Innovation for a better world and brighter futures
Looking back,
looking forward

Welcome to the Philips Foundation annual report 2016 and the opportunity it offers us to look back on the achievements of the past year.

This year, our second full year in operation, has been an important one, in which, we have worked to lay the foundations of long-term sustainable change while delivering meaningful real-time impact to many local communities, worldwide.

Centrally, we strengthened relationships with the ICRC and UNICEF, working on projects together. We also worked with Ashoka, the world’s largest network of social entrepreneurs, as part of our core belief in the power of collaboration between global innovators and local change-makers.

Locally, we supported disadvantaged and underserved communities worldwide through co-creation, donation and skilled expert volunteering projects in countries as diverse as Spain, Austria, Kenya, UK, Italy, China, US, Uganda, and Sweden.

In 2016, thirty-six projects were approved by the Philips Foundation Board for set up across the world. Each project was chosen for its ability to make lasting change a reality. This report details their various stages of progress, as well as our 2016 financial reporting and plans for 2017.

We also commenced our transition from focusing on both healthcare and lighting projects, to focusing solely on healthcare, reflecting the separation of Royal Philips and Philips Lighting.

In 2017, the Philips Lighting Foundation will be established.

On the operational side, we bid farewell to Katy Hartley and welcomed new Philips Foundation Director, Margot Cooijmans, as of December 2016, to the team. And now to 2017, a year in which we aim to deepen the work we do with our partners and local communities and accelerate impact.

Thank you for your support now and in the future. Through innovation in healthcare access and collaboration, we can solve some of the world’s toughest challenges and create a healthier, happier, more sustainable future for all.

Ronald de Jong
Chairman
On behalf of the Philips Foundation Board
Global challenges, local solutions: Making a meaningful impact in communities around the world

Sarah Schaeffer, program manager for the Philips Foundation, reviews some of the key learnings, events and achievements from 2016.

Key achievements for 2016 at a global and local level

2016 has been a busy year for us all. At a global level, we deepened relationships with our global partners and supported social entrepreneurs in collaboration with Ashoka.

At a local level, we stepped up the focus on the community projects we run together with our Philips country offices and Philips volunteers. Over the past two years, we’ve jointly activated 48 projects worldwide.

Learning and improving through discovery and innovation

“We realised that the type of projects we’re developing with our global partners take time and the issues we aim to address are complex and constantly evolving. For example, the types of co-creation partnerships we are deploying are so new that they require a lot of flexibility and trust from everyone involved.

We have a long list of projects for development and implementation in 2017 and are excited to continue to learn and evolve our capabilities.”

World events presented unique challenges

“As a growing foundation, 2016 challenged us to focus on what issues and global challenges the Philips Foundation could meaningfully contribute to. We strongly believe that the most valuable resource we have to offer as a corporate foundation is knowledge and innovation expertise in healthcare and personal care from Royal Philips. Together with the finalization of the separation between Royal Philips and Philips Lighting, moving forward the Philips Foundation will solely focus on providing access to healthcare for people in need.”

Operating in close collaboration with Philips employees and country offices

“We work closely with our country office colleagues to find and select projects that address healthcare challenges affecting vulnerable groups. In an emerging market, it is often easy to identify a vulnerable or underserved population. However, in a country with an advanced healthcare system, it can take time to find the right match.

For example, in Italy we worked with the Italian Red Cross to train and educate children about cardiovascular diseases and promoting healthy lifestyles. And in the US, we work with organizations such as the Seattle Center Foundation to run free healthcare clinics for people without insurance. While projects may look different from one country to the next, each one serves a vital health need for underserved communities.”

Visionaries, innovators and volunteers represent a powerful combination

“We could not do the work we do without the expertise and dedication we receive from Philips volunteers all over the world. From providing skilled innovation, design and research expertise to donating their time at events, Philips volunteers always display their eagerness and willingness to get involved in the projects we support.

In the UK, for example, the Philips Foundation and the British Red Cross developed a series of innovative and sustainable projects focused on first aid training for London’s vulnerable and homeless. A Philips employee who participated in the event put her training into practice soon after the training and saved the life of a man who was choking.”

Projects that champion reach and diversity

“In just two years of operations, 66 projects have been approved in over 40 countries across the globe, with 48 of those projects are running or having been completed. We are uniquely able to leverage the Philips network of country offices and work with people all over the world who care passionately about making a difference in their communities.”
Collaborating for scale and impact with our global partners

The Philips Foundation takes a very different approach to the traditional grant-making foundations. We believe in the power of collaborative innovation to positively disrupt and intensify the ways that a corporate foundation can affect change.

