

Transforming healthcare 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 2018. The information in this PDF has been derived from the audited financial statements 2018 of Koninklijke Philips N.V. Ernst & Young Accountants has issued unqualified auditors' reports on these financial statements.

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IFRS basis of presentation

The financial information included in this document is based on IFRS, as explained in Significant accounting policies, of the Annual Report 2018, unless otherwise indicated.

References to Philips

References to the Company or company, to Philips or the (Philips) Group or group, relate to Koninklijke Philips N.V. and its subsidiaries, as the context requires. Royal Philips refers to Koninklijke Philips N.V.

Philips Lighting/Signify

References to 'Signify' in this Annual Report relate to Philips' former Lighting segment (prior to deconsolidation as from the end of November 2017 and when reported as discontinued operations), Philips Lighting N.V. (before or after such deconsolidation) or Signify N.V. (after its renaming in May 2018), as the context requires.

Dutch Financial Markets Supervision Act

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

Statutory financial statements and management report

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

Front cover: In 2018, Philips launched its Lumify with Reacts mobile tele-ultrasound solution in Kenya and Nigeria. This solution is based on Philips' Lumify portable ultrasound system and powered by Innovative Imaging Technologies' Reacts collaborative platform. It connects clinicians in real time by turning a compatible smart device into an integrated tele-ultrasound solution, combining two-way audio-visual calls with live ultrasound streaming.

1 Message from the CEO

“Our transformation into a customer-centric solutions company is gathering momentum, and with our focus on innovation and continuous improvement we will unlock further value.” **Frans van Houten**, CEO Royal Philips

Dear Stakeholder,

In 2018 we made further progress on our journey to extend our leadership as a health technology company. In my frequent meetings with our hospital customers, they tell me how they appreciate our strategy and are keen to engage with us. They want to know more about our innovative solutions – suites of systems, smart devices, software and services – that can help them deliver on the Quadruple Aim of improved patient experience, better health outcomes, improved staff experience, and lower cost of care. At the same time, we see a real interest among consumers, healthcare professionals, insurers and policy makers to help people towards a healthier lifestyle and support primary and secondary prevention of health challenges. We see this as a validation of our strategy to drive technology innovation along the health continuum and disease pathways. As a result, we have seen growing demand for our products and solutions, an increase in long-term strategic partnerships, and substantial growth of order intake.

With comparable sales growth of 5%^{*)} and the Adjusted EBITA^{*)} margin improving by 100 basis points to 13.1% in 2018, we continue to deliver on our financial targets. Having said that, our performance at segment level shows we still have scope for further improvement. Our Diagnosis & Treatment businesses had a very good year in terms of sales growth, order intake growth and improved earnings. At Connected Care & Health Informatics, topline growth was flat and we continued to make substantial investments in R&D, but the expanding order book gives us confidence we are on the right path to boost growth. Personal Health had a slower year, in part due to internal execution challenges, but we have taken decisive action. We are confident about the road ahead, given the exciting array of innovative new products and services we are bringing onto the market. We also made a number of complementary acquisitions in 2018 to strengthen businesses across our portfolio.

In light of the continuous performance improvement over the last three years and the strength of our balance sheet, we propose to increase the dividend by 6%.

While the current geopolitical and macroeconomic uncertainty is a challenge, we are making progress with our ‘self-help’ initiatives to address headwinds such as

trade tariffs and emerging-market currency volatility, for instance by adjusting our supply base, leveraging our multi-modality factories, and extending our productivity plans. Last year I wrote that making further progress on product performance and quality was our highest priority for 2018. We continue to invest substantially in driving quality and compliance, and while there is still work to do, we are starting to reap the benefits of our improvement efforts, positioning us well for the future.

Transforming healthcare through innovation

Meeting the growing demand and improving the delivery of care while containing costs – that is the very substantial challenge faced by health systems around the world. It is driving the shift towards value-based care, the consolidation of hospitals into Integrated Delivery Networks, and the consumerization of healthcare, as well as increasing the importance of preventative care, early disease detection, and the management of chronic disease *outside* the hospital.

Innovative health technology is helping to transform healthcare, supporting improved outcomes as well as productivity gains. The growing role of data, informatics and Artificial Intelligence (AI) is having a major impact, principally in the areas of precision diagnosis, clinical decision support, care orchestration, telehealth and, not least, in helping consumers to live a healthy life or cope with chronic disease. In this market, which has attractive growth rates and profit pools, we have strong positions across the health continuum.

At Philips, we believe in *integrated, connected* care – connecting consumers/patients, providers and payers more effectively and leveraging informatics for better outcomes at lower cost.

We enable clinicians to make precision diagnosis and deliver personalized, minimally invasive therapies through our digital imaging and clinical informatics solutions. A shining example is our Azurion image-guided therapy platform, which has secured a +300 basis points gain in market share and over 1,000 orders since its launch in 2017.

We empower care professionals with healthcare informatics solutions like our IntelliSpace Portal data integration, visualization and analysis platform for enhanced diagnostic confidence, and monitoring,

predictive analytics solutions like our IntelliVue Guardian with Early Warning Scoring, which enables nursing staff to identify patients whose condition may be deteriorating rapidly.

We enable people to recover, or live with chronic disease, at home, thanks to solutions such as our new Trilogy Evo home ventilation platform plus Care Orchestrator cloud-based management system. Likewise, we enable people to stay healthy and prevent disease by means of connected products like our Pregnancy+ parenting app and our Sonicare DiamondClean electric toothbrush with Sonicare app, which includes teledentistry and automatic brush-head reordering services.

Joining up the dots from the ICU to the home, our HealthSuite platforms support the seamless flow of data needed to care for people in real time, wherever they are.

Our innovation strength has been key to these transformational solutions, and I am convinced there is even better to come. We continue to maintain a high level of investment in R&D, with a strong focus on software and data science, and we now apply the Quadruple Aim as a guide in all our development choices, so that our innovations have maximum impact and are fully scalable.

Delivering on our sustainability commitments

Reflecting our commitment to the United Nations' Sustainable Development Goals, we continue to embed sustainability deeper in the way we do business. With its focus on access to care, circular economy and climate action, our 'Healthy people, Sustainable planet' program is the vehicle that will enable us to deliver on these commitments. In December 2018, Philips became the world's first health technology company to have its CO₂ emission targets approved by the Science Based Targets initiative. Our sustainability performance received renewed recognition when – in the first year since our reclassification to the Health Care Equipment & Services industry group – we took second place in the 2018 Dow Jones Sustainability Index. With health systems the world over increasingly keen to reduce their environmental footprint, we remain convinced that sustainability can be a key competitive differentiator.

Roadmap to win

With our transformation into a customer-first solutions company gathering pace, we have identified three main drivers of continued growth and improved profitability: *Better serve customers and improve quality; Boost growth in core business; Win with solutions along the health continuum.*

We believe that by engaging more deeply with our customers and consumers, making it easier for them to do business with us, developing more compelling solutions, and acting with increased agility, speed and efficiency, we will deliver greater value for all our stakeholders.

This means making a big step up in quality, operational excellence and productivity, and continuing to drive the digital transformation in every area of our business. It means capturing geographic growth opportunities and pivoting to consultative customer partnerships and business models that offer a much deeper relationship, with recurring revenue streams. In that regard, our multi-year 'patient monitoring as a service' agreement with Miami's Jackson Health System and our medical technology partnership agreements with Children's Health hospital in Dallas and Munich Municipal Hospital are a blueprint for the way to go. It also means continuing the shift from products to innovative value-added, integrated solutions, supported by organic growth and disciplined M&A.

Together, these measures will drive sustained performance improvement as we pursue our overall targets of 4–6% comparable sales growth^{*)} and an Adjusted EBITA^{*)} margin improvement of 100 basis points on average per year for the period 2017–2020. We also expect to increase the annual free cash flow^{*)} to above EUR 1.5 billion by 2020.

In the end, culture is foundational to our strategic ambitions. At Philips we place five key elements high on our culture agenda: putting customers first, acting with quality and integrity, teaming up to win, taking ownership to deliver fast, and improving and inspiring each other. These behaviors create a shared understanding of how we *all* need to act in order to delight the customer and drive market success.

In conclusion

On a personal note, I would like to thank our customers, shareholders and other stakeholders for the confidence they have shown in Philips over the past year. I would also like to thank our employees for their hard work and dedication, as we seek to combine day-to-day performance with a profound, customer-focused transformation.

Pleased with the progress we are making, yet conscious that we still have a way to go, I strongly believe that the combination of our sense of purpose, innovation strength, culture of customer centricity and deep commitment to continuous improvement is a potent recipe for Philips to win and make the world healthier and more sustainable.

Frans van Houten
Chief Executive Officer

^{*)} Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 32](#).

2 Strategy and Businesses

2.1 Transforming healthcare through innovation

Healthcare challenges the world over

All around the world, trends such as growing, aging populations, the increase in chronic illnesses and changing reimbursement systems have created a need for more efficient, effective and sustainable models of care. At the same time, a growing focus on healthy living and prevention means people are looking for new ways to monitor and manage their health. In underserved communities, meanwhile, access to care remains a pressing issue.

A clear vision guiding our actions

Led by our vision of making the world healthier and more sustainable through innovation, Philips is driving the digital health revolution to unlock the value of seamless care, helping people to look after their health at every stage of life – with the goal of improving the lives of 3 billion people a year by 2025.

This ambition demands an approach that addresses both the social and ecological dimensions, as reflected in our commitment to the United Nations' Sustainable Development Goals 3, 12 and 13:

- Ensure healthy lives and promote well-being for all at all ages
- Ensure sustainable consumption and production patterns
- Take urgent action to combat climate change and its impacts

With its focus on access to care, circular economy and climate action, our 'Healthy people, Sustainable planet' program, running from 2016-2020, is designed to help us deliver on these commitments.

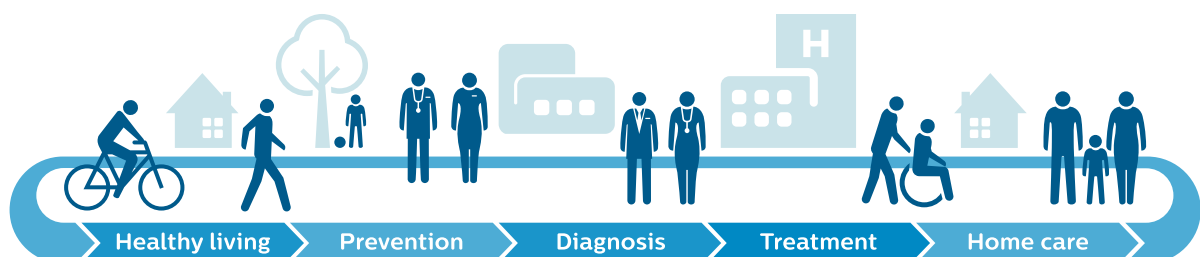
Innovating care

The desire for affordable and effective healthcare delivery, without compromising the future availability of natural resources, is driving the adoption of value-based care. This will first require a shift from volume to value, which Philips is driving through innovation, as well as by transforming the way we engage with customers and shape business models. Secondly, it will require the balance to shift from acute and episodic care more towards primary and secondary preventative care in the community and home, improving overall population health.

At Philips, we like to visualize healthcare as a continuum since it puts people at the center and supports the idea of *care pathways*. Believing that healthcare should be seamless, efficient and effective, we 'join up the dots' for our customers and consumers. Data and informatics will play an ever-increasing role in helping people to live healthily and/or cope with disease, and in enabling care providers to meet people's needs, deliver better outcomes and improve productivity.

Applying our extensive consumer insights, we develop locally relevant, connected solutions that support healthier lifestyles, prevent or cure disease, and help people to live well with chronic disease, also in the home and community settings. In hospitals, we are teaming up with healthcare providers in long-term strategic partnerships to innovate and transform the way care is delivered.

We listen closely to our customers' needs and together we co-create solutions – suites of systems, smart devices, software and services that drive improvements in patient outcomes, quality of care delivery and cost productivity. Increasingly, we are partnering with our customers in new business models where we take co-responsibility for our customers' key performance indicators.



Integrated solutions addressing the Quadruple Aim

Philips sees significant value in *integrated* healthcare, applying the power of predictive data analytics and artificial intelligence at the point of care, while at the same time optimizing care delivery across the health continuum. This includes an increased focus on both primary and secondary prevention and population health management programs.

With our global reach, deep insights and innovative strength, 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 precision diagnosis
- real-time guidance and smart devices for minimally invasive interventions
- connected products and services for chronic care.

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.

By addressing healthcare as a ‘connected whole’ in this way, we are able to unlock gains and efficiencies and drive innovations that help our customers to deliver on the Quadruple Aim of value-based healthcare: improved patient experience, better health outcomes, improved staff experience, and lower cost of care.

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

The road ahead

As we continue on our health technology journey, the drivers set out in the roadmap below are designed to deliver higher levels of customer value and quality, boost growth, and deliver winning solutions – all coming together to improve performance and results.



2.2 How we create value

Based on the International Integrated Reporting Council framework, and with the Philips Business System at the heart of our endeavors, we use six forms of capital to create value for our stakeholders in the short, medium and long term.

Capital input

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

Human

- Employees 77,400, 120 nationalities, 38% female
- Philips University 1,200 new courses, 700,000 hours, 550,000 training completions
- 29,977 employees in growth geographies
- Focus on Inclusion & Diversity

Intellectual

- Invested in R&D EUR 1.76 billion (Green Innovation EUR 228 million)
- Employees in R&D 10,528 across the globe including growth geographies

Financial

- Equity EUR 12.1 billion
- Net debt*) EUR 3.1 billion

Manufacturing

- Employees in production 30,925
- Manufacturing sites 39, cost of materials used EUR 4.8 billion
- Total assets EUR 26.0 billion
- Capital expenditure EUR 422 million

Natural

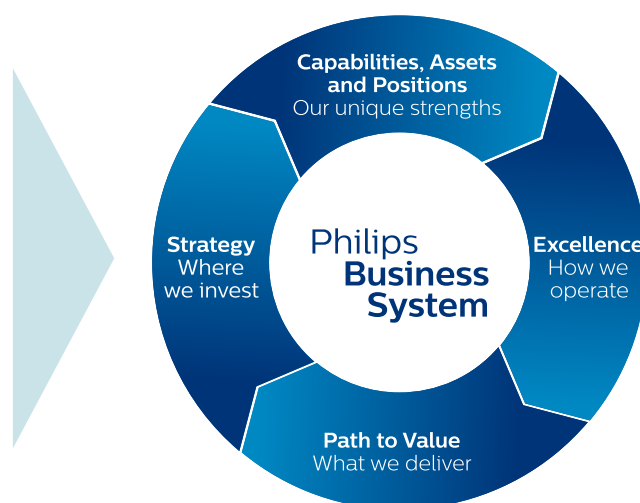
- Energy used in manufacturing 3,062 terajoules
- Water used 891,000 m³
- Recycled plastics in our products 1,840 tonnes
- 19 'zero waste to landfill' sites
- Pledge to take back all medical equipment by 2025

Social

- Philips Foundation
- Stakeholder engagement
- New volunteering policy

Philips 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, shareholders, and other stakeholders.



Strategy - Where we invest

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

Capabilities, Assets and Positions - Our unique strengths

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

Excellence - 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.

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 generate the funds we need through our business operations and where appropriate raise additional financing from capital providers.

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.

Value outcomes

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

Human

- Employee Engagement Index 74% favorable
- Sales per employee EUR 234,121

Intellectual

- New patent filings 1,120
- IP Royalties Adjusted EBITA^{*)} EUR 272 million
- 141 design awards

Financial

- Comparable sales growth^{*)} 5%
- 64% Green Revenues
- Adjusted EBITA^{*)} as a % of sales 13.1%
- Net cash provided by operating activities EUR 1.8 billion
- Net capital expenditures EUR 796 million

Manufacturing

- EUR 18.1 billion revenues from products and solutions sold

Natural

- 12% revenues from circular propositions
- Net CO₂ emissions down to 436 kilotonnes
- 257,000 tonnes (estimated) materials used to put products on the market
- Waste down to 24.5 kilotonnes, of which 84% recycled

Social

- Brand value USD 12.1 billion (Interbrand)
- Partnerships with UNICEF, Red Cross, Amref and Ashoka

Societal impact

The societal impact of Philips through its supply chain, its operations, and its products and solutions

Human

- Employee benefit expenses EUR 5,287 million
- Appointed 77% of our senior positions from internal sources
- 21% of Leadership positions held by women

Intellectual

- Around 40% of revenues from new products and solutions introduced in the last three years

Financial

- Market capitalization EUR 28.3 billion at year-end
- Long-term credit rating A- (Fitch), Baa1 (Moody's), BBB+ (Standard & Poor's)
- Dividend EUR 738 million

Manufacturing

- 90% electricity from renewable sources
- 240,000 employees impacted at suppliers participating in the 'Beyond Auditing' program

Natural

- Environmental impact Philips operations down to EUR 175 million
- 1st health technology company to have its CO₂ reductions assessed and approved by the Science Based Targets initiative

Social

- 1.54 billion Lives Improved (2.24 billion including Signify), of which 175 million in underserved communities
- Income tax paid EUR 301 million; the geographic statutory income tax rate is 25% of the result before tax

^{*)} Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 32.](#)

2.3 Our businesses

Our reporting structure in 2018

Koninklijke Philips N.V. (Royal Philips) is the parent company of the Philips Group, headquartered in Amsterdam, the Netherlands. The company is managed by the Executive Committee (comprising the Board of Management and certain key officers) under the supervision of the Supervisory Board. The Executive Committee operates under the chairmanship of the Chief Executive Officer and shares responsibility for the deployment of Philips' strategy and policies, and the achievement of its objectives and results.

In 2018, the reportable segments were Diagnosis & Treatment businesses, Connected Care & Health Informatics businesses, and Personal Health businesses, each having been responsible for the management of its business worldwide. Additionally, Philips identifies the reportable segment Other. The results in this report are based on the 2018 structure shown below:

Philips			
Diagnosis & Treatment businesses	Connected Care & Health Informatics businesses	Personal Health businesses	Other
Diagnostic Imaging Image-Guided Therapy Ultrasound	Monitoring & Analytics Therapeutic Care Healthcare Informatics Population Health Management	Health & Wellness Personal Care Domestic Appliances Sleep & Respiratory Care	Innovation IP Royalties Central costs Other
Focus of external reporting			

To further align its businesses with customer needs, Philips announced in January 2019 the realignment of the three reportable segments – Diagnosis & Treatment, Connected Care & Health Informatics and Personal Health – effective January 1, 2019. The most notable changes are the shift of the Sleep & Respiratory Care business from the Personal Health segment to the renamed Connected Care segment and the shift of the Healthcare Informatics business (excluding the Tasy EMR business and IntelliSpace Enterprise Edition) from the Connected Care segment to the Diagnosis & Treatment segment.

As of January 1, 2019, Philips' reporting segments are composed as follows:

Diagnosis & Treatment, which unites the businesses related to the promise of precision diagnosis and disease pathway selection, and the businesses related to image-guided, minimally invasive treatments. This segment comprises the Diagnostic Imaging, Ultrasound, Healthcare Informatics and Image-Guided Therapy businesses.

Connected Care, which focuses on patient care solutions, advanced analytics and patient and workflow optimization inside and outside the hospital, and aims to unlock synergies from integrating and optimizing patient care pathways and leveraging provider-payer-patient business models. This segment comprises the Monitoring & Analytics, Therapeutic Care, Population Health Management, and Sleep & Respiratory Care businesses (including the Home Respiratory Care business).

Personal Health, which focuses on healthy living and preventative care. This segment comprises the Personal Care, Domestic Appliances, Oral Healthcare, and Mother & Child Care businesses.

2.3.1 Diagnosis & Treatment businesses

The Chief Business Leader of the Diagnosis & Treatment businesses segment, Rob Cascella, joined Philips in April 2015. He has more than 30 years of experience in the healthcare industry and has served on the boards of several companies, including 10 years as President and later CEO of Hologic Inc.

About Diagnosis & Treatment businesses in 2018

Our Diagnosis & Treatment businesses are foundational to our health technology strategy, delivering on the promise of precision medicine and least-invasive treatment and therapy. We enable our customers to realize the full potential of the Quadruple Aim – an improved patient experience, better health outcomes, an improved staff experience and lower cost of care – by connecting people, data and technology. We are focused on solutions (consisting of suites of systems, smart devices, software and services) that are robust and easy to use, while providing the most efficient path to obtaining a precise diagnosis by integrating multiple sources of information and combining the data to create a comprehensive patient view. By bringing together imaging morphology, pathology and genomics, we are able to extract and analyze the information needed to offer highly personalized care. Informatics is central to everything we do: our KLAS-awarded IntelliSpace Portal platform, for example, provides artificial intelligence to make more consistent decisions, as well as making it easier to share and collaborate.

We continue to expand the applications for image-guided treatment and therapy – where clinicians are provided with the technology necessary to determine the presence of disease, guide procedures, deliver least-invasive treatment, and confirm effectiveness. Our solutions enable patient-specific treatment planning and selection, simplify complex procedures through integrated real-time guidance, and provide clinically proven treatment solutions. In 2018, Philips completed the roll-out of its new Ingenia range of digital MR systems. This was part of a broader renewal of the company's Diagnostic Imaging portfolio, 70% of which has been introduced in the past two years. We provide image guidance both in our proprietary products and by partnering with radiation therapy companies like Elekta and IBA to deliver real-time, precise cancer treatment.

In Image-Guided Therapy, iFR – a technology used to assess coronary lesions that is unique to Philips – continued to gain traction and was incorporated into the European Society of Cardiology's updated guidelines for revascularization. We continued to expand our portfolio in Image-Guided Therapy with the acquisition of EPD Solutions, an innovator in image-guided procedures for cardiac arrhythmias. We announced a partnership with Innovative Imaging Technologies to launch an industry-first integrated tele-ultrasound solution based on Philips' Lumify portable ultrasound system. We also announced a partnership agreement with innovative women's health company Hologic to offer care professionals integrated solutions comprising diagnostic imaging modalities, advanced

informatics and services for the screening, diagnosis and treatment of women.

Our Diagnosis & Treatment businesses' value proposition to customers is based on combining our extensive clinical experience with our broad portfolio of technologies – making us uniquely capable to provide meaningful solutions that ultimately can improve the lives of the patients we serve while lowering the cost of care delivery for our customers.

Through our various businesses, Diagnosis & Treatment is focused on growing market share and profitability by leveraging:

- industry-leading tailored applications and sharper imaging to drive growth in the core and adjacencies in Ultrasound
- our unique suite of innovative procedural solutions to support delivery of the right therapy in real-time in Image-Guided Therapy
- intelligent, AI-enabled applications combined with successful innovations in our systems platforms in Diagnostic Imaging
- enhanced offerings in oncology, cardiology and radiology, and expanding our solutions offering, which comprises systems, smart devices, software and services

Philips is one of the world's leading health technology companies (based on sales) along with Medtronic, General Electric and Siemens Healthineers. The competitive landscape in the healthcare industry is evolving with the emergence of new market players.

