethiopia and will reduce the mortality risk from water-borne diseases. Additionally, less wood will be required for boiling water, leading to less indoor air pollution and slowing down the deforestation rate.

#### Fighting against respiratory diseases and deforestation by clean cookstoves

By financing high-efficient cookstoves in Kenya and Uganda, less wood will be required for cooking, leading to lower carbon emissions, a reduction in diseases caused by indoor air pollution and a lower deforestation rate in these regions.

#### Providing access to clean energy while improving health and education

This project will reduce the demand-supply gap in the Dewas region in India and will provide renewable energy to more than 50,000 households. The project will also provide a mobile medical unit in 24 villages, giving diagnosis and medicines free of charge twice a month. Additional funding will be provided to educational programs and improving sanitation facilities in five local schools to maximize the social impact.

Philips Group  
**Operational carbon footprint by scope**  
in kilotonnes CO<sub>2</sub>-equivalent  
2013 – 2017

	2013	2014	2015	2016	2017
<b>Scope 1</b>	44	40	39	42	38
<b>Scope 2 (market based)</b>	114	109	106	121	58
Scope 2 (location based)	213	210	212	252	225
<b>Scope 3</b>	654	594	612	658	751
<b>Total (scope 1, 2 (market based), and 3)</b>	<b>812</b>	<b>743</b>	<b>757</b>	<b>821</b>	<b>847</b>
Emissions compensated by carbon offset projects	0	0	0	0	220
<b>Net operational carbon emissions</b>	<b>812</b>	<b>743</b>	<b>757</b>	<b>821</b>	<b>627</b>

During 2017, the applied emission factors used to calculate our operational carbon footprint have been updated with the latest DEFRA (UK Department for Environment, Food & Rural Affairs) 2017 emission factors. Philips reports all its emissions in line with the Greenhouse Gas Protocol (GHGP) as further described in Sustainability statements.

Philips Group  
Ratios relating to carbon emissions and energy use  
2013 - 2017

	2013	2014	2015	2016	2017
<b>Operational CO<sub>2</sub> emissions</b> in kilotonnes CO <sub>2</sub> -equivalent	812	743	757	821	847
<b>Operational CO<sub>2</sub> efficiency</b> in tonnes CO <sub>2</sub> -equivalent per million EUR sales	57.27	53.36	46.58	48.48	47.64
<b>Operational energy use</b> in terajoules	5,918	5,747	5,639	5,526	4,858
<b>Operational energy efficiency</b> in terajoules per million EUR sales	0.42	0.41	0.35	0.33	0.27

### Water

Total water intake in 2017 was 888,000 m<sup>3</sup>, about 8% lower than in 2016. Personal Health, which consumes 56% of total water usage recorded a 19% decrease. This decrease was mainly due to a relocation of one of the manufacturing sites in China and water-saving actions in various locations. The decrease was partially mitigated by increases in other sites due to production volume increases.

Philips Group  
Water intake in thousands of m<sup>3</sup>  
2013 - 2017

	2013	2014	2015	2016	2017
Personal Health	652	585	614	613	496
Diagnosis & Treatment	311	392	268	269	312
Connected Care & Health Informatics	77	74	94	81	80
<b>Philips Group</b>	<b>1,040</b>	<b>1,051</b>	<b>976</b>	<b>963</b>	<b>888</b>

In 2017, 97% of water was purchased and 3% was extracted from groundwater wells.

### Waste

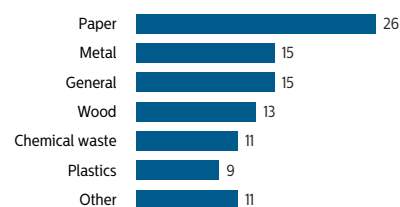
In 2017, total waste decreased by 1% compared to 2016 to 24.6 kilotonnes, mainly due to operational changes and less packaging waste. The Personal Health businesses contributed 61% of total waste, Diagnosis & Treatment businesses 34% and Connected Care & Health Informatics businesses 5%. The reported increase in waste in the Personal Health businesses was mainly caused by higher production volumes.

Philips Group  
Total waste in kilotonnes  
2013 - 2017

	2013	2014	2015	2016	2017
Personal Health	13.2	13.1	13.8	14.3	15.1
Diagnosis & Treatment	6.7	6.8	8.0	9.2	8.3
Connected Care & Health Informatics	1.1	1.2	1.4	1.4	1.2
<b>Philips Group</b>	<b>21.0</b>	<b>21.1</b>	<b>23.2</b>	<b>24.9</b>	<b>24.6</b>

Total waste consists of waste that is delivered for landfill, incineration or recycling. Our sites are addressing both the recycling percentage as well as waste sent to landfill as part of the new sustainability program. Materials delivered for recycling via an external contractor amounted to 20 kilotonnes, which equals 80% of total waste, comparable to 2016. Of the 20% remaining waste, 83% comprised non-hazardous waste and 17% hazardous waste. Our Zero Waste to Landfill KPI excludes one-time-only waste and waste delivered to landfill due to regulatory requirements. According to this definition, in 2017 we reported 2.5 kilotonnes of waste sent to landfill. 17 out of our 38 industrial sites achieved Zero Waste to Landfill status.

Philips Group  
Industrial waste delivered for recycling in %  
2017



### Emissions

In the 'Healthy people, sustainable planet' program, Royal Philips included new reduction targets for the substances that are most relevant for its businesses. In order to provide comparable information at Group level, please find the summary of the emissions of the formerly targeted substances below. Emissions of restricted substances were reduced from 1 kilos in 2016 to zero in 2017, mainly caused by one site in China which phased out a thinner containing benzene. The level of emissions of hazardous substances decreased from 10,496 kilos in 2016 to 5,243 kilos in 2017 (-50%), mainly driven by changes in the lacquering process and product mix in the Personal Health businesses.

Philips Group  
Restricted and hazardous substances in kilos  
2013 - 2017

	2013	2014	2015	2016	2017
Restricted substances	29	20	18	1	-
Hazardous substances	27,262	24,712	22,394	10,496	5,243

For more details on emissions from substances, please refer to sub-section 13.4.3, Sustainable Operations, of this Annual Report.

## 3.4 Our commitment to Quality

We continue to drive quality and regulatory performance improvement throughout the Philips Group. Under our governance model, the Executive Committee is ultimately accountable for Quality at Philips, supported by the Quality & Regulatory team. The Quality & Regulatory team drives to one common

set of standards through the Philips Quality Management System (PQMS), as well as providing transparency on performance and opportunities for further improvement. Inclusion of quality metrics in monthly business reviews has driven transparency and improvement execution.

Our year-over-year performance continues to show improvement. On key end-to-end transformation initiatives, we progressed significantly in 2017, including making headway with the implementation of PQMS for all business groups.

However, 2017 was also an eventful year from a regulatory compliance perspective:

- In August 2017, the Food and Drug Administration (FDA) conducted an inspection of Philips' Computed Tomography/Advanced Molecular Imaging (CT/AMI) facility in Cleveland, Illinois. This was the first FDA inspection of the site since the temporary, voluntary suspension of manufacturing and shipping of CT/AMI products from Cleveland in 2014. Following the inspection, Philips submitted its response to the inspectional observations for review by the FDA. In December 2017, the company had a constructive meeting with the FDA. Philips will provide monthly status reports to the FDA on its progress in addressing the observations.
- In October 2017, Philips entered into a consent decree with the US Department of Justice, representing the FDA, related to compliance with current good manufacturing practice requirements arising from past inspections in and before 2015, focusing primarily on Philips' Emergency Care & Resuscitation (ECR) business operations in Andover (Massachusetts, US) and Bothell (Washington, US). The decree also provides for increased scrutiny, for a period of time, of the compliance of the other patient care businesses at these facilities with the Quality System Regulation. Under the decree, Philips has suspended the manufacturing and distribution of external defibrillators manufactured at these facilities, subject to certain exceptions, until FDA certifies through inspection the facilities' compliance with the Quality System Regulation. The decree allows Philips to continue the manufacture and distribution of certain automated external defibrillator (AED) models and Philips will continue to service ECR devices and provide consumables and the relevant accessories.

We are fully engaged with FDA staff concerning both matters and anticipate follow-up inspections of these facilities by FDA in 2018 after further compliance improvements have been made.

Currently we are also focusing on the European Union Medical Devices Regulation (EU MDR) compliance for future market access, and early identification and collaboration in the changing regulatory environment.

Looking ahead we will continue to raise the performance bar, also including Quality in the evaluation of all senior management. With consistency of purpose, top-down accountability, standardization, and leveraging continuous improvement we aim to drive greater speed in the adoption of a Quality mindset throughout the enterprise.

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### 3.5 Proposed distribution to shareholders

# 13 Sustainability statements

## 13.1 Approach to sustainability reporting

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

The sustainability results of Philips Lighting have been excluded from this report unless otherwise stated.

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

### 13.1.1 Tracking trends

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

## 13.1.2 Stakeholders

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

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

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

#### Stakeholder overview (non-exhaustive)

	Examples	Processes
<b>Employees</b>	<ul style="list-style-type: none"> <li>- European Works Council</li> <li>- Local Works Councils</li> <li>- Individual employees</li> </ul>	Regular meetings, quarterly My Accelerate! Surveys, employee development process, quarterly update webinars. For more information refer to <a href="#">section 3.2, Social performance</a> , of this Annual Report. Regular mail updates, team meetings, webinars
<b>Customers</b>	<ul style="list-style-type: none"> <li>- Hospitals</li> <li>- Retailers</li> <li>- Consumers</li> </ul>	Joint (research) projects, business development, Lean value chain projects, strategic partnerships, consumer panels, Net Promoter Scores, Philips Customer Care centers, Training centers, social media
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>- Chinese suppliers in the Supplier Development program</li> <li>- Randstad, HP</li> </ul>	Supplier development activities (including topical training sessions), supplier forums, supplier website, participation in industry working groups like COCIR and RBA. For more information refer to <a href="#">sub-section 13.3.9, Supplier indicators</a> , of this Annual Report.
<b>Governments, municipalities, etc.</b>	<ul style="list-style-type: none"> <li>- European Union</li> <li>- Authorities in Indonesia, Singapore</li> </ul>	Topical meetings, research projects, policy and legislative developments, business development Topical meetings, (multi-stakeholder) projects
<b>NGOs</b>	<ul style="list-style-type: none"> <li>- UNICEF, International Red Cross</li> <li>- Friends of the Earth, Greenpeace</li> </ul>	Topical meetings, (multi-stakeholder) projects, joint (research) projects, innovation challenges, renewables projects, social investment program and Philips Foundation
<b>Investors</b>	<ul style="list-style-type: none"> <li>- Mainstream investors</li> <li>- ESG investors</li> </ul>	Webinars, roadshows, capital markets day, <a href="#">investor relations</a> and <a href="#">sustainability accounts</a>

### 13.1.3 Reporting standards

We have prepared the integrated annual report in line with the International Integrated Reporting Council (IIRC) Integrated Reporting framework and the EU Non Financial Reporting decree (2014/95/EU). We have also included a visualization of our value creation process.

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

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

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

We use this report to communicate on our progress towards the relevant Sustainable Development Goals (SDGs), in particular SDG 3 (“Ensure healthy lives and promote well-being for all at all ages”) and SDG 12 (“Ensure sustainable consumption and production patterns”). Please refer to sub-section 13.3.8, Stakeholder engagement, of this Annual Report for more details.