Since our formalization in 2014, we have worked intensely with two of the world’s most respected humanitarian organizations, The International Red Cross and Red Crescent Movement and UNICEF to deliver projects in the countries where Philips is present.

Collaborating since the start with two of the world’s most respected humanitarian organizations

International Red Cross and Red Crescent Movement
We collaborate with Red Cross (represented by the International Committee of the Red Cross and the Netherlands Red Cross) to co-create solutions for healthcare needs in fragile settings and provide immediate support to regions affected by humanitarian disasters.

UNICEF
Our partnership with UNICEF focuses on positively influencing the lives of mothers and young children across the globe during the key ‘first 1000 days’, defined as from the time of conception until the age of two. Our partnership leverages each other’s capabilities and expertise to create innovative solutions for mothers and children in fragile settings.

Forging new links by collaborating with the most respected and game-changing NGOs and humanitarian organizations as the Philips Foundation grows and takes shape

Ashoka
Ashoka is one of the world’s largest networks of social entrepreneurs, set up to identify and invest in social entrepreneurs to help them bring their ideas for solving social problems to scale. With a network of over 3,300 fellows, Ashoka is implementing system-changing solutions to human and environmental problems in over 85 countries.

New collaboration in 2016: Ashoka

Innovating for sustainable communities

In line with our commitment to forging new links, in 2016, we partnered with Ashoka, further realizing our ambition of collaborating with the most respected and game-changing NGOs and humanitarian organizations as the Philips Foundation grows and takes shape.

Accelerating social entrepreneurs

In addition to a shared approach to supporting social entrepreneurship, the Philips Foundation and Ashoka launched a six-month accelerator program called, ‘The Globalizer on Health and Lighting,’ which focused on helping 12 leading social entrepreneurs to maximize their innovations. The Philips Foundation engaged 50 Philips executives and employees who supported the social entrepreneurs throughout this program, volunteering around 600 volunteering hours over a three-month advisory period.

The innovative solutions selected included sustainable business models to improve access to healthcare needs in fragile settings and provide immediate support to regions affected by humanitarian disasters.

The Philips Foundation engaged 50 Philips executives and employees who supported the social entrepreneurs throughout this program, volunteering around 600 volunteering hours over a three-month advisory period.

One of the highlights of the accelerator program was a three-day summit in Eindhoven from 18-20 October 2016. This summit began with a day of hands on workshops and hackathons open to the public. It was followed by an accelerator day supported by business leaders and key players, to give the entrepreneurs the skills, support and motivation needed to optimize their innovations. Finally, a peer-to-peer day facilitated cross learning and collaborations between the entrepreneurs.

This accelerator program initiated several potential collaborations between the social entrepreneurs and various organizations including Philips in order to improve access to light and to healthcare for underserved areas.
Partnership highlight 2016

The High-Risk Pregnancy Toolkit: Innovating with the ICRC for maternal healthcare in fragile environments


Mother and childcare is a key focus of the United Nations (UN) Sustainable Development Goals, with up to 20% of pregnancies worldwide estimated to be ‘at-risk’ and 93% of the resulting maternal deaths occurring in developing countries. Higher than average maternal mortality rates are also experienced in fragile communities, such as those ravaged by natural disaster or war, or where access to healthcare is difficult.

With limited resources available in these areas, healthcare solutions need to be simple, easy-to-use, informative, attuned to cultural norms and, importantly, not be dependent on electricity or batteries.

Sponsored by the Philips Foundation, and based on needs identified by the ICRC, a pregnancy toolkit was developed aimed for early detection and referral of high-risk pregnancies in fragile communities with limited access to healthcare.

The resulting toolkit is a durable dual-function carry bag containing a pocket-sized waterproof and tear-proof set of cards, which doubles as a teaching aid.

The pictures on the cards are text-free and illustrate signs of both a high-risk pregnancy and a healthy pregnancy. When a midwife identifies signs of a High-risk pregnancy via the cards, they know it is vital to refer the woman to a health facility.

The co-creation process also resulted in the prototyping of a ‘Heart for 2’ device, a double-headed, battery-free, fetoscope (fetal stethoscope) that supports the training of assistant midwives and traditional birth attendants in finding and listening to fetal heart beats for timely referral of pregnancies at risk.