In 2018, the Diagnosis & Treatment segment consisted of the following areas of business:

- **Diagnostic Imaging:** Magnetic Resonance Imaging, Computed Tomography, Advanced Molecular Imaging, Diagnostic X-Ray, as well as integrated clinical solutions, which include radiation oncology treatment planning, disease-specific oncology solutions and X-Ray dose management
- **Image-Guided Therapy:** interventional X-ray systems, encompassing cardiology, radiology and surgery, and interventional imaging and therapy devices that include Intravascular Ultrasound (IVUS), fractional flow reserve (FFR) and instantaneous wave-free ratio (iFR), and atherectomy catheters and drug-coated balloons for the treatment of coronary artery and peripheral vascular disease
- **Ultrasound:** imaging products focused on diagnosis, treatment planning and guidance for cardiology, general imaging, obstetrics/gynecology, and point-of-care applications, as well as proprietary software capabilities to enable advanced diagnostics and interventions.

Diagnosis & Treatment
Total sales by business as a %
 2018



Revenue is predominantly earned through the sale of products, leasing, customer services fees and software license fees. For certain offerings, per study fees or outcome-based fees are earned over the contract term.

Sales channels are a mix of a direct sales force, especially in all the larger markets, combined with online sales portal and distributors – this varies by product, market and price segment. Sales are mostly driven by a direct sales force that has an intimate knowledge of the procedures for which our devices are used, and visits our customer base frequently.

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

At year-end 2018, Diagnosis & Treatment had 27,381 employees worldwide.

With regard to regulatory compliance and quality, please refer to [Our commitment to Quality, Regulatory Compliance and Integrity, starting on page 18](#).

With regard to sourcing, please refer to [Supplier indicators, starting on page 58](#).

2018 business highlights

Continuing the renewal of its diagnostic imaging portfolio, Philips launched the Ingenia Elition 3.0T and Ingenia Ambition 1.5T MR systems. Both systems offer superb image quality while performing exams up to 50% faster. An industry first, the Ingenia Ambition enables imaging departments to perform more productive, helium-free operations. The company also received CFDA approval to market its advanced Vereos Digital PET/CT in China.

The expansion of the Ultrasound business beyond its core strength in cardiac ultrasound into attractive adjacencies continues to be successful, driven by innovations such as an advanced transducer optimized for OB/GYN and General Imaging applications, and the telehealth capabilities of its Lumify app-based ultrasound solution.

As a leader in image-guided therapy, Philips launched its EPIQ CVxi ultrasound system combined with the latest version of its unique EchoNavigator software specifically designed for minimally invasive structural heart repairs, a fast-growing image-guided therapy segment.

Philips' Image-Guided Therapy Devices continued its strong momentum, supported by a growing amount of clinical data. Results from the DEFINE FLAIR trial demonstrated that an iFR-guided strategy reduces costs, improves patient comfort compared to an FFR-guided strategy, and delivers consistent patient outcomes. The adoption of Philips' proprietary iFR technology also reached a major milestone after its inclusion in the European Society of Cardiology's updated guidelines for the assessment of coronary artery lesions.

To further strengthen Philips' businesses through targeted acquisitions, the company acquired EPD Solutions, an innovator that has developed a breakthrough technology for image-guided treatments for cardiac arrhythmia.

Philips launched an extension to the successful Azurion image-guided therapy platform, setting a new standard in the industry. Azurion with FlexArm includes innovations for optimal visualization across the whole patient in 2D and 3D to simplify and enhance a broad range of procedures. Additionally, Philips announced the enrolment of the first patient in the new Stellarex ILLUMENATE Below-the-Knee (BTK) Investigational Device Exemption (IDE) study in the US.

2.3.2 Connected Care & Health Informatics businesses

Dr. Carla Kriwet is Chief Business Leader of the Connected Care & Health Informatics businesses segment. Prior to assuming her current role in February 2017, Carla led Philips' Patient Care & Monitoring Solutions business group and was the Philips Market Leader of Germany, Austria & Switzerland. Before this, she held leadership positions with ABB Daimler-Benz, The Boston Consulting Group, Linde AG and Draegerwerk in Europe and Asia. Carla is a member of the Supervisory Boards of Carl Zeiss AG and Save the Children Germany.

About Connected Care & Health Informatics businesses in 2018

Spanning the entire health continuum, the Connected Care & Health Informatics businesses (as per the 2018 reporting structure) aim to improve patient outcomes, increase efficiency and enhance patient and caregiver satisfaction, driving towards value-based care. Our solutions build on Philips' strength in patient monitoring and clinical informatics to improve clinical and economic outcomes in all care settings, within and outside the hospital.

Philips has a deep understanding of clinical care and the patient experience that, when coupled with our consultative approach, allows us to be an effective partner for transformation, both across the enterprise and at the level of the individual clinician. Philips delivers services that take the burden off hospital staff with optimized patient and data flow, a smooth integration process, improved workflow, customized training and improved accessibility across our application landscape.

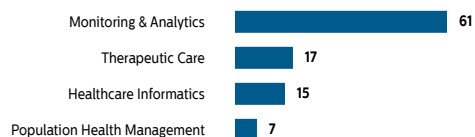
This requires a secure common digital platform that connects and aligns consumers, patients, payers and healthcare providers. Philips' platforms aggregate and leverage information from clinical, personal and historical data to support care providers in delivering first-time-right diagnoses and treatment. Philips continually builds out new capabilities within Philips HealthSuite – a cloud-based connected health ecosystem of devices, apps and digital tools – to accomplish just that. For information on how Philips manages cybersecurity risk, please refer to Operational risks, of the Annual Report 2018.

Philips delivers personalized insights by applying predictive analytics and artificial intelligence across our solutions. As an example, we are able to support healthcare professionals caring for elderly patients living independently at home in making clinical decisions and alerting medical teams to potential issues. Our integrated and data-driven approach promotes seamless patient care, helps identify risks and needs of different groups within a population, and provides clinical decision support.

In 2018, the Connected Care & Health Informatics segment consisted of the following areas of business:

- **Monitoring & Analytics** is a solutions business enabling smart decision-making for caregivers, administrators and patients, to help control costs, increase efficiency, and support better health. Monitoring & Analytics solutions encompass: integrated patient monitoring systems for all price levels, wearable biosensors, advanced intelligence platforms providing key insights and clinical decision support to clinicians when and where they need it, for real-time clinical information at the patient's bedside; patient analytics, including diagnostic ECG data management for improved quality of cardiac care; the eICU/Tele-ICU program. Monitoring & Analytics also includes maintenance, clinical and IT services as well as consumables.
- **Therapeutic Care** is expanding access to and quality of respiratory care, resuscitation, and emergency care solutions (including devices, services, and digital/data solutions). Hospital Respiratory Care (HRC) and Emergency Care & Resuscitation (ECR) solutions are helping caregivers both inside and outside the hospital, including cardiac resuscitation, emergency care solutions, invasive and non-invasive ventilators for acute and sub-acute hospital environments and respiratory monitoring devices; consumables across the patient monitoring and therapeutic care businesses; customer service, including clinical, IT, technical and remote customer propositions. In 2018, Philips acquired Remote Diagnostic Technologies (RDT), a UK-based leading innovator of advanced solutions for the pre-hospital market providing monitoring, cardiac therapy and data management. RDT's portfolio of comprehensive connected emergency care solutions complements and strengthens Philips' current range of proven monitoring and therapeutic products and solutions to help emergency medical services, hospitals and lay responders accelerate the delivery of care at the scene.
- **Healthcare Informatics**: This business includes: advanced healthcare IT, clinical and advanced visualization and quantification informatics solutions for radiology, cardiology and oncology departments; Universal Data Management solutions, Picture Archiving and Communication Systems (PACS) and fully integrated Electronic Medical Record (EMR) systems to support healthcare enterprises in optimizing health system performance; advanced clinical and hospital IT platforms which are leveraged across Philips. Our IntelliSpace Portal application platform is recognized as industry-leading by KLAS. We use artificial intelligence at the point of care to optimize the clinician experience, help improve productivity and total cost of ownership, and streamline patient experiences across the clinical pathway. Proof of clinical and economic outcomes, connectivity and cybersecurity are key priorities of our engagement with our customers. The acquisition of interoperability software solutions provider Forcare provides Philips with critical standards and interoperability expertise to interconnect healthcare information systems, share and exchange clinical data, and offer secure and reliable access to digital health information for medical staff and patients across multiple organizations and care settings.
- **Population Health Management**: Our services and solutions leverage data, analytics and actionable workflow products for solutions to improve clinical and financial results and increase patient engagement, satisfaction and compliance. These solutions include: technology-enabled monitoring and intervention support outside the hospital (telehealth, remote patient monitoring, personal emergency response systems and care coordination) to improve the experience of elderly people and those living with chronic conditions; actionable programs to predict risk (including medication and care compliance, outreach, and fall prediction); cloud-based solutions for health organizations to manage population health. Leveraging our acquisitions of Wellcentive, VitalHealth and BlueWillow Systems, our solutions enable health systems to analyze their patient population along clinical and financial criteria, coordinate care outside the hospital, and engage patients in their health. They help drive quality improvement and business transformation for those transitioning to value-based care.

Connected Care & Health Informatics
Total sales by business as a %
 2018



Revenue is earned through the sale of products and solutions, customer services fees and software license fees. Where bundled offerings result in solutions for our customers or offerings are based on number of people being monitored, we see more usage-based earnings models.

Sales channels include a mix of a direct salesforce, partly paired with an online sales portal and distributors (varying by product, market and price segment). Sales are mostly driven by a direct salesforce with an intimate knowledge of the procedures that use our integrated solutions' smart devices, systems, software and services. Philips works with customers and partners to co-create solutions, drive commercial innovation and adapt to new models such as monitoring-as-a-service.

Sales at Philips' Connected Care & Health Informatics businesses are generally higher in the second half of the year, largely due to customer spending patterns.

At year-end 2018, Connected Care & Health Informatics had 10,517 employees worldwide.

With regard to regulatory compliance and the consent decree agreed to by Philips and the US government, as announced in Philips' press release on October 11, 2017, please refer to [Consent Decree, starting on page 19](#).

With regard to sourcing, please refer to [Supplier indicators, starting on page 58](#).

2018 business highlights

Building on its strengths in healthcare informatics, Philips entered into a multi-year partnership agreement with St. Andrew's Toowoomba Hospital in Australia for the hospital-wide installation of Philips Tasy and an integrated EMR system improving patient care and safety, hospital management, supply and financials. Philips will fully digitize the hospital's entire care management processes and enable anytime, anywhere access to clinical analytics.

Philips partnered with Children's Health in Dallas – one of the top pediatric hospitals in the US – to improve pediatric care with its patient monitoring and healthcare informatics solutions.

Philips acquired Remote Diagnostic Technologies, a leading provider of advanced monitoring, cardiac therapy and data management solutions for the pre-hospital market. RDT's portfolio will complement Philips' Therapeutic Care business and strengthen its

leadership position in the estimated EUR 1.4 billion resuscitation and emergency care market.

Highlighting Philips' leadership in healthcare informatics, IntelliSpace Portal, Philips' advanced data integration, visualization and analysis platform, was named 2018 Category Leader in the Advanced Visualization category in the 2018 Best in KLAS: Software & Services report.

Philips and Miami's Jackson Health System – one of the largest public health systems in the US – entered into an agreement involving an industry-first 'enterprise patient monitoring as a service' business model. This will enable Jackson to standardize patient monitoring at all acuity levels for each care setting across its network for a per-patient fee.

Partnering with Showa University, Philips launched the first tele-intensive care eICU program in Japan. This delivers near real-time remote patient monitoring and early intervention through predictive analytics and advanced audio-visual technology. It has already been successfully implemented in the US, the UK, Australia and the Middle East.

To expand its leadership in patient monitoring solutions, Philips launched FocusPoint, a web-based operational performance management application for its patient monitoring solutions. The application aggregates, processes and stores statistical and alert information, which are presented on a dashboard for optimal management of the technology.

Philips partnered with the Dana-Farber Cancer Institute to deploy best practices in cancer care. The incorporation of the Institute's Clinical Pathways in Philips' IntelliSpace Oncology Platform will help oncologists reach the most appropriate cancer treatments for patients, based on a unified view of the patient across diagnostic modalities and the embedded knowledge of both partners.

NewYork-Presbyterian Hospital selected Philips' IntelliSpace Enterprise Edition as its in-hospital clinical decision support platform to help address the Quadruple Aim of improved patient experience, better health outcomes, improved staff experience, and lower cost of care across its sites.

Leveraging Philips' expertise in remote monitoring solutions, the company partnered with Dartmouth-Hitchcock Health in the US to implement Philips' eICU technology at their hospital sites. Following the success of similar programs across the globe, Dartmouth-Hitchcock Health is the latest health system to incorporate this telehealth model to improve critical care support across multiple sites.

2.3.3 Personal Health businesses

Roy Jakobs was appointed Chief Business Leader of the Personal Health businesses effective October 1, 2018, succeeding Egbert van Acht. Roy joined Philips in 2010

as Chief Marketing Officer for Philips Lighting and in 2012 he became Market Leader for Philips Middle East & Turkey. Between 2015 and 2018 he led the Domestic Appliances business group.

About Personal Health businesses in 2018

Our Personal Health businesses (as per the 2018 reporting structure) play an important role on the health continuum – in the healthy living, prevention and home care stages – delivering integrated, connected and personalized solutions that support healthier lifestyles and those living with chronic disease.

Leveraging our deep consumer expertise and extensive healthcare know-how, we enable people to live a healthy life in a healthy home environment, and to proactively manage their own health.

Supported by meaningful innovation and high-impact marketing, we are focused on three key objectives:

- Growing our core businesses through geographical expansion and increased penetration
- Unlocking business value through direct digital consumer engagement, leading to higher brand preference and recurring revenues
- Extending our core businesses with innovative solutions and new business models to address unmet consumer needs

Personal Health has many distinct product categories and associated competitors, including Procter & Gamble in Personal Care and Oral Healthcare, Groupe SEB in Domestic Appliances, and, in 2018, ResMed in Sleep & Respiratory Care.

In 2018, the Personal Health segment consisted of the following areas of business:

- **Health & Wellness:** oral healthcare, mother and child care
- **Sleep & Respiratory Care:** healthy sleeping, respiratory care
- **Personal Care:** male grooming, beauty
- **Domestic Appliances:** food preparation, home care

Personal Health
Total sales by business as a %
2018



Through our Personal Health businesses, we offer a broad range of solutions in various consumer price segments, always aiming to offer and realize premium value. We continue to rationalize our portfolio of locally

relevant innovations and increase its accessibility, particularly in lower-tier cities in growth geographies. We are well positioned to capture further growth in online sales and continue to build our digital and e-commerce capabilities.

We are leveraging connectivity to offer new business models, partnering with other players in the health ecosystem with the goal of extending opportunities for people to live healthily, prevent or manage disease. We are engaging consumers in their health journey in new and impactful ways through social media and digital innovation. For example, with the introduction of the Philips Sonicare Solutions Teledentistry Service in 2018, Philips' Sonicare complete oral care solution has become even more wide-reaching, enabling professional, remote dental consultations. The Philips Sonicare app acts as a 'virtual hub' for personal oral healthcare, helping users to manage their complete oral care on a daily basis and share brushing data with their dental practitioners, putting personalized guidance and advice at their fingertips.

The company's wide portfolio of connected consumer health platforms – such as our Sonicare dental solutions and our Dream Family sleep care solution – leverages Philips HealthSuite, a cloud-enabled connected health ecosystem of devices, apps and digital tools that enable personalized health and continuous care.

The revenue model is mainly based on product sale at the point in time the products are delivered to the end-user or wholesalers or distributors. In Sleep & Respiratory Care, revenue is generated both through product sales and through rental models whereby revenue is generated over time.

Under normal economic conditions, Philips' Personal Health businesses experience seasonality, with higher sales around key national and international events and holidays.

At year-end 2018, Personal Health employed 22,471 people worldwide.

With regard to regulatory compliance and quality, please refer to [Our commitment to Quality, Regulatory Compliance and Integrity, starting on page 18.](#)

With regard to sourcing, please refer to [Supplier indicators, starting on page 58.](#)

2018 business highlights

In line with Philips' focus on innovation, the company launched the new Philips Sonicare ProtectiveClean power toothbrush in North America, with further roll-out around the world. This introduction will further boost the profitable growth of the Oral Healthcare business.

Philips completely renewed the high-end range of its leading male grooming portfolio with the introduction of the Series 9000 Prestige shaver, which cuts facial hair feeling as close as a wet blade, while being very gentle

on the skin. In 2018 we passed the all-time milestone of 1 billion shavers sold – a landmark achievement by our Personal Care business.

Philips continued the roll-out of its OneBlade male grooming innovation, adding another 10 countries, with many more to follow, on the way to being a EUR 200 million business just a few years after its launch.

At IFA 2018, Philips introduced the High-Speed Connected Blender, which can help people achieve specific health goals, such as boosting their energy, reducing their sugar and calorie intake, or increasing their general well-being.

The app Pregnancy+ by Philips Avent is designed to support a healthy full-term pregnancy plus a safe delivery and gives expectant parents a comprehensive guide through all stages of pregnancy.

Philips' Sleep & Respiratory Care business continues to gain traction for its market-leading home ventilation offerings, such as the new Trilogy Evo ventilator platform, which is the only portable life support solution designed to stay with patients as they change care environments. Integrated with Care Orchestrator, Philips' sleep and respiratory care cloud-based management system, Trilogy Evo will help to ease the burden of managing chronic conditions such as Chronic Obstructive Pulmonary Disease (COPD) by allowing physicians, clinicians, and care providers to collaborate and coordinate care from hospital to home by storing their patient prescription and therapy information in a single secure location.

Philips acquired NightBalance, a digital health scale-up company based in the Netherlands that has developed an innovative, easy-to-use device to treat positional obstructive sleep apnea and positional snoring.

At the consumer electronics show CES 2018, Philips introduced SmartSleep, the world's first and only clinically proven wearable solution for consumers to improve deep sleep quality for people who do not get enough sleep. SmartSleep joins Philips' growing portfolio of smart digital platforms and intelligent solutions that give consumers data-driven insights into their health and access to professional expertise and advice.

Highlighting the success of Philips' patient-centric product designs in sleep care, Philips has sold more than 10 million DreamWear CPAP masks and cushions in just three years after the Dream Family platform introduction, growing the DreamWear patient interface sales faster than the market.

2.3.4 Other

In our external reporting on Other we report on the items Innovation & Strategy, IP Royalties, Central costs, and other small items.

About Other

Innovation & Strategy

The Innovation & Strategy organization includes, among others, the Chief Technology Office (CTO), Research, HealthSuite Platforms, the Chief Medical Office, Product Engineering, Design, Strategy, and Sustainability. Our Innovation Hubs are in Eindhoven (Netherlands), Cambridge (USA), Bangalore (India) and Shanghai (China).

Innovation & Strategy, in collaboration with the operating businesses and the markets, is responsible for directing the company strategy, in line with our growth and profitability ambitions.

The Innovation & Strategy function facilitates innovation from 'idea' to 'market' (I2M) as co-creator and strategic partner for the Philips businesses, markets and partners. It does so through cooperation between research, design, marketing, strategy and businesses in interdisciplinary teams along the innovation chain, from exploration and advanced development to first-of-a-kind proposition development. In addition, it opens up new value spaces beyond the direct scope of current businesses through internal and external venturing, manages the company-funded R&D portfolio, and creates synergies for cross-segment initiatives and integrated solutions.

Innovation & Strategy actively participates in Open Innovation through relationships with academic, clinical, industrial partners and start-ups, as well as via public-private partnerships. It does so in order to improve innovation speed, effectiveness and efficiency; to capture and generate new ideas, and to leverage third-party capabilities. This may include sharing the related financial exposure and benefits.

Finally, Innovation & Strategy sets the agenda and drives continuous improvement in the Philips product and solution portfolio, the efficiency and effectiveness of innovation, the creation and adoption of (digital) platforms, and the uptake of high-impact technologies such as data science, Artificial Intelligence and the Internet of Things.

Chief Technology Office (CTO) and Product Engineering organization

The CTO and Product Engineering organization is a group of innovation teams that orchestrates innovation across Philips' businesses and markets, initiating game-changing innovations that disrupt and cross boundaries in health technology to address opportunities for better clinical and economic outcomes and support the associated transformation of Philips into a digital solutions company. It encompasses the following organizations:

- **Innovation Management**, responsible for end-to-end innovation strategy and portfolio management, integrated roadmaps linked to solutions, New Business Creation Excellence, R&D competency

management, innovation performance management and public funding programs.

- **Philips Research**, the co-creator and strategic partner of the Philips businesses, markets and complementary open innovation ecosystem participants, driving front-end innovation and clinical research at sites across the globe.
- **Philips HealthWorks**, responsible for accelerating breakthrough innovation. HealthWorks incubates early-stage ventures and engages with the external start-up ecosystem.
- **I2M Excellence** is a global program driven centrally to improve and harmonize Philips' capabilities, processes and tools.
- **The Chief Architect Office**, responsible for defining, steering and ensuring compliance and uptake of the Philips HealthSuite architecture for configurable and interoperable digital propositions.
- **The Software and System Engineering Centers of Excellence**, driving adoption of industry best practices in writing and maintaining application-level software, modular and configurable system design and model-based system engineering.
- **Philips Innovation Services** provides hardware and embedded software development & engineering, technology consulting, and low-volume specialized manufacturing.

Philips HealthSuite

Philips HealthSuite constitutes our common digital framework that connects consumers, patients, healthcare providers, payers and partners in a cloud-based connected health ecosystem of devices, apps and tools.

- **HealthSuite Digital Platform (HSDP)** is the secure Philips cloud and IoT (Internet of Things) solution that forms the basis for our digital software stack, with key functionalities including hosting, authorization, connecting, storing, sharing, and analysis of data and applications. New functionality is continuously being added to the platform, like building blocks for federated data management, workflow management, and patient engagement.
- **HealthSuite Premise** is the recently launched extension of HSDP to form a hybrid-cloud solution, offering more flexibility in deployment and implementation.

The Philips HealthSuite Platforms are managed and orchestrated across Innovation & Strategy and all Philips businesses. The majority of professional and consumer-oriented digital propositions offered by Philips leverage HealthSuite, and there is also a growing number of third-party customers doing the same.

Innovation Hubs

To drive innovation effectiveness and efficiency, and to enable locally relevant solution creation, we have established four Innovation Hubs for the Philips Group: Eindhoven (Netherlands), Cambridge (US), Bangalore (India) and Shanghai (China). Each Hub includes a combination of technical, design and clinical capabilities, representing Group Innovation & Strategy, selected R&D groups from our businesses, market innovation teams and other functions. These Hubs, where most of the Group Innovation & Strategy organization is concentrated, complement the business-specific innovation capabilities of our R&D centers that are integrated in our global business sites.

- **Philips Innovation Center Eindhoven** is Philips' largest cross-functional Innovation Hub worldwide, hosting the global headquarters of many of our innovation organizations as well as many collaboration partnerships. Many of the company's core research programs are run from here.
- **Philips Innovation Center Cambridge, MA** is focused on Data Science and AI, among other things. Being within close proximity to the MIT campus and clinical collaboration partners allows researchers to collaborate easily on jointly defined research programs, validate clinical relevance, as well as to participate in Open Innovation projects.
- **Philips Innovation Center Bangalore** hosts activities from most of our operating businesses, Research, Design, Intellectual Property & Standards, and IT. This is our largest software-focused site, with over 3,500 engineers. The Center works with growth geographies to build market-specific solutions, and several businesses have also located business organizations focusing on growth geographies at the site.
- **Philips Innovation Center Shanghai** combines digital innovation, research and solutions development for the China market, while several of its locally relevant innovations are also finding their way globally.

