CA, INC.
Form 4
April 02, 2015

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
SULPIZIO RICHARD

(Last) (First) (Middle)

520 MADISON AVENUE

(Street)

NEW YORK, NY 10022

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
CA, INC. [CA]

3. Date of Earliest Transaction (Month/Day/Year)
03/31/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)

	Derivative Security			Disposed of (D) (Instr. 3, 4, and 5)					
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Deferred Stock Units (1)	(2)	03/31/2015	A		1,724.931		(1)	(1)	Common Stock, $0.10 par value	1,724.931

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SULPIZIO RICHARD 520 MADISON AVENUE NEW YORK, NY 10022	X			

Signatures

/s/ Richard Sulpizio by Robert C. Yang as attorney-in-fact	04/02/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Issued under the 2012 Compensation Plan for Non-Employee Directors and to be settled by issuance of shares of Common Stock either in a lump sum or in installments following termination of service as a director.

(2) Deferred Stock Units are convertible into Common Stock on a one-for-one basis.

(3) Under the 2012 Compensation Plan for Non-Employee Directors, the director fees are paid quarterly in Deferred Stock Units except that a director may elect annually to receive up to 50% of the next Plan Year's fees in cash.

(4) Includes Deferred Stock Units having similar terms issued under the Company's prior compensation plans for non-employee directors.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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698,333 175,876 163,000 1,037,209 2015[2)]

J.A. van der Veer

135,000 31,667 7,000 173,667

C. Poon

90,000 17,500 15,000 122,500

C.J.A. van Lede

80,000 14,333 7,000 101,333

E. Kist

80,000 10,000 2,000 92,000

H. von Prondzynski

80,000 26,833 19,500 126,333

J.P. Tai

80,000 29,167 35,000 144,167

N. Dhawan

80,000 13,000 20,000 113,000

O. Gadiesh

80,000 13,000 17,000 110,000

D.E.I. Pyott (May-Dec.)

80,000 8,667 12,000 100,667

785,000 164,167 134,500 1,083,667 **2014**[2)]

J.A. van der Veer

110,000 20,500 2,000 132,500

J.J. Schiro (Jan.-Aug.)

65,000 12,334 2,000 79,334

C. Poon

65,000 14,000 17,000 96,000

C.J.A. van Lede

65,000 10,000 2,000 77,000

E. Kist

65,000 8,000 2,000 75,000

H. von Prondzynski				
	65,000	15,167	2,000	82,167
J.P. Tai				
	65,000	15,000	23,000	103,000
N. Dhawan				
	65,000	10,000	23,000	98,000
O. Gadiesh (May-Dec.)				
	65,000	6,667	2,000	73,667
	630,000	**111,668**	**75,000**	**816,668**

1) The amounts mentioned under other compensation relate to the fee for intercontinental travel, inter-European travel (effective 2015) and the entitlement of EUR 2,000 under the Philips product arrangement

2) As of 2013, part of the remuneration of members of the Supervisory Board living in the Netherlands is subject to VAT. The amounts mentioned in this table are excluding VAT

3) After the separation of the Company, Mr van Lede joined the Supervisory Board of Philips Lighting.

Supervisory Board members and Board of Management members interests in Philips shares

Members of the Supervisory Board and of the Board of Management are not allowed to hold any derivatives of Philips securities.

Philips Group

Shares held by Board members[1)] in number of shares

2016

	December 31, 2015	December 31, 2016
J. van der Veer	18,366	18,366
H. von Prondzynski	3,633	3,758
J.P. Tai	3,716	3,844
F.A. van Houten	121,762	189,824
A. Bhattacharya	29,415	42,913
P.A.J. Nota	66,133	89,798

1) Reference date for board membership is December 31, 2016

Fair value of financial assets and liabilities

The estimated fair value of financial instruments has been determined by the Company using available market information and appropriate valuation methods. The estimates presented are not necessarily indicative of the amounts that will ultimately be realized by the Company upon maturity or disposal. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

For cash and cash equivalents, current receivables, accounts payable, interest accrual and short-term debts, the carrying amounts approximate fair value because of the short maturity of these instruments, and therefore fair value information is not included in the table below.

The fair value of Philips debt is estimated on the basis of the quoted market prices for certain issues, or on the basis of discounted cash flow analysis based upon market rates plus Philips spread for the particular tenors of the borrowing arrangement. Accrued interest is not included within the carrying amount or estimated fair value of debt.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

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Philips Group

Fair value of financial assets and liabilities in millions of EUR

2015 - 2016

	Balance as of December 31, 2015		Balance as of December 31, 2016	
	carrying amount	estimated fair value	carrying amount	estimated fair value
Financial assets				
Carried at fair value:				
Available-for-sale financial assets	232	232	172	172
Securities classified as assets held for sale	(1)	(1)	1	1
Fair value through profit and loss	33	33	27	27
Derivative financial instruments	161	161	160	160
Financial assets carried at fair value	**425**		**360**	
Carried at (amortized) cost:				
Cash and cash equivalents	1,766		2,334	
Loans and receivables:				
Loans - current	12		101	101
Non-current loans and receivables	88	88		
Other non-current loans and receivables	134		134	
Loans classified as assets held for sale	2			
Receivables - current	4,982		5,327	
Receivables - non-current	191		155	
Held-to-maturity investments	2		2	
Financial assets carried at (amortized) costs	**7,177**		**8,053**	
Financial liabilities				
Carried at fair value:				
Derivative financial instruments	(933)	(933)	(873)	(873)
Financial liabilities carried at fair value	**(933)**		**(873)**	
Carried at (amortized) cost:				
Accounts payable	(2,673)		(2,848)	
Interest accrual	(69)		(68)	
Debt (Corporate bond, finance lease and bank loans)	(3,944)	(4,294)	(5,095)	(5,474)
Debt (Other bank loans, overdrafts etc.)	(1,816)		(511)	
Financial liabilities carried at (amortized) costs	**(8,502)**		**(8,522)**	

Philips Group

Fair value hierarchy in millions of EUR

2016

	level 1	level 2	level 3	total
Balance as of December 31, 2016				
Available-for-sale financial assets	36	29	107	172
Securities classified as assets held for sale			1	1
Financial assets designated at fair value through profit and loss		24	3	27
Derivative financial instruments - assets		160		160
Current loans and receivables		101		101
Total financial assets	**36**	**314**	**111**	**461**
Derivative financial instruments - liabilities		(873)		(873)
Debt	(3,990)	(1,484)		(5,474)
Total financial liabilities	**(3,990)**	**(2,357)**		**(6,347)**
Balance as of December 31, 2015				
Available-for-sale financial assets	76	68	88	232
Securities classified as assets held for sale	(1)			(1)
Financial assets designated at fair value through profit and loss		33		33
Derivative financial instruments - assets		161		161
Non-current loans and receivables		88		88
Total financial assets	**75**	**350**	**88**	**513**
Derivative financial instruments - liabilities		(933)		(933)
Debt	(4,084)	(210)		(4,294)
Total financial liabilities	**(4,084)**	**(1,143)**		**(5,227)**

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The table above represents categorization of measurement of the estimated fair values of financial assets and liabilities.

Specific valuation techniques used to value financial instruments include:

Level 1

Instruments included in level 1 are comprised primarily of listed equity investments classified as available-for- sale financial assets, investees and financial assets designated at fair value through profit and loss.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm s length basis.

Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the- counter derivatives or convertible bond instruments) are determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are based on observable market data, the instrument is included in level 2.

The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread and foreign exchange rates.

The valuation of convertible bond instruments uses observable market quoted data for the options and present value calculations using observable yield curves for the fair value of the bonds.

Level 3

If one or more of the significant inputs are not based on observable market data, such as third-party pricing information without adjustments, the instrument is included in level 3.

The table below shows the reconciliation from the beginning balance to the end balance for fair value measured in Level 3 of the fair value hierarchy.

Philips Group

Reconciliation of the fair value hierarchy in millions of EUR

2016

	financial assets
Balance as of January 1, 2016	**88**
Gains and losses recognized in:	
- in profit or loss	(3)
- in other comprehensive income	(18)
Purchase	47
Sales	(3)

Balance as of December 31, 2016	**111**

The section below elaborates on transactions in derivatives. Transactions in derivatives are subject to master netting and set-off agreements. In the case of certain termination events, under the terms of the Master Agreement, Philips can terminate the outstanding transactions and aggregate their positive and negative values to arrive at a single net termination sum (or close-out amount). This contractual right is subject to the following:

The right may be limited by local law if the counterparty is subject to bankruptcy proceedings;

The right applies on a bilateral basis.

Philips Group

Financial assets subject to offsetting, enforceable master netting arrangements or similar agreements in millions of EUR

2015 - 2016

	2015	2016
Derivatives		
Gross amounts of recognized financial assets	161	160
Gross amounts of recognized financial liabilities offset in the balance sheet		
Net amounts of financial assets presented in the balance sheet	**161**	**160**
Related amounts not offset in the balance sheet		
Financial instruments	(81)	(92)
Cash collateral received		
Net amount	**80**	**68**

Philips Group

Financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements in millions of EUR 2015 - 2016

	2015	2016
Derivatives		
Gross amounts of recognized financial liabilities	(933)	(873)
Gross amounts of recognized financial assets offset in the balance sheet		
Net amounts of financial liabilities presented in the balance sheet	**(933)**	**(873)**
Related amounts not offset in the balance sheet		
Financial instruments	81	92
Cash collateral received		
Net amount	**(852)**	**(781)**

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Details of treasury / other financial risks

Philips is exposed to several types of financial risks. This note further analyzes financial risks. Philips does not purchase or hold derivative financial instruments for speculative purposes. Information regarding financial instruments is included in note 29, Fair value of financial assets and liabilities.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk for the group is monitored through the Treasury liquidity committee, which tracks the development of the actual cash flow position for the group and uses input from a number of sources in order to forecast the overall liquidity position on both a short and long-term basis. Group Treasury invests surplus cash in money market deposits with appropriate maturities to ensure sufficient liquidity is available to meet liabilities when due.

The rating of the Company s debt by major rating services may improve or deteriorate. As a result, Philips future borrowing capacity may be influenced and its financing costs may fluctuate. Philips has various sources to mitigate the liquidity risk for the group. At December 31, 2016, Philips had EUR 2,334 million in cash and cash equivalents (2015: EUR 1,766 million), within which short-term deposits of EUR 1,299 million (2015: EUR 855 million) and other liquid assets of EUR 53 million (2015: EUR 171 million). Philips pools cash from subsidiaries to the extent legally and economically feasible; cash not pooled remains available for Company s operational or investment needs.

Furthermore, Royal Philips has a USD 2.5 billion Commercial Paper Program and a EUR 1.8 billion revolving credit facility that can be used for general group purposes and as a backstop for its commercial paper program. In January 2013 the EUR 1.8 billion facility was extended by 2 years until February 18, 2018. As of December 31, 2016, Royal Philips did not have any amounts outstanding under any of these facilities. A description of Philips credit facilities, including any covenants, can be found in note 18, Debt.

Additionally, Philips also held EUR 36 million of equity investments in available-for-sale financial assets (fair value at December 31, 2016).

Currency risk

Currency risk is the risk that reported financial performance or the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Philips operates in many countries and currencies and therefore currency fluctuations may impact Philips financial results. Philips is exposed to currency risk in the following areas:

- Transaction exposures, related to anticipated sales and purchases and on-balance-sheet receivables/ payables resulting from such transactions
- Translation exposure of foreign-currency intercompany and external debt and deposits
- Translation exposure of net income in foreign entities
- Translation exposure of foreign-currency- denominated equity invested in consolidated companies

Translation exposure to equity interests in non- functional-currency investments in associates and available-for-sale financial assets.
It is Philips policy to reduce the potential year-on-year volatility caused by foreign-currency movements on its net earnings by hedging the anticipated net exposure of foreign currencies resulting from foreign-currency sales and purchases. In general, net anticipated exposures for the Group are hedged during a period of 15 months in layers of 20% up to a maximum hedge of 80%, using forwards and currency options. Philips policy requires significant committed foreign currency exposures to be fully hedged, generally using forwards. However, not every foreign currency can or shall be hedged as there may be regulatory barriers or prohibitive hedging cost preventing Philips from effectively and/or efficiently hedging its currency exposures. As a result, hedging activities cannot and will not eliminate all currency risks for anticipated and committed transaction exposures.

During 2015 Philips has changed its hedging policy with regard to anticipated transaction exposures. The previous hedging policy focused on protecting against changes in value of forecasted individual transactions and cash flows. Under the previous policy the hedging ratio and period were set by individual businesses based on their ability to forecast cash flows, the time horizon for the cash flows and their ability to adapt to changing levels of foreign currency rates.

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The following table outlines the estimated nominal value in millions of EUR for committed and anticipated transaction exposure and related hedges for Philips most significant currency exposures consolidated as of December 31, 2016:

Philips Group

Estimated transaction exposure and related hedges

in millions of EUR

2016

	Receivables		Payables	
	exposure	hedges	exposure	hedges
Balance as of December 31, 2016				
Exposure currency				
USD	1,330	(869)	(804)	629
JPY	843	(375)	(7)	7
GBP	367	(203)	(20)	20
AUD	309	(160)		
CAD	281	(129)	(10)	10
CHF	151	(70)		
PLN	127	(65)	(23)	23
SEK	99	(45)	(1)	1
CZK	56	(27)		
CNY	92	(73)	(744)	524
Others	556	(396)	(155)	130
Total 2016	**4,211**	**(2,412)**	**(1,764)**	**1,344**
Total 2015	**4,215**	**(2,949)**	**(1,959)**	**1,528**

The derivatives related to transactions are, for hedge accounting purposes, split into hedges of on-balance- sheet accounts receivable/payable and forecasted sales and purchases. Changes in the value of on- balance-sheet foreign-currency accounts receivable/ payable, as well as the changes in the fair value of the hedges related to these exposures, are reported in the income statement under costs of sales. Hedges related to forecasted transactions, where hedge accounting is applied, are accounted for as cash flow hedges. The results from such hedges are deferred in other comprehensive income within equity to the extent that the hedge is effective. As of December 31, 2016, a gain of EUR 10 million was deferred in equity as a result of these hedges. The result deferred in equity will be released to earnings mostly during 2017 at the time when the related hedged transactions affect the income statement. During 2016, a net loss of EUR 5 million was recorded in the consolidated statement of income as a result of ineffectiveness on certain anticipated cash flow hedges.

The total net fair value of hedges related to transaction exposure as of December 31, 2016, was an unrealized asset of EUR 15 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 98 million in the value of the derivatives; including a EUR 46 million increase related to foreign exchange transactions of the USD against the EUR, a EUR 18 million increase related to foreign exchange transactions of the JPY against the EUR, a EUR 10 million increase related to foreign exchange transactions of the GBP against the EUR and a EUR 5 million increase related to foreign exchange transactions of the AUD against the EUR.

The EUR 98 million increase includes a gain of EUR 18 million that would impact the income statement, which would largely offset the opposite revaluation effect on the underlying accounts receivable and payable, and the remaining gain of EUR 80 million would be recognized in equity to the extent that the cash flow hedges were effective.

The total net fair value of hedges related to transaction exposure as of December 31, 2015, was an unrealized asset of EUR 17 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 66 million in the value of the derivatives; including a EUR 25 million increase related to foreign exchange transactions of the USD against the EUR, a EUR 18 million increase related to foreign exchange transactions of the GBP against the EUR, a EUR 14 million increase related to foreign exchange transactions of the JPY, and a EUR 7 million increase related to PLN. This was partially offset by a EUR 34 million decrease related to foreign exchange transactions of the EUR against the USD.

Foreign exchange exposure also arises as a result of inter-company loans and deposits. Where the Company enters into such arrangements, the financing is generally provided in the functional currency of the subsidiary entity. The currency of the Company s external funding and liquid assets is matched with the required financing of subsidiaries, either directly through external foreign currency loans and deposits, or synthetically by using foreign exchange derivatives, including cross currency interest rate swaps and foreign exchange forward contracts. In certain cases where group companies may also have external foreign currency debt or liquid assets, these exposures are also hedged through the use of foreign exchange derivatives. Changes in the fair value of hedges related to this exposure are either recognized within financial income and expenses in the statements of income, accounted for as cash flow hedges, or where such loans would be considered part of the net investment in the subsidiary, net investment hedging would be applied. Translation exposure of foreign-currency equity invested in consolidated entities may be hedged. If a hedge is entered into, it is accounted for as a net investment hedge. Net current-period change, before tax, of the currency translation reserve of EUR 1,234 million relates to the positive impact of the weaker EUR against the foreign currencies of countries in which Philips operations are located, partially offset by net investment hedging instruments. The change in currency translation reserve was mostly related to development of the USD.

As of December 31, 2016, cross-currency interest rate swaps with a fair value liability of EUR 726 million and external bond funding for a nominal value of USD 3,774

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million were designated as net investment hedges of our financing investments in foreign operations. During 2016 a total gain of EUR 0.2 million was recognized in the income statement as ineffectiveness on net investment hedges. The total net fair value of these financing derivatives as of December 31, 2016, was a liability of EUR 728 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 53 million in the value of the derivatives, including a EUR 62 million increase related to the USD.

As of December 31, 2015, cross-currency interest rate swaps and foreign exchange forward contracts with a fair value liability of EUR 812 million and external bond funding for a nominal value of USD 4,059 million were designated as net investment hedges of our financing investments in foreign operations. During 2015 a total gain of EUR 0.1 million was recognized in the income statement as ineffectiveness on net investment hedges. The total net fair value of these financing derivatives as of December 31, 2015, was a liability of EUR 794 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 187 million in the value of the derivatives, including a EUR 210 million increase related to the USD.

Philips does not currently hedge the foreign exchange exposure arising from equity interests in non- functional-currency investments in associates and available-for-sale financial assets.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Philips had outstanding debt of EUR 5,606 million, which created an inherent interest rate risk. Failure to effectively hedge this risk could negatively impact financial results. At year-end, Philips held EUR 2,334 million in cash and cash equivalents, and had total long-term debt of EUR 4,021 million and total short-term debt of EUR 1,585 million. At December 31, 2016, Philips had a ratio of fixed-rate long-term debt to total outstanding debt of approximately 70%, compared to 68% one year earlier.

A sensitivity analysis conducted as of January 2017 shows that if long-term interest rates were to decrease instantaneously by 1% from their level of December 31, 2016, with all other variables (including foreign exchange rates) held constant, the fair value of the long-term debt would increase by approximately EUR 260 million. If there was an increase of 1% in long-term interest rates, this would reduce the market value of the long-term debt by approximately EUR 259 million.

If interest rates were to increase instantaneously by 1% from their level of December 31, 2016, with all other variables held constant, the annualized net interest expense would decrease by approximately EUR 7 million. This impact was based on the outstanding net cash position at December 31, 2016.

A sensitivity analysis conducted as of January 2016 shows that if long-term interest rates were to decrease instantaneously by 1% from their level of December 31, 2015, with all other variables (including foreign exchange rates) held constant, the fair value of the long-term debt would increase by approximately EUR 303 million. If there was an increase of 1% in long-term interest rates, this would reduce the market value of the long-term debt by approximately EUR 302 million.

If interest rates were to increase instantaneously by 1% from their level of December 31, 2015, with all other variables held constant, the annualized net interest expense would increase by approximately EUR 1 million. This impact was based on the outstanding net cash position at December 31, 2015.

Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in equity prices.

Philips is a shareholder in some publicly listed companies, including Corindus Vascular Robotics. As a result, Philips is exposed to potential financial loss through movements in their share prices. The aggregate equity price exposure in such financial assets amounted to approximately EUR 35 million at year-end 2016 (2015: EUR 75 million). Philips does not hold derivatives in its own shares or in the above-mentioned listed companies. Philips also has shareholdings in several privately-owned companies amounting to EUR 105 million. As a result, Philips is exposed to potential value adjustments.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices.

Philips is a purchaser of certain base metals, precious metals and energy. Philips hedges certain commodity price risks using derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility. The commodity price derivatives that Philips enters into are accounted for as cash flow hedges to offset forecasted purchases. As of December 2016, Philips does not have any outstanding commodity derivatives.

As of December 2015, a loss of EUR 0.2 million was deferred in equity as a result of these hedges. A 10% increase in the market price of all commodities as of December 31, 2015, would increase the fair value of the derivatives by less than EUR 0.1 million.

Credit risk

Credit risk represents the loss that would be recognized at the reporting date, if counterparties failed completely to perform their payment obligations as contracted. Credit risk is present within Philips trade receivables. To have better insights into the credit exposures, Philips performs ongoing evaluations of the financial and non-financial condition of its customers and adjusts credit limits when appropriate. In instances where the creditworthiness of a customer is determined not to be sufficient to grant the credit limit required, there are a number of mitigation tools that can be utilized to close the gap, including reducing payment terms, cash on delivery, pre-payments and pledges on assets.

Philips invests available cash and cash equivalents with various financial institutions and is exposed to credit risk with these counterparties. Philips is also exposed to credit risks in the event of non-performance by financial institutions with respect to financial derivative instruments. Philips actively manages concentration risk and on a daily basis measures the potential loss under certain stress scenarios, should a financial institution default. These worst-case scenario losses are monitored and limited by the Company.

The Company does not enter into any financial derivative instruments to protect against default by financial institutions. However, where possible the Company requires all financial institutions with which it deals in derivative transactions to complete legally enforceable netting agreements under an International Swap Dealers Association master agreement or otherwise prior to trading, and whenever possible, to have a strong credit rating from Standard & Poor s and Moody s Investor Services. Philips also regularly monitors the development of the credit risk of its financial counterparties. Wherever possible, cash is invested and financial transactions are concluded with financial institutions with strong credit ratings or with governments or government-backed institutions.

The table below shows A-rated financial instructions with which Philips has cash at hand and short-term deposits above EUR 25 million as of December 31, 2016. The remaining cash at hand and deposits are mainly with BBB+ counterparty banks.