Although still in development and scheduled for deployment in 2017, the Philips High-Risk Pregnancy Toolkit was selected as a ‘Developing-World’ and ‘Health’ categories finalist in the ‘Fast Company – World Changing Ideas’ awards, illustrating the truly transformational potential of these co-created solutions.

2016: A year in review

Ensuring impact:
From innovation to impact, all projects and partnerships must combine four elements essential for change:

1. Innovation - Because new or better ways of doing things will create access and increased resource efficiencies
2. Lives Improved - Because individuals benefiting from innovations have access to better services and systems, which increases individual, family and community wellbeing
3. Employees & Partners - Because collaboration that activates the technical and financial assets of Royal Philips, together with the community and service reach of non-governmental organizations, allows innovations to reach the barriers that impede wellbeing
4. Community Capacity - Because knowledge and systems that allow innovations to be implemented beyond the initial partners will empower communities

1. United States
   Together with 109 Philips North America colleagues, we supported the Seattle King County Clinic in providing dental, vision and medical care, free of cost, to 4,492 patients during a four-day health clinic. See page 14

2. Haiti
   Donations from the Philips Foundation made it possible for the Haiti non-profit organization in Haiti, to upgrade its existing clinic, including a Philips CT scanner, two operating rooms, and support services for 300,000 people.

3. Latin America
   The pan Latin America project “Light up your Life” illuminates soccer fields after dark to make safe, communal activities possible, as well as introduce more sustainable lighting technologies, energy efficiency and care of renewable energies.

4. Brazil
   We provided solar lighting for the Johan Cruyff Foundation football pitch in Rio de Janeiro so that community members, both with and without disabilities, can enjoy and participate in the sport in a safe and well-lit pitch in the evenings.

5. Spain
   We teamed up with Cruz Roja Foundation and Hospital Vall d’Hebron to co-create Imatgina, an advanced patient-centric pediatric radiology initiative, to enhance the experience for children undergoing radiology treatments. See page 12.

6. United Kingdom
   We worked with the British Red Cross to improve the accessibility of First Aid to homeless people in London. Three hundred Philips UK employees volunteered to support this project. 150 people were initially trained and 180 training defibrillators donated.

7. France
   Aging and the loss of autonomy is a contributor to poor oral health, which, in turn, can lead to undernutrition and poor physical and psychological health. We harnessed the oral healthcare expertise of Philips France to improve the physical and psychological well-being of 2,800 elderly dependent people living in 30 IRCCs’ led nursing homes.

8. The Nederlands
   Motivated children from underprivileged neighborhoods in the Nederlands were introduced to the Weekendschool to supplement their scientific, art and cultural education, including information about solar powered lighting.

9. Austria, Switzerland & Germany
   In 2016, we partnered with GORILLA to carry out eight workshops, promoting active lives, the importance of eating a balanced diet and being aware of sustainable consumption. This program touched the lives of over 960 students in Austria, Switzerland and Germany.

10. Uganda
    This project addressed the need for lighting in the homes of schoolchildren in rural Uganda. Kerosene lamps are widely used in poor regions, which have adverse effects for health and are expensive in the long run. The project provided 200 schoolchildren with solar LED lanterns, which provides lighting, improves living standards, saves money and stimulates education.

11. Greater China
    A pilot program with the China Research Development Foundation focused on improving nutrition for pregnant and nursing mothers, as well as children aged from three to 36 months through the distribution of nutrition packages for babies and nutrition supplements for pregnant and nursing mothers.

12. China
    We donated and installed 140 sets of Philips solar LED street lighting to give local residents access to proper lighting and address the lack of lighting resources and electricity in impoverished rural areas of Xinjiang province. See page 15.

13. South Korea
    We developed and managed healing programs with National Medical Center (NMC) for cancer patients; terminal cancer patients and their families. Philips experts volunteers co-created a healing zone at the NMC Hospice center.

14. Spain
    We supported ‘Train the trainer’ sessions to launch a healthy lifestyle toolkit, focused on Non Communicable Diseases (NCDs), risk factors and changing behavior. ICRC employees and volunteers. Training courses were established in the four national associations of the Red Cross in Austria.