Alongside the hubs, where most of the central Innovation & Strategy organization is concentrated together with selected business R&D and market innovation teams, we continue to have significant, more focused innovation capabilities integrated into key technology centers at our other global business sites.

Chief Medical Office

The Chief Medical Office is responsible for clinical innovation and strategy, hospital economics, clinical evidence and market access, as well as medical thought leadership, with a focus on the Quadruple Aim and value-based care. This includes engaging with stakeholders across the health continuum to extend Philips' leadership in health technology and acting on new value-based reimbursement models that benefit the patient and care provider.

Leveraging the knowledge and expertise of the medical professional community across Philips, the Chief Medical Office includes many healthcare professionals who practice in the world's leading health systems. Supporting the company's objectives across the health continuum, its activities include strategic guidance built on clinical and scientific knowledge, fostering peer-to-peer relationships in relevant medical communities, liaising with medical regulatory bodies, and supporting clinical and marketing evidence development.

Philips Design

Philips Design is the global design function for the company, ensuring that the user experiences of our innovations are meaningful, people-focused and locally relevant. Design is also responsible for ensuring that the Philips brand experience is differentiating, consistently expressed, and drives customer preference.

Philips Design partners with stakeholders across the organization to develop methodologies and enablers to define value propositions, implement data-enabled design tools and processes to create meaning from data, and leverage Co-create methodologies to define solutions. Our Co-create approach facilitates collaboration with customers and patients to create solutions that are tailored specifically to the challenges facing them, as local circumstances and workflows are key ingredients in the successful implementation of solutions.

To ensure that we connect end users along the health continuum we create a consistent experience across all touchpoints. A key enabler for this is a consistent and differentiating design language that applies to software, hardware and services across our operating businesses. In recognition of our continued excellence, Philips Design received 141 awards in 2018.

Emerging Businesses

Emerging Businesses is a business group in emerging spaces with a mission to bring intelligence to diagnosis in pathology and neurology and to guide therapy. It includes:

- **Digital & Computational Pathology** digitizes diagnosis in anatomic pathology and uses Artificial Intelligence to aid detection of disease and progression to reduce inter-observer variability and improve outcomes. Philips is the global market leader in routine primary diagnosis using Digital Pathology and the only company in the market to have an FDA-approved solution for primary diagnosis.
- **Philips Neuro** is focused on a mission to advance neuroscience for better care. The business provides an integrated neurology solution comprising Full Head HD EEG with diagnostic imaging to map brain activity and anatomy for a wide range of neuro disorders, and uses machine learning to improve diagnosis of various neuro disorders.

IP Royalties

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

Royal Philips' total IP portfolio currently consists of 65,000 patent rights, 39,400 trademarks, 61,300 design rights and 3,200 domain names. Philips filed 1,120 new patents in 2018, with a strong focus on the growth areas in health technology services and solutions.

IP&S participates in the setting of standards to create new business opportunities for the Philips operating businesses. A substantial portion of revenue and costs is allocated to the operating businesses. License fees and royalties are earned on the basis of usage, or fixed fees over the term of the contract.

Philips believes its business as a whole is not materially dependent on any particular patent or license, or any particular group of patents and licenses.

Central costs

We recharge the directly attributable part of the central costs to the business segments. The remaining part includes the Executive Committee, Brand Management and Sustainability, as well as functional services such as IT and Real Estate.

Real estate

Philips is present in more than 70 countries globally and has its corporate headquarters located in Amsterdam, the Netherlands. Our real estate sites are well spread around the globe, with key manufacturing and R&D sites in the Americas, Asia and Europe. In 2018, we reduced our footprint in India (Chennai, Pune), Indonesia (Jakarta) and China. We also rightsized and upgraded our Milan, Madrid, Zurich and Herrsching sites in Europe and expanded our global business solutions in India, Poland and the United States. To attract R&D talent, we invested in R&D locations such as Bangalore, Shanghai, Eindhoven and others. We also made strategic investments in manufacturing sites in the Americas and Asia. The vast majority of our locations consist of leased property, and we manage these closely to keep the overall vacancy rates of our property below 5% and to ensure the right level of space efficiency and flexibility to follow our business dynamic. The net book value of our land and buildings at December 31, 2018, represented EUR 621 million; construction in progress represented EUR 46 million. Our current facilities are adequate to meet the requirements of our present and foreseeable future operations.

2.4 Our commitment to Quality, Regulatory Compliance and Integrity

Our business success depends on the quality of our products, services and solutions and compliance with many regulations and standards. We continue on our transformation journey to have customer-focused global processes, procedures, standards and a quality mindset to help us maintain the highest possible level of quality in all our products.

For Philips, as a business with a significant global footprint, compliance with evolving regulations and standards including data privacy and cybersecurity has resulted, and may continue to result, in increased costs, new compliance challenges, and the threat of increased regulatory enforcement activity. Our business relies on the secure electronic transmission, storage and hosting of sensitive information, including personal information, protected health information, financial information, intellectual property and other sensitive information related to our customers and workforce. For information on how Philips manages cybersecurity risk, please refer to Operational risks, of the Annual Report 2018.

Philips actively maintains FDA/ISO Quality Systems globally that establish standards for its product design, manufacturing, and distribution processes. Our businesses are subject to compliance with regulatory product approval and quality system requirements in every market we serve, and to specific requirements of local and national regulatory authorities including the US FDA, the NMPA in China and comparable agencies in other countries, as well as the European Union's Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS) and Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), Energy-using Products (EuP) and Product Safety Regulations. We have a growing portfolio of medically regulated products in our Health & Wellness, Personal Care and Sleep & Respiratory Care businesses. Through our growing oral healthcare, mother and child care and beauty product portfolio the range of applicable regulations has been extended to include requirements relating to cosmetics and, on a very small scale, pharmaceuticals.

In almost all cases, new products that we introduce are subject to a regulatory approval process (e.g. pre-market notification – the 510(k) process – or pre-market approval (PMA) for FDA approvals in the USA, the CE Mark in the European Union). Failing to comply with the regulatory requirements can have severe legal consequences. The number and diversity of regulatory bodies in the various markets we operate in globally adds complexity and time to product introductions.

In the EU, a new Medical Device Regulation (EU MDR) was published in 2017, which will impose significant additional pre-market and post-market requirements. Since the announcement of the EU MDR, Philips has been developing a comprehensive strategic plan to ensure compliance with the MDR requirements that will

come into effect by May 2020. The company has engaged in a top-to-bottom review of our full portfolio of products and solutions that fall under the mandate, and has developed a robust and detailed framework for a seamless transition by the time the Medical Device Regulation is operative. We will make a one-time EU MDR investment, estimated at EUR 45 million, in 2019, in addition to ongoing compliance costs for the new regulations of around EUR 25 million per year. We believe the global regulatory environment will continue to evolve, which could impact the cost, the time needed to approve, and ultimately, our ability to maintain existing approvals or obtain future approvals for our products.

Philips is committed to delivering the highest quality products, services and solutions compliant to all applicable laws and standards. We are investing substantially in driving quality into our culture, reaping the benefits of our improvement efforts addressing the past and positioning for the future. We will continue to raise the performance bar. Quality is embedded in the evaluation of all senior management. With consistency of purpose, top-down accountability, standardization, leveraging continuous improvement we aim to drive greater speed in the adoption of a quality mindset throughout the enterprise.

While pursuing our business objectives, we aim to be a responsible partner in society, acting with integrity towards our employees, customers, business partners and shareholders, as well as the wider community in which we operate. 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. More information on the Philips GBP can be found in Our approach to risk management, of the Annual Report 2018. The results of the monitoring measures in place are given in [General Business Principles, starting on page 54](#).

2.4.1 Consent Decree

In October 2017, Philips North America LLC reached agreement on a consent decree with the US Department of Justice, representing the Food and Drug Administration (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) and Bothell (Washington). The decree also provides for increased scrutiny, for a period of years, of the compliance of the other Monitoring & Analytics businesses at these facilities with the Quality System Regulation.

Under the decree, Philips has suspended the manufacture and distribution, for the US market, of external defibrillators manufactured at these facilities, subject to certain exceptions, until FDA certifies through inspection the facilities' compliance with the Quality System Regulation and other requirements of the decree. The decree allows Philips to continue the manufacture and distribution of certain automated external defibrillator (AED) models and Philips can continue to service ECR devices and provide consumables and the relevant accessories, to ensure uninterrupted availability of these highly reliable life-saving devices in the US. Philips continues to be able to export ECR devices under certain conditions. Philips is continuing to manufacture and distribute the devices of businesses other than ECR at these facilities.

Substantial progress has been made in our compliance efforts. However, we cannot predict the outcome of this matter, and the consent decree authorizes the FDA, in the event of any violations in the future, to order us to cease manufacturing and distributing ECR devices, recall products, pay liquidated damages and take other actions. We also cannot currently predict whether additional monetary investment will be incurred to resolve this matter or the matter's ultimate impact on our business.

3 Societal impact

We are a purpose-driven company, aiming to improve the lives of 3 billion people annually by 2025. Our people draw inspiration from the societal impact we achieve through our products and solutions, on both the social and environmental dimensions. In the Annual Report 2017 and 2018 we quantified the environmental impact that we have as a company in [Environmental performance, starting on page 25](#).

In 2018 we applied the True Value methodology to start quantifying our social impact. This includes the social impact in our supply chain, training of our staff, and taxes we pay. We included these impacts in [How we create value, starting on page 7](#). We have also started to quantify the most complex part, the social impact we have through our products and solutions. We will continue to calculate the impact of our products and solutions in collaboration with knowledge partners and investors.

3.1 Social performance

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 & Diversity across our workforce, supported by our culture.

3.1.1 Improving people's lives

At Philips, we strive to make the world healthier and more sustainable through innovation. In 2012, we set ourselves the goal to improve the lives of 3 billion people a year by 2025.

To guide our efforts and measure our progress, we take a two-dimensional approach – social and ecological – to improving people's lives. Products or 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 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 Products and Solutions portfolio, such as the energy-efficient products in our Personal Health businesses. This is our contribution to Sustainable Development Goal 12 ("to ensure sustainable consumption and production patterns"). Finally, our program to become carbon-neutral in our operations by 2020 contributes to SDG 13 ("take urgent action to combat climate change and its impacts").

Through Philips products and solutions that support people's health and well-being (i.e. excluding brand licensee Signify) we improved the lives of 1.43 billion people in 2018 (2017: 1.37 billion), driven by Diagnosis & Treatment businesses (+9%) and Personal Health businesses (+5%). Our Green Products and Solutions (excluding Signify) that support a healthy ecosystem contributed 995 million lives. After the elimination of double counts – people touched multiple times – we arrived at 1.54 billion lives. This is an increase of around 45 million compared to 2017, driven by all segments, mainly in China, the ASEAN countries, the Middle East & Turkey, and Central & Eastern Europe. Including Signify, we improved the lives of 2.24 billion people in 2018.

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 2018 we improved the lives of 175 million people in underserved markets with our health and well-being solutions (an increase of 22 million compared to 2017).

Lives Improved per market

The following table shows the Lives Improved metric per market.

Philips Group

Lives improved per market

Market	Lives Improved (million) ¹⁾	Population (million) ²⁾	Saturation rate (as % of population)	GDP (USD million) ³⁾
Africa	53	1,244	4%	2,334
ASEAN & Pacific	255	972	26%	6,591
Benelux	29	29	99%	1,515
Central & Eastern Europe	101	167	61%	1,850
Germany, Austria & Switzerland	94	100	94%	5,203
France	57	66	87%	2,827
Greater China	511	1,429	36%	15,057
Iberia	44	57	78%	1,680
Indian Subcontinent	221	1,551	14%	3,100
Italy, Israel & Greece	55	82	67%	2,711
Japan	41	126	33%	5,071
Latin America	178	640	28%	5,521
Middle East & Turkey	111	366	30%	3,245
Nordics	26	27	96%	1,660
North America	349	365	96%	22,247
Russia & Central Asia	63	246	25%	2,007
UK & Ireland	51	72	71%	3,191

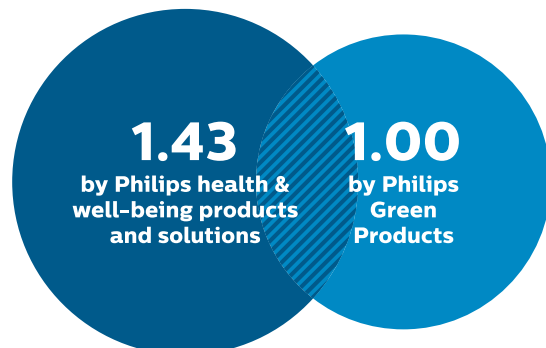
¹⁾ Source: Philips, double counts eliminated; includes Signify

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

³⁾ Source: IMF, CIA, Factbook & Wikipedia

Philips Group

Lives improved in billions



Total: 1.54 billion (double counts eliminated, 2.24 billion including Signify)

 Double counts

Conceptual drawing, areas do not reflect actual proportions

3.1.2 Workforce of the Future

The challenges of the future call for a networked organization in which cross-functional teams actively draw on resources across the organization and across the world, to unite in order to achieve Philips' overall objectives. Our Workforce of the Future program represents our commitment to meet the challenge of addressing our customers' unmet needs and deliver the full benefits of data-enabled connected care by attracting, developing and retaining a workforce that will deliver the strategic capabilities we need to win.

By applying Strategic Workforce Planning, in close alignment with the strategic planning of our businesses, we identify and develop the employee capabilities needed to realize our ambitions as a health technology company. In 2018 we implemented initiatives, company-wide, that boosted the percentage of top performers in our most strategic positions to 56%, up from 45% in 2018. A key driver for this was our focus on succession planning.

We also addressed the issue of the expanding workforce and our ability to tap into the 'gig economy' and other less traditional work constructs. Building on our 2017 initiatives to better recognize the significant contribution that contingent workers make to our business success, in 2018 we introduced Total Workforce Demand Management. This Total Workforce strategy considers all sources of skills and capabilities we require in the Workforce of the Future, as well as location-related talent availability factors and labor market trends. To be ready for the future we devoted additional attention to our campus, graduate and early-career hiring focus in 2018, which resulted in a twofold increase in the number of campus hires compared with 2017.

More information on training and learning programs can be found in [People development, starting on page 52](#).

Our focus on the Workforce of the Future will continue in 2019, with further emphasis on strategic capabilities, the expanding workforce and early-career hires.

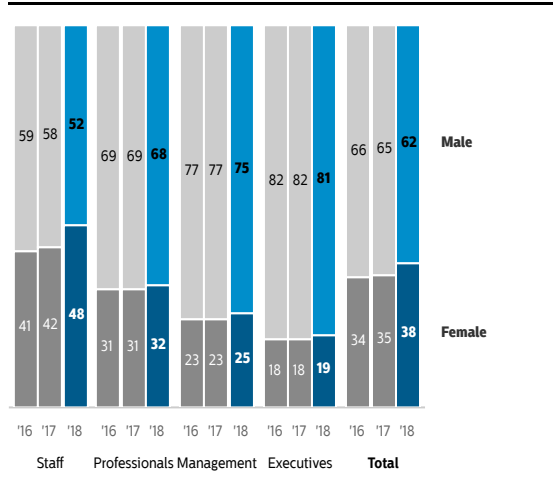
3.1.3 Inclusion & Diversity

In order to understand and meet customers' and patients' needs in a complex and continually changing environment, our workforce should reflect the society in which we operate, our customers, and the markets we serve. We believe that an inclusive culture allows our 120-plus nationalities to bring a rich diversity of capabilities, opinions and perspectives to our decision-making processes, thus driving innovation, enabling faster, targeted responses to market changes, and supporting sustainable improvements in business performance.

In 2017 we renewed our approach to Inclusion & Diversity. We set a goal of 25% gender diversity in senior leadership positions (a subset of Management and Executive positions) by the end of 2020 (compared with 19% at the end of 2017). In 2018 we partnered with leading Inclusion & Diversity training providers to develop and start rolling out unconscious bias and inclusion trainings. We continued to strengthen our data analytics around Inclusion & Diversity to enable a fact-based approach to achieving our goals. In 2019 we will continue with these efforts to ensure that all of our leaders are trained to understand unconscious bias and are able to engage their teams in addressing this topic.

With regard to appointment and promotion opportunities, we transparently share open positions and endeavor to attract candidates from a diverse range of backgrounds and to install diverse interview panels for recruitment for all leadership positions. We enhanced our existing Inclusion & Diversity leadership training offerings and increased the number of Senior Women's Leadership Programs for the second consecutive year. In addition, we scaled up our other Women's Programs and embedded the importance of inclusion in other (Leadership) Programs.

Philips Group
Gender diversity in %
2016 - 2018



Overall gender diversity increased from 36% in 2017 to 38% in 2018. Gender diversity among Executives increased from 18% to 19% female executives. Measured against our 2020 goal of 25% gender diversity in Leadership positions, this figure rose from 19% in 2017 to 21% in 2018.

3.1.4 Our culture

As we continue our transformation into a focused leader in health technology – shifting from products to solutions and building long-term relationships with our customers – we are fostering a culture within Philips that will help us achieve operational excellence and extend our solutions capability to address our customers' unmet needs.

To this end, all Philips employees are expected to commit to living our renewed behaviors – Customers first, Quality and integrity always, Team up to win, Take ownership to deliver fast, and Eager to improve and inspire – every step of the way.

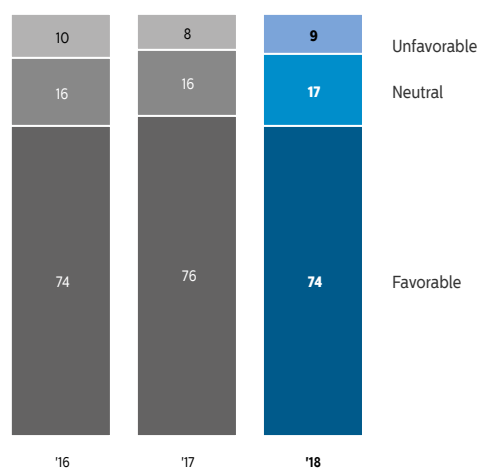
Putting our customers first must be at the heart of everything we do. Only by engaging deeply with our customers can we understand their unmet needs and deliver superior value. We also need to be conscious, at all times, of the high-stakes environment in which we now operate. This environment demands that we apply the highest quality and integrity standards – always. To deliver superior value to our customers and ensure quality and integrity, we need to improve how we team up and leverage the skills and expertise right across Philips. At the same time, we all need to take personal ownership, enabling us to move with speed and deliver what we promise, on time. And by applying operational excellence and Lean ways of working, we will keep improving and inspiring each other through the work we do.

We staff our positions based on behavior, potential and capabilities. In 2018 we filled 77% of our Director-level and more senior positions from within the company. For these internal hires, we ensure our candidates are high performers with strong potential. In 2018, 86% of all internal promotions to Director level and more senior positions were realized by appointing top performers. We supplement this internal growth with targeted external hiring, bringing in employees with the behaviors and capabilities we require for our Workforce of the Future.

3.1.5 Employee engagement

High employee engagement is crucial to the success of our strategy. Our employee survey consistently reports high levels of employee engagement that exceed the high-performance norm of 71%, and our average engagement score for 2018 was 74%. Despite a small decrease in engagement from 2017 to 2018 we remain above the high-performance norm.

Philips Group
Employee Engagement index in %
2016 - 2018



Our quarterly employee survey help keep our finger on the pulse of employee sentiment toward the company. We listen to employees' ideas for improvement, show employees that their feedback is valued, and work to ensure that every person in our company has a role to play in creating lasting value for our customers, shareholders, and other stakeholders. In 2018 we expanded our employee listening initiatives by running regional and cross-functional dialogs. Through these dialogs we were able to gain a better understanding of the challenges that may be hindering our workforce, so that we can collaboratively identify and formulate solutions.

At Philips, we believe we perform at our best when we look after ourselves and each other. In 2018, we continued to develop our Health & Wellbeing programs, which are designed to engage our employees and empower them to adopt a healthier lifestyle and achieve a better work/life integration. Through the ongoing engagement of a network of Health & Wellbeing ambassadors, we also leveraged the energy and experience of our employees to drive local wellbeing initiatives in our markets. These included on-site exercise and fitness clubs, Mindfulness classes and Energy Management workshops.

3.1.6 Employment

In 2018, we continued to build out our health technology portfolio with targeted acquisitions in key areas including image-guided therapy, healthcare informatics, population health management, monitoring and analytics, and sleep and respiratory care, growing our employee base by a further 331 FTE.

The total number of Philips Group employees (continuing operations) was 77,400 at the end of 2018, compared to 73,951 at the end of 2017, an increase of 3,449 FTE.

Growth of our workforce in the Function R&D was the strongest driver of the increase in FTE. Together with Quality & Regulatory, Manufacturing and Sales these four functions accounted for over 70% of the FTE increase.

The increase in FTE in the segment Other with 2,956 FTE reflects, among other things, the increase in Manufacturing employees, the shift of supporting roles to a Global Business Services organization, and the expansion of the Philips Innovation Center in Bangalore.

Philips Group
Employees per segment in FTEs at year-end
2016 - 2018

	2016	2017	2018
Diagnosis & Treatment	23,791	25,757	27,381
Connected Care & Health Informatics	11,033	10,949	10,517
Personal Health	22,530	23,170	22,471
Other	13,614	14,075	17,031
Continuing operations	70,968	73,951	77,400
Discontinued operations	43,764		
Philips Group	114,731	73,951	77,400

Philips Group
Employment in FTEs
2016 - 2018

	2016	2017	2018
Balance as of January 1	112,959	114,731	73,951
Consolidation changes:			
Acquisitions	163	1,812	331
Divestments	(571)	(332)	(107)
Changes in Discontinued operations	753	(43,763)	
Other changes	1,427	1,502	3,225
Balance as of December 31	114,731	73,951	77,400

Geographic footprint

Approximately 61% (2017: 63%) of the Philips workforce is located in mature geographies and 39% (2017: 37%) in growth geographies. In 2018, the number of employees in mature geographies increased by 1,384. The number of employees in growth geographies increased by 2,065.

Philips Group
Employees per geographic cluster in FTEs at year-end
2016 - 2018

	2016	2017	2018
Western Europe	20,657	21,055	21,399
North America	19,828	20,937	21,703
Other mature geographies	3,695	3,962	4,236
Mature geographies	44,180	45,954	47,338
Growth geographies	26,788	27,997	30,062
Continuing operations	70,968	73,951	77,400
Discontinued operations	43,764		
Philips Group	114,731	73,951	77,400

Employee turnover

In 2018, employee turnover amounted to 14.2%, of which 8.6% was voluntary, compared to 13.6% (8.2% voluntary) in 2017. The slightly higher turnover in 2018 reflects the high demand for talent in the current economic circumstances. External benchmarks show that we remain well below employee turnover versus similar-sized companies and are reasonably successful in the retention of our employees.

With our focus on increasing gender diversity in leadership positions, we have been able to reduce voluntary female executive turnover from 12.9% in 2017 to 8.8% in 2018.