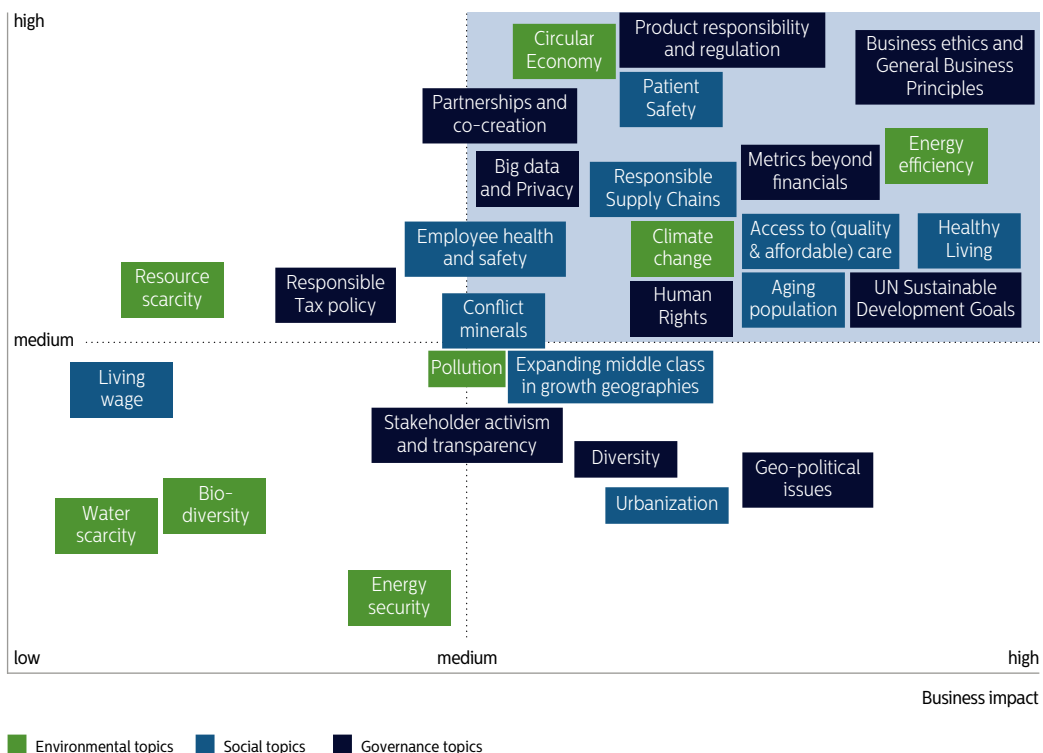
### 13.1.4 Material topics and our focus

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

Our materiality assessment is based on an ongoing trend analysis, media search, and stakeholder input. In 2017, we conducted a survey among a diverse stakeholder group and presented the findings during the subsequent stakeholder event. The results for Royal Philips are reflected in the materiality matrix below.

#### Materiality matrix

Importance to Stakeholders



The business impact scores are based on Philips' assessment. Our materiality assessment has been conducted in the context of the GRI Sustainable Reporting Standards and the results have been reviewed and approved by the Philips Sustainability Board. As Philips aspires to become a leading health technology company, we noted a number of aspects that changed in terms of materiality in the table below (compared to 2016), for example, health-related aspects like access to healthcare and patient safety have become more material.

## Key material topics

	Reference <sup>1)</sup>	
<b>Environmental</b>		<b>Boundaries</b>
- Climate change	chapter 1, Message from the CEO, of this Annual Report section 3.3, Environmental performance, of this Annual Report section 13.4, Environmental statements, of this Annual Report	Supply chain, operations, use phase
- Energy efficiency	sub-section 3.3.1, Green Innovation, of this Annual Report section 3.3, Environmental performance, of this Annual Report section 13.4, Environmental statements, of this Annual Report	Supply chain, operations, use phase
- Circular Economy	sub-section 3.3.1, Green Innovation, of this Annual Report section 3.3, Environmental performance, of this Annual Report sub-section 13.3.9, Supplier indicators, of this Annual Report	Supply chain, operations, use phase
	Reference <sup>1)</sup>	
<b>Societal</b>		<b>Boundaries</b>
- Access to (quality & affordable) care	chapter 1, Message from the CEO, of this Annual Report sub-section 4.2.1, About Diagnosis & Treatment businesses, of this Annual Report sub-section 4.3.1, About Connected Care & Health Informatics businesses, of this Annual Report section 3.2, Social performance, of this Annual Report	Use phase
- Healthy Living	chapter 1, Message from the CEO, of this Annual Report sub-section 4.2.1, About Diagnosis & Treatment businesses, of this Annual Report sub-section 4.3.1, About Connected Care & Health Informatics businesses, of this Annual Report sub-section 4.1.1, About Personal Health businesses, of this Annual Report	Use phase
- Patient Safety	chapter 1, Message from the CEO, of this Annual Report sub-section 4.2.1, About Diagnosis & Treatment businesses, of this Annual Report sub-section 4.3.1, About Connected Care & Health Informatics businesses, of this Annual Report sub-section 4.1.1, About Personal Health businesses, of this Annual Report section 3.4, Our commitment to Quality, of this Annual Report	Use phase
- Aging population	chapter 1, Message from the CEO, of this Annual Report sub-section 4.2.1, About Diagnosis & Treatment businesses, of this Annual Report sub-section 4.1.1, About Personal Health businesses, of this Annual Report	Use phase
- Responsible Supply Chains	section 3.2, Social performance, of this Annual Report chapter 13, Sustainability statements, of this Annual Report	Supply chain
- Employee health and safety	sub-section 3.2.9, Health and Safety, of this Annual Report	Supply chain, operations
- Conflict minerals	sub-section 13.3.9, Supplier indicators, of this Annual Report	Supply chain



	Reference <sup>1)</sup>	Boundaries
<b>Governance</b>		
- Business ethics and General Business Principles	section 6.5, Compliance risks, of this Annual Report sub-section 3.2.8, General Business Principles, of this Annual Report	Supply chain, operations, use phase
- Partnerships and co-creation	sub-section 4.4.1, About HealthTech Other, of this Annual Report chapter 13, Sustainability statements, of this Annual Report	Supply chain, use phase
- Metrics beyond financials	section 3.2, Social performance, of this Annual Report section 3.3, Environmental performance, of this Annual Report chapter 13, Sustainability statements, of this Annual Report	Supply chain, operations, use phase
- Product responsibility and regulation	section 6.5, Compliance risks, of this Annual Report sub-section 4.1.1, About Personal Health businesses, of this Annual Report sub-section 4.2.1, About Diagnosis & Treatment businesses, of this Annual Report sub-section 4.3.1, About Connected Care & Health Informatics businesses, of this Annual Report section 3.4, Our commitment to Quality, of this Annual Report	Supply chain, operations, use phase
- Big data and Privacy	section 6.4, Operational risks, of this Annual Report sub-section 4.1.1, About Personal Health businesses, of this Annual Report sub-section 4.2.1, About Diagnosis & Treatment businesses, of this Annual Report sub-section 4.3.1, About Connected Care & Health Informatics businesses, of this Annual Report	Supply chain, operations, use phase
- Human Rights	sub-section 3.2.7, Human Rights, of this Annual Report	Supply chain, operations, use phase
- Sustainable Development Goals	chapter 2, Our strategic focus, of this Annual Report section 3.2, Social performance, of this Annual Report sub-section 13.3.8, Stakeholder engagement, of this Annual Report	Supply chain, operations, use phase

<sup>1)</sup> With the exception of section 3.2, Social performance, of this Annual Report, section 3.3, Environmental performance, of this Annual Report, and chapter 13, Sustainability statements, of this Annual Report, the sections and chapters referred to are not included in the scope of the assurance engagement

## 13.15 Programs and targets

### Philips Group Sustainability commitments 2017

	baseline year 2015	target 2020	2017 actual
Lives Improved <sup>1)</sup>	2.0 billion	2.5 billion	2.2 billion
Circular revenues	7%	15%	11%
Green revenues	56%	70%	60%
Operational carbon footprint	757 Ktonnes	0 Ktonnes	847 Ktonnes
Operational waste recycling	78%	90%	80%
- Hazardous substances emissions	1,419 kilos	50% reduction	1,417 kilos
- Total Recordable Case (TRC) rate	0.39	0.29	0.36
Supplier Sustainability	33% RSL compliant	85% RSL compliant	81% RSL compliant
Supplier Sustainability <sup>2)</sup>	New development program tested	300 companies in development program	220 companies in development program

<sup>1)</sup> Includes Philips Lighting

<sup>2)</sup> For more information see sub-section 13.3.9, Supplier indicators, of this Annual Report

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

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

## 13.16 Boundaries of sustainability reporting

Our sustainability performance reporting encompasses the consolidated Philips Group activities in the Social and Environmental Performance sections, following the consolidation criteria detailed in this section. As a result of impact assessments of our value chain we have identified the material topics, determined their relative impact in the value chain (supply chain, our own operations, and use phase of our products) and reported for each topic on the relevant parts of the value chain. More details are provided in the relevant sections in the Sustainability Statements.

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

## 13.17 Comparability and completeness

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

Social data cover all employees, including temporary employees, but exclude contract workers. Due to the implementation of new HRM systems, we are able to provide more specific exit information on Philips employees from 2014 onwards.

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

In 2017 the emission factor set for consumed electricity was updated to the IEA 2016 publications. Also, the emission factors for natural gas were implemented according to latest 2017 DEFRA factor set (UK Department of Environment, Food and Rural Affairs). Lastly, all scope 3 emission factors for business travel and logistics were updated from a bespoke emission factor set to DEFRA 2017 guidance as well.

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

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

We have excluded Philips Lighting data from the consolidated sustainability data, except for Lives Improved.

### 13.1.8 Data definitions and scope

#### Lives improved and materials

The Key Performance Indicators on 'lives improved' and 'materials' and the scope are defined in the respective methodology documents that can be found at [Methodology for calculating Lives Improved](#). We used opinions from Philips experts and estimates for some parts of the Lives Improved calculations.

#### Health and safety

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

to at least one lost workday. Fatalities are reported for staff, contractors and visitors. The TRC and LWIC KPIs refer to all reported cases.

#### General Business Principles

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

#### Sustainable Revenues

Sustainable Revenues are revenues generated through products and solutions that address the United Nations Sustainable Development Goals 3 ("to ensure healthy lives and promote well-being for all at all ages") or 12 ("to ensure sustainable consumption and production patterns") and include all Diagnosis & Treatment and Connected Care & Health Informatics revenues. Next, Green Revenues and non-Green revenues that contribute to healthy living at Personal Health are included.

#### Green Revenues

Green Revenues are revenues generated through products and solutions that offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Circularity and Lifetime reliability. For healthcare equipment, remote serviceability is another Green Focal Area. The lifecycle approach is used to determine a product's overall environmental improvement. It calculates the environmental impact of a product over its total life cycle (raw materials, manufacturing, product use and disposal).

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

#### Circular Revenues

Circular Revenues are defined by revenues generated through products and solutions that meet specific Circular Economy requirements. These include performance and access-based business models, refurbished, reconditioned and remanufactured products and systems, refurbished, reconditioned and remanufactured components, upgrades or refurbishment on site or remote, and products containing at least 30% recycled plastics.

#### Sustainable Innovation

Sustainable Innovation is the Research & Development spend related to the development of new generations of products and solutions that address the United Nations Sustainable Development Goals 3 ("to ensure

healthy lives and promote well-being for all at all ages”) or 12 (“to ensure sustainable consumption and production patterns”). This includes all Diagnosis & Treatment and Connected Care & Health Informatics innovation spend. Next, innovation spend that contributes to Green Products and healthy living at Personal Health is included. Finally, innovation spend at HealthTech Other that addresses the SDGs 3 and 12 is included.

### Green Innovation

Green Innovation is a subset of Sustainable Innovation and is defined as all R&D activities directly contributing to the development of Green Products and Solutions or Green Technologies; it contributes to SDG 12. This means all products, systems or services that demonstrate a measurable positive impact on energy efficiency (10% or greater than previous products or legal requirements), and preferably also in one or more green focal areas: Circularity, Weight & Materials, Packaging, and Substances.

### Environmental data

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

Internal validation processes have been implemented and peer audits performed to ensure consistent data quality and to assess the robustness of data reporting systems.

These environmental data from manufacturing are tracked and reported to measure progress against our Sustainable Operations targets.

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

### Environmental Profit & Loss account

The Philips Environmental Profit & Loss (EP&L) account measures our environmental impact on society at large. The EP&L account is based on Life Cycle Analysis methodology in which the environmental impacts are expressed in monetary terms using specific conversion factors. For more information we refer to our methodology [report](#).

### Operational carbon footprint

Philips reports in line with the Greenhouse Gas Protocol (GHGP). The GHGP distinguishes three scopes, as described below. The GHGP requires businesses to report on the first two scopes to comply with the GHGP reporting standards. As per the updated GHGP Scope 2 reporting guidance, from 2015 onward our scope 2 emissions reporting includes both the market-based

method and the location-based method. The market-based method of reporting will serve as our reference for calculating our total operational carbon footprint.

