

**Erik P.M. Vermeulen**

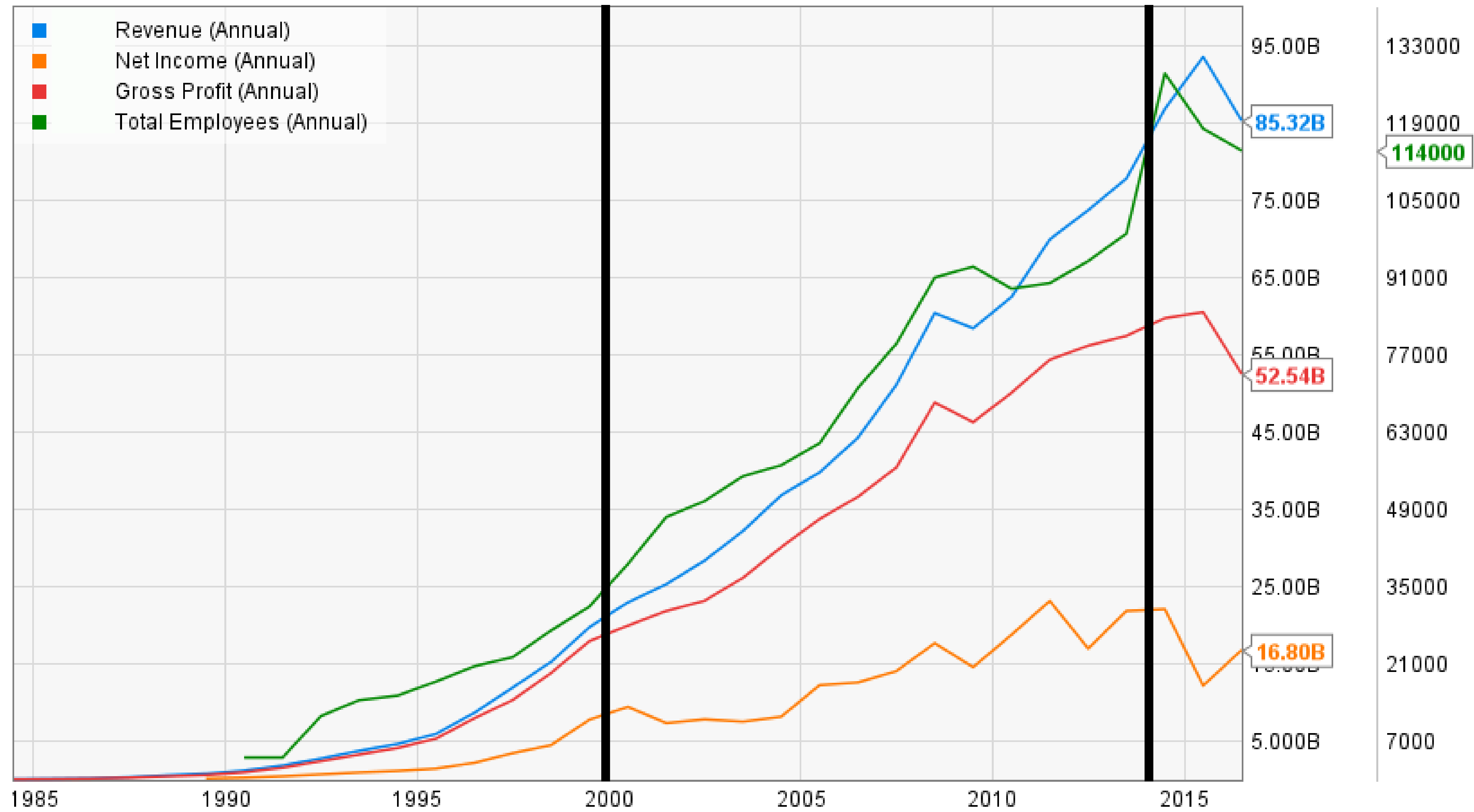


# Management Reports



# Best Practices





# **How to Miss the Boat – Five Times**

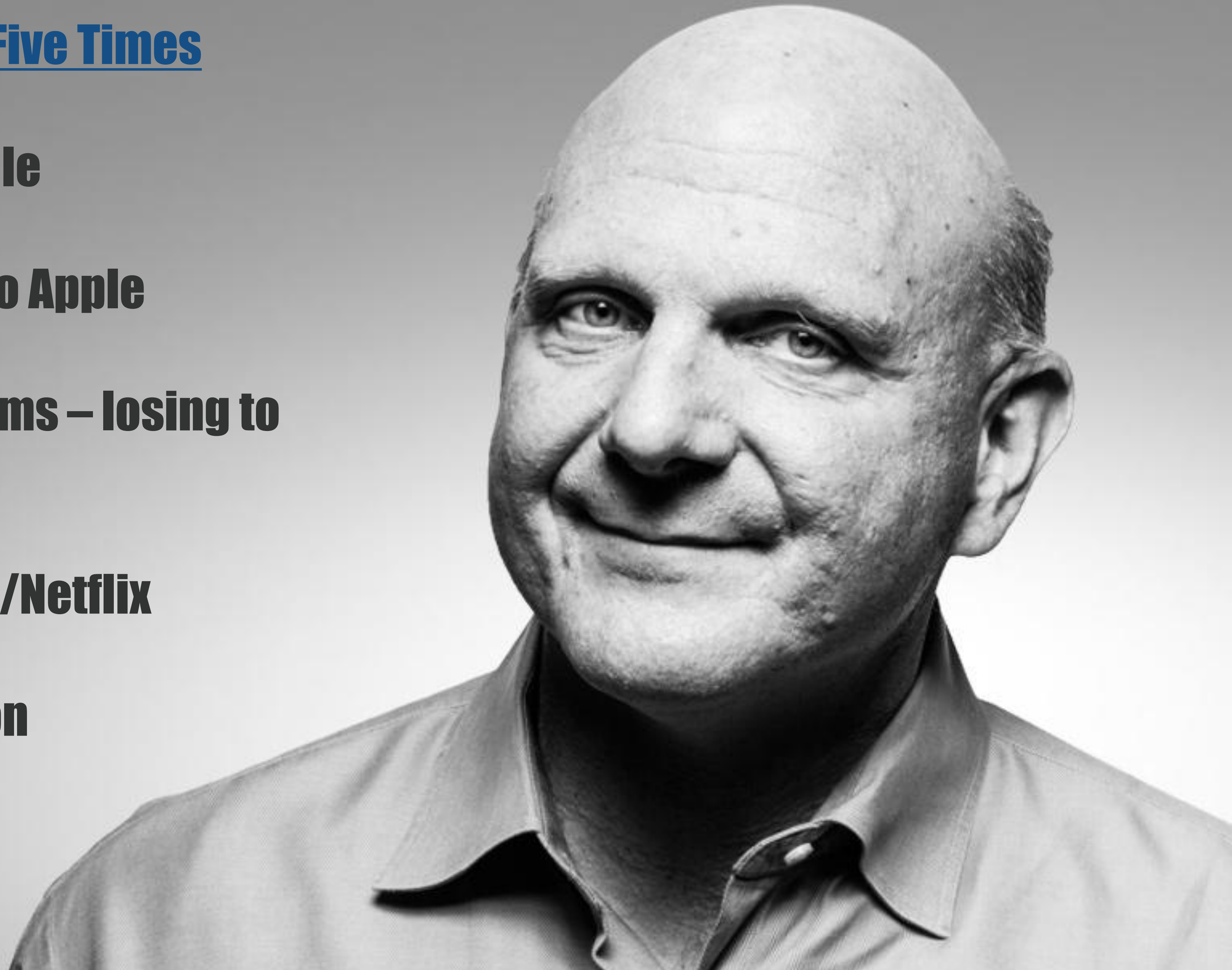
**search – losing to Google**

**smartphones – losing to Apple**

**mobile operating systems – losing to  
Google/Apple**

**media – losing to Apple/Netflix**

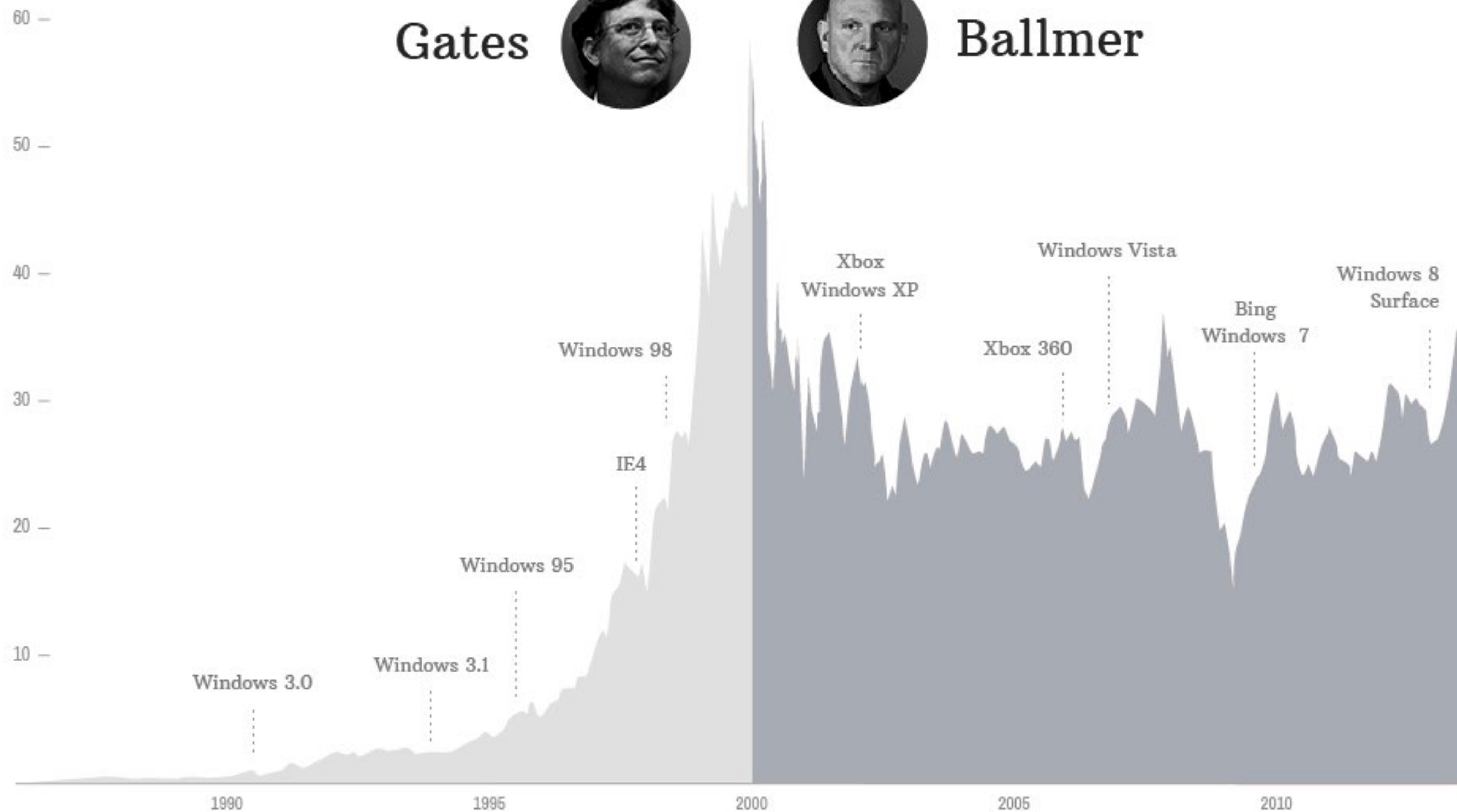
**cloud – losing to Amazon**



Gates



Ballmer





# Excessive Focus on Financial Information





# DIRECTIVES

## **DIRECTIVE 2013/34/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**of 26 June 2013**

**on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC**

**(Text with EEA relevance)**



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**(Text with EEA relevance)**

