



PHILIPS

Annual Report 2019

Sustainability selection

Innovating with purpose

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 2019. The information in this PDF has been derived from the audited financial statements 2019 of Koninklijke Philips N.V. Ernst & Young Accountants has issued unqualified auditors' reports on these financial statements.

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 2019, unless otherwise indicated.

Forward-looking statements

This document contains certain forward-looking statements. By their nature, these statements involve risk and uncertainty. For more information, please refer to Forward-looking statements and other information, of the Annual Report 2019

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 2019, Philips unveiled a unique augmented-reality concept developed with Microsoft Corp. to intuitively control the operating room of the future, giving doctors a holographic dashboard of data that integrates imaging, device and medical information to drive treatment optimization. This solution capitalizes on the advanced, integrated capabilities of Philips' industry-leading Azurion image-guided therapy platform and is being used to gather clinical insights to support a future commercially available product.

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1 Message from the CEO

“Philips continues to make progress to unlock its full potential as a leader in health technology. Our innovations are driving better health outcomes and increased healthcare productivity, while offering a better experience for consumers, patients and healthcare professionals.”

Frans van Houten, CEO Royal Philips

Dear Stakeholder,

In 2019, we continued our transformation as a focused leader in health technology, pursuing our vision of making the world healthier and more sustainable through innovation. I am pleased with the resilience of our businesses as we recorded 4.5% growth while addressing significant headwinds. We made good progress against our strategic imperatives – driving customer centricity and operational excellence, focusing on quality, growing our core businesses, and pivoting to become a solutions company. Our purpose is clear, and so is our firm belief in our potential to grow and create more value, while doing so in a sustainable manner. Reflecting our confidence in the road ahead and the importance we attach to dividend stability, we propose to maintain the dividend at EUR 0.85 per share.

Innovating with purpose

Time and again, customers tell us they like our strategy and the comprehensive view we take of healthcare along the health continuum – delivering innovations for consumer health, precision diagnosis, image-guided therapy, hospital and home care, leveraging informatics and artificial intelligence. They are keen to engage with Philips for innovations that can help them deliver on the Quadruple Aim – better health outcomes, improved patient and staff experience, and lower cost of care. This is reflected in the sustained growth in the number of long-term strategic partnerships we have signed, e.g. with Inspira Health (USA) and Klinikum Stuttgart (Germany), with solutions and recurring revenues now accounting for over one third of total revenues. There is also substantial interest in how we can contribute to care outside the hospital setting – through solutions that support healthy living, prevention and home care.

Aging populations and the growing incidence of chronic disease, coupled with resource constraints, are necessitating a shift from a volume-based approach towards value-based healthcare models, including care outside of the hospital. I firmly believe that innovative health technology – a growing market with scope for margin expansion, in which Philips has strong positions – will help address these challenges, providing better

outcomes and productivity gains, as well as extending access to care to those in need.

Our goal of improving the lives of 3 billion people a year by 2030, including 400 million in underserved healthcare communities, infuses our innovation drive with true purpose, as we strive to make the world healthier and more sustainable, in line with UN Sustainable Development Goals 3 (*Ensure healthy lives and promote well-being for all at all ages*), 12 (*Ensure sustainable consumption and production patterns*) and 13 (*Take urgent action to combat climate change and its impacts*).

Innovating with purpose in mind helps us to create more value for our customers and society – by developing truly relevant solutions. Helping people to stay healthy and prevent disease. Giving clinicians the AI-assisted tools to make precision diagnoses and deliver personalized, minimally invasive treatment. Orchestrating and delivering care outside the hospital, in lower-cost care settings. Helping people to recover, or live with chronic disease, at home in the community. All supported by a seamless flow of data enabled by connected care and health informatics solutions.

Increasingly, AI will enhance the quality and efficiency of care, providing clinical decision support, helping clinical staff to spot emerging risks, and freeing up valuable time for healthcare professionals to focus on their patients. We work with clinical partners around the world to develop AI-enabled solutions, like our IntelliSpace AI Workflow Suite, that are secure, firmly grounded in scientific research, and rigorously validated in clinical practice.

In the consumer domain too, connected personal health solutions like our Philips Sonicare Teledentistry service help people to manage their health with actionable insights, coaching, and where needed, support from care professionals.

Determined to deliver the full benefits of data-enabled care, we have significantly stepped up our activities in informatics and data science in recent years. Today, around one in two Philips R&D professionals is active in these fields, and most of our acquisitions since 2015 have been designed to strengthen our informatics capabilities.

As a purpose-led innovation company, we have made sustainability a cornerstone of the way we do business, as recognized once again in the global 2019 Dow Jones Sustainability Indices (DJSI) list. Increasingly, our customers ask us to help them tackle their sustainability challenges; we believe that, more and more, this will become a competitive differentiator. In 2019, we took another step closer to becoming carbon-neutral in our own operations by the end of 2020, with both our US and Dutch facilities now 100%-powered by renewable energy. We also issued our first Green Innovation Bond under the Philips Green & Sustainability Innovation Bond Framework developed together with Rabobank; the proceeds will be used to help finance our expenditures on green innovation, the transition to the circular economy with zero waste to landfill, and becoming carbon-neutral in our operations.

How we performed in 2019

Our financial performance in 2019 was robust, despite a profitability improvement that was below our plan. Comparable sales growth^{*)} was well within our target bandwidth, driven by innovative products and solutions across our businesses and strong revenue increases in our growth geographies. Profitability improved, though well short of the 100 basis points of the past three years, impacted by tariff headwinds, the underperformance of Connected Care, a decline in license income, and investments in growth. We ended the year with a comparable order intake^{*)} that grew a further 3%, on the back of strong 10% growth in 2018, and delivered a free cash flow^{*)} of over EUR 1 billion. Last but not least, our share price rose 41% in the course of 2019 to a 19-year high, outpacing many of our key peers and reflecting investor confidence in our strategy and portfolio of innovative health technology solutions.

Our Diagnosis & Treatment businesses performed well, with improved revenue and earnings, supported by a strong flow of innovations designed to help clinicians deliver a precision diagnosis and targeted therapies. In Diagnostic Imaging we finalized the revamp of our CT and MR portfolios, including the introduction of an industry-first 'Tube for Life' guarantee with our Incisive CT imaging platform. In Image-Guided Therapy, 2019 saw the landmark one-millionth procedure performed with our Azurion platform. And we continued to add depth and reach to the Azurion success story, with the launch of innovations like FlexArm, for optimal visualization across the whole patient, IntraSight for seamless integration of our smart catheters in the platform, and regulatory clearance to launch Azurion in China. We are particularly pleased by the continued strong performance of our smart catheter portfolio. We also have high expectations of innovations in the areas of precision diagnosis solutions and enterprise

diagnostic informatics, the latter strengthened by the recent acquisition of Carestream Health's Healthcare Information Systems business.

Our Connected Care businesses had a challenging year, even as we retained market share. The businesses posted modest growth, though profitability decreased. The fundamentals remain solid – our Connected Care businesses have leading market positions and good scope for margin expansion. We have taken decisive actions and expect these to gradually become visible in performance in the course of 2020. In January 2020, I appointed Roy Jakobs as the new leader of the Connected Care businesses to further drive the turnaround. Several new innovations – such as the next-generation IntelliVue MX750 and MX850 patient monitors, our expanded SmartSleep solutions, the latest iteration of our IntelliSpace Enterprise Edition healthcare informatics platform, and our HealthSuite digital ecosystem – will support accelerated growth, while stronger execution will help improve value creation.

Personal Health rebounded well from a slower 2018 with higher revenue and earnings, driven largely by the performance of our Oral Healthcare and Personal Care businesses on the back of portfolio extension and increased market penetration. We are now reviewing options for future ownership of the Domestic Appliances business. Our Personal Health businesses that are focused on oral care, personal care and mother & child care will therefore continue to play an important role in our health continuum approach, through connected products and services that support people's health and well-being.

Transforming to win

In the face of considerable geopolitical and macroeconomic uncertainty, with strong tariff headwinds, we continue to look first and foremost to improve operational excellence. We remain firmly focused on meeting our customers' needs, while at the same time taking action to innovate compelling solutions, improve the supply chain and boost productivity.

As we step up our transformation, we continue to be guided by our three-pronged strategic roadmap: *Better serve customers and improve quality; Boost growth in core business; Win with solutions along the health continuum.* We are making steady progress on our commitment to quality and operational excellence, as demonstrated by improving quality indicators, customer Net Promoter Scores and lower waste. The standardization and digitalization of internal processes, leveraging the Philips Integrated IT landscape, is leading to higher productivity and agility. Our continued focus on boosting growth in the core has delivered market share expansion in the Diagnosis & Treatment segment in particular. Revenues from solutions, long-term contracts and service business models – including new business models, such as software-as-a-service, pay-per-user and technology managed services – now stand at over one third of sales.

Acquisitions have played an important role complementing our organic growth, and we are pleased with the performance of most of these, for example in the area of Image Guided Therapy, where we are now able to ‘innovate the procedure’ with solutions consisting of combinations of systems, smart devices, software and services, as opposed to being restricted to capital equipment only. With the planned divestiture of the Domestic Appliances business, we are completing the strategic pivot to a health technology-focused portfolio. Domestic Appliances is a strong business that has made a good contribution to Philips, but is not a strategic fit for our future as a health technology leader.

To get the best out of our people and make sure our organization is set up to deliver for our customers and realize our vision, we overhauled our operating model – the Philips Business System (PBS) – in 2019. The renewed PBS touches every aspect of our business and will make Philips a simpler, faster, customer-focused solutions company – a learning organization that aspires to the highest standards of quality in everything we do. Driving a customer-focused culture, where people take ownership and collaborate to deliver with quality, speed and agility, embracing Lean and continuous improvement, is an essential ingredient of the PBS.

Outlook 2020 and beyond

Looking ahead at 2020, we continue to see geopolitical and economic risks. We aim for 4-6% comparable sales growth^{*)} and an Adjusted EBITA^{*)} margin improvement of around 100 basis points, with a performance momentum that is expected to improve in the course of the year. During 2020 we will issue guidance for the next medium-term period, when we expect to continue to gradually step up growth and expand margins and cash generation as we execute our strategy.

In conclusion

I wish to thank our customers, shareholders and other stakeholders for the support they continue to give to Philips. I would also like to thank our employees for their engagement, perseverance and hard work over the past year.

Energized by our purpose, I remain confident in our ability to perform while we transform – delivering innovative, sustainable solutions that meet the needs of our customers and consumers, at the same time laying a rock-solid foundation for an even brighter future as a leader in health technology.

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 33](#).

2 Strategy and Businesses

2.1 Innovating with purpose

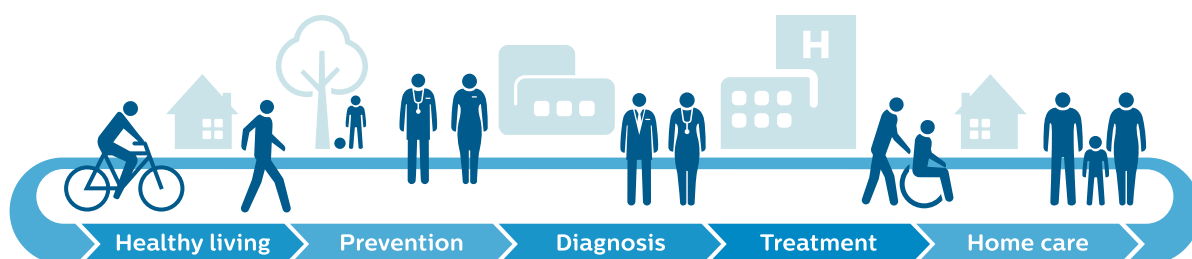
As a company striving for leadership in health technology, we believe that innovation can improve people's health and healthcare outcomes, as well as making care more accessible and affordable. At Philips, it is our goal to improve the lives of 3 billion people a year by 2030, including 400 million in underserved healthcare communities. Guided by our vision of making the world healthier and more sustainable through innovation, it is our strategy to lead with innovative solutions in key markets along the health continuum – helping our customers deliver on the Quadruple Aim (better health outcomes, a better experience for patients and staff, lower cost of care) and helping people take better care of their health at every stage of life.

We seek to act responsibly and sustainably, leveraging our resources to maximize value creation for all stakeholders. Reflecting our commitment to UN Sustainable Development Goals 3 (*Ensure healthy lives and promote well-being for all at all ages*), 12 (*Ensure sustainable consumption and production patterns*) and 13 (*Take urgent action to combat climate change and its impacts*), we continue to embed sustainability deeper in the way we do business, with specific focus on access to care, circular economy and climate action.

How we see healthcare

We visualize healthcare as a continuum, since it puts people at the center and builds on the notion of care pathways. Believing that healthcare should be seamless, efficient and effective, we 'join up the dots' for our customers and consumers, supporting the flow of data needed to care for people in real time, wherever they are. Data and informatics will play an ever-increasing role in helping people to live healthily and cope with disease, and in enabling care providers to meet people's needs, deliver better outcomes and improve productivity.

We see 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 improving the delivery of care across the health continuum – optimizing workflows, enhancing capacity utilization and leveraging primary and secondary prevention and population health management programs.



Addressing our customers' healthcare challenges

For consumers, we develop connected solutions that support healthier lifestyles, prevent or treat disease, and help people to live well with chronic illness, also in the home and community settings. As well as leveraging retail trade models, we will increasingly deliver products and services direct to consumers, supporting longer-term relationships to maximize the benefit consumers can derive from our solutions.

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 – packaged combinations of systems, smart devices, software and services, as well as consumables – that help our customers to deliver on the Quadruple Aim of value-based care.

More and more, we are partnering with our customers in new business models, no longer selling products in a transactional manner but engaging in long-term strategic partnerships, where we take co-responsibility for our customers' key performance indicators. The combination of compelling solutions and consultative partnership contracts, including services, drives above-group-average growth rates, as well as a higher proportion of recurring revenues. We are embedding AI and data science in our propositions to unlock the value of data in the operational and clinical aspects of care processes.

With our global reach, deep clinical and technological 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, and spanning the health continuum, our connected care 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.

Our key strategic imperatives and value creation objectives

Our transformation into a focused leader in health technology – shifting from products to solutions and building long-term relationships with our customers – is absolutely critical for Philips’ future. Our strategic roadmap is our guide on this multi-year journey.



Over the last four years, our strategic roadmap has proven itself through the customers we have gained and the significant value we have created.

Looking ahead at 2020, we continue to see geopolitical and economic risks. We aim for 4-6% comparable sales growth^{*)} and an Adjusted EBITA^{*)} margin improvement of around 100 basis points, with a performance momentum that is expected to improve in the course of the year. During 2020 we will issue guidance for the next medium-term period, when we expect to continue to gradually step up growth and expand margins and cash generation as we execute our strategy.

We will continue to deliver meaningful employment and engagement in the communities where we operate, while doing business in a sustainable manner.

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2.2 How we create value

Based on the International Integrated Reporting Council framework, and with the renewed 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 six forms of capital (resources and relationships) that Philips draws upon for its business activities; all data refer to 2019

Human

- Employees 80,495, 120 nationalities, 38% female
- Philips University 5,324 courses, 966,813 hours, 683,336 training completions
- 32,650 employees in growth geographies
- Focus on Inclusion & Diversity

Intellectual

- Invested in R&D EUR 1.88 billion (Green Innovation EUR 235 million)
- Employees in R&D 12,287 across the globe including growth geographies

Financial

- Equity EUR 12.6 billion
- Net debt*) EUR 4.0 billion

Manufacturing

- Employees in production 35,640
- Manufacturing sites 35, cost of materials used EUR 5.3 billion
- Total assets EUR 27.0 billion
- Capital expenditure EUR 518 million

Natural

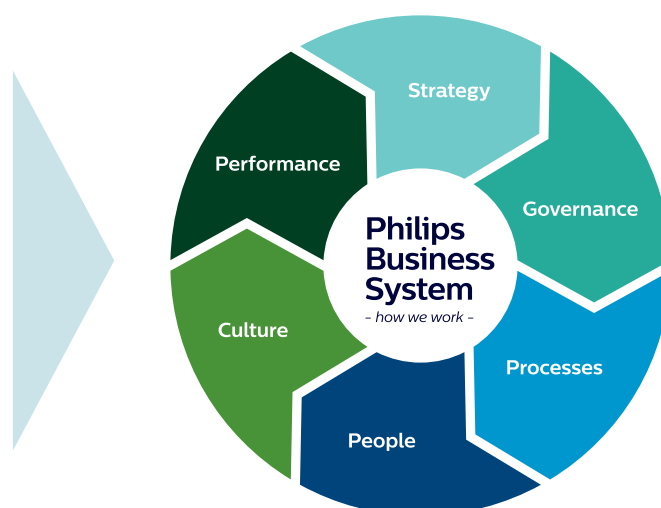
- Energy used in manufacturing 1,400 terajoules
- Water used 890,000 m³
- Recycled plastics in our products 1,904 tonnes
- Pledge to take back all medical equipment by 2025

Social

- Philips Foundation
- Stakeholder engagement
- Volunteering policy

Philips Business System

- In 2019 we updated our operating model, the Philips Business System (PBS). With its six interconnected elements, the PBS defines how we work together effectively to achieve our company objectives.



- Our **strategy** defines our path to sustainable value creation for customers and shareholders.
- Clear **governance**, roles and responsibilities empower people to collaborate and act fast.
- Standard **processes**, systems and practices enable lean and agile ways of working.
- We value and develop **people** and teams, rewarding them for sustainable results.
- We live the Philips **culture**, which sets standards on behaviors, quality and integrity.
- Through disciplined **performance** management and continuous improvement we achieve our goals.

And this is where the wheel gets going. The better we perform, the more we grow, the more we can re-invest in new business opportunities, and the more value we deliver to our customers, shareholders, and other stakeholders.