Philips Group

Credit risk with number of A-rated counterparties

for deposits above EUR 25 million

2016

	25-100 million	100-500 million	500 million and above
A rated bank counterparties	3	3	1
	3	**3**	**1**

For an overview of the overall maximum credit exposure of the group s financial assets, please refer to note 29, Fair value of financial assets and liabilities for details of carrying amounts and fair value.

Country risk

Country risk is the risk that political, legal, or economic developments in a single country could adversely impact our performance. The country risk per country is defined as the sum of the equity of all subsidiaries and associated companies in country cross-border transactions, such as intercompany loans, accounts receivable from third parties and intercompany accounts receivable. The country risk is monitored on a regular basis.

As of December 31, 2016, the Company had country risk exposure of EUR 10.5 billion in the United States, EUR 1.8 billion in China (including Hong Kong), EUR 1.3 billion in Netherlands and EUR 756 million in Singapore. Other countries higher than EUR 500 million are Germany (EUR 775 million), Japan (EUR 671 million), United Kingdom (EUR 625 million), Belgium (EUR 523 million) and Poland (EUR 508 million). Countries where the risk exceeded EUR 300 million but was less than EUR 500 million are Malaysia, Saudi Arabia and India. The degree of risk of a country is taken into account when new investments are considered. The Company does not, however, use financial derivative instruments to hedge country risk.

Other insurable risks

Philips is covered for a broad range of losses by global insurance policies in the areas of property damage/ business interruption, general and product liability, transport, directors and officers liability, employment practice liability, crime and cyber security. The counterparty risk related to the insurance companies participating in the above-mentioned global insurance policies is actively managed. As a rule, Philips only selects insurance companies with an S&P credit rating of at least A-. Throughout the year the counterparty risk is monitored on a regular basis.

To lower exposures and to avoid potential losses, Philips has a global Risk Engineering program in place. The main focus of this program is on property damage and business interruption risks including company interdependencies. Regular on-site assessments take place at Philips locations and business-critical suppliers by risk engineers of the insurer in order to provide an accurate assessment of the potential loss and its impact. The results of these assessments are shared across the Company s stakeholders. On-site assessments are carried out against the predefined Risk Engineering standards which are agreed between Philips and the insurers. Recommendations are made in a Risk Improvement report and are monitored centrally. This is the basis for decision-making by the local management of the business as to which recommendations will be implemented.

For all policies, deductibles are in place, which vary from EUR 0.25 million to EUR 5 million per occurrence and this variance is designed to differentiate between the existing risk categories within Philips. Above this first layer of working deductibles, Philips operates its own re-insurance captive, which during 2016 retained EUR 2.5 million per occurrence for property damage and business interruption losses and EUR 5 million in the aggregate per year. For general and product liability claims, the captive retained EUR 1.5 million per claim and EUR 6 million in the aggregate. New contracts were signed on December 31, 2016, for the coming year, whereby the re-insurance captive retentions remained unchanged.

Subsequent events

New credit facility

In January 2017, Philips entered into a USD 1 billion and EUR 300 million credit facility with a consortium of international banks. Under this credit facility Philips drew USD 1 billion in January; the facility was used for the early redemption of 5.750% Notes due 2018 in the aggregate principal amount of USD 1,250 million. The maturity date of the new facility is December 29, 2017, however Philips expects to prepay this facility in the course of 2017.

Offering of Philips Lighting shares

On February 9, 2017 Royal Philips completed an accelerated book build offering to institutional investors of 26 million shares in Philips Lighting at a price of EUR 23.40 per share realizing total proceeds of EUR 608 million. This transaction reduced Royal Philips stake in Philips Lighting s outstanding share capital from 71.225% to 53.892%.

As part of this transaction, Philips Lighting repurchased 3.5 million shares in the offering and intends to cancel these shares. After cancellation of the 3.5 million shares that Philips Lighting has acquired in the offering, Royal Philips shareholding in Philips Lighting is expected to represent 55.180% of Philips Lighting s outstanding share capital.

11 Company financial statements

Introduction

Statutory financial statements

The sections Group financial statements and Company financial statements contain the statutory financial statements of Koninklijke Philips N.V. (the Company).

A description of the Company s activities and group structure is included in the Group financial statements.

Accounting policies applied

The financial statements of the Company included in this section are prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code. Section 2:362 (8) of the Dutch Civil Code, allows companies that apply IFRS as endorsed by the European Union in their consolidated financial statements to use the same measurement principles in their company financial statements. The Company has prepared these Company financial statements using this provision.

The accounting policies are described in note 1, Significant accounting policies of the Group financial Statements and are deemed incorporated and repeated herein by reference.

Investments in group companies in the Company financial statements are accounted for using the equity method.

Presentation of Company financial statements

The structure of the Company balance sheets and Company statements of income are aligned as much as possible with the Consolidated statements in order to achieve optimal transparency between the Group financial statements and the Company financial statements. Consequently, the presentation of the Company statements deviates from Dutch regulations.

The Company balance sheet has been prepared before the appropriation of result.

Additional information

For Additional information within the meaning of Section 2:392 of the Dutch Civil Code, please refer to section 11.5, Independent auditor s report, of this report.

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11.1 Statements of income

Koninklijke Philips N.V.

Statements of income in millions of EUR

For the year ended December 31

	2015	2016
Sales	489	422
Cost of sales	(38)	(34)
Gross margin	**451**	**388**
Selling expenses	(26)	(17)
General and administrative expenses	(26)	(21)
Impairment of goodwill	3	
Other business income	102	65
Other business expenses	3	(6)
Income from operations	**507**	**409**
Financial income	472	448
Financial expenses	(317)	(466)
Income before taxes	**662**	**391**
Income tax expense	26	(142)
Income after tax	**688**	**249**
Results relating to investments in associates	23	4
Net income (loss) from affiliated companies	(66)	1,195
Net income	**645**	**1,448**

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11.2 Balance sheets before appropriation of results

Koninklijke Philips N.V.

Balance sheets in millions of EUR unless otherwise stated

As of December 31

	2015	2016
Assets		
Non-current assets:		
Property, plant and equipment	1	1
Intangible assets	81	80
Financial fixed assets	21,176	22,067
Non-current receivables	88	79
Deferred tax assets	766	548
Other non-current financial assets	279	148
Total non-current assets	**22,391**	**22,923**
Current assets:		
Current financial assets	10	91
Receivables	8,298	8,458
Cash and cash equivalents	730	756
Total current assets	**9,038**	**9,305**
Total assets	**31,429**	**32,228**
Liabilities and shareholders equity		
Shareholders equity:		
Preference shares, par value EUR 0.20 per share:		
- Authorized: 2,000,000,000 shares (2015: 2,000,000,000 shares)		
- Issued: none		
Common shares, par value EUR 0.20 per share:		
- Authorized: 2,000,000,000 shares (2015: 2,000,000,000 shares)		
- Issued and fully paid: 929,644,864 shares (2015: 931,130,387 shares)	186	186
Capital in excess of par value	2,669	3,083
Legal reserve: revaluation	4	
Legal reserve: available-for-sale financial assets	56	36
Legal reserve: cash flow hedges	12	10
Legal reserve: affiliated companies	958	715
Legal reserve: currency translation differences	1,058	1,234
Retained earnings	6,437	6,070
Net income[1)]	645	1,448
Treasury shares, at cost: 7,208,301 shares (2015: 14,026,801 shares)	(363)	(181)
Total equity	**11,662**	**12,601**
Non-current liabilities:		

Long-term debt	3,933		2,602	
Long-term provisions	5		7	
Deferred tax liabilities	12		11	
Other non-current liabilities	789		667	
Total non-current liabilities		**4,739**		**3,287**
Current liabilities:				
Short-term debt	14,528		15,815	
Other current liabilities	500		525	
Total current liabilities		**15,028**		**16,340**
Liabilities and shareholders equity		**31,429**		**32,228**

[1] Prepared before appropriation of results

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11.3 Statement of changes in equity

Koninklijke Philips N.V.

Statement of changes in equity in millions of EUR unless otherwise stated

For the year ended December 31

	common shares	capital in excess of par value	legal reserves: Revaluation	legal reserves: available-for-sale financial assets	legal reserves: cash flow hedges	legal reserves: affiliated companies	legal reserves: currency translation differences	retained earnings	net income	treasury shares	shareholders equity
Balance as of January 1, 2016	**186**	**2,669**	**4**	**56**	**12**	**958**	**1,058**	**6,437**	**645**	**(363)**	**11,662**
Appropriation of prior year result								645	(645)		
Net income									1,448		1,448
Release revaluation reserve			(4)					4			
Net current period change [1)]				(44)	2	(243)	174	300			189
Income tax on net current period change					(9)		2				(7)
Reclassification into income				24	5						29
Dividend distributed	4	398						(732)			(330)
Cancellation of treasury shares	(4)							(446)		450	
Purchase of treasury shares										(589)	(589)
Re-issuance of treasury shares		(122)						(35)		231	74
Share call options								(103)		90	(13)
Share-based compensation plans		119									119
Income tax on share-based compensation plans		19									19
Balance as of December 31, 2016	**186**	**3,083**		**36**	**10**	**715**	**1,234**	**6,070**	**1,448**	**(181)**	**12,601**

1) The net current period change includes the impact of the IPO of Philips Lighting, which had a positive impact on Shareholders equity of EUR 109 million.

11.4 Notes

Notes to the Company financial statements

Sales

Sales relates to external sales and mainly comprises license income from intellectual property rights owned by the Company.

Other business income

Other business income mainly relates to income from transactions with group companies regarding overhead services and brand license agreements.

Sales and costs by nature

Koninklijke Philips N.V.

Sales and costs by nature in millions of EUR

2015 - 2016

	2015	2016
Sales	489	422
Costs of materials used	(7)	(6)
Employee benefit expenses	(14)	(13)
Depreciation and amortization	(23)	(14)
Advertising and promotion	(11)	(7)
Other operational costs	(36)	(31)
Impairment of goodwill	3	
Other business income (expenses)	106	58
Income from operations	**507**	**409**

For a summary of the audit fees related to the Philips Group, please refer to the Group Financial statements note 6, Income from operations, which is deemed incorporated and repeated herein by reference.

Financial income and expense

Financial income mainly consists of interest received from intercompany financing transactions. Interest received from third parties was EUR 21 million (2015: EUR 20 million).

Financial expense mainly relates to interest charges on external debt (please refer to note L, Debt). In 2016, there are also included financial expenses related to the early redemption of USD bonds in October 2016 and January 2017 of EUR 91 million and EUR 62 million respectively.

Income tax

Koninklijke Philips N.V. is head of the fiscal unity that exists for Dutch corporate income tax purposes.

The income tax expense of EUR 142 million reported in the Company Statements of income represents the consolidated amount of current and deferred tax expense for all members of the fiscal unity. The effective tax rate increased in 2016 compared to 2015, mainly due to changes in the contribution of income of members of the fiscal unity to the total taxable result of the fiscal unity, compared to the Company s contribution.

At December 31, 2016, net operating loss and tax credit carryforwards for which no deferred tax assets have been recognized in the balance sheet amount to EUR 29 million.

Employees

The number of persons employed by the Company at the year-end 2016 was 8 (2015: 7). For the remuneration of past and present members of both the Board of Management and the Supervisory Board, please refer to note 28, Information on remuneration, which is deemed incorporated and repeated herein by reference.

Intangible assets

Intangible assets includes mainly licenses and patents. The changes during 2016 are as follows;

Koninklijke Philips N.V.

Intangible assets in millions of EUR

2016

Balance as of January 1, 2016:	
Cost	131
Amortization/impairments	(50)
Book value	**81**
Changes in book value:	
Reclassifications	(19)
Additions	32
Amortization	(14)
Total changes	**(1)**
Balance as of December 31, 2016:	
Cost	113
Amortization/impairments	(33)
Book value	**80**

Financial fixed assets

The investments in group companies and associates are presented as financial fixed assets in the balance sheet using the equity method. Goodwill paid upon acquisition of investments in group companies or associates is included in the net equity value of the investment and is not shown separately on the face of the balance sheet.

Loans provided to group companies are stated at amortized cost, less impairment.

A list of investments in group companies, prepared in accordance with the relevant legal requirements (Dutch Civil Code, Book 2, Sections 379 and 414), is deposited at the Chamber of Commerce in Eindhoven, Netherlands.

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Company financial statements 11.4

Koninklijke Philips N.V.

Financial fixed assets in millions of EUR

2016

	investments in group companies	investments in associates	loans	total
Balance as of January 1, 2016	**11,834**	**73**	**9,269**	**21,176**
Changes:				
Acquisitions/additions	4,099	3	48	4,150
Sales/redemptions	(2,966)		(1,427)	(4,393)
Net income from affiliated companies	1,195	4		1,199
Dividends received	(493)	(27)		(520)
Translation differences	277	4	174	455
Balance as of December 31, 2016	**13,946**	**57**	**8,064**	**22,067**

Prior to the IPO of Philips Lighting, the Company completed an internal legal restructuring whereby all lighting activities were concentrated in Philips Lighting. The movements in Acquisitions/additions and Sales/ redemptions reflect the impact of this restructuring. The restructuring qualifies as a transaction under common control and therefore did not affect results or equity of the Company.

Included in Sales/redemptions is the divestment of 28.775% of the shares of Philips Lighting during the IPO completed in May and June 2016, representing an amount of EUR 700 million. Please refer to note 5, Interests in entities.

Other financial assets

The changes during 2016 were as follows:

Koninklijke Philips N.V.

Other non-current financial assets in millions of EUR

2016

	available - for-sale financial assets	loans and receivables	financial assets at fair value through profit and	total

			loss	
Balance as of January 1, 2016	**132**	**138**	**9**	**279**
Changes:				
Reclassifications	(4)	(100)		(104)
Acquisitions/additions	40			40
Sales/redemptions/reductions	(3)	(15)		(18)
Impairments	(27)			(27)
Value adjustments	(20)	7	(9)	(22)
Balance as of December 31, 2016	**118**	**30**		**148**

Available-for-sale financial assets

The Company s investments in available-for-sale financial assets mainly consist of investments in common shares of companies in various industries. The line additions/acquisitions mainly relates to capital calls for certain investment funds.

Loans and receivables

The reclassification line represents loans transferred to Current financial assets and mainly relates to loans to TPV Technology Limited in the amount of EUR 91 million.

Receivables

Koninklijke Philips N.V.

Receivables in millions of EUR

2015 - 2016

	2015	2016
Trade accounts receivable	91	86
Affiliated companies	7,966	8,176
Other receivables	64	50
Advances and prepaid expenses	19	12
Derivative instruments assets	158	134
Receivables	**8,298**	**8,458**

Shareholders equity

Common shares

As of December 31, 2016, the issued and fully paid share capital consists of 929,644,864 common shares, each share having a par value of EUR 0.20.

The following table shows the movements in the outstanding number of shares:

Koninklijke Philips N.V.

Outstanding number of shares in number of shares

2015 - 2016

	2015	2016
Balance as of January 1	**914,388,869**	**917,103,586**
Dividend distributed	17,671,990	17,344,462
Purchase of treasury shares	(20,296,016)	(25,193,411)
Re-issuance of treasury shares	5,338,743	13,181,926
Balance as of December 31	**917,103,586**	**922,436,563**

Preference shares

The Stichting Preferente Aandelen Philips has been granted the right to acquire preference shares in the Company. Such right has not been exercised. As a means to protect the Company and its stakeholders against an unsolicited attempt to (de facto) take over control of the Company, the General Meeting of Shareholders in 1989 adopted amendments to the Company s articles of association that allow the Board of Management and the Supervisory Board to issue (rights to acquire) preference shares to a third party. As of December 31, 2016, no preference shares have been issued.

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Options, restricted and performance shares

The Company has granted stock options on its common shares and rights to receive common shares in the future. Please refer to note 27, Share-based compensation, which is deemed incorporated and repeated herein by reference.

Treasury shares

In connection with the Company s share repurchase programs, shares which have been repurchased and are held in treasury for (i) delivery upon exercise of options, performance and restricted share programs, and (ii) capital reduction purposes, are accounted for as a reduction of shareholders equity. Treasury shares are recorded at cost, representing the market price on the acquisition date. When issued, shares are removed from treasury shares on a FIFO basis.

When treasury shares are reissued under the Company s option plans, the difference between the cost and the cash received is recorded in retained earnings. When treasury shares are reissued under the Company s share plans, the difference between the market price of the shares issued and the cost is recorded in retained earnings, the market price is recorded in capital in excess of par value.

Dividend withholding tax in connection with the Company s purchase of treasury shares for capital reduction purposes is recorded in retained earnings.

The following transactions took place resulting from employee option and share plans:

Koninklijke Philips N.V.

Employee option and share plan transactions

2015 - 2016

	2015	2016
Shares acquired		8,601,426
Average market price		EUR 24.73
Amount paid		EUR 213 million
Shares delivered	5,338,743	13,181,926
Average price (FIFO)	EUR 30.35	EUR 25.86
Cost of delivered shares	EUR 162 million	EUR 341 million
Total shares in treasury at year-end	11,788,801	7,208,301
Total cost	EUR 308 million	EUR 181 million

In order to reduce share capital, the following transactions took place:

Koninklijke Philips N.V.

Share capital transactions

2015 - 2016

	2015	2016
Shares acquired	20,296,016	16,591,985
Average market price	EUR 24.39	EUR 23.84
Amount paid	EUR 495 million	EUR 396 million
Reduction of capital stock (shares)	21,361,016	18,829,985
Reduction of capital stock	EUR 517 million	EUR 450 million
Total shares in treasury at year-end	2,238,000	
Total cost	EUR 55 million	

Share purchase transactions related to employee option and share plans, as well as transactions related to the reduction of share capital involved a cash outflow of EUR 606 million, which includes the impact of taxes. Settlements of share-based compensation plans involved a cash inflow of EUR 80 million.

Share call options

During 2016 Philips bought EUR and USD- denominated call options to hedge commitments under share-based compensation plans.

For EUR-denominated call options, option premiums amounting to EUR 64 million (involving 9,393,779 options) were deducted from Retained earnings and were settled in Royal Philips shares held by the Company representing a historical cost of EUR 77 million based on a FIFO method (involving 2,667,203 shares).

For USD-denominated call options, option premiums amounting to EUR 35 million (involving 5,635,360 options) were deducted from Retained earnings and were settled in Royal Philips shares held by the Company representing a historical cost of EUR 32 million based on a FIFO method (involving 1,375,803 shares).

The difference between the option premiums and the historical cost of Royal Philips shares was recorded in Retained earnings. Subsequently, in 2016 the Company sold 837,913 EUR call options against the same number of Royal Philips shares and an additional EUR 13 million cash payment to the buyer of the call options.

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Company financial statements 11.4

Koninklijke Philips N.V.

Outstanding call options

2016

exercise price	options	intrinsic value in millions	weighted average remaining contractual term
EUR-denominated			
10-15	2,530,968	37	4.6 yrs
15-20	1,063,968	15	5.1 yrs
20-25	4,960,930	30	3.3 yrs
Outstanding share call options	**8,555,866**	**82**	**3.9 yrs**
USD-denominated			
15-20	1,896,597	22	4.6 yrs
20-25	424,322	4	5.0 yrs
25-30	1,822,875	2	4.3 yrs
30-35	1,491,566		3.0 yrs
Outstanding share call options	**5,635,360**	**28**	**4.1 yrs**

Dividend distribution

In June 2016, Philips settled a dividend of EUR 0.80 per common share, representing a total value of EUR 732 million including costs. Shareholders could elect for a cash dividend or a share dividend. Approximately 55% of the shareholders elected for a share dividend, resulting in the issuance of 17,344,462 new common shares. The settlement of the cash dividend involved an amount of EUR 330 million (including costs).

Legal reserves

As of December 31, 2016, legal reserves relate to unrealized gains on available-for-sale financial assets of EUR 36 million (2015: EUR 56 million), unrealized gains on cash flow hedges of EUR 10 million (2015: EUR 12 million unrealized losses), affiliated companies of EUR 715 million (2015: EUR 958 million) and unrealized currency translation gains of EUR 1,234 million (2015: EUR 1,058 million unrealized losses). Last year s legal reserves also included EUR 4 million related to the revaluation of assets and liabilities of acquired companies in the context of multi-stage acquisitions, which were nil as of December 31, 2016.

The item affiliated companies relates to the wettelijke reserve deelnemingen , which is required by Dutch law. This reserve relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

Limitations in the distribution of shareholders equity

Pursuant to Dutch law, limitations exist relating to the distribution of shareholders equity of EUR 2,181 million as at December 31, 2016. Such limitations relate to common shares of EUR 186 million, as well as available- for-sale financial assets of EUR 36 million, unrealized gains related to cash flow hedges of EUR 10 million, unrealized currency translation gains of EUR 1,234 million and affiliated companies of EUR

715 million.

As at December 31, 2015 the limitations on distributable amounts were EUR 2,274 million and related common shares of EUR 186 million, as well as legal reserves included under revaluation of EUR 4 million, available-for-sale financial assets of EUR 56 million, unrealized gains related to cash flow hedges of EUR 12 million, unrealized currency gains of EUR 1,058 million and affiliated companies of EUR 958 million.

Debt

Long-term debt

Koninklijke Philips N.V.

Long-term debt in millions of EUR, unless otherwise stated

2015 - 2016

	(range of) interest rates	average interest rate	amount outstanding in 2016	amount due in 1 year	amount due after 1 year	amount due after 5 years	average remaining term (in years)	amount outstanding in 2015
USD bonds	3.8 - 7.8%	5.5%	3,608	1,184	2,424	2,424	10	3,733
Intercompany financing	0.6 - 4.3%	3.2%	584	584				1,660
Bank borrowings	0.9 - 1.1%	1.1%	200	22	178		3	200
Other long-term debt	1.7 - 7.0%	4.2%	37	37			1	39
			4,429	**1,827**	**2,602**	**2,424**		**5,632**
Corresponding data previous year			**5,632**	**1,699**	**3,933**	**2,795**		**6,623**

The following amounts of the long-term debt as of December 31, 2016, are due in the next five years:

Koninklijke Philips N.V.