# Chapter 5

## Management Report

## Corporate Governance Statement



Article 18

Additional disclosures for large undertakings and public-interest entities

1. In the notes to the financial statements, large undertakings and public-interest entities shall, in addition to the information required under Articles 16 and 17 and any other provisions of this Directive, disclose information in respect of the following matters:

- (a) the net turnover broken down by categories of activity and into geographical markets, in so far as those categories and markets differ substantially from one another, taking account of the manner in which the sale of products and the provision of services are organised; and
- (b) the total fees for the financial year charged by each statutory auditor or audit firm for the statutory audit of the annual financial statements, and the total fees charged by each statutory auditor or audit firm for other assurance services, for tax advisory services and for other non-audit services.

2. Member States may allow the information referred to in point (a) of paragraph 1to be omitted where the disclosure of that information would be seriously prejudicial to the undertaking. Member States may make such omissions subject to prior administrative or judicial authorisation. Any such omission shall be disclosed in the notes to the financial statements.

3. Member States may provide that point (b) of paragraph 1 is not to apply to the annual financial statements of an undertaking where that undertaking is included within the consolidated financial statements required to be drawn up under Article 22, provided that such information is given in the notes to the consolidated financial statements.

CHAPTER 5

MANAGEMENT REPORT

Article 19

Contents of the management report

1. The management report shall include a fair review of the development and performance of the undertaking's business and of its position, together with a description of the principal risks and uncertainties that it faces.

The review shall be a balanced and comprehensive analysis of the development and performance of the undertaking's business and of its position, consistent with the size and complexity of the business.

To the extent necessary for an understanding of the undertaking's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular

business, including information relating to environmental and employee matters. In providing the analysis, the management report shall, where appropriate, include references to, and additional explanations of, amounts reported in the annual financial statements.

2. The management report shall also give an indication of:

- (a) the undertaking's likely future development;
- (b) activities in the field of research and development;
- (c) the information concerning acquisitions of own shares prescribed by Article 24(2) of Directive 2012/30/EU;
- (d) the existence of branches of the undertaking; and
- (e) in relation to the undertaking's use of financial instruments and where material for the assessment of its assets, liabilities, financial position and profit or loss:

(i) the undertaking's financial risk management objectives and policies, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used; and

(ii) the undertaking's exposure to price risk, credit risk, liquidity risk and cash flow risk.

3. Member States may exempt small undertakings from the obligation to prepare management reports, provided that they require the information referred to in Article 24(2) of Directive 2012/30/EU concerning the acquisition by an undertaking of its own shares to be given in the notes to the financial statements.

4. Member States may exempt small and medium-sized undertakings from the obligation set out in the third subparagraph of paragraph 1 in so far as it relates to non-financial information.

Article 20

Corporate governance statement

1. Undertakings referred to in point (1)(a) of Article 2 shall include a corporate governance statement in their management report. That statement shall be included as a specific section of the management report and shall contain at least the following information:

- (a) a reference to the following, where applicable:

(i) the corporate governance code to which the undertaking is subject,

Non-financial information

Future Development



### Management of Sustainability (MOS)

Management aiming to improve sustainability

Contributing to the resolution of a variety of environmental and social issues through corporate activities that consider the future of people, society, and the Earth

### Management of Economics (MOE)

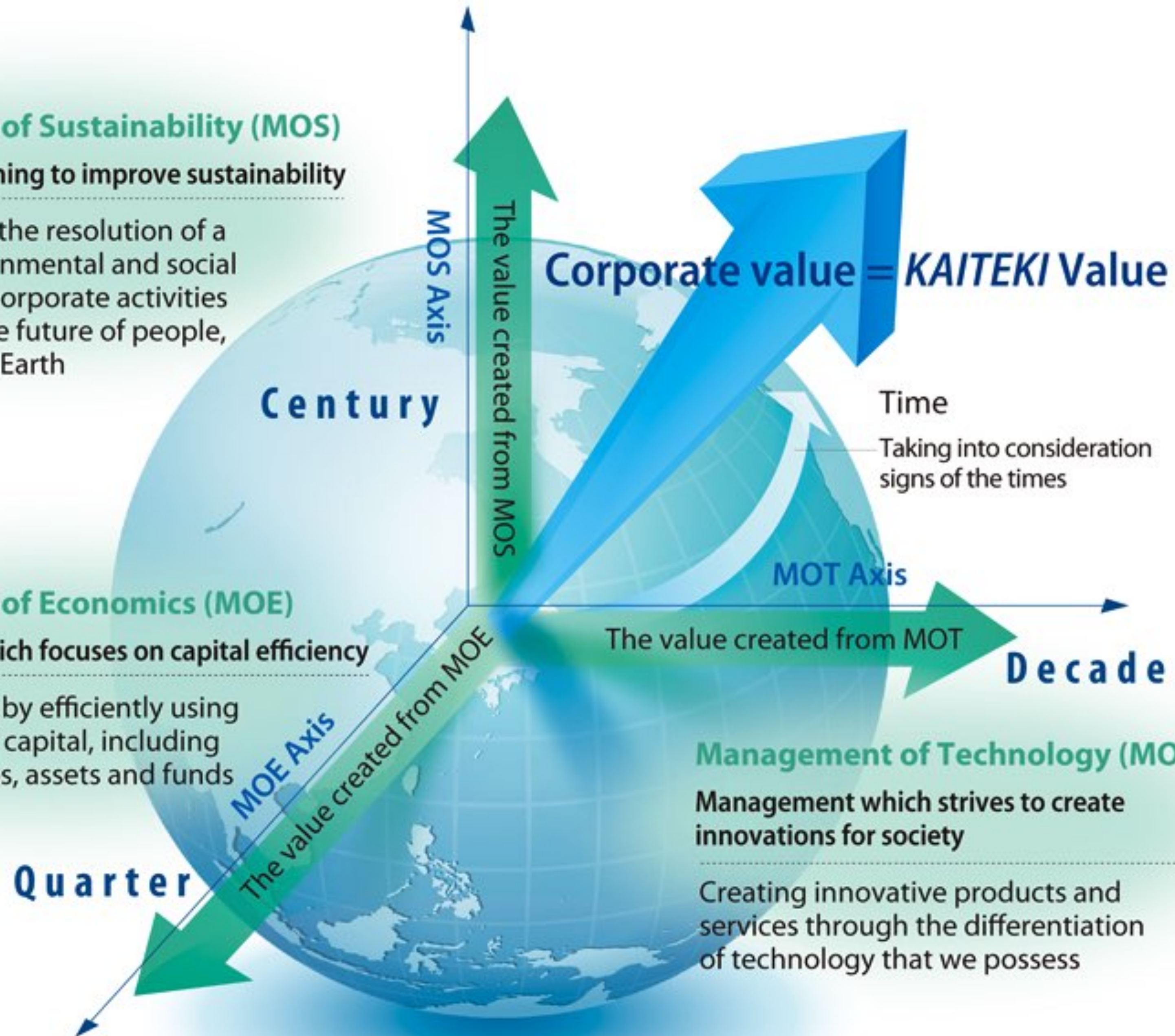
Management which focuses on capital efficiency

Pursuing profits by efficiently using various forms of capital, including human resources, assets and funds

### Management of Technology (MOT)

Management which strives to create innovations for society

Creating innovative products and services through the differentiation of technology that we possess





✓ BEST  
PRACTICE



# ANNUAL REPORT 2016

A New Era Begins



**BMW  
GROUP**

THE NEXT  
100 YEARS



Rolls-Royce  
Motor Cars Limited

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BMW Stock and Capital Markets in 2016

## 2

Combined Management Report

General Information  
Economic Position  
Outlook, Risks and Opportunities  
BMW Stock and Capital Markets

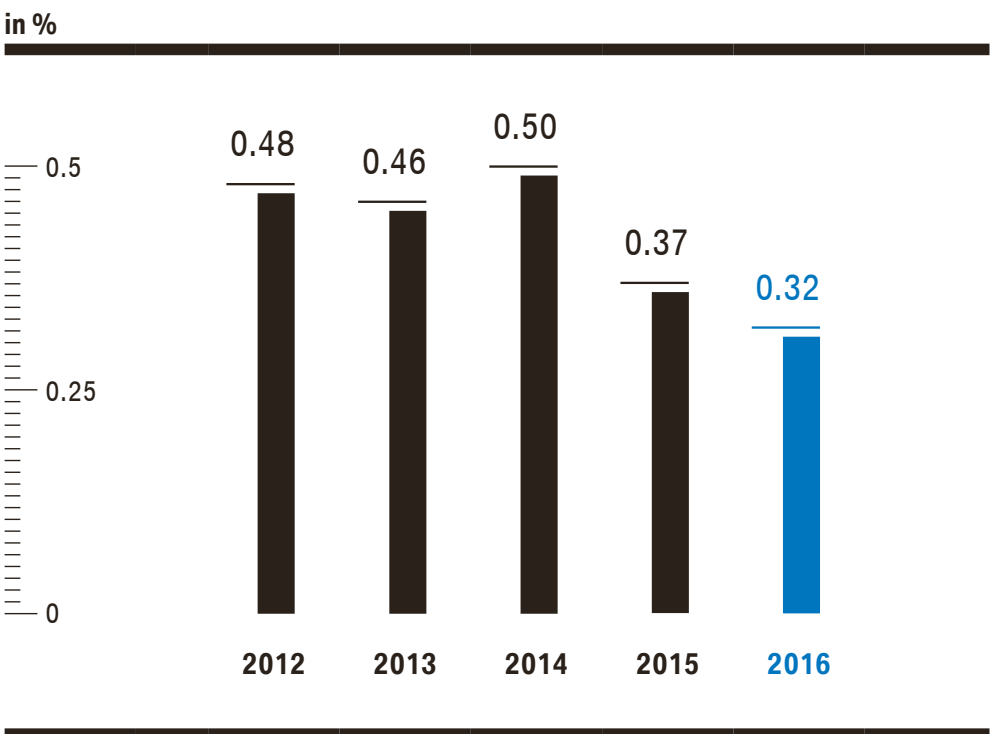
## 2

### Risk profile improved

Despite ongoing political and economic uncertainties, including the UK’s decision to leave the EU, the stable trend in the global economy during the year under report contributed to an improvement in the risk situation of the Financial Services segment’s total portfolio. The risk profile for the segment’s credit financing portfolio also improved slightly. The credit loss ratio on the total credit portfolio for the twelve-month period decreased to 0.32 %, slightly down on the previous year’s level (2015: 0.37 %).