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; all data refer to 2019

Human

- Employee Engagement Index 74% favorable
- Sales per employee EUR 242,027
- Safety 224 Total Recordable Cases

Intellectual

- New patent filings 1,015
- Royalties EUR 381 million
- 148 design awards

Financial

- Comparable sales growth^{*)} 4.5%
- 67% Green Revenues
- Adjusted EBITA^{*)} as a % of sales 13.2%
- Free cash flow^{*)} EUR 1.1 billion

Manufacturing

- EUR 14.8 billion revenues from goods sold

Natural

- 13% revenues from circular propositions
- Net CO₂ emissions down to 266 kilotonnes
- 265,000 tonnes (estimated) materials used to put products on the market
- Waste up to 26.4 kilotonnes, of which 83% recycled
- 19 'zero waste to landfill' sites

Social

- Brand value USD 11.7 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; all data refer to 2019

Human

- Employee benefit expenses EUR 6,307 million, Living Wage analysis completed
- Appointed 74% of our senior positions from internal sources
- 24% of Leadership positions held by women

Intellectual

- Around 53% of revenues from new products and solutions introduced in the last three years
- Over 60% of sales from leadership positions

Financial

- Market capitalization EUR 38.8 billion at year-end
- Long-term credit rating A- (Fitch), Baa1 (Moody's), BBB+ (Standard & Poor's)
- Dividend EUR 775 million

Manufacturing

- 95% electricity from renewable sources
- 286,000 employees impacted at suppliers participating in the 'Beyond Auditing' program

Natural

- Environmental impact of Philips operations down to EUR 154 million
- First health technology company to have its CO₂ reductions assessed and approved by the Science Based Targets initiative

Social

- 1.64 billion Lives Improved, of which 194 million in underserved healthcare communities
- Total tax contribution EUR 3.1 billion (taxes paid)
- Income tax expense EUR 337 million; the effective income tax rate is 22%

^{*)} 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 33.](#)

2.3 Our businesses

Our reporting structure in 2019

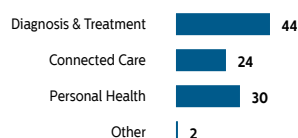
Koninklijke Philips N.V. (Royal Philips) is the parent company of the Philips Group. In 2019, the reportable segments were Diagnosis & Treatment businesses, Connected Care businesses, and Personal Health businesses, each having been responsible for the management of its business worldwide. Additionally, Philips identifies the segment Other.

Philips			
Diagnosis & Treatment businesses	Connected Care businesses	Personal Health businesses	Other
Diagnostic Imaging Image-Guided Therapy Ultrasound Enterprise Diagnostic Informatics	Monitoring & Analytics Sleep & Respiratory Care Therapeutic Care Population Health Management Connected Care Informatics	Oral Healthcare Mother & Child Care Personal Care Domestic Appliances*	Innovation IP Royalties Central costs Other

Focus of external reporting

*On January 28, 2020, Philips announced that it will review options for future ownership of the Domestic Appliances business, and start the process of creating a separate legal structure for this business.

Philips Group
Total sales by reportable segment as a % 2019



2.3.1 Diagnosis & Treatment businesses

Diagnosis & Treatment businesses

Our Diagnosis & Treatment businesses are foundational to our health technology strategy, delivering on the promise of precision diagnosis and image-guided therapies. 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.

We are focused on intelligent, integrated solutions (AI-enabled suites of systems, smart devices, software and services) that help healthcare providers to meet their most pressing clinical, operational and financial goals. By integrating multiple sources of information across imaging, pathology and genomics to create a comprehensive single patient view, we support clinicians to realize a precision diagnosis for each patient: disease-specific, personalized, and predictive.

Informatics is central to everything we do. In 2019, Philips expanded its Enterprise Diagnostic Informatics portfolio with the acquisition of Carestream Health's Healthcare Information Systems business. Adding a state-of-the-art cloud-based informatics platform, our offering now includes advanced Vendor Neutral Archive

solutions, diagnostic and enterprise viewers, interactive multimedia reporting, AI-enabled clinical, operational and business analytics tools, as well as tele-radiology and diagnostic patient management services.

We continue to expand the applications for image-guided therapies and improve workflow and integration in the interventional suite. In 2019, less than three years on from its launch, the one-millionth procedure was carried out on Philips' Azurion image-guided therapy platform. In 2019 we also launched Azurion in China, following clearance from the country's National Medical Products Administration.

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 can ultimately 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 clinical applications and excellent image quality to drive growth in the core subspecialties as well as attractive 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

In 2019, the Diagnosis & Treatment segment consisted of the following areas of business:

- **Diagnostic Imaging:** Magnetic Resonance Imaging (MRI), Computed Tomography (CT), 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 cardiovascular, 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
- **Enterprise Diagnostic Informatics:** a suite of integrated products and services that deliver a comprehensive platform designed to connect clinical capabilities and optimize workflows around every step in the patient's journey across a range of diagnostic (radiology, point-of-care, laboratory) and clinical (oncology, cardiology, neurology) service lines.

In 2019, Digital & Computational Pathology was moved out of the segment Other into Diagnosis & Treatment to enable better access to downstream capabilities. 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.

Revenue is predominantly earned through the sale of products, leasing, customer services fees, recurring per-procedure fees for disposable devices, 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, third-party distributors and an online sales portal. This varies by product, market and price segment. Our sales organizations have an intimate knowledge of technologies and clinical applications, as well as the solutions necessary to solve problems for our customers.

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 2019, Diagnosis & Treatment had around 31,000 employees worldwide.

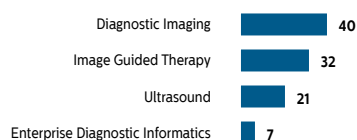
2019 business highlights

In 2019, Philips continued to renew its Diagnostic Imaging portfolio. Its new Incisive CT imaging platform includes an industry-first 'Tube for Life' guarantee. The platform integrates innovations in imaging, workflow, and lifecycle management, as well as DoseWise Portal, a web-based dose monitoring solution that collects, measures, analyzes and reports patient and staff radiation exposure, helping healthcare providers with smart clinical decision-making, increased efficiency and improved experience for patients and staff.

We introduced IntraSight, which seamlessly integrates intravascular imaging and physiology applications for minimally invasive procedures. The scalable platform is based on Philips' common software and hardware architecture. Following the acquisition of EPD Solutions in 2018, we launched the novel KODEX-EPD cardiac imaging and navigation system commercially and announced a collaboration with Medtronic to further advance the image-guided treatment of atrial fibrillation.

Further expanding our offering in mobile image-guided therapy systems for conventional operating rooms (ORs), we launched Philips Zenition, our new mobile C-arm imaging platform. Zenition is easy to move between ORs and allows hospitals to maximize performance, enhance clinical capabilities, and improve staff experience.

Diagnosis & Treatment
Total sales by business as a %
2019



Philips continues to set the standard in integrated solutions for image-guided therapy with the expansion of its Azurion platform with FlexArm and the seamless integration of its smart catheters in the platform. The successful launch of Azurion in China and expansion of its smart catheter offering in Europe and Asia contributed to double-digit comparable sales growth^{*)} for the Image-Guided Therapy business in 2019.

Philips presented the three-year results from two major Stellarex clinical studies involving approximately 600 patients, demonstrating that its Stellarex drug-coated balloon (DCB) is the only low-dose DCB with a significant treatment effect and high safety profile through three years. Both studies showed no difference in mortality compared with the current standard of care. In the US, Philips launched longer 150 mm and 200 mm versions of its Stellarex low-dose drug-coated balloons to broaden treatment options for peripheral artery disease patients.

In Ultrasound, we strengthened our leadership in our core cardiac segment by extending the advanced automation capabilities on our EPIQ CVx cardiology ultrasound platform, making exams faster and easier to conduct while improving clinician productivity. We also continued to expand into attractive adjacencies such as General Imaging and Obstetrics & Gynecology with the launch of EPIQ Elite, a premium ultrasound system that combines the latest advances in transducer innovation and enhanced performance to improve clinical confidence and the patient experience.

Philips' Ambition 1.5T MR platform with its breakthrough fully sealed magnet continued to receive an enthusiastic reception from healthcare providers worldwide. We also marked the completion of the one-millionth patient scan accelerated with Compressed SENSE, an advanced solution that reduces MR exam times by up to 50%. Our innovations in MR combine to help increase productivity, improve the patient and staff experience, and enhance diagnostic confidence.

^{*)} 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 33](#).

2.3.2 Connected Care businesses

Connected Care businesses

Spanning the entire health continuum, the Connected Care businesses are tasked with improving patient outcomes, increasing efficiency and enhancing patient and caregiver satisfaction, thereby driving towards value-based care. Our solutions build on Philips' strength in verticals (monitoring & analytics, sleep & respiratory care, and therapeutic care) and horizontals (population health management and connected care 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, predictive analytics, 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.

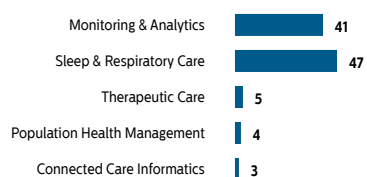
Philips delivers personalized insights by applying predictive analytics and artificial intelligence across our solutions. For example, we are able to support healthcare professionals caring for elderly patients living independently at home in making clinical decisions and alerting medical teams to potential 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 2019, the Connected Care segment consisted of the following areas of business:

- **Monitoring & Analytics:** Integrated patient monitoring systems for all price levels, wearable biosensors, advanced intelligence platforms for real-time clinical information at the patient's bedside; patient analytics, including diagnostic ECG data management; maintenance, clinical and IT services, as well as consumables.
- **Sleep & Respiratory Care:** Sleep offerings span from consumer sleep solutions, including those for disease-state sleep such as obstructive sleep apnea, to end-to-end solutions that encompass consumer engagement, diagnostics, people-centric therapy, cloud-based connected propositions and care management services. Respiratory offerings include COPD care management with digital and connected solutions; Hospital Respiratory Care (HRC) provides invasive and non-invasive ventilators for acute and sub-acute hospital environments; Home Respiratory Care supports the home care environment.

- **Therapeutic Care:** Emergency Care & Resuscitation (ECR) solutions for both inside and outside the hospital, including cardiac resuscitation and emergency care solutions (including devices, services, and digital/data solutions); consumables across the patient monitoring and therapeutic care businesses; customer service, including clinical, IT, technical and remote customer propositions.
- **Population Health Management:** Data, analytics and actionable workflow products are leveraged 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.
- **Connected Care Informatics** was created in 2019 to drive cohesive informatics innovations across the health continuum. Connecting people, technology and processes, Connected Care Informatics' capabilities include a fully integrated Electronic Medical Record (EMR) business called Tasy. Connected Care Informatics also offers an advanced eICU/Tele-ICU program, an informatics solutions business under the umbrella of IntelliSpace Enterprise Edition, Command Center solutions and integration services (Enterprise Integrated Solutions/IntelliBridge Enterprise).

Connected Care
Total sales by business as a %
 2019



In most of the Connected Care businesses, 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 the number of people being monitored, we see more usage-based earnings models. In Sleep & Respiratory Care, revenue is generated both through product sales and through rental models, whereby revenue is generated over time.

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 businesses are generally higher in the second half of the year, largely due to customer spending patterns.

At year-end 2019, the Connected Care businesses had around 15,000 employees worldwide.

2019 business highlights

Reinforcing its leadership in patient monitoring solutions, Philips introduced the next-generation IntelliVue MX750 and MX850 bedside patient monitor platforms in Europe. These feature an extensive range of measurements and analytics, as well as new cybersecurity capabilities. Moreover, Philips signed multi-year enterprise patient monitoring agreements with the Kantonsspital Frauenfeld (Switzerland) and the University Clinic of Bonn (Germany) to improve workflow and clinical outcomes in these hospitals.

Philips teamed up with US insurance company Humana to improve care for at-risk, high-cost populations. The pilot program will support independent living for high-acuity patients with congestive heart failure by providing 24/7 access to care. Philips' remote monitoring capabilities will allow care managers to deliver timely interventions for these patients.

Philips signed a 10-year agreement with Centre Hospitalier Régional Universitaire de Nancy in France to implement Philips' IntelliSpace Enterprise Imaging Solution. The collaboration will enable the hospital, which provides 1.2 million consultation visits and inpatient stays each year, to streamline complex medical image data management across its departments.

Philips' solutions to treat obstructive sleep apnea, a condition that affects more than 100 million patients globally, continue to garner healthy demand, supported by the continued strong reception for DreamStation GO's expanded portable therapy options.

Expanding its range of successful patient-centric CPAP (continuous positive airway pressure) mask designs, Philips launched DreamWisp, the first-of-its-kind over-the-nose nasal mask that allows patients with sleep apnea to sleep in any position they want. With its robust nasal cushion and top-of-the-head tube design, DreamWisp delivers a new level of comfort and freedom of movement, providing patients with the therapy option that best suits their needs.

Demonstrating the success of Philips' telehealth solutions for critical care, US-based Health First achieved significant results by using Philips' acute telehealth platform. Powered by Philips' eCareManager, Health First's VitalWatch eICU achieved a 23% reduction in overall mortality, a 49% reduction in ICU length of stay, and a 35% reduction in length of stay across its four hospitals.

Philips expanded its General Care solutions portfolio with the launch of the EarlyVue VS30 in the US. This new vital signs monitor uses automated Early Warning Scoring (EWS) to collect critical vital signs and calculate risk-based alerts that allow clinicians to identify subtle signs of patient deterioration and facilitate communication between caregivers for timely intervention and patient care.

2.3.3 Personal Health businesses

Personal Health businesses

Our Personal Health businesses 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.

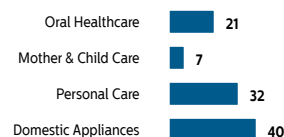
Supported by meaningful innovation and high-impact marketing, we are focused on three key objectives:

- 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

In 2019, the Personal Health segment consisted of the following areas of business:

- **Oral Healthcare:** power toothbrushes, including Sonicare app; brush heads/interdental/whitening
- **Mother & Child Care:** infant feeding (breast pumps, baby bottles, sterilizers), digital parental solutions (Pregnancy+ and Baby+ apps)
- **Personal Care:** male grooming (shavers, OneBlade, groomers, trimmers), beauty (skin care, hair care, hair removal)
- **Domestic Appliances^{A)}:** kitchen appliances (juicers, blenders, Airfryer, food processors), home care (vacuum cleaners, air purifiers), garment care (irons, steam generators), coffee (appliances and accessories)

Personal Health
Total sales by business as a %
2019



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, 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.

We also offer solutions that support babies and parents on every step of their journey so that they can more fully enjoy those precious early moments. Philips Pregnancy+ is a pregnancy tracker app that allows moms to follow their baby's development with 3D fetal imagery. The app offers moms customized information at every stage of their pregnancy and enables them to share their pregnancy journey with family and professionals.

The company's wide portfolio of connected consumer health platforms – such as our Sonicare dental solutions – 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. As with the Direct to Consumer transformation, we see good traction to further diversify the revenue model with new business models (including subscriptions and services).

The Personal Health businesses experience seasonality, with higher sales around key national and international events and holidays.

At year-end 2019, Personal Health employed around 16,000 people worldwide.

a) On January 28, 2020, Philips announced that it will review options for future ownership of the Domestic Appliances business, and start the process of creating a separate legal structure for this business. undefined undefined undefined

2019 business highlights

The strong performance of the Oral Healthcare business was driven by its innovative portfolio, including the mid-range Philips Sonicare ProtectiveClean toothbrush, which features pressure sensor technology that alerts users when they are applying too much pressure and automatically reduces brushing intensity, for a brushing experience that delivers healthier gums and cleaner teeth.

Further broadening its product range in oral care, Philips has rolled out its connected Philips Sonicare ExpertClean globally. The new smart power toothbrush delivers superior oral care results with its sonic technology and deep clean brushing mode.

Building on the success of Philips' leading oral care solutions, the company rolled out the BrushSmart program in collaboration with Delta Dental of California, the largest provider of dental benefits in the US. The subscription-based program includes a discounted Sonicare toothbrush, coaching and teledentistry, and connects brushing behaviors at home with professional dental care to better understand, motivate and drive improvements in oral health.

Philips launched its new smart S7000 Shaver series globally. Designed to address skin irritation and discomfort from shaving, the company's first connected shaver comes with a personalized solution for sensitive skin and has received highly positive user reviews.

At the 2019 IFA trade show in Berlin, Philips highlighted a range of intelligent, adaptive and personalized consumer health solutions that seamlessly integrate into people's lives and lifestyles, empowering them to make healthier choices and fulfilling their personal needs. These included the Philips Airfryer XXL featuring Smart Sensing technology, which automatically adjusts cooking time and temperature, and the Baby+ app, which provides parents with a dedicated tool to track their baby's growth and receive ongoing advice specific to each stage of their baby's development.

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. At year-end 2019, around 18,000 people worldwide were working in these areas.

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, Experience 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 (AI) and the Internet of Things (IoT).

Chief Technology Office (CTO) and Philips Research

The Chief Technology Office orchestrates innovation strategy and choices, and drives adoption of digital architecture and platforms, as well as excellence in software, Data Science and AI, across Philips' businesses and markets. Philips Research initiates 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. CTO and Research encompass the following organizations:

- **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. The role of Research increasingly goes beyond early-stage proof-of-concept, including advanced development on the target product and digital platforms, and market-driven innovation with lead customers.

- **Innovation Management**, responsible for end-to-end innovation strategy and portfolio management, integrated roadmaps linking products, systems and software to solutions, New Business Creation Excellence, R&D competency management, Innovation Transformation and Performance Management and public funding programs.
- **The Chief Architect Office**, responsible for defining, steering and ensuring compliance and uptake of the Philips HealthSuite architecture for configurable and interoperable digital propositions, as well as modular System Architecture with the right balance between functionality allocated to hardware and software.
- **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.
- **The Data Science and AI Center of Excellence**, defining and deploying strategies and best practices for dealing responsibly and in a compliant way with Data Science and AI, developing common tools to facilitate the development process and co-creation with clinical partners.
- The **HealthSuite System of Engagement** provides the capabilities and infrastructure for configurable solutions and ecosystems. It ensures consistency across customer touchpoints through a set of industry standards-based ecosystem federation services and APIs. It leverages our hybrid cloud infrastructure that ensures scalability and cost-effectiveness under the most comprehensive and stringent security and privacy standards.
- Philips HealthSuite is implemented in a layered approach with a **Foundation Layer** that provides secure hybrid cloud hosting, operations, customer support and IoT capabilities, as well as industry standards-based federated data access. The **Engagement Layer** leverages this foundation to optimize workflows with embedded intelligence and a seamless user experience.