Long-term debt due in the next five years in millions of EUR

2016

2017	1,827
2018	44
2019	44
2020	45
2021	45
Long-term debt	**2,005**
Corresponding amount previous year	**2,837**

In October 2016, the principal amounts of USD bonds due 2025, 2026, 2038 were partially redeemed, which involved an aggregated amount of USD 285 million. This resulted in financial charges of EUR 91 million paid in 2016.

In December 2016, Royal Philips delivered a notice of redemption to the holders of the outstanding 5.750% Notes due 2018 in the aggregate principal amount of USD 1,250 million for redemption in January 2017. This resulted in financial charges of EUR 62 million in 2016. Please refer to note 18, Debt

For further information, refer to note O, Subsequent events.

Short-term debt

Short-term debt mainly relates to the current portion of outstanding external and intercompany long-term debt of EUR 1,827 million (2015: EUR 1,699 million), other debt to group companies totaling EUR 13,976 million (2015: EUR 11,578 million) and short-term bank borrowings of EUR 7 million (2015: EUR 1,245 million).

Other current liabilities

Koninklijke Philips N.V.

Other current liabilities in millions of EUR

2015 - 2016

	2015	2016
Other short-term liabilities	59	12
Accrued expenses	127	181
Derivative instruments liabilities	314	332
Other current liabilities	**500**	**525**

Contractual obligations and contingent liabilities not appearing in the balance sheet

The Company has entered into contracts with venture capitalists where it committed itself to make, under certain conditions, capital contributions to their investment funds to an aggregated amount of EUR 90 million (2015: EUR 22 million) until June 30, 2021. As at December 31, 2016 capital contributions already made to this investment funds are recorded as available-for- sale financial assets within Other non-current financial assets.

General guarantees as referred to in Section 403, Book 2, of the Dutch Civil Code, have been given by the Company on behalf of several group companies in the Netherlands. The liabilities of these companies to third parties and investments in associates totaled EUR 1,170 million as of year-end 2016 (2015: EUR 1,374 million). Guarantees totaling EUR 667 million (2015: EUR 698 million) have also been given on behalf of other group companies. As at December 31, 2016 there have been no credit guarantees given on behalf of unconsolidated companies and third parties (2015: nil).

The Company is the head of a fiscal unity that contains the most significant Dutch wholly-owned group companies. The Company is therefore jointly and severally liable for the tax liabilities of the tax entity as a whole. For additional information, please refer to

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note 25, Contingent assets and liabilities, which is deemed incorporated and repeated herein by reference.

Subsequent events

New credit facility

In January 2017, Philips entered into a USD 1 billion and EUR 300 million credit facility with a consortium of international banks. Under this credit facility Philips drew USD 1 billion in January; the facility was used for the early redemption of 5.750% Notes due 2018 in the aggregate principal amount of USD 1,250 million. The maturity date of the new facility is December 29, 2017, however Philips expects to prepay this facility in the course of 2017.

Offering of Philips Lighting shares

On February 9, 2017 Royal Philips completed an accelerated book build offering to institutional investors of 26 million shares in Philips Lighting at a price of EUR 23.40 per share realizing total proceeds of EUR 608 million. This transaction reduced Royal Philips stake in Philips Lighting s outstanding share capital from 71.225% to 53.892%.

As part of this transaction, Philips Lighting repurchased 3.5 million shares in the offering and intends to cancel these shares. After cancellation of the 3.5 million shares that Philips Lighting has acquired in the offering, Royal Philips shareholding in Philips Lighting is expected to represent 55.180% of Philips Lighting s outstanding share capital.

Appropriation of profits and profit distributions

Pursuant to article 34 of the articles of association of the Company, a dividend will first be declared on preference shares out of net income. The remainder of the net income, after reservations made with the approval of the Supervisory Board, shall be available for distribution to holders of common shares subject to shareholder approval after year-end. As of December 31, 2016, the issued share capital consists only of common shares. No preference shares have been issued. Article 33 of the articles of association of the Company gives the Board of Management the power to determine what portion of the net income shall be retained by way of reserve, subject to the approval of the Supervisory Board.

A proposal will be submitted to the 2017 Annual General Meeting of Shareholders to pay a dividend of EUR 0.80 per common share, in cash or shares at the option of the shareholders, against the net income of the Company for 2016.

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11.5 Independent auditor s report

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

Report on the audit of the financial statements 2016

Our opinion

We have audited the financial statements 2016 of Koninklijke Philips N.V. (the Company), based in Eindhoven, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Koninklijke Philips N.V. as at December 31, 2016 and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying company financial statements give a true and fair view of the financial position of Koninklijke Philips N.V. as at December 31, 2016 and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2016;
- the following statements for 2016: the consolidated statements of income, comprehensive income, cash flows and changes in equity; and
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at December 31, 2016;
- the company statements of income and changes in equity for 2016; and
- the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of Koninklijke Philips N.V. in accordance with 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 regulations in the Netherlands. 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.

Materiality

Materiality	EUR 60 million
Benchmark applied	5% income before taxes
Explanation	Based on our professional judgment we consider an earnings-based measure as the most appropriate basis to determine materiality. We have assessed the benchmark amount, taken into account the impact of certain items such as Philips Lighting separation costs and effects of certain claim settlements on income before taxes. Based on the actual result the materiality exceeds the initial planning materiality of EUR 60 million as set in the course of our planning phase. We continued to apply the materiality initially set.

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 3 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view should be reported on qualitative grounds.

Scope of the group audit

Koninklijke Philips N.V. (the Company) is at the head of a group of entities. The consolidated financial statements of Koninklijke Philips N.V. represents the financial information of this group.

Following our assessment of the risk of material misstatement to Koninklijke Philips N.V. s consolidated financial statements, we have selected 12 components which required an audit of the complete financial information (Full Scope Components) and 36 components requiring audit procedures on specific account balances or specified audit procedures that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile (Specific- or Specified Scope Components). We performed audit procedures on certain accounting areas managed centrally, such as goodwill. In addition, the central team has been involved in the audit procedures on revenue recognition, tax and legal claims, litigation and contingencies.

Where this did not give adequate quantitative coverage of significant account balances, we used our judgment to scope additional procedures on account balances or requested the component auditors to perform additional specified procedures (Specified Procedures). As a result of our scoping of the complete

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financial information, specific account balances and the performance of audit procedures at different levels in the organization, our actual coverage varies per account balance and the depth of our audit procedures per account balance varies depending on our risk assessment.

Of the remaining components, we performed selected other procedures, including analytical review and detailed testing to respond to any potential risks of material misstatements to the financial statements.

Accordingly, our audit coverage per account balance included in the key audit matters stated below, can be summarized as follows:

Goodwill in %

Deferred tax assets in %

Other tax liability in %

Legal claims, litigation and contingencies in %

Revenue in %

Involvement with component teams

Component materiality was determined by our judgment, based on the relative size of the component and our risk assessment. Component materiality did not exceed EUR 30 million and the majority of our component auditors applied a component materiality that is significantly less than this threshold.

Component auditors visited the Netherlands in 2016 to attend our global audit conference, to discuss the Group audit, risks, audit approach and instructions. In addition, we sent detailed instructions to all component auditors, covering the significant areas that should be covered and set out the information required to be reported to us. Based on our risk assessment, we visited component locations in the U.S.A., China, the Netherlands, Japan, Panama, Hong Kong, Germany, Russia, Italy, India, and Singapore. These visits encompassed some, or all, of the following activities: co-developing the significant risk area audit approach, reviewing key local working papers and conclusions, meeting with local and regional leadership teams, obtaining an understanding of key control processes including centralised entity level control processes and attending closing meetings. We interacted regularly with the component teams where appropriate during various stages of the audit, attended in person or via conference call, Full Scope Component and certain Specific Scope Component closing meetings, reviewed key working papers and were responsible for the scope and direction of the audit process. For the audit of Lumileds and the Automotive businesses, classified as discontinued operations, we have used the work of non-EY auditors.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the Group s financial information to provide an opinion on the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

Key audit matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Company separation

Key audit matter	In 2016 the Company established two separate entities focused on HealthTech and Lighting. To accomplish the separation, businesses, assets and liabilities of Lighting have been transferred from HealthTech legal entities to new or existing Lighting legal entities and vice versa. This occurred through several legal transaction steps, including local business transfers and legal demergers. Following the separation, the reporting structure of the Company changed resulting into revised segment reporting. At the same time, the former Innovation, Group Services segment was split and allocated between Philips and Philips Lighting.
	There is an increased risk in relation to the proper accounting of the separation, such as the impact of potential local tax consequences, completeness and measurement of transaction costs as expenses and correct allocation of Innovation, Group Services segment to the new segments. Further reference is made to note 5, Interests in entities.
Our audit approach	Our audit procedures included, amongst others, meetings with project management to understand the separation process and its impact on the Company s assets, liabilities and equity. Furthermore we assessed the appropriateness of the accounting of the separation and the related transaction costs based on supporting documentation, including the master separation agreement and underlying service level agreements. We also verified the reconciliation of the total assets and liabilities to the allocated assets and liabilities per the respective entities and segments and tested the appropriate accounting of the separation based on the local business transfer agreement.
	We assessed the impact of the separation on (deferred) tax positions as part of our audit procedures on these accounts as further detailed in the related key audit matter below.

Valuation of goodwill

Key audit matter	At December 31, 2016, the total carrying value of goodwill amounted to EUR 8,898 million, representing 27.5% of the group s total assets. Goodwill is allocated to (groups of) Cash Generating Units (CGU s) for which management is required to test the carrying value of goodwill for impairment annually or more frequently if there is a triggering event for testing. We focused on this area given the significant judgement and complexity of valuation methodologies used to determine whether the carrying value of goodwill is appropriate, which includes the assumptions used within models to support the recoverable amount of goodwill. Further reference is made to note 11, Goodwill.

Our audit approach As part of our audit we assessed and tested the assumptions, methodologies and data used by the Company in their valuation model, by comparing them to external data such as expected inflation rates, discount rates and implied growth rates. Additionally, we validated that the cash flow projections used in the valuation are consistent with the information approved by the Executive Committee and have evaluated the historical accuracy of management s estimates that drive the assessment, such as business plans and expected growth rates. We performed sensitivity analysis by stress testing key assumptions in the model to consider the degree to which these assumptions would need to change before an impairment charge would have to be recognized. We included in our team a valuation expert to assist us in these audit activities. These procedures were performed for all CGU s.

Our main focus was on the CGU s Sleep & Respiratory Care (Personal Health businesses), Image Guided Therapy (Diagnosis & Treatment businesses), Patient Care & Monitoring Solutions (Connected Care & Health Informatics businesses) and Professional (Lighting) as these represent the majority of the goodwill balance of the Group at December 31, 2016.

We have also tested the effectiveness of the Company s internal controls around the valuation of goodwill. We also assessed the adequacy of the Company s disclosure around goodwill as included in note 11, Goodwill.

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Taxes - Valuation of deferred tax assets and liability for tax risks

Key audit matter

The accounting for deferred tax assets and tax risk liabilities were significant to our audit since the Company has extensive international operations and makes judgements and estimates in relation to the realization of deferred tax assets and tax risk positions resulting in the recognition of other tax liabilities. In addition to the assessment of the realization of deferred tax assets and recognition of tax liabilities in the normal course of business, the value of the deferred tax assets and liabilities is also impacted by the Philips Lighting separation.

At December 31, 2016, the deferred tax assets are valued at EUR 2,792 million and the other tax liability related to tax risks is valued at EUR 395 million. Further reference is made to note 8, Income taxes and note 22, Other liabilities.

Our audit approach

With the involvement of our tax experts we evaluated the tax accounting in various jurisdictions in which the Company operates, taking into account the impact of the local tax jurisdiction and including effects resulting from the separation.

With regard to deferred tax assets, we tested management s assumptions used to determine the probability that deferred tax assets recognized in the balance sheet will be recovered. This is based upon forecasted taxable income in the countries where the deferred tax assets originated and the periods when the deferred tax assets can be utilized. We used, amongst others, forecasts and tax laws. The forecasts were evaluated by us and we assessed the historical accuracy of management s assumptions.

We evaluated and challenged the Company s judgements in respect of estimates of tax exposures, considering ongoing local tax authority audits, legislative developments and relevant historical and recent judgements. We tested the Company s internal controls around the recording and continuous re-assessment of the deferred tax assets and tax liabilities.

We compared information provided by management to corroborative or contradictory information where possible, such as previous history in certain countries. We also assessed the adequacy of the Company s disclosures included in note 8, Income taxes and note 22, Other liabilities.

Revenue recognition multiple element sales contracts and sales promotions

Key audit matter

Sales contracts for certain transactions primarily entered into in the Diagnosis & Treatment businesses and the Connected Care & Health Informatics businesses involve multiple elements. Those multiple elements, or separately identifiable components, are recognized based on their relative fair value and achievement of revenue recognition criteria. This gives rise to the risk that sales could be misstated due to the complexity of the multi-element contracts and the incorrect determination of the relative fair value elements and timing of the related revenue recognition.

In addition, primarily in the Personal Health businesses the Company has sales promotions related agreements with distributors and retailers whereby discounts and rebates are provided according to the quantity of goods sold and promotional and marketing activity performed. The agreements of these sales promotions can include a number of characteristics that require judgement to be applied in determining the appropriate accounting treatment based on the terms of respective agreements. Management must estimate the sales related accruals (rebates, marketing and promotional support, coupon and stock protection) as at the balance sheet date based on forecast information over the term of the promotion. There may also be incentives to change the timing of when sales related accruals within the Personal Health businesses are recognized to meet internal targets. Further reference is made to note 2, Information by segment and main country.

Our audit approach

Our audit procedures included, amongst others, assessing the appropriateness of the Company s revenue recognition accounting policies and testing the effectiveness of the Company s controls over the fair value determination of multi-element sales contracts and sales promotions to assess the correct value and timing of revenue recognition. Furthermore, we assessed the accuracy of the sales recorded by inspection of selected sales contracts, external confirmations, review of installation hours reported after recognition of revenue and inspection of hand over certificates.

With respect to the sales related accruals, our procedures included testing management s controls around the completeness and accuracy of the sales promotions agreements recognized in the accounting system, challenging management s assumptions used in determining the sales related accruals through discussions with management and performing specific substantive procedures, including:

- On a sample basis agreed the recorded amounts to contractual evidence;

- Performed a retrospective review of actual expenses verifying there were no significant differences to prior period sales related accruals; and

- Tested cut-off through assessing the sales promotion obligations around the year-end.

We also assessed the adequacy of the sales disclosures contained in note 2, Information by segment and main country.

Contingent liabilities and provisions from (legal) claims, proceedings and investigations

Key audit matter

The Company and certain of its group companies and former group companies are involved as a party in legal proceedings, including regulatory and other governmental proceedings as well as investigations by authorities, such as for example the patent infringement lawsuit by Masimo Corporation, several CRT antitrust litigations and a civil matter with the US Department of Justice relating to the external defibrillator business in the US.

This area is significant to our audit, since the accounting and disclosure for (contingent) legal liabilities is complex and judgmental (due to the difficulty in predicting the outcome of the matter and estimating the potential impact if the outcome is unfavorable), and the amounts involved are, or can be, material to the financial statements as a whole. Further reference is made to note 19, Provisions and note 25, Contingent assets and liabilities.

Our audit approach

Our audit procedures included, amongst others, testing the effectiveness of the Company s internal controls around the identification and evaluation of claims, proceedings and investigations at different levels in the group, and the recording and continuous re-assessment of the related (contingent) liabilities and provisions and disclosures. We inquired with both legal and financial staff in respect of ongoing investigations or claims, proceedings and investigations, inspected relevant correspondence, inspected the minutes of the meetings of the Audit Committee, Supervisory Board and Executive Committee, requested a confirmation letter from the group s in-house legal counsel and obtained external legal confirmation letters from a selection of external legal counsels. For claims settled during the year, such as Medsage and Masimo, we vouched the cash payments, as appropriate and read the related settlement agreements in order to verify whether the settlements were properly accounted for.

We also assessed the adequacy of Company s disclosure regarding (contingent) liabilities from legal proceedings and investigations as contained in note 19, Provisions and note 25, Contingent assets and liabilities.

Accounting for Discontinued operations

Key audit matter

Following the planned sale of the majority interest of Lumileds and future sell-down of Philips Lighting shares, the accounting of discontinued operations has been an attention area in our audit. The Lumileds business is accounted for as discontinued operation since the fourth quarter of 2014 and Philips Lighting could potentially become a discontinued operation once loss of control is highly probable in the near future. Further reference is made to note 3, Discontinued operations and other assets classified as held for sale.

Our audit approach

Our audit procedures included, amongst others, testing the effectiveness of the Company s internal controls around the appropriate accounting, assessing the appropriateness of the Company s accounting policies in relation to discontinued operations and assessment of compliance with the respective accounting policies. We met with the Board of Management and Audit Committee of the Supervisory Board and other executive management representatives on a regular basis to understand the status of the planned sale of the majority interest of Lumileds and the future sell-down of Philips Lighting shares. We assessed management s evaluation of continued classification as discontinued operations of Lumileds and the accounting of Lighting including the adequacy of Company s disclosure included in note 3, Discontinued operations and other assets classified as held for sale.

Initial audit engagement

Key audit matter	There are additional considerations involved in performing initial audit engagements. Additional planning activities and considerations are required to establish an appropriate audit strategy and audit plan.
Our audit approach	After being appointed as the Company s auditors effective for the year 2016, we developed a comprehensive transition plan in October 2015, which included specific planning activities, to ensure an effective transition from the predecessor auditor. The specific planning activities included, but were not limited to, obtaining an initial understanding of the Company and its business, including background information, strategy, business risks, IT landscape and its financial reporting and internal controls framework, to assist us in performing our risk assessment procedures. We have assessed the opening balances and the selection and consistent application of accounting policies by discussing the audit with the predecessor auditor and reviewing the predecessor auditor s file. Furthermore, in January 2016, we attended closing meetings and Audit Committee meetings related to the 2015 audit. The foregoing has been used as a basis for our 2016 audit plan. We discussed and agreed our 2016 audit plan with the Audit Committee and Executive Committee of Koninklijke Philips N.V. in April 2016 and have provided status updates, progress reports and key audit matters from our audit process on a regular basis.

Report on other information included in the annual report

In addition to the financial statements and our auditor s report thereon, the annual report contains other information that consists of:

The management board s report

Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Sustainability statements

Five year key financial and sustainability information

Investor relations information

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Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed on the other information is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management board s report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

Following the appointment by the Annual General Meeting of Shareholders on May 7, 2015, we were engaged by the Supervisory Board on October 22, 2015 as auditor of Koninklijke Philips N.V. as of the audit for the year 2016 and have operated as statutory auditor since that date.

Description of responsibilities for the financial statements

Responsibilities of the Board of Management and the Supervisory Board for the financial statements

The Board of Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Management is responsible for such internal control as the Board of Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the Company s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Management should prepare the financial statements using the going concern basis of accounting unless the Board of Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Management should disclose events and circumstances that may cast significant doubt on the Company s ability to continue as a going concern in the financial statements.

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

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment 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.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements.

Our audit included:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluding on the appropriateness of management s use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor s report. However, future events or conditions may cause a company to cease to continue as a going concern.

Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.

Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Depending on the size and/or the risk profile, the organisation of the group and the effectiveness of group-wide controls, changes in the business environment and other relevant factors, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

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

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, The Netherlands

February 21, 2017

Ernst & Young Accountants LLP

/s/ C.B. Boogaart

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12 Sustainability statements

12.1 Approach to sustainability reporting

Philips has a long tradition of sustainability reporting, beginning with our first environmental Annual Report published in 1999. This was expanded in 2003, with the launch of our first sustainability Annual Report. As a next step, in 2008, we decided to publish an integrated financial, social and environmental report. For more information, please refer to the company s website.

This is our ninth annual integrated financial, social and environmental report which has been prepared in line with the International Integrated Reporting Council (IIRC) Integrated Reporting (IR) framework and includes a visualization of our value creation process.

Philips Lighting s results are consolidated in this report but are also available in their Annual Report.

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

12.1.1 Tracking trends

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

12.1.2 Stakeholders

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

A multi-stakeholder project with the Sustainable Trade Initiative (IDH), a number of NGOs, and electronics companies was started in 2011 and expanded in 2014 and 2015 to include suppliers in the Yangtze river delta. The program focuses on improving working conditions in the electronics industry in China.

Furthermore, we engaged with the leading Dutch labor union (FNV) and a number of NGOs, including Enough, GoodElectronics, MakeITfair, the Chinese Institute of Public and Environmental Affairs, SOMO, Amnesty International, Greenpeace and Friends of the Earth 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 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	- European Works Council - Individual employees	Regular meetings, quarterly My Accelerate! Surveys, employee development process, quarterly update webinars. For more information refer to section 2.2, Social performance, of this report.
Customers	- Hospitals - Retailers - Consumers	Joint (research) projects, business development, Lean value chain projects, consumer panels, Net Promoter Scores, Philips Customer Care centers, Training centers, social media
Suppliers	- Chinese suppliers in the Supplier Development program - HP, Randstad	Supplier development activities (including topical training sessions), supplier forums, supplier website, participation in industry working groups like COCIR and EICC. For more information refer to sub-section 12.3.8, Supplier indicators, of this report.
Governments, municipalities, etc.	- European Union - Authorities in Indonesia, Singapore	Topical meetings, annual Innovation Experience, research projects, policy and legislative developments, business development
NGOs	- UNICEF, International Red Cross - Friends of the Earth, Greenpeace	Topical meetings, cross-segment (multi-stakeholder) projects, joint (research) projects, social investment program and Philips Foundation
Investors	- Mainstream investors - ESG investors	Webinars, roadshows, capital markets day, investor relations and sustainability accounts

12.1.3 Reporting standards

We have prepared the integrated annual report in line with the International Integrated Reporting Council (IIRC) Integrated Reporting framework.