- Scope 1 – direct CO<sub>2</sub>e emissions – is reported on in full, with details of direct emissions from our industrial and non-industrial sites. Emissions from industrial sites, which consist of direct emissions resulting from processes and fossil fuel combustion on site, are reported in the sustainability reporting system. Energy use and CO<sub>2</sub>e emissions from non-industrial sites are based on actual data where available. If this is not the case, they are estimated based on average energy usage per square meter, taking the geographical location and building type of the site into account.
- Scope 2 – indirect CO<sub>2</sub>e emissions – is reported on in full, with details of indirect emissions from our industrial and non-industrial sites. CO<sub>2</sub>e emissions resulting from purchased electricity, steam, heat and other indirect sources are reported in the sustainability reporting system. The indirect emissions of sites not yet reporting are calculated in the same manner as described in Scope 1.
  - The location-based method of scope 2 reporting reflects the average emissions intensity of grids on which energy consumption occurs (using mostly grid-average emission factor data). For this method our emission factors derive from the International Energy Agency (IEA) 2016 and are based on grid averages.
  - The market-based method of scope 2 reporting allows use of an emission factor that is specific to the energy purchased. The emissions intensity of consumed energy can differ according to the contractual instruments used. For example, so-called ‘green electricity contracts’ guarantee the purchaser will be supplied with electricity from renewable sources, which typically lowers emissions per energy unit generated. In the market-based method Philips will account for renewable electricity with an emission factor of 0 grams CO<sub>2</sub>e per kWh. All renewable electricity claimed by Philips is sourced from the same energy market where the electricity-consuming operations are located, and is tracked and redeemed, retired, or cancelled solely on behalf of Philips. All certificates were obtained through procurement of Green-e certified Renewable Energy Certificates (RECs) in the United States and European Guarantees of Origin (GOs) from the Association of Issuing Bodies (AIB) of the European Energy Certificate System (EECS). To ensure the additionality, all certificates are produced in 2017 and a maximum of 6 months prior in the country of consumption and are retired on behalf Royal Philips.
- Scope 3 – other CO<sub>2</sub>e emissions related to activities not owned or controlled by the Royal Philips – is reported on for our business travel and distribution activities.

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

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

All emission factors used to transform input data (for example, amount of tonne-kilometers transported) into CO<sub>2</sub> emissions have been updated to the DEFRA (UK Department for Environment, Food & Rural Affairs) 2017 and the IEA emission factor set 2016. The total CO<sub>2</sub> emission resulting from these calculations serves as input for scope 1, 2 and 3.

Commuting by our employees, upstream distribution (before suppliers ship to us), outsourced activities and emissions resulting from product use by our customers are not included in our operational carbon footprint. The calculations for business travel by lease car are based on actual fuel usage and for travel by rental car the emissions are based on the actual mileage. Taxis and chauffeur driven cars used for business travel are not included in the calculations. Emissions from business travel by airplane are calculated by the supplier based on mileage flown and emission factors from DEFRA, distinguishing between short, medium and long-haul flights. Furthermore, emissions from air freight for distribution are calculated based on the amount of tonne-kilometers transported between airports (distinguishing between short, medium and long-haul flights), including an estimate (based on actual data of the lanes with the largest volumes) for trucking from sites and distribution centers to airports and vice versa. Express shipments are generally a mix of road and air transport, depending on the distance.

It is therefore assumed that shipments across less than 600 km are transported by road and the rest by air (those emissions by air are calculated in the same way as air freight). For sea transport, only data on transported volume were available so an estimate had to be made about the average weight of a container. Transportation to and from ports is not registered. This fore and aft part of sea transport was estimated to be around 3% of the total distance (based on actual data of the lanes with the largest volumes), consisting of a mix of modalities, and was added to the total emissions accordingly. CO<sub>2</sub>e emissions from road transport were also calculated based on tonne-kilometers. Return travel of vehicles is not included in the data for sea and road distribution.

### Employee Engagement Index (EEI)

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

The reported 2016 and 2017 figures are based on the My Accelerate Survey at Royal Philips. This survey is conducted by Expert Training Systems (ETS). The total score of the employee engagement is an average of the quarterly results of the survey. The results are calculated by taking the average of the answered questions of the surveys.

## 13.1.9 Sustainability governance

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

In Royal Philips, the Sustainability Board is the highest governing sustainability body and is chaired by the Chief Strategy & Innovation Officer, who is a member of the Executive Committee. Three other Executive Committee members sit on the Sustainability Board together with segment and functional executives. The Sustainability Board convenes four times per year, defines Philips' sustainability strategy, programs and policies, monitors progress and takes corrective action where needed.

Progress on Sustainability is communicated internally and externally ([www.results.philips.com](http://www.results.philips.com)) on a quarterly basis and at least annually in the Executive Committee and Supervisory Board.

## 13.1.10 External assurance

EY has provided reasonable assurance on whether the information in [chapter 13, Sustainability statements](#), of this Annual Report and [section 3.2, Social performance](#), of this Annual Report and [section 3.3, 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 13.5, Assurance report of the independent auditor, of this Annual Report.

## 13.2 Economic indicators

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

Philips Group  
**Distribution of direct economic benefits** in millions of EUR  
 2015 – 2017

	2015	2016	2017
Suppliers: goods and services	9,594	9,484	9,600
Employees: salaries and wages	4,342	4,422	4,856
Shareholders: distribution from retained earnings	730	732	742
Government: corporate income taxes	169	203	349
Capital providers: net interest	300	299	182

Total purchased goods and services as included in cost of sales amounted to EUR 9.6 billion, representing 54% of total revenues of the Philips Group. Of this amount, approximately 75% was spent with global suppliers, the remainder with local suppliers.

In 2017, salaries and wages totaled EUR 4.9 billion. This amount is some EUR 430 million higher than in 2016, mainly caused by the increased number of employees, also resulting from acquisitions. See note 6, Income from operations for more information.

Philips' shareholders were given EUR 742 million in the form of a dividend, the cash portion of which amounted to EUR 384 million.

Income taxes amounted to EUR 349 million, compared to EUR 203 million in 2016. The effective income tax rate in 2017 was 25.3%, compared to 19.9% in 2016. For more information, see note 8, Income taxes.

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

## 13.3 Social statements

In 2016, Royal Philips launched its next 5-year sustainability programs. This section provides additional information on (some of) the Social performance parameters reported in [section 3.2, Social performance](#), of this Annual Report.

### 13.3.1 People development

Philips is on a multi-year journey to evolve our culture to focus on experience-based career development, giving our people the opportunity to identify and gain the experiences necessary to support our health technology strategy and strengthen their employability. This year we have continued taking experimental learning to a new level across our 70:20:10 approach.

In 2017, more than 1,200 new courses were made available by Philips University. By year-end, some 67,000 employees had enrolled for courses with

Philips University. In total, over 830,000 hours were spent on training through Philips University in 2017, with over 570,000 training completions.

#### 70% Critical career experiences

We focus our efforts to support our people in navigating their own career and stimulate and educate our managers to have meaningful career dialogues with their people. To that end, we have created a new tool, Experience Maps. They describe the experiences people can gain to prepare for or develop in critical roles. We have identified 45 roles according to the following criteria: key to deliver on our strategy, roles our people aspire to be in, and roles with multi incumbents.

These maps are created as a tool for employees and managers to use during development dialogues and for employees to explore when thinking about career steps, how to gain experience to be ready for these roles. By identifying the roles and experiences critical to our business strategy, we clarify development areas and transferrable skills in support of cross-functional, lateral, traditional, as well as non-traditional career opportunities for our people. The career maps guide experience but we have also aligned them with our courses and learning as made available by Philips University.

We have integrated the experience maps into our talent development approach, enabling and empowering our people with real-time, integrated tools and resources to help them plan and manage their career. We also build awareness of experience-based careers for our people through stories and communications, prioritizing critical roles and capabilities that are directly in support of our health technology strategy.

We continue to stimulate cross-moves (across businesses, between markets or functions) to promote collaboration and give people challenging learning experiences.

#### 20% Coaching and mentoring

In 2017, Philips University launched a program for leaders, enabling them to better support people's growth through meaningful career conversations. Coaching and mentoring are also an integral part of all our leadership development programs across all levels of leadership, starting with the transition from individual contributor to first time frontline leader. Our goal is to build coaching capabilities in our leadership population to support leaders in building talent within their teams. As part of our Senior Women in Leadership program, leaders mentor female emerging leaders as application practice throughout their learning journey.

In 2018 we will drive further initiatives focused on:

- Strengthening the employee career partnership with clear accountabilities

- Equipping managers as effective career coaches who will have transparent career dialogues with their team, with differentiated development for deep specialists and broad leaders

### 10% Learning programs

In 2017, Philips University embarked on a journey of transformation. By further optimizing the way learning is offered at Philips, Philips University works to unleash its potential as a world-class learning provider and to deliver upon its mission of a lifetime of learning in Philips. By mirroring learning requests to company-wide strategic priorities and introducing smarter ways of working, we commit to deliver meaningful learning solutions that truly impact our people and Philips as a whole. We continue to explore and implement innovative learning techniques such as virtual instructor-led learning, gamification, video and micro-learning to deliver impactful learning in a cost-conscious manner. In 2016 we initiated a drive to measure learning impact and made significant steps in 2017 to improve the user experience in our learning management system (LMS) to deliver and report learning evaluation from satisfaction scores to assurance of learning application. Starting from July 2017, all requests for learning require us to perform a simple ROI calculation and we look forward to integrating this metric in our dashboards in 2018.

### 13.3.2 Talent attraction

In 2017 we continued to strengthen in-house talent acquisition capabilities, completing 90% of executive hires in 2017. In addition, we expanded our in-house executive search services team to also support executive talent pipelining in order to strengthen executive succession plans where required.

We continued to invest in strategic Recruitment Marketing initiatives to help enable the company's health technology focus and transformation through attraction of key talent. As such, the following tactics were executed to further strengthen employer brand visibility and engagement levels in the labor market:

- A new global Employer Value Proposition (EVP) and employer brand communications platform was activated across key geographies, talent sourcing channels and target audience segments. The new EVP was used to strategically align internal programs, people-focused investments, and employee communications, while also generating approximately 114.8 million positive talent brand impressions in the external labor market.
- Attraction campaigns targeting priority talent segments, such as software talent and Q&R professionals, were executed throughout the year. Building on the success of award-winning campaigns launched in 2016 (*Code to Care and Quality Gene*), the team generated approximately 29 million positive impressions and landing page visits from

over 46,000 target software recruits in 2017, further strengthening digital talent pipelines and increasing hires from defined target companies.

- In response to the increasing competition for top talent, and candidate feedback, we invested in improving the most influential touchpoints in the candidate decision journey. Enhancements included mandatory candidate experience training for all recruiters, a differentiating employer brand content strategy, and the launch of a new global career website platform. The new platform leverages Artificial Intelligence (AI) and modern web technologies to deliver a more personalized, and candidate-centric digital experience. Since launch, the new platform has generated over 875,000 visits to the global site.

Best Place to Work programs continued to help Philips optimize its attractiveness to passive talent. In 2017, Philips won top employer awards in three countries - the Netherlands, Italy, and UAE. The company's talent acquisition organization also continued to be recognized as best-in-class by Corporate Executive Board, and other industry thought leadership channels.

### 13.3.3 Employee volunteering

Our people around the world bring the same passion and rigor to our employee volunteering, social impact and donations as they do to our Philips business, through innovative collaborations, such as the Philips Foundation and Ashoka collaboration, with the aim of increasing the impact of social entrepreneurs, leveraging Philips employee expertise, technology and measurable solutions, for example the **ChARM**, and volunteering their time to make a profound impact to people's lives around the world. Our mission to improve lives through meaningful innovation is a key attractor for our people to join Philips and we connect our employee efforts directly to our brand promise as a leading health technology company to **#Makelifebetter**.

Our Philips Foundation provides the platform for the wider societal activity of Royal Philips, with the inspiring mission to reduce health inequality for those who have limited access to healthcare, through meaningful innovation towards solutions that are sustainable and inclusive.

Each of our full global workforce of 73,951 employees are granted one day paid time off from work for volunteering activities on an annual basis. We have so many inspiring stories of impact around the world. To give just a few examples:

- Over 5,000 employees completed CPR training, and employees participated in 19 walks across the US, also as part of World Heart Day
- Supporting an isolated Blackfeet Tribe of 15,000 in Montana to utilize telemedicine, and donated ultrasound guided cardiology equipment

- Supporting low-income schools in India through teaching English, donating food, books and clothing
- Supporting Seattle King County clinic, with over 150 employees volunteering their time, including donations of ultrasound machines and Sonicare toothbrushes
- Providing volunteers, technical support and medical equipment to International Medical Equipment Collaborative (IMEC)
- Supporting March of Dimes, hosting 13 baby showers, educating on baby health and donating equipment to military mothers, and developing a community portal

In 2018 we will focus our employee volunteering and fundraising efforts around the theme of Childhood Pneumonia, to create measurable and sustainable impact. Every minute 2 children under 5 die from pneumonia. However, pneumonia is a communicable disease that can be easily prevented, diagnosed and treated with the appropriate and affordable commodities.