Philips HealthSuite is managed and orchestrated across Innovation & Strategy and all Philips businesses. The majority of professional and consumer-oriented digital propositions offered by Philips leverage HealthSuite. A growing number of third-party companies have also adopted HealthSuite.

Innovation Hubs

To drive innovation effectiveness and efficiency, and to enable locally relevant solution creation, we have established four main Innovation Hubs for the Philips Group: Eindhoven (Netherlands), Cambridge (USA), Bangalore (India) and Shanghai (China).

Product Engineering

The Product Engineering organization is accountable for building world-class Idea to Market (I2M) capabilities and for driving excellence in product engineering across Philips worldwide. The Product Engineering organization includes the following:

- **Philips Innovation Services** provides hardware and embedded software development & engineering, technology consulting, and low-volume specialized manufacturing.
- **I2M Excellence** is a global program to improve and harmonize Philips capabilities, processes and tools.
- **Technical Expert Group** supports innovation and industrialization teams with technical competences and application experience in materials, physics and chemistry.
- **Product Platforms** build on existing engineering capabilities and best practices within Philips, covering the full life cycle from design, development and engineering to delivery, maintenance and ultimately end of service.

Philips HealthSuite

Philips HealthSuite constitutes our common digital framework that connects consumers, patients, healthcare providers, payers and partners in a hybrid cloud-based connected health ecosystem of solutions, products, systems, services and devices, positioning HealthSuite as the System of Engagement on top of hospital systems of record.

- **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 the management of collaboration partnerships. Many of the company's core research programs are run from here.
- **Philips Innovation Center Cambridge, MA** is focused on applications of Data Science and AI in Radiology, Ultrasound, and Acute care. It is the hub for key partnerships in North America, with top engineering institutions like MIT as well as top clinical sites, and for participation in government-funded programs.
- **Philips Innovation Center Bangalore** hosts activities from most of our operating businesses, as well as Innovation & Strategy and IT. This is our largest software-focused site, with over 3,500 engineers. The Center also functions as the hub for market-driven innovation in surrounding geographies in Asia Pacific, Africa, and Middle East & Turkey.
- **Philips Innovation Center Shanghai** combines digital innovation, research and solutions development for the China market, participating in local digital ecosystems, 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 healthcare governance and organization, 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, health professional 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, building customer partnerships and growth opportunities, fostering peer-to-peer relationships in relevant medical communities, liaising with medical regulatory bodies, and supporting clinical and marketing evidence development.

Philips Experience Design

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

Philips Experience Design partners with stakeholders across the organization to develop methodologies and enablers for defining value propositions, to implement data-enabled design tools and processes to create meaning from data, and to leverage Co-create methodologies. The latter facilitate exploration with customers and patients with the aim of creating 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 received 148 design awards in 2019.

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 64,500 patent rights, 39,000 trademarks, 88,500 design rights and 3,200 domain names. Philips filed 1,015 new patents in 2019, with a strong focus on the growth areas in health technology services and solutions.

Philips earns substantial annual income from license fees and royalties. These are mostly earned on the basis of usage or fixed fees, recognized over the term of the contract or at a point in time.

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

Central costs

We recharge the directly attributable part of the central costs to the business segments. The remaining part is accounted for as central costs, and 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 group headquarters in Amsterdam, Netherlands. Our real estate sites are spread around the globe, with key manufacturing and R&D sites in Europe, the Americas and Asia.

In 2019, we invested in three Global Business Services locations in the US, Poland and India. To attract R&D talent, we invested across the globe in prime innovation locations, such as Cambridge and Pittsburgh (USA), Tokyo, Eindhoven, Bangalore and others.

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, 2019, represented EUR 1,510 million; construction in progress represented EUR 100 million. The increase compared with 2019 is mainly due to IFRS 16 implementation; for more information please refer to Significant accounting policies, of the Annual Report 2019. Our current facilities are adequate to meet the requirements of our present and foreseeable future operations.

2.4 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 on a global basis. 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, involves increased levels of investment along with the demands 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 2019

Responsibility for Quality & Regulatory Compliance rests with the Chief Quality & Regulatory Officer, who reports operationally to the Chief Operations Officer and – for regulatory matters – directly to the Chief Executive Officer.

Quality

Philips is committed to delivering the highest quality products, services and solutions compliant with all applicable laws and standards. We are investing substantially in embedding quality in our organizational culture. We will continue to raise the performance bar. Quality is an integral part of the evaluation of all levels of 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.

Regulatory Compliance

Philips actively maintains Quality Systems globally that establish standards for its product design, manufacturing and distribution processes; these standards are in compliance with Food and Drug Administration (FDA)/International Organization for Standardization (ISO) requirements. Our businesses are subject to compliance with regulatory pre-marketing and quality system requirements in every market we serve, and to specific requirements of local and national regulatory authorities including the US FDA, the European Medicines Agency (EMA), the National Medical Products Administration (NMPA) in China and comparable agencies in other countries. We also must comply with 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 regulated products in our Personal Health and Sleep & Respiratory Care businesses. Through our growing Oral Healthcare, Mother & 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.

Often, 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 marketing of FDA regulated devices in the USA, and the CE Mark in the European Union). Failing to comply with the regulatory requirements can have significant legal and business 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 European Union (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 in 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 made a one-time EU MDR investment of around EUR 50 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.

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 the 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 provide consumables and the relevant accessories, to ensure uninterrupted availability of these 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.

Ethics & Integrity

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) – part of the Philips Business System – 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 2019. The results of the monitoring measures in place are given in [General Business Principles, starting on page 25](#).

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3 Societal impact

We are a purpose-driven company, aiming to improve the lives of 3 billion people annually by 2030. 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, 2018 and 2019 we quantified the environmental impact that we have as a company in [Environmental performance, starting on page 26](#).

In 2018 we started to apply the True Value methodology to quantify 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 9](#). 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, 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. It is our goal to improve the lives of 3 billion people a year by 2030.

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 (*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 (*Ensure sustainable consumption and production patterns*) and SDG 13 (*Take urgent action to combat climate change and its impacts*).

Philips improved 1.64 billion lives in 2019, an increase of around 100 million compared to 2018, driven by all segments, mainly in China, the ASEAN countries, North America and the Middle East & Turkey. Through Philips products and solutions that support people's health and well-being, we improved the lives of 1.54 billion people in 2019 (2018: 1.43 billion), mainly driven by Diagnosis & Treatment businesses and Connected Care businesses. Our Green Products and Solutions that support a healthy ecosystem contributed 1.07 billion lives (2018: 1.00 billion). After the elimination of double counts – people touched multiple times – we arrived at 1.64 billion lives.

In 2019, Philips extended its commitment to improve the lives of people in underserved healthcare communities to 400 million by 2030. 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 progress on this extended commitment, we track lives improved in underserved healthcare communities. In 2019 our health and well-being solutions improved the lives of 194 million people in underserved markets (an increase of 20 million compared to 2018).

Lives Improved per market

The following table shows the number of Lives Improved 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	33	1,290	3%	2,407
ASEAN & Pacific	158	981	16%	6,700
Benelux	27	29	94%	1,489
Central & Eastern Europe	80	166	48%	1,909
Germany, Austria & Switzerland	81	101	80%	5,033
France	45	66	67%	2,739
Greater China	426	1,432	30%	15,141
Iberia	30	57	52%	1,639
Indian Subcontinent	79	1,570	5%	3,372
Italy, Israel & Greece	35	82	43%	2,631
Japan	42	126	33%	5,155
Latin America	99	645	15%	5,430
Middle East & Turkey	69	372	18%	3,246
Nordics	18	28	67%	1,594
North America	344	367	94%	23,170
Russia & Central Asia	43	251	17%	2,085
UK & Ireland	35	72	48%	3,143

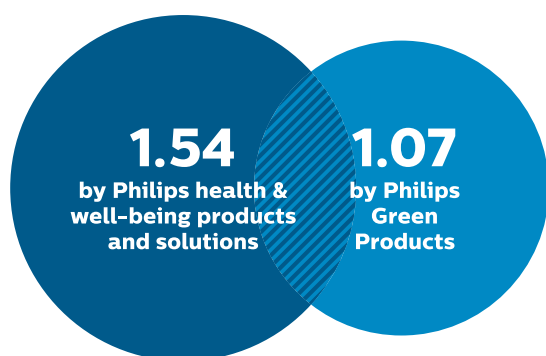
¹⁾ Source: Philips, double counts eliminated

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

³⁾ Source: IMF, CIA, Factbook & Wikipedia

Philips Group

Lives improved in billions



Total: 1.64 billion (double counts eliminated)

 Double counts

Conceptual drawing, areas do not reflect actual proportions

3.1.2 Workforce of the Future

The challenges presented by the fast-evolving industry landscape demand a networked organization in which cross-functional teams actively draw on resources across the organization and across the world. Our Workforce of the Future program reflects 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 2019 we implemented company-wide initiatives to retain and staff our most strategic positions with top performers. At the end of 2019 we retained 93% of these employees and staffed 52% of our strategic positions with employees who are considered to be top performers. Key drivers of this are our internal development focus, leadership programs and our focused talent search services.

We have also been addressing the challenge of the expanding workforce and our ability to tap into the gig economy and other less traditional work constructs. We continue to recognize the significant contribution contingent workers make to our company. Therefore, building on earlier initiatives, we have ensured that both our workforce demand management system and our talent acquisition processes include contingent and regular employee solutions in staffing proposals and decisions. Our 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 and labor market trends. We continued to devote additional attention to our campus, graduate and early-career hiring in 2019, which resulted in an increase in the number of campus hires compared to 2018. Our focus on the Workforce of the Future will continue in 2020, with further emphasis on strategic capabilities.

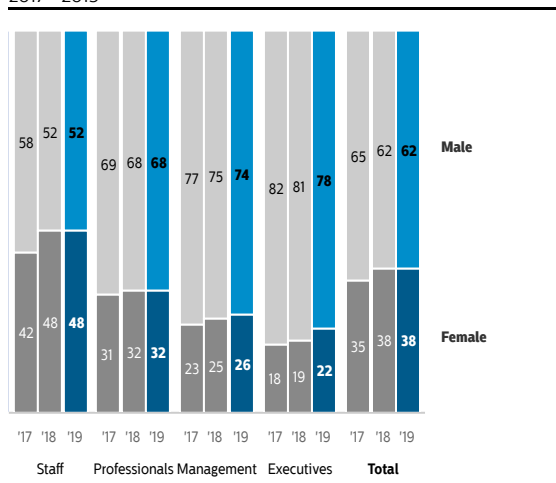
More information on training and learning programs can be found in [People development, starting on page 53](#).

3.1.3 Inclusion & Diversity

To be able to understand and meet customer and patient 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.

Two years ago, 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 2019, we again partnered with leading Inclusion & Diversity training providers to further roll out unconscious bias and inclusion trainings. With regard to appointment and promotion opportunities, we transparently share open positions and endeavor to attract candidates from a diverse range of backgrounds. Diverse interview panels are put in place for recruitment to leadership positions. In 2019, we increased the number of Senior Women's Leadership Programs for the third consecutive year.

Philips Group
Gender diversity in %
2017 - 2019



Overall gender diversity remained stable at 38% in 2019 whilst gender diversity among Executives increased from 19% to 22% female executives. Measured against our 2020 goal of 25% gender diversity in leadership positions, we increased from 21% in 2018 to 24% in 2019.

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.

All Philips employees are expected to commit to living our 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.

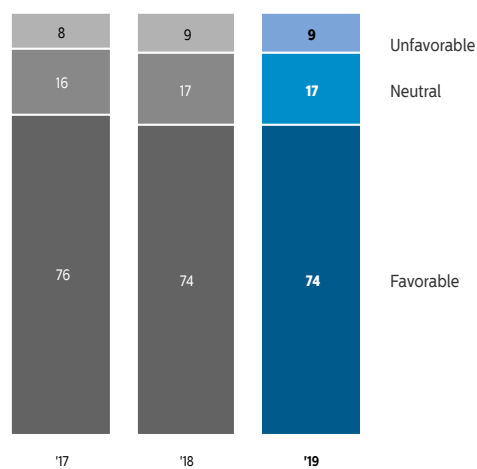
Putting our customers first must be at the heart of everything we do. Only by engaging deeply with our customers can we understand their unmet needs and deliver superior value. We also need to be conscious at all times of the high-stakes environment in which we operate. This environment demands that 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, capabilities and expertise right across Philips. At the same time, we all need to take personal ownership, enabling us to move with speed and agility, 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 assessed behavior, potential and capabilities. In 2019, we filled 74% 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 2019, 79% 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 70%. Our average engagement score for 2019 was 74%, in line with our engagement levels in 2018. We remain substantially above the high-performance norm, driven by our employees' pride to work for Philips and the positive energy they get from their job.

Philips Group
Employee Engagement index in %
2017 - 2019



Our quarterly employee surveys help to 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.

At Philips, we believe we perform at our best when we look after ourselves and each other. In 2019, we continued to develop our Health & Wellbeing programs, which are designed to engage our employees and help 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

The total number of Philips Group employees was 80,495 at the end of 2019, compared to 77,400 at the end of 2018, an increase of 3,095 FTE.

The increase of 1,765 FTE for Diagnosis & Treatment results mainly from acquisitions in healthcare informatics and precision diagnosis and the move of Emerging Businesses out of segment Other into segment Diagnosis & Treatment; for more information please refer to [About Diagnosis & Treatment businesses in 2018, starting on page 11](#).

The 2,481 increase in FTE in 'Other changes' reflects, among other things, the increase in Commercial and Manufacturing employees and the shift of supporting roles to Global Business Services organizations.

Philips Group
Employees per segment in FTEs at year-end
2017 - 2019

	2017	2018	2019
Diagnosis & Treatment	28,904	29,546	31,311
Connected Care	15,010	15,085	14,939
Personal Health	17,253	16,132	16,448
Other	12,784	16,637	17,797
Philips Group	73,951	77,400	80,495

Philips Group
Employment in FTEs
2017 - 2019

	2017	2018	2019
Balance as of January 1	114,731	73,951	77,400
Consolidation changes:			
Acquisitions	1,812	331	900
Divestments	(332)	(107)	(286)
Changes in Discontinued operations	(43,763)		
Other changes	1,502	3,225	2,481
Balance as of December 31	73,951	77,400	80,495

Geographic footprint

Approximately 59% (2018: 61%) of the Philips workforce is located in mature geographies and 41% (2018: 39%) in growth geographies. In 2019, the number of employees in mature geographies increased by 508. The number of employees in growth geographies increased by 2,588.

Philips Group
Employees per geographic cluster in FTEs at year-end
2017 - 2019

	2017	2018	2019
Western Europe	21,055	21,399	21,645
North America	20,937	21,703	21,483
Other mature geographies	3,962	4,236	4,718
Mature geographies	45,954	47,338	47,846
Growth geographies	27,997	30,062	32,650
Philips Group	73,951	77,400	80,495

Employee turnover

In 2019, employee turnover amounted to 15.0%, of which 8.6% was voluntary, compared to 14.2% (8.6% voluntary) in 2018. External benchmarks show that our voluntary employee turnover remains well below similar-sized companies, and that we are reasonably successful in retaining our employees.

With our focus on increasing gender diversity in leadership positions, we reduced voluntary female executive turnover from 8.8% in 2018 to 4.2% in 2019.

Philips Group
Employee turnover in %
2019

	Staff	Pro- fes- sionals	Man- age- ment	Ex- ecu- tives	Total
Female	22.3	12.9	11.5	16.7	17.7
Male	17.8	11.0	10.6	17.8	13.4
Philips Group	20.0	11.6	10.9	17.5	15.0

Philips Group
Voluntary turnover in %
2019

	Staff	Pro- fes- sionals	Man- age- ment	Ex- ecu- tives	Total
Female	9.5	9.0	6.6	4.2	9.1
Male	10.6	7.3	5.1	6.3	8.3
Philips Group	10.1	7.8	5.5	5.8	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. Consistent with our commitment, as reflected in our [policy](#), we do all that is reasonable and practicable to proactively identify and mitigate (potential) adverse human rights impacts in our operations and value chain. For many years already, our General Business Principles (GBP) have expressed our support and respect for 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 this, we follow the guidance given in the United Nations Guiding Principles on Business and Human Rights (UNGP) and the OECD Guidelines for Multinational Enterprises. Philips has also been a signatory to the UN Global Compact since 2007. Our commitment to respect human rights and avoid negative human rights impacts is led from the top. The avoidance of negative human rights impacts is on the agenda of the Sustainability Board, which meets quarterly.

In 2019, we created new channels of internal communication and developed a plan to advance training and awareness among our employees. Moreover, we further integrated human rights as part of our internal processes: we referenced additional human rights considerations in the Supplier Sustainability Program, acted upon the outcomes of our Human Rights Impact Assessment, and, based on that, explored how to advance our human rights due diligence globally. Our [Human Rights Report](#) contains detailed information regarding our progress and plans for continuous improvement.

3.1.8 General Business Principles

In the highly regulated world of healthcare, integrity requires in-depth knowledge of the applicable rules and regulations and a sensitivity to healthcare-specific issues. 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 31 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 environment. Details can be found at www.philips.com/gbp.

In 2019, a total of 545 concerns were reported via the Philips Ethics Line and through our network of GBP Compliance Officers. This represents a 24% increase over the previous reporting period (2018: 438 concerns reported).

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. Specifically in 2019, we focused on increasing awareness on Integrity, and on the importance of speaking up through, and following, the deployment of our biennial Business Integrity Survey. We believe the upward trend in reporting remains in line with our multi-year efforts to encourage our employees to express their concerns, in combination with a growing workforce.