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

We signed on 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, Sustainability and Environmental Policies, and our Supplier Sustainability Declaration are the cornerstones that enable us to live up to the standards set by the Global Compact. This is closely monitored and reported, as illustrated throughout this report, which is also our annual Communication on Progress (COP) submitted to the UN Global Compact Office.

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

We use this report to communicate on our progress towards the relevant Sustainable Development Goals (SDGs), in particular SDG 3 (Ensure healthy lives and promote well-being for all at all ages) and SDG 12 (Ensure sustainable consumption and production patterns). Please refer to sub-section 12.3.7, Stakeholder Engagement, of this report for more details.

More information about Philips Lighting s commitments to the SDGs can be found in their Annual Report.

12.1.4 Material topics and our focus

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

Our materiality assessment is based on an ongoing trend analysis, media search, and stakeholder input. The results for Royal Philips are reflected in the materiality matrix below. Those for Philips Lighting can be found in the Philips Lighting Annual Report. The scores are based on Philips assessment. Our materiality assessment has been conducted in the context of the GRI Sustainable Reporting Standards and the results have been reviewed and approved by the Philips Sustainability Board. As a result of the exclusion of Philips Lighting, a number of aspects have changed in terms of materiality in the table below (compared to 2015), for example, health related aspects have become more material.

Materiality matrix

Key material topics

Environmental	Reference[1)]	Boundaries
- Climate change	chapter 1, Message from the CEO, of this report section 2.3, Environmental performance, of this report section 12.4, Environmental statements, of this report	Supply chain, operations, use phase
- Energy efficiency	sub-section 2.3.1, Green Innovation, of this report section 2.3, Environmental performance, of this report section 12.4, Environmental statements, of this report	Supply chain, operations, use phase
- Circular Economy	sub-section 2.3.1, Green Innovation, of this report section 2.3, Environmental performance, of this report sub-section 12.3.8, Supplier indicators, of this report	Supply chain, operations, use phase

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Societal	Reference[1)]	Boundaries
- Rising healthcare costs	chapter 1, Message from the CEO, of this report sub-section 3.2.1, About Diagnosis & Treatment businesses, of this report sub-section 3.3.1, About Connected Care & Health Informatics businesses, of this report	Use phase
- Healthy Living	chapter 1, Message from the CEO, of this report sub-section 3.2.1, About Diagnosis & Treatment businesses, of this report sub-section 3.3.1, About Connected Care & Health Informatics businesses, of this report sub-section 3.1.1, About Personal Health businesses, of this report	Use phase
- Chronic and lifestyle related diseases	chapter 1, Message from the CEO, of this report sub-section 3.2.1, About Diagnosis & Treatment businesses, of this report sub-section 3.3.1, About Connected Care & Health Informatics businesses, of this report sub-section 3.1.1, About Personal Health businesses, of this report	Use phase
- Aging population	chapter 1, Message from the CEO, of this report sub-section 3.2.1, About Diagnosis & Treatment businesses, of this report sub-section 3.1.1, About Personal Health businesses, of this report	Use phase
- Responsible Supply Chains	section 2.2, Social performance, of this report chapter 12, Sustainability statements, of this report	Supply chain
- Employee health and safety	sub-section 2.2.6, Health and Safety, of this report	Supply chain, operations
- Conflict minerals		Supply chain

sub-section 12.3.8, Supplier indicators, of this report

Governance	Reference[1]	Boundaries
- Business ethics and General Business Principles	section 5.5, Compliance risks, of this report sub-section 2.2.7, General Business Principles, of this report	Supply chain, operations, use phase
- Partnerships and co-creation	sub-section 3.4.1, About HealthTech Other, of this report chapter 12, Sustainability statements, of this report	Supply chain, use phase
- Metrics beyond financials	section 2.2, Social performance, of this report section 2.3, Environmental performance, of this report chapter 12, Sustainability statements, of this report	Supply chain, operations, use phase
- Product responsibility and regulation	section 5.5, Compliance risks, of this report sub-section 3.1.1, About Personal Health businesses, of this report sub-section 3.2.1, About Diagnosis & Treatment businesses, of this report sub-section 3.3.1, About Connected Care & Health Informatics businesses, of this report	Supply chain, operations, use phase
- Big data and Privacy	section 5.4, Operational risks, of this report sub-section 3.1.1, About Personal Health businesses, of this report sub-section 3.2.1, About Diagnosis & Treatment businesses, of this report sub-section 3.3.1, About Connected Care & Health Informatics businesses, of this report	Supply chain, operations, use phase

1) With the exception of section 2.2, Social performance, of this report, section 2.3, Environmental performance, of this report, and chapter 12, Sustainability statements, of this report, the sections and chapters referred to are not included in the scope of the assurance engagement

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12.1.5 Programs and targets

Royal Philips HealthTech businesses

Sustainability commitments

2016

	baseline year 2015	target 2020	2016 actual
Lives Improved	2.0 billion	2.5 billion	2.1 billion
Circular revenues	7%	15%	9%
Green revenues	56%	70%	59%
Operational carbon footprint	757 Ktonnes	0 Ktonnes	821 Ktonnes
Operational waste recycling	78%	90%	79%
- Hazardous substances emissions	1,419 kilos	50% reduction	1,099 kilos
- Total Recordable Case (TRC) rate	0.39	0.29	0.37
Supplier Sustainability	33% RSL compliant	85% RSL compliant	59% RSL compliant
Supplier Sustainability [1)]	New development program tested	300 companies in development program	93 companies in development program

1) For more information see sub-section 12.3.8, Supplier indicators, of this report

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

More details on the Philips Lighting sustainability program can be found in their report.

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

12.1.6 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 these Sustainability

Statements and in the Philips Lighting Investor Relations website.

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

12.1.7 Comparability and completeness

We used expert opinions and estimates for some parts of the Key Performance Indicator calculations. There is therefore an inherent uncertainty in our calculations.

The figures reported are Philips best estimate. As our insight increases, we may enhance the methodology in the future.

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

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

In 2016, emission factors for CO2 were not updated. In 2015 however, the emission factor set for consumed electricity was updated to the IEA 2015 publications. Also, the emission factors for natural gas were implemented according to DEFRA (UK Department of Environment, Food and Rural Affairs). Lastly, all scope 3 emission factors for business travel and logistics were updated from a bespoke emission factor set to DEFRA guidance as well. The latter has had an upward effect on our scope 3 emissions, ranging from 15% to 32% in the years 2007-2015.

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.

In line with the Discontinued operations presentation in the Group financial statements regarding the Lumileds and Automotive business, we have excluded this data from the consolidated Sustainability data. Where the impact of the exclusion was material, we clearly disclosed the impact.

12.1.8 Data definitions and scope

Lives improved and materials

The Key Performance Indicators on lives improved and materials and the scope are defined in the respective methodology documents that can be found at Methodology for calculating Lives Improved. We used opinions from Philips experts and estimates for some parts of the Lives Improved calculations. There is therefore an inherent uncertainty in our calculations. The figures reported are Philips best possible estimate.

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. As of 2016, the Total Recordable Cases (TRC) rate is defined as a KPI, cases where the injured employee is unable to work one or more days, or had medical treatment or sustained an industrial illness. For data comparability reasons, we also provide the Lost Workday Injury Cases (LWIC) rate, 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.

General Business Principles

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

Supplier audits

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

Based on the Maplecroft Human Rights Risk Indexes, risk countries for Supply Management in 2016 were: Brazil, China, India, Indonesia, Mexico, Russia and Ukraine.

Suppliers of new ventures are included to the extent that the integration process of these ventures has been finalized. The normative integration period is two years after closure of the new venture.

Green Revenues

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

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

Circular Revenues

Circular Revenues are defined by revenues generated through products and solutions that meet specific Circular Economy requirements, for example by containing at least 30% recycled plastics (Personal Health), where Philips remains the owner, or where the product has been refurbished.

Sustainable Innovation

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

Green Innovation

Green Innovation is a subset of Sustainable Innovation and is defined as all R&D activities directly contributing to the development of Green Products and Solutions or Green Technologies; it contributes to SDG 12. This means all products, systems or services that demonstrate a measurable positive impact on energy efficiency (10% or greater than previous products or legal requirements), and preferably also in one or more green focal areas: Circularity, Weight & Materials, Packaging, and Substances. Green Innovation for Lighting is calculated by multiplying the total R&D spend by percentages for sustainable innovation per Business Group (LED 100%, Professionals 95%, Home is 97% and Lamps 15%). These percentages are an assessment of the contribution of R&D projects to sustainable innovation and are calculated based on prior-year innovation budgets. As part of this assessment we applied the assumptions that the prior-year percentages are still applicable for this reporting year and that all innovation in LED and LED-related products and services are considered as sustainable.

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.

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Operational carbon footprint

Philips reports in line with the Greenhouse Gas Protocol (GHGP). The GHGP distinguishes three scopes, as described below. The GHGP requires businesses to report on the first two scopes to comply with the GHGP reporting standards. As per the updated GHGP Scope 2 reporting guidance, from 2015 onward our scope 2 emissions reporting includes both the market-based method and the location-based method. The market-based method of reporting will serve as our reference for calculating our total operational carbon footprint.

Scope 1 direct CO_2 emissions is reported on in full, with details of direct emissions from our industrial and non-industrial sites. Emissions from industrial sites, which consist of direct emissions resulting from processes and fossil fuel combustion on site, are reported in the sustainability reporting system. Energy use and CO_2 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 meters, taking the geographical location and building type of the site into account.

Scope 2 indirect CO_2 emissions is reported on in full, with details of indirect emissions from our industrial and non-industrial sites. CO_2 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) 2015 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. Emissions intensity of consumed energy can differ based on contractual instruments used. For example, so-called green electricity contracts guarantee the purchaser will be supplied with electricity coming from renewable sources which typically lower emissions per energy unit generated. In the market-based method Philips will account for renewable electricity with an emission factor of 0 grams CO_2 per kWh. All renewable electricity claimed by Philips is sourced from the same energy market where the electricity-consuming operations are located, and is tracked and redeemed, retired, or cancelled solely on behalf of Philips. All certificates were obtained through procurement of Green-e certified Renewable Energy Certificates (RECs) in the United States and European Guarantees of Origin from the Association of Issuing Bodies (AIB) of the European Energy Certificate System (EECS).

Scope 3 other CO_2 emissions related to activities not owned or controlled by the Group is reported on for our business travel and distribution activities.

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

Industrial sites manufacturing and assembly sites

Non-industrial sites offices, warehouses, IT centers and R&D facilities

Business travel lease and rental cars and airplane travel

Logistics air, ocean and road transport

All emission factors used to transform input data (for example, amount of tonne-kilometers transported) into CO_2 emissions have been updated from the previously used DEFRA (UK Department for Environment, Food & Rural Affairs) 2007 and bespoke emission factors to the applicable DEFRA 2015 emission factors for each year respectively. The total CO_2 emission resulting from these calculations serve 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 they are based on distance travelled. 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 over less than 600 km are transported by road and the rest by air (those emissions by air are calculated in the same way as air freight). For sea transport, only data on transported volume were available so an estimate had to be made about the average weight of a container. Transportation to and from ports is not registered. This fore and aft part of sea transport was estimated to be around 3% of the total distance (based on actual data of the lanes with the largest volumes), consisting of a mix of modalities, and was added to the total emissions accordingly. CO_2 emissions from road transport were also calculated based on tonne-kilometers. Return travel of vehicles is not included in the data for sea and road distribution.

Employee Engagement Index (EEI)

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

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

12.1.9 Sustainability governance

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

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

Progress on Sustainability is communicated internally on a quarterly basis to Philips employees and at least annually in the Executive Committee and Supervisory Board. Please refer to the Philips Lighting Annual Report to learn about their sustainability governance.

12.1.10 External assurance

EY has provided reasonable assurance on whether the information in chapter 12, Sustainability statements, of this report and section 2.2, Social performance, of this report and section 2.3, Environmental performance, of this report presents fairly, in all material respects, the sustainability performance in accordance with the reporting criteria. Please refer to section 12.5, Assurance report of the independent auditor, of this report.

12.2 Economic indicators

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

Philips Group

Distribution of direct economic benefits in millions of EUR

2014 - 2016

	2014	2015	2016
Suppliers: goods and services	13,185	14,388	13,904
Employees: salaries and wages	5,018	5,533	5,832
Shareholders: distribution from retained earnings	729	730	732
Government: corporate income taxes	26	239	327
Capital providers: net interest	251	302	327

Total purchased goods and services as included in cost of sales amounted to EUR 13.9 billion, representing 57% of total revenues of the Philips Group. Of this amount, approximately 69% was spent with global suppliers, the remainder with local suppliers.

In 2016, salaries and wages totaled EUR 5.8 billion. This amount is some EUR 300 million higher than in 2015, mainly caused by the increased number of employees and currency effects. See note 6, Income from operations for more information.

Philips shareholders were given EUR 732 million in the form of a dividend, the cash portion of which amounted to EUR 330 million.

Income taxes amounted to EUR 327 million, compared to EUR 239 million in 2015. The effective income tax rate was lower than the weighted average statutory income tax rate in 2016, mainly due to recognition of deferred tax assets and non-taxable income, largely attributable to favorable tax regulations relating to R&D investments. These effects were partly offset by non-deductible expenses.

For a further understanding, see note 8, Income taxes.

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

12.3 Social statements

In 2016, both Royal Philips HealthTech businesses and Philips Lighting launched their next 5-year sustainability programs. This section provides additional information on (some of) the Social performance parameters reported in section 2.2, Social performance, of this report.

12.3.1 Building employability

Other programs

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, nearly 13,000 people have participated, and around 70% found a regular job after taking part in the program. In 2016, Philips employed 140 people via the WGP program, including 25 people with autism. As we move into 2017, we will continue to offer an environment for all of our people to thrive and grow.

12.3.2 People development

Our talent development focuses on all aspects of the 70:20:10 learning framework.

70% Learning through critical career experiences

Philips is on a multi-year journey to evolve our culture to focus on experience-based career development, giving our people the opportunity to identify and gain the experiences necessary to support our health technology strategy and strengthen their employability. By identifying the roles and experiences critical to our business strategy, we clarify development areas and transferrable skills in support of cross-functional, lateral, traditional, as well as non-traditional career opportunities for our people.

As of 2016, our people are able to view the succession plans in which they are included. In 2017 we will continue on our journey towards an experience-based careers culture through:

- Enabling and empowering our people with real-time, integrated tools and resources to plan and manage their career
- Building awareness of experience-based careers for our people through stories and communications, prioritizing critical roles and capabilities that are directly in support of our health technology strategy
- Facilitated gig-board of extra-curricular roles to increase flexible teaming across organization structures and provide opportunity for further development within existing roles

20% Guidance through coaching and mentoring

In 2016, Philips University launched a program for leaders to help them get the most out of our people, help them grow, and have meaningful career conversations. In 2017 we will drive further initiatives focused on:

- Strengthening the employee-and-manager career partnership with clear accountabilities
- Equipping managers as effective career coaches who will have transparent career dialogues with their team, with differentiated development for deep specialists and broad leaders

10% Learning through formal learning

In 2016, more than 1,900 new courses were made available by Philips University. By year-end, over 86,000 employees had enrolled for courses with Philips University. In total, some 1.2 million hours were spent on training through Philips University in 2016, with some 580,000 training completions.

12.3.3 Employee volunteering

In North America, the Philips Cares program provides ways for employees to work together to improve people s lives by creating healthy, sustainable communities. This can take many forms: from helping a child to excel in math, or providing safety and energy-efficient home improvements for the disadvantaged, to raising awareness about the importance of cardiac health. In 2016 alone, more than 9,500 employee volunteers participated in community outreach projects that suited their needs, schedules, and passions individually as well as through partnerships with organizations such as the American Heart Association, International Medical Equipment Collaborative (IMEC), and the March of Dimes.

Since Q4 2016, all of our employees are now able to take 1 day per year to support charitable endeavors through volunteering. For example, in the Benelux 70 of our people were trained in resuscitation (CPR) by the Dutch Hartstichting (heart foundation), enabling them to provide support in the critical first period of a cardiac arrest.

12.3.4 Health and Safety performance

In 2016, we recorded 174 LWIC, i.e. occupational injury cases where the injured person is unable to work one or more days after the injury. This represents a significant decrease compared with 213 in 2015. The LWIC rate decreased to 0.18 per 100 FTEs, compared with 0.21 in 2015. The number of Lost Workdays caused by injuries decreased by 1,253 days (16%) to 6,728 days in 2016.

Additionally, in 2016, we recorded 395 TRC s, i.e. cases where the injured employee is unable to work one or more days, or had medical treatment or sustained an industrial illness.

In 2016, we focused our efforts not only on traditional process and equipment safety improvements, but also on a proactive cultural transformation through Behavior Based Safety (BBS). BBS requires a fundamental shift in how we think and act about Health and Safety before an injury occurs. Our new company program, based on an internal best practice, was deployed and implemented globally across many factories in 2016 including those in China, Asia Pacific and the USA. We believe this program will continue to drive down our workplace injuries and be a key pillar towards reaching our goal of a 25% reduction in total injuries by 2020.

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Philips Group

Lost workday injuries per 100 FTEs

2012 - 2016

	2012	2013	2014	2015	2016
Personal Health	0.39	0.33	0.16	0.16	0.15
Diagnosis & Treatment	0.22	0.23	0.27	0.20	0.36
Connected Care & Health Informatics	0.16	0.05	0.18	0.16	0.15
HealthTech Other	0.14	0.12	0.11	0.13	0.10
Lighting	0.47	0.42	0.37	0.34	0.22
Continuing operations	0.31	0.27	0.23	0.21	0.18
Discontinued operations	0.55	0.37	0.25	0.27	0.32
Philips Group	**0.31**	**0.28**	**0.23**	**0.22**	**0.19**

Philips Group

Total recordable cases per 100 FTEs

2016

	2016
Personal Health	0.33
Diagnosis & Treatment	0.65
Connected Care & Health Informatics	0.67
HealthTech Other	0.27
Lighting	0.50
Continuing operations	0.41
Discontinued operations	0.44
Philips Group	**0.41**

Diagnosis & Treatment businesses

In the Diagnosis & Treatment businesses segment Health and Safety showed a decrease in performance in 2016 with 40 LWIC compared to 21 in 2015. The LWIC rate increased to 0.36 compared to 0.20 in 2015. The total number of recordable cases for the Diagnosis & Treatment businesses segment was 73 in 2016.

Connected Care & Health Informatics businesses

Health and Safety performance in the Connected Care & Health Informatics businesses segment continued to improve in 2016 with 5 LWIC in 2016 compared to 6 in 2015. Correspondingly, the LWIC rate decreased to 0.15 in 2016 compared to 0.16 in 2015. This was primarily driven by our global patient monitoring businesses. The total number of recordable cases for the Connected Care & Health Informatics businesses segment was 23 in 2016.

Personal Health businesses

The Personal Health businesses segment showed stable performance in Health and Safety with 21 LWIC in 2016, the same number as in 2015. The LWIC rate improved from 0.16 in 2015 to 0.15 in 2016. The Personal Health businesses segment had 46 recordable cases in 2016.

Lighting

Lighting showed an overall improvement while recording 71 LWIC compared to 119 in 2015. As a result the LWIC rate improved to 0.22 (0.34 in 2015). In 2016, Lighting had 156 reportable cases. Lighting introduced a new safety program in 2015 focusing on preventing injuries.

12.3.5 General Business Principles

A total of 503 concerns were reported over the course of 2016 via the Philips Ethics Line and through our network of GBP Compliance Officers, of which 164 related to Philips Lighting. The previous reporting period (2015) saw a total of 447 concerns, 135 of which related to Philips Lighting. Overall, we saw an increase of 13% in the total number of reports (11% for Royal Philips versus 21% for Philips Lighting).

This is a continuation of the upward trend reported since 2014, the year in which Philips updated its General Business Principles and deployed the related communication campaign, although the overall increase in the number of complaints reported has slightly declined year-on-year (2015: 14%). We believe this trend is in line with our multi-year efforts to encourage our employees to speak up, and we are now approaching a normalized level of reported concerns annually. The relatively larger increase in the number of concerns that relate to Philips Lighting is expected to relate, at least in part, to the separation event and the related corporate activities.

The upward trend in the number of concerns can primarily be attributed to significantly more concerns being reported in the North American (NA) region, making up 38% of the total number of reports in 2016 (2015: 31%). The number of concerns reported in Latin America once again declined year-on-year to 19% of the total number of complaints, compared with 25% in 2015. In percentage terms, Europe, Middle East & Africa (EMEA) and Asia Pacific (APAC) remained quite stable, representing 20% and 23% of the total number of complaints respectively (2015: 21% and 20%).

In keeping with a trend that became visible in 2015, we again saw a more even distribution in reporting across the four regions. While the Americas were historically dominant in terms of number of cases reported, EMEA and APAC have now reached the same level as Latin America. We believe this to be as a result of significant communication efforts in addition to our Global GBP Communications campaign, especially in the APAC region, improving employees awareness of their rights with regard to the GBP, and the reporting facilities available to them.

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Philips Group

Breakdown of reported GBP concerns in number of reports

2013 - 2016

	2013	2014	2015	2016
Health & Safety	3	10	9	16
Treatment of employees	203	203	242	276
- Collective bargaining	5			2
- Equal and fair treatment	80	72	44	73
- Employee development	4		2	15
- Employee privacy	1	3	8	4
- Employee relations	5	6		20
- Respectful treatment	84	93	111	107
- Remuneration	15	11	9	11
- Right to organize				
- Working hours	3	5	2	8
- HR other	6	13	66	36
Legal	9	30	35	32
Business Integrity	109	110	138	144
Supply management	5	6	6	13
IT	6	7	4	10
Other		27	13	12
Total	**335**	**393**	**447**	**503**

Most common types of concerns reported

Treatment of employees

As in previous years, the most commonly reported type of concern related to the category Treatment of employees. In 2016 there were 276 reports in this category, compared to 242 in 2015. This represents 55% of the total number of concerns, which is a slight increase from 2015 (54%).