Philips Group
Employee turnover in %
2018

	Staff	Pro- fes- sionals	Man- age- ment	Ex- ecu- tives	Total
Female	15.6	14.4	11.4	19.1	14.9
Male	16.8	12.2	12.1	14.5	13.8
Philips Group	16.2	12.9	11.9	15.4	14.2

Philips Group
Voluntary turnover in %
2018

	Staff	Pro- fes- sionals	Man- age- ment	Ex- ecu- tives	Total
Female	8.8	9.6	6.8	8.8	9.1
Male	10.4	7.4	6.0	3.5	8.3
Philips Group	9.7	8.1	6.2	4.5	8.6

3.1.7 Human rights

We believe that businesses have the responsibility to respect human rights and the ability to contribute to positive human rights impacts. We have taken initiatives to ensure that human rights are upheld across our own operations and value chain.

In 2018, we published our Human Rights Policy, reaffirming our commitment to support and respect human rights as set out in the International Bill of Human Rights and the International Labor Organization's Declaration on Fundamental Principles and Rights at Work. In accordance with our policy, we initiated our first country-specific Human Rights Impact Assessment, and deepened our human rights due diligence process by engaging with internal and external stakeholders to identify the human rights areas of severe impact and most vulnerable groups. The result is presented in our first [Human Rights Report](#), which also contains more detailed information regarding our progress.

3.1.8 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.

In 2018, a total of 438 concerns were reported via the Philips Ethics Line and through our network of GBP Compliance Officers. The previous reporting period (2017) saw a total of 382 concerns, resulting in an increase of 14% 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 remains in line with our multi-year efforts to encourage our employees to speak up, in combination with a growing workforce.

More information on the Philips GBP can be found in Risk management, of the Annual Report 2018. The results of the monitoring measures in place are given in [General Business Principles, starting on page 54](#)

3.1.9 Health and Safety

At Philips, we strive for an injury-free and illness-free work environment. As of 2016, the Total Recordable Cases (TRC) rate is defined as a Key Performance Indicator (KPI). A TRC is a case where an injured employee is unable to work for one or more days, has medical treatment, or sustains an industrial illness. We set yearly TRC targets for the company, Business Groups and industrial sites.

We recorded 198 TRCs in 2018, a 15% improvement compared to 234 in 2017. While our workforce grew further in 2018, the TRC rate decreased from 0.36 per hundred FTEs in 2017 to 0.28 in 2018.

In 2018 we recorded 91 Lost Workday Injury Cases (LWIC). These are occupational injury cases where an injured person is unable to work for one or more days after the injury. This represents a 19% decrease compared with 113 in 2017. The LWIC rate decreased to 0.13 per 100 FTEs in 2018, compared with 0.17 in 2017. The number of Lost Workdays caused by injuries increased by 480 days (12%) to 4,650 days in 2018, mainly caused by longer recovery periods related to a limited number of incidents.

For more information on Health and Safety, please refer to [Health and Safety performance, starting on page 55](#)

3.1.10 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 [Sustainability statements](#), starting on page 46.

For more information on our stakeholder engagement activities in 2018, please refer to [Stakeholder engagement](#), starting on page 57.

3.1.11 Supplier sustainability

Philips' mission to improve people's lives applies throughout our value chain. Since 2003 we have dedicated supplier sustainability programs as part of our sustainability strategy. We have a direct business relationship with approximately 4,900 product and component suppliers and 19,000 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. At present, our programs focus on compliance with our policies, improvement of suppliers' sustainability performance, responsible sourcing of minerals, and circular procurement practices.

Please refer to [Supplier indicators](#), starting on page 58 and to the Philips supplier sustainability [website](#) for more details on the Philips supplier sustainability program.

3.2 Environmental performance

In 2016 we 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.

Besides our social impact, we have an environmental impact through our global operations, but even more so through our products and solutions. This is our contribution to SDG 12 ("to ensure sustainable consumption and production patterns") and to SDG 13 ("take urgent action to combat climate change and its impacts").

In this Environmental performance section an overview is given of the most important environmental parameters of the 'Healthy people, Sustainable planet' program. Details can be found in the [Sustainability statements](#), starting on page 46.

Environmental impact

Philips has been performing Life-Cycle Assessments (LCAs) since 1990. These assessments provide insight into the environmental impacts of our products from cradle to grave. These 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. It supports the direction of our 'Healthy people, Sustainable planet' program by providing insights into the main environmental hotspots and innovation areas to reduce the environmental impact of our products and solutions.

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

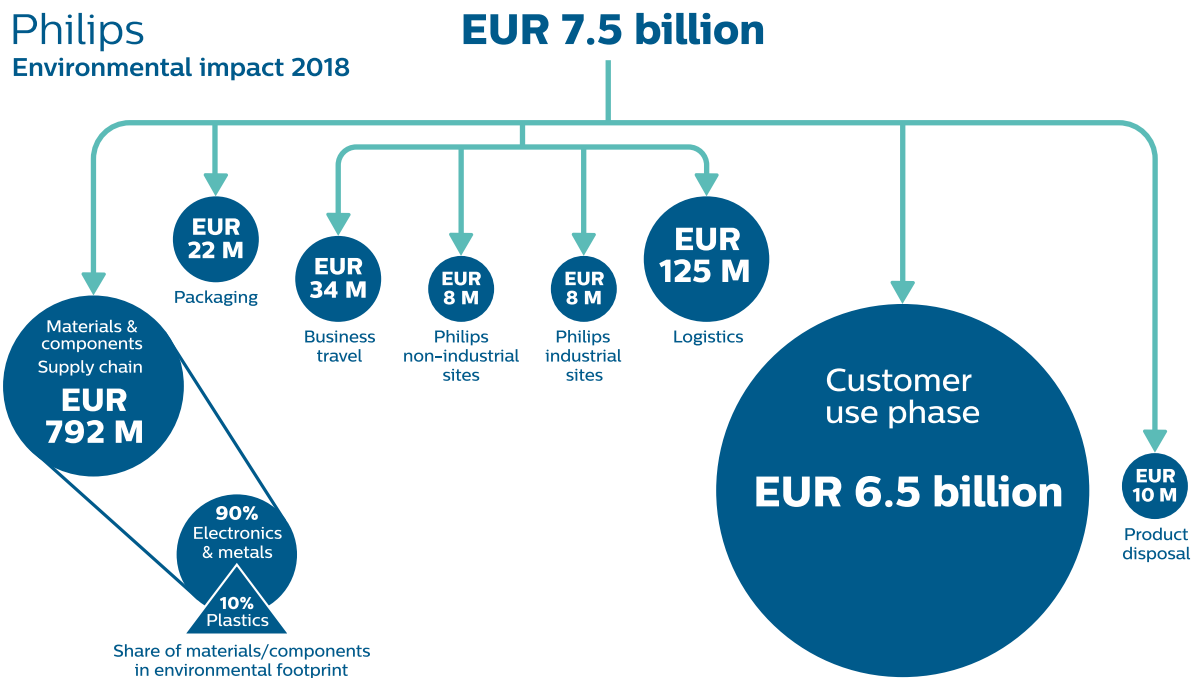
An important learning that we derived from the first EP&L is that, in addition to the conversion factors, also the definition of the use case scenarios has a significant impact on the result, especially for consumer products. It is our aim to look into the feasibility of standardizing the use cases and calculation of the yearly energy consumption.

The current EP&L account only includes the hidden environmental costs. It does not yet include the benefits to society that Philips generates by improving people's lives through our products and solutions. We have a well-established methodology to calculate the number of lives we positively touch with our products and solutions. 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. We started to work on the latter in 2018.

Results 2018

In 2018, Philips had an environmental impact (loss) of EUR 7.5 billion, which is a 4% increase compared to the impact reported in 2017 (EUR 7.2 billion), driven by comparable sales growth^{*)} of 5%. The main environmental impact, 87% of the 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 43% and 28% respectively of the total impact. The environmental costs include the environmental impact of the full lifetime of the products that we put on the market in 2018, e.g. 7 years of usage in the case of a vacuum cleaner or 10 years in the case of a medical system. As we grow our portfolio of Green Products and Solutions, we expect the environmental impact to reduce.

In 2018, we included packaging materials in the EP&L, but this did not have a material impact (EUR 22 million). Of the total 2018 impact, EUR 175 million (2%) is directly caused by Philips' own operations, mainly driven by outbound logistics. Compared to EUR 205 million in 2017, this is a 15% reduction, mainly due to the shift to energy from renewable sources in line with our ambition to become carbon-neutral in our operations by 2020.



The environmental costs have been positively influenced by our EcoDesign efforts to increase the energy efficiency of our products. Our supply chain currently has an environmental impact of some EUR 792 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.

In order to deliver on our carbon neutrality commitment we have set ambitious reduction targets. In 2018, our 2020-2040 targets (including the use phase of our products) have been approved by the Science Based Targets initiative – a collaboration between the CDP (formerly Carbon Disclosure Project), the United Nations Global Compact (UNGC), the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) aimed at driving ambitious corporate climate action. The approval confirms that Philips' long-term targets are in line with the level of decarbonization required to keep the global temperature increase below 2°C, and we are pleased to be the first health technology company to have obtained this approval.

^{*)} Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 32.

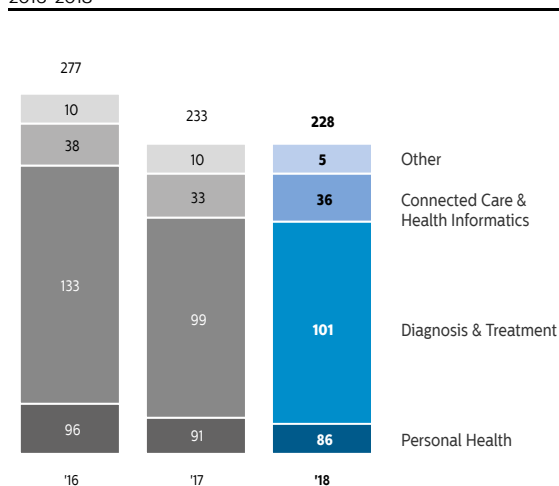
3.2.1 Green Innovation

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 Sustainable Innovation spend, Philips set a target of EUR 7.5 billion (cumulative) for the period 2016–2020 as part of the 'Healthy people, Sustainable planet' program.

In 2018, Philips invested EUR 228 million in Green Innovation and some EUR 1.4 billion in Sustainable Innovation.

Philips Group
Green Innovation per segment in millions of EUR
2016–2018



Diagnosis & Treatment businesses

Philips develops innovative diagnosis and treatment solutions that support precision diagnosis and effective, minimally invasive interventions and therapy, while respecting the boundaries of natural resources. Investments in Green Innovation in 2018 amounted to EUR 101 million, broadly in line with 2017. 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 upgrading pathways, so our customers can benefit from enhancements in workflow, dose management and imaging quality with the equipment they already own. 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. Additionally, Philips aims to close the loop on all large medical equipment that

becomes available to us by the end of 2020, and to extend circular practices to all medical equipment by 2025. To achieve this target, we will actively drive trade-ins in markets where de-install, trade-in and reverse logistics capabilities are in place, and build these capabilities in countries that do not yet have them.

Connected Care & Health Informatics businesses

Philips' connected health IT solutions 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, increase efficiency in hospitals, and improve access to care and outcomes. Investments in Green Innovation in 2018 amounted to EUR 36 million, in line with previous years. Some large Green Innovation projects will deliver new green patient monitors and ventilators in 2019, with lower environmental footprints reflecting all the Philips Green Focal Areas. Energy efficiency and material reduction are the main areas of focus.

Personal Health businesses

The continued high level of R&D investments at our Personal Health businesses is also reflected in the Green Innovation spend, which amounted to EUR 86 million in 2018, compared with EUR 91 million in 2017. Green Innovation spend in 2017 included a sizeable project in Oral Healthcare, resulting in a series of new Green Products in 2018. 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. Mother & Child Care introduced a reusable sterilization box for soothers, eliminating the need for separate packaging. In our OneBlade shaver range, further progress was made in transitioning our packaging to include recycled materials.

Other

The segment Other invested EUR 5 million in Green Innovation, spread over projects focused on global challenges relating to water, air, energy, food, Circular Economy, and access to affordable healthcare. One example is the Contrast agent-free project, which is aimed at enhancing MRI imaging applications in oncology by eliminating the use of external Gadolinium-based contrast agent. This is expected to have large benefits in terms of patient management, safety, access, healthcare and environmental cost.

Circular Economy

For a sustainable world, the transition from a linear to a circular economy is essential. 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. At Philips, we have set ambitious targets to

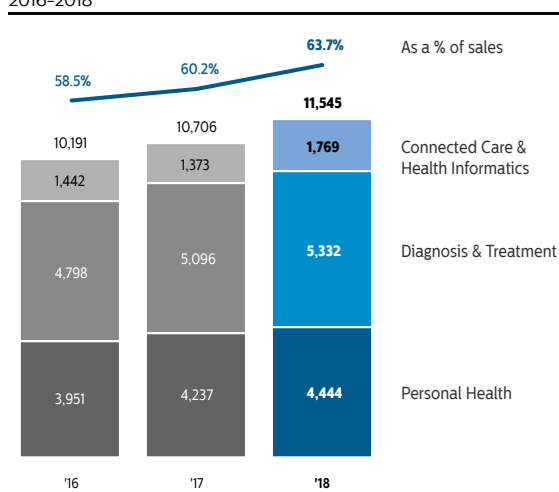
guide this journey. By 2020, we want 15% of our revenues to come from circular products and services, and we want to send zero waste to landfill in our own operations. At the beginning of 2018, we added a pledge to take back and repurpose all the large medical systems equipment (e.g. MRI and CT scanners) that our customers are prepared to return to us, and to extend those practices across our professional portfolio by 2025. In 2018, after pilot projects in Italy and Greece, we successfully launched the roll-out of a global program to achieve our ambitious circular economy goal, together with metrics to monitor progress.

For more information on our Circular Economy activities and the progress towards targets in 2018, please refer to [Circular Economy, starting on page 63](#).

3.2.2 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 11.5 billion in 2018, or 63.7% of sales (60.2% in 2017), thereby reaching a record level for Philips.

Philips Group
Green Revenues per segment in millions of EUR unless otherwise stated
 2016-2018



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 energy efficiency, although there was also growing attention for hazardous substances and recyclability in all segments in 2018, the latter driven by our Circular Economy initiatives.

Diagnosis & Treatment businesses

In 2018, 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. A good example is BlueSeal magnet technology, which is designed to reduce lengthy and costly disruptions in MRI practice, and help healthcare facilities transition to more productive and sustainable helium-free operations. In 2018 we received third-party confirmation that the 2017 Philips portfolio of 1.5T MRI scanners leads the industry in terms of energy efficiency according to the COCIR SRI methodology.

Connected Care & Health Informatics businesses

Our Connected Care & Health Informatics businesses maintained their Green Product and Solutions portfolio in 2018.

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 2018 amounted to 62% of total sales, compared to 58% in 2017. 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. With the introduction of the new Philips Sonicare DiamondClean toothbrush the Green Revenue percentage in the Oral Healthcare portfolio increased significantly, to over 88%. We continue to make steady progress in developing PVC/BFR-free products. More than 74% 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 2018 we introduced the PVC- and BFR-free SpeedPro Max vacuum cleaner. In the remaining 26% of consumer product sales, PVC/BFR has already been phased out to a significant extent, though not yet entirely.

3.2.3 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 [Sustainability statements, starting on page 46](#).

Carbon footprint and energy efficiency

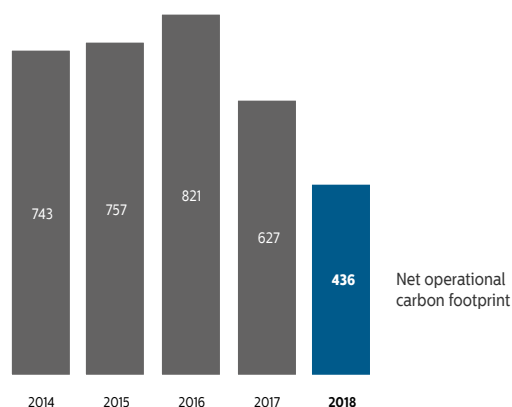
Philips has committed to becoming 100% carbon-neutral in our operations and sourcing all our electricity usage from 100% renewable sources by 2020 as our commitment to SDG 13.

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 sixth year in a row we received the Climate Leadership (A) score for our performance in 2017. In order to deliver on the carbon neutrality commitment we have set ambitious reduction targets.

In 2018, our greenhouse gas emissions resulted in 766 kilotonnes of carbon dioxide-equivalent (CO₂-e), but because of our carbon neutrality program, some of our emissions have been compensated via carbon offsets, resulting in a total of 436 kilotonnes carbon dioxide-equivalent (CO₂-e).

Philips reports all its emissions in line with the Greenhouse Gas Protocol (GHGP) as further described in [Sustainability statements, starting on page 46](#).

Philips Group
Net operational carbon footprint in kilotonnes CO₂-equivalent
2014 - 2018



In 2018, our operational carbon intensity (in tonnes CO₂e/EUR million sales) improved by 11%, even as our company recorded 5% 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 79% in 2017 to 90% in 2018.

All our US operations were powered by renewable electricity from the Los Mirasoles wind farm in 2018. In addition, the Krammer and Bouwdokken wind farms in the Dutch province of Zeeland, with whom we closed long-term contracts through our renewable electricity purchasing consortium with AkzoNobel, DSM and Google, started to deliver wind energy. The two Dutch wind farms will power all our operations in the Netherlands in 2019. Combined with the Los Mirasoles wind farm this covers some 52% of our total electricity demand.

Combined with the achieved energy reductions, this led to a 56% carbon reduction in our electricity consumption (scope 2) in 2018 compared to 2017.

Our business travel emissions increased by 2% compared to 2017, mainly due to an increase in air travel over shorter distances (<4,000 km) where the CO₂-e per km are higher compared to long-haul air travel,

combined with higher DEFRA emission factors for air travel. The emissions resulting from our lease cars decreased by 6% and the emissions from rental cars remained unchanged compared to 2017. In order to further decrease our business travel emissions we will continue to promote video conferencing and online collaboration as an alternative to travel, as well as promoting alternative modes of transport and electrifying our lease fleet.

As a result of our airfreight reduction program, we recorded a decrease of 9% in our logistics operations compared to 2017. Air freight shipments decreased by 19%, ocean freight increased by 32%, and road transport remained unchanged.

In 2017, we kicked off our carbon neutrality program by compensating 220 kilotonnes of carbon emissions. In 2018, we increased this to 330 kilotonnes, equivalent to the annual uptake of approximately 9 million medium-sized oak trees. This covers the total emissions of our direct emissions in our sites, all our business travel emissions and all our ocean and parcel shipments within logistics. 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 means of clean cookstoves

By financing highly 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 for educational programs and improved sanitation facilities in five local schools in order to maximize the social impact.

Philips Group
Operational carbon footprint by scope in kilotonnes CO₂-equivalent
 2014-2018

	2014	2015	2016	2017	2018
Scope 1	40	39	42	38	40
Scope 2 (market-based)	109	106	121	58	26
Scope 2 (location-based)	210	212	252	225	227
Scope 3	594	612	658	751	700
Total (scope 1,2 (market-based), and 3)	743	757	821	847	766
Emissions compensated by carbon offset projects				220	330
Net operational carbon emissions	743	757	821	627	436

During 2018, 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) 2018 emission factors. Philips reports all its emissions in line with the Greenhouse Gas Protocol (GHGP) as further described in [Data definitions and scope, starting on page 50](#).

Philips Group
Ratios relating to carbon emissions and energy use
 2014-2018

	2014	2015	2016	2017	2018
Operational CO₂ emissions in kilotonnes CO ₂ -equivalent	743	757	821	847	766
Operational CO₂ efficiency in tonnes CO ₂ -equivalent per million EUR sales	53.36	46.58	48.48	47.64	42.27
Operational energy use in terajoules	5,747	5,639	5,526	4,858	5,118
Operational energy efficiency in terajoules per million EUR sales	0.41	0.35	0.33	0.27	0.28

Water

Total water intake in 2018 was 891,000 m³, comparable to 2017. Personal Health, which consumes 60% of total water usage, recorded a 7% increase. The increase was mainly due to production volume increases at two manufacturing sites in Asia. Diagnosis & Treatment and Connected Care & Health Informatics showed a decrease of 8% and 13% respectively.

Philips Group
Water intake in thousands of m³
 2014-2018

	2014	2015	2016	2017	2018
Personal Health	585	614	613	496	533
Diagnosis & Treatment	392	268	269	312	288
Connected Care & Health Informatics	74	94	81	80	70
Philips Group	1,051	976	963	888	891

In 2018, 98% of water was purchased and 2% was extracted from groundwater wells.

Waste

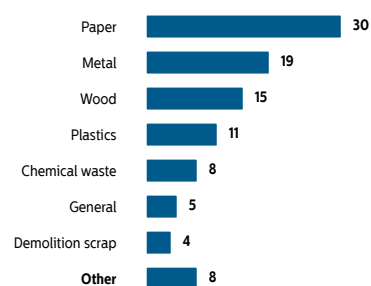
In 2018, our manufacturing sites generated 24.5 kilotonnes of waste, comparable to 2017. The Personal Health businesses contributed 61% of total waste, Diagnosis & Treatment businesses 34%, and Connected Care & Health Informatics businesses 5%.

Philips Group
Total waste in kilotonnes
 2014 - 2018

	2014	2015	2016	2017	2018
Personal Health	13.1	13.8	14.3	15.1	14.9
Diagnosis & Treatment	6.8	8.0	9.2	8.3	8.4
Connected Care & Health Informatics	1.2	1.4	1.4	1.2	1.2
Philips Group	21.1	23.2	24.9	24.6	24.5

Total waste consists of waste that is delivered for landfill, incineration or recycling (including re-use). Our sites are addressing both the recycling percentage as well as waste sent to landfill as part of the 'Healthy people, Sustainable planet' program. Materials delivered for recycling via an external contractor amounted to 21 kilotonnes, which equals 84% of total waste, a significant increase compared to 2017 (80%). Of the 16% remaining waste, 79% comprised non-hazardous waste and 21% 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 2018 we reported 1.7 kilotonnes of waste sent to landfill. 19 out of our 36 industrials sites achieved Zero Waste to Landfill status.

Philips Group
Industrial waste delivered for recycling in %
 2018



Philips included new reduction targets for the substances that are most relevant for its businesses in its 'Healthy people, Sustainable planet' program. 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 again zero in 2018. The level of emissions of hazardous substances decreased from 5,243 kilos in 2017 to 3,363 kilos in 2018 (-36%), mainly driven by changes in the manufacturing process resulting in lower Styrene emissions and changes in the product mix in the Personal Health businesses.

Philips Group
Restricted and hazardous substances in kilos
 2014-2018

	2014	2015	2016	2017	2018
Restricted substances	20	18	1	-	-
Hazardous substances	24,712	22,394	10,496	5,243	3,363

For more details on emissions from substances, please refer to [Sustainable Operations](#), starting on page 65.

^{*)} Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information](#), starting on page 32.

