

# 4 Our strategic focus

## 4.2 How we create value

### Understanding and meeting people's needs

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

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

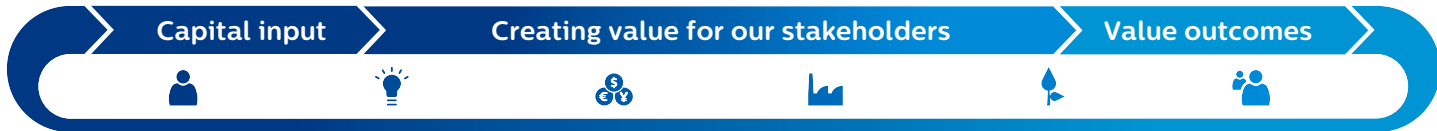
To measure the impact our solutions are having around the world, we have developed our independently verified Lives Improved model. We take a two-dimensional approach – social and ecological – to improving people's lives. Products and solutions that directly support the curative (care) or preventive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

### Our business system

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

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

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



**Capital input**

**Creating value for our stakeholders**

**Value outcomes**

**Human**

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

**Intellectual**

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

**Financial**

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

**Manufacturing**

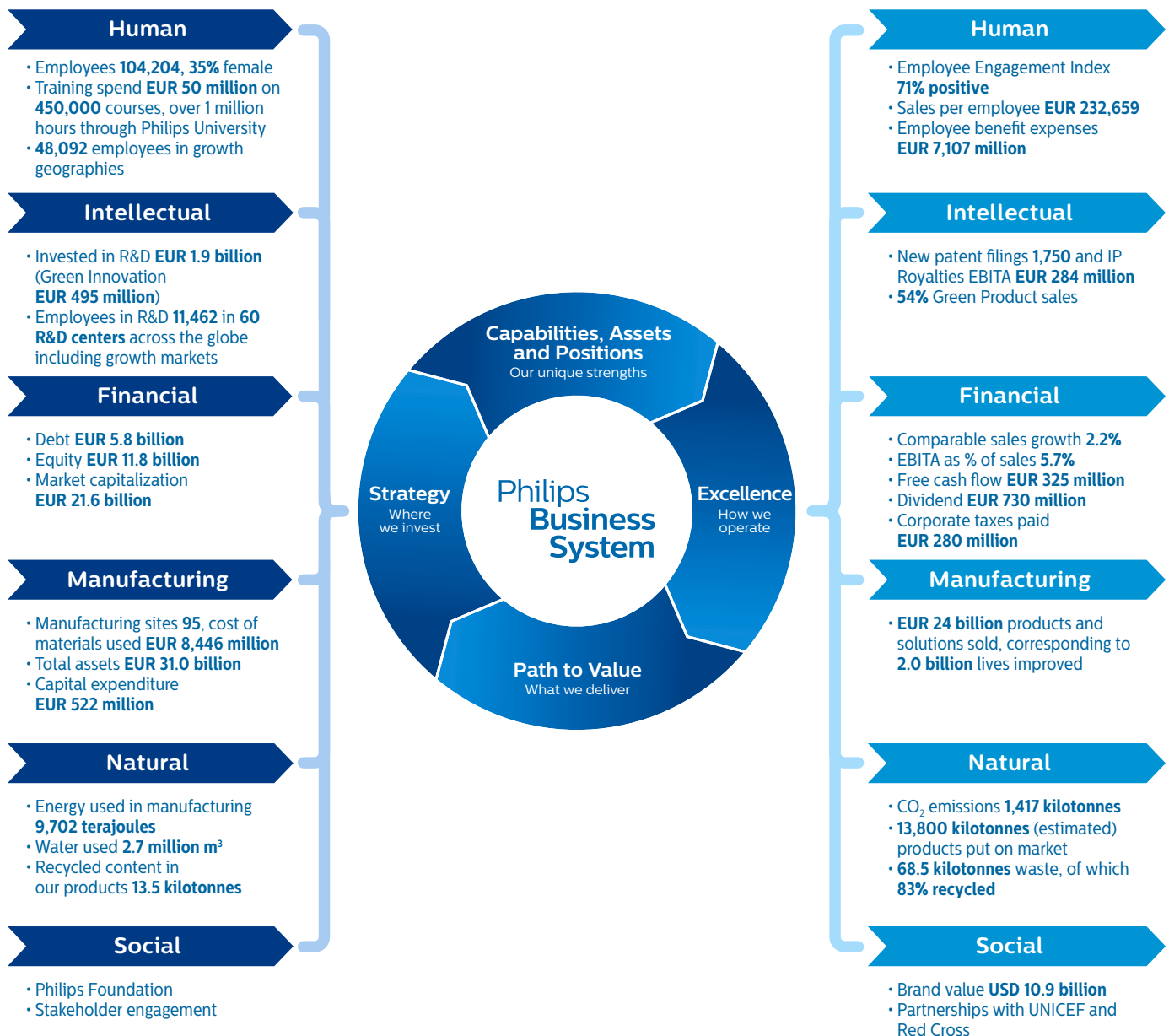
We apply Lean techniques to our manufacturing processes to produce high-quality products. We manage our supply chain in a responsible way.

**Natural**

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

**Social**

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



This is an interactive electronic version of the Philips Annual Report 2015 and also contains certain information in summarized form. The contents of this version are qualified in their entirety by reference to the printed version of the Philips Annual Report 2015. The printed version is available as a PDF file on this website. Information about: forward-looking statements, third-party market share data, fair value information, IFRS basis of presentation, use of non-GAAP information, statutory financial statements and management report, reclassifications and analysis of 2015 compared to 2014.

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