Two subcategories, Respectful treatment and Equal and fair treatment, make up just over 65% of the concerns related to Treatment of employees. The Respectful treatment category generally relates to concerns about verbal abuse, (sexual) harassment, and hostile work environments. Equal and fair treatment primarily addresses favoritism, and matters of discrimination and unfair treatment in the workplace. 79% of the cases in these categories originated from the Americas, which is slightly more than in 2015 (76%).

Business integrity

The second most reported type of concern relates to Business Integrity, which made up 29% of the total cases reported. This is slightly less than in 2015, when the percentage was 31%. These concerns originated from the APAC region (45%), followed by EMEA (33%), Latin America (14%) and North America (8%).

Substantiated/unsubstantiated concerns

Of the 503 cases reported in 2016, 137 are still pending closure, in particular those that were filed towards the end of the year. The table below gives an overview of the number of reported concerns that were substantiated (i.e. found to constitute a breach of our General Business Principles) by the subsequent investigation.

Of the 366 reports investigated (267 in 2015), 115 were substantiated, which represents 31% of the total reported and closed (34% in 2015). This is also shown in the table below. Notably, while in 2015 39% of the Treatment of employee cases were substantiated, this percentage dropped to 28% in 2016 (2014: 22%, 2013: 20%). On the other hand, 40% of the Business Integrity reports were closed as substantiated in 2016, compared with 21% in 2015 (2014: 36%, 2013: 50%).

In addition to the above, 174 concerns that were still open at the end of 2015 were closed during 2016. 37% of these concerns were substantiated after investigation.

Of the 179 closed concerns that were substantiated, 100 were followed up with disciplinary measures varying 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.

12.3.6 The Philips Foundation

The Philips Foundation was established in 2014 and is a registered charity that strives to improve the lives of people in communities in need. The Philips Foundation seeks to make use of the expertise of partners, visionaries and innovators and the innovation capabilities of Philips to create lasting impact. In 2016, the Philips Foundation continued to build its portfolio of projects and partners in the areas of community

Philips Group

Classification of the new concerns investigated in number of reports

2014 - 2016

	2014		2015		2016	
	substantiated	unsubstantiated	substantiated	unsubstantiated	substantiated	unsubstantiated
Health & Safety	1	7	3	4	3	4
Treatment of employees	32	112	62	95	64	164
Legal	4	9	4	9	5	14
Business Integrity	25	45	16	62	38	56
Supply Management	1			1	1	7
IT	2			2	1	3
Other	4	18	1	8	3	3
Total	**69**	**191**	**86**	**181**	**115**	**251**

development and social entrepreneurship, as well as in our approach towards disaster relief. Royal Philips and Philips Lighting supported the program of the Philips Foundation with a donation of EUR 10 million in 2016 and provided the operating staff, payment in-kind and the expert support of skilled employees who support the Foundation s program for part of their time.

A highlight of the year was the launch of a partnership with Ashoka, one of the world s largest networks of social entrepreneurs, that identifies and invests in social entrepreneurs helping them to bring their ideas for solving social problems to scale. Through a six month globalizer program, 12 social entrepreneurs were supported by advisory teams involving 24 Philips volunteers to build their impact scaling plan. This culminated in a three-day summit where the social entrepreneurs were able to pitch their impact plans to a large group of senior experts, such as social investors, public sector representatives and Philips executives.

We additionally worked on strengthening our partnerships with the Red Cross and UNICEF. The partnership with the Red Cross focuses on exploring innovations that could assist in providing immediate relief to people in regions affected by humanitarian crises including natural disasters. We are working with the Netherlands Red Cross and the Ivory Coast Red Cross on a project in Ivory Coast to strengthen the resilience of a community in the Blolequin region with a focus on the health of mothers and children. The Philips Foundation and UNICEF have partnered to develop healthcare innovations for the first 1,000 days of children s lives. We are supporting UNICEF s Global Innovation Center and are a lead partner in the Kenya Maker for Maternal, Newborn and Child Health Project in Nairobi, which focuses on developing and deploying solutions that improve access to healthcare for mothers and their children in low-resource settings.

In addition, 36 local projects have been approved to be set up throughout the world. These projects are organized via the local Philips organization and NGO partner and funded by the Philips Foundation. These projects offer employee engagement opportunities including skilled expert volunteering. Employee donations were also a large part of the Philips Foundation s response to the earthquakes in Ecuador, Japan and Italy as well as Hurricane Matthew in the USA. Along with our co-creation projects we were able to respond to disasters around the world via our partnership with the Red Cross and global fundraisers, through which we raised a total of more than EUR 80,000 a combination of employee donations and foundation matching.

More information about the Philips Foundation, its purpose and scope as well as the Philips Foundation Annual Report 2015 can be found here.

Examples of innovation projects supported by the Philips Foundation

The Philips Foundation, CurArte Foundation and Hospital Vall d Hebrón teamed up to create *Imatgina* , an advanced patient-centric initiative in pediatric radiology that aims to improve the experience children have during diagnostic imaging tests. The goal of the initiative is to enhance the experience for children by creating a friendly atmosphere that dispels the uncertainty and fear usually associated with these types of procedures. It is estimated that the project will improve the lives of over 7,000 children on an annual basis.

Every day in rural Uganda, 555 birth complications occur, which lead to the death of over 6,000 Ugandan women a year. Although ultrasound has proven to be instrumental in the early identification of these complications, its high cost and the lack of trained personnel mean that it is not widely available in rural areas. The Philips Foundation and Philips teamed up with Imaging the World (ITW) to identify and implement sustainable business models in the healthcare ecosystem of rural Uganda. Establishing sustainable and increased sources of funding will allow ITW to create new health clinics and impact the lives of an additional 35,000 Ugandan women and babies a year.

12.3.7 Stakeholder Engagement

Our engagements 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 and active member of the World Economic Forum (WEF), an independent international organization committed to improving the state of the world by engaging leaders in partnerships to shape global, regional and industry agendas.

We supported and participated in a wide range of initiatives and projects through the year regional WEF events, as well as the participation in International Business Council of the World Economic Forum.

Further to our various engagements with WEF, Frans van Houten has been selected to serve as a Stewardship Board Member of a key WEF initiative on shaping the Future of Health and Healthcare . The initiative will focus on managing the risk and impact of future epidemics addressing the shortfall in the world s ability to respond to public health emergencies by developing a multifaceted cross-industry, cross-sectorial approach.

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Global Alliance for Vaccines and Immunization

Philips and the Global Alliance for Vaccines and Immunization (Gavi), are partnering to improve the quality of immunization data and its collection in primary and community healthcare. The partnership will be piloting the project in Uganda. The goal of the partnership is to gather accurate data which both organizations believe is essential to improve patient outcomes, provide access to care and reduce costs. Good data is key to strengthening health systems around the world.

World Heart Federation

Philips announced a new partnership with the World Heart Federation (WHF) in 2016 to help people better manage their heart health. Aligned with the WHF s power your life campaign, Philips aims to encourage people to take personal responsibility for leading heart-healthy lives and to raise awareness about cardiovascular disease.

Thought leadership

Future Health Index

Philips launched a new report, the Future Health Index (FHI) in 2016, an extensive global study which explores how 13 countries around the world are positioned to meet long-term global health challenges through integration and connected care technologies. The Future Health Index measures readiness to address these challenges by examining perceptions about the accessibility and level of integration of healthcare services, and the adoption of connected care technology throughout national healthcare systems.

Digital transformation of health and care

Philips is a champion of the EU Blueprint on digital transformation of health and care for the ageing society. Philips will continue its engagement in the Blueprint through deploying digital innovation across the EU. We believe that this will contribute to development of value-based care models for the benefit of citizens/patients and sustainability of health systems.

Working on global issues

Sustainable Development Goals

Philips aspires to be a major private sector contributor to the Sustainable Development Goals (SDGs) that were launched during the UN General Assembly in New York in September 2015. The United Nations Sustainable Development Goals 3 (to ensure healthy lives and promote well-being for all at all ages) and 12 (to ensure sustainable consumption and production patterns) are drivers and outcomes of sustainable development and Philips is committed to working closely with all relevant stakeholders to develop solutions to address these.

Strengthening primary care and enabling community development

Working in collaboration with the United Nations Population Fund (UNFPA), Royal Philips plans to inaugurate a Community Life Center (CLC) in Mandera, a County in North-Eastern Kenya with one of the world s highest maternal mortality rates - 3,795 per 100,000 live births. The project supported by the County Government of Mandera is the second of its kind in the world; Philips inaugurated the first CLC in Kiambu County, Kenya in 2014. The CLC will deliver crucial primary healthcare and enhance community development in Mandera.

Access to primary healthcare in Africa is a complex and complicated issue, therefore a sustainable solution needs to address a wide range of issues collectively. Issues range from unavailability of qualified healthcare workers to the lack of electricity, water and basic healthcare technology. The creation of the CLC concept enabled Philips to realize its vision to drastically improve primary healthcare in Africa.

Grand Challenges Canada on childhood pneumonia

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

Royal Philips received a repayable grant to scale the manufacturing and distribution of the Philips Children s Automated Respiration Monitor (also known as ChARM) to make it affordable and accessible for community-based health workers in low-resource settings throughout the world. ChARM has the potential to assist community health workers in establishing a more accurate measurement of a sick child s breathing rate to help improve the diagnosis of pneumonia and potentially prevent some of the 922,000 childhood deaths caused by pneumonia each year.

Global Financing Facility

In 2016 Philips committed to supporting the Global Financing Facility (GFF) through our expertise in innovation and our core competencies in growing primary-care capacity. The GFF brings together a broad range of partners to promote the sustainable solutions needed to achieve universal coverage of health care. By creating the right financial and technical conditions for innovation, as a common objective we believe our involvement will achieve greater impact and better health outcomes through collaboration.

12.3.8 Supplier indicators

Philips has a direct business relationship with approximately 8,500 product and component suppliers and 22,000 service providers, and in many cases the sustainability issues deeper in our supply chain require us to intervene beyond tier 1 of the chain.

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Supplier sustainability strategy

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

This process resulted in 2016 into five strategic programs for our Sustainable Supply Chain:

Key programs	
1 Supplier sustainability compliance	(SSC)
2 Supplier sustainability performance	(SSP)
3 Responsible sourcing	(RS)
4 Circular procurement	(CP)
5 Environmental footprint China	(EFP)
Enablers	

ONE database and dashboard

Standardized metrics (KPIs)

Communication plan

Multi-stakeholder dialogue

Industry collaboration

Training plan

Risk mapping (BOM, materials, suppliers)

1. Supplier Sustainability Compliance

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

Supplier Sustainability Declaration (SSD)

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

Regulated Substances List (RSL)

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

Following the SSD and RSL, Philips further specifies contractual and transparency requirements. Suppliers are obliged to contractually commit to the SSD and RSL and upon request provide additional information and evidence.

2. Supplier Sustainability Performance (SSP)

Since 2006, our supplier sustainability audits have been executed by third party auditors.

Due to insights gained through a thorough analysis of the audit program and the data it generated in the past 10 years our main conclusions were:

- The audit process consists of a third party audit to verify the SSD compliance, it focuses on closing the identified Non Conformities and repeats every 3 years. The frequency of checks is not sufficient and the system does not lead to long lasting improvements of the sustainability performance or compliance rate of our suppliers.

- Training and capacity-building programs are focused on general sharing of information and not necessarily on driving change or improvements. They do not always meet individual supplier needs.

- To secure business continuity, suppliers try to pass the audit with the least possible effort rather than making lasting improvements.

- Years of an audit culture which did not focus on long-lasting improvements has led to audit fatigue due to too many audits demanded by other customers.

Based on the above conclusions, Philips identified a need for change and developed a new beyond audit approach which:

- Understands that suppliers may have initial deviations from the SSD and RSL.

- Accepts that suppliers each have their own organizational and sustainability maturity level and need an individual improvement plan.

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Is continuous and creates a cultural change leading toward long-term improvements.

Ultimately leads to one-cross-industry standard for supplier sites and will therefore remove the audit burden.

The new SSP approach has been piloted in 2016 on a sample of 93 suppliers in China with the following results:

90% of the suppliers completed a Self-Assessment Questionnaire (SAQ), 57% of which were validated by Philips sustainability experts.

Followed by a site assessment at 20 supplier sites.

Through joint efforts an improvement Plan (IP) was developed and agreed upon with these 20 suppliers.

These 20 suppliers started executing the Improvement Plan, while Philips provides support and monitors progress on a regular basis.

The following observations were made after analyzing the first phase of the pilot:

Higher level of commitment and ownership from suppliers (also at top management level).

Change in mindset towards continuous improvement and transparency.

Suppliers are disclosing more areas for improvement than it would be possible to identify through an audit only.

Suppliers are moving away from quick fixes and towards lasting improvements.

Three key focus areas of SSP

We are primarily focusing on 3 areas: Health and Safety, remuneration and benefits, and workforce turnover.

Process Chemicals

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

Summary of 2016 Sustainability Audit Program

In 2016, we audited 226 of our current risk suppliers, including 150 continued conformance audits with suppliers that we had already audited in 2013. As in previous years, the majority of the audits were done in China. With these audits we directly or indirectly impacted almost 180,000 workers employed at the production sites that were audited.

On top of the audits with current risk suppliers, we also audited 28 potential suppliers during the supplier selection process. These potential suppliers need to close any zero-tolerance issues before they can start delivering to Philips.

To track improvements Philips measures the compliance rate for the identified risk suppliers, being the percentage of risk suppliers audited within the last 3 years who do not have or have resolved all major NCs. During 2016 we achieved a compliance rate of 90% (2015: 86%).

Audit findings

The table below shows the results of the full scope audits done during 2016; potential suppliers are not included. Most frequent areas of non-compliance in 2016:

- Certified Management System (ISO9001, ISO14001, and OHSAS18001)
- Emergency Preparedness
- Wages and Benefits

Philips Group

Summary of 2016 audit findings per region

	China	Asia excl. China	LATAM	EMEA	Total
No. of audits	163	38	22	3	226
Initial audits	50	16	8	2	76
Continued conformance audits	113	22	14	1	150
Average number of non-compliances per audit	9	20	13	3	12
Workers employed at sites audited	154,309	8,394	14,165	2,295	179,163

More information on the Supplier Sustainability Audit Program can be found here.

3. Responsible Sourcing of Minerals

The supply chains of minerals are long and complex. There are typically 7+ tiers between the end-user companies like Philips and the mines where the minerals are being extracted.

Philips does not directly source minerals from mines in in the conflict-affected and high-risk regions, and the supply chain for these metals consists of many tiers, including traders, exporters, smelters, refiners, alloy producers and component manufacturers, before reaching Philips direct suppliers.

Mining in these regions often takes place in an artisanal form which often means it is informal and unregulated. Artisanal miners can become victims to exploitation by various militia and armed groups. This increases the risk of human rights violations (forced labor, child labor or widespread sexual violence), unsafe working conditions or environmental concerns.

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

Responsible Sourcing approach of Philips

Due diligence approach

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

Multi-stakeholder initiatives

Working together with other stakeholders to apply leverage

Conflict minerals due diligence

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

Philips applies collective cross-industry leverage through active engagement via Conflict Free Sourcing Initiative (CFSI). The Conflict-Free Smelter Program (CFSP) identifies smelters that can demonstrate through an independent third-party audit that the minerals they procure are conflict free. Philips is actively directing its supply chain towards these smelters. See www.conflictfreesmelter.org for more details.

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

Multi-stakeholder initiatives for responsible sourcing of minerals

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

European Partnership for Responsible Minerals (EPRM)

EPRM is a five-year multi-stakeholder partnership between governments, companies, and civil society actors working toward more sustainable minerals

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supply chains. Philips became a strategic, founding partner of EPRM in May 2016, being the first representative of the private sector to join the initiative.

Tin mining in Indonesia

Indonesia produces roughly one-third of the world s tin supply, of which the vast majority comes from the islands Bangka and Belitung.

In 2015, a Roadmap to sustainable tin mining was created in collaboration with the local industry and government, defining improvement areas for onshore land reclamation and offshore low-impact mining.

In 2016, the first implementation pilot projects of the Roadmap were kicked off, governed by the local steering committee.

Dutch Covenant on Gold

Leaders of different industries using gold in The Netherlands together with the Dutch government and NGOs look for ways to make gold supply chains more responsible. Through 2016, the group has engaged in knowledge sharing to understand all specifics of the gold supply chain and to identify the right approach for the parties to address the most severe issues.

Mica Working Group

Mica is mainly used as a pearlescent pigment in coatings and cosmetics, and in the electronics sector it is used as an electrical insulator.

In 2016, Terre des Hommes in collaboration with SOMO published a report Beauty and a Beast which showed the widespread problem in the mica industry in Jharkhand/Bihar (India) and gaps in the due diligence of end user companies.

Philips decided to team up with Terre des Hommes in order to bring other mica users from all industries together to start a Mica Working Group with Terre des Hommes, Philips, the Dutch Ministry of Foreign Affairs and a group of 15 companies.

Terre des Hommes Netherlands is pleased to partner with Philips in order to set up the Mica Working Group. Our report Beauty and a Beast, child labor in India for sparkling cars and cosmetics shows the challenges of mica mining and the need for immediate interventions. Philips became aware of the issue and immediately demonstrated its leadership in CSR by taking the initiative to bring partners from various industries together. Philips engagement in other responsible sourcing initiatives definitely supported the Mica Working Group to move forward. We are confident that this multi-stakeholder initiative will lead to a transparent, traceable and child labor free mica supply chain

Terre des Hommes

NGO

4. Circular Procurement

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

Topics where Procurement is actively involved are:

- Circular procurement in the procurement policy. The next step is to define a circular procurement strategy and a clear long-term ambition.

The implementation of a governance structure beyond the procurement organization to cover the whole value chain is part of the internal Circular Economy Excellence network.

Execution of an analysis of internal and external circular service models to improve collaboration.

In 2016 Philips and HP have further strengthened their business relationship by specifying and delivering an IT pay-per-device model which will cover more than 100,000 IT assets across 50 countries. This device-as-a-service solution supports both companies efforts towards a shared circular economy. Philips stands out in truly understanding the importance of managing its IT requirements in order to realise both maximum value and minimize environmental impact from IT products. HP is proud to be Philips partner of choice for IT asset management and will continue to collaborate on shared circular economy objectives.

Dr. Kirstie McIntyre

HP Social and Environmental Responsibility Director

HP Case Study

Philips has used HP Asset Recovery Services since 2011 to comprehensively manage end of life IT assets worldwide, with data wiping, remarketing and recycling to mitigate security and privacy risk and ensure compliance. Over that time HP Asset Recovery Services have managed 80,000 assets across 24 countries, remarketing 90% of them.

5. Environmental Footprint China

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

Achievements in 2016

- Environmental footprint training for 120 suppliers by Philips Supplier Sustainability team.
- Philips actively participated in the Sino-Dutch Sustainable Supply Chain Management Program held by the Dutch Consulate in Zhejiang and Jiangsu province.
- Customer engagement (Starbucks) the supplier has established a new waste water treatment facility to ensure waste water discharging in accordance with regulatory requirements.
- Environmental footprint data reported for improving performance by 20 suppliers as part of the SSP on-site development.
- Energy savings via Supplier Development program - energy savings will be achieved upon implementation of the identified improvement actions.

Collaboration with IPE, a Chinese NGO

The Institute of Public and Environmental Affairs (IPE) is a registered non-profit organization based in Beijing. IPE has developed two pollution databases (water and air) to monitor corporate environmental performance and to facilitate public participation in environmental governance. For more information please refer to IPE website.

SA is a Philips supplier located in Shenzhen . In April 2016, environmental issues were identified in the waste water discharge system of this supplier. This was reported via the IPE Pollution Map.

Philips experts immediately contacted the supplier account manager, an IPE expert and the supplier to identify the root-cause and work out an improvement plan. With multi-stakeholder engagement, SA had the IPE Green Choice Alliance audit and closed the issue with 50 environmental protection NGOs as witnesses.

12.4 Environmental statements

This section provides additional information on (some of) the environmental performance parameters reported in section 2.3, Environmental performance, of this report.

12.4.1 Circular Economy

The transition from a linear to a circular economy is essential to create a sustainable world. A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using these resources more effectively.

The circular economy program

The circular economy program at Philips ran for the fourth year in 2016 and consists of four strategic pillars:

1. Connect to stakeholders outside Philips

2. Internal employee engagement

3. Create proof points and metrics

4. Embed circular economy in Philips processes

Philips leverages partnerships with the Ellen MacArthur Foundation, Circle Economy Netherlands, World Economic Forum, US Chamber of Commerce Foundation and The Guardian. For example, through the leadership of our CEO and supported by the circular economy program, Philips teamed up with the World Economic Forum to establish a public-private platform to accelerate the circular economy, launched in Davos in January 2017.

In many Philips Business Groups circular economy projects have started. These are either linked to customer access over ownership (pay for performance), business model innovations (from transactions to relationships via service and solution models) or reverse cycles (remanufacturing, refurbishment and parts harvesting).

Circular Revenues

In 2016, at Royal Philips, a new internal KPI was developed and deployed: Circular Revenues. The Circular Revenues percentage captures our revenues of validated circular products, services, and solutions, as a % of total Philips revenues. The validation is done against the following Philips circularity requirements which might be further refined in the future:

1. Performance and Access-based models

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

2. Refurbished, Reconditioned & Remanufactured products/systems

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

3. Refurbished, Reconditioned & Remanufactured components

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

4. Upgrades/refurbishment on site or remote

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

5. Products with recycled plastics content

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

We set the ambition that by 2020 a total of 15% of our revenues will come from circular propositions. This is double the rate of 7% baseline achieved in 2015. The result for 2016 is 9%. The main contributing revenue streams are for:

Personal Health businesses

Revenues from our B2C products that contain a large amount of recycled plastics, such as our businesses in coffee and domestic appliances

Diagnosis & Treatment businesses

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

Connected Care & Health Informatics businesses

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

Closing material loops

In addition to tracking circular revenue, we are also further working to gain transparency over the material flows connected with the Philips businesses. In 2016 Philips put a total of some 242,000 tonnes of products on the market. This assessment is based on sales data combined with product-specific weights. 85% of the total product weight was delivered through our B2C businesses in Personal Health and 15% through our B2B businesses (Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses).