15. Italy
    Cardiovascular disease is the leading cause of death in Italy. As part of Italian law, automated external defibrillators (AEDs) are required for professional sport but not at informal recreational spaces. The community health education project, ‘Health for Life’, run in partnership by Red Cross Monza, Bianzarre per il Cuore – a local NGO – and the Philips Foundation, aimed to address this AED gap while also instituting the importance of good preventive health habits and first aid training. The project focused on 13 parish recreation centers throughout Monza and directly improved the lives of 1300 people, including 1200 children, 100 Philips employees and 30 parish center educators.

16. Austria
    We partnered with Imaging the World to address the challenges in making ultrasound accessible in rural areas of Uganda, including donating two portable ultrasound systems, one ultrasound to train nurses, as well as funds to support the improvement of clinical capabilities on site.

36 projects approved for development in 2016

48 projects implemented and running in 2015 and 2016*

€9.8 million donation from Royal Philips and Philips Lighting in 2016

€87,000 raised by Philips employee fundraisers**

* 26 projects were implemented and running in 2015 and 22 projects in 2016
** This amount raised does not include direct donations facilitated by the Philips Foundation to partner organizations
Market project: Spain

Re-imagining with ‘Imatgina’ to improve the radiology experience for children

‘Imatgina’, developed by the Philips Foundation, CurArte Foundation and Paediatric Radiology Service at the Hospital Vall D’Hebron in Barcelona, is a patient-centric initiative that combines the positive power of education, gamification and atmosphere to deliver a series of child-friendly in-hospital tools.

The goal of the initiative was to enhance the experience for children needing diagnostic imaging tests by creating a friendly atmosphere that dispels the uncertainty and fear – for the child, parent and carer – usually associated with these types of procedures.

For example, an app includes the most common image-based diagnostic tests for children in hospitals: X-ray, CT, MRI and ultrasound. Children personalize the app, selecting the test they are having and the part of their body to be analyzed. From this point on a character takes them through all the steps to be followed. At the end of the explanation of the tests, there are two anatomy-based games to entertain the young patients and enable them to learn.

Imatgina also transforms the waiting room and the CT scan room; turning the white walls and lights of a hospital environment into outer space using the same characters as in ScanKids. The CT scanner itself becomes a spaceship, which, when combined with the smart lighting in the room, transforms the child’s experience into an adventure, not an ordeal.

This concept and installation will improve the experience of an estimated 7,000 pediatric patients annually, as well as that of their parents and healthcare providers.
**Market project: United States**

**Creating a community of compassionate care in Seattle**

There are approximately 29 million people in the United States without access to health insurance. Free and charitable clinics remain an important safety-net and continue to provide care to those who need it most.

In 2015 and 2016, the Philips Foundation and Philips North America joined forces with the Seattle King County Clinic again to create a giant, free four-day volunteer-driven clinic, providing a full range of free dental, vision and medical care to underserved and vulnerable people in the region. In addition to medical equipment and financial support, the clinic was staffed by 109 Philips volunteers, delivering 130 volunteer shifts and serving 4,492 patients.

**Market project: China**

**Lighting up the future by providing sunlight at night**

This project addressed the lack of lighting resources, electricity and access to lighting in impoverished rural areas in Xinjiang province.

By providing proper lighting, the Philips Foundation found that people in these communities could live safer, more convenient lives. Local residents could conduct outdoor activities instead of sleeping early at night, local women and children could feel safer going out late at night or early in the morning, and generally, all those touched by the project could live safer, more convenient and less limited lives.
## Financial statements

### Balance sheet as at 31 December 2016

*(In Euros after result appropriation)*

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>14,656,399</td>
<td>9,481,652</td>
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<tr>
<td>Short term receivables</td>
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<tr>
<td><strong>Total assets</strong></td>
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<td>9,489,041</td>
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<tr>
<td><strong>Equity</strong></td>
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<tr>
<td>Other reserves</td>
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<td>8,386,996</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
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<td>8,386,996</td>
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<tr>
<td><strong>Current liabilities</strong></td>
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<tr>
<td>Accounts payable</td>
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<tr>
<td>Accrued expenses</td>
<td>36,390</td>
<td>315,133</td>
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<tr>
<td><strong>Total current liabilities</strong></td>
<td>426,823</td>
<td>1,102,045</td>
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<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>14,661,953</td>
<td>9,489,041</td>
</tr>
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</table>