More information on the Philips GBP can be found in Risk management, of the Annual Report 2019.

The results of the monitoring measures in place are given in [General Business Principles, starting on page 55](#)

3.1.9 Health and Safety

At Philips, we strive for an injury-free and illness-free work environment. Since 2016, the Total Recordable Cases (TRC) rate has been 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, Businesses and industrial sites.

We recorded 224 TRCs in 2019, a 13% increase compared to 198 in 2018. While our workforce continued to expand in 2019, the TRC rate increased from 0.28 per hundred FTEs in 2018 to 0.30 in 2019.

In 2019 we recorded 103 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 13% increase compared with 91 in 2018. The LWIC rate increased to 0.14 per 100 FTEs in 2019, compared with 0.13 in 2018. The number of Lost Workdays caused by injuries decreased by 17 days (0.4%) to 4,633 days in 2019.

For more information on Health and Safety, please refer to [Health and Safety performance, starting on page 57](#)

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 47](#).

For more information on our stakeholder engagement activities in 2019, please refer to [Stakeholder engagement, starting on page 58](#).

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 59](#) and to the Philips supplier sustainability [website](#) for more details on the Philips supplier sustainability program.

3.2 Environmental performance

Our latest five-year sustainability program, 'Healthy people, Sustainable planet', was launched in 2016. It addresses both social and environmental challenges and includes associated targets to be achieved by 2020.

An important learning that we derived from the 2017 and 2018 EP&L is that, in addition to the conversion factors, the definition of the use case scenarios also has a significant impact on the result. This is especially true of consumer products which have large sales volumes, long lifetimes and frequently high energy consumption (e.g. haircare products and steam irons). 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.

Results 2019

In 2019, Philips reduced its environmental impact from EUR 7.5 billion to EUR 7.25 billion, a 3% improvement compared to 2018. The main environmental impact, 88% 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 2019, e.g. 10 years in the case of a medical system or 7 years of usage in the case of a domestic appliance. As we grow our portfolio of Green Products and Solutions, we expect the environmental impact to reduce.

Besides our social impact, focusing on SDG 3, described in the previous section, 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 (*Ensure sustainable consumption and production patterns*) and to SDG 13 (*Take urgent action to combat climate change and its impacts*).

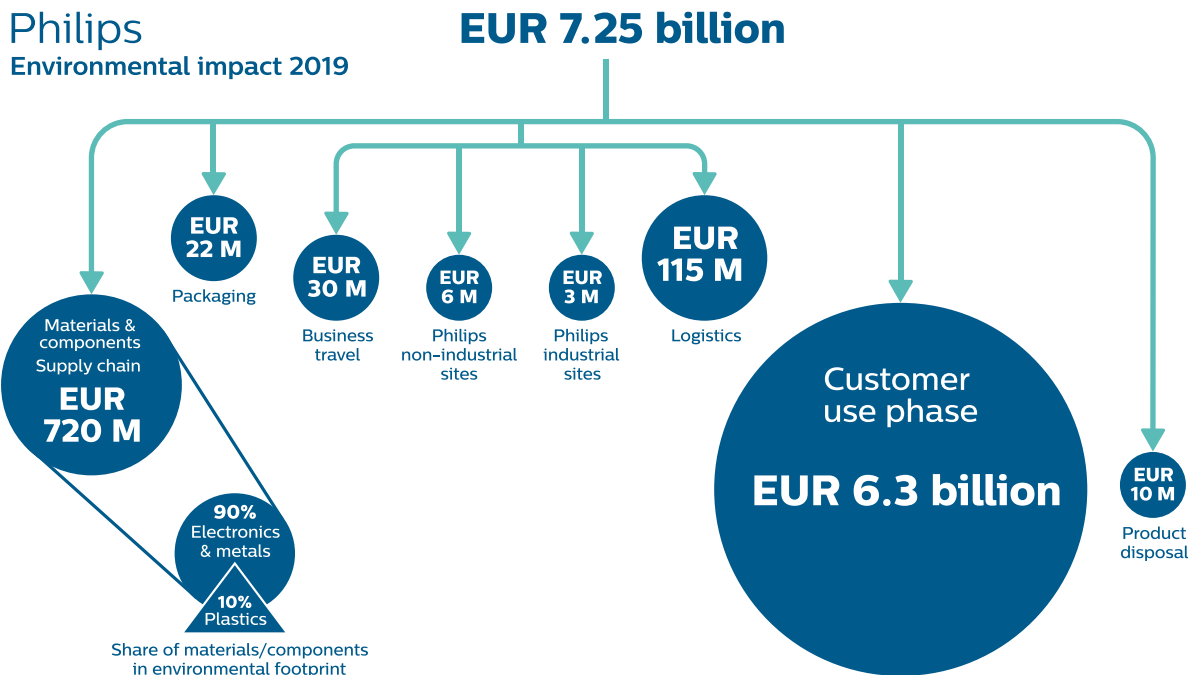
In this Environmental performance section an overview is given of the most important environmental parameters of the 'Healthy people, Sustainable planet' program. Details can be found in the [Sustainability statements, starting on page 47](#).

Environmental impact

Since 1990, Philips has been performing Life-Cycle Assessments (LCAs). These LCAs provide insight into the lifetime environmental impact of our products and 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 will enhance the methodology, use cases and accuracy of results in the future. For more information we refer to our [methodology report](#).

Of the total 2019 impact, just EUR 154 million (2%) is directly caused by Philips' own operations, mainly driven by outbound logistics. Compared to EUR 175 million in 2018, this is an 11% reduction, mainly due to a shift from air freight to ocean freight.



The environmental costs have been positively influenced by our long-term EcoDesign efforts to increase the energy efficiency of our products and sales mix changes, reducing the impact during the use phase from EUR 6.5 billion in 2018 to EUR 6.3 billion in 2019. Our supply chain currently has an environmental impact of some EUR 720 million, which is 10% 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, we were the first health technology company to have its 2020–2040 targets (including the use phase of our products) **approved by the Science Based Targets initiative** – a collaboration between 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. 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.

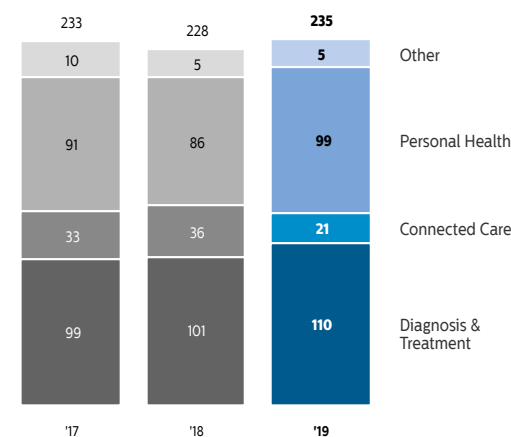
3.2.1 Green Innovation

Green Innovation is the Research & Development spend related to the development of new generations of Green Products and Solutions and Green Technologies, addressing SDG 12 (*Ensure sustainable consumption and production patterns*).

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 (*Ensure healthy lives and promote well-being for all at all ages*) or 12. 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 2019, Philips invested EUR 235 million in Green Innovation and some EUR 1.6 billion in Sustainable Innovation.

Philips Group
Green Innovation per segment in millions of EUR
2017 - 2019



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 2019 amounted to EUR 110 million, a significant increase compared to 2018. 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 with European trade association COCIR to improve the energy efficiency and material efficiency of medical imaging equipment, as well as lowering its hazardous substances content. 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 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 2019 amounted to EUR 21 million. Green Innovation projects delivered, among other things, new green patient monitors 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 99 million in 2019, compared with EUR 86 million 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 and breastfeeding accessories,

eliminating the need for separate packaging. In our Oral Healthcare portfolio, we have been able to achieve a 40% average packaging reduction for the Protective Clean products for US retail. In our Garment Care portfolio, we launched our first green optimal-temperature pressurized steam generator; this energy-efficient product contains recycled plastic and is free of PVC and BFR.

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.

Circular Economy

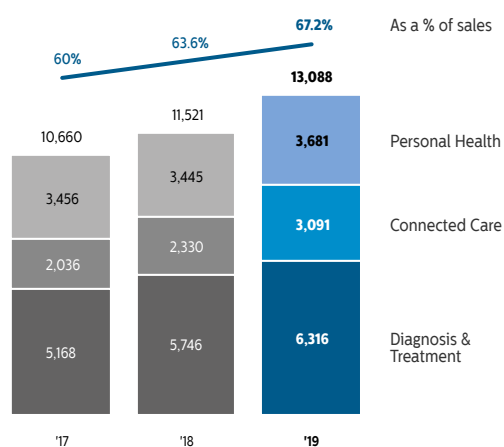
For a sustainable world, the transition from a linear to a circular economy is essential. A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using these resources more effectively. It is a driver of innovation in the areas of material, component and 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. As of 2019, we are well on track to achieve our ambitious circular economy goals.

For more information on our Circular Economy activities and the progress towards targets in 2019, please refer to [Circular Economy, starting on page 64](#).

3.2.2 Green Revenues

Green Revenues are generated through products and solutions that offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Circularity, and Lifetime reliability, and thereby deliver a contribution to SDG 12 (*Ensure sustainable consumption and production patterns*). Green Revenues increased to EUR 13.1 billion in 2019, or 67.2% of sales (63.7% in 2018), reaching again a record level for Philips.

Philips Group
Green Revenues per segment in millions of EUR unless otherwise stated
 2017 – 2019



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 given to hazardous substances and recyclability in all segments in 2019, the latter driven by our Circular Economy initiatives.

Diagnosis & Treatment businesses

In 2019, our Diagnosis & Treatment businesses maintained their Green Products 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 almost helium-free operations.

Connected Care businesses

Our Connected Care businesses continued to develop their Green Products and Solutions portfolio in 2019. New patient monitors and the MMX multi-measurement module came onto the market with lower energy usage thanks to the introduction of an ambient light sensor, improved power supply (MX750, 28% reduction in energy usage) and optimization for battery use. The IntelliVue X3, MX100 and MMX patient monitor platforms feature lower energy usage (18%) and reduced product and packaging weight (11% and 25% respectively) compared to their predecessor products.

Personal Health businesses

Our Personal Health businesses focus on Green Products and Solutions that meet or exceed our minimum requirements in the areas of energy consumption, packaging, substances of concern, and application of recycled plastics. Green Revenues in 2019 amounted to 63% of total sales, compared to 62% in 2018. We continue to make steady progress in

developing PVC/BFR-free products. More than 75% 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. Through ongoing scouting and collaboration with our suppliers we have been able to achieve a breakthrough in PVC/BFR-free performance for our Haircare portfolio, from around 5% in 2017 to over 15% in 2019. In our Kitchen Appliances portfolio, we stepped up the application of recycled plastic for our Eole and Viva/Bond Airfryers, switching over from virgin plastic to recycled plastic for the internal housing parts.

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 47](#).

Carbon footprint and energy efficiency

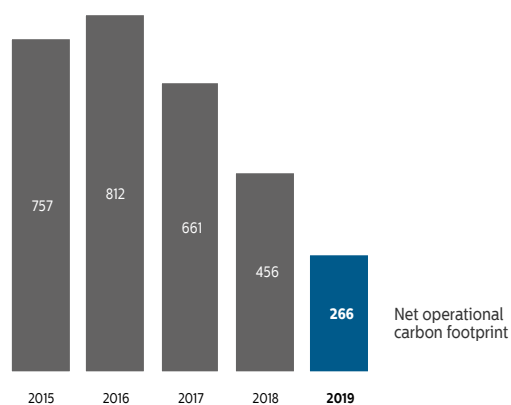
At Philips, we see climate change as a serious threat. Therefore, we are taking action to rethink our business models and decouple economic growth from the impact we have on the environment. This will not only benefit the environment, but will positively impact social and economic aspects as well.

We have the ambition to become carbon-neutral in our operations, sourcing all our electricity from 100% renewable sources by year-end 2020, and our efforts are being acknowledged. We report our 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, and have been ranked on the CDP Climate Change 'A' List for our continued climate performance and transparency for the seventh year in a row. We have set ambitious emission reduction targets to ensure we contribute to limiting the impact of global warming, not only in our operations, but throughout our value chain – collaborating with suppliers and customers to amplify our impact. That is why Philips has set new long-term emission reduction targets, which have been assessed and approved by the Science Based Targets initiative (SBTi). Locking down our commitment to driving climate action across the value chain and ensuring that we contribute to deliver on the decarbonization required to keep the global temperature increase well below 2 °C.

In 2019, our operational carbon footprint resulted in 706 kilotonnes of carbon dioxide-equivalent (CO₂-e), a decrease of 10% compared to 2018, mainly driven by increased use of electricity from renewable sources and a significant reduction in air freight. As a result of our carbon neutrality program, some of our emissions have been compensated via carbon offsets, resulting in a total of 266 kilotonnes carbon dioxide-equivalent (CO₂-e).

Philips reports all its emissions in line with the Greenhouse Gas Protocol (GHGP) as further described in [Data definitions and scope, starting on page 51](#).

Philips Group
Net operational carbon footprint in kilotonnes CO₂-equivalent
 2015 - 2019



In 2019, our operational carbon intensity (in tonnes CO₂e/EUR million sales) improved by 17%, even as our company recorded 4.5% 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.

In our sites we achieved significant reductions in our scope 2 (indirect) emissions, mainly driven by an increase in global renewable electricity share from 90% in 2018 to 95% in 2019. All our US operations were already powered by renewable electricity from the Los Mirasoles wind farm. Then, in 2019, the Krammer and Bouwdokken wind farms in the Dutch province of Zeeland, with which we closed long-term contracts through our renewable electricity purchasing consortium with Nouryon, DSM and Google, powered all our operations in the Netherlands. Combined with the Los Mirasoles wind farm, this covers some 49% of our total electricity demand. Combined with the achieved energy reductions, this led to a 26% reduction in emissions from our energy consumption (scope 1 and scope 2 market-based) in 2019 compared to 2018.

Our business travel emissions, covering emissions from air travel, lease cars and rental cars, increased by 2.8% compared to 2018. We recorded a 3% reduction in our air travel emissions as a result of, among other things, our 2019 'Fly Less, Travel Smarter' campaign. This campaign was initiated to further reduce our business travel emissions by installing more online collaboration rooms as an alternative to travel, stimulating behavioral change via our Global Connect Challenge, and promoting alternative modes of transport. The emission reduction in air travel was mitigated by an 18% increase in emissions from our lease car fleet, mainly caused by an increase in fleet size combined with the implementation of the new improved Worldwide Harmonized Light Vehicle Test Procedure (WLTP).

Emissions resulting from rental cars decreased by 11% compared to 2018.

In 2019, we recorded a 12% decrease in emissions in our overall logistics operations compared to 2018. We reduced overall emissions from air freight by 21% and from ocean freight by 8%. Emissions from parcel shipments increased by 22% and from road transport by 8%. To take a tangible step towards the decarbonization of ocean shipping, Philips joined other Dutch multinationals FrieslandCampina, Heineken, DSM, Shell and Unilever - all members of the Dutch Sustainable Growth Coalition (DSGC) - in the world's largest second-generation biofuel pilot. It used up to 20% sustainable second-generation biofuels on a large triple-E ocean vessel, which set sail in March 2019 from Rotterdam to Shanghai and back on biofuel blends alone. This project was a world first on this scale, saving 1,500 tonnes CO₂-equivalent and 20,000 kilograms of sulphur.

Although reduction is key to achieving carbon neutrality, unavoidable carbon emissions require offsetting in order to gradually drive down our emissions to zero by year-end 2020. We do this by financing projects in emerging regions that have a strong link with UN Sustainable Development Goals 3 (*Ensure healthy lives and promote well-being for all at all ages*) and 12 (*Ensure sustainable consumption and production patterns*). In 2019, we increased this to 440 kilotonnes, equivalent to the annual uptake of approximately 13 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, road and parcel shipments within logistics. We do this by financing carbon reduction projects in emerging regions that 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 unless otherwise stated
2015 – 2019

	2015	2016	2017	2018	2019
Scope 1	39	42	38	40	35
Scope 2 (market based)	106	121	58	25	14
Scope 2 (location based)	212	252	225	227	203
Scope 3	612	649	785	721	657
Total (scope 1, 2 (market based), and 3)	757	812	881	786	706
Emissions compensated by carbon offset projects	-	-	220	330	440
Net operational carbon emissions	757	812	661	456	266
Operational CO ₂ e efficiency in tonnes CO ₂ e/mln EUR sales	46.6	47.9	47.5	43.4	36.2

During 2019, the applied emission factors used to calculate our operational carbon footprint remained unchanged compared to 2018. Philips reports all its emissions in line with the Greenhouse Gas Protocol (GHGP) as further described in [Data definitions and scope, starting on page 51](#). Due to new insights and improved calculation methodologies, the emission results from air freight and air travel have been restated historically.

Philips Group
Energy consumption¹⁾ in terajoules (TJ) unless otherwise stated
2015 – 2019

	2015	2016	2017	2018	2019
Total electricity consumption	1,809	1,742	1,560	1,582	1,531
Fuel consumption	782	652	558	603	550
Purchased heat, steam and cooling	67	83	48	61	60
Total energy	1,658	2,477	2,166	2,246	2,141
Renewable electricity	965	986	1,228	1,423	1,450
Renewable electricity share	53%	57%	79%	90%	95%
Renewable energy share	36%	40%	57%	63%	68%
Operational energy efficiency in TJ/mln EUR sales	0.16	0.15	0.12	0.12	0.11

¹⁾ This table reflects Philips energy consumption, excluding potential heat and transmission losses from electricity generation and transport

Water

In 2019, Philips was ranked on the CDP Water Security 'A' List for the first time. Along with our 'A' score for Climate Leadership, this makes us one of the few European companies to receive a double 'A' score. Total water intake in 2019 was 890,000 m³, comparable to

2018. Personal Health, which consumes 50% of total water usage, recorded a 1% increase. The increase was mainly due to production volume increases at one manufacturing site in Asia, partly mitigated by two manufacturing sites in Europe. Diagnosis & Treatment showed an increase of 2%, mainly caused by the inclusion of a new reporting site. Connected Care showed a decrease of 7% due to a change in organizational footprint.