4 Other information

4.1 Reconciliation of non-IFRS information

In this Annual Report Philips presents certain financial measures when discussing Philips' performance that are not measures of financial performance or liquidity under IFRS ('non-IFRS'). These non-IFRS measures (also known as non-GAAP or alternative performance measures) are presented because management considers them important supplemental measures of Philips' performance and believes that they are widely used in the industry in which Philips operates as a means of evaluating a company's operating performance and liquidity. Philips believes that an understanding of its sales performance, profitability, financial strength and funding requirements is enhanced by reporting the following non-IFRS measures:

- Comparable sales growth;
- Adjusted EBITA;
- Adjusted income from continuing operations attributable to shareholders;
- Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted;
- Adjusted EBITDA;
- Free cash flow;
- Net debt : group equity ratio; and
- Comparable order intake.

Non-IFRS measures do not have standardized meanings under IFRS and not all companies calculate non-IFRS measures in the same manner or on a consistent basis. As a result, these measures may not be comparable to measures used by other companies that have the same or similar names. Accordingly, undue reliance should not be placed on the non-IFRS measures contained in this Annual Report and they should not be considered as substitutes for sales, net income, net cash provided by operating activities or other financial measures computed in accordance with IFRS.

This chapter contains the definitions of the non-IFRS measures used in this Annual Report as well as reconciliations from the most directly comparable IFRS measures. The non-IFRS measures discussed in this Annual Report are cross referenced to this chapter. These non-IFRS measures should not be viewed in isolation or as alternatives to equivalent IFRS measures and should be used in conjunction with the most directly comparable IFRS measures.

The non-IFRS financial measures presented are not measures of financial performance or liquidity under IFRS, but measures used by management to monitor the underlying performance of Philips' business and operations and, accordingly, they have not been audited or reviewed by Philips' external auditors. Furthermore, they may not be indicative of Philips' future results and should not be construed as an indication that Philips' future results will be unaffected by exceptional or non-recurring items.

Comparable sales growth

Comparable sales growth represents the period-on-period growth in sales excluding the effects of currency movements and changes in consolidation. As indicated in [Significant accounting policies, starting on page 0](#), foreign currency sales and costs are translated into Philips' presentation currency, the euro, at the exchange rates prevailing at the respective transaction dates. As a result of significant foreign currency sales and currency movements during the periods presented, the effects of translating foreign currency sales amounts into euros could have a material impact on the comparability of sales between periods. Therefore, these impacts are excluded when presenting comparable sales in euros by translating the foreign currency sales of the previous period and the current period into euros at the same average exchange rates. In addition, the years presented were affected by a number of acquisitions and divestments, as a result of which various activities were consolidated or deconsolidated. The effect of consolidation changes has also been excluded in arriving at the comparable sales. For the purpose of calculating comparable sales, when a previously consolidated entity is sold or control is lost, relevant sales for that entity of the corresponding prior year period are excluded. Similarly, when an entity is acquired and consolidated, relevant sales for that entity of the current year period are excluded.

Comparable sales growth is presented for the Philips Group, operating segments and geographic clusters. Philips' believes that the presentation of comparable sales growth is meaningful for investors to evaluate the performance of Philips' business activities over time. Comparable sales growth may be subject to limitations as an analytical tool for investors, because comparable sales growth figures are not adjusted for other effects, such as increases or decreases in prices or quantity/volume. In addition, interaction effects between currency movements and changes in consolidation are not taken into account.

Philips Group
Sales growth composition per segment in %
2016 - 2018

	nominal growth	currency effects	consolidation changes	comparable growth
2018 versus 2017				
Diagnosis & Treatment	5.1	4.1	(2.4)	6.8
Connected Care & Health Informatics	(2.5)	4.1	(1.3)	0.3
Personal Health	(1.1)	4.4	0.0	3.3
Philips Group	1.9	4.2	(1.4)	4.7
2017 versus 2016				
Diagnosis & Treatment	3.1	2.0	(1.6)	3.5
Connected Care & Health Informatics	0.2	1.9	1.1	3.2
Personal Health	3.0	1.9	0.7	5.6
Philips Group	2.1	1.9	(0.1)	3.9
2016 versus 2015				
Diagnosis & Treatment	3.1	0.9	(0.4)	3.6
Connected Care & Health Informatics	4.5	0.1	(0.1)	4.5
Personal Health	5.2	2.0	0.0	7.2
Philips Group	3.7	1.1	0.1	4.9

Philips Group
Sales growth composition per geographic cluster in %
2016 - 2018

	nominal growth	currency effects	consolidation changes	comparable growth
2018 versus 2017				
Western Europe	4.9	0.4	(2.6)	2.7
North America	(1.1)	4.4	(2.6)	0.7
Other mature geographies	10.8	4.1	(0.4)	14.5
Total mature geographies	2.5	3.1	(2.3)	3.3
Growth geographies	0.7	6.5	0.4	7.6
Philips Group	1.9	4.2	(1.4)	4.7
2017 versus 2016				
Western Europe	1.2	1.1	0.5	2.8
North America	2.1	2.0	(1.4)	2.7
Other mature geographies	(4.7)	2.6	(0.1)	(2.2)
Total mature geographies	0.8	1.7	(0.6)	1.9
Growth geographies	4.8	2.3	0.9	8.0
Philips Group	2.1	1.9	(0.1)	3.9
2016 versus 2015				
Western Europe	2.2	1.9	0.2	4.3
North America	3.6	(0.4)	(0.2)	3.0
Other mature geographies	8.9	(6.2)	(0.4)	2.3
Total mature geographies	3.9	(0.5)	(0.1)	3.3
Growth geographies	3.2	4.6	0.6	8.4
Philips Group	3.7	1.1	0.1	4.9

Adjusted EBITA

The term Adjusted EBITA is used to evaluate the performance of Philips and its segments. EBITA represents Income from operations excluding amortization and impairment of acquired intangible assets and impairment of goodwill. Adjusted EBITA represents EBITA excluding gains or losses from restructuring costs, acquisition-related charges and other items.

Restructuring costs are defined as the estimated costs of initiated reorganizations, the most significant of which have been approved by the Executive Committee, and which generally involve the realignment of certain parts of the industrial and commercial organization.

Acquisition-related charges are defined as costs that are directly triggered by the acquisition of a company, such as transaction costs, purchase accounting related costs and integration-related expenses.

Other items are defined as any individual item with an income statement impact (loss or gain) that is deemed by management to be both significant and incidental to normal business activity. Other items may extend over several quarters and are not limited to the same financial year.

Philips considers the use of Adjusted EBITA appropriate as Philips uses it as a measure of segment performance and as one of its strategic drivers to increase

profitability through re-allocation of its resources towards opportunities offering more consistent and higher returns. This is done with the aim of making the underlying performance of the businesses more transparent.

Philips believes Adjusted EBITA is useful to evaluate financial performance on a comparable basis over time by factoring out restructuring costs, acquisition-related charges and other incidental items which are not directly related to the operational performance of Philips Group or its segments.

Adjusted EBITA may be subject to limitations as an analytical tool for investors, as it excludes restructuring costs, acquisition-related charges and other incidental items and therefore does not reflect the expense associated with such items, which may be significant and have a significant effect on Philips' net income.

Adjusted EBITA margin refers to Adjusted EBITA divided by sales expressed as a percentage.

Adjusted EBITA is not a recognized measure of financial performance under IFRS. The reconciliation of Adjusted EBITA to the most directly comparable IFRS measure, Net income, for the years indicated is included in the table below. Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis, resulting in them being shown on a Philips Group level only.

Philips Group

Reconciliation of Net income to Adjusted EBITA in millions of EUR unless otherwise stated

2016 - 2018

	Philips Group	Diagnosis & Treatment	Connected Care & Health Informatics	Personal Health	Other
2018					
Net Income	1,097				
Discontinued operations, net of income taxes	213				
Income tax expense	193				
Investments in associates, net of income taxes	2				
Financial expenses	264				
Financial income	(51)				
Income from operations	1,719	600	179	1,045	(105)
Amortization of intangible assets	347	97	46	126	79
EBITA	2,066	696	225	1,171	(27)
Restructuring and acquisition-related charges	258	142	59	26	31
Other items	41	-	56	18	(33)
Adjusted EBITA	2,366	838	341	1,215	(28)
2017					
Net Income	1,870				
Discontinued operations, net of income taxes	(843)				
Income tax expense	349				
Investments in associates, net of income taxes	4				
Financial expenses	263				
Financial income	(126)				
Income from operations	1,517	488	206	1,075	(252)
Amortization of intangible assets	260	55	44	135	26
Impairment of goodwill	9				9
EBITA	1,787	543	250	1,211	(217)
Restructuring and acquisition-related charges	316	151	91	11	64
Other items	50	22	31		(3)
Adjusted EBITA	2,153	716	372	1,221	(157)
2016					
Net Income	1,491				
Discontinued operations, net of income taxes	(660)				
Income tax expense	203				
Investments in associates, net of income taxes	(11)				
Financial expenses	507				
Financial income	(65)				
Income from operations	1,464	546	275	953	(310)
Amortization of intangible assets	242	48	46	139	9
Impairment of goodwill	1		1		
EBITA	1,707	594	322	1,092	(301)
Restructuring and acquisition-related charges	94	37	14	16	27
Other items	120		(12)		132
Adjusted EBITA	1,921	631	324	1,108	(142)

Adjusted income from continuing operations attributable to shareholders

The term Adjusted income from continuing operations attributable to shareholders represents income from continuing operations less continuing operations non-controlling interests, amortization and impairment of acquired intangible assets, impairment of goodwill, excluding gains or losses from restructuring costs and acquisition-related charges, other items, adjustments to net finance expenses, adjustments to investments in associates and the tax impact of the adjusted items. Shareholders refers to shareholders of Koninklijke Philips N.V.

Restructuring costs, acquisition-related charges and other items are all defined in the Adjusted EBITA section above.

Net finance expenses are defined as either the financial income or expense component of an individual item already identified to be excluded as part of the Adjusted income from continuing operations, or a financial income or expense component with an income statement impact (gain or loss) that is deemed by management to be both significant and incidental to normal business activity.

The Tax impact of the adjusted items is calculated using the Weighted Average Statutory Tax Rate plus any recurring tax costs or benefits.

Philips considers the use of Adjusted income from continuing operations attributable to shareholders appropriate as Philips uses it as the basis for the Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted, a non-IFRS measure.

Adjusted income from continuing operations attributable to shareholders may be subject to limitations as an analytical tool for investors, as it excludes certain items and therefore does not reflect the expense associated with such items, which may be significant and have a significant effect on Philips' net

income. Net income, for the years indicated is included in the table below. Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis, resulting in them being shown on a Philips Group level only.

Adjusted income from continuing operations attributable to shareholders is not a recognized measure of financial performance under IFRS. The reconciliation of Adjusted income from continuing operations attributable to shareholders to the most directly comparable IFRS measure, Net income, for the years indicated is included in the table below.

Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted

Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted is calculated by dividing the Adjusted income from continuing operations attributable to shareholders by the diluted weighted average number of shares (after deduction of treasury shares) outstanding during the period, as defined in [Significant accounting policies, starting on page 0](#), earnings per share section.

Philips considers the use of Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted appropriate as it is a measure that is useful when comparing its performance to other companies in the HealthTech industry. However, it may be subject to limitations as an analytical tool for investors, as it uses Adjusted income from continuing operations attributable to shareholders which has certain items excluded.

Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted is not a recognized measure of financial performance under IFRS. The most directly comparable IFRS measure, income from continuing operations attributable to shareholders per common share (in EUR) - diluted for the years indicated, is included in the table below.

Philips Group

Adjusted income from continuing operations attributable to shareholders¹⁾ in millions of EUR unless otherwise stated
2016-2018

	2016	2017	2018
Net income	1,491	1,870	1,097
Less: Discontinued operations, net of income taxes	(660)	(843)	213
Income from continuing operations	831	1,028	1,310
Less: Continuing operations Non-controlling interest	(4)	(11)	(7)
Income from continuing operations attributable to shareholders	827	1,017	1,303
Adjustments for:			
Amortization of acquired intangible assets	242	260	347
Impairment of goodwill	1	9	
Restructuring costs and acquisition-related charges	94	316	258
Other items	120	50	41
Net finance expenses	94		57
Tax impact of adjusted items	(225)	(194)	(365)
Adjusted income from continuing operations attributable to shareholders²⁾	1,153	1,459	1,643
Earnings per common share:			
Income from continuing operations attributable to shareholders per common share - diluted	0.89	1.08	1.39
Adjusted income from continuing operations attributable to shareholders ¹⁾ per common share - diluted	1.24	1.54	1.76

¹⁾ Shareholders refers to shareholders of Koninklijke Philips N.V.

Adjusted EBITDA

Adjusted EBITDA is defined as Income from operations excluding amortization and impairment of intangible assets, impairment of goodwill, depreciation and impairment of property, plant and equipment, restructuring costs, acquisition-related charges and other items.

Philips understands that Adjusted EBITDA is broadly used by analysts, rating agencies and investors in their evaluation of different companies because it excludes certain items that can vary widely across different industries or among companies within the same industry. Philips considers Adjusted EBITDA useful when comparing its performance to other companies in the HealthTech industry. However, Adjusted EBITDA may be subject to limitations as an analytical tool because of the range of items excluded and their significance in a given reporting period. Furthermore, comparisons with other companies may be complicated due to the absence of a standardized meaning and calculation framework. Our management compensates for the limitations of using Adjusted EBITDA by using

this measure to supplement IFRS results to provide a more complete understanding of the factors and trends affecting the business rather than IFRS results alone. In addition to the limitations noted above, Adjusted EBITDA excludes items that may be recurring in nature and should not be disregarded in the evaluation of performance. However, we believe it is useful to exclude such items to provide a supplemental analysis of current results and trends compared to other periods. This is because certain excluded items can vary significantly depending on specific underlying transactions or events. Also, the variability of such items may not relate specifically to ongoing operating results or trends and certain excluded items, while potentially recurring in future periods and may not be indicative of future results. A reconciliation from net income to Adjusted EBITDA is provided below. Net income, for the years indicated is included in the table below. Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis, resulting in them being shown on a Philips Group level only.

Philips Group
Reconciliation of Net income to Adjusted EBITDA in millions of EUR
 2016 – 2018

	Philips Group	Diagnosis & Treatment	Connected Care & Health Informatics	Personal Health	Other
2018					
Net Income	1,097				
Discontinued operations, net of income taxes	213				
Income tax expense	193				
Investments in associates, net of income taxes	2				
Financial expenses	264				
Financial income	(51)				
Income from operations	1,719	600	179	1,045	(105)
Depreciation, amortization and impairment of assets	1,089	302	176	367	244
Restructuring and acquisition-related charges	258	142	59	26	31
Other items	41	-	56	18	(33)
Adding back impairment of fixed assets included in restructuring and acquisition-related changes and other items	(15)	(7)	(9)	-	1
Adjusted EBITDA	3,093	1,036	462	1,456	139
2017					
Net Income	1,870				
Discontinued operations, net of income taxes	(843)				
Income tax expense	349				
Investments in associates, net of income taxes	4				
Financial expenses	263				
Financial income	(126)				
Income from operations	1,517	488	206	1,075	(252)
Depreciation, amortization and impairment of assets	1,025	267	208	371	179
Impairment of goodwill	9				9
Restructuring and acquisition-related charges	316	151	91	11	64
Other items	50	22	31		(3)
Adding back impairment of fixed assets included in restructuring and acquisition-related changes and other items	(86)	(44)	(34)	(1)	(7)
Adjusted EBITDA	2,832	884	502	1,456	(11)
2016					
Net Income	1,491				
Discontinued operations, net of income taxes	(660)				
Income tax expense	203				
Investments in associates, net of income taxes	(11)				
Financial expenses	507				
Financial income	(65)				
Income from operations	1,464	546	275	953	(310)
Depreciation, amortization and impairment of assets	976	229	184	385	178
Impairment of goodwill	1		1		
Restructuring and acquisition-related charges	94	37	14	16	27
Other items	120		(12)		132
Adding back impairment of fixed assets included in restructuring and acquisition-related changes and other items	(42)	(4)	(4)	(0)	(34)
Adjusted EBITDA	2,613	808	458	1,353	(7)

Free cash flow

Free cash flow is defined as net cash flows from operating activities minus net capital expenditures. Net capital expenditures are comprised of the purchase of intangible assets, expenditures on development assets, capital expenditures on property, plant and equipment and proceeds from sales of property, plant and equipment.

Philips discloses free cash flow as a supplemental non-IFRS financial measure, as Philips believes it is a meaningful measure to evaluate the performance of its business activities over time. Philips understands that free cash flow is broadly used by analysts, rating agencies and investors in assessing its performance. Philips also believes that the presentation of free cash flow provides useful information to investors regarding the cash generated by the Philips operations after deducting cash outflows for purchases of intangible assets, capitalization of product development, expenditures on development assets, capital expenditures on property, plant and equipment and proceeds from disposal of property, plant and equipment. Therefore, the measure gives an indication of the long-term cash generating ability of the business. In addition, because free cash flow is not impacted by purchases or sales of businesses and investments, it is generally less volatile than the total of net cash provided by (used for) operating activities and net cash provided by (used for) investing activities.

Free cash flow may be subject to limitations as an analytical tool for investors, as free cash flow is not a measure of cash generated by operations available exclusively for discretionary expenditures and Philips requires funds in addition to those required for capital expenditures for a wide variety of non-discretionary expenditures, such as payments on outstanding debt, dividend payments or other investing and financing activities. In addition, free cash flow does not reflect cash payments that may be required in future for costs already incurred, such as restructuring costs.

Philips Group
Composition of free cash flow in millions of EUR
 2016 - 2018

	2016	2017	2018
Net cash flows from operating activities	1,170	1,870	1,780
Net capital expenditures:	(741)	(685)	(796)
<i>Purchase of intangible assets</i>	(95)	(106)	(123)
<i>Expenditures on development assets</i>	(301)	(333)	(298)
<i>Capital expenditures on property, plant and equipment</i>	(360)	(420)	(422)
<i>Proceeds from disposals of property, plant and equipment</i>	15	175	46
Free cash flow	429	1,185	984

Net debt : group equity ratio

Net debt : group equity ratio is presented to express the financial strength of Philips. Net debt is defined as the sum of long- and short-term debt minus cash and cash equivalents. Group equity is defined as the sum of shareholders' equity and non-controlling interests. This measure is used by Philips Treasury management and investment analysts to evaluate financial strength and funding requirements. This measure may be subject to limitations because cash and cash equivalents are used for various purposes, not only debt repayment. The net debt calculation deducts all cash and cash equivalents whereas these items are not necessarily available exclusively for debt repayment at any given time.

Philips Group
Composition of net debt to group equity in millions of EUR unless otherwise stated
 2016 - 2018

	2016	2017	2018
Long-term debt	4,021	4,044	3,427
Short-term debt	1,585	672	1,394
Total debt	5,606	4,715	4,821
Cash and cash equivalents	2,334	1,939	1,688
Net debt	3,272	2,776	3,132
Shareholders' equity	12,546	11,999	12,088
Non-controlling interests	907	24	29
Group equity	13,453	12,023	12,117
Net debt to group equity ratio	20:80	19:81	21:79

Comparable order intake

Comparable order intake is reported for equipment and software and is defined as the total contractually committed amount to be delivered within a specified timeframe excluding the effects of currency movements and changes in consolidation. Comparable order intake does not derive from the financial statements and thus a quantitative reconciliation is not provided.

Philips uses comparable order intake as an indicator of business activity and performance. Comparable order intake is not an alternative to revenue and may be subject to limitations as an analytical tool due to differences in amount and timing between booking orders and revenue recognition. Due to divergence in practice, other companies may calculate this or a similar measure (such as order backlog) differently and therefore comparisons between companies may be complicated.

4.2 Five-year overview

Philips Group
Other financial data in millions of EUR unless otherwise stated
 2014-2018

	2014	2015	2016	2017	2018
Nominal sales growth	(2)%	16%	4%	2%	2%
Comparable sales growth ¹⁾	0%	4%	5%	4%	5%
Free cash flow ¹⁾	555	(154)	429	1,185	984
PPE - Capital expenditure for the year	528	575	575	551	546
Adjusted EBITA ¹⁾	1,458	1,688	1,921	2,153	2,366
as a % of sales	10.0%	10.0%	11.0%	12.1%	13.1%
Adjusted income from continuing operations attributable to KPNV shareholders ^{1) 2)}	1,178	1,000	1,153	1,459	1,643
Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted ^{1) 2)}	1.28	1.08	1.24	1.54	1.76
Cash and cash equivalents	1,873	1,766	2,334	1,939	1,688
Net debt: group equity ratio ¹⁾	17:83	25:75	20:80	19:81	21:79
Market capitalization at year-end	22,082	21,607	26,751	29,212	28,276

¹⁾ Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to [Reconciliation of non-IFRS information, starting on page 32](#).

²⁾ Shareholders refers to shareholders of Koninklijke Philips N.V.

Five-year overview (condensed)

Philips Group
Sustainability
 2014-2018

	2014	2015	2016	2017	2018
Lives improved, in billions (including Signify)	1.93	2.02	2.13	2.22	2.24
Green Revenues, as a % of total sales		56%	58%	60%	64%
Green Innovation, in millions of euros		241	277	233	228
Circular revenue		7%	9%	11%	12%
Operational carbon footprint, in kilotonnes CO ₂ -equivalent	743	757	821	847	766

Due to factors such as acquisitions and divestments, the amounts, percentages and ratios are not directly comparable.

Philips Group
Selected financial data in millions of EUR unless otherwise stated
 2014-2018

	2014	2015	2016	2017	2018
Sales	14,517	16,806	17,422	17,780	18,121
Income from operations	461	658	1,464	1,517	1,719
Financial income and expenses - net	(294)	(359)	(442)	(137)	(213)
Income (loss) from continuing operations	260	160	831	1,028	1,310
Income (loss) from continuing operations attributable to shareholders	264	146	788	814	2
Income (loss) from discontinued operations	148	479	660	843	(213)
Net income (loss)	408	638	1,491	1,870	1,097
Net income (loss) attributable to shareholders	412	624	1,448	1,657	1,090
Total assets	28,317	30,943	32,270	25,315	26,019
Net assets	10,933	11,725	13,435	12,023	12,117
Debt	4,104	5,760	5,606	4,715	4,821
Provisions	4,517	4,243	3,606	2,059	2,151
Shareholders' equity	10,832	11,607	12,546	11,999	12,088
Non-controlling interests	101	118	907	24	29
Weighted average shares outstanding:					
basic	915,193	916,087	918,016	928,798	922,987
diluted	922,714	923,625	928,789	945,132	935,851
Amount of common shares outstanding at year-end	914,389	917,104	922,437	926,192	914,184
Basic earnings per common share:					
Income (loss) from continuing operations attributable to shareholders ¹⁾	0.28	0.17	0.90	1.10	1.41
Net income (loss) attributable to shareholders	0.45	0.70	1.58	1.78	1.18
Diluted earnings per common share:					
Income (loss) from continuing operations attributable to shareholders ¹⁾	0.28	0.17	0.89	1.08	1.39
Net income (loss) attributable to shareholders	0.45	0.70	1.56	1.75	1.16
Dividend distributed per common share	0.80	0.80	0.80	0.80	0.80
Total employees at year-end (FTEs)	113,678	112,959	114,731	73,951	77,400

¹⁾ During 2018, an error was identified in certain non-controlling interests and EPS calculations for 2016 and 2017 respectively. Reference is made to the [Significant accounting policies, starting on page 0](#).