We can account for some 19,000 tonnes or approximately 10% of those products being collected, re-used or recycled globally in 2015. 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 2015 were:

- Trade-in and return for resale as refurbished products and for spare parts harvesting (Diagnosis & Treatment and Connected Care & Health Informatics) some 2,400 tonnes, largely unchanged from 2014.

- Collective collection and recycling schemes according to the EU Waste Electrical and Electronic Equipment (WEEE) collection schemes. Those products are broken down into the main material fractions and provided to the market via our recycling partners

  - 800 tonnes from Diagnosis & Treatment and Connected Care & Health Informatics field returns, following the WEEE category 8 classification, indicating a slight decrease compared to the previous year (900 tonnes)

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

On the demand side, the Personal Health businesses have re-integrated significantly more recycled plastics in new products than last year, closing the material loop for some 1,440 tonnes of plastics, up from 900 tonnes in 2015.

More information can be found on the circular economy website.

At Philips Lighting, circular economy activities are covered as part of their Green Revenues.

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12.4.2 Biodiversity

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

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

Philips participated in 2015 in the development of the Natural Capital Protocol and volunteered as a pilot company. These activities continued in 2016. The environmental impact of the Royal Philips sites is limited as they are not very energy-intensive and do not emit large quantities of high-impact substances. The impact of our supply chain however is significantly higher than our own impact. For this reason, we used the identified hot-spots in our supply chain as input for our CDP Supply Chain program. More information on that program can be found in sub-section 12.3.8, Supplier indicators, of this report.

12.4.3 Sustainable Operations

The Royal Philips HealthTech businesses and Philips Lighting Sustainable Operations programs related to improving the environmental performance of our manufacturing facilities focus on most contributors to climate change, but also address water, recycling of waste and chemical substances.

For an overview of Philips industrial sites, please visit: Philips industrial sites.

Royal Philips HealthTech businesses

Green Operations

2016

	baseline year 2015	target 2020[1]	2016 actual
Total CO_2 from manufacturing	84 Ktonnes	0 Ktonnes	85 Ktonnes
Water	978,500 m3	10% reduction	963,000 m3
Zero waste to landfill	3.2 kilotonnes	0 tonnes	2.9 kilotonnes
Operational waste recycling	78%	90%	79%
Hazardous substances emissions	1,419 kilos	50% reduction	1,099 kilos
VOC emissions	169 tonnes	10% reduction	129 tonnes

[1] Against the base year 2015

Energy use in manufacturing

Total energy usage in manufacturing amounted to 8,987 terajoules in 2016, a decrease of 7% compared to 2015. Philips Lighting consumed about 66% of the total and realized a 13% year-on-year reduction, which was mainly driven by a reduction of energy-intensive operations and energy efficiency improvements in the factories. The Connected Care & Health Informatics businesses realized a decrease in energy consumption of 5% due to operational changes. Energy consumption in the Diagnosis & Treatment businesses increased by 8%, which was mainly due to the inclusion of two newly acquired sites. In the Personal Health businesses, site expansions and changed demand caused an increase in energy consumption, which was partly offset by energy efficiency improvements. The energy of discontinued operations amounted to 2,231 terajoules in 2016 (2015: 2,179 terajoules).

Philips Group

Total energy consumption in manufacturing in terajoules

2012 - 2016

	2012	2013	2014	2015	2016
Personal Health	1,329	1,369	1,352	1,389	1,436
Diagnosis & Treatment	1,248	1,238	1,202	1,214	1,316
Connected Care & Health Informatics	325	329	334	336	318
Lighting	9,112	9,027	8,369	6,763	5,917
Philips Group	**12,014**	**11,963**	**11,257**	**9,702**	**8,987**

Operational carbon footprint and energy efficiency - 2016 details

Becoming carbon-neutral in our operations by 2020 is one of the key targets, after already reducing our operational carbon footprint very significantly during the past years (40% decrease in CO_2 emissions in 2015 compared to our 2007 base year). Our carbon footprint decreased by 5% compared to 2015, resulting in a total of 1,344 kilotonnes CO_2.

The 2016 results can be attributed to several factors:

- Accounting for 24% of the total footprint, total CO_2 emissions from manufacturing decreased by 17% due to operational changes resulting in decreased energy usage and a lower load (mainly in Philips Lighting); additionally the share coming from renewable sources increased.

- CO_2 emissions from non-industrial operations (offices, warehouses, etc.), representing 8% of the total emissions, increased this year due to increased overall floor space in our non-industrial real estate portfolio. This resulted in a 3% carbon emission increase compared to 2015. In 2017, we will continue to focus on the most efficient use of facility space and increase the share of purchased electricity from renewable sources.

- The total CO_2 emissions related to business travel, accounting for 14% of our carbon footprint, showed a decrease of 4% compared to 2015. The reductions achieved with business flights and our lease cars was partially mitigated by an increase in our rental car emissions.

- Overall CO_2 emissions from logistics, representing 53% of the total, showed no overall change compared to 2015. We recorded an increase in emissions from air and road freight in Royal Philips, which was mitigated by a decrease in Philips Lighting.

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This increase in air freight combined with reduced emissions from parcel, road and ocean freight resulted in no overall change in our logistics emissions.

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Operational carbon footprint for logistics

in kilotonnes CO_2-equivalent

2012 - 2016

	2012	2013	2014	2015	2016
Air transport	366	385	348	429	448
Road transport	169	174	164	118	117
Ocean transport	210	227	208	171	153
Philips Group	**745**	**786**	**720**	**718**	**718**

Carbon emissions in manufacturing

The greenhouse gas emissions of our manufacturing operations totaled 323 kilotonnes CO_2-equivalent in 2016, 13% lower than in 2015. This was the result of decreased energy usage in manufacturing and operational changes. Direct CO_2 emissions represented 56% of the total, which decreased by 10%. Indirect CO_2 emissions represented 38%, an decrease of 18% due to lower electricity consumption. The carbon emissions of discontinued operations amounted to 175 kilotonnes CO_2-equivalent in 2016 (2015: 145 kilotonnes CO_2-equivalent).

Philips Group

Total carbon emissions in manufacturing

in kilotonnes CO_2-equivalent

2012 - 2016

	2012	2013	2014	2015	2016
Direct CO_2 [1)]	278	276	253	200	181
Indirect CO_2	252	208	185	148	122
Other greenhouse gases	6	7	6	6	4
From glass production	27	27	24	17	16
Philips Group[2)]	**563**	**518**	**468**	**371**	**323**

[1] From energy
[2] Excluding non-reporting industrial sites therefore different from Operational carbon footprint

Philips Group

Total carbon emissions in manufacturing per segment

in kilotonnes CO_2-equivalent

2012 - 2016

	2012	2013	2014	2015	2016
Personal Health	54	50	45	49	59
Diagnosis & Treatment	52	35	31	28	22
Connected Care & Health Informatics	14	9	8	7	4
Lighting	443	424	384	287	238
Philips Group	**563**	**518**	**468**	**371**	**323**

CO_2 emissions decreased significantly at Philips Lighting due to reduced energy usage resulting from operational changes and energy efficiency improvements. Emissions at the Diagnosis & Treatment businesses decreased due to an increase in use of electricity generated by renewable sources, partially offset by two newly acquired sites. The Connected Care & Health Informatics businesses segment decreased its CO_2 emissions due to lower energy consumption. At the Personal Health businesses, CO_2 emissions increased due to a decrease in the use of electricity generated by renewable sources. In December 2016, the Los Mirasoles windfarm in the US started to produce electricity. As a result, all our US operations will be powered by wind energy in 2017, a clear step towards our ambition to become carbon-neutral in our operations by 2020.

Hazardous substances emissions

In the Healthy people, sustainable planet program, new chemical reduction targets have been defined, on the most relevant categories of substances for Royal Philips, being hazardous substance emissions as well as VOC (Volatile Organic Compounds) emissions. As part of the deployment of the new program, reduction targets at our industrial sites are being agreed. For more information on Philips Lighting s emissions please refer to their Annual Report.

Royal Philips HealthTech businesses

Hazardous substances emissions in kilos

2015 - 2016

	2015	2016
Personal Health	789	642
Diagnosis & Treatment	604	428
Connected Care & Health Informatics	26	29
HealthTech	**1,419**	**1,099**

In 2016, emissions of hazardous substances decreased by 23%, mainly caused by reduced usage of harmful chemicals at a Diagnosis & Treatment businesses site and a Personal Health businesses site and changing processes at multiple sites in all segments.

VOC emissions

Royal Philips HealthTech businesses

VOC emissions in tonnes

2015 - 2016

	2015	2016
Personal Health	138	92
Diagnosis & Treatment	29	35
Connected Care & Health Informatics	2	2
HealthTech	**169**	**129**

VOC emissions reduced significantly in 2016 (by 24%) to 129 tonnes. This decrease was mainly driven by a number of industrial sites in the Personal Health businesses segment, which changed their lacquering processes, as well as changes in the product mix. This was slightly offset by the inclusion of two newly acquired industrial sites in the Diagnosis & Treatment businesses segment.

ISO 14001 certification

Most of the Royal Philips manufacturing sites are certified under the umbrella certificates for the Diagnosis & Treatment, Connected Care & Health Informatics and Personal Health businesses segments. Philips Lighting also has an umbrella certificate. In 2016, 82% of reporting manufacturing sites were certified, a 4% increase compared to 2015. Two sites were newly

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certified this year in the Personal Health businesses segment, and the two sites in the Diagnosis & Treatment businesses segment that started to report were not yet certified.

Philips Group

ISO 14001 certification as a % of all reporting organizations

2012 2016

	2012	2013	2014	2015	2016
Philips Group	69	79	79	78	82

Environmental incidents

In 2016, the Personal Health businesses reported one environmental incident with noise and four non-compliances. One was related to noise, followed by a technical project to meet the requirements; two were related to waste water and storm water permits which were followed-up by corrective actions; and one administrative incident was related to waste. The Diagnosis & Treatment businesses reported one environmental incident with an oil spill which did not result in soil pollution. The Connected Care & Health Informatics businesses reported one environmental non-compliance which was related to waste water. Philips Lighting did not experience any environmental incidents but reported four non-compliances, of which one resulted in a non-material fine (manufacturing site exceeding the usage limit of its emergency generator).

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Sustainability world map

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

Philips Group

				Total waste			Emissions [2)]	
Market	Manufacturing sites	Total recordable case rate[1)]	CO_2 emitted (Tonnes CO_2)	Waste (Tonnes)	Recycled (%)	Water (m^3)	Hazardous substances (kg)	VOC (Tonnes)
Africa		0.00						
ASEAN and the Pacific	1	0.12	21,307	1,463	91%	74,738	5	25
Benelux	6	0.22	10,757	8,726	80%	235,372	157	12
Central & Eastern Europe	7	0.30	61,274	7,019	81%	243,260	92	20
Germany, Austria and Switzerland	4	0.50	7,616	3,050	89%	53,264	389	6
France	2	0.76	1,284	5,123	95%	182,370		
Greater China	11	0.14	75,592	6,663	90%	977,947	311	27
Iberia	2	0.66	2,398	2,042	82%	47,291		
Indian Subcontinent	5	0.10	65,148	2,552	96%	57,174	6	4
Italy, Israel and Greece	4	0.53	6,829	2,117	76%	22,529	15	5
Japan		0.20						
Latin America	11	0.35	12,927	8,107	82%	173,474		8
Middle East & Turkey[3)]	3	0.27						
Nordics		0.20						
North America	24	0.94	48,193	16,799	76%	337,998	47	18
Russia and Central Asia		0.00						
UK & Ireland	2	0.06	9,096	1,102	85%	8,501	77	4

1) Includes manufacturing and non-manufacturing sites
2) HealthTech
3) Three manufacturing sites did not start to report environmental data yet

12.5 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 annual report of Koninklijke Philips N.V. (the Company), based in Eindhoven, the Netherlands for the year ended December 31, 2016. The scope of our audit engagement is described in Section Our Scope . An audit engagement is aimed at obtaining reasonable assurance.

In our opinion, the Sustainability Information in the annual report 2016 presents, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to sustainability; and
- the thereto related events and achievements for the year ended December 31, 2016

in accordance with the GRI Standards of Global Reporting Initiative (GRI) (option Comprehensive) and the supplemental internally applied reporting criteria as disclosed in section 12.1 Approach to sustainability reporting in chapter 12 Sustainability statements of the annual report 2016.

Basis for our opinion

We have performed our audit on the Sustainability Information in accordance with Dutch law, including Dutch Standard 3810N Assurance engagements relating to sustainability reports . Dutch Standard 3810N is a subject specific standard under 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 .

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

Our Independence

We are independent of the Company in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO) (Code of Ethics for Professional Accountants, a Dutch regulation with respect to independence) and other relevant independence regulations 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).

Our Scope

The Sustainability Information comprises chapter 12 Sustainability statements and sections 2.2 Social performance and 2.3 Environmental performance of the annual report 2016 and provides a representation of the Company s policy, the related business operations, events and achievements relating to sustainability during 2016.

The Sustainability Information includes prospective information such as ambitions, strategy, plans, expectations and estimates. Inherent to this information is that the actual results may differ in the future and are therefore uncertain. We do not provide any assurance on the achievability and feasibility of this prospective information.

The references, excluding Methodology for calculating Lives Improved and GRI content index , in the Sustainability Information (www.philips.com, external websites, interviews and other documents) are outside the scope of our assurance engagement.

We have read the information on sustainability in the rest of the annual report 2016 and to the extent we can identify this information is consistent with the Sustainability Information in scope of our audit.

Responsibilities of management for the Sustainability Information

Management of the Company is responsible for the preparation of the Sustainability Information in accordance with the GRI Standards (option Comprehensive) and the supplemental internally applied reporting criteria as disclosed in section 12.1 Approach to sustainability reporting in chapter 12 Sustainability statements of the annual report 2016. This responsibility includes the identification of stakeholders and the determination of material aspects. The choices made by management regarding the scope of the Sustainability Information and the reporting policy of the Company is summarized in section 12.1 Approach to sustainability reporting.

Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the Sustainability Information that is free from material misstatement, whether due to fraud or errors.

Our responsibilities for the audit of the Sustainability Information

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

Reasonable assurance is a high, but not absolute level of assurance, which means we may not have detected all material errors and fraud. Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably

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Sustainability statements 12.5

be expected to influence the economic decisions of users taken on the basis of the Sustainability Information. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We apply the Nadere voorschriften accountantskantoren ter zake van assurance opdrachten (RA/AA) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our audit included amongst others:

- Evaluating the appropriateness of the reporting policy, its consistent application, including the evaluation of the results of the stakeholders dialogue, the reasonableness of management s estimates and the related disclosures made by management.

- Performing an external environment analysis and obtaining insight into relevant social themes and issues and the characteristics of the organization.

- Identifying and assessing the risks of material misstatement of the Sustainability Information, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Interviewing management and relevant staff responsible for the sustainability s strategy, policy and achievements.

- Interviewing relevant staff at corporate level responsible for providing the information in the Sustainability Information, carrying out internal control procedures on the data and consolidating the data in the Sustainability Information.

- Evaluating the design and implementation and testing the operating effectiveness of the reporting systems and processes related to the Sustainability Information.

- Evaluating the underlying transactions and events.

- Visits to production sites to evaluate the source data and to evaluate the design and implementation of control, including validation procedures, at local level.

- Testing relevant data and internal and external documentation, on a sample basis, to determine the reliability of the Sustainability Information.

An analytical review of the data and trends submitted for consolidation at corporate level.

Evaluating the overall presentation, structure and content of the Sustainability Information.

Amsterdam, The Netherlands

February 21, 2017

Ernst & Young Accountants LLP

Subject matter expert sustainability

J. Niewold

Independent auditor

C.B. Boogaart

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13 Five-year overview

Philips Group

General data in millions of EUR unless otherwise stated

2012 - 2016

	2012	2013	2014	2015	2016
Sales	22,234	21,990	21,391	24,244	24,516
% increase over previous year	12%	(1)%	(3)%	13%	1%
Income from operations (EBIT) (loss)	592	1,855	486	992	1,882
Financial income and expenses - net	(329)	(330)	(301)	(369)	(493)
Income (loss) from continuing operations	(166)	1,034	221	414	1,075
Income (loss) from continuing operations attributable to shareholders	(171)	1,031	225	400	1,032
Income (loss) from Discontinued operations	136	138	190	245	416
Net income (loss)	(30)	1,172	411	659	1,491
Net income (loss) attributable to shareholders	(35)	1,169	415	645	1,448
Net assets	11,185	11,227	10,968	11,780	13,508
Total employees at year-end (FTEs)	118,087	116,082	113,678	112,959	114,731

Philips Group

Income in millions of EUR unless otherwise stated

2012 - 2016

	2012	2013	2014	2015	2016
Income from operations (EBIT)	592	1,855	486	992	1,882
as a % of sales	*2.7%*	*8.4%*	*2.3%*	*4.1%*	*7.7%*
Adjusted income from operations [1)]	1,003	2,276	821	1,372	2,235
as a % of sales	*4.5%*	*10.4%*	*3.8%*	*5.7%*	*9.1%*
Income taxes	(218)	(466)	(26)	(239)	(327)
as a % of income before taxes	*(82.9)%*	*(30.6)%*	*(14.1)%*	*(38.4)%*	*(23.5)%*
Income (loss) from continuing operations	(166)	1,034	221	414	1,075
Net income (loss)	(30)	1,172	411	659	1,491

1) Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this report

Philips Group

Capital employed in millions of EUR unless otherwise stated

2012 - 2016

	2012	2013	2014	2015	2016
Cash and cash equivalents	3,834	2,465	1,873	1,766	2,334
Receivables and other current assets	5,128	5,220	5,591	5,655	6,169
Assets classified as held for sale	43	507	1,613	1,809	2,180
Inventories	3,495	3,240	3,314	3,463	3,392
Non-current financial assets/investments in associates	726	657	619	670	525
Non-current receivables/assets	2,217	1,924	2,721	3,075	3,098
Property, plant and equipment	2,959	2,780	2,095	2,322	2,155
Intangible assets	10,679	9,766	10,526	12,216	12,450
Total assets	**29,081**	**26,559**	**28,352**	**30,976**	**32,303**
Property, plant and equipment:					
Capital expenditures for the year	479	482	437	522	443
Depreciation for the year	588	521	592	582	606
Capital expenditures: depreciation	0.8	0.9	0.7	0.9	0.7
Inventories as a % of sales[1)]	14.1%	13.7%	15.3%	14.3%	13.8%
Outstanding trade receivables, in days sales[2)]	50	53	56	56	57

1) Calculated based upon values excluding inventories and sales related to acquisitions and divestments for 2015 and 2016

2) Calculated based upon the values excluding accounts receivable and sales related to acquisitions, divestments and Discontinued operations

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Five-year overview 13

Philips Group

Financial structure in millions of EUR unless otherwise stated

2012 - 2016

	2012	2013	2014	2015	2016
Other liabilities[1]	9,208	7,713	8,414	8,786	9,058
Liabilities directly associated with assets held for sale	27	348	349	407	525
Debt	4,534	3,901	4,104	5,760	5,606
Provisions[1]	4,127	3,370	4,517	4,243	3,606
Total provisions and liabilities	**17,896**	**15,332**	**17,384**	**19,196**	**18,795**
Shareholders equity	11,151	11,214	10,867	11,662	12,601
Non-controlling interests	34	13	101	118	907
Group equity and liabilities	**29,081**	**26,559**	**28,352**	**30,976**	**32,303**
Net debt: group equity ratio[2)3)]	6:94	11:89	17:83	25:75	19:81
Market capitalization at year-end	18,200	24,340	22,082	21,607	26,751

1) Adjusted to reflect a reclassification of net defined-benefit obligations into Long-term provisions. See note 1, Significant accounting policies.

2) For details on the calculation of net debt and group equity ratio, refer to note 17, Equity.

3) Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this report.