Philips Group
Water intake in thousands of m³
2015 – 2019

	2015	2016	2017	2018	2019
Diagnosis & Treatment	268	269	312	288	295
Connected Care	172	152	168	161	150
Personal Health	536	542	408	442	445
Philips Group	976	963	888	891	890

In 2019, 99% of water was purchased and 1% was extracted from groundwater wells.

Waste

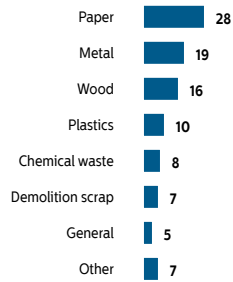
In 2019, our manufacturing sites generated 26.4 kilotonnes of waste, an increase of 8% compared to 2018, mainly driven by construction activities in different locations. The Diagnosis & Treatment businesses increased their waste by 15% (construction activities, operational changes and one new reporting site), now constituting 37% of total waste; Connected Care increased by 3% (construction activities and operational changes); Personal Health increased by 4% (increased production and warehouse clean-up), now constituting 48% of total waste.

Philips Group
Total waste in kilotonnes
2015 – 2019

	2015	2016	2017	2018	2019
Diagnosis & Treatment	8.0	9.2	8.3	8.4	9.7
Connected Care	3.6	3.5	3.9	4.0	4.1
Personal Health	11.6	12.2	12.4	12.1	12.6
Philips Group	23.2	24.9	24.6	24.5	26.4

Total waste consists of waste that is delivered for landfill, incineration or recycling. Our sites are addressing both the recycling percentage as well as waste sent to landfill as part of the 'Healthy people, Sustainable planet' program. Materials delivered for recycling via an external contractor amounted to 21.9 kilotonnes, which equals 83% of total waste, comparable to 2018 (84%). In some countries, construction waste is regulated and has to go to landfill, which impacted the recycling rate in 2019 negatively. Of the 17% remaining (not recycled) waste, 81% comprised non-hazardous waste and 19% 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 2019 we reported 1.3 kilotonnes of waste sent to landfill, a reduction of 24% compared to 2018. 19 out of our 35 industrial sites achieved Zero Waste to Landfill status.

Philips Group
Industrial waste delivered for recycling in %
 2019



Philips included 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 below a summary of the emissions of the formerly targeted substances. Emissions of restricted substances were again zero in 2019. The level of emissions of hazardous substances decreased from 3,363 kilos in 2018 to 2,521 kilos in 2019 (-25%), mainly driven by the reduction in styrene emissions in the Personal Health businesses.

Philips Group
Restricted and hazardous substances in kilos
 2015 - 2019

	2015	2016	2017	2018	2019
Restricted substances	18	1	0	0	0
Hazardous substances	22,394	10,496	5,243	3,363	2,521

For more details on emissions from substances, please refer to [Sustainable Operations, starting on page 66](#).

^{*)} 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 33](#).

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;
- EBITA;
- 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 EPS);
- 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.

Additionally, Philips provides forward-looking targets for comparable sales growth, adjusted EBITA margin improvement and free cash flow, which are non-IFRS financial measures. Philips has not provided a quantitative reconciliation of these targets to the most directly comparable IFRS measures because certain information needed to reconcile these non-IFRS financial measures to the most comparable IFRS financial measures are dependent on specific items or impacts which are not yet determined, are subject to uncertainty and variability in timing and amount due to their nature, are outside of Philips' control, or cannot be predicted, including items and impacts such as currency exchange rates, acquisitions and disposals, charges and costs such as impairments, restructuring and acquisition-related charges, amortization of intangible assets and net capital expenditures. Accordingly, reconciliations of these non-IFRS forward looking financial measures to the most directly comparable IFRS financial measures are not available without unreasonable effort. Such unavailable reconciling items could significantly impact our results of operations and financial condition.

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, of the Annual Report 2019, 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 %
2017 - 2019

	nominal growth	consolidation changes	currency effects	comparable growth
2019 versus 2018				
Diagnosis & Treatment	9.8	(1.2)	(3.2)	5.5
Connected Care	7.7	(0.4)	(4.2)	3.1
Personal Health	6.0	0.2	(1.2)	5.0
Philips Group	7.5	(0.3)	(2.8)	4.5
2018 versus 2017				
Diagnosis & Treatment	4.9	(2.4)	4.1	6.6
Connected Care	0.2	(1.6)	4.1	2.7
Personal Health	(2.8)	0.6	4.6	2.3
Philips Group	1.9	(1.4)	4.2	4.7
2017 versus 2016				
Diagnosis & Treatment	2.9	(1.5)	2.0	3.4
Connected Care	2.0	0.3	2.2	4.5
Personal Health	2.4	1.3	1.7	5.4
Philips Group	2.1	(0.1)	1.9	3.9

Philips Group
Sales growth composition per geographic cluster in %
2017 - 2019

	nominal growth	consolidation changes	currency effects	comparable growth
2019 versus 2018				
Western Europe	3.6	(1.0)	(0.2)	2.4
North America	9.7	(0.6)	(5.5)	3.5
Other mature geographies	0.7	(0.3)	(3.7)	(3.4)
Total mature geographies	6.3	(0.7)	(3.5)	2.1
Growth geographies	10.0	0.6	(1.0)	9.6
Philips Group	7.5	(0.3)	(2.8)	4.5
2018 versus 2017				
Western Europe	4.9	(2.6)	0.4	2.7
North America	(1.1)	(2.6)	4.4	0.7
Other mature geographies	10.8	(0.4)	4.1	14.5
Total mature geographies	2.5	(2.3)	3.1	3.3
Growth geographies	0.7	0.4	6.5	7.6
Philips Group	1.9	(1.4)	4.2	4.7
2017 versus 2016				
Western Europe	1.2	0.5	1.1	2.8
North America	2.1	(1.4)	2.0	2.7
Other mature geographies	(4.7)	(0.1)	2.6	(2.2)
Total mature geographies	0.8	(0.6)	1.7	1.9
Growth geographies	4.8	0.9	2.3	8.0
Philips Group	2.1	(0.1)	1.9	3.9

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.

EBITA excludes amortization and impairment of acquired intangible assets (and impairment of goodwill), which primarily relates to brand names, customer relationships and technology, as Philips believes that such amounts are inconsistent in amount and frequency, are significantly impacted by the timing and/or size of acquisitions and do not factor into its decisions on allocation of its resources across segments. Although we exclude amortization and impairment of acquired intangible assets from our Adjusted EBITA measure, Philips believes that it is important for investors to understand that these acquired intangible assets contribute to revenue generation.

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
 2017 - 2019

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	Other
2019					
Net Income	1,173				
Discontinued operations, net of income taxes	19				
Income tax expense	337				
Investments in associates, net of income taxes	(1)				
Financial expenses	233				
Financial income	(117)				
Income from operations	1,644	660	267	844	(127)
Amortization of acquired intangible assets	350	177	141	25	8
Impairment of goodwill	97	19	78		
EBITA	2,091	856	486	869	(119)
Restructuring and acquisition-related charges	318	149	64	50	54
Other items	153	73	67	23	(11)
Adjusted EBITA	2,563	1,078	618	943	(76)
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	629	399	796	(105)
Amortization of acquired intangible assets	347	98	140	31	79
EBITA	2,066	727	539	827	(27)
Restructuring and acquisition-related charges	258	146	66	15	31
Other items	41	-	56	18	(33)
Adjusted EBITA	2,366	872	662	860	(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	512	424	834	(252)
Amortization of acquired intangible assets	260	57	138	39	26
Impairment of goodwill	9				9
EBITA	1,787	568	562	873	(217)
Restructuring and acquisition-related charges	316	156	91	6	64
Other items	50	22	31		(3)
Adjusted EBITA	2,153	747	684	879	(157)

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 EPS)

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, of the Annual Report 2019, 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 shareholders ¹⁾ in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Net income	1,870	1,097	1,173
Discontinued operations, net of income taxes	(843)	213	19
Income from continuing operations	1,028	1,310	1,192
Continuing operations non-controlling interests	(11)	(7)	(5)
Income from continuing operations attributable to shareholders ¹⁾	1,017	1,303	1,186
Adjustments for:			
Amortization of acquired intangible assets	260	347	350
Impairment of goodwill	9		97
Restructuring costs and acquisition-related charges	316	258	318
Other items	50	41	153
Net finance expenses		57	14
Tax impact of adjusted items	(194)	(365)	(280)
Adjusted income from continuing operations attributable to shareholders ¹⁾	1,459	1,643	1,839
Earnings per common share:			
Income from continuing operations attributable to shareholders ¹⁾ per common share (in EUR) - diluted	1.08	1.39	1.30
Adjusted income from continuing operations attributable to shareholders ¹⁾ per common share (in EUR) - diluted	1.54	1.76	2.02

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
 2017 - 2019

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	Other
2019					
Net Income	1,173				
Discontinued operations, net of income taxes	19				
Income tax expense	337				
Investments in associates, net of income taxes	(1)				
Financial expenses	233				
Financial income	(117)				
Income from operations	1,644	660	267	844	(127)
Depreciation, amortization and impairment of fixed assets	1,402	564	327	186	326
Impairment of goodwill	97	19	78		
Restructuring and acquisition-related charges	318	149	64	50	54
Other items	153	73	67	23	(11)
Adding back impairment of fixed assets included in Restructuring and acquisition-related changes and Other items	(111)	(109)	(2)	-	(1)
Adjusted EBITDA	3,503	1,357	802	1,104	241
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	629	399	796	(105)
Depreciation, amortization and impairment of fixed assets	1,089	349	326	171	244
Restructuring and acquisition-related charges	258	146	66	15	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)	(8)	-	1
Adjusted EBITDA	3,093	1,116	839	1,000	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	512	424	834	(252)
Depreciation, amortization and impairment of fixed assets	1,025	301	355	181	188
Impairment of goodwill	9				9
Restructuring and acquisition-related charges	316	156	91	6	64
Other items	50	22	31		(3)
Adding back impairment of fixed assets included in Restructuring and acquisition-related changes and Other items	(86)	(36)	(34)	(1)	(16)
Adjusted EBITDA	2,832	956	866	1,021	(11)

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 adopted IFRS 16 on January 1, 2019. As a result, Philips calculation of Free cash flow for the year ended December 31, 2019 includes the impact of IFRS 16. Please refer to note Significant accounting policies, of the Annual Report 2019. Free cash flow calculations for prior periods have not been restated for this impact.

Philips Group
Composition of free cash flow in millions of EUR
2017 - 2019

	2017	2018	2019
Net cash flows provided by operating activities	1,870	1,780	2,031
Net capital expenditures:	(685)	(796)	(978)
Purchase of intangible assets	(106)	(123)	(156)
Expenditures on development assets	(333)	(298)	(339)
Capital expenditures on property, plant and equipment	(420)	(422)	(518)
Proceeds from disposals of property, plant and equipment	175	46	35
Free cash flow	1,185	984	1,053

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
2017 - 2019

	2017	2018	2019
Long-term debt	4,044	3,427	4,939
Short-term debt	672	1,394	508
Total debt	4,715	4,821	5,447
Cash and cash equivalents	1,939	1,688	1,425
Net debt	2,776	3,132	4,022
Shareholders' equity	11,999	12,088	12,597
Non-controlling interests	24	29	28
Group equity	12,023	12,117	12,625
Net debt : group equity ratio	19:81	21:79	24:76

Comparable order intake

Comparable order intake represents the period-on-period growth, expressed as a percentage, in order intake excluding the effects of currency movements and changes in consolidation. Comparable order intake is reported for equipment and software in the Diagnoses & Treatment and Connected Care businesses, and is defined as the total contractually committed value of equipment and software to be delivered within a specified timeframe, and is an approximation of expected future revenue growth in the respective businesses. Comparable order intake does not derive from the financial statements and a quantitative reconciliation is thus 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
 2015 - 2019

	2015	2016	2017	2018	2019
Nominal sales growth	16%	4%	2%	2%	8%
Comparable sales growth ¹⁾	4%	5%	4%	5%	4%
Free cash flow ¹⁾	(154)	429	1,185	984	1,053
PPE - Capital expenditure for the year	575	575	551	546	1,831
Adjusted EBITA ¹⁾	1,688	1,921	2,153	2,366	2,563
as a % of sales	10.0%	11.0%	12.1%	13.1%	13.2%
Adjusted income from continuing operations attributable to shareholders ^{1) 2)}	1,000	1,153	1,459	1,643	1,839
Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted ^{1) 2)}	1.08	1.24	1.54	1.76	2.02
Cash and cash equivalents	1,766	2,334	1,939	1,688	1,425
Net debt: group equity ratio ¹⁾	25:75	20:80	19:81	21:79	24:76
Market capitalization at year-end	21,607	26,751	29,212	28,276	38,775

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 33](#).

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

Philips Group
Sustainability
 2015 - 2019

	2015	2016	2017	2018	2019
Lives improved, in billions	1.25	1.36	1.47	1.54	1.64
Green Revenues, as a % of total sales	56%	58%	60%	64%	67%
Green Innovation, in millions of euros	241	277	233	228	235
Circular revenue	7%	9%	11%	12%	13%
Operational carbon footprint, in kilotonnes CO ₂ -equivalent	757	812	881	786	706

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
 2015 – 2019

	2015	2016	2017	2018	2019
Sales	16,806	17,422	17,780	18,121	19,482
Income from operations	658	1,464	1,517	1,719	1,644
Financial income and expenses - net	(359)	(442)	(137)	(213)	(117)
Income (loss) from continuing operations	160	830	1,028	1,310	1,192
Income (loss) from continuing operations attributable to shareholders ¹⁾	146	788	814	1,303	1,186
Income (loss) from discontinued operations	479	660	843	(213)	(19)
Net income (loss)	638	1,490	1,870	1,097	1,173
Net income (loss) attributable to shareholders ¹⁾	624	1,448	1,657	1,090	1,167
Total assets	30,943	32,269	25,315	26,019	27,016
Net assets	11,725	13,435	12,023	12,117	12,625
Debt	5,760	5,606	4,715	4,821	5,447
Provisions	4,243	3,605	2,059	2,151	2,159
Shareholders' equity	11,607	12,546	11,999	12,088	12,597
Non-controlling interests	118	907	24	29	28
Weighted average shares outstanding:					
basic	916,087	918,016	928,798	922,987	902,982
diluted	923,625	928,789	945,132	935,851	912,691
Amount of common shares outstanding at year-end	917,104	922,437	926,192	914,184	890,974
Basic earnings per common share:					
Income (loss) from continuing operations attributable to shareholders ¹⁾	0.17	0.90	1.10	1.41	1.31
Net income (loss) attributable to shareholders ¹⁾	0.70	1.58	1.78	1.18	1.29
Diluted earnings per common share:					
Income (loss) from continuing operations attributable to shareholders ¹⁾	0.17	0.89	1.08	1.39	1.30
Net income (loss) attributable to shareholders ¹⁾	0.70	1.56	1.75	1.16	1.28
Dividend distributed per common share	0.80	0.80	0.80	0.80	0.85
Total employees at year-end (FTEs)	112,959	114,731	73,951	77,400	80,495

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

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 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: changes in industry or market circumstances; economic and political developments; Philips' increasing focus on health technology; the realization of Philips' growth ambitions and results in growth geographies; lack of control over certain joint ventures; integration of acquisitions; securing and maintaining Philips' intellectual property rights and unauthorized use of third-party intellectual property rights; compliance with quality standards, product safety laws and good manufacturing practices; exposure to IT security breaches, IT disruptions, system changes or failures; supply chain management; ability to create new products and solutions; attracting and retaining personnel; financial impacts from Brexit; compliance with regulatory regimes, including data privacy requirements; governmental investigations and legal proceedings with regard to possible anticompetitive market practices and other matters; business conduct rules and regulations; treasury risks and other financial risks; tax risks; costs of defined-benefit pension plans and other post-retirement plans; reliability of internal controls, financial reporting and management process.

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 with a recycled plastics content of >25% post-consumer recycled plastics or >30% post-industrial/post-consumer recycled plastics by total weight of eligible 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. Innovation projects are characterized as Green based on the innovation brief; this designation is not revised during the project lifetime.

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.

A product or solution that has been determined to contribute to Green Revenues will continue to do so until it is decommissioned.

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.

Long-term strategic partnership

Multi-year contractual agreement that represents a partnership to enable long-term collaboration

Market/Market Group

A Market consists of one or more countries operating as a single organization under a Market Leader. Our 17 Market organizations are organized in three market groups: North America, Greater China and International Markets.

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.

Quadruple Aim

At Philips, we make value-based care principles actionable by addressing the Quadruple Aim – better health outcomes, improved patient experience, improved staff experience, and lower cost of care.

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, polybrominated 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.

Solution

A combination of Philips (and 3rd-party) systems, devices, software, consumables and services, configured and delivered in a way to solve customer (segment)-specific needs and challenges.

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 (*Ensure healthy lives and promote well-being for all at all ages*) or 12 (*Ensure sustainable consumption and production patterns*). This includes all Diagnosis & Treatment and Connected Care 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.

Statements

Sustainability statements

Approach to sustainability reporting

Philips has a long tradition of sustainability reporting, beginning with our first environmental Annual Report published in 1999. This was expanded in 2003, with the launch of our first sustainability Annual Report, which provided details of our social and economic performance in addition to our environmental results. As a next step, in 2008, we decided to publish an integrated financial, social and environmental report. This is our 12th 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.

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.