### Development of credit loss ratio

→ 31



Average sales proceeds per vehicle, generated from remarketing pre-owned BMW and MINI brand vehicles, reflected the marginally less favourable situation on international pre-owned markets, and were therefore slightly down on the previous year. Residual value losses on such vehicles rose moderately year-on-year, mainly due to greater competition in North America. Further information on the risk profile is provided in the section “Risks and Opportunities”.

## Research and Development

→ [www.bmwgroup.com/innovation](http://www.bmwgroup.com/innovation)

Research and development are of central importance for the BMW Group as a premium manufacturer. As part of the Efficient Dynamics strategy, continual efforts are undertaken to improve energy efficiency and reduce emissions across the full range of automobiles and motorcycles. In line with its Connected Drive strategy, the BMW Group is engaged in work on the connectedness of driver, vehicle and the outside world. The Group seeks to take a leading position in the field of autonomous driving. At 31 December 2016, a total of 13,103 people at 13 locations in five countries worldwide were employed in the BMW Group’s research and innovation network.

Research and development expenditure totalled €5,164 million during the year under report, in line with the previous twelve-month period (2015: €5,169 million; – 0.0 %). At 5.5 %, the research and development expenditure ratio was also practically identical to that of the preceding year (2015: 5.6 %). The ratio of capitalised development costs to total research and development expenditure for the period (capitalisation ratio) was 40.5 % (2015: 39.9 %). Amortisation of capitalised development costs totalled €1,222 million (2015: €1,166 million; + 4.8 %). Further information on research and development expenditure is provided in the “Report on Economic Position (Results of Operations)” and in → note 7 to the Group Financial Statements.

→ see note 7

Given the pace of technological change, collaboration in the field of research and development is customary in the automotive industry. The BMW Group also enters into collaboration arrangements with selected partners. The aim of these research and development activities, which may also include cross-sector cooperation, is to help find innovative solutions for individual mobility. The focus is on future-oriented technologies such as digitalisation and alternative drive systems.



Expertise in drivetrain technology

The BMW Group is consistently extending its portfolio of electrically powered vehicles. At the end of 2016, it included the BMW i3 all-electric, battery-powered vehicle, six plug-in hybrid vehicles for the global market, and an additional plug-in hybrid exclusively developed for the Chinese market.

In 2016, an additional version of the BMW i3 was launched, featuring significantly greater battery capacity. The vehicle is also available with or without a range extender. During the reporting year, plans were laid for both the first all-electric MINI and for an electrically powered BMW X3. In 2017, the new BMW 5 Series and the MINI Countryman are both due to be launched as plug-in hybrid versions. A roadster version of the BMW i8 has also been announced for 2018.

With its C-evolution, BMW Motorrad presented in 2016 the second edition of an all-electric “Maxi Scooter” with greatly improved range and higher top speed.

For the medium and long term, the BMW Group is also developing a fuel cell electric vehicle (FCEV). The fuel cell electric drive system, which converts hydrogen to electricity and steam, combines locally emission-free, electrically powered driving with the dynamic flair typical of the BMW brand, capability for covering long distances, and short refuelling times. Battery and fuel cell technology can be combined in one vehicle.

At the same time, the BMW Group continues to work on enhancing its existing range of highly efficient combustion engines. 2016 saw the launch of the new BMW 7 Series, featuring a newly developed inline 6-cylinder diesel engine that combines high performance with low fuel consumption. The BMW 1 and 2 Series M Performance models were presented with a new, powerful inline 6-cylinder petrol engine in 2016.

Driver assistance systems, highly and fully automated driving

The new BMW 5 Series offers drivers extensive support with a variety of assistance systems. It is fitted with a stereo camera as standard, which monitors the vehicle’s environment together with optionally available radar and ultrasound sensors. New features in the BMW 5 Series include an avoidance assistant, a crossing-traffic warning, a lane-change assistant and a lane control assistant with active side collision protection, which monitors the driving lanes and developments next to the vehicle and actively supports the driver in the event of imminent collision with a corrective steering intervention.

With extended functions built into the optionally available Active Cruise Control (ACC) and the steering and lane control assistant, the BMW 5 Series represents a further step towards automated driving, including recognition of speed limits, which the optional Speed Limit Assist shows the driver. The assistance system supports the driver in keeping a correct distance at speeds up to 210 km/h as well as at accelerating and braking. These features offer drivers a significant benefit in terms of convenience, particularly at low speeds and in slow-moving traffic. The optional Remote Parking feature of the BMW 5 Series Sedan enables drivers to manoeuvre the vehicle into the tightest of parking spaces using a remote-control car key.

At the same time, the BMW Group is conducting research into highly automated systems that do not need to be permanently monitored by the driver and fully automated systems that no longer require the driver to monitor them at all. At the end of 2016, some 600 BMW Group employees were engaged in the development of highly automated driving technologies. Beginning in 2017, the BMW Group plans to concentrate its expertise in the field of vehicle connectivity and automated driving at one location.

BMW Connected digital platform presented

With BMW Connected, the BMW Group presented a comprehensive digital concept that facilitates individual mobility. Based on a flexible platform, BMW Connected seamlessly combines the vehicle with the digital life of the user through user devices such as smartphones. The functions of existing BMW ConnectedDrive apps will be integrated in BMW Connected. The security and anonymisation of data have the highest priority for the BMW Group, both internally and for its customers.

Digital connectivity has also become a key topic for the Group’s motorcycles. With its optionally available “Intelligent Emergency Call”, BMW Motorrad has announced that eCall for urgent help in case of emergency or accidents will also be added as a feature of its motorcycles as from 2017.

Next generation of the AirTouch virtual touchscreen

The BMW Group made further progress in the field of interaction between the driver and the vehicle during the year under report. Following up on BMW Gesture Control, which is already available for the new BMW 5 and 7 Series, in 2016 the Group presented its enhanced AirTouch system, which enables drivers to use simple gestures with an open hand to activate command fields on a large panorama screen on the dashboard. At the beginning of 2017, the BMW HoloActive Touch system was presented to the public for the first time. The innovative interface between driver and vehicle is similar to a virtual touchscreen, which is operated using finger gestures on a screen that appears to float freely in space.

Extreme lightweight construction in the BMW HP4

BMW Motorrad demonstrated with the exclusive BMW HP4 RACE experimental motorcycle how extreme lightweight construction can be realised based on carbon fibre technology. Among other features, this motorcycle, which is fit for racing, is equipped with a highly innovative frame structure made of pure carbon as well as carbon wheel-rims.

Numerous awards for innovations

The BMW Group won over 50 national and international awards during the year under report. Among other honours, the BMW 7 Series was named World Luxury Car at the renowned World Car Awards.

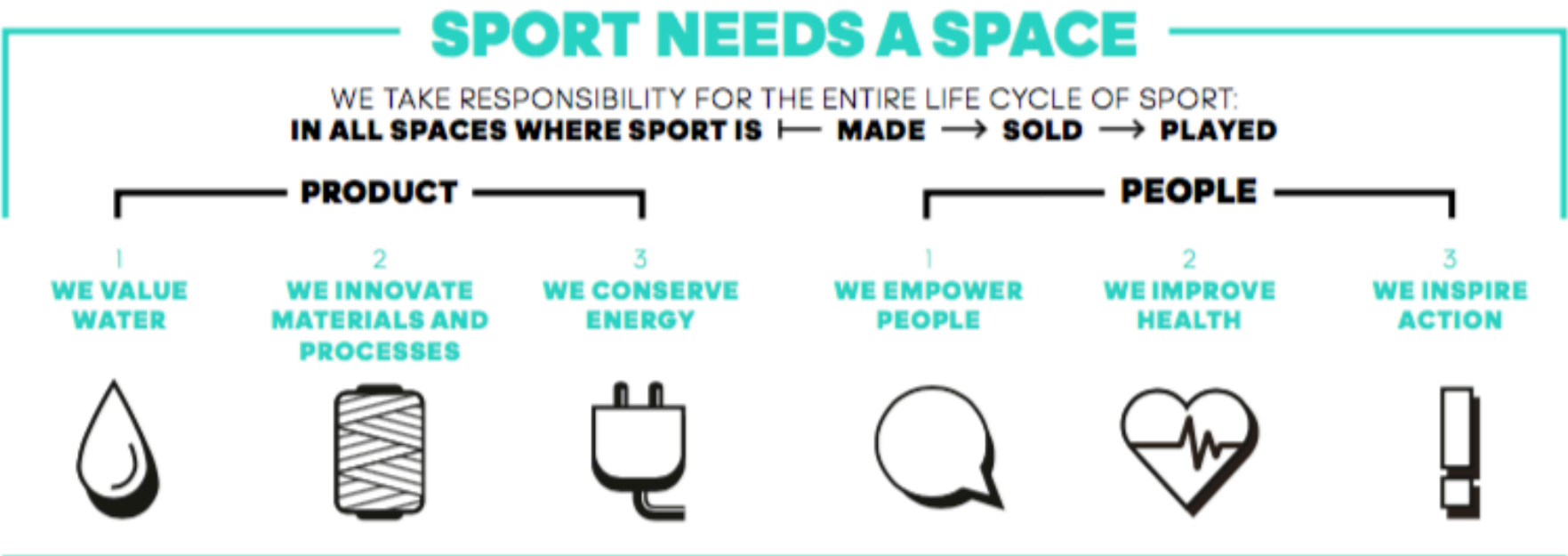
At the “International Engine of the Year Award”, the most prestigious engine competition worldwide, the drivetrain of the BMW i8 was winner in the 1.4- to 1.8-litre category. At the Automotive Innovations Award, jointly awarded by the Center of Automotive Management and the auditing and consulting firm PricewaterhouseCoopers, BMW drivetrains were adjudged to be the most innovative conventional systems across all models.

The BMW i3 won the “Golden Steering Wheel” award in the “Alternative drives” category. In 2016, the BMW Group won numerous design awards, including the International Forum Design Awards for its Rolls-Royce Dawn, MINI Clubman, MINI Convertible, BMW M2, BMW X1 and BMW 7 Series.





01 OUR SUSTAINABILITY STRATEGY



**PRODUCT PRIORITY NO. 1:**  
**WE VALUE WATER**

Water is essential for life. It is also a key resource for our industry. In order to tackle the ever-growing issue of water scarcity and achieve water stewardship, we have developed an approach addressing water efficiency, quality and accessibility.