### 13.3.4 Building employability

At Philips, our vision to offer the best place to work for people who share our passion is not limited to our employees. In a number of our geographies, we support social initiatives to increase employability. This year we are highlighting a UK example, where we have been working with the halow project, which nurtures the independence of individuals with learning disabilities.

### 13.3.5 The Philips Foundation

The Philips Foundation is a registered charity established in 2014 as a platform for the worldwide societal activities of Philips. It has now evolved to support the Sustainable Development Goals 3 (Ensure healthy lives and promote well-being for all at all ages) and 17 (Revitalize the global partnership for sustainable development) by deploying what Philips is best at. Royal Philips supported the programs of the Philips Foundation in 2017 and provided the operating staff as well as the expert support of skilled employees for support in the Foundation's programs.

The Philips Foundation's mission has been reformulated in 2017 to reduce healthcare inequality by providing access to quality healthcare for disadvantaged communities. We do this through the provision and application of Philips's healthcare and personal care expertise, innovation power, talent and resources and by financial support. Together with key partners around the globe, the Philips Foundation seeks to identify the challenges where a combination of Philips expertise and partner experience can be used to create meaningful solutions that impact people's lives.

In 2017 The Philips Foundation exceeded the number of 100 projects throughout the world, engaging employees and connecting with patients and underserved communities on healthcare. 33 local

projects were approved in 2017 throughout all geographical markets, along all phases of the healthcare continuum: from education on healthy living and prevention, to diagnosis and treatment, deploying Philips' expertise and skills. Across 19 countries Philips Foundation supported 28 local non-governmental organizations, working with Philips employees to improve healthcare access and availability for people as well as personal care.

In addition, in 2017 Philips Foundation continued working with global organizations. While assessing poorly functioning healthcare facilities, we deployed an alpha release of an assessment mobile application and a minimal cloud-based backend in collaboration with the Ministry of Health and UNICEF in facilities located in Kakamega and Nairobi in Kenya. Our partnership with United Nations Children's Fund (UNICEF) is ongoing with the Maker Project in Kenya, leveraging our capabilities to create sustainable innovative solutions to maternal and child healthcare issues.

In collaboration with the International Committee of the Red Cross (ICRC) and the Netherlands Red Cross we developed a toolkit for healthcare workers in Sub-Saharan Africa. The toolkit aims to mitigate the most prominent health risks faced during pregnancy and promotes ways to maintain a healthy lifestyle. This is part of larger efforts to innovate with the ICRC to optimize maternal care in fragile environments. A next project, working specifically with the Netherlands Red Cross and Ivory Coast Red Cross, will build the Community Life Centers and improve community healthcare in Ivory Coast.

We committed to donate scanning equipment to Mercy Ships, which brings in floating professional hospital care to the benefit of people in remote areas in Africa. We started studying sustainability models around healthcare facilities in primary care to ensure long term availability with Amref Health Africa. The Philips Foundation will donate Children's Automatic Respiratory Monitors to Management Sciences for Health (MSH) that works shoulder-to-shoulder with countries and communities to save lives and improve the health of the world's poorest and most vulnerable people by building strong, resilient, sustainable health systems. This is part of their application to USAID to fund an Integrated Health Project (IHP) in DR Congo.

With Ashoka the Philips Foundation started a multi-year effort to unleash the power of social innovation to reduce health inequality. In the program, the Philips Foundation supports a number of social entrepreneurs selected for their visionary solutions to improve access to healthcare for those who lack access. The entrepreneurs are connected to experienced Philips employees through several programs, aimed at scaling the impact of their healthcare solutions and at co-creating new models for business and social value.

The Philips Foundation financially supported mobile clinics in Somalia and Yemen, and donated mobile ultrasound equipment after other natural disasters such as hurricanes of unprecedented force (Hurricane Matthew, Harvey, Irma and Maria), flooding and earthquakes that occurred this year. By uniting to collaborate, we believe we can make life better for people — and every day, we work to extend that promise around the world.

Further to building on our work, we continued to honor the longstanding commitment to the communities we do business with through support for local NGOs and engaging our colleagues in those communities.

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

### 13.3.6 General Business Principles

In 2017, a total of 382 concerns were reported via the Philips Ethics Line and through our network of GBP Compliance Officers. The previous reporting period (2016) saw a total of 339 concerns, resulting in an increase of 13% in the number of reports.

This is a continuation of the upward trend reported since 2014, the year in which Philips updated its General Business Principles and deployed a strengthened global communication campaign. We believe this trend continues to be in line with our multi-year efforts to encourage our employees to speak up.

The upward trend in the number of concerns can be attributed primarily to more concerns being reported in North America, which now accounts for 49% of the total number of complaints (2016: 38%). The number of concerns reported in the Asia-Pacific region (APAC region) and in Europe, Middle East & Africa (EMEA region) remained quite stable, accounting for 20% and 21% of the total number of complaints respectively in 2017 (2016: 24% and 20%). The concerns reported in Latin America declined to 10% of the total number of complaints, compared with 19% in 2016.

Philips Group  
Breakdown of reported GBP concerns in number of reports  
2014 - 2017

	2014	2015	2016	2017
Health & Safety	4	8	9	11
Treatment of employees	142	166	179	211
- Collective bargaining	-	-	-	-
- Equal and fair treatment	46	32	51	59
- Employee development	-	2	12	12
- Employee privacy	3	6	2	1
- Employee relations	2	-	16	32
- Respectful treatment	69	83	62	77
- Remuneration	6	4	5	8
- Right to organize	-	-	-	-
- Working hours	3	1	2	9
- HR other	13	38	29	13
Legal	23	19	27	36
Business Integrity	73	89	97	104
Supply management	5	3	10	6
IT	6	2	8	6
Other	21	8	9	8
<b>Total</b>	<b>274</b>	<b>295</b>	<b>339</b>	<b>382</b>

#### Most common types of concerns reported

##### Treatment of employees

As in previous years, the type of concern most commonly reported related to the category 'Treatment of employees'. In 2017 there were 211 reports in this category, compared to 179 in 2016. This represents 55% of the total number of concerns, which is only a slight increase on 2016 (53%).

The majority of the concerns reported in the 'Treatment of employees' category relate to 'Respectful treatment' and 'Equal and fair treatment' (64%). The 'Respectful treatment' category generally relates to concerns about verbal abuse, (sexual) harassment, and hostile work environments. 'Equal and fair treatment' primarily addresses favoritism, matters of discrimination and unfair treatment in the workplace. In these categories, 73% of the cases originate from the Americas, which is slightly more than in 2016 (72%).

Philips Group  
Classification of the new concerns investigated in number of reports  
2015 - 2017

	2015		2016		2017	
	substantiated	unsubstantiated	substantiated	unsubstantiated	substantiated	unsubstantiated
Health & Safety	2	4	1	1	6	3
Treatment of employees	47	64	45	103	44	126
Legal	3	5	4	13	8	16
Business Integrity	9	42	18	42	28	38
Supply Management	-	-	-	7	-	5
IT	-	1	1	1	2	4
Other	1	5	3	2	3	4
<b>Total</b>	<b>62</b>	<b>121</b>	<b>72</b>	<b>169</b>	<b>91</b>	<b>196</b>



### Business integrity

The second-most reported type of concern relates to 'Business Integrity', which accounted for 27% of total cases reported in 2017. This is slightly less than in 2016, when the percentage was 29%. These concerns originated primarily from the APAC region (44%), followed by EMEA (28%), Latin America (16%) and North America (12%).

### Substantiated/unsubstantiated concerns

Of the 382 cases reported in 2017, 95 are still pending closure, in particular those that were filed towards the end of the year. The table below gives an overview of the number of reported concerns that were substantiated (i.e. were found to constitute a breach of our General Business Principles) by the subsequent investigation.

Of the 287 reports closed in 2017 (241 in 2016), 91 were substantiated, which represents 32% of the total number reported and closed (30% in 2016). This is also shown in the table below. Notably, while 31% of the Treatment of employee cases were substantiated in 2016, this percentage dropped to 26% in 2017 (2015: 42%, 2014: 28%). Similarly, 42% of the Business Integrity reports were closed as substantiated in 2017, compared with 30% in 2016 (2015: 18%, 2014: 33%).

In addition to the above, 117 concerns that were still open at the end of 2016 were closed during the course of 2017. 44% of these concerns were substantiated after investigation.

Of the 143 substantiated concerns closed in 2017, 77 were followed up with disciplinary measures ranging from termination of employment and written warnings to training and coaching. In other cases corrective action was taken, which varied from strengthening the business processes to increasing awareness of the expected standard of business conduct.

## 13.3.7 Health and Safety performance

In 2017 we focused on four main areas of Health and Safety:

**Policy and Procedures.** The CEO signed the new **H&S policy** and under it the existing standards are being consolidated and upgraded into a common format to provide guidance in a simple, consistent Management System format.

**Structure and Responsibility.** The Health and Safety structure to support the operational sites and the Field Service organizations was improved and focused on providing support to all Philips activities more directly. Within this a program to upskill H&S professionals was implemented to provide better internal development opportunities.

**Internal Health and Safety Audit.** We strengthened our audit process by extending the duration of Health and Safety audits and focused on delivering higher

standards using verifiable evidence to provide greater depth of analysis. We saw improved performance at sites as a result and one site achieved an 85% accident reduction rate following this enhanced process.

**Cultural Change.** We continued to focus our efforts on a proactive cultural transformation through Behavior Based Safety (BBS). BBS requires a fundamental shift in how we think about and act on Health and Safety before an injury occurs. Our new company program, based on an internal best practice, was deployed and implemented globally across many factories in 2017 including those in China, Europe and the USA. At one pilot site we saw accidents reduced by 75% following the introduction of the BBS program. We believe this program will continue to drive down our workplace injuries and be a key pillar towards reaching our goal of a 25% reduction in total injuries by 2020.

**Metrics.** In 2017 we implemented proactive metrics to support the more traditional Reactive metrics (TRC and LWIC) and we completed over 14,000 safety Gemba Walks and 22,900 Safety Kaizen activities. This approach is also designed to support cultural change and drive safety into routine management activity.

In 2017, we recorded 234 TRCs (239 in 2016), i.e. cases where the injured employee is unable to work one or more days, or had medical treatment, or sustained an industrial illness.

Philips Group  
Total recordable cases per 100 FTEs  
2016 - 2017

	2016	2017
Personal Health	0.33	0.28
Diagnosis & Treatment	0.65	0.58
Connected Care & Health Informatics	0.67	0.60
HealthTech Other	0.27	0.29
<b>Philips Group</b>	<b>0.37</b>	<b>0.36</b>

Additionally, we recorded 113 LWIC, i.e. occupational injury cases where the injured person is unable to work one or more days after the injury. This represents an increase compared with 103 in 2016. The LWIC rate increased to 0.17 per 100 FTEs, compared with 0.16 in 2016. The number of Lost Workdays caused by injuries increased by 965 days (30%) to 4,170 days in 2017.

Philips Group  
Lost workday injuries per 100 FTEs  
2013 - 2017

	2013	2014	2015	2016	2017
Personal Health	0.33	0.16	0.16	0.15	0.17
Diagnosis & Treatment	0.23	0.27	0.20	0.36	0.27
Connected Care & Health Informatics	0.05	0.18	0.16	0.15	0.15
HealthTech Other	0.12	0.11	0.13	0.10	0.14
<b>Philips Group</b>	<b>0.18</b>	<b>0.15</b>	<b>0.15</b>	<b>0.16</b>	<b>0.17</b>

### Personal Health businesses

The Personal Health businesses segment showed a decrease in performance in Health and Safety with 24 LWIC in 2017, compared to 21 in 2016. The LWIC rate increased from 0.15 in 2016 to 0.17 in 2017. The Personal Health businesses segment had 38 recordable cases in 2017 (46 in 2016), mainly driven by fewer cases in our factory in the USA.

### Diagnosis & Treatment businesses

In the Diagnosis & Treatment businesses segment Health and Safety showed an increase in performance in 2017 with 33 LWIC compared to 40 in 2016. The LWIC rate decreased to 0.27 compared to 0.36 in 2016. The total number of recordable cases for the Diagnosis & Treatment businesses segment was 70 (73 in 2016), mainly driven by our factories in the Netherlands and Costa Rica.