Stakeholder overview (non-exhaustive)

	Examples	Processes
Employees	<ul style="list-style-type: none"> – European Works Council – Local Works Councils – Individual employees 	<p>Regular meetings, quarterly Employee Survey, employee development process, quarterly update webinars. For more information refer to Social performance, starting on page 21</p> <p>Regular mail updates, team meetings, webinars</p>
Customers	<ul style="list-style-type: none"> – Hospitals – Retailers – Consumers 	<p>Joint (research) projects, business development, Lean value chain projects, strategic partnerships, consumer panels, Net Promoter Scores, Philips Customer Care centers, Training centers, social media</p>
Suppliers	<ul style="list-style-type: none"> – Chinese suppliers in the Supplier Development program – Randstad, Lenovo 	<p>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 59.</p>
Governments, municipalities, etc.	<ul style="list-style-type: none"> – European Union – Authorities in Indonesia, Singapore 	<p>Topical meetings, research projects, policy and legislative developments, business development, multi-stakeholder projects</p>
NGOs	<ul style="list-style-type: none"> – UNICEF, International Red Cross – Friends of the Earth, Greenpeace 	<p>Topical meetings, multi-stakeholder projects, joint (research) projects, innovation challenges, renewables projects, social investment program and Philips Foundation</p>
Investors	<ul style="list-style-type: none"> – Mainstream investors – ESG investors 	<p>Webinars, roadshows, capital markets day, Investor relations and Sustainability accounts</p>

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 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.

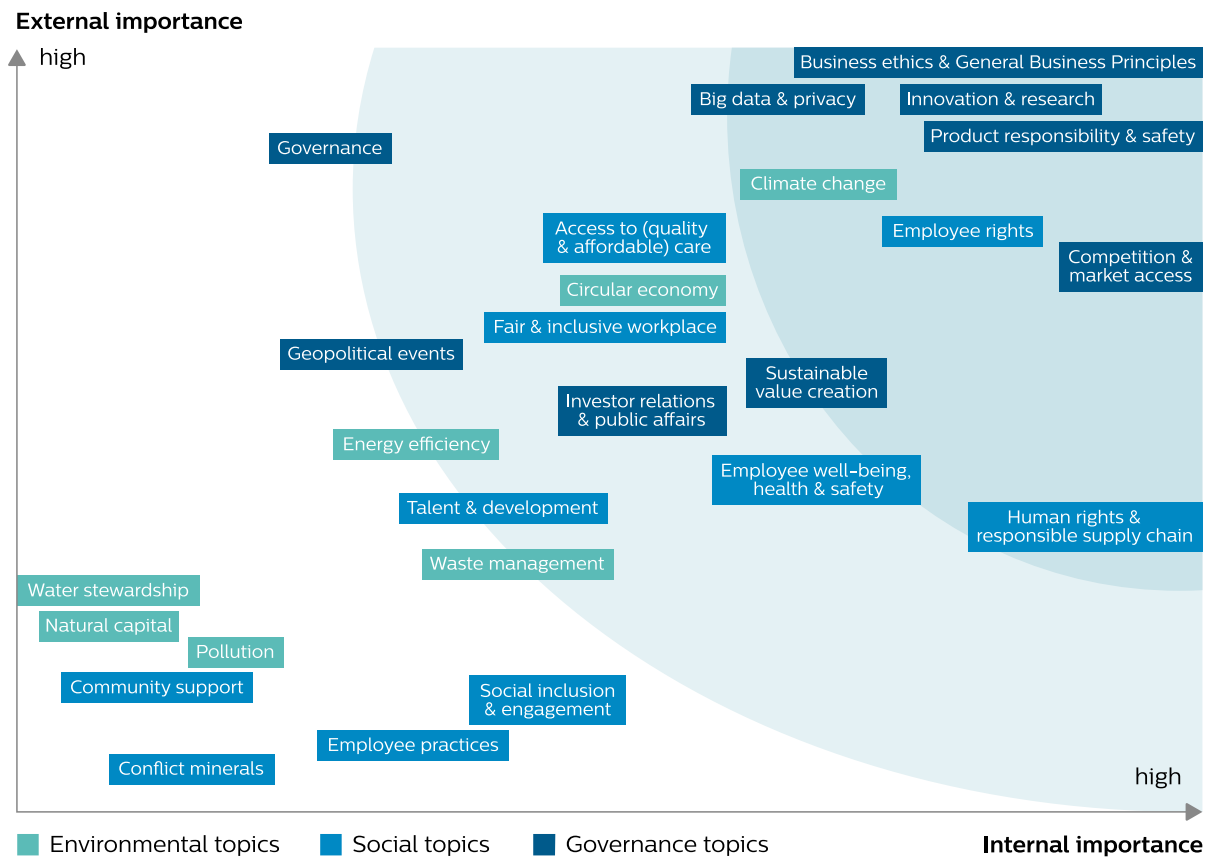
At the World Economic Forum in January 2017 Philips signed the Compact for Responsive and Responsible Leadership. The Compact is an initiative to promote and align the long-term sustainability of corporations and the long-term goals of society, with an inclusive approach for all stakeholders.

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 58 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
2019



Our materiality assessment is based on an ongoing trend analysis, media search, and stakeholder input. In 2019, we solicited input from a diverse group of external and internal stakeholders, including investors, NGOs, customers, suppliers, peer companies, and senior management in Philips. Similar to 2018, we used 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 most significant increases compared to 2018 on the external view are Climate change, Product responsibility, Energy efficiency, Innovation and Sustainable value creation. The internal view saw a significant increase in importance on Employee rights, Human Rights and Responsible supply chains.

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.

Key material topics

	Reference	
Environmental		Boundaries
– Climate change	Message from the CEO, starting on page 4 Strategy and Businesses, starting on page 7 Environmental performance, starting on page 26 Environmental statements, starting on page 64	Supply chain, operations, use phase
– Energy efficiency	Green Innovation, starting on page 27 Environmental performance, starting on page 26 Environmental statements, starting on page 64	Supply chain, operations, use phase
– Circular Economy	Green Innovation Environmental performance, starting on page 26 Circular Economy, starting on page 64 Supplier indicators, starting on page 59	Supply chain, operations, use phase, disposal
– Waste management	Environmental performance, starting on page 26 Environmental statements, starting on page 64	Supply chain, operations, disposal

	Reference	
Societal		Boundaries
– Access to (quality & affordable) care	Message from the CEO, starting on page 4 About Diagnosis & Treatment businesses in 2018, starting on page 11 About Connected Care & Health Informatics businesses in 2018, starting on page 13 Social performance, starting on page 21	Use phase
– Employee rights	Human Rights, starting on page 25 Living wage, of the Annual Report 2019 General Business Principles, starting on page 25	Supply chain, operations, use phase
– Employee wellbeing, Health & Safety	Message from the CEO, starting on page 4 Health and Safety, starting on page 25 Supplier indicators, starting on page 59	Supply chain, operations
– Human Rights and Responsible Supply Chains	Supply chain and procurement, of the Annual Report 2019 Social performance, starting on page 21 Sustainability statements, starting on page 47	Supply chain, operations
– Fair and Inclusive workplace	Inclusion & Diversity, starting on page 23 Supplier indicators, starting on page 59 Social statements	Supply chain, operations
– Talent and development	Social performance, starting on page 21 People development, starting on page 53 Talent attraction, starting on page 54	Supply chain, operations

	Reference	
Governance		Boundaries
– Business ethics and General Business Principles	Compliance risks, of the Annual Report 2019 General Business Principles, starting on page 25	Supply chain, operations, use phase
– Product responsibility and safety	About Other, starting on page 16 Sustainability statements, starting on page 47 Compliance risks Sustainability statements, starting on page 47	Supply chain, operations, use phase
– Competition and market access	Our geographies, of the Annual Report 2019 Social performance, starting on page 21 Our commitment to Quality, Regulatory Compliance and Integrity, starting on page 19	Supply chain, operations, use phase
– Geopolitical events	Our geographies, of the Annual Report 2019 Compliance risks, of the Annual Report 2019	Supply chain, operations
– Big data and Privacy	Strategy and Businesses, starting on page 7 Our commitment to Quality, Regulatory Compliance and Integrity, starting on page 19 Human Rights, starting on page 25 Operational risks, of the Annual Report 2019	Supply chain, operations, use phase
– Innovation and research	Strategy and Businesses Strategic risks Human Rights, starting on page 25	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
2019

	baseline year 2015	target 2020	2019 actual
Lives Improved	1.25 billion	1.7 billion	1.64 billion
Circular revenues	7%	15%	13%
Green revenues	56%	70%	67%
Net operational carbon footprint	757 Ktonnes	0 Ktonnes	266 Ktonnes
Operational waste recycling	78%	90%	83%
Hazardous substances emissions	1,419 kilos	50% reduction	528 kilos
Total Recordable Case (TRC) rate	0.39	0.29	0.30
Supplier Sustainability	33% RSL compliant	85% RSL compliant	90% RSL compliant
Supplier Sustainability	New development program tested	300 companies in development program	252 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.

In 2019, Philips re-aligned its 'Lives Improved' target with the UN 2030 Sustainable Development Agenda following the completion of its portfolio transformation. Philips targets an ambitious, average annual Lives Improved growth rate of around 6% for the 2019 – 2030 period, resulting in 3 billion lives improved annually by 2030.

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 emission factors have not been updated in 2019.

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.

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 in [Methodology for calculating Lives Improved](#). We used opinions from Philips experts and estimates for some parts of the Lives Improved calculations. Philips has made strong commitments to enabling healthy living and well-being for all. To track our impact, Philips identifies countries where the need for access to healthcare is highest. This is determined by four selected health indicators, as provided by United Nations Sustainable Development Goal 3, which focuses on health and well-being. The specific methodology for how we determine an underserved health community can be found in [Methodology for defining underserved health communities](#).

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 web-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.

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 Green-e certified Renewable Energy Certificates (RECs) in the United States, European Guarantees of Origin (GOs) from the Association of Issuing Bodies (AIB) of the European Energy Certificate System (EECS) and i-RECs for our ASEAN operations. To ensure the additionality, all certificates were produced in 2019 in the country of consumption and are retired on behalf Royal Philips. Only 1.7% of our total renewable electricity volume was allocated ex-domain to cover for sites with smaller consumption. To quantify our emissions we have used the residual mix emission factors derived from the Association of Issuing Bodies (AIB) and Green-e where available. Where location specific residual mix factors were missing, the grid-average emission factors from the International Energy Agency (IEA) are used.

- 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) 2018 and the IEA emission factor set 2018. 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 47](#) and [Social performance, starting on page 21](#) and [Environmental performance, starting on page 26](#) 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](#)

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
2017 - 2019

	2017	2018	2019
Suppliers: goods and services	9,600	9,568	10,607
Employees: salaries and wages	4,856	4,849	5,251
Shareholders: distribution from retained earnings	742	738	775
Government: corporate income taxes	349	193	337
Capital providers: net interest	182	157	169

Total purchased goods and services as included in cost of sales amounted to EUR 10.6 billion, representing 54% of total revenues of the Philips Group. Of this amount, approximately 53% was spent with global suppliers, the remainder with local suppliers.

In 2019, salaries and wages totaled EUR 5.3 billion, an increase of 8% compared to 2018, mainly driven by the growth in employees. See Income from operations, of the Annual Report 2019 for more information.

Philips' shareholders were given EUR 775 million including costs in the form of a dividend, the cash portion of which amounted to EUR 453 million.

Income taxes amounted to EUR 337 million, compared to EUR 193 million in 2018. The effective income tax rate in 2019 was 22.1%, compared to 12.8% in 2018. The increase was mainly due to lower non-cash benefits from tax audit resolutions and business integration compared to 2018, partly offset by lower provisions for tax risks. For more information, see Income taxes, of the Annual Report 2019.

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](#).

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 21](#)

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 2019 we continued taking experimental learning to a new level across our 70:20:10 approach.

At the end of 2019 the number of active trainings had increased to 5,324. By year-end, 714,430 courses have been taken with Philips University. In total, 966,813 hours were spent on training through Philips University in 2019, with 683,336 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 2019, 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 2020 we will continue to 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, with female leaders becoming and seeking out coaches and mentors within the organization, was taken by 673 employees in 2019, with a 94% completion rate.

10% Learning programs

Philips University continued to deliver upon its mission of a lifetime of learning in Philips by further optimizing the set-up of the organization and the way learning is created and offered. 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 2019 we continued the preparation of an improved customer experience via a new design of our Learning Management system. The launch was put back to February 2020 in order to optimize the end result. We also further improved our full metrics dashboard to enable us to measure the development cost of our learning.

Talent attraction

In 2019, we completed over 14,000 new hires, with 28% 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 1,800 R&D and Software Engineering professionals from the external labor market, an increase of 20% year-on-year, with an increase to 25% (2018: 20%) coming from 'High Value Target' companies – those known to be best-in-class for a particular skill set.

Continuing the trend from previous years, we strengthened our in-house talent acquisition capabilities at Executive level, delivering a cost avoidance of EUR 3.7 million in 2019.

We invested 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 2019:

- **Attraction of female leaders:** The promotion of the targeted Employer Value Proposition (EVP) via the global campaign and content program Lead Your Way continued in five major geographies, supporting our commitment to reach 25% female representation in leadership positions by 2020. This resulted in a maintained delivery of female hires at CG90+ level of 33%.
- **Workforce of the Future:** We expanded our passive talent attraction focus into the contingent/freelancer segment to help manage workforce demand in today's gig economy. We increased the direct staffing of freelance roles to 25% of total freelance roles.
- **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 2019, our recruiters collectively completed 250+ hours of talent advisor trainings. We executed a candidate-centric content marketing strategy, and continued to enhance the user experience of our Artificial Intelligence (AI)-driven career websites globally. More than 1.9 million unique talent profiles enjoyed a personalized Philips career website experience in 2019 (10% growth year-on-year).

Philips was recognized for its innovative talent practices through awards from programs led by the Employer Brand Management Association (EBMA), Universum, LinkedIn and Mogul, among others.

Employee volunteering

In 2019, Philips Foundation and Royal Philips collaborated on the first full year of the new employee team-volunteering program, to leverage the capabilities of over 80,000 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:

- Fun in fundraising: Amref Africa Classic 2019 - 13 employees not only committed to an epic bike ride of 400 km around Mount Kilimanjaro, but also to raise EUR 5,000 each to support the fight against childhood pneumonia. The team exceeded their goal and raised close to EUR 75,000, which was then matched by the Philips Foundation.
- Hands-on volunteering: Philips forest tree planting event in Amsterdam – On World Pneumonia Day (November 12, 2019), Philips employees planted more than 1,000 trees near Amsterdam. The Philips Forest initiative aims to promote healthy lives and raise environmental awareness.
- Brain challenge: Outreach campaign tackling air pollution in Mongolia – Teaming up with UNICEF, the Philips Experience Design team developed multiple concepts to raise awareness around the dangers of air pollution among children in Mongolia.
- Over EUR 405,000 was donated to five NGO impact projects, helping improve 0.9 million lives in vulnerable communities around the world.

In 2020, the Volunteering program will continue employee volunteering and fundraising efforts around a new broader theme of Non-communicable diseases (NCDs), to create measurable and sustainable impact. NCDs are responsible for 71% of all deaths globally. Each year, 15 million people die prematurely from an

NCD, with over 85% of these deaths occurring in low- and middle-income countries. Early detection, pro-active screening and treatment of NCDs are key components of the response to NCDs.

Building employability

At Philips, our vision to offer the best place to work for people who share our passion is not limited to employees on our payroll. In the Netherlands, for example, we run a special employment program, WGP (Werkgelegenheidsplan, or Philips Employment Scheme), to offer vulnerable groups of external jobseekers a work experience placement, usually combined with training. Since the scheme's launch in 1983, over 13,000 people have participated, and around 70% found a regular job after taking part in the program. In 2019, Philips employed 191 people via the WGP program.

Philips Foundation

The 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 2019, Royal Philips supported the 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.

The 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 Red Cross organizations, UNICEF, Amref and Save the Children), the 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.

The Philips Foundation started to apply the same Lives Improved methodology to quantify their social impact. In 2019, the Foundation improved access to healthcare for people in underserved communities, mainly through their partnership with Ashoka to accelerate healthcare access by collaborating with social entrepreneurs, the impact from the employee volunteering program, and impactful projects in medically underserved communities in Uganda, South Africa and Malawi.

Since the launch of the Philips Foundation, over 160 projects have been completed or are in progress throughout the world, with a reach of over 15 million people – engaging employees, connecting with patients and providing access to healthcare for medically underserved communities.

A total of 38 new projects were approved in 2019 across the world, spanning many phases of the health continuum: from youth education and awareness on healthy living and prevention, to diagnosis and

treatment, as well as capacity building in the healthcare workforce. The Philips Foundation supported projects with local non-governmental organizations, across 22 countries, working with Philips employees to improve healthcare access and availability for vulnerable communities.

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

General Business Principles

In 2019, a total of 545 concerns were reported via the Philips Ethics Line and through our network of GBP Compliance Officers, an increase of 24% year-on-year (2018: 438 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 upward trend remains in line with our multi-year efforts to encourage our employees to express their concerns, in combination with a growing workforce.

Specifically in 2019, we focused on increasing awareness on Integrity and on the importance of speaking up through, and following, the deployment of our biennial Business Integrity Survey. Through this survey, almost 26,000 employees trusted us with their views and opinions on Integrity within Philips. Among other things, 92% of our employees expressed the belief that we act with integrity at Philips. In order to better understand the root causes of both the upward trend in reported concerns and gain deeper insights into the results of the Business Integrity Survey, we are executing deep-dive initiatives amongst our employees throughout the company, the results of which will become available during the first half of 2020.

In 2019, over 33,000 eligible employees took the mandatory anti-bribery anti-corruption training. The topic was also addressed as key element of our annual code of conduct training and featured prominently in our GBP Dialogue Initiative and our global communication efforts.

When looking at absolute numbers, the increase in reports is reflected in all four regions. North America accounts for 42% of the total number of complaints (2018: 45%), while the concerns reported in Latin America now amount to 12% of the total number, compared with 14% in 2018. The number of reports in the Asia-Pacific region (APAC region) and in Europe, Middle East & Africa (EMEA region) account for 23% and 22% of the total number of complaints respectively in 2019 (2018: 21% and 20%).