4.3 Forward-looking statements

Pursuant to provisions of the United States Private Securities Litigation Reform Act of 1995, Philips is providing the following cautionary statement.

This document, including the information referred to in the Form 20-F cross reference table, contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items, in particular, among other statements, certain statements in Item 4 "Information on the Company" with regard to management objectives, market trends, market standing, product volumes, business risks, the implementation of our Accelerate! program, the statements in Item 5 "Operating and financial review and prospects" with regards to trends in results of operations, margins overall market trends, risk management, exchange rates, the statements in Item 8 "Financial Information" relating to legal proceedings and goodwill and statements in Item 11 "Quantitative and qualitative disclosure about market risks" relating to risk caused by derivative positions, interest rate fluctuations and other financial exposure are forward-looking in nature. 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, these 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 statements.

These factors include but are not limited to: global economic and business conditions; political instability, including developments within the European Union, with adverse impact on financial markets; the successful implementation of Philips' strategy and the ability to realize the benefits of this strategy; the ability to develop and market new products; changes in legislation; legal claims; changes in currency exchange rates and interest rates; future changes in tax rates and regulations, including trade tariffs; pension costs and actuarial assumptions; changes in raw materials prices; changes in employee costs; the ability to identify and complete successful acquisitions, and to integrate those acquisitions into the business, the ability to successfully exit certain businesses or restructure the 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 disposal by Philips of its remaining interests in Signify (formerly 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, reference is made to the information in Item 3D "Risk Factors".

4.4 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.

CO₂-equivalent

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

Circular economy

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

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.

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 comprises 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, Circularity, 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 segment-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%, by outperforming product-specific eco-requirements or by being awarded with a recognized eco-performance label. Because of different product portfolios, business segments 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: 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, Middle East & Turkey (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

Lean

The basic insight of Lean thinking is that if every person is trained to identify wasted time and effort in their own job and to better work together to improve processes by eliminating such waste, the resulting enterprise will deliver more value at less expense.

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.

Operational carbon footprint

A carbon footprint is the total set of greenhouse gas emissions caused by an organization, event, product or person; usually expressed in kilotonnes CO₂-equivalent. 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.

REACH

Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) is a European Union regulation that addresses the production and use of chemical substances, and their potential impact 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 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. 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.

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. In addition, innovation spend that contributes to Green Products and healthy living at Personal Health is included. Finally, innovation spend at Other that addresses the SDGs 3 and 1 is included.

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 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.

5 Statements

5.1 Sustainability statements

5.1.1 Approach to sustainability reporting

Philips has a long tradition of sustainability reporting, beginning with our first environmental Annual Report published in 1999. This was expanded in 2003, with the launch of our first sustainability Annual Report, 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. This is our 11th annual integrated financial, social and environmental report. For more information, please refer to the [company's website](#).

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 our industry.

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.

Stakeholder overview (non-exhaustive)

	Examples	Processes
Employees	<ul style="list-style-type: none"> – European Works Council – Local Works Councils – Individual employees 	Regular meetings, quarterly Employee Survey, employee development process, quarterly update webinars. For more information refer to Social performance, starting on page 20 Regular mail updates, team meetings, webinars
Customers	<ul style="list-style-type: none"> – Hospitals – Retailers – Consumers 	Joint (research) projects, business development, Lean value chain projects, strategic partnerships, consumer panels, Net Promoter Scores, Philips Customer Care centers, Training centers, social media
Suppliers	<ul style="list-style-type: none"> – Chinese suppliers in the Supplier Development program – Randstad, HP 	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 Supplier indicators, starting on page 58 .
Governments, municipalities, etc.	<ul style="list-style-type: none"> – European Union – Authorities in Indonesia, Singapore 	Topical meetings, research projects, policy and legislative developments, business development Topical meetings, (multi-stakeholder) projects
NGOs	<ul style="list-style-type: none"> – UNICEF, International Red Cross – Friends of the Earth, Greenpeace 	Topical meetings, (multi-stakeholder) projects, joint (research) projects, innovation challenges, renewables projects, social investment program and Philips Foundation
Investors	<ul style="list-style-type: none"> – Mainstream investors – ESG investors 	Webinars, roadshows, capital markets day, Investor relations and Sustainability accounts

Reporting standards

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

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 to 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), Dutch Sustainable Growth Coalition, 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) 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.

Financial Reporting decree (2014/95/EU). We have also included a visualization of our [value creation](#) process.

For the sustainability information included in this 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 and started to measure the impact we are having on society. 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.

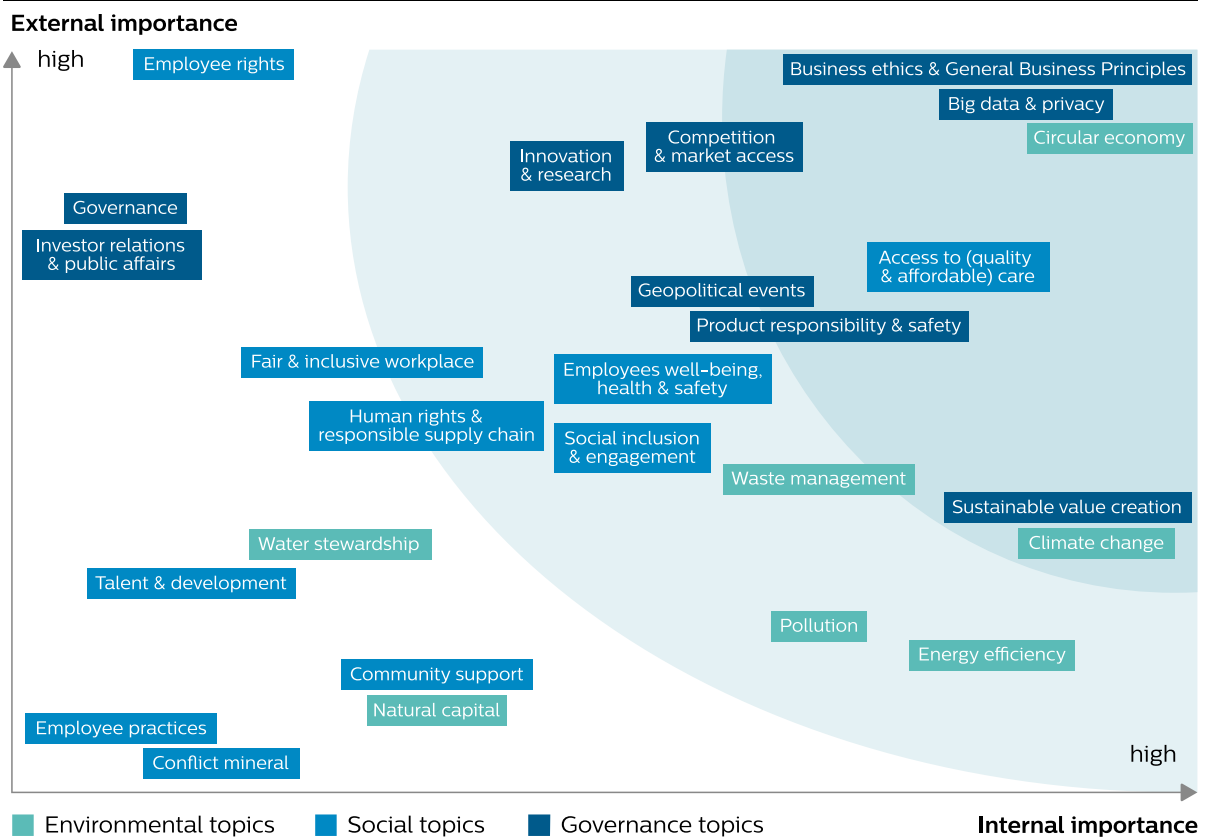
At the World Economic Forum in January 2017 Philips signed the Compact for **Responsive and Responsible Leadership**. The Compact is an initiative to promote and align the long-term sustainability of corporations and the long-term goals of society, with an inclusive approach for all stakeholders.

We also 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”), SDG 12 (“Ensure sustainable consumption and production patterns”) and SDG 13 (“Take urgent action to combat climate change and its impacts”). Please refer to [Stakeholder engagement, starting on page 57](#) for more details.

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.

Philips Group
Materiality matrix
2018



Our materiality assessment is based on an ongoing trend analysis, media search, and stakeholder input. This year’s materiality matrix, developed during Q4 2018, has been built using an evidence-based approach to materiality analysis powered by Datamaran. By applying Datamaran’s automated sifting and analysis of millions of data points from publicly available sources, including, corporate reports, mandatory regulations and voluntary initiatives, as well as news and social media, we identified a list of topics that are material to our business. With this data-driven approach to materiality analysis we have incorporated a wider range of data and stakeholders than was ever possible before and managed to get an evidence-based perspective into regulatory, strategic and reputational risks and opportunities.

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 macro-economic uncertainty increased, and attention for climate change increased, we noted a number of aspects that changed in terms of materiality in the table below (compared to 2017),

Key material topics

Environmental	Reference	Boundaries
– Climate change	Message from the CEO, starting on page 3 Environmental performance, starting on page 25 Environmental statements, starting on page 63	Supply chain, operations, use phase
– Energy efficiency	Green Innovation, starting on page 27 Environmental performance, starting on page 25 Environmental statements, starting on page 63	Supply chain, operations, use phase
– Pollution	Green Innovation, starting on page 27 Environmental performance, starting on page 25 Environmental statements, starting on page 63	Supply chain, operations, use phase
– Circular Economy	Green Innovation Environmental performance, starting on page 25 Supplier indicators, starting on page 58	Supply chain, operations, use phase. disposal
– Waste management	Environmental performance, starting on page 25 Environmental statements, starting on page 63	Supply chain, operations, disposal

Societal	Reference	Boundaries
– Access to (quality & affordable) care	Message from the CEO, starting on page 3 About Diagnosis & Treatment businesses in 2018, starting on page 10 About Connected Care & Health Informatics businesses in 2018, starting on page 11 Social performance, starting on page 20	Use phase
– Social inclusion and engagement	Message from the CEO, starting on page 3 About Diagnosis & Treatment businesses in 2018, starting on page 10 About Connected Care & Health Informatics businesses in 2018, starting on page 11	Supply chain, operations, use phase
– Employee wellbeing, Health & Safety	Message from the CEO, starting on page 3 Health and Safety, starting on page 24 Supplier indicators, starting on page 58	Supply chain, operations
– Human Rights and Responsible Supply Chains	Social performance, starting on page 20 Sustainability statements, starting on page 46	Supply chain, operations
– Fair and Inclusive workplace	Supplier indicators, starting on page 58 Social statements Supplier indicators, starting on page 58	Supply chain, operations

	Reference	
Governance		Boundaries
– Business ethics and General Business Principles	Compliance risks, of the Annual Report 2018 General Business Principles, starting on page 24	Supply chain, operations, use phase
– Product responsibility and safety	About Other, starting on page 15 Sustainability statements, starting on page 46 Compliance risks Sustainability statements, starting on page 46	Supply chain, operations, use phase
– Competition and market access	Social performance, starting on page 20 Our commitment to Quality, Regulatory Compliance and Integrity, starting on page 18	Supply chain, operations, use phase
– Geopolitical events	Compliance risks, of the Annual Report 2018 About Diagnosis & Treatment businesses in 2018, starting on page 10	Supply chain, operations
– Big data and Privacy	Our commitment to Quality, Regulatory Compliance and Integrity, starting on page 18 Operational risks, of the Annual Report 2018 About Personal Health businesses in 2018, starting on page 14	Supply chain, operations, use phase
– Innovation and research	Human Rights, starting on page 24 Strategy and Businesses Strategic risks Human Rights, starting on page 24	Supply chain, operations, use phase, disposal
– Sustainable value creation	Message from the CEO Strategy and Businesses Strategic risks	Supply chain, operations, use phase

	Reference	
Governance		Boundaries
– Business ethics and General Business Principles	Compliance risks, of the Annual Report 2018 General Business Principles, starting on page 24	Supply chain, operations, use phase
– Product responsibility and safety	About Other, starting on page 15 Sustainability statements, starting on page 46 Compliance risks Sustainability statements, starting on page 46	Supply chain, operations, use phase
– Competition and market access	Social performance, starting on page 20 Our commitment to Quality, Regulatory Compliance and Integrity, starting on page 18	Supply chain, operations, use phase
– Geopolitical events	Compliance risks, of the Annual Report 2018 About Diagnosis & Treatment businesses in 2018, starting on page 10	Supply chain, operations
– Big data and Privacy	Our commitment to Quality, Regulatory Compliance and Integrity, starting on page 18 Operational risks, of the Annual Report 2018 About Personal Health businesses in 2018, starting on page 14	Supply chain, operations, use phase
– Innovation and research	Strategy and Businesses Strategic risks	Supply chain, operations, use phase, disposal
– Sustainable value creation	Message from the CEO Strategy and Businesses Strategic risks	Supply chain, operations, use phase

Programs and targets

Philips Group
Sustainability commitments
2018

	baseline year 2015	target 2020	2018 actual
Lives Improved (including Signify)	2.0 billion	2.5 billion	2.24 billion
Circular revenues	7%	15%	12%
Green revenues	56%	70%	64%
Net operational carbon footprint	757 Ktonnes	0 Ktonnes	436 Ktonnes
Operational waste recycling	78%	90%	84%
Hazardous substances emissions	1,419 kilos	50% reduction	1,093 kilos
Total Recordable Case (TRC) rate	0.39	0.29	0.28
Supplier Sustainability	33% RSL compliant	85% RSL compliant	85% RSL compliant
Supplier Sustainability	New development program tested	300 companies in development program	213 companies in development program

With the 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.

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.

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, Environmental Profit and Loss account and Social Impact calculations. The figures reported are Philips' best estimate. As our insight increases, we may enhance the methodology in the future.

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 2018 the emission factor set for consumed electricity was updated to the International Energy Agency (IEA) 2018 v1.00 publications. For our market-based scope 2 calculations in Europe and the US, IEA and eGrid residual-mix emission factors were used as prescribed in the Greenhouse Gas

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 Signify data from the consolidated sustainability data, except for Lives Improved.

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.

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. In 2018, the environmental data of Spectranetics was not included.

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 CO₂e 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 CO₂e 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 CO₂e emissions – is reported on in full, with details of indirect emissions from our industrial and non-industrial sites. CO₂e 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 CO₂e 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 were produced in 2018 and a maximum of 6 months prior in the country of consumption and are retired on behalf Royal Philips.
- Scope 3 – other CO₂e emissions related to activities not owned or controlled by 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 CO₂ emissions have been updated to the DEFRA (UK Department for Environment, Food & Rural Affairs) 2017 and the IEA emission factor set 2016. The total CO₂ 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. CO₂e 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 figures are based on the Employee Survey. 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.

Sustainability governance

Sustainability is strongly embedded in our core business processes, like innovation (EcoDesign), sourcing (Supplier Sustainability Program), manufacturing (Sustainable Operations), 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, our Chief Operating Officer, our Chief Legal Officer and our Chief Human Resources Officer, 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) on a quarterly basis and at least annually in the Executive Committee and Supervisory Board.

External assurance

EY has provided reasonable assurance on whether the information in [Sustainability statements, starting on page 46](#) and [Social performance, starting on page 20](#) and [Environmental performance, starting on page 25](#) presents fairly, in all material respects, the sustainability performance in accordance with the reporting criteria. Please refer to [Assurance report of the independent auditor, starting on page 69](#)

5.1.2 Economic indicators

This section provides summarized information on contributions made on an accruals basis to the most important economic stakeholders as a basis for driving 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
 2016 - 2018

	2016	2017	2018
Suppliers: goods and services	9,484	9,600	9,568
Employees: salaries and wages	4,422	4,856	4,849
Shareholders: distribution from retained earnings	732	742	738
Government: corporate income taxes	203	349	193
Capital providers: net interest	299	182	157

Total purchased goods and services as included in cost of sales amounted to EUR 9.6 billion, representing 53% of total revenues of the Philips Group. Of this amount, approximately 53% was spent with global suppliers, the remainder with local suppliers.

In 2018, salaries and wages totaled EUR 4.8 billion, comparable to 2017. See Income from operations, of the Annual Report 2018 for more information.

Philips' shareholders were given EUR 738 million in the form of a dividend, the cash portion of which amounted to EUR 401 million.

Income taxes amounted to EUR 193 million, compared to EUR 349 million in 2017. The effective income tax rate in 2018 was 12.8%, compared to 25.3% in 2017. This decrease was mainly due to one-time non-cash benefits from tax audit resolutions and business integrations. For more information, see [Income taxes, starting on page 0](#).

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](#).

5.1.3 Social statements

In 2016, Royal Philips launched its next 5-year sustainability program, 'Healthy people, Sustainable planet'. This section provides additional information on (some of) the Social performance parameters reported in [Social performance, starting on page 20](#)

People development

Philips is on a multi-year journey 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. In 2018 we continued taking experimental learning to a new level across our 70:20:10 approach.

At the end of 2018 the number of active trainings had increased to 3,612, and 1,248 new courses were made available by Philips University. By year-end, some 73,807 active users had enrolled for courses with Philips University. In total, some 700,000 hours were spent on training through Philips University in 2018, with 549,959 training completions.

70% Critical career experiences

We 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 continue to fine-tune our Experience Maps, which describe the experiences people can gain to prepare for, or develop in, strategic roles. These maps are a tool for employees and managers to use during development dialogues and for employees to explore when thinking about career steps, to help them understand how to gain the experiences required to be ready for their next career step. By identifying the roles and experiences critical to our business strategy, we clarify development areas and transferable skills in support of cross-functional, lateral, traditional, as well as non-traditional career opportunities.

We have integrated the Experience Maps into our talent development approach, helping our people to plan and manage their careers. We also build awareness of experience-based careers through communications, prioritizing strategic roles and capabilities that directly support 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 2018, all leadership programs in Philips University included a coaching and/or mentoring element. In Shifting Gears (Executive Leadership Program) participants are coached by an executive coach and mentored by an Executive Committee member as part of their application projects. In Leading Adaptively (Senior Leadership Program) participants are coached by an executive coach, as well as a peer coaching group and an accountability partner.

Two other Senior Leadership Programs, Leading Teams and License to Lead, have built coaching and mentoring capability through leaders learning how to do this most effectively and practicing with each other and their teams. In 2019 we will drive the coaching and mentoring culture of our leaders through the following leadership programs:

- Leading Teams
- Leading People
- Leading Adaptively
- Shifting Gears

The Women in Action program will also be introduced, with female leaders becoming and seeking out coaches and mentors within the organization.

10% Learning programs

In 2018, Philips University implemented the envisioned organizational design. By further optimizing the set-up of the organization and the way learning is created and offered at Philips, Philips University continued 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 and supporting processes, we commit to deliver learning solutions that truly impact our people and Philips as a whole. In 2018 we invested in preparing an improved customer experience via a new design of our Learning Management system that will be launched in 2019. We also implemented a full metrics dashboard to enable us to measure the development cost of our learning.

Talent attraction

In 2018 we made over 14,450 new hires, with 23% of those roles filled by internal candidates. Our transformation-driven shift to align focused delivery models and strategies to the hardest-to-fill talent segments generated positive results. For example, we successfully hired over 1,500 R&D and Software Engineering professionals from the external labor market, with 20% identified as coming from 'High Value Target' companies – those known to be best-in-class for the particular skill set.

Continuing the trend from previous years, we continued to strengthen our in-house talent acquisition capabilities at Executive level, delivering a cost saving of EUR 4.4 million in 2018.

We continued to invest in strategic Employer Brand and Recruitment Marketing initiatives, as an enabler of our organizational People strategy and commitment to winning top talent in challenging labor market conditions. In addition to ongoing critical segment marketing campaigns and always-on brand management across key career-related channels, the following initiatives supported enterprise-level progress in 2018:

- **Attraction of female leaders:** A targeted Employer Value Proposition (EVP) and global campaign, Lead Your Way, was launched in five major geographies, supporting our commitment to reach 25% female representation in leadership roles by 2020. The campaign generated over 16,000 career web page views, and advanced over 1,000 senior women profiles into our talent pipelines.
- **Workforce of the Future:** This year we expanded our passive talent attraction focus into the contingent/freelancer segment to help manage workforce demand in today's 'gig economy'. We developed and activated an Assignment Value Proposition (AVP) across target sourcing channels for this population. As a result, Philips' Freelance platform database, an on-demand talent source for project work, grew by 98%.
- **Candidate experience:** Continuously listening to the market and improving the experience we deliver to recruitment candidates remains a priority, as market conditions remain in favor of talent and our brand value continues to be a strategic focus. In 2018 we delivered mandatory 'candidate experience' training for all recruiters, executed a new candidate-centric content marketing strategy, and launched 24 Artificial Intelligence (AI)-driven career websites globally. More than 1.6 million unique talent profiles enjoyed a more personalized Philips career website experience in 2018.

Philips was recognized for its innovative talent practices in winning awards through programs led by Employer Brand Management Association (EBMA), Intermediar Research, In-House Recruitment Awards, Glassdoor.com, Tokyo Labor Bureau, and Randstad.

Employee volunteering

Our mission to improve lives through meaningful innovation is a key attractor for people to join Philips, and we connect our employee efforts directly to our brand promise as a leading health technology company to #Makelifebetter.

In 2018, Philips Foundation and Royal Philips collaborated to launch an employee team-volunteering program to leverage the capabilities of over 74,000 employees towards one global access-to-care goal per year. The Volunteering Program allows Philips employees to spend one paid day per year on

volunteer work and to use their time and expertise to create impact.

To give just a few examples:

- Over 5,000 employees participated in American Heart Association Heart Walks, CPR programs and heart health initiatives.
- On October 18 every Philips office in Africa (Egypt, Morocco, Ghana, Nigeria, Kenya and South Africa) dedicated their time to give back and connect with local communities around childhood pneumonia, visiting hospitals, educating parents, screening children with the CHARM device and training community health workers.
- Nearly 500 employees in the Benelux dedicated their time to successful volunteering initiatives named 'Hartwarmers December' and 'Pro Bono Lab Communication'.
- A total of EUR 150,000 was donated to five NGO impact projects, helping improve over 260,000 lives in vulnerable communities around the world.

In 2019 the Volunteering program will continue employee volunteering and fundraising efforts around the theme of childhood pneumonia, to create measurable and sustainable impact. Childhood pneumonia is the number one cause of childhood mortality globally. Every minute, two children under the age of 5 die from pneumonia. However, pneumonia is a communicable disease that can be easily prevented, diagnosed and treated with the appropriate and affordable commodities.

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.

The Philips Foundation

Philips Foundation is a registered charity established in 2014. The Foundation supports the United Nations 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"). In 2018, Royal Philips supported Philips Foundation with a contribution of EUR 6.7 million, and provided the operating staff as well as the expert assistance of skilled employees in the execution of the Foundation's programs.

Philips Foundation's mission is to reduce healthcare inequality by providing access to quality healthcare for disadvantaged communities. It does this through the provision and application of Philips' healthcare expertise, innovation power, talent and resources and by financial support. Together with key partners around the globe (including respected NGOs such as UNICEF, Amref and ICRC), Philips Foundation seeks to identify challenges where a combination of Philips expertise

and partner experience can be used to create meaningful solutions that have an impact on people's lives.

