KONINKLIJKE PHILIPS NV
Form 20-F
February 24, 2015
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As filed with the Securities and Exchange Commission on February 24, 2015

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# Form 20-F

(Mark one)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2014**

**OR**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number 001-05146-01**

# KONINKLIJKE PHILIPS N.V.

**(Exact name of Registrant as specified in charter)**

# ROYAL PHILIPS

**(Translation of Registrant s name into English)**

**The Netherlands**

**(Jurisdiction of incorporation or organization)**

**Philips Center, Amstelplein 2, 1096 BC Amsterdam, The Netherlands**

**(Address of principal executive office)**

**Marnix van Ginneken, Chief Legal Officer & Secretary to the Board of Management**

**+31 20 59 77232, marnix.van.ginneken@philips.com, Philips Center, Amstelplein 2, 1096 BC Amsterdam, The Netherlands**

**(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)**

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Shares par value Euro (EUR) 0.20 per share | New York Stock Exchange |

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

**None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None**

**(Title of class)**

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

| Class | Outstanding at December 31, 2014 |
|---|---|
| Koninklijke Philips N.V. | 934,819,413 shares, including |
| Common Shares par value EUR 0.20 per share | 20,430,544 treasury shares |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934. ¨ Yes x No

Note-Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨ International Financial Reporting Standards as issued by by the International Accounting Standards Board x Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 ¨ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

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**Significant developments**

In September 2014 Philips announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on the HealthTech and Lighting Solutions opportunities.

To achieve this transformation, from January 1, 2015, Philips started to integrate the sectors Consumer Lifestyle and Healthcare into one operating company focused on our HealthTech businesses. At the same time Philips is taking the next step in the implementation of its new operating model which will give the company a dedicated, focused and lean management structure, as a result of the planned integration of the relevant sector and group layers.

The establishment of the two stand-alone companies will also involve the split and allocation of the current Innovation, Group & Services sector to each company in 2015. This means that in the course of 2015 the IG&S sector as currently described in this Annual Report will disappear and no longer be presented as a separate segment for reporting purposes.

Philips also started the process to carve out its Lighting business into a separate legal structure and will consider various options for ownership structures for this company with direct access to capital markets. The proposed separation of the Lighting business impacts all businesses and markets as well as all supporting functions and all assets and liabilities of the Group and may require complex and time consuming disentanglement efforts. Philips expects the separation will take approximately 12-18 months and currently estimates separation costs to be in the range of EUR 300-400 million in 2015. However, the separation could take more time than originally planned or anticipated, which may expose Philips to risks of additional cost and other adverse consequences. It should be noted that there is no certainty as to the method or timing of the separation of the Lighting business. For further information on specific risks involved in the separation please refer to chapter 7, Risk management, of this report.

Finally, Philips is in discussion with external investors for the combined Lumileds and Automotive Lighting businesses and expects to complete a transaction in the first half of 2015. Therefore, the combined businesses of Lumileds and Automotive are reported as discontinued operations in the Consolidated statements of income and cash flows. As a result, Lumileds and Automotive sales and Adjusted IFO are no longer included in the Lighting and Group results of continuing operations. Prior-period financial information presented and discussed in this Annual Report have been restated for the treatment of the combined businesses of Lumileds and Automotive as discontinued operations (see note 3, Discontinued operations and other assets classified as held for sale). The applicable assets and liabilities of these combined businesses are reported under Assets and Liabilities classified as held for sale in the consolidated balance sheets as of December 31, 2014.

These developments will have a significant impact on Philips and its organization in many respects. From an external financial reporting perspective, it should be noted that the planned organizational changes will require Philips to transition to a new reporting structure in the course of 2015. At that stage, and in view of applicable IFRS requirements, Philips will report and discuss its financial performance on the basis of different reportable segments than the sectors currently presented and discussed in this Annual Report.

Further updates will be provided in the course of 2015.

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## Introduction

This document contains information required for the Annual Report on Form 20-F for the year ended December 31, 2014 of Koninklijke Philips N.V. (the 2014 Form 20-F). Reference is made to the Form 20-F cross reference table herein. Only (i) the information in this document that is referenced in the Form 20-F cross reference table, (ii) this introduction, the cautionary statement forward-looking statements and explanation on use of non-GAAP information on the next three pages and (iii) the Exhibits shall be deemed to be filed with the Securities and Exchange Commission for any purpose. Any additional information in this document which is not referenced in the Form 20-F cross reference table, or the Exhibits themselves, shall not be deemed to be so incorporated by reference, shall not be part of the 2014 Form 20-F and is furnished to the Securities and Exchange Commission for information only.