### Connected Care & Health Informatics businesses

Health and Safety performance in the Connected Care & Health Informatics businesses segment was stable in 2017 with 5 LWIC in 2017, the same number as in 2016. Correspondingly, the LWIC rate remained at 0.15 in 2017. The total number of recordable cases for the Connected Care & Health Informatics businesses segment was 20 (23 in 2016).

## 13.3.8 Stakeholder engagement

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

### Global partnerships

#### World Economic Forum

Philips is proud to continue as a strategic partner of the World Economic Forum (WEF), an International Organization for Public-Private Cooperation committed to improving the state of the world. The Forum engages the foremost political, business and other leaders of society to shape global, regional and industry agendas.

In addition to the Annual Meeting in Davos, we supported and participated in a wide range of initiatives and projects throughout the year – regional WEF events in Latin America and ASEAN, continued involvement in initiatives such as Shaping the Future of Health and Healthcare and Shaping the Future of Digital Economy and Society, as well as participation in the International Business Council of the World Economic Forum.

Through his co-chairmanship of the PACE (Platform for Accelerating the Circular Economy) initiative, Philips CEO Frans van Houten announced a **pledge** that Philips aims to take back all capital equipment from our hospital clients.

### Global Alliance for Vaccines and Immunization

Philips and the Global Alliance for Vaccines and Immunization are partnering to improve the quality of immunization data and its collection in primary and community healthcare. The partnership will be piloting a project in Uganda with the goal of gathering accurate healthcare data to provide access to care at lower costs, improve patient outcomes, and reduce costs. Good data is key to strengthening health systems around the world.

### World Heart Federation

Philips continued their partnership with the World Heart Federation (WHF) in 2017 to help people better manage their heart health. Aligned with the WHF's 'power your life' campaign, Philips aims to encourage people to take personal responsibility for leading heart-healthy lives and to raise awareness about cardiovascular disease.

### Thought leadership

#### Future Health Index

The **Future Health Index** (FHI) is Philips' flagship research platform to understand perceptions of connected care technology and the role it plays in the future of healthcare. Launched in 2016, it is a comprehensive record of where we are on the road to better outcomes achieved at lower cost, examining perceptions of main users of health systems and investigating how technology is transforming lives around the world, thereby using data from organizations such as the World Health Organization, World Bank and IDC. In 2018 the Future Health Index will continue to work with the industry's brightest minds with a focus on demonstrating how connected care technologies are, and should be, used to accelerate value-based healthcare.

#### Digital Health Society

Philips is part of the EU ecosystem - **Digital Health Society** (DSH). The DHS network, initiated in October 2017 by the then-Estonian Presidency of the Council of the European Union, includes main EU key stakeholders: policy-makers, citizens, health professionals, scientists, companies and payers. Its main objective is to identify current main challenges for the deployment of digital health and to devise ways and initiatives to achieve it.

The four main topics cover:

- Convergence on interoperability standards and digital tele healthcare protocol
- Data donors and citizen-controlled data governance
- Legal framework facilitating the free flow of data and the 2nd use of data
- Digital transformation and change management in health and social care organizations

We believe that such a multi-stakeholder approach is an effective method to achieve the Digital Single Market in the EU.

## Working on global issues

### Sustainable Development Goals

Philips aspires to be a major private sector contributor to The United Nations Sustainable Development Goals (SDGs). Philips is committed to working closely with all relevant stakeholders to develop solutions to address SDG 3 (“to ensure healthy lives and promote well-being for all at all ages”) and SDG 12 (“to ensure sustainable consumption and production patterns”).

Throughout the year we ran two campaigns with **DEVEX**, a social enterprise and media platform for the global development community. Philips led a 10-week dialogue series with European Investment Bank, International Finance Corporation and UNDP on how to boost and improve **Public Private Partnerships (PPPs) as a financial instrument to achieve the SDGs**. The **DEVEX editorial team covered HealthMap Diagnostics**, a joint venture between Manipal Health Enterprises and Philips in Haryana, India.

Our second campaign with DEVEX focused on **the importance of quality primary healthcare to achieve the goal of Universal Health Coverage**. We partnered with the WHO, IFPMA, IFRC and UNICEF among others. As part of the Philips coverage, the DEVEX editorial team travelled to **Jayapura, Indonesia to discover more about our Mobile Obstetrician Monitoring solution**. Frans van Houten was also interviewed as part of the dialogue on the importance of taking a **holistic view of healthcare**.

In the 2017 UN General Assembly, our CEO Frans van Houten, Chief HR Officer Ronald de Jong and Chief of International Markets Henk de Jong joined a number of events including WEF’s inaugural Summit on Sustainable Development Impact. There, we shared our **pledge to improve the lives of 300 million people a year in underserved healthcare communities by 2025** recognizing the often-critical needs of women and children in many communities.

In the framework of the UNGA week, Philips sponsored the Social Good Summit in New York, where it launched in 15 countries its **Better Me, Better World** initiative. The platform provides consumers with personal benefits while giving them the opportunity to help prioritize the additional health and healthcare causes that Philips will support through the Philips Foundation in 2018.

On the occasion of United Nations General Assembly in September 2017, we co-organized a **panel discussion** on Universal Health Coverage (UHC) with the Rockefeller Foundation and DEVEX. UHC is the number one priority for the World Health Organization. Philips believes the private sector can work in partnership to develop innovative business models and provide

access to quality universal healthcare. Ronald de Jong, Head of HR Royal Philips and Chairman of the Philips Foundation, together with Peter Maurer, President International Committee of the Red Cross discussed **how the Private/Public Sector can support humanitarian causes such as healthcare**, sharing our collaboration in the development of the High Risk Pregnancy Toolkit and the Primary Healthcare Facilities in the Ivory Coast.

### Strengthening primary care and enabling community development

Philips continued on its journey towards improving access to care in developing countries, especially Africa. We have extended our **pledge to improve the lives of 300 million people a year in underserved healthcare communities by 2025**, with a specific focus on women and children. The needs of women and children are critical and at the heart of the need to achieve Universal Health Coverage.

The modular **Community Life Center (CLC) solution** for radical improvement of primary care was further optimized and prepared for large scale deployment. In the course of 2017, CLCs were inaugurated in **Kenya, South Africa** and the Democratic Republic of Congo.

Philips was the first private sector company to provide support to the SDG 3 window of the newly created **SDG Partnership Platform Kenya**, an initiative of the UN, the Government of Kenya and the private sector. The SDG 3 window of the platform aims to ‘Demonstrate the power of public-private collaboration to transform primary healthcare, and attain Universal Health Coverage by 2021, in support of the broader attainment of the Sustainable Development Goals (SDGs), improving health & well-being of 46 million Kenyans’. Through co-creations with county governments, Philips will engage in large scale public private partnerships for improving primary care.

### Grand Challenges Canada on childhood pneumonia

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

Royal Philips received a repayable grant to scale the manufacturing and distribution of the Philips Children’s Automated Respiration Monitor (also known as ChARM) to make it affordable and accessible for community-based health workers in low-resource settings throughout the world.

The ChARM has been included in the UNICEF Supply Chain Division’s **ARIDA** project, for trials in Nepal and Ethiopia. ChARM has the potential to assist community health workers in establishing a more accurate measurement of a sick child’s breathing rate to help improve the diagnosis of pneumonia and potentially prevent some of the 922,000 childhood deaths caused by pneumonia each year.

**Global Financing Facility**

In 2017 Philips was elected to represent the private sector in the Global Financing Facility (GFF) Investors Group. The GFF is seizing the opportunity to change the course of financing for the Sustainable Development Goals and improve the lives of millions of women, children, and adolescents across the world. By creating the right financial and technical conditions for innovation as a common objective, we believe our involvement will achieve greater impact and better health outcomes through collaboration.

**13.3.9 Supplier indicators**

Philips has a direct business relationship with approximately 4,600 product and component suppliers and 18,000 service providers, and in many cases the sustainability issues deeper in our supply chain require us to intervene beyond tier 1 of the chain.

**Supplier sustainability strategy**

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

**1. Supplier Sustainability Compliance**

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

*Supplier Sustainability Declaration (SSD)*

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

*Regulated Substances List (RSL)*

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

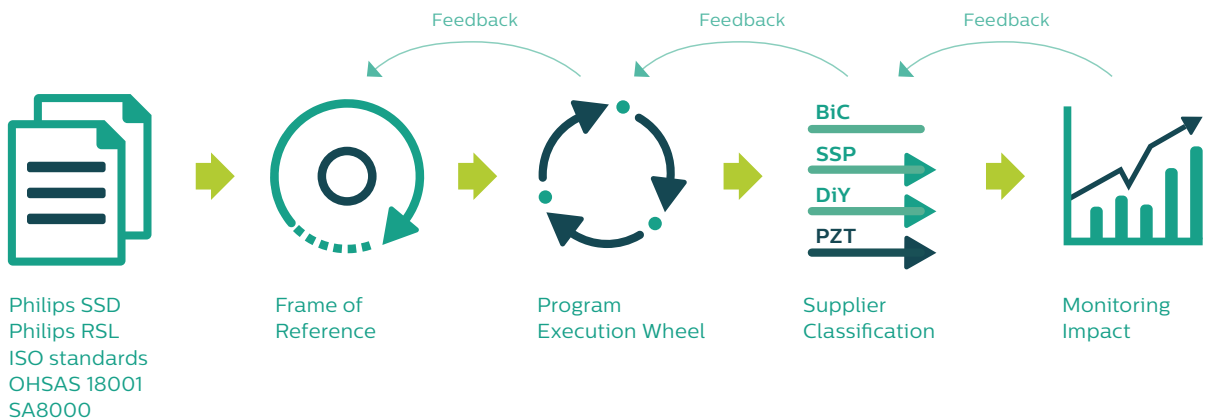
Philips further specifies contractual and transparency requirements. All suppliers are obliged to contractually commit to the SSD and RSL. Through integration of a Sustainability Agreement (SA) in our General Purchase Agreement (GPA) suppliers declare compliance to both the SSD and RSL. Upon request they also provide additional information and evidence.

**2. Supplier Sustainability Performance (SSP) - "Beyond Audit"**

Philips started to conduct supplier sustainability audits in 2004 as part of its commitment to be a responsible company. Supplier scoping was based on risk criteria such as risk countries (Maplecroft/Veririsk) and spend threshold (more than EUR 1 million). Since 2004, we conducted, through third party service providers, approximately 2,500 sustainability audits. The number of audits and the key "non conformities" have been published by Philips in its Annual Report from the beginning. During the execution of the audit program we identified industry specific non conformities occurring at a large number of our suppliers in scope related to for example Health and Safety or remuneration and benefits. As a first kind of corrective action, we have started to implement training programs like electrical safety training, Health & Safety training and dust explosion training. At a later stage we participated in a capacity building program on improving the worker-management dialogue (IDH-WMD program). The outcome of these training and capacity building programs only showed limited positive impact on the number of non-conformities identified.

We believed in the need for a structural change that goes beyond audit. Therefore we designed and developed a new approach – Supplier Sustainability Performance ("Beyond Audit"), focusing on:

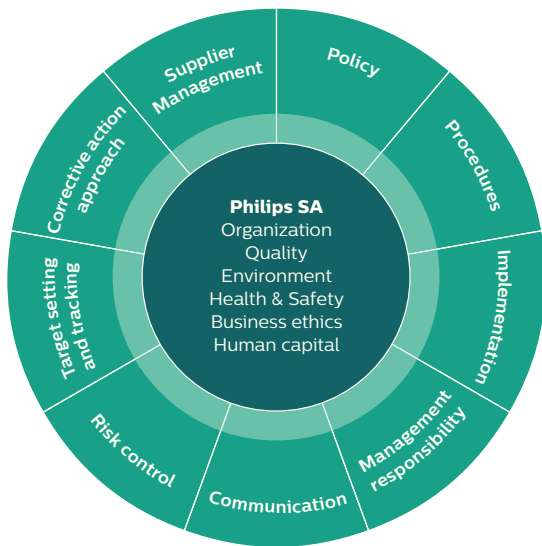
- making our supply chain sustainable in every sense of the word
- taking a systematic approach to improving the sustainability of our supply chain
- driving continuous improvement and measuring impact through a structural phased approach



- focusing on collaboration, increased transparency, clear commitments and suppliers meeting agreed targets
- encouraging our suppliers, industry peers and cross-industry peers to join our approach

All aspects are related to a set of boundary conditions that need to be met by potential suppliers before being allowed to enter the Philips supply base.