Philips Group
Breakdown of reported GBP concerns in number of reports
 2016 – 2019

	2016	2017	2018	2019
Health & Safety	9	11	11	9
Treatment of employees	179	211	254	320
- Equal and fair treatment	51	59	63	55
- Employee development	12	12	8	9
- Employee privacy	2	1	6	10
- Employee relations	16	32	24	18
- Respectful treatment	62	77	102	163
- Remuneration	5	8	11	9
- Conflict of interest	-	-	-	1
- Working hours	2	9	12	14
- HR other	29	13	28	41
Legal	27	36	59	44
Business Integrity	97	104	96	138
Procurement	10	6	6	7
IT	8	6	4	3
Other	9	8	8	24
Total	339	382	438	545

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 2019 there were 320 reports in this

category, compared to 254 in 2018. This represents 59% of the total number of concerns, which is again a slight increase on 2018 (58%).

The majority of the concerns reported in the 'Treatment of employees' category relate to 'Respectful treatment' and 'Equal and fair treatment' (163 and 55 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, 49% of cases originated from North America, which is less than in 2018 (56%).

Business integrity

The second most-reported type of concern relates to 'Business Integrity', which accounted for 25% of total cases reported in 2019, up from 22% in 2018. These concerns originated primarily from the APAC region (46%), followed by EMEA (24%), North America (18%) and Latin America (12%).

Philips Group
Classification of the new concerns investigated in number of reports
 2017 – 2019

Category	2017		2018		2019	
	substantiated	unsubstantiated	substantiated	unsubstantiated	substantiated	unsubstantiated
Health & Safety	6	3	3	5	2	3
Treatment of employees	44	126	55	138	64	164
Legal	8	16	16	24	10	18
Business Integrity	28	38	26	32	31	40
Procurement	-	5	3	2	2	4
IT	2	4	2	1	-	-
Other	3	4	-	5	4	10
Total	91	196	105	207	113	239

Substantiated/unsubstantiated concerns

Of the 545 cases reported in 2019, 193 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 352 reports, from 2019 that were closed during the year, (312 in 2018), 113 were substantiated, which represents 32% of the total number reported and closed (34% in 2018). This is also shown in the table. In 2019, 28% of the 'Treatment of employees' cases were substantiated, the same as in 2018 (2017: 26%, 2016: 31%). In addition, 44% of the 'Business Integrity' reports were closed as substantiated in 2017, compared with 45% in 2018 (2017: 42%, 2016: 30%).

In addition to the above, 129 concerns that were still open at the end of 2018 were closed during the course of 2019. A total of 48 (37%) of these concerns were substantiated after investigation.

All of the 161 closed concerns that were substantiated resulted in remedial measures being taken. 98 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 2019, we focused on enhancing six key areas essential to the development of Philips' Health and Safety (H&S) programs:

Policy, Procedures and Management Systems: Philips continued to build a comprehensive global H&S Management System with the deployment of 23 new Philips Corporate Safety Standards (PCSS) in 2019. A total of 67 PCSS (86%) have been deployed, with the remaining PCSS on track to meet the 2020 target. The PCSS are supported with training materials in Philips University and Management guidance notes. Management System Certifications ISO 45001/OHSAS are in place for 23 out of 35 manufacturing locations in scope, with the remaining certifications scheduled before the end of Q2 2020. In addition, three Market organizations are certified to ISO 45001, with further certifications in other Markets planned in 2020.

Compliance: Philips deployed a Health Safety & Sustainability compliance tracking tool with an external supplier, ENHESA, to all manufacturing locations. ENHESA is being expanded to include all significant market operations, including offices and R&D in 2020.

Training and Communication: Philips upgraded H&S training capabilities by incorporating 443 H&S training courses provided by Underwriters Ltd (UL) in 10 languages in Philips University. Training requirements are linked to the PCSS and are being mapped to job families for ease of consistent deployment. Training completion tracking metrics are being implemented.

Philips deployed a global process for communicating Safety Alerts for all Philips-recordable severe accidents and potentially severe near-misses in order to provide awareness of events and lessons learned while promoting a culture of continuous improvement.

Structure and Responsibility: Health and Safety professional capabilities were enhanced across Philips segments and markets. Occupational Health capabilities were strengthened in areas such as Radiation, Ergonomics and Stress Management.

Internal Health and Safety Audit: Six Internal H&S performance assessments were conducted in 2019 at five manufacturing locations and one market location. A new Internal Audit protocol that directly assesses performance against the requirements of the Philips Corporate Safety Standards was developed and trialed in the Indian Subcontinent market in 2019. The upgraded assessment protocols will be deployed in 2020, with enhanced focus on Risk, Compliance and Operational Controls.

Cultural Change: The Philips Behavior-Based Safety (BBS) program was expanded to include 20 manufacturing sites in 2019. A total of 2,401 BBS observations were completed in 2019. The program will be extended to the remaining manufacturing locations in 2020.

Metrics: Health and Safety metrics were further developed in 2019. More emphasis was placed on proactive metrics whilst retaining the existing reportable accident rate. The metrics have aggregated into a scorecard, and this has been combined with the Group Sustainability metrics to provide one consolidated performance metric, which is presented at Executive Committee level. Specific proactive safety metrics include shop floor visits (Gemba walks) completed: 26,298, vs target: 9,707; Safety problem solving events (Kaizens) implemented: 30,156, vs target: 9,707.

In 2019, we recorded 224 TRCs (198 in 2018), 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 - 2019

	2016	2017	2018	2019
Diagnosis & Treatment	0.65	0.58	0.55	0.61
Connected Care	1.01	0.61	0.35	0.34
Personal Health	0.11	0.20	0.14	0.16
Other	0.27	0.29	0.22	0.24
Philips Group	0.37	0.36	0.28	0.30

Additionally, we recorded 103 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 13% increase compared with 91 in 2018. The LWIC rate increased to 0.14 per 100 FTEs, compared with 0.13 in 2018. The number of Lost Workdays caused by injury decreased by 17 days (0.4%) to 4,633 days in 2019.

Philips Group
Lost workday injuries per 100 FTEs
2015 - 2019

	2015	2016	2017	2018	2019
Diagnosis & Treatment	0.20	0.36	0.27	0.20	0.33
Connected Care	0.13	0.14	0.14	0.13	0.09
Personal Health	0.18	0.17	0.18	0.11	0.13
Other	0.13	0.10	0.14	0.11	0.09
Philips Group	0.15	0.16	0.17	0.13	0.14

Diagnosis & Treatment businesses

In the Diagnosis & Treatment businesses segment, the number of Health and Safety incidents increased significantly in 2019, with 43 LWICs compared to 26 in 2018. The LWIC rate increased to 0.33 compared to 0.20 in 2018. The total number of recordable cases for the Diagnosis & Treatment businesses segment was 80 (72 in 2018). This increase was mainly due to more recorded incidents in EMEA and North America.

Connected Care businesses

Health and Safety performance in the Connected Care businesses segment remained fairly stable in 2019: 7 LWICs (8 in 2018). Correspondingly, the LWIC rate decreased from 0.13 to 0.09 in 2019. The total number of recordable cases for the Connected Care businesses segment increased to 26 in 2019 (22 in 2018), mainly driven by our factories in North America.

Personal Health businesses

The Personal Health businesses segment show comparable performance in Health and Safety, with 15 LWICs in 2019, compared to 14 in 2018. The LWIC rate decreased from 0.11 in 2018 to 0.13 in 2019. In the Personal Health businesses segment there were 19 recordable cases in 2019 (18 in 2018).

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 2019, Philips was an active contributor to WEF programs on value-based care, Universal Health Coverage, AI and digital technologies, Circular Economy and Climate Change.

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 fifth year, the **Future Health Index** (FHI) is Philips' flagship research-based platform designed to help determine the readiness of countries to address global health challenges and build efficient and effective health systems. In the context of ever-growing pressure on resources and costs, the Future Health Index focuses on the crucial role digital tools and connected care technology can play in delivering more affordable, integrated and sustainable healthcare.

In 2019, the Future Health Index explored technology's impact on two aspects of the Quadruple Aim: the healthcare experience for both patients and healthcare professionals and how it is moving us to a new era of continuous transformation.

Working on global issues

Sustainable Development Goals

Our work is aligned with three of the United Nations' Sustainable Development Goals – 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*) – and we have

committed to having 95% of our revenue linked to the UN SDGs by 2020. In 2019 we supported a number of important SDG programs including 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 support of our partnership with UNFPA, Philips attended the ICPD conference in Nairobi and announced a **commitment** to work with partners to mobilize USD 100 million of investments for large scale projects focused on high quality, integrated health services in Africa.

Improving access to care

A strong primary care system is the linchpin of good health services and should be a priority. It increases access to care and helps many people stay as healthy as possible during their lifetime by providing immunizations, antenatal and postnatal care as well as chronic disease management.

Philips continued its journey towards improving access to care in developing countries, especially in Africa, by supporting initiatives to strengthen health systems and local treatment. We have extended our pledge to improve the lives of 400 million people a year in underserved communities by 2030, with a specific focus on women and children. The needs of women and children are critical and at the heart of the vision to achieve Universal Health Coverage.

Innovations such as our modular Community Life Center (CLC) solution and digital health solutions such as Mobile Obstetrics Monitoring, deliver comprehensive primary care solutions and provides for maternal observation from conception, pregnancy and the first two years of life, influencing health outcomes for the better. In the course of 2017, CLCs were inaugurated in Kenya, South Africa and the Democratic Republic of Congo. Since then, more CLCs and mobile primary care digital health solutions have been implemented in Kenya, South Africa, Ethiopia, Myanmar and the Philippines or are under execution (Kenya, Congo).

A strong ecosystem of partners with diverse competences are essential to the goal of access to care. Philips was the first private sector company to provide support to SDG Partnership Platform in Kenya – an initiative of the UN, the Government of Kenya and the private sector. The collaboration aims to "Demonstrate the power of public-private collaboration to transform primary healthcare in support of the United Nations

Sustainable Development Goal 3 (*Ensure healthy lives and promote well-being for all at all ages*). And in support of the broader attainment of the improving the health of 46 million Kenyans. Through co-creations governments, and global organizations Philips engages in large-scale public private partnerships to strengthen health systems. Philips strongly believe that functioning health system are critical to future health, community wellbeing of societies and enabling universal health coverage by 2030.

Digital Health for Universal Health Coverage

At the 74th United Nations General Assembly in September 2019, the UN Secretary-General convened a Climate Summit and held a **one-day high-level meeting** on “Universal Health Coverage: Moving Together to Build a Healthier World”.

Philips reiterated its commitment on Universal Health Coverage and advocates for digital health technology. As an active private-sector constituent member of the **UHC2030**, we supported the **statement** on the seven ways private sector can contribute to achieve UHC.

We partnered with Devex, Cordaid, the Global Financing Facility, NCD Alliance and Smile Train in starting an **online conversation** to take a closer look at the technology, practical solutions, and innovative financing tools driving improved access to quality care around the globe. We published a special report which seeks to contribute to important digital health conversations by examining **digital health solutions at the implementation level** and hosted a **high-level panel discussion** on digital health in collaboration with Devex. In doing so, we hope to identify and illustrate a series of common challenges organizations face when implementing digital health solutions and best practices that drive scalable and successful projects to achieve UHC.

Philips and the **PURE** (Point-of-care Ultrasound in Resource-limited Environments) organization have recently rolled-out a **unique tele-ultrasound program** to provide much needed diagnostic ultrasound training to health workers in Kigali, Rwanda. The program, which uses the telehealth capabilities of Philips’ Lumify with Reacts portable point-of-care ultrasound solution, allows expert sonographers in Europe and the US to provide continuous ultrasound training to healthcare professionals over 10,000 km away in Africa.

As part of its activities to promote new Universal Health Care business and financing models, Philips works in partnership with **Amref** to improve and strengthen healthcare systems in Africa by moving from donor-based relationships to shared value partnerships that leverage different stakeholder skills and capabilities. For example, in partnership with the Makueni County Government in Kenya, Amref and Philips are test-bedding an innovative outsourcing model for primary healthcare delivery in which Amref is responsible for capacity building and health worker training, while

Philips is responsible for providing the necessary health technology infrastructure, solutions and medical equipment. These new UHC delivery models help to unlock private investment while ensuring that the health services they fund are efficient, effective, affordable and locally relevant. On September 18, 2019, Philips and Amref announced that they have **extended their partnership for a further three years**.

Health & Healthcare in Europe

With the European Parliament elections in May, negotiations for a new EU budget plan for 2021–2027 and a new European Commission taking seat in December, 2019 marked a key year for the EU with important institutional changes. These moments offered several opportunities for Philips to build thought leadership and increase our reputation as a health & technology leader with our key EU stakeholders. Philips continued to leverage its partnership with POLITICO and organized a breakfast session at the European Parliament discussing healthcare in the new mandate. Additionally, Philips was lead partner at the Annual Healthcare Summit where Jan Kimpen, our Chief Medical Officer spoke on a panel discussion about the Future of Health in Europe; Hans-Aloys Wischmann, Philips’ Head of Data Science and Artificial Intelligence, joined a breakfast roundtable to discuss the role of AI and big data in identifying the clinical and social determinants of health; and Sean Carney, Chief Design Officer, co-chaired a session on digital transformation.

SDG 12

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 2019. The company’s Sustainability program and targets have been evaluated and **approved by the Science Based Targets initiative**, making Philips the first health technology company to achieve this.

Supplier indicators

Philips’ mission to improve people’s lives extends throughout our value chain. At Philips, we have a direct business relationship with approximately 4,200 product and component suppliers and 17,600 service providers. Our supply chain sustainability strategy is updated annually through a structured process, combined with dedicated multi-stakeholder dialogues. Our most recent stakeholder dialogue took place in June 2019. 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 reducing the environmental impact of our supply base.

As an integral part of the supply chain strategy, the associated KPI's of these programs are engrained in the procurement organization. To allow for effective performance management, results of different supplier sustainability programs are updated continuously and available real-time through a mobile app. That way, our buyers can champion sustainability conversations and drive more action throughout the supply chain on a day-to-day basis.

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.

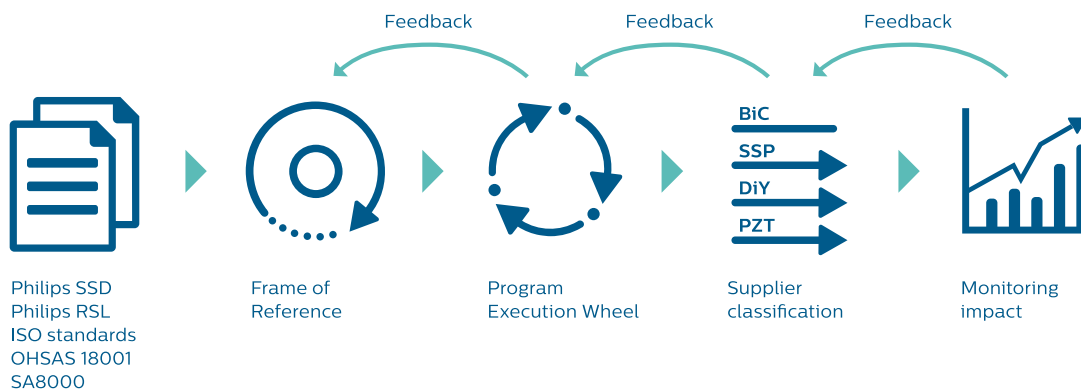
All suppliers are required to commit to the SSD and RSL. Through integration of a Sustainability Agreement (SA) in our General Purchase Agreement, suppliers declare compliance to both the SSD and RSL. Upon request, they provide additional information and evidence.

Supplier Sustainability Performance (SSP) - 'Beyond Auditing'

In 2016, Philips moved away from its traditional approach to audit suppliers, which it had been taking 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 through the 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

Supplier selection for the program is initially based on criticality, which is determined through an assessment of the supplier's associated risks and opportunities, such as strategic importance and annual spend. After this, the engagement strategy is tailored based on the current performance in terms of sustainability.

There are four different engagement approaches: 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

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 2019, the average year-on-year improvement is 19% for suppliers that entered the program in 2018. The number of employees impacted at suppliers participating in the SSP program was approximately 286,000. For those workers, labor conditions improved, the risk of serious injury reduced, and the negative environmental impact of suppliers was brought down.

In 2019, 44 suppliers were added to the SSP program. Out of the population of suppliers that entered the program in the years before 2019, 208 suppliers were still active in 2019.

Additional progress made in 2019

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 through its research consortium with Eindhoven University of Technology and the Jheronimus Academy of Data Science (JADS). 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 2019, a machine learning tool was developed that is able to predict the sustainability performance of suppliers, based on a set of generic indicators. Moreover, we are able to predict the year-on-year improvements of suppliers that are part of the SSP program, allowing further specification of the engagement intensity towards individual supplier needs.

In addition, Philips ramped up its cross-industry engagement again in 2019, 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 active participation in 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 2019, 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 accredited third-party audit firm. The conflict minerals report is also publicly available on Philips' website.

Each year, we work with our suppliers on the quality of their due diligence reporting by setting minimum criteria for the Conflict Minerals Reporting Templates (CMRT). In addition, we strive to reduce the number of non-identified smelters. In 2019, we were able to further improve the response rate. The quality of the CMRTs improved by 3 percentage points in comparison with 2018 due diligence. In addition, the number of non-listed smelters continued to decline, to 3 (2018: 5).