Philips Group

Key figures per share in EUR unless otherwise stated

2012 - 2016

	2012	2013	2014	2015	2016
Sales per common share	24.11	24.14	23.37	26.46	26.71
Weighted average amount of shares outstanding:					
- basic[1]	922,101	911,072	915,193	916,087	918,016
- diluted[1]	927,222	922,072	922,714	923,625	928,789
Basic earnings per common share:					
Income (loss) from continuing operations attributable to shareholders per share	(0.19)	1.13	0.25	0.44	1.12
Net income (loss) attributable to shareholders	(0.04)	1.28	0.45	0.70	1.58

Diluted earnings per common share:					
Income (loss) from continuing operations attributable to shareholders per share	(0.19)	1.12	0.24	0.43	1.11
Net income (loss) attributable to shareholders	(0.04)	1.27	0.45	0.70	1.56
Dividend distributed per common share	0.75	0.75	0.80	0.80	0.80
Total shareholder return per common share	4.37	7.50	(1.70)	0.21	6.24
Shareholders equity per common share	12.19	12.28	11.88	12.72	13.66
Price/earnings ratio	(104.74)	23.58	96.60	53.55	25.89
Share price at year-end	19.90	26.65	24.15	23.56	29.00
Highest closing share price during the year	20.33	26.78	28.10	27.65	29.07
Lowest closing share price during the year	13.76	20.26	20.98	20.79	20.95
Average share price	16.92	23.33	24.00	24.51	24.75
Amount of common shares outstanding at year-end[1)]	914,591	913,338	914,389	917,104	922,437

1) In thousands of shares

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Philips Group

Sustainability

2012 - 2016

	2012	2013	2014	2015	2016
Lives improved, in billions	1.6	1.7	1.9	2.0	2.1
Green Revenues, as a % of total sales	46%	50%	59%	61%	64%
Green Innovation, in millions of euros	453	405	463	495	558
Operational carbon footprint, in kilotonnes CO_2-equivalent	1,640	1,678	1,521	1,417	1,344
Operational energy efficiency, in terajoules per million euro sales	1.35	1.40	1.34	1.11	1.01
Total energy consumption in manufacturing, in terajoules[1)]	12,014	11,963	11,257	9,702	8,987
Total carbon emissions in manufacturing, in kilotonnes CO_2-equivalent	563	518	468	371	323
Water intake, in thousands m^3	3,137	3,289	3,103	2,727	2,414
Total waste, in kilotonnes[1)]	80.6	75.9	75.0	68.5	64.8
Materials provided for recycling via external contractor per total waste, in %	77%	79%	80%	83%	83%
Restricted substances, in kilos	67	37	29	26	7
Hazardous substances, in kilos	67,530	35,118	28,310	25,101	12,412
ISO 14001 certification, as a % of all reporting organizations[1)]	69%	79%	79%	78%	82%
Employee Engagement Index, % favorable	79%	75%	72%	71%	74%
Female executives, in % of total	14%	15%	18%	19%	18%
Lost Workday Injuries, per 100 FTEs	0.31	0.27	0.23	0.21	0.18
Fatalities	7	3	1		2
Initial and continual conformance audits, number of audits	159	200	203	195	226
Suppliers audits, compliance rate, in %	75%	77%	86%	86%	89%

1) In manufacturing excluding new acquisitions

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Five-year overview 13.1

13.1 Five-year overview (condensed)

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

2012 - 2016

	2012	2013	2014	2015	2016	2016
	EUR	EUR	EUR	EUR	EUR	USD[1)]
Sales	22,234	21,990	21,391	24,244	24,516	25,820
Income from operations (EBIT) (loss)	592	1,855	486	992	1,882	1,982
Financial income and expenses - net	(329)	(330)	(301)	(369)	(493)	(519)
Income (loss) from continuing operations	(166)	1,034	221	414	1,075	1,132
Income (loss) from continuing operations attributable to shareholders	(171)	1,031	225	400	1,032	1,087
Income (loss) from Discontinued operations	136	138	190	245	416	438
Net income (loss)	(30)	1,172	411	659	1,491	1,570
Net income (loss) attributable to shareholders	(35)	1,169	415	645	1,448	1,525
Total assets	29,081	26,559	28,352	30,976	32,303	34,022
Net assets	11,185	11,227	10,968	11,780	13,508	14,227
Debt	4,534	3,901	4,104	5,760	5,606	5,904
Provisions	4,127	3,370	4,517	4,243	3,606	3,798
Shareholders equity	11,151	11,214	10,867	11,662	12,601	13,271
Non-controlling interests	34	13	101	118	907	955
Weighted average shares outstanding:						
- basic[2)]	922,101	911,072	915,193	916,087	918,016	918,016
- diluted[2)]	927,222	922,072	922,714	923,625	928,789	928,789
Amount of common shares outstanding at year-end[2)]	914,591	913,338	914,389	917,104	922,437	922,437
Basic earnings per common share[3)]						
Income (loss) from continuing operations attributable to shareholders	(0.19)	1.13	0.25	0.44	1.12	1.18
Net income (loss) attributable to shareholders	(0.04)	1.28	0.45	0.70	1.58	1.66
Diluted earnings per common share[3)]						
Income (loss) from continuing operations attributable to shareholders	(0.19)	1.12	0.24	0.43	1.11	1.17
Net income (loss) attributable to shareholders	(0.04)	1.27	0.45	0.70	1.56	1.64
Dividend distributed per common share	0.75	0.75	0.80	0.80	0.80	0.84

1) For the convenience of the reader, the euro amounts have been converted into US dollars at the exchange rate used for balance sheet purposes at December 31, 2016 (USD 1 = EUR 0.9494. The US dollar amounts are unaudited.) Please refer to section 14.1, Key financials and dividend, of this report for high and low exchange rates for the previous six months and exchange rates for the five most recent financial years

2) In thousands of shares

3) In euros or US dollars as indicated in the header

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14 Investor Relations

14.1 Key financials and dividend

Key financials

Net income attributable to shareholders of Koninklijke Philips N.V. in 2016 was EUR 1,448 million, or EUR 1.56 per common share (diluted; basic EUR 1.58 per common share). This compares to EUR 645 million, or EUR 0.70 per common share (diluted; basic EUR 0.70 per common share), in 2015.

Philips Group

Net income attributable to shareholders in millions of EUR

2012 - 2016

Philips Group

Income from operations (EBIT) and Adjusted income from

operations [1)] in millions of EUR

2012 - 2016

1) Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this report

Philips Group

Total of Net cash provided by operating activities and Net

capital expenditures in millions of EUR

2012 - 2016

Dividend policy

Philips dividend policy is aimed at dividend stability and a pay-out ratio of 40% to 50% of net income after adjustments.

Net income after adjustments is the base figure used to calculate the dividend pay-out for the year. For 2016, the key exclusions to arrive at net income after adjustments are the following: the results that are shown as Discontinued operations, income from a pension settlement, a charge related to the currency revaluation of the provision for the Masimo litigation, financial charges related to bond redemptions, and a release in financial income and expense related to the Masimo settlement. Restructuring, acquisition-related and separation related charges are also excluded.

Proposed distribution

A proposal will be submitted to the Annual General Meeting of Shareholders, to be held on May 11, 2017, to declare a distribution of EUR 0.80 per common share (up to EUR 745 million), in cash or shares at the option of the shareholder, against the net income for 2016.

If the above dividend proposal is adopted, the shares will be traded ex-dividend as of May 12, 2017 and May 15, 2017 at the New York Stock Exchange and Euronext Amsterdam, respectively. In compliance with the listing requirements of the New York Stock Exchange and the stock market of Euronext Amsterdam, the dividend record date will be May 16, 2017.

Shareholders will be given the opportunity to make their choice between cash and shares between May 17, 2017 and June 9, 2017. If no choice is made during this election period the dividend will be paid in cash. On June 9, 2017 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume-weighted average

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price of all traded common shares of Koninklijke Philips N.V. at Euronext Amsterdam on June 7, 8 and 9, 2017. The company will calculate the number of share dividend rights entitled to one new common share (the ratio), such that the gross dividend in shares will be approximately equal to the gross dividend in cash. The ratio and the number of shares to be issued will be announced on June 13, 2017. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 14, 2017. The distribution of dividend in cash to holders of New York Registry shares will be made in USD at the USD/EUR rate as per WM/ Reuters FX Benchmark 2 PM CET fixing of June 12, 2017.

Further details will be given in the agenda for the 2017 Annual General Meeting of Shareholders. All dates mentioned remain provisional until then.

Dividend in cash is in principle subject to 15% Dutch dividend withholding tax, which will be deducted from the dividend in cash paid to the shareholders. Dividend in shares paid out of net income and retained earnings is subject to 15% dividend withholding tax, but only in respect of the par value of the shares (EUR 0.20 per share). Shareholders are advised to consult their tax advisor on the applicable situation with respect to taxes on the dividend received.

In 2016, a dividend of EUR 0.80 per common share was paid in cash or shares, at the option of the shareholder. For 55.0% of the shares, the shareholders elected for a share dividend, resulting in the issue of 17,344,462 new common shares, leading to a 1.9% dilution. EUR 330 million was paid in cash. See also section 2.4, Proposed distribution to shareholders, of this report.

	ex-dividend date	record date	payment date
Euronext Amsterdam	May 15, 2017	May 16, 2017	June 14, 2017
New York Stock Exchange	May 12, 2017	May 16, 2017	June 14, 2017

Philips Group

Dividend and dividend yield per common share

2007 - 2017

1) Dividend yield % is as of December 31 of previous year
2) Subject to approval by the Annual General Meeting of Shareholders in 2017

Information for investors in New York Registry shares program

Dividends and distributions per common share

The following table sets forth in euros the gross dividends on the common shares in the fiscal years indicated (from prior-year profit distribution) and such amounts as converted into US dollars and paid to holders of shares of the New York Registry:

Philips Group

Gross dividends on the common shares

2012 - 2016

	2012	2013	2014	2015	2016
in EUR	0.75	0.75	0.80	0.80	0.80
in USD	0.94	0.98	1.09	0.89	0.90

Exchange rates USD : EUR

The following two tables set forth, for the periods and dates indicated, certain information concerning the exchange rate for US dollars into euros based on the Noon Buying Rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate). The Noon Buying Rate on February 10, 2017 was EUR 0.9389 per USD 1.

Exchange rate (based on the Noon Buying Rate)

EUR per USD

2012 - 2016

	period end	average	high	low
2012	0.7584	0.7782	0.8290	0.7428
2013	0.7257	0.7532	0.7828	0.7238
2014	0.8264	0.7533	0.8264	0.7180
2015	0.9209	0.9018	0.9502	0.8323
2016	0.9477	0.9037	0.9639	0.8684

Exchange rate per month (based on the Noon Buying Rate)

EUR per USD

2016 - 2017

	highest rate	lowest rate
August, 2016	0.9027	0.8823
September, 2016	0.8962	0.8872
October, 2016	0.9203	0.8919
November, 2016	0.9470	0.8992
December, 2016	0.9639	0.9295
January, 2017	0.9601	0.9264

Unless otherwise stated, for the convenience of the reader, the translations of euros into US dollars appearing in this section have been made based on the closing rate on December 31, 2016 (USD 1 = EUR 0.9495). This rate is not materially different from the Noon Buying Rate on such date (USD 1 = EUR 0.9477).

The following table sets out the exchange rate for US dollars into euros applicable for translation of Philips financial statements for the periods specified.

Exchange rate (based on Philips consolidation rate)

EUR per USD

2012 - 2016

	period end	average	high	low
2012	0.7582	0.7776	0.8166	0.7500
2013	0.7255	0.7527	0.7805	0.7255
2014	0.8227	0.7527	0.8227	0.7201
2015	0.9151	0.9007	0.9410	0.8796
2016	0.9495	0.9078	0.9495	0.8812

14.2 Share information

Market capitalization

Philips market capitalization was EUR 26.8 billion at year-end 2016. On December 31, 2016, the closing price for shares in Amsterdam was EUR 29.00 and the number of common shares outstanding (after deduction of treasury shares) amounted to 922 million.

Philips Group

Market capitalization in billions of EUR

2012 - 2016

Share capital structure

During 2016, Philips issued share capital decreased by approximately 1 million common shares to approximately 930 million common shares. The main

reasons for this are the cancellation of 18,829,985 Philips shares acquired pursuant to the EUR 1.5 billion share repurchase program (which was completed in October 2016) and the issuance of 17,344,462 shares related to the elective dividend. The number of common shares issued and outstanding increased from 917 million at December 31, 2015 to 922 million on December 31, 2016. On December 31, 2016, the shares held in treasury amounted to approximately 7 million, all of which are held by Philips to cover long-term incentive and employee stock purchase plans.

The Dutch Act on Financial Supervision imposes an obligation on persons holding certain interests to disclose (inter alia) percentage holdings in the capital and/or voting rights in the Company when such holdings reach, exceed or fall below 3, 5, 10, 15, 20, 25, 30, 40, 50, 60, 75 and 95 percent (as a result of an acquisition or disposal by a person, or as a result of a change in the company s total number of voting rights or capital issued). Certain derivatives (settled in kind or in cash) are also taken into account when calculating the capital interest. The statutory obligation to disclose capital interest does not only relate to gross long positions, but also to gross short positions. Required disclosures must be made to the Netherlands Authority for the Financial Markets (AFM) without delay. The AFM then notifies the Company of such disclosures and includes them in a register which is published on the AFM s website. Furthermore, an obligation to disclose (net) short positions is set out in the EU Regulation on Short Selling.

The AFM register shows the following notification of substantial holdings and/or voting rights at or above the 3% threshold: BlackRock, Inc.: substantial holding of 5.03% and 6.19% of the voting rights (January 5, 2017).

The following shareholder portfolio information is based on information provided by several large custodians and a survey conducted in December 2016.

Philips Group

Shareholders by region (approximated)[1)] in %

2016

1) Split based on identified shares in shareholder identification
2) Includes countries in Western Europe with a shareholding of less than 5 %

Philips Group

Shareholders by style (approximated)[1)] in %

2016

1) Split based on identified shares in shareholder identification
2) Growth at a reasonable price
3) Sovereign Wealth Funds

Share repurchase programs

Share repurchases for capital reduction purposes

On September 17, 2013, Royal Philips announced a EUR 1.5 billion share repurchase program. This program started on October 21, 2013 and was completed by October 20, 2016. The shares repurchased under this program were held by Philips as treasury shares until they were cancelled. As of December 31, 2016 all treasury shares that were repurchased under this program were cancelled.

Share repurchases related to Long-Term Incentive (LTI) and employee stock purchase programs

To cover outstanding obligations resulting from past and present long-term incentive (LTI) programs, Philips repurchases Philips shares from time to time, on

Euronext Amsterdam or otherwise. The shares repurchased to such LTI positions will be held by Philips as treasury shares until these are distributed to participants. In order to repurchase shares for covering LTI programs, Philips may enter into discretionary management agreements with one or more banks within the limits of relevant laws and regulations (in particular the EU Market Abuse Regulation and Philips Articles of Association.

In 2016, Philips repurchased a total of 8.6 million shares for LTI coverage. During 2017, Philips may continue with additional repurchases, the size of which will depend on the movement of the Philips share price.

Further details on the share repurchase programs can be found on the Investor Relations website. For more information see chapter 9, Corporate governance, of this report.

In 2016 Philips purchased call options on Philips shares matching the majority of the options granted to employees until 2013. As of December 31, 2016 Philips held 14.1 million call options as a hedge of 15.9 million remaining options granted to employees.

A total of 7,208,301 shares were held in treasury by the Company at December 31, 2016 (2015: 14,026,801 shares). As of that date, a total of 33.5 million rights under long-term incentive plans were outstanding (2015: 39.1 million).

Philips Group

Impact of share repurchases on share count in thousands of shares

2012 - 2016

	2012	2013	2014	2015	2016
Shares issued	957,133	937,846	934,820	931,131	929,645
Shares in treasury	42,542	24,508	20,431	14,027	7,208
Shares outstanding	914,591	913,338	914,389	917,104	922,437
Shares repurchased	46,871	27,811	28,538	20,296	25,193
Shares cancelled	82,365	37,779	21,838	21,361	18,830

Philips Group

Total number of shares repurchased

2016

	share repurchases related to capital reduction program	average price paid per share in EUR	share repurchases related to LTI program	average price paid per share in EUR	total number of shares repurchased	average price paid per share in EUR
January, 2016	1,648,906	22.79	57,094	23.92	1,706,000	22.83
February, 2016	1,974,965	22.67	1,014,035	22.63	2,989,000	22.65
March, 2016	1,703,020	24.42	1,059,980	24.31	2,763,000	24.38
April, 2016	2,195,278	24.35	1,158,953	24.32	3,354,231	24.34
May, 2016	1,474,221	23.27	480,216	23.23	1,954,437	23.26
June, 2016	2,121,090	22.69	593,910	22.69	2,715,000	22.69
July, 2016	2,047,077	23.25	929,385	22.76	2,976,462	23.10
August, 2016	1,171,365	24.92	643,418	25.00	1,814,783	24.95
September, 2016	1,200,653	25.94	439,347	25.94	1,640,000	25.94
October, 2016	1,055,410	26.34	634,088	26.54	1,689,498	26.41
November, 2016			679,000	27.16	679,000	27.16
December, 2016			912,000	28.39	912,000	28.39

[1] The program was completed

14.3 Philips rating

Philips existing long-term debt is rated BBB+ (with stable outlook) by Standard & Poor s and Baa1 (with stable outlook) by Moody s. As part of its capital allocation policy, Philips is committed to a strong investment grade credit rating. There is no assurance that Philips will be able to achieve this goal. Ratings are subject to change at any time. Adverse changes in the Company s ratings will not trigger any acceleration in the outstanding long-term debt nor automatic withdrawal of the committed credit facilities.

Philips Group

Credit rating summary

2016

	long-term	short-term	outlook
Standard & Poor s	BBB+	A-2	Stable
Moody s	Baa1	P-2	Stable

14.4 Performance in relation to market indices

The common shares of the Company are listed on the stock market of Euronext Amsterdam. The New York Registry Shares of the Company, representing common shares of the Company, are listed on the New York Stock Exchange. The principal market for the common shares is Euronext Amsterdam. For the New York Registry Shares it is the New York Stock Exchange.

The following table shows the high and low closing prices of the common shares on the stock market of Euronext Amsterdam as reported in the Official Price List and the high and low closing prices of the New York Registry Shares on the New York Stock Exchange:

Philips Group

High and low closing price of common shares

2012 - 2017

	Euronext Amsterdam (EUR)		New York Stock Exchange (USD)	
	high	low	high	low
January, 2017	29.40	27.14	30.74	29.10
December, 2016	29.07	26.60	30.57	28.22
November, 2016	27.90	26.50	30.55	28.61
October, 2016	27.73	26.12	30.19	28.43
September, 2016	26.70	25.25	29.97	28.34
August, 2016	26.18	23.51	29.11	26.28

2016	4th quarter	29.07	26.12	30.57	28.22
	3rd quarter	26.70	21.58	29.97	24.05
	2nd quarter	25.20	21.01	28.58	23.29
	1st quarter	25.13	20.95	28.58	23.68
2015	4th quarter	25.88	21.09	27.29	23.66
	3rd quarter	25.71	20.79	28.23	23.19
	2nd quarter	27.65	22.82	30.08	25.46
	1st quarter	27.40	23.16	30.31	27.54
2014	4th quarter	24.68	20.98	31.02	26.36
	3rd quarter	25.27	22.11	32.39	29.80
	2nd quarter	25.86	22.22	35.95	30.35
	1st quarter	28.10	23.88	38.36	33.13
2013	4th quarter	26.78	23.17	36.97	31.36
	3rd quarter	25.32	20.89	33.60	27.28
	2nd quarter	23.48	20.36	30.65	26.75
	1st quarter	23.67	20.26	31.72	26.60
2012		20.33	18.27	26.81	23.52

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Investor Relations 14.4

Euronext Amsterdam

Philips Group

Share price development in Euronext Amsterdam in EUR

2015 - 2016

PHIA	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2016												
High	24.50	24.33	25.13	25.20	24.33	24.11	24.39	26.18	26.70	27.73	27.90	29.07
Low	22.15	20.95	23.56	23.55	22.57	21.01	21.58	23.51	25.25	26.12	26.50	26.60
Average	22.98	22.47	24.37	24.50	23.34	22.80	23.15	25.05	26.08	26.67	27.20	28.18
Average daily volume[1)]	10.58	8.31	6.81	5.96	5.58	6.67	5.94	5.41	5.92	5.73	6.94	5.27
2015												
High	26.80	26.77	27.40	27.65	25.44	24.94	25.32	25.71	23.29	24.59	25.88	25.49
Low	23.16	24.54	25.98	25.66	24.24	22.82	22.38	21.94	20.79	21.09	24.40	23.19
Average	24.49	25.45	26.64	26.96	24.96	23.94	23.97	24.19	22.11	22.71	25.05	24.06
Average daily volume[1)]	9.26	5.64	5.86	7.66	6.96	8.79	7.30	6.88	6.75	6.00	6.08	6.05

1) In millions of shares

New York Stock Exchange

Philips Group

Share price development in New York Stock Exchange in USD

2015 - 2016

PHG	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2016												
High	26.68	26.57	28.58	28.58	27.62	27.11	26.74	29.11	29.97	30.19	30.55	30.57
Low	24.04	23.68	26.08	26.74	24.97	23.29	24.05	26.28	28.34	28.43	28.61	28.22
Average	24.94	24.98	27.21	27.76	26.29	25.67	25.58	28.04	29.20	29.35	29.31	29.70
Average daily volume[1)]	1.72	1.73	1.71	1.26	1.00	1.23	1.98	1.92	1.41	1.10	1.41	1.45
2015												
High	30.31	30.10	29.80	30.08	28.77	27.99	27.81	28.23	25.86	26.94	27.29	27.14
Low	27.54	27.80	27.83	28.57	27.29	25.46	24.87	24.79	23.19	23.66	26.05	25.41
Average	28.49	28.96	28.85	29.17	27.90	26.83	26.35	26.84	24.75	25.50	26.82	26.21
Average daily volume[1)]	1.34	0.80	0.77	1.56	1.16	1.73	2.04	1.77	1.60	1.21	0.93	0.90

[1] In millions of shares

Philips Group

Share information

Share listings	**Amsterdam, New York**
Ticker code	PHIA, PHG
No. of shares issued at Dec. 31, 2016	930 million
No. of shares outstanding issued at Dec. 31, 2016	922 million
Market capitalization at year-end 2016	EUR 26.8 billion
Industry classification	
MSCI: Capital Goods	20105010
ICB: Medical Equipment	4535
Members of indices	AEX, NYSE, DJSI, and others

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Philips Group

Relative performance: Philips and AEX (indexed)

2016

Philips Group

Relative performance: Philips and Dow Jones Industrial Average (indexed)

2016

Philips Group

Relative performance: Philips and unweighted peer group index (indexed)[1)]

2016

1) The peer group companies are separately indexed, and then an unweighted average of these indexed values is used.

2) The peer group consists of: 3M, ABB, Danaher, Eaton, Electrolux, Emerson, General Electric, Hitachi, Honeywell, Johnson Control, Johnson & Johnson, Legrand, LG Electronics, Medtronic, Panasonic, Procter & Gamble, Schneider, Siemens, Smiths Group, Toshiba. The index shows the unweighted average closing share prices of the peer group. This graph is not linked to the TSR performance calculation as part of the Long-Term Incentive Plan.