### Statement of Contributions and Expenses 2016

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contributions</strong></td>
<td></td>
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</tr>
<tr>
<td>Contribution from Koninklijke Philips N.V. and Philips Lighting Holding B.V.</td>
<td>9,770,000</td>
<td>10,000,000</td>
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<tr>
<td>Other contributions</td>
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<td>21,519</td>
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<td><strong>Total contributions</strong></td>
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<tr>
<td><strong>Expenses</strong></td>
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<tr>
<td>Donations</td>
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<td>3,065,035</td>
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<td>Other expenses</td>
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<td>28,976</td>
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<td>Financial expenses</td>
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<td><strong>Total expenses</strong></td>
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<td>3,091,699</td>
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<tr>
<td><strong>Result</strong></td>
<td>5,848,134</td>
<td>6,929,820</td>
</tr>
</tbody>
</table>

## Notes

### General

The Stichting Philips Foundation, having its legal address at Amstelplein 2, 1096 BC Amsterdam, is a foundation under Dutch law (Chamber of Commerce registration 61053179). The Philips Foundation is committed to affecting lasting change on a global level via three pillars: Community development, Social entrepreneurship and Disaster relief.

### Financial reporting period

These financial statements cover the year 2016, which ended at the balance sheet date of 31 December 2016. The comparative figures cover full year 2015.

### Basis of preparation

The financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code.

### Application of Section 396, Book 2 of the Netherlands Civil Code

The Foundation has applied the exemptions in accordance with Section 396, Book 2 of the Netherlands Civil Code.

### Going concern

These financial statements have been prepared on the basis of the going concern assumption.

### Accounting policies

#### General

The principles applied for the valuation of assets and liabilities and result determination are based on the historical cost convention. Unless stated otherwise, assets and liabilities are shown at nominal value. Valuation takes place at nominal value less any provision deemed necessary. Provisions for receivables are determined based on individual assessments of the collectability of receivables. An asset is recognized in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. A liability is recognized in the balance sheet when it is expected to result in an outflow from the entity of resources embodying economic benefits and the amount of the obligation can be measured with sufficient reliability. Assets are not included in the balance sheet if economic benefits are not probable and/or cannot be measured with sufficient reliability. Liabilities are not included in the balance sheet if the outflow of economic resources is not probable and/or cannot be measured with sufficient reliability. Income is recognized in the statement of income and expenditure when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognized when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability.

Income and expenses are allocated to the period to which they relate. Contributions are recognized in the statement of Contributions and Expenses when the amount can be determined in a reliable manner, and collection of the related contribution to be received is probable.

#### Use of estimates

The preparation of the financial statements requires the Board of the Foundation to make judgments, estimates and assumptions that affect the application of accounting principles and reported amounts of assets, liabilities and income and expenses. For example, estimates are required to determine the most realistic value of the accruals as well as of the off-balance sheet commitments. Actual results may differ from these estimates. The estimates and underlying assumptions are continually reviewed. The earnings impact of revised estimates is reflected in the period in which the estimate is revised.

#### Functional currency

The financial statements are presented in euros, which is the Foundation’s functional currency. Transactions denominated in foreign currency are translated into euros at the exchange rate applying on the transaction date. Translation gains and losses are taken to the statement of contributions and expenses as expenditure. Monetary assets and liabilities denominated in foreign currency are translated at the balance sheet date into the functional currency at the exchange rate applying on that date. Exchange differences resulting from the settlement of monetary items, or resulting from the translation of monetary items denominated in foreign currency, are recognized in the statement of contributions and expenses in the period in which they arise.

### Financial instruments

Financial instruments comprise only primary financial instruments, such as receivables, cash and cash equivalents and accounts payable. For the principles applying to these instruments, please refer to the treatment of each relevant balance sheet item.

### Receivables

Receivables are measured at fair value at initial recognition. After initial recognition, the assets are measured at amortised cost using the effective interest method, less a provision for uncollectible debts. These provisions are determined by individual assessment of the receivables.
Notes to the Balance sheet

1. Cash and cash equivalents
Cash and cash equivalents are stated at nominal value. They are all readily available. If cash and cash equivalents are not readily available, they will be reclassified to other current assets.

2. Current liabilities
At initial recognition, current liabilities are measured at fair value. After initial recognition, the liabilities are measured at amortised cost using the effective interest method.

Off-balance sheet commitments
An off-balance sheet commitment is recognized when the Philips Foundation signed a contractual agreement, but when the related activities relate to future years and therefore have not started yet. The activities are therefore not reported in the balance sheet nor in the statement of contributions and expenses.