By the end of 2018, over 150 Philips Foundation projects were in progress or completed throughout the world, engaging employees and connecting with patients and underserved communities on healthcare. A total of 31 new projects were approved in 2018 in local markets worldwide, spanning many phases of the health continuum: from education on healthy living and prevention to diagnosis and treatment. Philips Foundation supported projects with local non-governmental organizations, across 23 countries, working with Philips employees to improve healthcare access and availability for vulnerable communities.

For more information about Philips Foundation, its purpose and scope, as well as its latest annual report, visit the [website](#).

General Business Principles

In 2018, a total of 438 concerns were reported via the Philips Ethics Line and through our network of GBP Compliance Officers, an increase of 14% year-on-year (2017: 382 concerns).

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

When looking at absolute numbers, the increase in reports is reflected in all four regions. North America accounts for 45% of the total number of complaints (2017: 49%), while the concerns reported in Latin America increased to 14% of the total number, compared with 10% in 2017. The number of reports in the Asia-Pacific region (APAC region) and in Europe, Middle East & Africa (EMEA region) remained stable, accounting for 21% and 20% of the total number of complaints respectively in 2018 (2017: 20% and 21%).

Philips Group
Breakdown of reported GBP concerns in number of reports
 2015 – 2018

	2015	2016	2017	2018
Health & Safety	8	9	11	11
Treatment of employees	166	179	211	254
- Collective bargaining	-	-	-	-
- Equal and fair treatment	32	51	59	63
- Employee development	2	12	12	8
- Employee privacy	6	2	1	6
- Employee relations	-	16	32	24
- Respectful treatment	83	62	77	103
- Remuneration	4	5	8	11
- Right to organize	-	-	-	-
- Working hours	1	2	9	12
- HR other	38	29	13	27
Legal	19	27	36	59
Business Integrity	89	97	104	96
Supply management	3	10	6	6
IT	2	8	6	4
Other	8	9	8	8
Total	295	339	382	438

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 2018 there were 254 reports in this

Philips Group
Classification of the new concerns investigated in number of reports
 2016 – 2018

Category	2016		2017		2018	
	substantiated	unsubstantiated	substantiated	unsubstantiated	substantiated	unsubstantiated
Health & Safety	1	1	6	3	3	5
Treatment of employees	45	103	44	126	55	138
Legal	4	13	8	16	16	24
Business Integrity	18	42	28	38	26	32
Supply Management	-	7	-	5	3	2
IT	1	1	2	4	2	1
Other	3	2	3	4	-	5
Total	72	169	91	196	105	207

Substantiated/unsubstantiated concerns

Of the 438 cases reported in 2018, 126 are still pending closure, the majority being those that were filed in the last quarter of the year. The table above 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 312 reports closed in 2018 (288 in 2017), 105 were substantiated, which represents 34% of the total number reported and closed (32% in 2017). This is also shown in the table above. In 2018, 28% of the 'Treatment of employees' cases were substantiated, compared to 26% in 2017 (2016: 31%, 2015: 42%). In addition, 45% of the 'Business Integrity' reports were closed as substantiated in 2017, compared with 42% in 2017 (2016: 30%, 2015: 18%).

category, compared to 211 in 2017. This represents 58% of the total number of concerns, which is again a slight increase on 2017 (55%).

The majority of the concerns reported in the 'Treatment of employees' category relate to 'Respectful treatment' and 'Equal and fair treatment' (41% and 25% respectively). The 'Respectful treatment' sub-category generally relates to concerns about verbal abuse, (sexual) harassment, and hostile work environments. 'Equal and fair treatment' primarily relates to concerns about favoritism, discrimination and unfair treatment in the workplace. In the 'Treatment of employees' category, 56% of cases originated from North America, which is less than in 2017 (64%).

Business integrity

The second most-reported type of concern relates to 'Business Integrity', which accounted for 22% of total cases reported in 2018, down from 27% in 2017. These concerns originated primarily from the APAC region (47%), followed by EMEA (24%), North America (18%) and Latin America (11%).

In addition to the above, 107 concerns that were still open at the end of 2017 were closed during the course of 2018. A total of 28 (26%) of these concerns were substantiated after investigation.

Of the 133 closed concerns that were substantiated, 82 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.

Health and Safety performance

In 2018, we focused on six main areas of Health and Safety (H&S):

Policy, Procedures and Management Systems: Under the Philips H&S policy, 50 Philips Corporate Safety Standards (PCSS) were completed and deployed by

December 2018. These standards provide guidance in a simple, consistent Management System format and specify the minimum H&S performance standards to be upheld wherever Philips operates. In 2018, Philips set itself the goal of certifying 36 manufacturing sites to the new ISO 45001 standard by mid-2019. By December 2018 two sites had been certified and plans were in place to certify the remaining sites.

Compliance: Philips consolidated its compliance tracking process by partnering with external provider ENHESA. This will enable the entire compliance requirements of all Philips H&S activities to be tracked in one tool and it will also allow local stand-alone versions to be retired.

Training: Philips consolidated its H&S training requirements into one tool provided by Underwriters Ltd (UL) that is hosted by the Philips University. This enabled over 450 training packages in 10 different languages to be delivered both online and face to face. These training requirements are linked to the PCSS standards and approved by Philips H&S. This capability will allow local stand-alone versions to be retired.

Structure and Responsibility: The H&S structure to support the operational sites and the Field Service organizations continued to be improved, with additional focus on providing support to the evolving manufacturing footprint. Additional support was provided to several Markets including North America, Latin America, France, Italy, Israel and Greece. As part of this, a program to upskill H&S professionals was implemented to provide better internal development opportunities.

Internal Health and Safety Audit: Philips completed six audits in 2018. Detailed, evidence-based audits are driving greater verification to ensure that robust H&S programs are in place. We have put in place a process to train H&S leaders to become H&S auditors through a program based on external certification and gaining internal experience. This is linked to personal development goals for H&S professionals.

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. In 2018 the Philips BBS program was deployed to a further six factories in China, Europe and the USA, giving a total of 14 sites in 2018 (up from 8 sites in 2017). We increased the number of Behavioral Observations to 1,820, representing a 63% increase on 2017. We believe this program will continue to drive down our workplace injuries and will serve as a key pillar for reaching our goal of a 25% reduction in total injuries by 2020.

Metrics: In 2018 we continued to deploy proactive metrics to support the more traditional reactive metrics (TRC and LWIC) and we completed over 15,314 Safety Gemba Walks and 30,540 Safety Kaizen activities. This

approach was also designed to support cultural change and drive safety in routine management activities.

In 2018, we recorded 198 TRCs (234 in 2017), i.e. cases where the injured employee is unable to work for one or more days, received medical treatment or sustained an industrial illness.

Philips Group
Total recordable cases per 100 FTE
2016-2018

	2016	2017	2018
Personal Health	0.33	0.28	0.19
Diagnosis & Treatment	0.65	0.58	0.55
Connected Care & Health Informatics	0.67	0.60	0.30
Other	0.27	0.29	0.22
Philips Group	0.37	0.36	0.28

Additionally, we recorded 91 Lost Workday Injury Cases (LWICs), i.e. occupational injury cases where the injured person is unable to work for one or more days after the injury. This represents a decrease compared with 113 in 2017. The LWIC rate decreased to 0.13 per 100 FTEs, compared with 0.17 in 2017. The number of Lost Workdays caused by injury increased by 480 days (12%) to 4,650 days in 2018.

Philips Group
Lost workday injuries per 100 FTEs
2014 - 2018

	2014	2015	2016	2017	2018
Personal Health	0.16	0.16	0.15	0.17	0.11
Diagnosis & Treatment	0.27	0.20	0.36	0.27	0.20
Connected Care & Health Informatics	0.18	0.16	0.15	0.15	0.16
Other	0.11	0.13	0.10	0.14	0.11
Philips Group	0.15	0.15	0.16	0.17	0.13

Personal Health businesses

The Personal Health businesses segment showed an improvement in performance in Health and Safety, with 16 LWICs in 2018, compared to 24 in 2017. The LWIC rate decreased from 0.17 in 2017 to 0.11 in 2018. In the Personal Health businesses segment there were 29 recordable cases in 2018 (38 in 2017). This decrease was mainly due to fewer cases in our factories in Asia.

Diagnosis & Treatment businesses

In the Diagnosis & Treatment businesses segment, Health and Safety showed a mixed result in 2018, with 26 LWICs compared to 33 in 2017. The LWIC rate decreased to 0.20 compared to 0.27 in 2017. The total number of recordable cases for the Diagnosis & Treatment businesses segment was 72 (70 in 2017).

Connected Care & Health Informatics businesses

Health and Safety performance in the Connected Care & Health Informatics businesses segment remained fairly stable in 2018: 6 LWICs (5 in 2017). Correspondingly, the LWIC rate increased from 0.15 to 0.16 in 2018. The total number of recordable cases for the Connected Care & Health Informatics businesses segment decreased to 11 in 2018 (20 in 2017), mainly driven by our factories in North America.

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), the International Organization for Public-Private Cooperation committed to improving the state of the world. The Forum engages political, business and other leaders to help shape global, regional and industry agendas. In 2018, Philips was an active contributor to WEF programs on value-based care, non-communicable diseases, Universal Health Coverage and digital identity.

We also supported the acceleration of the [Compact for Responsive and Responsible Leadership](#), by co-hosting the [International Conference on the Dynamics of Inclusive Prosperity](#) with WEF and Erasmus University Rotterdam. This event brought together leaders from the worlds of business, government, NGOs and academia to discuss the transition towards more responsive and responsible leadership.

In addition, our CEO, Frans van Houten, co-chairs the WEF Platform for Accelerating the Circular Economy (PACE) – a collaborative effort between the public and private sectors to scale up the adoption and implementation of circular business models. Philips remains committed to take back all large medical systems equipment that becomes available to us by 2020, and to extend circular practices to all medical equipment by 2025.

Future Health Index

Now in its fourth year, the [Future Health Index \(FHI\)](#) – Philips' flagship research-based platform – continues to explore how countries can overcome global health challenges and build sustainable, fit-for-purpose national health systems. In 2016, the FHI measured perceptions to produce a snapshot of how healthcare is experienced on both sides of the patient-professional divide, while in 2017 it compared these perceptions to the reality of healthcare delivery systems in each country researched.

The 2018 Future health Index builds on the increasing consensus that value-based care is the best model for addressing global healthcare challenges, and explores the main barriers to the large-scale adoption of value-based care to support healthcare system transformation. With the support of key healthcare opinion leaders, three FHI reports were released over the course of the year, addressing how value can be best measured and assessed in a national health system; how data collection and analysis can drive better healthcare outcomes; and how telehealth technologies can enable better health experiences for patients and healthcare professionals.

Working on global issues

Sustainable Development Goals

Our work is aligned with three of the United Nations' Sustainable Development Goals (SDGs) – Health and well-being for all (SDG 3), Sustainable consumption and production (SDG 12), and Climate action (SDG 13), and we have committed to having 95% of our revenue linked to the UN SDGs by 2020. In 2018 we supported a number of important SDG programs including Non-Communicable Diseases, Universal Health Coverage, Sustainable Consumption and Production, and Climate Change.

SDG3

Universal Health Coverage – We published a special report, ['Taking Action'](#), which pulls in key recommendations for the private sector in helping to advance Universal Health Coverage (UHC). During the World Bank Spring Meetings in Washington DC we hosted a [gathering](#) of ministers and key opinion leaders in healthcare to discuss how to transform health systems in emerging markets, scaling successful business models to achieve UHC.

In September, we signed a [memorandum of understanding](#) with the United Nations Population Fund (UNFPA) to jointly develop programs aimed at improving the lives of 50 million women and girls by 2025 in countries where health challenges are most acute. As a first step in the cooperation, developed in close collaboration with the Republic of Congo's Ministry of Health and all relevant stakeholders, Philips intends to implement a large-scale program in the Republic of Congo, aimed at improving the delivery of maternal and newborn healthcare at all levels.

Our CEO, Frans van Houten, co-signed an [open letter](#) on the need for investment in human capital – the knowledge, skills, and health that people accumulate throughout their lives. This coincided with the launch of the [World Bank Group's Human Capital Index](#) – a simple but effective metric for human capital outcomes such as child survival, student learning, and adult health.

Non-Communicable Diseases (NCDs)

The 73rd United Nations General Assembly in September 2018 staged the third High-level Meeting on the prevention and control of NCDs, which reviewed global and national progress in putting measures in place that protect people from dying too young from heart and lung diseases, cancers and diabetes.

We partnered with DEVEX, the Asian Development Bank, the NCD Alliance, Novartis and NovoNordisk in starting an [online conversation](#) to analyze the impact of NCDs in low- and middle-income countries. We discussed with a dozen key opinion leaders and polled feedback from more than 1,200 health professionals to gain insights on early detection and diagnosis as a critical link for [effective NCD management](#). The research recommendations include strengthening capacity in primary care systems, educating and empowering

community-level health workers, and designing and implementing efficient policies and solutions. We discussed the findings of the research as well as how NCDs affect the global agenda to achieve universal health coverage in a [high-level panel discussion](#) in collaboration with DEVEX and the World Economic Forum as a side event to the Sustainable Development Impact Summit.

Health & Healthcare in Europe

With the European Commission's Communication on Artificial Intelligence and the political declaration of willingness for a coordinated AI plan for Europe, Philips and POLITICO organized an expert panel discussion covering the views of the European Commission, hospitals, think tanks and start-ups on the potential of AI to support the digital transformation of healthcare. Additionally, Philips and POLITICO hosted a debate on The Future of Health in Europe with Members of the European Parliament, European policy-makers, medical professionals, patients, and health innovators.

SDG 12

PACE

Our CEO, Frans van Houten, co-chairs the WEF Platform for Accelerating the Circular Economy (PACE) – a collaborative effort between the public and private sectors to scale up the adoption and implementation of circular business models.

SDG 13

Philips has committed to become carbon-neutral in its operations by 2020 and made good progress on this in 2018. The company's Sustainability program and targets were evaluated and [approved by the Science Based Targets initiative](#), making Philips the first health technology company to achieve this.

Improving access to care

Philips continued on its journey towards improving access to care in developing countries, especially in 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. A further two CLCs were opened in South Africa in 2018.

Philips was the first private sector company to provide support to the Sustainable Development Goals 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.

Philips and global healthcare leaders develop innovative resuscitation device to help reduce neonatal mortality

We successfully developed the [Augmented Infant Resuscitator \(AIR\)](#) to help caregivers effectively resuscitate asphyxiated newborn babies. Developed in collaboration with the [Consortium for Affordable Medical Technologies \(CAMTech\)](#) at Massachusetts General Hospital Global Health, the Philips Augmented Infant Resuscitator aims to reduce neonatal mortality, especially in parts of the world that are underserved in terms of healthcare. It is expected to be available in limited volume in selected markets prior to scaling up availability in low- and middle-income countries.

Supplier indicators

Philips' mission to improve people's lives extends throughout our value chain. At Philips, we have a direct business relationship with approximately 4,900 product and component suppliers and 19,000 service providers. Our supply chain sustainability strategy is updated annually through a structured process, combined with dedicated biennial multi-stakeholder dialogs. From this, we have developed multiple programs aimed at driving sustainable improvement. These programs cover compliance with our policies, improvement of our suppliers' sustainability performance, our approach towards responsible sourcing of minerals, and our circular procurement practices.

Supplier sustainability compliance

Two core policy documents form the basis of our supplier sustainability compliance approach: the Supplier Sustainability Declaration and the Regulated Substances List.

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) Code of Conduct, in alignment with the UN Guiding Principles on Business and Human Rights and key international human rights standards including the ILO Declaration on Fundamental Principles and Rights at Work and the UN Universal Declaration of Human Rights. It covers topics such as Labor, Health & Safety, Environment, Ethics, and Management Systems.

Regulated Substances List (RSL)

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

All suppliers are required to commit to the SSD and RSL. Through integration of a Sustainability Agreement (SA) in our General Purchase Agreement, suppliers declare

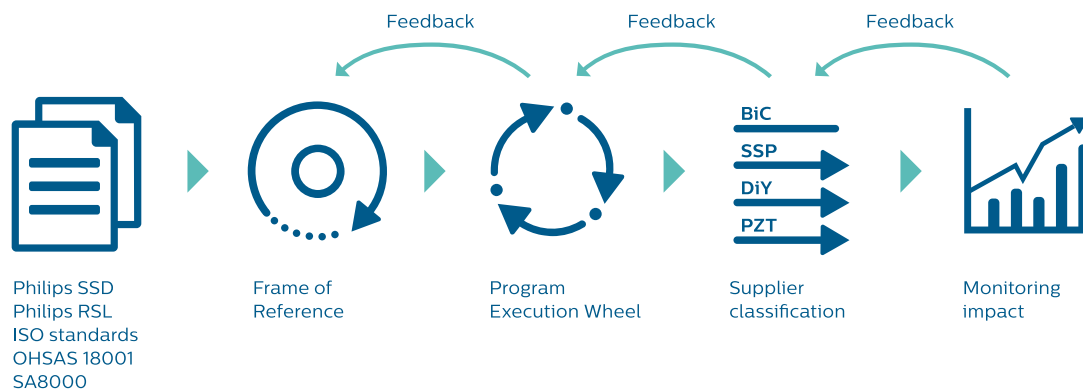
compliance to both the SSD and RSL. Upon request, they provide additional information and evidence.

Supplier Sustainability Performance (SSP) - 'Beyond Auditing'

In 2016, Philips moved away from its traditional approach to audit suppliers, which it had implemented since 2004. Insights from data analysis showed this old approach was insufficient to drive sustainable improvements. Our SSP approach, first piloted in 2016, focuses on:

- a systematic approach to improve the sustainability of our supply chain
- continuous improvement against a set of recognized and global references
- collaboration, increased transparency, clear commitments, and ensuring suppliers meet the agreed targets
- encouraging our suppliers, industry peers and cross-industry peers to adopt our approach

This systematic approach is shown in the figure below and is a high-level representation of the SSP program.



First, a set of references, international standards, and Philips requirements are used to develop the Frame of Reference, which covers management systems, environment, health & safety, business ethics and human capital. For each, the maturity level of suppliers is identified in the Program Execution Wheel, which assesses suppliers against the Plan–Do–Check–Act (PDCA) cycle. Suppliers are then categorized using a Supplier Classification model, which differentiates on the basis of supplier maturity, resulting in supplier-specific proposals for improvement. The SSP process is monitored and adjusted through continuous feedback loops. The outcome of the SSP assessment is a supplier sustainability score ranging from 0 to 100. This score is based on supplier performance in environmental management, health & safety, business ethics, and human capital.

Supplier classification

Four different categories are used to assign those suppliers that are 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 PZT (Potential Zero Tolerance). The PZT status is a temporary status and requires immediate attention and action. Depending on the categorization, suppliers are engaged in different ways to improve their sustainability performance.

If a (Potential) Zero Tolerance is identified, immediate action is taken. If the requested additional information and evidence lead to the conclusion that there is no structural Zero Tolerance, the supplier's 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 is 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

Consistent with previous years, multiple Zero Tolerances have been identified. Based on the results, we concluded that our structural approach, open communication, and focus on collaboration has resulted in increased transparency. Consequently, these Zero Tolerances were also mitigated in a structural manner.

Philips defines six Zero Tolerances:

- Fake or falsified records
- Child and/or forced labor
- Immediate threats to the environment
- Immediate threats to worker health and safety
- Failure to comply with regulatory and/or Philips requirements
- Workers' monthly income (covering salary for regular hours and overtime, tax deductions, social insurance) failing to meet regulatory requirements.

For more details on the SSP process, refer to the [SSP brochure](#).

The impact of the SSP program on supplier performance

Philips measures the impact of the SSP engagement through an improvement metric, which represents the pro rata change in performance from one year to the next. In 2018, the average year-on-year improvement is 25% for suppliers that entered the program in 2016 and 2017. The number of employees impacted at suppliers participating in the SSP program was approximately 240,000.

In 2018, 52 suppliers were added to the SSP program. Out of the population of suppliers that entered the program in 2016 and 2017, 161 suppliers were still active in 2018.

Recognition by the Dutch Crystal Prize

In 2018, Philips received the Dutch 'Crystal Prize', which focused this year on 'Chain Transparency'. Organized by the Dutch Ministry of Economic Affairs in conjunction with the Netherlands Institute of Chartered Accountants (NBA), the award recognizes Philips for openness about its supply chain responsibility, transparency regarding its own impact, its cooperation with other stakeholders, and evidence of supply chain responsibility in its strategy and sustainability programs. 'Philips' approach to Sustainable Supply Chain Management is an inspiring example for others'

Monika Milz, chair of the jury

Recognition by the Sustainable Purchasing Leadership Council (SPLC)

The SPLC presented the 'Leadership Award for Supplier Engagement' to Philips. The SPLC convenes buyers, suppliers, and public interest advocates to develop programs that simplify and standardize sustainable purchasing efforts by large organizations. Every year, the SPLC recognizes global organizations for their leadership in sustainable purchasing. In 2018, it recognized Philips' Supplier Sustainability Performance program has driven exceptional improvements in sustainable performance across the company's value chain. 'The SSP approach focuses on holistic sustainability performance improvement and provides resources and training on setting goals and providing honest and accurate information'

~ Sustainable Purchasing Leadership Council

Additional progress made in 2018

Apart from the inclusion of additional suppliers annually into the award-winning SSP program, Philips is actively working to make the program more efficient and effective by forming a research consortium, together with Eindhoven University of Technology and the Jheronimus Academy of Data Science. The focus of this consortium is on applying the latest insights in data science and machine learning methods in order to make the SSP program more efficient in determining the sustainability maturity of suppliers, while also increasing the effectiveness of our supplier improvement approach.

In addition, Philips has ramped up its cross-industry engagement, advocating further adoption of the SSP approach. The program design enables various codes of conduct to be included. Through public speaking engagements and 1-on-1 conversations with cross-industry peers, Philips is making the methodology available to other companies that want to make a sustainable impact in their supply chain.

Responsible Sourcing of Minerals

The supply chains for minerals are long and complex. Philips does not source minerals directly from mines as there are typically 7+ tiers between end-user companies like Philips and the mines where the minerals are extracted. The extraction of minerals can take place in conflict-affected and high-risk regions, where mining is often informal and unregulated and carried out at artisanal small-scale mines (ASM). These ASMs are vulnerable to exploitation by armed groups and local traders. Within this context, there is an increased risk of severe human rights violations (forced labor, child labor or widespread sexual violence), unsafe working conditions or environmental concerns.

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

Conflict minerals due diligence

Each year, Philips investigates its supply chain to identify smelters of tin, tantalum, tungsten and gold in its supply chain and we have committed to not purchasing raw materials, subassemblies, or supplies 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)). RMI identifies smelters that can demonstrate through an independent third-party audit that the minerals they procure are conflict-free. In 2018, Philips continued to actively direct its supply chain towards these smelters.

The Philips Conflict Minerals due diligence framework, measures and outcomes are described in the Conflict Minerals Report that we file annually to the U.S. Securities and Exchange Commission (SEC). Philips has this report voluntarily audited by an independent third party. The conflict minerals report is also publicly available on Philips' website.