The goals we want to achieve by 2020 include 20% water savings at our strategic suppliers, 50% water savings at our apparel material suppliers and 35% water savings per employee at our own sites. Additionally, we will further expand the use of waterless technologies for our products and continue to develop programmes focused on providing access to clean water in the communities we operate in. [www.adidas-group.com/s/environmental-approach](http://www.adidas-group.com/s/environmental-approach) [www.adidas-group.com/s/sustainability-innovation](http://www.adidas-group.com/s/sustainability-innovation)

**PRODUCT PRIORITY NO. 2:**  
**WE INNOVATE MATERIALS & PROCESSES**

We create the best products for the athlete, while optimising our environmental impact. We are committed to steadily increasing the use of more sustainable materials in our production, products and stores. At the same time, we are driving towards closed-loop solutions.

Examples of the goals we want to achieve by 2020 include 20% waste reduction at our strategic suppliers, 50% waste diversion for owned operations to minimise landfill and 75% paper reduction per employee at our own sites. Additionally, we are working on replacing conventional cotton, with the aim of achieving 100% sustainable cotton by 2018, and on phasing out the use of virgin plastic. In 2016, we already successfully eliminated plastic bags in all our own stores and franchise stores globally. We strive to steadily increase the use of recycled polyester in our products and create a completely new supply chain for Ocean Plastic together with our partner Parley for the Oceans.

Further, we want to achieve rolling out a global product take-back programme to all of our key cities and markets and will be investing in materials, processes and innovative machinery which will allow us to upcycle materials into products and reduce waste. Ongoing examples include Sport Infinity and Futurecraft Tailored Fibre. Lastly, we plan to achieve 100% sustainable input chemistry by adopting the ZDHC Manufacturing Restricted Substances List, phasing out hazardous chemicals and providing our strategic suppliers with a list of positive chemistry (the bluesign bluefinder). [see Research & Development, p. 67](#) [www.adidas-group.com/s/sustainability-innovation](http://www.adidas-group.com/s/sustainability-innovation) [www.adidas-group.com/s/chemical-footprint](http://www.adidas-group.com/s/chemical-footprint)

**PRODUCT PRIORITY NO. 3:**  
**WE CONSERVE ENERGY**

The responsible use of energy is critical for our planet to survive. In order to mitigate climate change, we are committed to reducing our absolute energy consumption and CO<sub>2</sub> emissions, transitioning to clean energy and looking into energy-harvesting opportunities.

Goals we have set ourselves for 2020 include 20% energy savings at our strategic suppliers, 3% absolute annual reduction in Scope 1 and Scope 2<sup>1</sup> CO<sub>2</sub> emissions at our own sites, further expansion of ISO 14001 to key sites globally at our own operations and LEED certification for new corporate construction key projects. Additionally, we will reduce the environmental footprint of our consumer events.

In order to contribute to these ambitious targets, Green Company, the successful programme to drive environmental performance at our own sites globally, was expanded in 2016 to include new aspects. For the very first time, it now covers our own-retail stores

<sup>1</sup> Scope 1: Emissions that arise directly from sources that are owned or controlled by adidas entities, such as fuels used in our boilers; Scope 2: emissions generated by purchased electricity consumed by adidas entities.





# ING Group Annual Report 2016

Accelerate



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# Management Report



## Facts and key figures

### Who we are

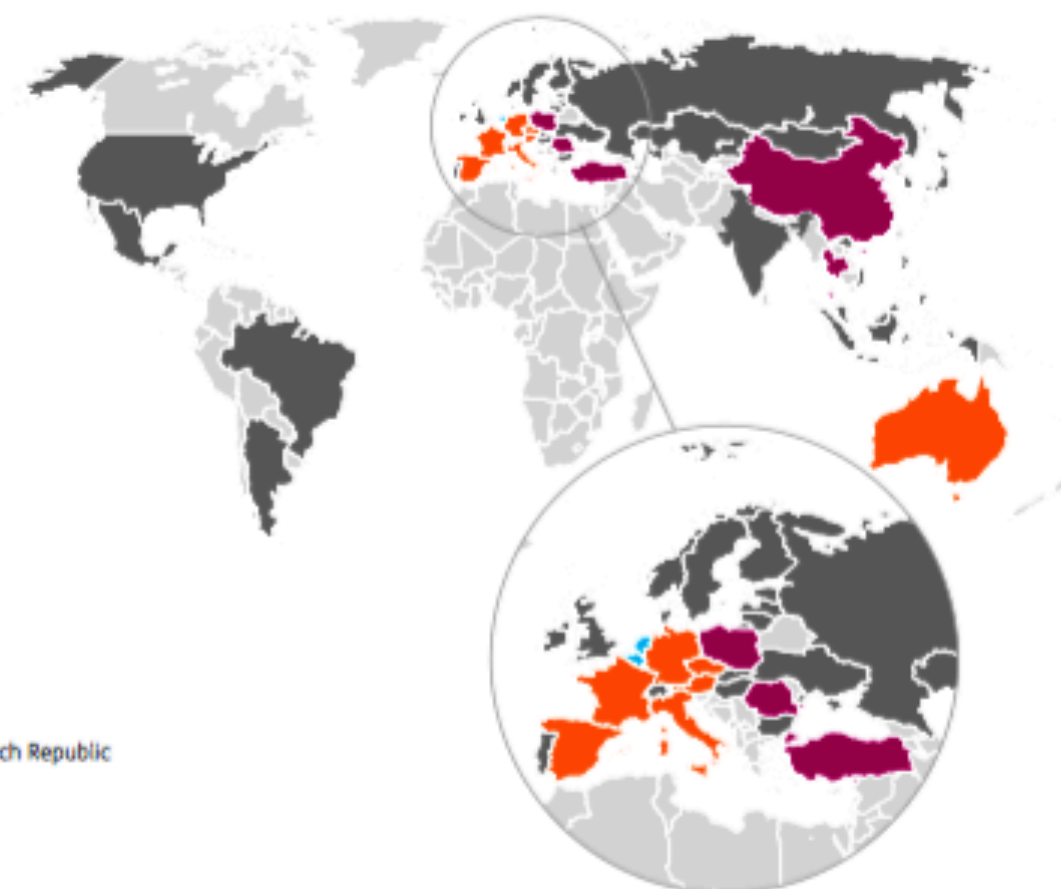
We are a global financial institution with a strong European base offering banking services. Our customers are at the heart of what we do.

### 2016 highlights

- Attracted almost 1.4 million new retail customers; primary relationships grew by 8% to 9.7 million.
- Net core lending to customers grew by almost EUR 35 billion and savings entrusted rose by over EUR 28 billion, both increasing by around 6% compared to 2015.
- Capital base strengthened, with ING Group's CET1 ratio rising to a robust 14.2% at year-end 2016; underlying return on equity rose to 10.1%.
- ING again performed strongly in the area of sustainability in 2016. Sustainalytics ranked ING number 1 out of its 395 financial peers. The Dow Jones Sustainability Indices also named ING among world leaders in the category "Banks".
- ING is working to increase the pace of innovation, developing new services and business models. As of the end of 2016, we were partnering and in some cases also investing in more than 65 fintechs in various areas, like instant lending, factoring and customer loyalty.
- The sale of our remaining stake in NN Group in April 2016 was the final step in ING's programme to divest all of its insurance and investment management businesses as part of the restructuring agreement with the European Commission.
- FY 2016 dividend of EUR 0.66 per ordinary share.

### Where we operate

We operate in more than 40 countries in Europe, North America, South America, the Middle East, Asia and Australia



### Our customers



35.8 million  
(year-end 2016)

### Top NPS ranking

Our customer-centric focus has resulted in seven countries achieving first place in NPS compared with two or more selected local peers. NPS surveys were held in 13 countries with retail banking activities.

### Our employees

(by head count)



54,000+  
(year-end 2016)

### Our brand value

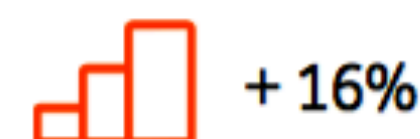
Number 27 most valuable bank brand in the world ((EUR 7.7 billion, 1 January 2017).<sup>1</sup>

<sup>1</sup> Source: Brand Finance plc, February 2017. The valuation date is each year on the 1st of January.

### Facts and key figures – continued

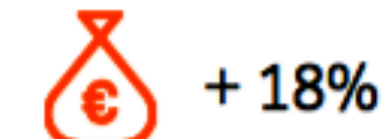
### Financial review

#### Net result ING Group



The strong increase was driven by the higher underlying net result from Banking, as the negative impact of special items in 2016 (due to the restructuring charges taken in the fourth quarter) were largely offset by higher results from the discontinued Insurance operations in 2016 compared with 2015. ING sold its final stake in NN Group in April 2016.

#### Underlying net result Banking<sup>2</sup>



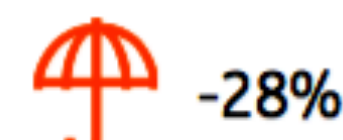
The increase reflects higher net interest results and lower risk costs, despite a sharp increase in regulatory costs in 2016. Commercial performance was robust with 6.5% net growth in the core lending book.

#### ING Group's underlying return on equity<sup>2</sup>



ING Group's ROE improved from 8.6% in 2015, reflecting a higher underlying net result. Given the regulatory uncertainty, we believe it is prudent to wait for further clarity before we announce a Group ROE target. ING Bank's ROE rose to 11.6% from 10.8% in 2015 and is within the earlier announced Ambition 2017 target range of 10-13%.

#### Addition to the loan loss provision



Risk costs declined to 31 bps of average RWA (which is below ING's through-the-cycle guidance range of 40-45 bps), as macroeconomic conditions improved, especially in the Netherlands.

#### Fully loaded CET 1 ratio ING Group



The CET1 ratio improved strongly from 12.7% in 2015, due to an increase in CET1 capital combined with lower RWA supported by positive risk migration. CET1 capital mainly increased due to strong capital generation from net profit (partly offset by the proposed dividend payment) and the completion of the NN Group divestment in 2016.

#### Underlying cost/income ratio ING Bank<sup>2</sup>



This includes CVA/DVA impacts and EUR 120 million of redundancy costs in 4Q2015. Excluding these items, the cost/income ratio improved to 53.9% in 2016 from 55.9% in 2015, in spite of higher regulatory costs.

### Non-financial review

#### Net Promoter Score Retail Banking



Our customer centric focus helped us achieve a first place ranking in seven countries, compared with two or more selected local peers. NPS surveys were held in 13 countries with retail banking activities.

#### Sustainable transitions financed and sustainable assets under management



Our focus on sustainability driven business resulted in EUR 34.3 billion sustainable transitions financed at year-end 2016. SAuM increased to EUR 3.3 billion, which underlines our client's appetite for products and services that apply sustainability criteria.

#### CO<sub>2</sub>e emissions



The environmental performance of our own organisation improved as a result of an increase in renewable electricity consumption. The total extrapolated amount of carbon emissions decreased from 94 to 74 kilotonnes CO<sub>2</sub>e.