In case the Board of the Philips Foundation approved an expense, but no contractual agreement has been signed yet, this approval will be classified as an ‘intention’ and not as a formal off-balance sheet commitment.

Other reserves
Other reserves consist of the results of the previous years as well as the current year.

The Foundation is exposed to currency risk on payables that are denominated in a currency other than the functional currency of the Foundation. At 31 December 2016, the Philips Foundation had one open position in USD. At 31 December 2015, the payables in foreign currency were denominated in USD, CHF and ZAR. Given the unfavorable direction of the movement of the USD versus the Euro throughout the year from the moment of recognition, the Philips Foundation reported a negative revaluation result on the outstanding payable of €2,174 in 2016 versus a positive result of €6,324 in 2015.

5. Accrued expenses

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accruals related to Markets CSR Projects</td>
<td>1,242</td>
<td>151,782</td>
</tr>
<tr>
<td>Accruals related to projects on request of Red Cross and ICRC</td>
<td>4,824</td>
<td>-</td>
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<tr>
<td>Accruals related to transfer and matching of employee contributions, amongst others to Red Cross and UNICEF</td>
<td>11,519</td>
<td>141,821</td>
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<tr>
<td>Other Accruals</td>
<td>18,755</td>
<td>21,530</td>
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<tr>
<td>Total</td>
<td>36,390</td>
<td>315,133</td>
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6. Off-balance sheet commitments

<table>
<thead>
<tr>
<th>Project Name</th>
<th>2017</th>
<th>2018</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Red Cross (1)</td>
<td>600,000</td>
<td>-</td>
<td>600,000</td>
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<tr>
<td>UNICEF</td>
<td>1,200,000</td>
<td>-</td>
<td>1,200,000</td>
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<tr>
<td>Red Cross Project Ivory Coast (2)</td>
<td>193,884</td>
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<td>193,884</td>
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<tr>
<td>Market CSR Projects (3)</td>
<td>141,783</td>
<td>-</td>
<td>141,783</td>
</tr>
<tr>
<td>Total</td>
<td>2,135,667</td>
<td>-</td>
<td>2,135,667</td>
</tr>
</tbody>
</table>

(1) The Philips Foundation committed itself to donating the following amounts to two of its strategic partners:

- Red Cross: €600,000 per year (of which €200,000 to The Netherlands Red Cross and €400,000 to the International Committee of the Red Cross) in 2017. The current partnership agreement will expire in 2017.
- UNICEF: €1.2 million per year in 2017. The commitment for 2018, as disclosed in the annual report of 2015, is not applicable anymore, since the Philips Foundation Board decided to discontinue the activities with respect to the Global Innovation Center (an initiative run by UNICEF, which was supported by the Philips Foundation in 2015 and 2016). The current partnership agreement will expire in 2017.
(2) The Philips Foundation Board committed an amount of €300,000 in 2015 to a primary health care project of The Netherlands Red Cross in the Ivory Coast. The Netherlands Red Cross are working in the field together with the Ivory Coast Red Cross. In 2015 and 2016, invoices were received and paid with a value just above €100,000, while the remaining activities moved to 2017 due to a delay in the construction and completion of the primary healthcare centers.

(3) In 2015 and 2016, the Foundation Board committed itself to four Market CSR projects for which the activities (partially) will take place in 2017. These four projects result in an expected spend of €141,783 in 2017. Out of this €141,783, €126,783 relates to three projects that already started, but for which the activities have not been fully completed. The already completed activities were incorporated in the financial statements of 2016: €15,000 of the €141,783 relates to a new project in the Netherlands, which will start in 2017.

7. Fair value
The fair value of the financial instruments stated on the balance sheet, including receivables, cash and cash equivalents and current liabilities, is approximately equal to their carrying amount, due to their short-term nature.

Notes to the Statement of Contributions and Expenses

8. Contribution Koninklijke Philips N.V. and Philips Lighting Holding B.V.
On 9 May 2016 Koninklijke Philips N.V. made the commitment to donate €6.7 million to the Philips Foundation in 2016. Philips Lighting Holding B.V. made the commitment to donate €3.1 million. These contributions were received in full in 2016. The total contribution slightly reduced in comparison to the €10 million received in 2015.