Managing improvements structurally over time requires a systemic approach, using a set of recognized and global references, an executable process, specific customized agreed actions, a set of KPIs, ambitious targets and of course a group of suppliers that will be in scope. This systemic approach is shown in the figure below which is a simplified high-level representation of the overall SSP program.



The Frame of Reference addresses two completely different dimensions, which outline predefined requirements and subjects that can be used to identify the maturity level of a supplier. The core of the Frame of Reference (see diagram below) refers to aspects as defined in the Philips Sustainability Agreement based on a cross-industry code of conduct, and includes for example Health and Safety.

The outer loop in this Frame of Reference sets clear directions for identifying and measuring the maturity level across nine elements of the topics mentioned in the core. Combining both dimensions into a matrix makes it possible to identify each core aspect's maturity level. This matrix, capturing the summarized information, enables mapping and monitoring of the sustainability maturity level of individual suppliers over time.

For each supplier within the scope of our approach, the core elements as described in the Frame of Reference will be identified and measured in an annual cycle through a structured process based on four key stages

(see below). The first stage, 'Select', defines which suppliers will be in scope and clarifies expectations to all relevant stakeholders through an annual process. The second stage, 'Identify', invites suppliers in scope to complete a Self-Assessment Questionnaire (SAQ) and provide sufficient supporting evidence enabling subject matter experts to perform a validation based on predefined criteria. The third stage, 'Agree', assigns the suppliers to different supplier statuses. The minimum requirement to be met is defined as PZT (Potential Zero Tolerance). The fourth stage is about the 'Implement/Sustain' of the agreed Supplier Sustainability Improvement Plan (SSIP). Suppliers allocate resources, maintain the improvement plan, track the progress of the plan, and measure how their actions are influencing the local situation.

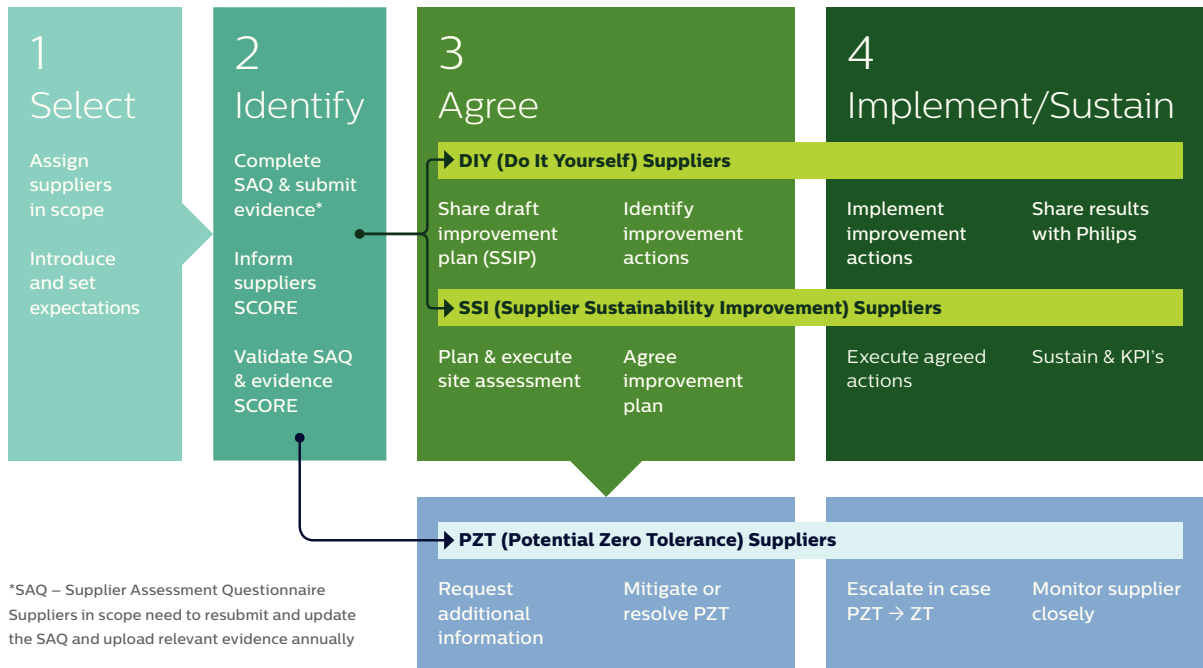
**Supplier classification**

Four different categories are used for assigning suppliers in scope after validation of the SAQ. These four categories are BiC (Best in Class), SSIP (Supplier Sustainability Improvement Plan), DIY (Do It Yourself) and No Zero Tolerance. The status of PZT (Potential Zero Tolerance) is supposed to be a temporary status and requires immediate attention and action. Depending on the supplier assignment, suppliers will be engaged in different ways to improve their sustainability performance.

<p><b>SSIP – Supplier</b></p> <ul style="list-style-type: none"> <li>- Increase awareness</li> <li>- Supported and trained</li> <li>- Collaborates to improve</li> </ul>	<p><b>BiC – Supplier</b></p> <p>(No specific further actions, in future supplier shares)</p>
<p><b>Minimum requirements are met; No Zero Tolerance</b></p> <p>(No specific further actions)</p>	<p><b>DIY – Supplier</b></p> <p>(Future peer-to-peer network of cross supplier sharing/learning)</p>
Unaware	Aware
<p>← Maturity level →</p>	
<p><b>Criteria;</b> Supplier Assessment Questionnaire (SAQ) applies to all suppliers in scope - Annual spend &gt; 500K€ (last FY)</p> <p>Note: no specific focus on any kind of 'risk' countries</p>	

If during the execution of the SSP program at any specific period in time a (Potential) Zero Tolerance has been identified, immediate and further action will be taken. If the requested additional information and evidence lead to the conclusion that there is no structural Zero Tolerance the supplier status will be changed and the supplier will go back to the original track in the program. If the conclusion gives rise to a structural Zero Tolerance the supplier will be required to:

- Propose a plan to mitigate and/or resolve the identified Zero Tolerance(s)
- Commit to structurally resolving the Zero Tolerance
- Provide regular updates and evidence
- Avoid quick-fixing



During the execution of the SSP program we have identified several Zero Tolerances so far. Based on these first results we can therefore conclude that through our structural approach, our open communication, our focus on collaboration and suppliers showing commitment to continuous improvement we increased transparency and mitigated these Zero Tolerances in a structural manner.

Philips has defined six Zero Tolerances (ZT), which are:

- Fake or falsified records (structural)
- Child and/or forced labor (structural)
- Immediate threat to the environment
- Immediate threat to workers (Health and Safety issues)
- Failure to comply with regulatory and/or Philips requirements
- Workers' monthly income (covering salary for regular hours and overtime, tax deductions, social insurance) structurally failing to meet regulatory requirements

In 2017, unfortunately one supplier decided, after accepting the Zero Tolerance mitigation plan, to stop execution of the plan. This triggered the phase-out process of this specific supplier. The decision to phase-out a supplier is conducted in close collaboration with responsible business owners, legal representatives and sustainability subject matter experts.

**Measuring impact**

The impact of improvements, is measured as a single number based on a scale varying from 0 to 100%. This single value is calculated at individual suppliers, combining the values of the nine elements per aspect into one overall number. The ultimate goal is to achieve

a perfect score. However, the main focus at this moment is to identify improvement based on the agreed improvement plan.

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

*“PI Electronics have been audited by several Customers (e.g. RBA members) for more than 10 years. Through participation in the SSP approach, we have re-organized the company’s management system, implemented control measures for timely comparison and tracking improvements in a monthly KPI report. All relevant departments are engaged and take action to address potential areas of improvement.”*

**PI Electronics**

Current sample of suppliers that entered in 2016 and are still active in 2017 in the program is 49 (2016) and 164 (2017). All of these are validated:

- All suppliers in scope completed the SAQ and have been validated in 2017; the program conducted a Site assessment validation at 36% of these suppliers.
- 77 suppliers developed and agreed a Supplier Sustainability Improvement Plan (SSIP).
- 64 suppliers started executing the SSIP whereas 13 suppliers (entered in 2016) continued to execute their SSIP, while Philips provides support and monitors progress on a regular basis.
- The average baseline score of all suppliers active in the program is almost equal for 2016 (50 for 49 suppliers) and 2017 (51 for 164) suppliers.

- The average improvement against the baseline is 15%, for those 13 suppliers which entered the program in 2016 and continued to execute the SSIP program in 2017 through close collaboration with Philips.
- The average improvement against the baseline is 6%, for those 36 suppliers which entered the program in 2016 and continued to manage the improvements themselves (DIY) in 2017.
- The number of employees at suppliers participating in the SSP program is approximately 200,000.

*“SSP mainly focuses on long-term sustainability improvement with a structural systematic approach. We have recognized three key aspects so far; 1. a change of mindset: we as supplier can actively work together with Philips to eliminate the risk without the concern of being punished when the issues are not closed, 2. a change of method: joint-effort approach, 3. a change in effectiveness: enhance supplier long-term competency.”*

**Foliage**

In 2017, a third party, Elevate, was engaged to support Philips in the review of our approach and to conduct supplier validations to get familiar with our SSP approach. Next, Elevate conducted, in close collaboration with our experts, several desktop validations followed by four on-site assessment validations, to be aligned and prepared to expand suppliers in scope globally. For 2018 we continue our roll-out in close collaboration with Elevate, targeting together 400 suppliers.

*“The Philips Supplier Sustainability Performance program is an innovative beyond auditing model that has proven to have greater impact for factories, workers and the planet. After years of social compliance auditing with limited impact, industry can learn from Philips and companies should experiment with similar efforts to drive greater transparency, partnership and performance.”*

**Ian Spaulding, CEO**  
Elevate Limited

**3. Responsible Sourcing of Minerals**

The supply chains of minerals are long and complex. There are typically 7+ tiers between the end-user companies like Philips and the mines where the minerals are being extracted. Philips does not directly source minerals from mines in the conflict-affected and high-risk regions. Mining in these regions often takes place in an artisanal form, which often means it is informal and unregulated. Artisanal miners can become victims to exploitation by various militia and armed groups or local traders. This increases the risk of human

## Responsible Sourcing approach of Philips

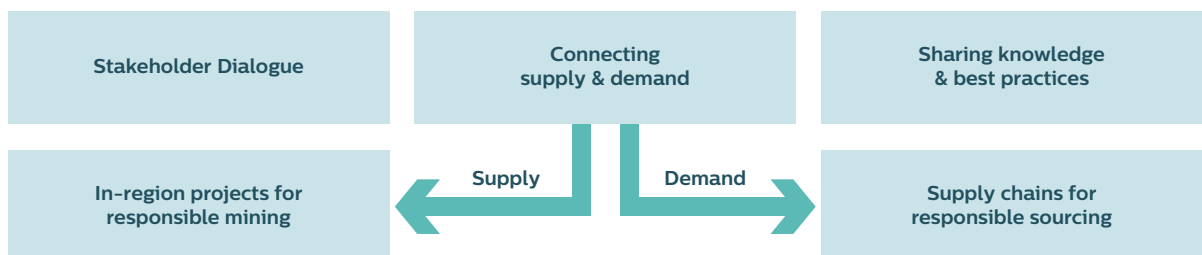
### Due diligence approach

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



### Multi-stakeholder initiatives

Working together with other stakeholders to apply leverage



rights violations (forced labor, child labor or widespread sexual violence), unsafe working conditions or environmental concerns.

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

#### Responsible sourcing approach of Philips

##### *Conflict minerals due diligence*

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

Philips applies collective cross-industry leverage through active engagement via the Responsible Minerals Initiative (RMI, formerly known as the Conflict Free Sourcing Initiative (CFSI)). The RMI identifies smelters that can demonstrate through an independent third-party audit that the minerals they procure are conflict free. Philips is actively directing its supply chain towards these smelters. See [www.responsiblemineralsinitiative.org](http://www.responsiblemineralsinitiative.org) for more details.

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

##### *Multi-stakeholder initiatives for responsible sourcing of minerals*

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

#### European Partnership for Responsible Minerals (EPRM)

EPRM is a five-year multi-stakeholder partnership between governments, companies, and civil society actors working toward more sustainable minerals supply chains. Philips became a strategic, founding partner of EPRM in May 2016, being the first representative of the private sector to join the initiative. The goal of the EPRM is to create better social and economic conditions for mine workers and local mining communities, by increasing the number of mines that adopt responsible mining practices in Conflict and High Risk Areas (CAHRAs).