#### Financial empowerment



Since 2015 we measure our performance in this area to be sure our efforts are really driving sustained improvements in the financial behaviour of our customers and society. In 2016, 23.9 million people felt financially empowered as a result of interactions with our financial empowerment initiatives.

#### Effective employer Human Capital ROI



We measure and report on our human capital investments to ensure we do the right things to support our employees' performance. The Human Capital Return on Investment indicator helps us identify the influence of HR inputs on the organisation's productivity. This ratio of profitability divided by employee costs was 2.59 in 2016, up from 2.48 in 2015.

#### System availability



In early 2015, an initiative was launched to find a permanent solution for system reliability issues we experienced in the Netherlands and Belgium with our online payments channels. At the end of 2016, systems reliability improved to 99.75 percent, up from 99.6 percent in 2015.



## About this report

Our stakeholders want to assess our ability to create and sustain value in the short, medium and long term. To do that, they need both financial and non-financial information. We believe that integrated reporting is a better way to meet the requirements and interests of all our stakeholders.

### Our approach to integrated reporting


In our view a balanced integrated report contains information both on our economic performance and on the impact of our organisation on society and the environment. By disclosing and explaining our financial and non-financial results, strategy, governance, external developments and the risks and opportunities we face, we aim to enable our stakeholders to assess how we create value and how we earn our income. Our ambition is to further integrate financial and non-financial information and advance towards concise and connected reporting, focusing on material data points.

### How we defined content for this report and materiality

In drawing up content for this report we have taken into account the topics that can have a material impact on our business and society as well as risks and opportunities, applicable regulation and trends.

The boundaries of our economic, environmental and social impact differ. As a financial institution, we have a direct impact through our own operations and processes, but our impact in the value chain is more significant, through credit, loans and investments. In ING's Sustainability Reporting Protocol, we describe the impact per material topic, by stakeholder group. Additionally, we report our impact on the society through our value creation model on pages 26 and 27.


We are continually listening to key constituencies, and as material topics change we adapt our reporting to fit developing stakeholder expectations. As part of our materiality analysis, we have consulted key stakeholder groups – retail and business clients, investors, employees, academia, civil society organisations, and supervisors – via a structured stakeholder dialogue. Our materiality assessment guides our reporting with the aim of providing a more balanced and complete picture of our performance over the reporting year. The report including materiality disclosure is reviewed by the Executive Board.

 Read more in the “The world around us” chapter.

### Audiences

This report is intended to serve the information needs of key stakeholder groups that affect, and are affected by our business: customers, employees, share- and bondholders, supervisors, regulators, civil society organisations, citizens and society at large. However, the information needs of stakeholders differ. Therefore we

also publish a concise and accessible online overview of our results in 2016 on [ING.com](http://ING.com). This aims to share our key figures and impacts with customers and society in a clear and easy way.

 For a concise and accessible overview of ING's 2016 results, see [www.ing.com/2016ar](http://www.ing.com/2016ar).

Sustainability rating agencies and analysts can find the content they need for an in-depth analysis of our performance on sustainability in this report and the accompanying Non-financial Appendix.

### Reporting guidelines


ING's integrated report, including the Non-financial Appendix, is prepared in accordance with “the GRI Standards: Comprehensive option” and Dutch Accounting Standard 400. The content and quality criteria specified by the standards (for example: sustainability context, stakeholder inclusiveness, materiality, completeness, balance, comparability, accuracy and reliability) are integral to our reporting process. The Framework of the International Integrated Reporting Council served as a reference in drawing up the content for this report, particularly for our value creation model.

### Data compilation and boundaries

All financial data in this integrated report is extracted or derived from, and in line with, our annual accounts. The non-financial performance data published in this report covers five topics: sustainable business, customers, HR, environment and community investment. We extract or derive data on sustainability-related business activities, customers and HR from our regular business systems, in line with the data in our annual accounts. Data on environment and community investment is gathered through an online data management system. The centralised data processing team at ING Group is assisted by an independent external agency that helps to validate and process the large amount of environmental data gathered from our operations worldwide.

### Scope and boundaries

Through our materiality assessment we ensure that all material economic, social and environmental topics are addressed in this report. The report covers the period 1 January to 31 December 2016 and is published on 16 March 2017. The data and content in the integrated report and Non-financial appendix aim to provide a concise, accurate and balanced account of ING's economic, social and environmental performance in 2016. Depending on the topic, our approach and performance are explained either in text, by referring to our policies or by providing data and progress on targets.


 More information on the non-financial data, the scope and data collection process of the different performance indicators can be found in detail in the non-financial data reporting protocol at [www.ing.com/16ar5](http://www.ing.com/16ar5).

About this report – continued


### Assurance

We value the accuracy and reliability of all information and data in this report, both financial and non-financial. Therefore assurance for this integrated report, including the accompanying Non-financial Appendix, is provided by KPMG Accountants N.V. (KPMG).


KPMG has reviewed and provided a limited level of assurance on the non-financial information of the report of the executive board and the non-financial appendix for the year 2016 as defined in the table on pages 15 to 18. The topics with asterisk (\*) in this table are out of the assurance scope.

 See the assurance report of the independent auditor on page 68. The chapters “Risk and capital management” and “Remuneration report” are an integral part of the audited consolidated annual accounts.

KPMG audited the financial statements 2016 of ING Group.

 See the independent auditor's report on page 337.

Furthermore, KPMG audited ING Group's internal control over financial reporting as of 31 December 2016, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria).

 See the report of the independent registered public accounting firm on page 96.

### Future-oriented statements

In this integrated annual report we also look forward and share our vision, ambitions, strategy, opinion and plans for the future. These forward-looking statements can be recognised by terms such as:

- expect
- anticipate
- intend
- plan
- believe
- seek
- see
- will
- would
- target
- forecast
- of the opinion
- or similar terms.

These forward-looking statements are based on management's current beliefs and assumptions about future activities and are subject to uncertainties. Therefore our assurance provider cannot assure these statements.

### Feedback

This integrated report aims to give all our stakeholders a balanced and complete overview of our activities and ability to create and sustain value. We welcome stakeholder reactions and views. Please send us your feedback via [communication@ing.com](mailto:communication@ing.com).

### Report of the Executive Board

The Corporate Governance section starting on page 77 is incorporated by reference in this Report of the Executive Board.

**Amsterdam, 13 March 2017**

**The Executive Board**



## How we create value

### Trends impacting the banking landscape

Digitalisation of banking is continuing.

Technology reduced barriers to enter the financial services markets which has resulted in a wave of newcomers targeting segments underserved by traditional banks.

Europe's payments market is opening to non-banks.

Low interest rates are decreasing returns for customers and depressing banks' interest margins.

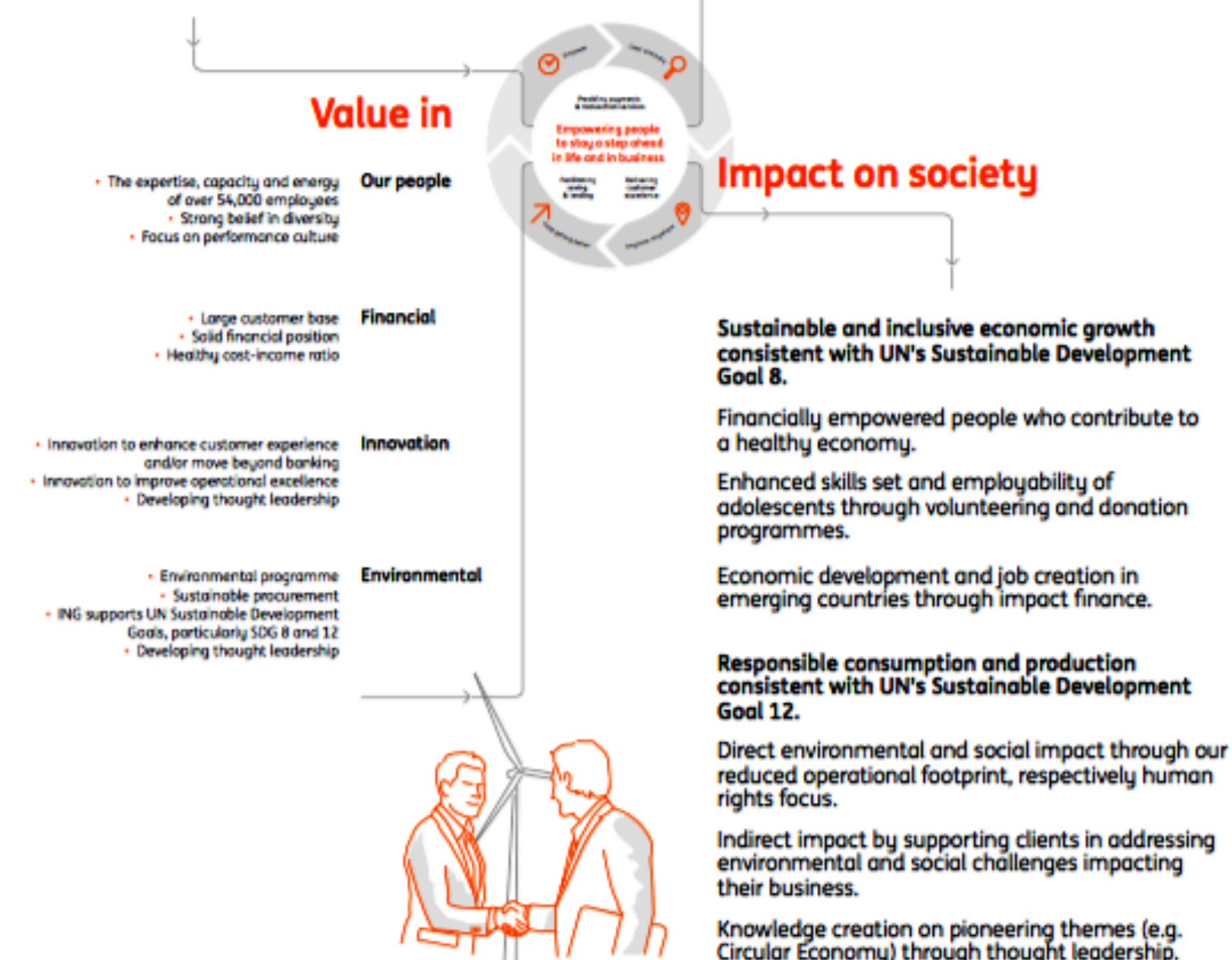
Ecosystems are developing, allowing users to access social media, online purchases, services and payments all in one app.

Regulatory changes are increasing the cost of capital.

A need to reduce operating costs.

The transition to a low carbon economy continues.

The political landscape is changing.



## How we create value (deep dive)

### Value in

#### Our people

**The expertise, capacity and energy of over 54,000 employees**

- EUR 70 million spent on training and development.
- Employees submitted 1,194 ideas through Innovation Bootcamp.
- More than 2,000 employees trained in PACE methodology.
- Introduction of a new global Employee Value Proposition (EVP).
- Wholesale Banking expertise in a variety of sectors.
- Advanced analytics teams in five countries and in Wholesale Banking operations.