9. Donations

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
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<tr>
<td>Donations to strategic partners</td>
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<td>1,800,000</td>
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<tr>
<td>Donations related to Market CSR</td>
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<td>Global donations</td>
<td>209,433</td>
<td>98,639</td>
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<tr>
<td>Donations related to employee fundraisers</td>
<td>86,926</td>
<td>196,350</td>
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<tr>
<td>Donations to Social entrepreneurship</td>
<td>299,920</td>
<td>-</td>
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<tr>
<td><strong>Total</strong></td>
<td>3,823,421</td>
<td>3,065,035</td>
</tr>
</tbody>
</table>

The spend during 2016 consisted of five types of donations. The first type is related to the partnership donations to the International Committee of the Red Cross, The Netherlands Red Cross and UNICEF. The second type of donation is related to Market CSR projects proposed and implemented by country offices of Royal Philips and Philips Lighting with local partners. The third type of donation relates to a project on request of the Red Cross, on top of the partnership donation. The fourth type of donation consists of matching employee donations for disaster relief appeals such as responding to the earthquakes in Italy, Ecuador and Japan as well as for Hurricane Matthew in Haiti. The final type of donation relates to the partnership with Ashoka, which is a global organization that identifies and invests in leading social entrepreneurs, i.e. individuals with innovative and practical ideas for solving social problems. The donations in 2016 increased by €758,386 compared to 2015 and is the result of the increased activities of the Philips Foundation.

10. Other expenses
The other expenses in 2016 and 2015 consist of audit fees, consultancy expenses, communications costs, Board expenses and representation costs. The increase in other costs versus 2015 was mainly caused by marketing and communication related costs.

11. Financial expenses
The financial expenses in 2016 and 2015 consist of interest, currency results and banking fees. The currency results are related to both paid invoices denominated in foreign currency as well as the revaluation result of the outstanding accounts payable at the end of the year. In 2016, the Philips Foundation was negatively impacted by currency results by €15,394 (versus a positive impact of €2,500 in 2015). The Philips Foundation also incurred interest costs, due to the fact that Citibank charged interest costs on positive bank balances. The net interest costs in 2016 were €32,056. The interest costs as well as communication related costs are the main drivers of the increase in other costs versus 2015.

Subsequent events
Since Philips Lighting operates as a separate listed entity, it has been decided it will set up its own Foundation. The contributions of Philips Lighting towards the Philips Foundation will therefore cease in 2017.

This will not have any impact on the continuity of the Philips Foundation.
The Philips Foundation will continue its activities through funding by Royal Philips.

The Board

Prof. Dr. M. van Reisen         Prof. Dr. H. Wijffels         R. de Jong
Amsterdam, 30 June 2017

12. Personnel
As at 31 December 2016, the Foundation had, other than three board members, no staff members employed. The Board Members receive no remuneration for their duties. Expenses can be reimbursed. In 2016, no reimbursements took place.

In 2015, expenses have been reimbursed with a total value of less than €1,000. The Foundation’s operational team consists of employees of Koninklijke Philips N.V. who are seconded to the Foundation. Their salaries and expenses are paid by Koninklijke Philips N.V.
Independent auditor's report

To the Board of Stichting Philips Foundation ('the Board')

Report on the audit of the financial report 2016 included in the annual report

Our opinion

We have audited the financial report of 2016 of Stichting Philips Foundation, based in Amsterdam.

In our opinion the accompanying financial report gives a true and fair view of the financial position of Stichting Philips Foundation as at 31 December 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial report comprises:
- The Balance sheet as at 31 December 2016;
- The Statement of Contributions and Expenses for 2016;
- 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 report' section of our report.

We are independent of Stichting Philips Foundation 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 beroepspogingen 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.

Report on other information included in the annual report

In addition to the financial report and our auditor's report thereof, the annual report contains other information that consists of:
- The Board’s report
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that:
- The Board’s report and Other information are consistent with the financial report and does not contain material misstatements;
- The Other information 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 report 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 is less than the scope of those performed in our audit of the financial report.

The Board is responsible for the preparation of the other information, including the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of responsibilities for the financial report

Responsibilities of the Board for the financial report

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

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

Our responsibilities for the audit of the financial report

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 this financial report. 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 skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:
- Identifying and assessing the risks of material misstatement of the financial report, 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, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

Eindhoven, 30 June 2017
Ernst & Young Accountants LLP

Signed by P.J.A. Gabriëls