#### Tin mining in Indonesia (TWG)

Indonesia produces roughly one-third of the world's tin supply, of which the vast majority comes from the islands Bangka and Belitung. The current phase (2017-2019) of the TWG is led by the RBA Responsible Minerals Initiative. Additional funding was received from the EPRM to support pilot project activities for land reclamation as well as Occupational Health and Safety (OHS) capacity building.

#### IRBC Agreement Responsible Gold

In June 2017 Royal Philips signed the [Agreement Responsible Gold](#) and as such agreed to work on improving international responsible business conduct across the entire gold value chain. Transparency is an important part of these efforts, which are being undertaken by a broad coalition of partners (government, jewelers, recycling firms, smelting firms, NGOs and goldsmiths). The parties agreed to join forces with the aim of tackling child labor in Uganda by working closely with mining communities and connecting more responsible gold to the supply chains of Philips and Fairphone, Solidaridad, UNICEF and Uganda-based NGOs and CSOs.

#### Mica Working Group

Mica is mainly used as a pearlescent pigment in coatings and cosmetics, and in the electronics sector it is used as an electrical insulator. In 2016, Terre des Hommes in collaboration with SOMO published a report "[Beauty and a Beast](#)" which showed the widespread problem in the Mica industry in Jharkhand/Bihar (India) and gaps in the due diligence of end user companies. Philips decided to become a member of the Responsible Mica Initiative (RMI), a cross-sector association that ensures close collaboration between various stakeholders to achieve a 100% responsible Mica supply chain over the next five years.

Next, Philips and partners Terre des Hommes, Kuncai and local Indian NGOs received funding from the RVO "Fund Against Child Labor" for their project which focuses on a systemic approach to creating favorable conditions for Mica miners, educating and empowering them to negotiate fair prices and creating access to the market.

#### Cobalt - newly added to our initiatives

Research by organizations like SOMO and Greenpeace revealed that serious human rights violations and environmental pollution are happening in the Democratic Republic of Congo (DRC) as a result of cobalt mining, including water pollution and forced evictions. In Q4 2017 Fairphone invited Philips to engage directly with a large Cobalt refiner which also has mining subsidiaries in the DRC. The aim was to identify Artisanal and Small-scale Mining (ASM) cobalt mine sites in the DRC that are able to meet the



developed entry-level criteria and are committed to cooperate on improvements in the areas of Health and Safety, fairer income, and mining impacts on communities.

The entry-level criteria include legality, traceability and controls including on child labor. Furthermore, it has been agreed by Philips, Fairphone, a shared battery supplier, a cobalt refiner and UNICEF to develop and implement in 2018 a partnership agreement. This partnership agreement enables structural improvement of the situation through a well managed multi-stakeholder initiative.

#### 4. Circular Procurement

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

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

For more information on the Circular Economy, please refer to [sub-section 13.4.1, Circular Economy](#), of this Annual Report.

#### 5. Environmental Footprint China

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

Achievements in 2017

- Environmental footprint training for 148 suppliers by Philips Supplier Sustainability team
- Via SA on-site assessment, a number of suppliers have established new waste water and waste air treatment facilities to ensure waste water and air discharging in accordance with regulatory requirements
- Monitor 2nd tier suppliers' environmental performance via 1st tier suppliers (monthly checking the IPE database)
- Philips was ranked the 20th among 188 brands (ranked 25th in 2016) on the IPE list
- Environmental footprint data reported for improving performance by more than 60 suppliers
- Energy savings via Supplier Development Program - energy savings will be achieved upon implementation of the identified improvement actions

#### Improve energy efficiency and reduce CO<sub>2</sub> emissions

Since 2015, there have been more than 30 suppliers involved in Philips energy saving projects organized by Philips Lean experts. Via the analysis of manufacturing process and equipment efficiency, Philips Lean experts together with the suppliers, have identified a number of energy saving opportunities. The implementation of these opportunities have led to reductions in energy usage. In 2017 only, 2,000 tonnes of CO<sub>2</sub> reduction opportunities have been identified at 11 supplier sites.

#### Recognition by the Shanghai local Environmental Protection Bureau

In 2017, due to Philips' efforts to drive Chinese suppliers to continuously improve their environmental performance, Philips was recognized as one of the best companies by Shanghai Jing'an Environmental Protection Bureau for its great performance in supplier environmental management.

#### Process Chemicals

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

## 13.4 Environmental statements

This section provides additional information on (some of) the environmental performance parameters reported in [section 3.3, Environmental performance](#), of this Annual Report.

### 13.4.1 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.

#### The circular economy program

The circular economy program at Philips ran for the fifth year in 2017 and consists of four strategic pillars:

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

Philips leverages partnerships with the Ellen MacArthur Foundation, Circle Economy Netherlands and the World Economic Forum. For example, through the leadership of our CEO and supported by the circular economy program, Philips teamed up with the World

Economic Forum to establish a public-private platform to accelerate the circular economy, launched in Davos in January 2017. This platform gained further momentum throughout 2017 and supported projects covering diverse topics such as plastics, electronics & hardware and business models.

At Philips we see huge opportunities for businesses to provide greater value to customers through innovative service models, smart upgrade paths, or product take-back and remanufacturing programs specifically. That is why Philips made a commitment in January 2018 to fully close the loop on all large medical systems equipment that becomes available to us by 2020, and we will continue to expand these practices until we have covered all professional equipment. By “closing the loop”, we mean that we will actively pursue the trade-in of equipment such as MRI, CT and Cardiovascular systems and we will take full control to ensure that all traded-in materials are repurposed in a responsible way.

### Circular Revenues

In 2017 the Circular Revenues KPI – deployed the year before – was further embedded in the internal target setting. The Circular Revenues percentage captures our revenues of validated circular products, services, and solutions, as a % of total Philips revenues. The validation is done against the following Philips circularity requirements which might be further refined in the future:

#### 1. Performance and Access-based models

Revenues from contracts that include the condition that Philips has individual end-of-life responsibility for the product.

#### 2. Refurbished, Reconditioned & Remanufactured products/systems

Revenues from selling refurbished, reconditioned or remanufactured products/systems with re-used components >30% by total weight of product/ system.

#### 3. Refurbished, Reconditioned & Remanufactured components

Revenue from harvested components that have either been refurbished, reconditioned or remanufactured. The harvested component must contain >30% re-used parts or materials by total component weight. The component can either be a stand-alone component or part of a new product/system. The commercial value of the component is considered irrespective of whether it is part of a service, warranty or sale.

#### 4. Upgrades/refurbishment on site or remote

Revenue from upgrades of existing hardware and software either on site or remotely.

#### 5. Products with recycled plastics content

Revenues from products with a recycled plastics content of >25% by total weight of eligible plastics.

We set the ambition that by 2020 a total of 15% of our revenues will come from circular propositions. This is double the rate of 7% baseline achieved in 2015. The result for 2017 is 11%. The main contributing revenue streams are for:

#### Personal Health businesses

Revenues from our B2C products that contain a large amount of recycled plastics, such as our businesses in coffee and domestic appliances. Revenues from providing our home sleep and respiratory equipment in some markets as a rental option.

#### Diagnosis & Treatment businesses

Our Diamond Select offer of refurbished imaging systems for sale, upgrading of systems at customer premises to enhance performance and extend lifetime, repair and reuse of spare parts.

#### Connected Care & Health Informatics businesses

A number of Philips businesses based on subscription models, such as for example the Philips Lifeline business and others.

#### Closing material loops

In addition to tracking circular revenue, we are also working to achieve transparency on the material flows connected with the Philips businesses. In 2017 Philips put a total of some 245,000 tonnes of products on the market. This assessment is based on sales data combined with product-specific weights. 85% of the total product weight was delivered through our B2C businesses in Personal Health and 15% through our B2B businesses (Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses).

We can account for some 20,000 tonnes or approximately 8% of those products being collected, re-used or recycled globally in 2016. Europe has advanced collection systems in place. In these countries we have an average return rate of around 40-50%. National legislation is required to create the level playing field needed to set up efficient recycling systems beyond the EU. The main pathways and quantities for material re-use in 2016 were:

- Trade-in and return for resale as refurbished products and for spare parts harvesting (Diagnosis & Treatment and Connected Care & Health Informatics) some 2,400 tonnes, largely unchanged from 2016.
- Collective collection and recycling schemes according to the EU Waste Electrical and Electronic Equipment (WEEE) collection schemes. Those products are broken down into the main material fractions and provided to the market via our recycling partners
  - 800 tonnes from Diagnosis & Treatment and Connected Care & Health Informatics field returns, following the WEEE category 8 classification, indicating a slight decrease compared to the previous year (900 tonnes)

- 16,000 tonnes from Personal Health, following the WEEE category 2 classification

On the demand side, the Personal Health businesses have re-integrated significantly more recycled plastics in new products than last year, closing the material loop for some 1,850 tonnes of plastics, up from 1,440 tonnes in 2016.

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

### 13.4.2 Biodiversity

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

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

After Philips participated in 2015 in the development of the Natural Capital Protocol and volunteered as a pilot company, we continued these activities. In 2017, we developed our first Environmental Profit and Loss account (EP&L), which is described in more detail in [section 3.3, Environmental performance](#), of this Annual Report. As can be derived from the EP&L, the environmental impact of the Royal Philips sites is limited as they are not very energy-intensive and do not emit large quantities of high-impact substances. The impact of our supply chain however is significantly higher than our own impact. For this reason, we used the identified hot-spots in our supply chain as input for our CDP Supply Chain program. More information on that program can be found in [sub-section 13.3.9, Supplier indicators](#), of this Annual Report. Next, our focus on the Circular Economy will reduce the environmental impact of our supply chain <https://www.circle-economy.com/wp-content/uploads/2018/01/pace-pledge-20180126-digital.pdf>. The impact during the use-phase of our products is most significant though, which underlines the importance of our continued focus on energy efficiency improvements of our products and our lobby efforts for more demanding industry standards, for example via COCIR.

### 13.4.3 Sustainable Operations

Our Sustainable Operations programs relate to [improving the environmental performance](#) of our manufacturing facilities and focus on most contributors to climate change, but also address water, recycling of waste and chemical substances.

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

#### Philips Group Green Operations 2017

	baseline year 2015	target 2020 <sup>1)</sup>	2017 actual
Total CO <sub>2</sub> from manufacturing	84 Ktonnes	0 Ktonnes	55 Ktonnes
Water	978,500 m <sup>3</sup>	10% reduction	888,000 m <sup>3</sup>
Zero waste to landfill	3.2 Ktonnes	0 Ktonnes	2.5 Ktonnes
Operational waste recycling	78%	90%	80%
Hazardous substances emissions	1,419 kilos	50% reduction	1,417 kilos
VOC emissions	169 tonnes	10% reduction	142 tonnes

<sup>1)</sup> Against the base year 2015

### Energy use in manufacturing

Total energy usage in manufacturing amounted to 3,072 terajoules in 2017, of which Personal Health consumed about 48% and Diagnosis and Treatment 42%. The energy consumption at Philips level is comparable to 2016. Personal Health energy consumption increased by 2% mainly driven by increased production volumes at several sites, partly offset by the changes in the organization. Diagnosis & Treatment and Connected Care & Health Informatics reported less energy consumption due to energy efficiency improvements.

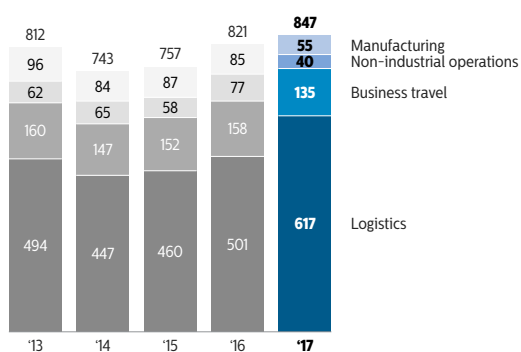
#### Philips Group Total energy consumption in manufacturing in terajoules 2013 - 2017

	2013	2014	2015	2016	2017
Personal Health	1,369	1,352	1,389	1,436	1,464
Diagnosis & Treatment	1,238	1,202	1,214	1,316	1,298
Connected Care & Health Informatics	329	334	336	318	310
<b>Philips Group</b>	<b>2,936</b>	<b>2,888</b>	<b>2,939</b>	<b>3,070</b>	<b>3,072</b>

### Operational carbon footprint and energy efficiency - 2017 details

Becoming carbon-neutral in our operations by 2020 is one of the key targets, after already reducing our operational carbon footprint very significantly during the past years (33% decrease in CO<sub>2</sub> emissions in 2017 compared to our 2007 base year). Our carbon footprint increased by 3% compared to 2016, resulting in a total of 847 kilotonnes CO<sub>2</sub>.