**Strong belief in diversity**

- Diversity manifesto introduced in all ING countries.
- More than 1,000 employees across eight countries have gone through unconscious bias workshops.

**Focus on performance culture**

- Distinctive culture through Orange Code.
- 99% of employees took part in a formal performance management process.
- Launch of kudos, ING's online compliment tool.
- Almost 300 Performance management workshops with around 1,000 managers in 15 countries.

#### Financial

**Large and growing customer base**

- Well-known, strong brand with positive recognition from customers in many countries.
- Over 35 million customers entrust us with payments and their deposits.

**Solid financial position**

- EUR 49.8 billion shareholders' equity and EUR 152.4 billion debt securities, bank deposits and subordinated loans.

**Increased profitability and healthy development of costs**

- Increased focus on fee income to compensate for low interest rates.
- Focus on cost control, decreasing cost/income ratio

#### Innovation

**Innovation to enhance customer experience and/or move beyond traditional banking**

- Digital channels account for 98% of contact with retail customers; mobile interactions increased by more than 50% during 2016.
- Innovation Fund to finance initiatives.
- Data analytics to identify customer needs and tailor services and products accordingly.

**Innovation to improve operational excellence**

- Target Operating Models (TOMs) to streamline Finance, HR, Procurement and Risk functions.
- PACE methodology to experiment and quickly turn ideas into new products and services.
- Cybercrime programme to mitigate any security threat.

**Developing thought leadership**

- Developed thought leadership on blockchain.

#### Environmental

**Environmental programme**

- Global Environmental Management System (EMS) in place.
- ISO14001 EMS certification for head office and operations in the Netherlands.

**Sustainable procurement**

- Global supplier qualification (SQ) process.

**ING supports UN Sustainable Development Goals**

- ING focuses in particular on SDG 8 and 12.

**Developing thought leadership**

- Creating thought leadership on Circular Economy e.g. by joining the Ellen MacArthur Foundation as a CE100 member.
- Adherence to Dutch Sector Agreement on Human Rights.

### Value out

#### Products & services

**Customers value our products and services**

- Our number of primary customers increased by more than 8%.
- Customers in 7 out of 13 countries rank ING as #1 bank.

**Making banking easier**

- Retail customers now can get a mortgage twice as fast as before in the Netherlands.
- Inside Business in 17 countries providing real-time insights and single point of access to manage financial transactions.
- In Wholesale Banking, simplified requirements for accounts and payments services, reducing paperwork for applications from 836 to 47 pages.
- Channel availability improved to 99.8%.

**Supporting economies of countries where we are present**

- Lending grew by EUR 35 billion
- EUR 282 billion outstanding in mortgages
- Instant lending platforms developed.

#### Our people

**Being a good employer**

- Human Capital Return on Investment 2.59.
- Improved employability and helping employees to find new opportunities.
- ING ranked as one of the most transparent financial sector companies in the Netherlands when it comes to diversity and social equality in Bloomberg Financial Services Gender-Equality Index.
- The Top Employer Institute gave several ING operations in Europe the highest classification.
- Of our managers of managers, 29.3% were women.

**Performance culture**

- 79% of employees globally indicated they were aware of the Orange Code.
- Almost 33,000 employees signed up as kudos users and more than 143,000 compliments were sent amongst employees.

**Strong employee engagement scores**

- Employee engagement score of 77%.

**Impact of changing banking landscape and technology on people**

- We anticipate 7,000 jobs will be impacted by the acceleration of the Think Forward strategy.

#### Financial

**Strong financial results**

- Fees and interest results: EUR 15.7 billion.

**Ensuring stability**

- 14.2% Common Equity Tier 1 ratio.
- Low credit risk due to diversified nature of lending portfolio Wholesale Banking.

**Shareholders value**

- EUR 2.560 million non dividend.

**Paid taxes and regulatory costs**

- Responsible tax principles: global effective tax rate for continuing activities of 27.4%.

#### Innovation

**Move fast and fail fast innovations**

- Innovation Fund financed 20 initiatives in 2016.

**External collaborations**

- More than 65 fintech partners.
- 11 investments.

#### Social & network

- 23.9 million customers feel financially empowered by ING initiatives.
- 95,227 adolescents reached through PEY UNICEF programme.
- ING is a founding member of the Think Forward Initiative.
- 10% of Groenbank's balance sheet for impact activities, including education and research.
- ING funds research, makes donations and shares its knowledge, with employees volunteering as guest lecturers.

#### Environmental

**Support progress**

- EUR 34.3 billion sustainable transitions financed.
- EUR 3.31 billion sustainable assets under management.

**Responsible lending**

- ESR is applied to 100% of our corporate loans.

**Own environmental footprint**

- CO<sub>2</sub> emissions decreased by 27%.
- 91% of our global electricity use is from renewables.



# Annual Report 2016

Light Beyond Illumination

**PHILIPS** Lighting

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Light is an integral part of the connected world. Philips Lighting is turning light sources into points of data to connect more devices, places and people through light. In doing so, we make people safer, more productive and comfortable, businesses and cities more energy efficient and livable, and the world more sustainable. This is our commitment to deliver Light Beyond Illumination.



**Forward-looking statements and risks & uncertainties**  
Please refer to Chapter 19, Forward-looking statements and other information, of this Annual Report for more information about forward looking statements, market and industry information, fair value information, IFRS basis of presentation, use of non-IFRS financial measures, statutory financial statements and management report.



# The big picture

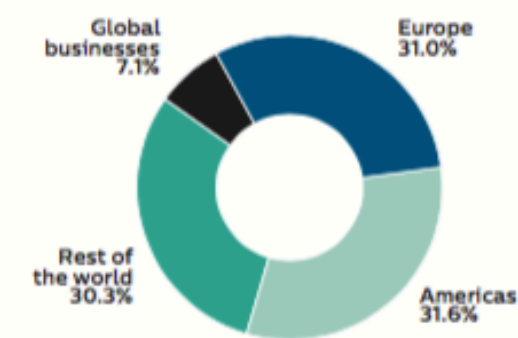
## 1. Performance highlights

### Financial performance

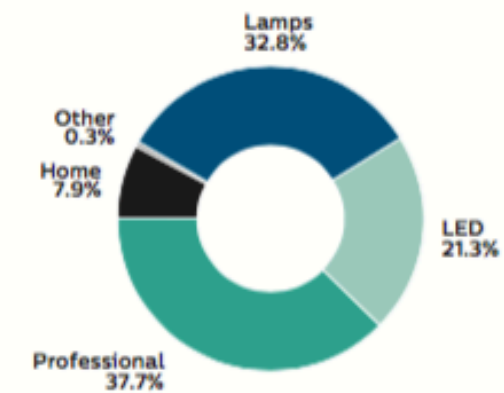
#### Philips Lighting

Comparable sales growth	LED-based sales	Adjusted EBITA margin	Net income	Free cash flow
<b>2016</b> (2.4%)	<b>2016</b> 55%	<b>2016</b> 9.1%	<b>2016</b> EUR 185 million	<b>2016</b> EUR 418 million
<b>2015</b> (3.5%)	<b>2015</b> 43%	<b>2015</b> 7.3%	<b>2015</b> EUR 240 million	<b>2015</b> EUR 632 million

#### Sales by geography



#### Sales by Business Group



#### Business Groups

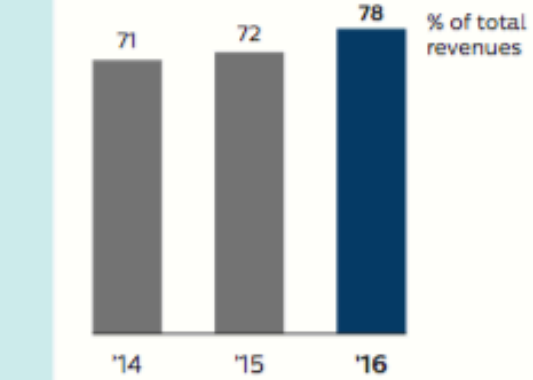
Lamps	LED	Professional	Home
<b>Sales</b> EUR 2,333 million	<b>Sales</b> EUR 1,518 million	<b>Sales</b> EUR 2,683 million	<b>Sales</b> EUR 559 million
<b>Nominal sales growth</b> (18.1%)	<b>Nominal sales growth</b> 13.8%	<b>Nominal sales growth</b> (2.7%)	<b>Nominal sales growth</b> 8.7%
<b>Comparable sales growth</b> (15.8%)	<b>Comparable sales growth</b> 16.1%	<b>Comparable sales growth</b> (0.5%)	<b>Comparable sales growth</b> 11.0%
<b>EBITA margin</b> 18.6%	<b>EBITA margin</b> 9.2%	<b>EBITA margin</b> 3.5%	<b>EBITA margin</b> (8.2%)
<b>Adjusted EBITA margin</b> 20.2%	<b>Adjusted EBITA margin</b> 9.4%	<b>Adjusted EBITA margin</b> 5.4%	<b>Adjusted EBITA margin</b> (3.6%)

### Sustainability performance

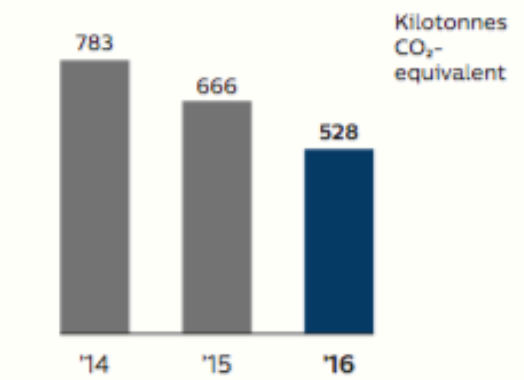
#### Environmental highlights

Sustainable revenues	Carbon footprint (net)	Renewable electricity	Total manufacturing waste
<b>2016</b> 78%	<b>2016</b> 406 kilotonnes	<b>2016</b> 67%	<b>2016</b> 40 kilotonnes
<b>2015</b> 72%	<b>2015</b> 666 kilotonnes	<b>2015</b> 58%	<b>2015</b> 45 kilotonnes

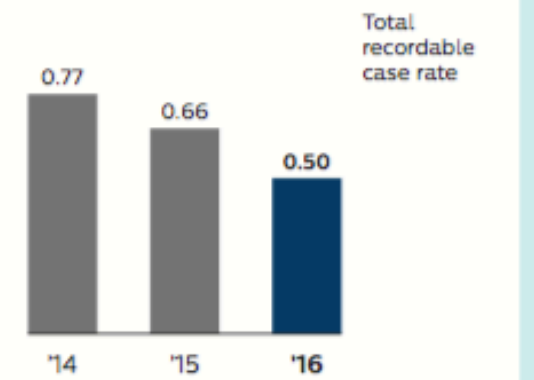
#### Sustainable revenues



#### Operational carbon footprint



#### Health & Safety



#### Social highlights

Employees (full-time equivalent)	Health & Safety, total recordable case rate	Employee net promoter score	Supplier sustainability performance
<b>2016</b> 34,256	<b>2016</b> 0.50	<b>2016</b> 8	<b>2016</b> 92%
<b>2015</b> 37,399	<b>2015</b> 0.66	<b>2015</b> (5)	<b>2015</b> 90%

This chapter contains certain non-IFRS financial measures and ratios, such as comparable sales growth, EBITA, adjusted EBITA and free cash flow, and related ratios, which are not recognized measures of financial performance or liquidity under IFRS. These measures are further discussed in chapter 4, Corporate performance, of this Annual Report. For a reconciliation of these non-IFRS financial measures to the most directly comparable IFRS financial measures, see chapter 17, Reconciliation of non-IFRS financial measures, of this Annual Report.