Philips Group
Conflict Minerals Due Diligence results
2017-2019

Key performance indicator	2017	2018	2019
Response rate of suppliers	99%	95%	100%
CMRTs that reached minimum acceptance criteria	91%	83%	86%
Non-listed smelters in our supply chain	9	5	3

Responsible Sourcing approach of Philips

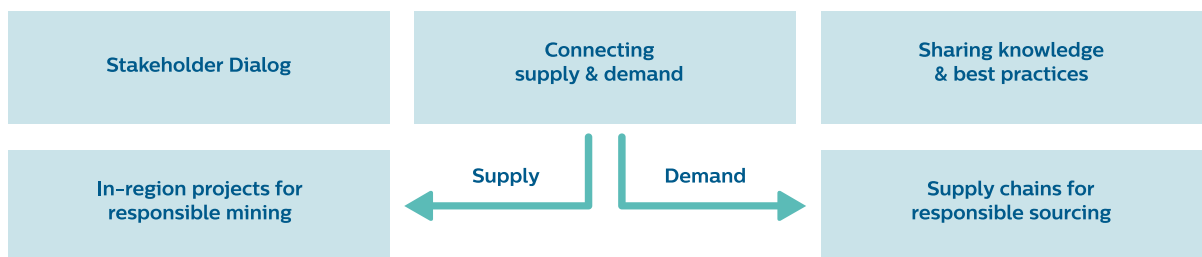
Multi-stakeholder initiatives

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



Blockchain-based traceability and data reporting system

SustainBlock is a blockchain-based project that demonstrates supply chain accountability from ASM mine sites all the way to mineral and metal end-users, and in turn provides downstream companies with information on the provenance of minerals contained in their products. The goal of this project was to create a blockchain-enabled system for tracking the provenance and due diligence of certain raw materials produced in CAHRAs across the entire supply chain via verified, cryptographically secured transactions. With grant support from the EPRM, the project was piloted along a tungsten supply chain originating from Rwanda. The project can reduce the costs associated with upstream due diligence borne by local ASM communities and enhance transparency of the supply chain of metal end-users. The first live demo of SustainBlock was presented at the 2019 OECD Forum on Responsible Mineral Supply Chains.

Access to formal markets, good practices and territorial governance in artisanal mining in Chocó, Colombia

This project, an example of an EPRM-funded project completed in 2019, combines expertise from multi-sector partners including United Nations Environment Program (UNEP) to address some of the most critical barriers that the miners in the conflict-affected area of Chocó, Colombia are facing. It provides gold artisanal miners with solutions to improve mining practices and access to the European market via responsible and traceable supply chains. The project is expected to improve miners' environmental and labor practices, dignify their ASM livelihood, empower women in ASM, and promote territorial natural resources management and peacebuilding.

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 Affected and High Risk Areas (CAHRAs).

EPRM is an accompanying measure to the EU Conflict Minerals Regulation dedicated to making real change 'on the ground'. Through EPRM, Philips financially supports activities to improve responsible mining practices in mining areas in CAHRAs and shares our knowledge and practice in conducting due diligence. Since 2018, Philips has actively participated in a working group 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. In 2019, Philips joined two more working groups of EPRM as the only working group member from the industrial pillar. Philips contributed to the work of setting targets and indicators for measuring progress of EPRM activities and projects. In addition, it joined a working group intended to develop a self-assessment tool that enables SMEs to understand and monitor their advances in due diligence.

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 September 2019, Philips represents gold and precious metal, recycling, and electronic companies in the Steering Committee of the Responsible Gold Agreement.

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 and free of child labor. The approach is designed to be scaled up and serves as a potential blueprint for mines in other regions. Since 2019, Philips is also an active member of the steering committee of the Responsible Gold Agreement.

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 was to deliver on-the-ground education and empowerment, while enabling fairer prices and access to the market. The project was finalized in 2019, with the following achievements realized:

- 1,540 children started receiving structural educational services
- 1,300 children participated in awareness raising sessions
- 387 local community members were trained in child protection activities and change agency

Next, Philips was able to contribute to the success of the Responsible Mica Initiative through its participation in the working group Traceability & Specification. Also, it facilitated the creation of the mica working group of the Responsible Minerals Initiative (RMI), thereby supporting the increased awareness amongst RMI members on the challenges of the extraction of Mica.

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 80% (2018: 77%).

Philips Group
Supplier response rate to CDP questionnaire
2017-2019

2017	2018	2019
69%	77%	80%

From this group, 66% engaged in emission reduction initiatives (2018: 53%). In addition, 59% committed to carbon emission targets. Furthermore, 37% of the responding suppliers have set science-based targets of which 38% was approved formally. Our suppliers undertook projects in 2019 that resulted in savings on carbon emissions amounting to 62 million metric tonnes CO₂.

In 2020, parts of our supply base will also be requested to respond to the CDP water program.

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 2019

- Philips' Supplier Sustainability team provided three training sessions on the Environment as well as on Health and Safety, which were attended by 87 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 13%.
- Philips' Supplier Sustainability team monitored the environmental performance of its 2nd-tier suppliers through a database from the Institute of Public & Environmental Affairs (IPE)

Environmental statements

This section provides additional information on (some of) the environmental performance parameters reported in [Environmental performance, starting on page 26](#).

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 seventh year in 2019. 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 employees
- Measure and monitor with proof points and metrics

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. At the World Economic Forum in Davos in January 2018, Philips made a commitment 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.

In 2019, we saw the results of a global roll-out of our trade-in functionality. Many additional Philips systems are being offered back to us. We have also made good progress in reverse logistics, adding global return flow from markets that we did not have before. We have established global purchasing requirements for local recycling, allowing us to repurpose responsibly and efficiently. In addition, we have expanded our parts recovery activities, allowing us to re-use more.

Partnerships

Philips leverages partnerships with the Ellen MacArthur Foundation, Circle Economy Netherlands and the World Economic Forum, among others. 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 2019 to mature into an independent organization hosted by the World Resource Institute in The Hague. PACE's vision is to stimulate market transformation for a circular economy at scale and speed, regionally and globally. Its mission is to drive collaborative projects to implementation and scale learnings through global leadership.

As one of the projects under PACE, Philips has spearheaded the Capital Equipment Coalition, a group of nine front-running large equipment manufacturers, who all have committed to applying circular economy principles to preserve and recover value across the lifecycles of their respective products. Since its formation in January 2018, its members have shared and discussed approaches to implementing these principles in order to support each other's ambitions. Learnings that may be useful to other capital equipment companies are published on a yearly basis during the World Economic Forum's Annual Meetings in Davos.

Circular Revenues

The Circular Revenues percentage reflects our revenues from validated circular products and services as a percentage of total Philips revenues. The validation is based on the following Philips circularity requirements, which have been refined and complemented with software revenue in 2019:

Service revenue

Performance and Access-based models

Revenues from hardware where ownership remains with Philips or an affiliated financing company, who will repurpose it in a responsible way across its lifetime.

Upgrades/lifetime extension on site or remote

Revenues from hardware which is upgraded to better functionality and/or lifetime is extended, e.g. through refurbishment or software upgrade.

Hardware revenue

Refurbished/Remanufactured products/systems

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

Refurbished/Remanufactured parts/elements

Revenues from recovered components that must be refurbished/remanufactured or tested/repaired in such a way that they are fit for use again and 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.

Products with recycled plastics content

Revenues from products with a recycled plastics content of >25% post-consumer recycled plastics or >30% post-industrial/post-consumer recycled plastics by total weight of eligible plastics.

We have the ambition to generate a total of 15% of our revenues from circular propositions by 2020, which is double the rate of the 7% baseline achieved in 2015. The result for 2019 is 13%, which was mainly achieved through:

Personal Health businesses

Revenues from our B2C products that contain a large amount of recycled plastics, such as coffeemakers and domestic appliances.

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 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 2019, Philips put an estimated total of some 265,000 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 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 2019 were:

- Trade-in and return for resale as refurbished products and for spare parts harvesting (Diagnosis & Treatment and Connected Care): some 2,052 tonnes, a small decrease compared to 2,130 tonnes in 2018.
- 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
 - 830 tonnes (estimated) from Diagnosis & Treatment and Connected Care field returns, following the WEEE category 8 classification, indicating a slight increase compared to the previous year (800 tonnes)
 - 16,600 tonnes (estimated) 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 1,904 tonnes (1,840 tonnes in 2018) 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, e.g. Best and Drachten 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 & Loss (EP&L) account in 2017. We have updated the EP&L for 2019; please refer to [Environmental performance, starting on page 26](#). As can be derived from the EP&L, the environmental impact of the Philips sites is limited as they are not very energy-intensive, are now 95%-powered with electricity from renewable sources and do not emit large quantities of high-impact substances. With our drive to become carbon-neutral in our operations by year-end 2020, 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 use the identified hotspots 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 59](#).

In addition, 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 °C scenario as per the Paris climate 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 2019

	baseline year 2015	target 2020	2019 actual
Total CO ₂ from manufacturing	84 Ktonnes	0 Ktonnes	22 Ktonnes
Water	978,500 m ³	10% reduction	890,000 m ³
Zero waste to landfill	3.2 Ktonnes	0 Ktonnes	1.3 Ktonnes
Operational waste recycling	78%	90%	83%
Hazardous substances emissions	1,419 kilos	50% reduction	528 kilos
VOC emissions	169 tonnes	10% reduction	114 tonnes

Energy use in manufacturing

Total energy usage in manufacturing amounted to 1,400 terajoules in 2019, of which Diagnosis & Treatment accounted for about 39% and Personal Health 41%. Energy consumption at Philips level decreased by 5% compared to 2018. Diagnosis & Treatment energy consumption decreased by 8%, mainly due to organizational changes which were mitigated by the energy consumption of a new reporting site. Connected Care reported a 2% reduction due to operational changes. Personal Health energy consumption decreased by 2%, mainly driven by changes in operational footprint and in production volumes at several sites.

Philips Group Total energy consumption in manufacturing ¹⁾ in terajoules 2015 - 2019

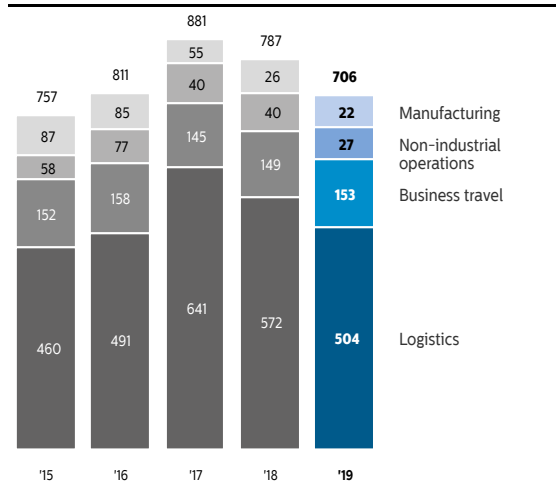
	2015	2016	2017	2018	2019
Diagnosis & Treatment	593	627	614	593	547
Connected Care	286	276	278	287	281
Personal Health	543	557	571	586	572
Philips Group	1,422	1,460	1,463	1,466	1,400

¹⁾ This table reflects Philips energy consumption, excluding potential heat and transmission losses from electricity generation and transport

Operational carbon footprint and energy efficiency - 2019 details

Becoming carbon-neutral in our operations by year-end 2020 is one of Philips' key targets, and we have already reduced our operational carbon footprint very significantly during the past years (44% decrease in CO₂ emissions in 2019 compared to our 2007 base year). Our carbon footprint decreased by 10% compared to 2018, resulting in a total of 706 kilotonnes CO₂.

Philips Group
Operational carbon footprint in kilotonnes CO₂-equivalent
2015 - 2019



The 2019 results can be attributed to several factors:

- Accounting for 3% of our total footprint, total CO₂ emissions from manufacturing decreased by 15% due to a significantly higher share of electricity from renewable sources (now at 100% in our manufacturing sites).
- CO₂ emissions from non-industrial operations (offices, warehouses, etc.), representing 4% of total emissions, decreased by 33% in 2019 due to implemented energy efficiency projects and a higher share of electricity from renewable sources.
- Total CO₂ emissions related to business travel, accounting for 22% of our carbon footprint, showed a slight increase of 2.8% compared to 2018, reflecting an increase in emissions from lease cars, partly mitigated by a 3% decrease in emissions from air travel.
- Overall CO₂ emissions from logistics, representing 71% of the total, decreased by 12% compared to 2018. This was mainly driven by a strong decrease in air freight as a result of the air freight reduction program. 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
2015 - 2019

	2015	2016	2017	2018	2019
Air transport	309	361	491	393	328
Road transport	65	67	67	70	75
Ocean transport	86	63	83	109	101
Philips Group	460	491	641	572	504

Carbon emissions in manufacturing

Greenhouse gas emissions from our manufacturing operations totaled 22 kilotonnes CO₂-equivalent in 2019, 15% lower than in 2018. Direct CO₂ emissions decreased by 12% due to the operational changes in different locations. Indirect CO₂ emissions decreased further due to the increased use of electricity from renewable sources. Emissions from other greenhouse gases are comparable with the previous years.

Philips Group
Total carbon emissions in manufacturing in kilotonnes
CO₂-equivalent
2015 - 2019

	2015	2016	2017	2018	2019
Direct CO ₂	21	20	20	20	18
Indirect CO ₂	60	62	33	2	1
Other greenhouse gases	3	3	2	4	3
From glass production	-	-	-	-	-
Philips Group	84	85	55	26	22

Philips Group
Total carbon emissions in manufacturing per segment in kilotonnes
CO₂-equivalent
2015 - 2019

	2015	2016	2017	2018	2019
Diagnosis & Treatment	28	22	16	11	9
Connected Care	19	14	7	6	5
Personal Health	37	49	32	9	8
Philips Group	84	85	55	26	22

CO₂ emissions in 2019 were 22 kilotonnes CO₂-equivalent. This was driven by operational changes and increased use of electricity generated from renewable sources in all businesses in various regions. Diagnosis & Treatment CO₂ emissions decreased by 13% due to operational changes. Connected Care reported a 12% decrease. At Personal Health, CO₂ emissions decreased by 17%.

In 2019, all manufacturing sites received 100% of their electricity from renewable sources. Our operations in the US were powered by wind energy. Additionally, our operations in the Netherlands received electricity from the Bouwdokken and Krammer wind farms, clear steps towards our ambition to become carbon-neutral in our operations by year-end 2020.

Taskforce on Climate-related Financial Disclosures (TCFD)

Our 2019 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, 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 our program, reduction targets have been agreed with our industrial sites.

Philips Group
Hazardous substances emissions
2015 - 2019

	2015	2016	2017	2018	2019
Diagnosis & Treatment	604	428	743	636	104
Connected Care	124	88	49	63	46
Personal Health	691	583	625	394	378
Philips Group	1,419	1,099	1,417	1,093	528

In 2019, emissions of hazardous substances decreased by 52%, mainly due to the phasing-out of harmful chemicals and process optimizations at two Diagnosis & Treatment sites, two Personal Health sites and one Connected Care site. Changes to manufacturing processes and increased production at multiple sites also had an impact on emissions.

VOC emissions

Philips Group
VOC emissions in tonnes
2015 - 2019

	2015	2016	2017	2018	2019
Diagnosis & Treatment	29	35	48	44	46
Connected Care	7	5	6	6	6
Personal Health	133	89	88	78	62
Philips Group	169	129	142	128	114

VOC emissions decreased by 11% in 2019 to 114 tonnes. VOC emissions in the Diagnosis & Treatment businesses increased by 5% due to a new reporting site and increased production, partially offset by changes in the production mix. VOC emissions in the Personal Health businesses (representing 54% of total VOC emissions) decreased by 21% compared to 2018, mainly driven by changes in production volumes.

ISO 14001 certification

The majority of Philips manufacturing sites are certified under the umbrella certificates of the businesses. In 2019, 80% of reporting manufacturing sites were certified, compared to 83% in 2018. The decrease is caused by new reporting sites that are not yet ISO 14001-certified. The integration of newly acquired companies is in progress; smaller sites are required to maintain robust environmental management systems while external certification is not mandatory.

Philips Group
ISO 14001 certifications as a % of all reporting organizations
2015 - 2019

	2015	2016	2017	2018	2019
Philips Group	75	78	82	83	80

Environmental incidents

In 2019, an environmental incident was reported at one Diagnosis & Treatment site. This incident related to a leakage. No fine was issued, as corrective action was taken to remediate the effect and exposure to soil did not occur. In Personal Health, two environmental incidents were reported: one related to exceeding the limit of metal concentration in discharged waste water, the other was caused by an oil spillage. Immediate action was taken, and no fine was issued.

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
2019

Market	Manufacturing sites	Total Recordable Case rate ¹⁾	CO ₂ emitted (tonnes CO ₂)	Total waste			Emission	
				Waste (tonnes)	Recycled (%)	Water (m ³)	Hazardous substances (kg)	VOC substances (tonnes)
Africa	-	0.00	-	-	-	-	-	-
ASEAN & Pacific	1	0.04	2,780	2,101	92%	128,251	8	30
Benelux	2	0.12	5,293	6,672	80%	94,500	134	17
Central & Eastern Europe	1	0.12	531	1,848	97%	9,433	41	1
Germany, Austria & Switzerland	3	0.67	3,517	3,118	82%	47,794	38	6
France	-	0.11	-	-	-	-	-	-
Greater China	6	0.06	2,929	4,328	84%	328,878	154	20
Iberia	-	0.51	-	-	-	-	-	-
Indian Subcontinent	2	0.01	199	194	99%	11,750	45	2
Italy, Israel & Greece	3	0.42	506	1,147	66%	13,421	0	1
Japan	-	0.30	-	-	-	-	-	-
Latin America	3	0.19	818	1,057	87%	68,947	1	20
Middle East & Turkey	-	0.00	-	-	-	-	-	-
Nordics	-	0.60	-	-	-	-	-	-
North America	13	0.73	5,508	5,169	79%	179,961	19	14
Russia & Central Asia	-	0.00	-	-	-	-	-	-
UK & Ireland	1	0.20	286	737	94%	7,085	88	3

¹⁾ Includes manufacturing and non-manufacturing sites

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 2019 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 2019

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

The sustainability information consists of chapter '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 section Our responsibilities for the audit of the sustainability information 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.

The absence of an established practice on which to draw, to evaluate and measure sustainability information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

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 the Environmental Profit & Loss Account" and the "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 reliable and adequate 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
 - Determining the nature and extent of the audit procedures for the Company's sites. For this, the nature, extent and/or risk profile of these sites are decisive. Based thereon we selected the sites to visit. The visits to production sites in Colorado Springs, United States of America and Orastie, Romania are aimed at, on a local level, validating source data and evaluating the design and 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 25, 2020

Ernst & Young Accountants LLP

Signed by J. Niewold