Responsible Sourcing approach of Philips

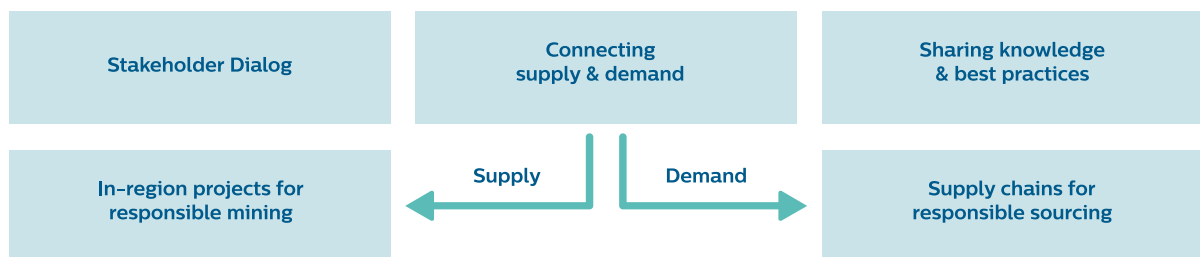
Multi-stakeholder initiatives

Working together with other stakeholders to apply leverage



Due diligence approach

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



Multi-stakeholder initiatives for responsible sourcing of minerals

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

European Partnership for Responsible Minerals (EPRM)

Philips is a founding partner of EPRM and has been a strategic member since its inception in May 2016. EPRM is a multi-stakeholder partnership between governments, companies, and civil society actors working toward more sustainable minerals supply chains. The goal of 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).

EPRM is an accompanying measure to the EU Conflict Minerals Regulation dedicated to making real change 'on the ground'. In 2018, Philips actively participated in a working group that focused on making the on-the-ground projects financially and strategically effective. From here, the call for new proposals was developed, decisions on co-funding were made and criteria for scale-up potential were created. From January 2019 onwards, Philips is also an active board member in EPRM, representing the industrials pillar and serving to advance the organization further.

IRBC Responsible Gold Agreement

In June 2017 Royal Philips signed the **Responsible Gold Agreement**, joining a coalition to work on improving international responsible business conduct across the gold value chain. Signees include goldsmiths, jewelers, recyclers, NGOs, electronics companies, trade unions, and the Dutch government. This partnership intends to bring about cooperation between companies, government, trade unions, and NGOs to prevent abuses within production chains.

From this partnership, Philips co-developed a project with several other parties including civil society actors, to facilitate sourcing of responsible gold from Uganda. The project is aimed specifically at artisanal and small-scale mines (ASM) and works to establish a sustainable, traceable gold supply chain with improved working conditions for miners. The approach is designed to be scaled up and serves as a potential blueprint for mines in other regions.

Responsible Mica Initiative

Mica is commonly used in pearlescent pigments for coatings and cosmetics. In the electronics sector, Mica is also used as an electrical insulator. Mica extraction is characterized by unsafe working conditions and is typically carried out by miners on a low income with a basic level of education. In order to support improvement of the labor conditions at Mica mines, Philips became an associate member of the Responsible Mica Initiative (RMI) in 2016, a cross-sector association that facilitates close collaboration between various stakeholder groups.

In addition, Philips initiated a multi-year program together with Terre des Hommes and several other organizations, aiming to drive systemic change at several Mica mines in India. The program entails a multi-pronged approach to improve the living conditions of Mica miners and their families. The aim of this project is to deliver on-the-ground education and empowerment, while enabling fairer prices and access to the market.

Circular Procurement

At Philips, we consider the transition from a linear to a circular economy to be a necessary condition for a sustainable world. Consequently, our 2020 target is to generate 15% of revenues from circular products that are optimized for parts harvesting, refurbishment, and technical and economic lifetime extension. In our operations, we effectively reduce, recycle and re-use waste as much as possible, and we aim to send zero waste to landfill by 2020.

Procurement plays a leading role in Philips' transition towards a circular economy as it enables our circular design choices to be realized. In addition, it enables buy-back of parts with a high residual value for suppliers. Internally, Philips' office environments increasingly incorporate circularity, facilitating circular business models for suppliers. Examples range from recycled plastics in carpets to pay-per-print copy machines, incentivizing manufacturers to increase ink efficiency and the uptime of their machines.

For more information on our Circular Economy initiatives, please refer to sub-section 13.4.1, Circular Economy, of this Annual Report.

Carbon emissions in our supply chain

Since 2003, Philips has looked at ways to improve the environmental performance of its suppliers. When it comes to climate change, we have adopted a multi-pronged approach: reducing the environmental impacts of our products, committing to carbon neutrality in our own operations, and engaging with our supply chain to reduce their carbon footprint. Through our partnership with the CDP supply chain program, Philips motivates its suppliers to disclose emissions, embed board responsibility on climate change, and actively work on reduction activities.

In 2011 we partnered with the CDP Supply Chain, through which we invite suppliers to disclose their environmental performance and carbon intensity. This year, there was a response rate of 77% (2017: 69%). From this group, 64% committed to carbon emission targets and 80% indicated there is board-level governance in place for climate change (2017: 58%). Our suppliers undertook projects in 2018 that resulted in savings on carbon emissions amounting to 40 million metric tonnes CO₂, of which 4% was attributed specifically to our engagement.

Environmental Footprint China

Philips proactively supports its Chinese suppliers in reducing their environmental footprint whilst at the same time contributing to Philips' sustainability strategy.

Achievements in 2018

- Philips' Supplier Sustainability team provided eight training sessions on the Environment as well as on Health and Safety, which were attended by 177 suppliers
- Through our SSP engagement program, multiple suppliers improved their environmental performance on hazardous waste handling, waste water and air-treatment facilities, and fire-prevention initiatives. On average, the environmental performance of suppliers in the program showed a year-on-year improvement of 17%.
- Philips' Supplier Sustainability team monitored the environmental performance of its 2nd tier suppliers through a database from the Institute of Public & Environmental Affairs (IPE)
- Philips was ranked 19th among 306 brands (20th in 2017, 25th in 2016) on the annual IPE list

5.1.4 Environmental statements

This section provides additional information on (some of) the environmental performance parameters reported in [Environmental performance, starting on page 25](#).

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.

Circular Economy program

The Circular Economy program at Philips ran for the sixth year in 2018. It consists of five strategic pillars:

- Close loops with current products through take-back, refurbishment, and recycling
- Embed circular economy principles in product design and business models
- Collaborate with stakeholders outside Philips
- Activate and train internal employees
- Measure and monitor with proof points and metrics

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 (PACE), launched in Davos in January 2017. This platform gained further momentum throughout 2018 and supported projects covering diverse topics such as plastics, electronics, food and bio-economy, as well as new market 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. Philips made a commitment in January 2018 at the World Economic Forum in Davos 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. Philips has spearheaded the Capital Equipment Coalition, a group of nine front-running large equipment manufacturers with similar ambitions.

Circular Revenues

In 2018 the Circular Revenues KPI deployed the year before was further embedded in the internal target-setting. The Circular Revenues percentage reflects our revenues from validated circular products, services and solutions as a % of total Philips revenues. The validation is based on 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 have the ambition to generate a total of 15% of our revenues from circular propositions by 2020. This is double the rate of 7% baseline achieved in 2015. The result for 2018 is 12%. The main contributing revenue streams are as follows:

Personal Health businesses

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

Diagnosis & Treatment businesses

Our Diamond Select offer of refurbished imaging systems for sale, system upgrades 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 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 2018 Philips put a total of some 257,000 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 these products being collected, re-used or recycled globally. 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 2018 were:

- Trade-in and return for resale as refurbished products and for spare parts harvesting (Diagnosis & Treatment and Connected Care & Health Informatics) some 2,130 tonnes, a decrease compared to 2,400 tonnes in 2017.
- Collective collection and recycling schemes in accordance with the EU Waste Electrical and Electronic Equipment (WEEE) collection schemes. These 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 re-integrated significantly more recycled plastics in new products than the previous year, closing the material loop for some 1,840 tonnes (1,850 tonnes in 2017) of plastics due to regulatory headwinds on the import of recycled materials.

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

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 the development of the Natural Capital Protocol in 2015 and volunteered as a pilot company, we developed our first Environmental Profit and Loss account (EP&L) in 2017. We have updated the EP&L for 2018: please refer to [Environmental performance, starting on page 25](#). As can be derived from the EP&L, the environmental impact of the Philips sites is limited as they are not very energy-intensive and do not emit large quantities of high-impact substances. With our drive to become carbon-neutral in our operations, the impact of our sites will only become less. 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 this program can be found in [Supplier indicators, starting on page 58](#). Furthermore, our focus on Circular Economy will reduce the environmental impact of our supply chain. This impact is most significant during the use-phase of our products, which underlines the importance of our continued focus on energy efficiency improvements in our products and our lobbying efforts for more demanding industry standards, for example via COCIR. We are pleased that our 2020–2040 targets have been approved by the Science Based Targets initiative, confirming that these are in line with the 2 degrees scenario as per the Paris agreement.

Sustainable Operations

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

Philips Group Green operations 2018

	baseline year 2015	target 2020	2018 actual
Total CO ₂ from manufacturing	84 Ktonnes	0 Ktonnes	26 Ktonnes
Water	978,500 m ³	10% reduction	891,000 m ³
Zero waste to landfill	3.2 Ktonnes	0 Ktonnes	1.7 Ktonnes
Operational waste recycling	78%	90%	84%
Hazardous substances emissions	1,419 kilos	50% reduction	1,093 kilos
VOC emissions	169 tonnes	10% reduction	128 tonnes

Energy use in manufacturing

Total energy usage in manufacturing amounted to 3,060 terajoules in 2018, of which Personal Health accounted for about 49% and Diagnosis & Treatment 40%. Energy consumption at Philips level was comparable to 2017. Personal Health energy consumption increased by 3%, mainly driven by increased production volumes at several sites, partly offset by changes in the organization. Diagnosis & Treatment energy consumption decreased by 5% due to organizational changes, and Connected Care & Health Informatics reported 2% higher energy consumption.

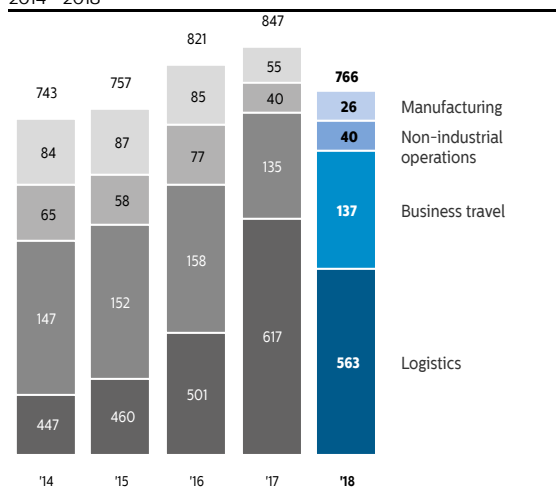
Philips Group Total energy consumption in manufacturing 2014 – 2018

	2014	2015	2016	2017	2018
Personal Health	1,352	1,389	1,436	1,464	1,508
Diagnosis & Treatment	1,202	1,214	1,316	1,298	1,237
Connected Care & Health Informatics	334	336	318	310	315
Philips Group	2,888	2,939	3,070	3,072	3,060

Operational carbon footprint and energy efficiency – 2018 details

Becoming carbon-neutral in our operations by 2020 is one of the key targets, and we have already reduced our operational carbon footprint very significantly during the past years (39% decrease in CO₂ emissions in 2018 compared to our 2007 base year). Our carbon footprint decreased by 10% compared to 2017, resulting in a total of 766 kilotonnes CO₂.

Philips Group
Operational carbon footprint in kilotonnes CO₂-equivalent
2014 - 2018



The 2018 results can be attributed to several factors:

- Accounting for 3% of our total footprint, total CO₂ emissions from manufacturing decreased by 53% due to a significantly higher share of electricity from renewable sources (now at 99.8% in our manufacturing sites).
- CO₂ emissions from non-industrial operations (offices, warehouses, etc.), representing 5% of total emissions, decreased by 2% in 2018 due to implemented energy efficiency projects and a higher share of electricity from renewable sources.
- Total CO₂ emissions related to business travel, accounting for 18% of our carbon footprint, showed an increase of 2% compared to 2017, due to an increase in shorter-distance air travel (<4,000 km), where the emissions per km are higher compared to long-haul air travel (>4,000 km). Combined with increased DEFRA emissions factors for air travel, this led to an overall increase in business travel-related emissions of 2%.
- Overall CO₂ emissions from logistics, representing 73% of the total, decreased by 9% compared to 2017. This was partly driven by a strong decrease in air freight as a result of the air freight reduction program started in 2018. Various measures have been introduced to drive down emissions from air freight, such as multi-modal shipments, a transition from air to ocean freight, a stricter air freight policy, and optimization of our warehouse locations.

Philips Group
Operational carbon footprint for logistics
2014 - 2018

	2014	2015	2016	2017	2018
Air transport	248	309	371	467	384
Road transport	91	65	67	67	70
Ocean transport	108	86	63	83	109
Philips Group	447	460	501	617	563

Carbon emissions in manufacturing

Greenhouse gas emissions from our manufacturing operations totaled 26 kilotonnes CO₂-equivalent in 2018, 53% lower than in 2017. Indirect CO₂ emissions represented 8% of the total, which decreased by 94% due to the increased use of electricity generated from renewable sources. Direct CO₂ emissions were comparable with the previous years. Emissions from other greenhouse gases increased by 2 kilotonnes.

Philips Group
Total carbon emissions in manufacturing in kilotonnes
CO₂-equivalent
2014 - 2018

	2014	2015	2016	2017	2018
Direct CO ₂	20	21	20	20	20
Indirect CO ₂	62	60	62	33	2
Other greenhouse gases	2	3	3	2	4
From glass production					
Philips Group	84	84	85	55	26

Philips Group
Total carbon emissions in manufacturing per segment in kilotonnes
CO₂-equivalent
2014 - 2018

	2014	2015	2016	2017	2018
Personal Health	45	49	59	36	11
Diagnosis & Treatment	31	28	22	16	11
Connected Care & Health Informatics	8	7	4	3	4
Philips Group	84	84	85	55	26

CO₂ emissions in 2018 were 29 kilotonnes CO₂-equivalent lower than in 2017. This was driven by the increased use of electricity generated from renewable sources in all businesses in various regions. At Personal Health, CO₂ emissions decreased due to an increase in the use of electricity generated by renewable sources, but this was partially offset by operational changes. Diagnosis & Treatment decreased its CO₂ emissions due to an increase in use of electricity generated by renewable sources and lower energy consumption. Connected Care & Health Informatics reported comparable CO₂ emissions. In 2018, all our US operations were powered by wind energy. Additionally, our operations in the Netherlands started to receive electricity from the Bouwdokken and Krammer wind farms, clear steps towards our ambition to become carbon-neutral in our operations by 2020.

Taskforce on Climate-related Financial Disclosures (TCFD)

Our 2018 integrated financial, social and environmental report aims to follow the recommendations of the TCFD. More detailed information can be found on the [Sustainability](#) website.

Hazardous substances emissions

In the 'Healthy people, Sustainable planet' program, new chemical-reduction targets have been defined for the most relevant categories of substances for Philips, i.e. hazardous substance emissions and VOC (Volatile Organic Compounds) emissions. As part of the

deployment of the new program, reduction targets at our industrial sites have been agreed.

Philips Group
Hazardous substances emissions
2015 - 2018

	2015	2016	2017	2018
Personal Health	789	642	670	456
Diagnosis & Treatment	604	428	743	636
Connected Care & Health Informatics	26	29	4	1
Philips Group	1,419	1,099	1,417	1,093

In 2018, emissions of hazardous substances decreased by 23%, mainly due to the phasing-out of harmful chemicals and process optimizations at a Diagnosis & Treatment site and a Personal Health site. Changes to manufacturing processes and increased production at multiple sites also had an impact on emissions. Connected Care & Health Informatics sites reduced their emissions.

VOC emissions

Philips Group
VOC emissions in tonnes
2015 - 2018

	2015	2016	2017	2018
Personal Health	138	92	92	83
Diagnosis & Treatment	29	35	48	44
Connected Care & Health Informatics	2	2	2	2
Philips Group	169	129	142	128

VOC emissions decreased by 10% in 2018 to 128 tonnes. VOC emissions in the Personal Health businesses segment (representing 65% of total VOC emissions) decreased 10% compared to 2017, mainly driven by a newly installed chemicals emissions treatment system in China and changes to the lacquering process. These reductions were mitigated by changes in the product

mix and higher volumes. VOC emissions in the Diagnosis & Treatment businesses segment decreased significantly due to changes in the organization mitigated by increased production volumes.

ISO 14001 certification

Most of the Philips manufacturing sites are certified under the umbrella certificates of the businesses. In 2018, 83% of reporting manufacturing sites were certified.

Philips Group
ISO 14001 certifications as a % of all reporting organizations
2014 - 2018

	2014	2015	2016	2017	2018
Philips Group	73	75	78	82	83

Environmental incidents

In 2018, two environmental incidents were reported at two Diagnosis & Treatment sites. These incidents related to leakage or minor spills and were reported to the authorities where required by local legislation. Immediate actions were taken to remediate the effect. Three non-compliances were reported. In Personal Health, one was caused by exceeding the legal noise limits in the surrounding area, while another related to exceeding the limit on metal concentration in discharged wastewater. No fine was issued after the site responded and corrective action was taken. At one Diagnosis & Treatment site, one non-compliance was reported relating to waste water, resulting in a fine of EUR 1,500.

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
2018

Market	Manufacturing sites	Total Recordable Case rate ¹⁾	CO ₂ emitted (tonnes CO ₂)	Total waste			Hazardous substances (kg)	Emission VOC substances (tonnes)
				Waste (tonnes)	Recycled (%)	Water (m ³)		
Africa	-	0.00	-	-	-	-	-	-
ASEAN & Pacific	1	0.04	2,861	2,042	94%	96,691	10	42
Benelux	2	0.11	5,437	5,342	76%	98,925	205	19
Central & Eastern Europe	1	0.00	537	1,135	98%	8,353	33	1
Germany, Austria & Switzerland	3	0.38	3,892	2,696	90%	47,554	545	8
France	-	0.11	-	-	-	-	-	-
Greater China	6	0.07	3,941	4,019	92%	339,058	149	23
Iberia	-	0.90	-	-	-	-	-	-
Indian Subcontinent	3	0.00	187	635	98%	26,317	36	3
Italy, Israel & Greece	3	0.61	1,100	1,136	65%	23,797	0	1
Japan	-	0.13	-	-	-	-	-	-
Latin America	3	0.35	1,077	710	92%	93,494	0	18
Middle East & Turkey	-	0.15	-	-	-	-	-	-
Nordics	-	0.57	-	-	-	-	-	-
North America	16	0.67	6,832	5,974	78%	148,863	26	10
Russia & Central Asia	-	0.00	-	-	-	-	-	-
UK & Ireland	1	0.29	218	797	83%	7,726	89	3

¹⁾ Includes manufacturing and non-manufacturing sites

5.1.5 Assurance report of the independent auditor

To: The Supervisory Board and Shareholders of Koninklijke Philips N.V.

Our opinion

We have audited the sustainability information in the accompanying annual report for the year 2018 of Koninklijke Philips N.V. (the Company) based in Eindhoven, the Netherlands. An audit is aimed at obtaining a reasonable level of assurance.

In our opinion, the sustainability information presents, in all material respects, a reliable and adequate view of:

- The policy and business operations with regard to sustainability
- The thereto related events and achievements for the year 2018

in accordance with the Sustainability Reporting Standards (option Comprehensive) of the Global Reporting Initiative (GRI) and applied supplemental reporting criteria as included in section 'Approach to sustainability reporting' of the annual report.

The sustainability information consists of 'Societal impact' and section 'Sustainability statements', of the annual report.

Basis for our opinion

We have performed our audit on the sustainability information in accordance with Dutch law, including Dutch Standard 3810N, "Assurance-opdrachten inzake maatschappelijke verslagen" (Assurance engagements relating to sustainability reports), which is a specific Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information". Our responsibilities under this standard are further described in the Our responsibilities for the audit of the sustainability information section of our report.

We are independent of Koninklijke Philips N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagement. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting criteria

The sustainability information needs to be read and understood together with the reporting criteria. Koninklijke Philips N.V. is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the sustainability information are the Sustainability Reporting Standards of the GRI and the applied supplemental reporting criteria as disclosed in section 'Approach to sustainability reporting' of the annual report.

Materiality

Based on our professional judgment we determined materiality levels for each relevant part of the sustainability information and for the sustainability information as a whole. When evaluating our materiality levels, we have taken into account quantitative and qualitative considerations as well as the relevance of information for both stakeholders and the Company.

Limitations to the scope of our audit

The sustainability information includes prospective information such as ambitions, strategy, plans, expectations and estimates. Inherent to prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information.

The references to external sources or websites in the sustainability information, excluding "Methodology for calculating Lives Improved", "Methodology for calculating Environmental Profit & Loss Account", and "GRI content index", are not part of the sustainability information as audited by us. We therefore do not provide assurance on this information.

Responsibilities of the Board of Management and the Supervisory Board for the sustainability information

The Board of Management is responsible for the preparation of the sustainability information in accordance with the reporting criteria as included in the section Reporting criteria, including the identification of stakeholders and the definition of material matters. The choices made by the Board of Management regarding the scope of the sustainability information and the reporting policy are summarized in section 'Approach to sustainability reporting' of the annual report.

The Board of Management is also responsible for such internal control as the Board of Management determines is necessary to enable the preparation of the sustainability information that are free from material misstatement, whether due to fraud or errors.

The Supervisory Board is responsible for overseeing the Company's reporting process.

Our responsibilities for the audit of the sustainability information

Our responsibility is to plan and perform the audit in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

We apply the Nadere voorschriften kwaliteitssystemen (NVKS, Regulations for Quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, performed by a multi-disciplinary team, in accordance with the Dutch assurance standards, ethical requirements and independence requirements.

Our audit included amongst others:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues, and the characteristics of the Company
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the Board of Management
- Obtaining an understanding of the systems and processes for collecting, reporting and consolidating the sustainability information, including obtaining an understanding of internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- Identifying and assessing the risks that the sustainability information is misleading or unbalanced, or contains material misstatements, whether due to fraud or errors. Designing and performing further audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that the sustainability information is misleading or unbalanced, or the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. These further audit procedures consisted amongst others of:
 - Interviewing management and relevant staff at corporate and local level responsible for the sustainability strategy, policy and results
 - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information
 - Visits to production sites in China (Suzhou) and Brazil (Varginha) aimed at, on a local level, validating source data and evaluating the design, implementation of controls and validation procedures
 - Obtaining assurance information that the sustainability information reconciles with underlying records of the Company
 - Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the information in the sustainability information
 - Evaluating the suitability and plausibility of the external sources used in the calculations on which the reported Lives improved and Environmental Profit & Loss Account are based
 - Evaluating whether the assumptions used in the calculations, on which the reported Lives improved and Environmental Profit & Loss Account are based, are reasonable
 - Performing an analytical review of the data and trends in the information submitted for consolidation at corporate level
- Reconciling the relevant financial information with the financial statements
- Evaluating the consistency of the sustainability information with the information in the annual report which is not included in the scope of our audit
- Evaluating the overall presentation, structure and content of the sustainability information
- Considering whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant findings, including any significant findings in internal control that we identify during our audit.

Amsterdam, the Netherlands
February 26, 2019

Ernst & Young Accountants LLP

Signed by J. Niewold

/s/ J. Niewold