# 3. Our strategic focus

## 3.1 Creating value

Philips Lighting is the global market leader with recognized expertise in the development, manufacture and application of innovative, energy-efficient lighting products, systems and services. We have pioneered many key breakthroughs in lighting over the past 125 years and been a driving force behind several leading technological innovations. We are in a leading position as the lighting industry transitions from conventional to LED lighting technologies. This transition has continued to accelerate as the industry moves toward connected lighting. Our track record in innovation is strong and we invest heavily in R&D to stay at the forefront of technological developments. We believe we are uniquely positioned across the lighting value chain and focus on the general lighting market.

Our strategy is based on six key strategic priorities:

- **Optimize cash from conventional products to fund our growth** – While the overall conventional market continues to decline, we expect to decrease less than the market, capture market

share and deliver a strong sustainable free cash flow. Our manufacturing footprint rationalization and product portfolio simplification will bring additional efficiency gains and cost reductions.

- **Innovate in LED products commercially and technologically to outgrow the market** – We strive for continued innovation in LED lighting products and tailored marketing approaches to outgrow the market.
- **Lead the shift to systems, building the largest connected installed base** – We believe that connected lighting will be increasingly important in the general lighting market. We play a leading role in the industry shift to lighting systems in both the professional and consumer markets.
- **Capture adjacent value through new services business models** – We are seeking to realize additional revenues from our installed base through offering new value added services.



Home	Government	Cities	Offices	Industry	Stadiums	Retail
Making life easier, better, and more personal with the best lighting experiences	Reducing energy use and carbon footprint to create a sustainable environment	Empowering cities to become safe, livable, futureproof and sustainable	Optimizing building and business operations, improving workers' productivity and well-being	Improving efficiency and safety, optimizing operations	Enhancing the experience for fans with flexible lighting	Creating dynamic, personalized shopping experiences with connected systems

## 3. Our strategic focus

- **Be our customers' best business partner locally, leveraging our global scale** – We aim to capitalize on our long-standing local customer relations and global distribution network. Our global reach and client proximity allow us to deliver a product portfolio that addresses local market needs with both high volume products and differentiating propositions.
- **Accelerate! on our operational excellence improvement journey** – Under the Accelerate! program we aim to leverage operational excellence capabilities across the organization by implementing programs that are focused on minimizing waste, reducing defects and increasing the efficiency of our entire value chain while, at the same time, reducing our fixed costs.

### The lighting company for the Internet of Things

Our position as an industry leader in connected lighting for the Home and Professional segments will drive Philips Lighting's reputation as the lighting company for the Internet of Things (IoT). By extending our industry leadership into the IoT, we can unlock additional value from offering new apps and services to our customers.

This is part of our broader commitment to deliver Light Beyond Illumination, turning light sources into points of data to connect more devices, places and people through light. In doing so, we make people safer, more productive and comfortable, businesses and cities more energy efficient and livable, and the world more sustainable.

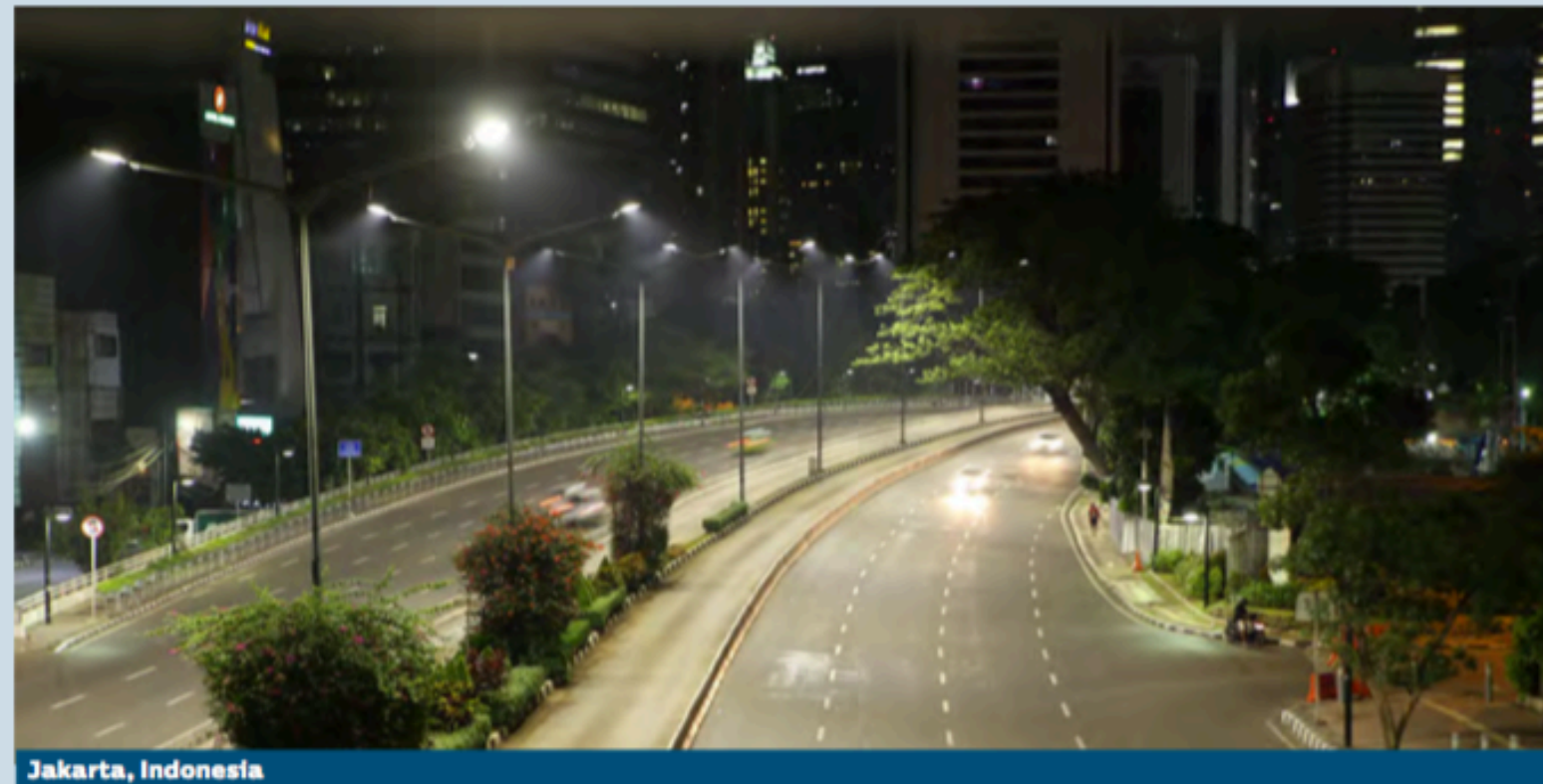
## Sound progress made on our strategic priorities during 2016

Strategic priorities	Proof points in 2016
• <b>Optimize cash from conventional products to fund our growth</b>	• Free cash flow as % of sales of Lamps improved by 12%
• <b>Innovate in LED products commercially and technologically to outgrow the market</b>	• LED-based sales increased from 43% to 55% of total sales
• <b>Lead the shift to systems, building the largest connected installed base</b>	• Professional Systems & Services grew by 51% • Fast growth in Home Systems sale. Growth rate increased by 40%
• <b>Capture adjacent value through new services business models</b>	
• <b>Be our customers' best business partner locally, leveraging our global scale</b>	• Customer Net Promoter Score improved by 3%
• <b>Accelerate! on our operational excellence improvement journey</b>	• Adjusted EBITA margin improved by 180 basis points to 9.1%; Adjusted indirect costs reduced by EUR 96m*

\* This is excluding the impact of the brand license fee of EUR 36m



### 3.3 Our strategy in action



Jakarta, Indonesia

## Thinking forward to create a future-proof city

Jakarta is one of the world's most populous and fastest-growing urban centers, with over nine million inhabitants. In recent years, the city has focused on improving public services, including street lighting.

#### Customer challenge

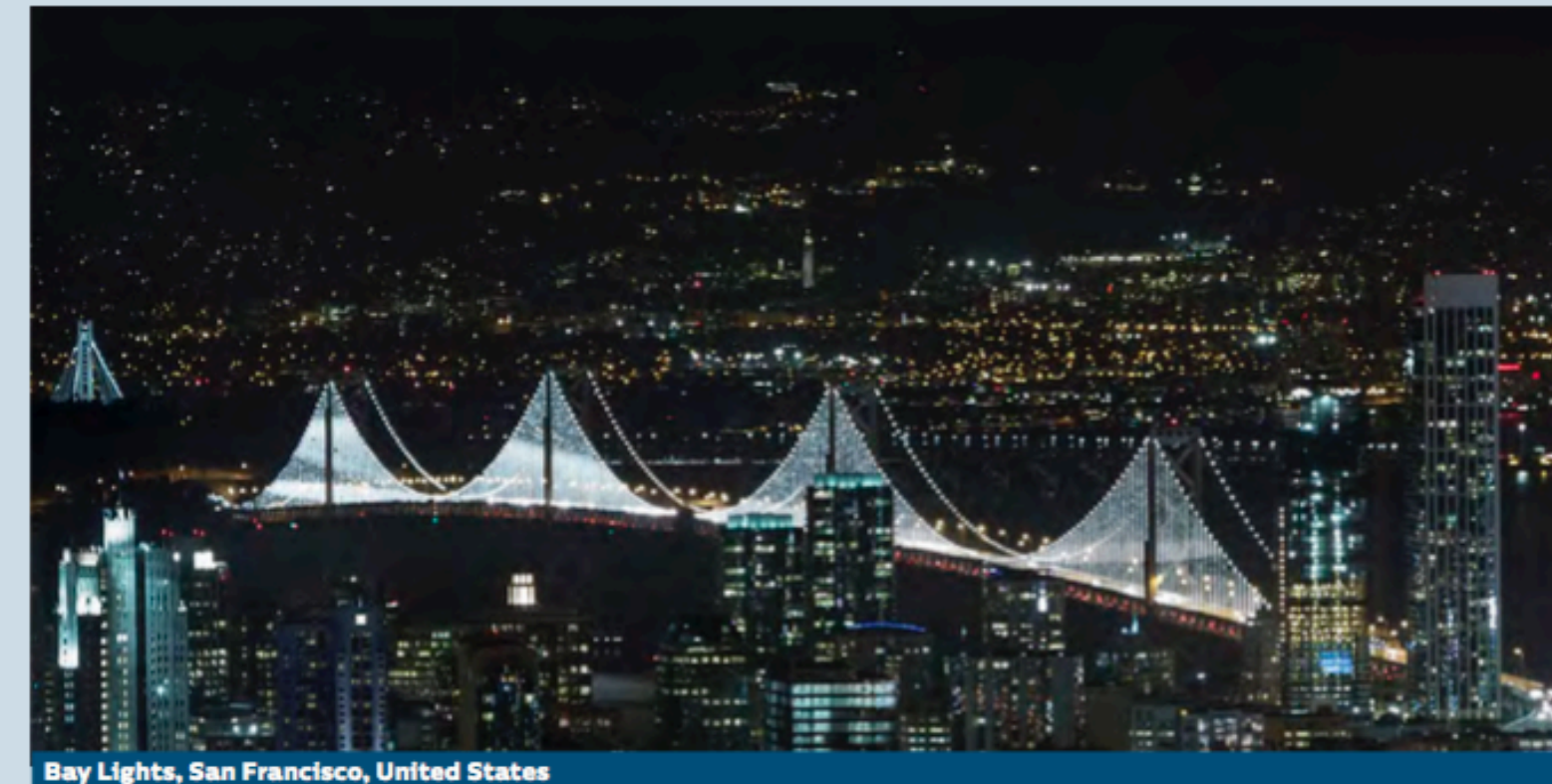
City officials are transforming the Indonesian capital into a 'smart' city, where everything is connected to make Jakarta safer, more comfortable and more sustainable.