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14.5 Financial calendar

Financial calendar

Annual General Meeting of Shareholders

Record date Annual General Meeting of Shareholders	April 13, 2017
Annual General Meeting of Shareholders	May 11, 2017
Quarterly reports	
First quarter results 2017	April 24, 2017
Second quarter results 2017	July 24, 2017
Third quarter results 2017	October 23, 2017
Fourth quarter results 2017	January 23, 2018[1)]

1) Subject to final confirmation

14.6 Investor contact

Shareholder services

Holders of shares listed on Euronext Amsterdam

Non-US shareholders and other non-US interested parties can make inquiries about the Annual Report 2016 to:

Royal Philips

Annual Report Office

Philips Center, HBT 12

P.O. Box 77900

1070 MX Amsterdam, The Netherlands

E-mail: annual.report@philips.com

Communications concerning share transfers, lost certificates, dividends and change of address should be directed to:

ABN AMRO Bank N.V.

Department Equity Capital Markets/Corporate Broking

HQ7050

Gustav Mahlerlaan 10, 1082 PP Amsterdam

The Netherlands

Telephone: +31-20-34 42000

Fax: +31-20-62 88481

E-mail: corporate.broking@nl.abnamro.com

Holders of New York Registry shares

Holders of New York Registry shares and other interested parties in the US can make inquiries about the Annual Report 2016 to:

Citibank Shareholder Service

P.O. Box 43077 Providence, Rhode Island 02940-3077

Telephone: 1-877-CITI-ADR (toll-free)

Telephone: 1-781-575-4555 (outside of US)

Fax: 1-201-324-3284

Website: www.citi.com/dr

E-mail: citibank@shareholders-online.com

Communications concerning share transfers, lost certificates, dividends and change of address should be directed to Citibank. The Annual Report on Form 20-F is filed electronically with the US Securities and Exchange Commission.

International direct investment program

Philips offers a dividend reinvestment and direct share purchase plan designed for the US market. This program provides existing shareholders and interested investors with an economical and convenient way to purchase and sell Philips New York Registry shares and to reinvest cash dividends. Philips does not administer or sponsor the program and assumes no obligation or liability for the operation of the plan. For further information on this program and for enrollment forms, contact:

Citibank Shareholder Service

Telephone: 1-877-248-4237 (1-877-CITI-ADR)

Monday through Friday 8:30 AM EST

through 6:00 PM EST

Website www.citi.com/dr

E-mail: citibank@shareholders-online.com

or by writing to:

Citibank Shareholder Service

International Direct Investment Program

P.O. Box 2502, Jersey City, NJ 07303-2502

2017 Annual General Meeting of Shareholders

The Agenda and the explanatory notes to the Agenda for the Annual General Meeting of Shareholders on May 11, 2017, will be published on the Company s website.

For the 2017 Annual General Meeting of Shareholders, a record date of April 13, 2017 will apply. Those persons who, on that date, hold shares in the Company, and are registered as such in one of the registers designated by the Board of Management for the Annual General Meeting of Shareholders, will be entitled to participate in, and vote at, the meeting.

Investor Relations activities

From time to time the Company communicates with investors via road shows, broker conferences and a Capital Markets Day, announced in advance on the Company s website. The purpose of these engagements is to inform the market of the results, strategy and decisions made, as well as to receive feedback from shareholders. Furthermore, the Company engages in bilateral communications with investors. These take place either at the initiative of the Company or at the initiative of investors. The Company is generally represented by its Investor Relations department during these interactions, however, on a limited number of occasions the Investor Relations department is accompanied by one or more members of the senior management. The subject matter of the bilateral communications ranges from individual queries from investors to more elaborate discussions following disclosures that the Company has made, such as its annual and quarterly reports. Also here, the Company is strict in its compliance with applicable rules and regulations on fair and non-selective disclosure and equal treatment of shareholders.

More information on the activities of Investor Relations can be found in chapter 9, Corporate governance, of this report.

Analysts coverage

Philips is covered by approximately 24 analysts who frequently issue reports on the company. For a list of our current analysts, please refer to: www.philips.com/a-w/about/investor/shareholder-info/analyst-coverage.html

How to reach us

The registered office of Royal Philips is

High Tech Campus 5

5656 AE Eindhoven, The Netherlands

Switch board, telephone: +31-40-27 91111

Investor Relations contact

Royal Philips

Philips Center

P.O. Box 77900

1070 MX Amsterdam, The Netherlands

Telephone: +31-20-59 77222

Website: www.philips.com/investor

E-mail: investor.relations@philips.com

Pim Preesman

Head of Investor Relations

Telephone: +31-20-59 77222

Ksenija Gonciarenko

Investor Relations Manager

Telephone: +31-20-59 77055

Sustainability contact

Philips Group Sustainability

High Tech Campus 5 (room 2.67)

5656 AE Eindhoven, The Netherlands

Telephone: +31-40-27 83651

Website: www.philips.com/sustainability

E-mail: philips.sustainability@philips.com

Group Press Office contact

Royal Philips

Philips Center, HBT 19

Amstelplein 2

1096 BC Amsterdam, The Netherlands

E-mail: group.communications@philips.com

For media contacts please refer to:

www.newscenter.philips.com/main/standard/news/contacts

14.7 Taxation

Dutch taxation

The statements below are only a general summary of certain material Dutch tax consequences for holders of common shares are non-residents of the Netherlands based on present Dutch tax laws and the Tax Convention of December 18, 1992, as amended by the protocol that entered into force on December 28, 2004, between the United States of America and the Kingdom of the Netherlands (the US Tax Treaty) and are not to be read as extending by implication to matters not specifically referred to herein. As to individual tax consequences, investors in common shares should consult their own professional tax advisor.

A holder of common shares is an individual who receives income or derives capital gains from common shares and this income received or capital gains derived are attributable to past, present or future employment activities of such holder, the income of which is taxable in the Netherlands.

Dividend withholding tax

In general, a distribution to shareholders by a company resident in the Netherlands (such as the Company) is subject to a withholding tax imposed by the Netherlands at a rate of 15%. Share dividends paid out of the Company s paid-in share premium recognized for Dutch tax purposes are not subject to the above-mentioned withholding tax. Share dividends paid out of the Company s retained earnings are subject to dividend withholding tax on the nominal value of the shares issued. Pursuant to the provisions of the US Tax Treaty, a reduced rate may be applicable in respect of dividends paid by the Company to a beneficial owner holding directly 10% or more of the voting power of the Company, if such owner is a company resident in the United States (as defined in the US Tax Treaty) and entitled to the benefits of the US Tax Treaty.

Pursuant to Dutch anti-dividend stripping legislation, a holder of common shares who is the recipient of dividends will generally not be considered the beneficial owner of the dividends if (i) as a consequence of a combination of transactions, a person other than the recipient benefits, in full or in part, directly or indirectly, from the dividends; (ii) whereby such other person retains, directly or indirectly, an interest similar to that in the common shares on which the dividends were paid; and (iii) that other person is entitled to a credit, reduction or refund of dividend withholding tax that is less than that of the recipient.

Dividends paid to qualifying exempt US pension trusts and qualifying exempt US organizations are, under certain conditions, exempt from Dutch withholding tax under the US Tax Treaty. Qualifying exempt US pension trusts normally remain subject to withholding at the rate of 15%

and are required to file for a refund of the tax withheld. Only if certain conditions are fulfilled, such pension trusts may be eligible for relief at source upon payment of the dividend. However, for qualifying exempt US organizations no relief at source upon payment of the dividend is currently available; such exempt US organizations should apply for a refund of the 15% withholding tax withheld. Further, under certain circumstances, certain exempt organizations (e.g. pension funds) may be eligible for a refund of Dutch withholding tax upon their request pursuant to Dutch tax law. Under proposed Dutch tax law (not yet entered into force as per January 1, 2017), provided certain conditions are met, such (US) organizations may be eligible for relief at source upon request.

Upon request and under certain conditions, certain qualifying non-resident individual and corporate holders of common shares resident in EU/EEA member states or in a qualifying non-EU/EEA state may be eligible for a refund of Dutch dividend withholding tax to the extent that the withholding tax levied is higher than the personal and corporate income tax which would have been due if they were resident in the Netherlands.

The Company may, with respect to certain dividends received from qualifying non-Dutch subsidiaries, credit taxes withheld from those dividends against the Dutch withholding tax imposed on certain qualifying dividends that are redistributed by the Company, up to a maximum of the lesser of:

- 3% of the amount of qualifying dividends redistributed by the Company; and

- 3% of the gross amount of certain qualifying dividends received by the Company.

The reduction is applied to the Dutch dividend withholding tax that the Company must pay to the Dutch tax authorities and not to the Dutch dividend withholding tax that the Company must withhold.

Income and capital gains

Income and capital gains derived from the common shares by a non-resident individual or non-resident corporate shareholder are generally not subject to Dutch income or corporation tax, unless (i) such income and gains are attributable to a (deemed) permanent establishment or (deemed) permanent representative in the Netherlands; or (ii) the shareholder is entitled to a share in the profits of an enterprise or (in the case of a non-resident corporate shareholder only) a co-entitlement to the net worth of an enterprise that is effectively managed in the Netherlands (other than by way of securities) and to which enterprise the common shares are attributable; or (iii) such income and capital gains are derived from a direct, indirect or deemed substantial participation in the share capital of the company (such substantial participation not being a business asset), and, in the case of a non-resident corporate shareholder only, it being held with the primary aim or one of the primary aims to avoid the levy of income tax or dividend withholding tax from another person and is not put in place without valid commercial reasons that reflect economic reality; or (iv) in the case of a non-resident corporate shareholder, such shareholder is a resident of Aruba, Curacao or Saint Martin with a permanent establishment or permanent representative in Bonaire, Eustatius or Saba to which the common shares are attributable and certain conditions are met; or (v) in the case of a non-resident individual, such individual derives income or capital gains from the common shares that are taxable as benefits from miscellaneous activities in the Netherlands (*resultaat uit overige werkzaamheden*, as defined in the Dutch Income Tax Act 2001), which includes the performance of activities with respect to the common shares that exceed regular portfolio management.

In general, a holder of common shares has a substantial participation if he holds either directly or indirectly and either independently or jointly with his partner (as defined in the Dutch Income Tax Act 2001), the ownership of, or certain other rights over, at least 5% of the total issued share capital or total issued particular class of shares of the Company or rights to acquire direct or indirect shares, whether or not already issued, that represent at any time 5% or more of the total issued capital (or the total issued particular class of shares) or the ownership of certain profit participating certificates that relate to 5% or more of the annual profit or to 5% or more of the liquidation proceeds. A shareholder will also have a substantial participation in the Company if one or more of certain relatives of the shareholder hold a substantial participation in the Company. A deemed substantial participation amongst others exists if (part of) a substantial participation has been disposed of, or is deemed to have been disposed of, on a non-recognition basis.

Estate and gift taxes

No estate, inheritance or gift taxes are imposed by the Netherlands on the transfer or deemed transfer of common shares by way of gift by or on the death of a shareholder if, at the time of the death of the shareholder or the gift of the common shares (as the case may be), such shareholder is not a (deemed) resident of the Netherlands.

Inheritance or gift taxes (as the case may be) are due, however, if such shareholder:

- has Dutch nationality and has been a resident of the Netherlands at any time during the ten years preceding the time of their death or gift; or

- does not have Dutch nationality but has been a resident of the Netherlands at any time during the twelve months preceding the time of the gift (for Netherlands gift taxes only).

United States Federal Taxation

This section describes the material United States federal income tax consequences to a US holder (as defined below) of owning common shares. It applies only if the common shares are held as capital assets for

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tax purposes. This section does not apply to a member of a special class of holders subject to special rules, including:

- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings,
- a tax-exempt organization,
- a life insurance company,
- a person liable for alternative minimum tax,
- a person who actually or constructively owns 10% or more of our voting stock,
- a person who holds common shares as part of a straddle or a hedging or conversion transaction,
- a person who purchases or sells common shares as part of a wash sale for tax purposes, or
- a person whose functional currency is not the US dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect, as well as on the US Tax Treaty. These laws and regulations are subject to change, possibly on a retroactive basis.

If a partnership holds the common shares, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the common shares should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the common shares.

A US holder is defined as a beneficial owner of common shares that is:

- a citizen or resident of the United States,
- a domestic corporation,
- an estate whose income is subject to United States federal income tax regardless of its source, or

a trust if a United States court can exercise primary supervision over the trust s administration and one or more United States persons are authorized to control all substantial decisions of the trust.

A US holder should consult its own tax advisor regarding the United States federal, state and local and other tax consequences of owning and disposing of common shares in its particular circumstances.

This discussion addresses only United States federal income taxation.

Taxation of Dividends

Under the United States federal income tax laws, the gross amount of any dividend paid in stock or cash out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. For a non-corporate US holder, dividends paid that constitute qualified dividend income will be taxable at the preferential rates applicable to long-term capital gains, provided that the non-corporate US holder holds the common shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and provided it meets other holding period requirements. Dividends paid with respect to the common shares generally will be qualified dividend income [1]). A US holder must include any Dutch tax withheld from the dividend payment in this gross amount even though it does not in fact receive it. The dividend is taxable to a US holder when it receives the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. For dividend payments made in euro, the amount of the dividend distribution that a US holder must include in its income will be the US dollar value of the euro payments made, determined at the spot euro/ US dollar rate on the date the dividend distribution can be included in its income, regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date a US holder includes the dividend payment in income to the date a US holder converts the payment into US dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of a US holder s basis in the common shares and thereafter as capital gain. However, we do not expect to calculate earnings and profits in accordance with United States federal income tax principles. Accordingly, US holders should expect to generally treat distributions we make as dividends.

Subject to certain limitations, the Dutch tax withheld in accordance with the US Tax Treaty and paid over to the Netherlands will be creditable or deductible against a US holder s United States federal income tax liability. However, Dutch withholding tax may not be creditable or deductible to the extent that we reduce (as described above under Dutch taxation - Dividend withholding tax) the amount of withholding tax paid over to the Netherlands by crediting taxes withheld from certain dividends received by us. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the preferential tax rates. To the extent a refund of the tax withheld is available under Dutch law, or under the US Tax Treaty, the amount of tax withheld that is refundable will not be eligible for credit against United States federal income tax liability. Dividends will be income from sources outside the United States, and depending on a holder s circumstances, will generally be either

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passive or general income for the purposes of computing the foreign tax credit allowable to the holder.

Taxation of Capital Gains

A US holder that sells or otherwise disposes of its common shares will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the US dollar value of the amount that it realizes and its tax basis, determined in US dollars, in its common shares. Capital gain of a non-corporate US holder is generally taxed at preferential tax rates where the holder has a holding period greater than one year [2]). The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

PFIC Rules

We do not believe that the common shares will be treated as stock of a passive foreign investment company, or PFIC, for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus is subject to change. If we are treated as a PFIC, unless a US holder elects to be taxed annually on a mark-to-market basis with respect to the common shares, gain realized on the sale or other disposition of the common shares would in general not be treated as capital gain. Instead a US holder would be treated as if it had realized such gain and certain excess distributions ratably over the holding period for the common shares and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, in addition to which an interest charge in respect of the tax attributable to each such year would apply. Any dividends received by a US holder will not be eligible for the special tax rates applicable to qualified dividend income if we are treated as a PFIC with respect to such US holder either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income and subject to the excess distribution regime described above.

1) In addition, a US holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) the US holder s net investment income for the relevant taxable year and (2) the excess of the US holder s modified adjusted gross income for the taxable year over a certain threshold (the Medicare tax). A US holder s net investment income generally includes its dividend income.
2) In addition, the gain or loss is generally included in a US holder s net investment income, which may be subject to a 3.8% tax as described in the discussion of the Medicare tax under the heading Taxation of Dividends .

14.8 New York Registry Shares

Fees and Charges Payable by a Holder of New York Registry Shares

Citibank, N.A., as the US registrar, transfer agent, paying agent and shareholder servicing agent (Agent) under Philips New York Registry Share program (the Program), collects fees for delivery and surrender of New York Registry Shares directly from investors depositing ordinary shares or surrendering New York Registry Shares for the purpose of withdrawal or from intermediaries acting for them. The Agent collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of the distributable property to pay the fees.

The charges of the Agent payable by investors are as follows:

The New York Transfer Agent charges shareholders a fee of up to USD 5.00 per 100 shares for the exchange of New York Registry shares for ordinary shares and vice versa.

Fees and Payments made by the Agent to Philips

The Agent has agreed to reimburse certain expenses of Philips related to the Program and incurred by Philips in connection with the Program. In the year ended December 31, 2016, the Agent reimbursed to Philips, or paid to third parties on Philips behalf, a total sum of EUR 503,520.

The table below sets forth the types of expenses that the Agent has agreed to reimburse and the amounts reimbursed in the year ended December 31, 2016:

Category of Expense Reimbursed to Philips in EUR

	amount reimbursed in the year ended December 31, 2016
Program-related expenses such as legal fees and New York Stock Exchange listing fees	98,443
A portion of the issuance and cancellation fees actually received by the Agent from holders of New York Registry Shares, net of Program-related expenses already reimbursed by the Agent.	405,077[1)]
Expense reimbursed	**503,520**

1) Translated at USD/EUR exchange rate of actual date(s) of reimbursement(s) during 2016

The Agent has also agreed to waive certain fees for standard costs associated with the administration of the program.

The table below sets forth those expenses that the Agent paid directly to third parties in the year ended December 31, 2016.

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Category of Expense paid directly to third parties in EUR

	amount in the year ended December 31, 2016
Reimbursement of Proxy Process expenses	11,572
Reimbursement of Legal Fee expenses	
NYSE Listing Fee	86,871
Fulfillment	
Expense paid directly to third parties	**98,443**

Under certain circumstances, including removal of the Agent or termination of the Program by Philips, Philips is required to repay the Agent certain amounts reimbursed and/or expenses paid to or on behalf of Philips.

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Definitions and abbreviations 15

15 Definitions and abbreviations

BMC

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

Brominated flame retardants (BFR)

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

CO_2-equivalent

CO_2-equivalent or carbon dioxide equivalent is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO_2 that would have the same global warming potential (GWP), when measured over a specified timescale (generally 100 years).

Circular economy

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

Dividend yield

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

Electronic Industry Citizenship Coalition (EICC)

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

Employee Engagement Index (EEI)

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

Energy-using Products (EuP)

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

Full-time equivalent employee (FTE)

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

Global Reporting Initiative (GRI)

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

Green Innovation

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

Green Products

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

Growth geographies

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

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 (earnings before interest and tax) represents net income, less discontinued operations net of income taxes, investments in associates net of income taxes, income tax expense, financial income and financial expense.

Income from continuing operations

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

Initiatief Duurzame Handel (IDH)

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

International Standardization Organization (ISO)

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

Light-Emitting Diode (LED)

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

Lives improved by Philips

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

Mature geographies

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

Non-Governmental Organization (NGO)

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

OEM

Original Equipment Manufacturer.

Operational carbon footprint

A carbon footprint is the total set of greenhouse gas emissions caused by an organization, event, product or person; usually expressed in kilotonnes CO_2-equivalent. The Philips operational carbon footprint is calculated on a half-year basis and includes industrial sites (manufacturing and assembly sites), non-industrial sites (offices, warehouses, IT centers and R&D facilities), business travel (lease and rental cars and airplane travel) and logistics (air, sea and road transport).

Polyvinyl chloride (PVC)

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

REACH

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

Regulation on Hazardous Substances (RoHS)

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

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 sublimate from the liquid or solid form of the compound and enter the surrounding air, a trait known as volatility.

Voluntary turnover

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

Waste Electrical and Electronic Equipment (WEEE)

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

Weighted Average Statutory Tax Rate (WASTR)

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

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16 Exhibits

16.1 Index of exhibits

Exhibit 1	English translation of the Articles of Association of the Company.
Exhibit 2 (b) (1)	Indenture between Koninklijke Philips N.V. and Deutsche Bank Trust Company Americas, Trustee, dated as of March 11, 2008, as supplemented by the First Supplemental Indenture (Incorporated by reference to Exhibits 4.1 and 4.2 of Registration Statement on Form F-3 No. 333-179889). The total amount of long-term debt securities of the Company and its subsidiaries authorized under any one other instrument does not exceed 10% of the total assets of Philips and its subsidiaries on a consolidated basis. Philips agrees to furnish copies of any or all such instruments to the Securities and Exchange Commission upon request.
Exhibit 4	Services contracts of the members of the Board of Management.
Exhibit 4 (a)	Services contract between the Company and F.A. van Houten (Incorporated by reference to Exhibit 4 (a) to the Annual Report on Form 20-F (File No. 001-05146-01) filed with the Securities and Exchange Commission on February 23, 2016).
Exhibit 4 (b)	Services contract between the Company and A. Bhattacharya (Incorporated by reference to Exhibit 4 (b) to the Annual Report on Form 20-F (File No. 001-05146-01) filed with the Securities and Exchange Commission on February 23, 2016).
Exhibit 4 (c)	Services contract between the Company and P.A.J. Nota (Incorporated by reference to Exhibit 4 (c) to the Annual Report on Form 20-F (File No. 001-05146-01) filed with the Securities and Exchange Commission on February 23, 2016).
Exhibit 7	Ratio of earnings to fixed charges
Exhibit 8	List of Subsidiaries.
Exhibit 12 (a)	Certification of F.A. van Houten filed pursuant to 17 CFR 240. 13a-14(a).
Exhibit 12 (b)	Certification of A. Bhattacharya filed pursuant to 17 CFR 240. 13a-14(a).
Exhibit 13 (a)	Certification of F.A. van Houten furnished pursuant to 17 CFR 240. 13a-14(b).
Exhibit 13 (b)	Certification of A. Bhattacharya furnished pursuant to 17 CFR 240. 13a-14(b).
Exhibit 15 (a)	KPMG Consent of independent registered public accounting firm.
Exhibit 15 (b)	EY Consent of independent registered public accounting firm.
Exhibit 15 (c)	Description of industry terms.

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16.2 Signatures

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

KONINKLIJKE PHILIPS N.V.

(Registrant)

/s/ F.A. van Houten
F.A. van Houten
(CEO, Chairman of the Board of Management and the Executive Committee)
Date: February 21, 2017

/s/ A. Bhattacharya
A. Bhattacharya
(Executive Vice-President, Chief Financial Officer, member of the Board of Management and the Executive Committee)

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Exhibits 16.3

16.3 Exhibits

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