Philips Group  
**Operational carbon footprint** in kilotonnes CO<sub>2</sub>-equivalent  
 2013 – 2017



The 2017 results can be attributed to several factors:

- Accounting for 7% of the total footprint, total CO<sub>2</sub> emissions from manufacturing decreased by 35% due a higher share of electricity from renewable sources (now at 85% in our manufacturing sites).
- CO<sub>2</sub> emissions from non-industrial operations (offices, warehouses, etc.), representing 5% of the total emissions, decreased this year by 48% due to implemented energy efficiency projects and a higher share of electricity from renewable sources.
- The total CO<sub>2</sub> emissions related to business travel, accounting for 16% of our carbon footprint, showed a decrease of 15% compared to 2016, driven by a stricter air travel policy introduced in 2017. This led to an air travel reduction of 10%.
- Overall CO<sub>2</sub> emissions from logistics, representing 73% of the total, increased by 23% compared to 2016, mainly driven by a strong increase in air freight to meet demand. We plan to introduce various measures to drive down air freight shipments by introducing a stricter air freight policy and by optimizing our warehouse locations.

Philips Group  
**Operational carbon footprint for logistics**

	2013	2014	2015	2016	2017
Air transport	263	248	309	371	467
Road transport	107	91	65	67	67
Ocean transport	124	108	86	63	83
<b>Philips Group</b>	<b>494</b>	<b>447</b>	<b>460</b>	<b>501</b>	<b>617</b>

### Carbon emissions in manufacturing

The greenhouse gas emissions of our manufacturing operations totaled 55 kilotonnes CO<sub>2</sub>-equivalent in 2017, 35% lower than in 2016. Indirect CO<sub>2</sub> emissions represent 60% of the total, which decreased by 47% due to the higher use of electricity generated from renewable sources. Direct CO<sub>2</sub> emissions are comparable to the previous years. Emission from other greenhouse gases showed a slight decrease.

Philips Group  
**Total carbon emissions in manufacturing**  
 in kilotonnes CO<sub>2</sub>-equivalent  
 2013 – 2017

	2013	2014	2015	2016	2017
Direct CO <sub>2</sub> <sup>1)</sup>	22	20	21	20	20
Indirect CO <sub>2</sub>	68	62	60	62	33
Other greenhouse gases	4	2	3	3	2
From glass production	-	-	-	-	-
<b>Philips Group</b> <sup>2)</sup>	<b>94</b>	<b>84</b>	<b>84</b>	<b>85</b>	<b>55</b>

<sup>1)</sup> From energy

<sup>2)</sup> Excluding non-reporting industrial sites therefore different from Operational carbon footprint

Philips Group  
**Total carbon emissions in manufacturing per segment**  
 in kilotonnes CO<sub>2</sub>-equivalent  
 2013 – 2017

	2013	2014	2015	2016	2017
Personal Health	50	45	49	59	36
Diagnosis & Treatment	35	31	28	22	16
Connected Care & Health Informatics	9	8	7	4	3
<b>Philips Group</b>	<b>94</b>	<b>84</b>	<b>84</b>	<b>85</b>	<b>55</b>

CO<sub>2</sub> emissions in 2017 were 30 kilotonnes CO<sub>2</sub>-equivalent lower than in 2016. This was driven by the increased use of electricity generated by renewable sources in all businesses in various regions. At Personal Health, CO<sub>2</sub> emissions decreased due to an increase in the use of electricity generated by renewable sources but was partially offset by operational changes. Diagnosis & Treatment decreased its CO<sub>2</sub> emissions due to an increase in use of electricity generated by renewable sources and lower energy consumption. Connected Care & Health Informatics decreased its CO<sub>2</sub> emissions due to an increase in use of electricity generated by renewable sources and lower energy consumption. In December 2016, the Los Mirasoles windfarm in the US started to produce electricity. As a result, all our US operations were powered by wind energy in 2017, a clear step towards our ambition to become carbon-neutral in our operations by 2020.

### Hazardous substances emissions

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

Philips Group  
**Hazardous substances emissions**

	2016	2017
Personal Health	789	642
Diagnosis & Treatment	604	428
Connected Care & Health Informatics	26	29
<b>Philips Group</b>	<b>1,419</b>	<b>1,099</b>

In 2017, emissions of hazardous substances increased by 29%, mainly caused by increased usage of harmful chemicals at a Diagnosis & Treatment businesses site and two Personal Health businesses sites. Changed manufacturing processes and increased production at multiple sites also had an impact on the emissions. One Connected Care & Health Informatics businesses site reduced its emissions significantly.

## VOC emissions

Philips Group  
VOC emissions in tonnes  
2016 - 2017

	2015	2016	2017
Personal Health	138	92	92
Diagnosis & Treatment	29	35	48
Connected Care & Health Informatics	2	2	2
<b>Philips Group</b>	<b>169</b>	<b>129</b>	<b>142</b>

VOC emissions increased by 10% in 2017 to 142 tonnes. VOC emissions in the Personal Health businesses segment (representing 65% of the total VOC emissions) were comparable to 2016, as increased emissions due to changes in the product mix as well as higher volumes were mitigated by changed lacquering processes. VOC emissions in the Diagnosis & Treatment businesses segment increased significantly due to higher production volumes at several sites.

## Sustainability world map

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

Philips Group Market	Manufacturing sites	Total recordable case rate <sup>1)</sup>	CO <sub>2</sub> emitted (Tonnes CO <sub>2</sub> )	Total waste			Emissions	
				Waste (Tonnes)	Recycled (%)	Water (m <sup>3</sup> )	Hazardous substances (kg)	VOC (Tonnes)
Africa	-	0.00	-	-	-	-	-	-
ASEAN and the Pacific	1	0.20	22,942	1,865	92%	80,346	1	34
Benelux	2	0.17	5,143	4,919	74%	97,857	241	15
Central & Eastern Europe	1	0.00	718	1,676	98%	10,719	47	1
Germany, Austria and Switzerland	3	0.60	3,293	2,316	85%	48,191	708	7
France	-	0.00	-	-	-	-	-	-
Greater China	6	0.15	10,491	3,424	91%	324,568	268	38
Iberia	-	0.23	-	-	-	-	-	-
Indian Subcontinent	3	0.03	1,435	758	99%	27,165	24	5
Italy, Israel and Greece	3	0.38	4,226	911	50%	20,263	0	3
Japan	-	0.00	-	-	-	-	-	-
Latin America	4	0.25	973	800	92%	95,716	0	12
Middle East & Turkey	-	0.00	-	-	-	-	-	-
Nordics	-	0.00	-	-	-	-	-	-
North America	14	0.81	5,997	6,952	72%	177,396	62	24
Russia and Central Asia	-	0.00	-	-	-	-	-	-
UK & Ireland	1	0.20	245	948	79%	5,350	66	3

<sup>1)</sup> Includes manufacturing and non-manufacturing sites

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13.5 Assurance report of the independent auditor

## ISO 14001 certification

Most of the Philips manufacturing sites are certified under the umbrella certificates of the businesses. In 2017, 82% of reporting manufacturing sites were certified, a 4% increase compared to 2016.

Philips Group  
ISO 14001 certification as a % of all reporting organizations  
2013 - 2017

	2013	2014	2015	2016	2017
Philips Group	86	73	75	78	82

## Environmental incidents

In 2017, four environmental incidents were reported, one at a Personal Health businesses site, and three at two Diagnosis & Treatment businesses sites. The four incidents were all related to leakage or minor spills, none of which were reportable to the local authorities. Immediate actions were taken to remediate the effect. Two non-compliances related to waste water were reported, one in Personal Health businesses and one in Diagnosis & Treatment businesses. None of these resulted in a fine.

# 16 Definitions and abbreviations

## 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.

## CO<sub>2</sub>-equivalent

CO<sub>2</sub>-equivalent or carbon dioxide equivalent is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO<sub>2</sub> that would have the same global warming potential (GWP), when measured over a specified timescale (generally 100 years).

## Circular economy

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

## Dividend yield

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

## Employee Engagement Index (EEI)

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

## Energy-using Products (EuP)

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

## Full-time equivalent employee (FTE)

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

## Global Reporting Initiative (GRI)

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

## Green Innovation

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

## Green Products

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

## Green Revenues

Green Revenues are generated through products and solutions which offer a significant environmental improvement in one or more of the green focal areas of energy efficiency, packaging, hazardous substances, weight, circularity, and lifetime reliability. Green Revenues are determined by classifying the environmental impact of the product or solution over its total life cycle.

Philips uses Green Revenues as a measure of social and economic performance in addition to its environmental results. The use of this measure may be subject to limitations as it does not have a standardized meaning and similar measures could be determined differently by other companies.

## Growth geographies

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

## Hazardous substances

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

## Income from operations (EBIT)

Income from operations as reported on the IFRS consolidated statement of income. The term EBIT (earnings before interest and tax) has the same meaning as income from operations.

## Income from continuing operations

Income from continuing operations as reported on the IFRS consolidated statement of income, which is 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.

## Lives improved by Philips

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

## Mature geographies

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

## Non-Governmental Organization (NGO)

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

## 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 CO<sub>2</sub>-equivalent. The Philips operational carbon footprint is calculated on a half-year basis and includes industrial sites (manufacturing and assembly sites), non-industrial sites (offices, warehouses, IT centers and R&D facilities), business travel (lease and rental cars and airplane travel) and logistics (air, sea and road transport).

**Polyvinyl chloride (PVC)**

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

**REACH**

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

**Responsible Business Alliance (RBA)**

The Responsible Business Alliance (formerly known as The Electronic Industry Citizenship Coalition (EICC)) 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.

**Restriction 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.

**Sustainable Innovation**

Sustainable Innovation is the Research & Development spend related to the development of new generations of products and solutions that address the United Nations Sustainable Development Goals 3 ("to ensure healthy lives and promote well-being for all at all ages") or 12 ("to ensure sustainable consumption and production patterns"). This includes all Diagnosis & Treatment and Connected Care & Health Informatics innovation spend. Next, innovation spend that contributes to Green Products and healthy living at Personal Health is included. Finally, innovation spend at HealthTech Other is included that addresses the SDGs 3 and 12.

**Sustainable Revenues**

Sustainable Revenues are revenues generated through products and solutions that address the United Nations Sustainable Development Goals 3 ("to ensure healthy lives and promote well-being for all at all ages") or 12 ("to ensure sustainable consumption and production patterns") and include all Diagnosis & Treatment and Connected Care & Health Informatics revenues. Next, Green Revenues and non-Green revenues that contribute to healthy living at Personal Health are included.

**Sustainable Development Goals**

The Sustainable Development Goals (SDGs) are a collection of 17 global goals set by the United Nations. The broad goals are interrelated though each has its own targets to achieve. The SDGs cover a broad range of social and economic development issues. These include poverty, hunger, health, education, climate change, water, sanitation, energy, environment and social justice.

**VOC**

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

**Voluntary turnover**

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

**Waste Electrical and Electronic Equipment (WEEE)**

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

**Weighted Average Statutory Tax Rate (WASTR)**

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

# 17 Forward-looking statements and other information

## Forward-looking statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items. Examples of forward-looking statements include statements made about our strategy, estimates of sales growth, future Adjusted 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 and regulations, 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, cyber-attacks, breaches of cybersecurity 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 remaining interests in Philips Lighting.

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 6, Risk management, of this Annual Report.

## Third-party market share data

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

information 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 and unobservable inputs, which we believe are appropriate for their purpose. They require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the financial statements. In certain cases, independent valuations are obtained to support management’s determination of fair values.

## IFRS basis of presentation

The audited consolidated financial statements as of December 31, 2017 and 2016, and for each of the years in the three-year period ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective year-end 2017 have been endorsed by the EU, except that the EU did not adopt certain paragraphs of IAS 39 applicable to certain hedge transactions. Philips has no hedge transactions to which these paragraphs are applicable. Consequently, the accounting policies applied by Philips also comply with IFRS as issued by the IASB.

## Use of non-IFRS information

In presenting and discussing the Philips Group’s financial position, operating results and cash flows, management uses certain non-IFRS financial measures. These non-IFRS financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measure and should be used in conjunction with the most directly comparable IFRS measures. Non-IFRS financial measures do not have standardized meaning under IFRS and therefore may



not be comparable to similar measures presented by other issuers. A reconciliation of these non-IFRS measures to the most directly comparable IFRS measures is contained in this document. Reference is made in Reconciliation of non-IFRS information, of this report.

#### **Statutory financial statements and management report**

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

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