#### The right lighting

90,000 street luminaires were retrofitted with energy efficient LED lights connected by Philips CityTouch lighting management system. The project was installed in just seven months with approximately 430 light points connected per day.

The world's fastest street lighting retrofit and remote management project was made possible by the unique plug and play architecture of Philips CityTouch. Each light point is now connected, using sensors that collect performance data.

As a result, city officials can now monitor Jakarta's lighting infrastructure, remotely managing light levels to match different needs by district. Better lit streets and public spaces are providing citizens an improved sense of safety and security. At the same time, Jakarta can better manage its carbon footprint with estimated energy savings of up to 70% and improve public services.



Bay Lights, San Francisco, United States

## Realizing social and economic impact with light

The California Department of Transportation collaborated with non-profit arts organization, ILLUMINATE and artist Leo Villareal to create a living light display on the San Francisco-Oakland Bay Bridge in celebration of its 75th anniversary. The 'Bay Lights' became an instant source of community pride, credited with revitalizing the waterfront and boosting the local economy by over USD 100 million annually.

#### Customer challenge

The Bay Lights was intended as a two-year installation, but given its powerful impact officials agreed to maintain it as a permanent installation. The challenge was to build on the project benefits, while creating an energy-efficient work of art to make the Bay Lights a permanent, sustainable beacon for the San Francisco Bay area.

#### The world's largest LED light sculpture

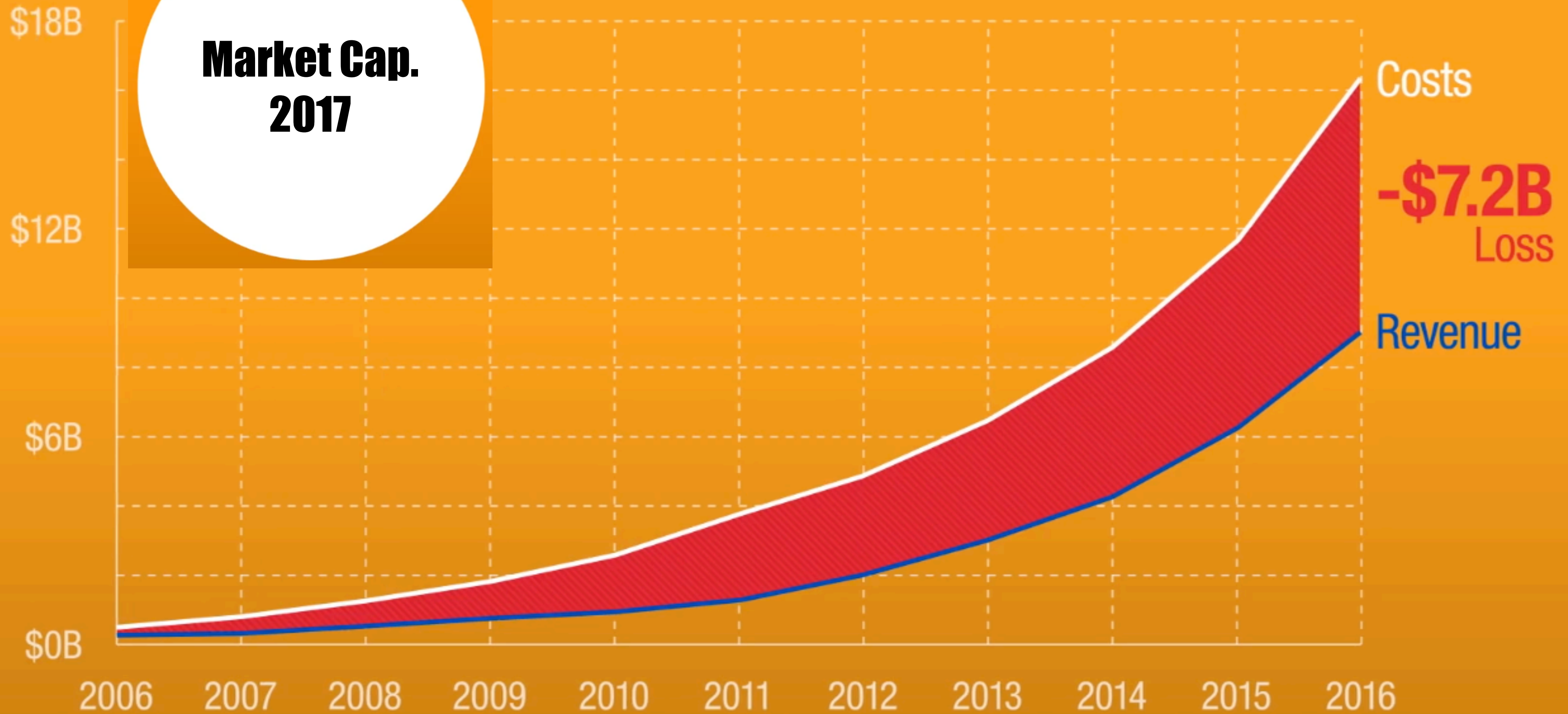
The new system was custom-designed to withstand local harsh weather conditions, while consuming 85% less energy compared to traditional lighting. At the same time it supports the many social and economic benefits that made the Bay Lights a success from the beginning. The installation incorporated Philips ActiveSite, a cloud-based connected lighting platform that minimizes downtime and allows for more efficient management of the landmark using remote diagnostics, reporting, data analytics and control.

The unique application of LED lighting and software designed by the artist has the ability to create 255 levels of brightness per node. With 25,000 Philips Lighting programmable white LED lights, it is believed to be the world's largest LED light sculpture.





# amazon Shipping



Source: "Amazon's Ever-Growing Shipping Costs," Statista, February 2017.



# In Just 3 Words, Amazon's Jeff Bezos Taught a Brilliant Lesson in Leadership

It's a great lesson for the workplace. And outside of it.











“Jeff, what does Day 2 look like?”

That’s a question I just got at our most recent all-hands meeting. I’ve been reminding people that it’s Day 1 for a couple of decades. I work in an Amazon building named Day 1, and when I moved buildings, I took the name with me. I spend time thinking about this topic.

“Day 2 is stasis. Followed by irrelevance. Followed by excruciating, painful decline. Followed by death. And *that* is why it is *always* Day 1.”

To be sure, this kind of decline would happen in extreme slow motion. An established company might harvest Day 2 for decades, but the final result would still come.

I’m interested in the question, how do you fend off Day 2? What are the techniques and tactics? How do you keep the vitality of Day 1, even inside a large organization?

Such a question can’t have a simple answer. There will be many elements, multiple paths, and many traps. I don’t know the whole answer, but I may know bits of it. Here’s a starter pack of essentials for Day 1 defense: customer obsession, a skeptical view of proxies, the eager adoption of external trends, and high-velocity decision making.



**BERKSHIRE HATHAWAY INC.**

**To the Shareholders of Berkshire Hathaway Inc.:**

We've had experience with both outcomes: I've made some dumb purchases, and the amount I paid for the economic goodwill of those companies was later written off, a move that reduced Berkshire's book value. We've also had some winners – a few of them very big – but have not written those up by a penny.

**BERKSHIRE HATHAWAY INC.**





## BERKSHIRE HATHAWAY INC.

To the Shareholders of Berkshire Hathaway Inc.:

Our flexibility in capital allocation – our willingness to invest large sums passively in non-controlled businesses – gives us a significant edge over companies that limit themselves to acquisitions they will operate. Woody Allen once explained that the advantage of being bi-sexual is that it doubles your chance of finding a date on Saturday night. In like manner – well, not exactly like manner – our appetite for either operating businesses or passive investments doubles *our* chances of finding sensible uses for Berkshire's endless gusher of cash. Beyond that, having a huge portfolio of marketable securities gives us a stockpile of funds that can be tapped when an elephant-sized acquisition is offered to us.

BERKSHIRE HATHAWAY INC.





## BERKSHIRE HATHAWAY INC.

To the Shareholders of Berkshire Hathaway Inc.:

Can you imagine another very large company – we employ 361,270 people worldwide – enjoying that kind of employment stability at headquarters? At Berkshire we have hired some wonderful people – and they have stayed with us. Moreover, no one is hired unless he or she is truly needed. That's why you've never read about “restructuring” charges at Berkshire.

BERKSHIRE HATHAWAY INC.

**Open Communication**





# Best Practices Management Report





# Join the conversation!



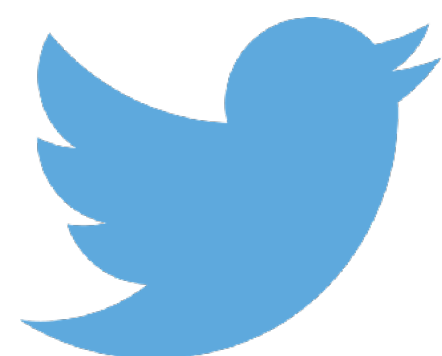
**[e.p.m.vermeulen@tilburguniversity.edu](mailto:e.p.m.vermeulen@tilburguniversity.edu)**

**Medium**

**[medium.com/@erikpmvermeulen](https://medium.com/@erikpmvermeulen)**

**Linked** 

**[erikpmvermeulen](https://www.linkedin.com/company/erikpmvermeulen)**



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