The terms Philips , the Company , Group , we , our and us refer to Koninklijke (Royal) Philips N.V. and as applicable to its subsidiaries and interest in joint ventures and associates.

**IFRS based information**

The audited consolidated financial statements as of December 31, 2014 and 2013, and for each of the years in the three-year period ended December 31, 2014, included in the 2014 Form 20-F have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective year-end 2014 have been endorsed by the EU, except that the EU did not adopt certain paragraphs of IAS 39 applicable to certain hedge transactions. Philips has no hedge transactions to which these paragraphs are applicable. Consequently, the accounting policies applied by Philips also comply with IFRS as issued by the IASB.

**Non-GAAP information**

In presenting and discussing the Philips Group s financial position, operating results and cash flows, management uses certain non-GAAP financial measures such as: comparable growth; adjusted income from operations; net operating capital; net debt; cash flow before financing activities; net capital expenditures and free cash flow. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measure and should be used in conjunction with the most directly comparable IFRS measure(s). Reference is made to the section titled Use of non-GAAP information for further information.

**Third-party market share data**

Statements regarding market share, contained in this document, including those regarding Philips competitive position, are based on outside sources such as specialized research institutes, industry and dealer panels in combination with management estimates. Where full year information regarding 2014 is not yet available to Philips, market share statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.

**Fair value information**

In presenting the Philips Group s financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid at the balance sheet date. When quoted prices or observable market values do not exist, fair values are estimated using valuation models, which we believe are appropriate for their purpose. They require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the financial statements. In certain cases, independent valuations are obtained to support management s determination of fair values.

**Documents on display**

It is possible to read and copy documents referred to in the 2014 Form 20-F that have been filed with the SEC at the SEC s public reference room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. Philips SEC filings are also publicly available through the SEC s website at www.sec.gov.

For definitions and abbreviations reference is made to chapter 18, Definitions and abbreviations, of this report.

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## Introduction

### Forward-looking statements

Pursuant to provisions of the United States Private Securities Litigation Reform Act of 1995, Philips is providing the following cautionary statement.

This document, including the information referred to in the Form 20-F cross reference table, contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items, in particular, among other statements, certain statements in Item 4 Information on the Company with regard to management objectives, market trends, market standing, product volumes, business risks, the implementation of our Accelerate! program, the statements in Item 8 Financial Information relating to legal proceedings and goodwill, the statements in Item 5 Operating and financial review and prospects with regard to trends in results of operations, margins, overall market trends, risk management, exchange rates and statements in Item 11 Quantitative and qualitative disclosures about market risks relating to risk caused by derivative positions, interest rate fluctuations and other financial exposure are forward- looking in nature. Forward-looking statements can be identified generally as those containing words such as anticipates , assumes , believes , estimates , expects , should , will , will likely result , forecast , outlook , projects , may or sim nature, forward-looking statements involve risk and uncertainty, because they relate to events that depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

These factors include, but are not limited to, domestic and global economic and business conditions, developments within the euro zone, the successful implementation of our strategy and our ability to realize the benefits of this strategy, our ability to develop and market new products, changes in legislation, legal claims, changes in exchange and interest rates, changes in tax rates, pension costs and actuarial assumptions, raw materials and employee costs, our ability to identify and complete successful acquisitions and to integrate those acquisitions into our business, our ability to successfully exit certain businesses or restructure our operations, the rate of technological changes, political, economic and other developments in countries where Philips operates, industry consolidation and competition.

As a result, Philips actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, reference is made to the information in Item 3D Risk Factors .

### Use of non-GAAP information

Koninklijke Philips N.V. believes that an understanding of sales performance is enhanced when the effects of currency movements and acquisitions and divestments (changes in consolidation) are excluded. Accordingly, in addition to presenting nominal sales growth , comparable sales growth is provided.

Comparable sales exclude the effects of currency movements and changes in consolidation. As indicated in the note 1, Significant accounting policies, sales and income are translated from foreign currencies into the Company s reporting currency, the euro, at the exchange rate on transaction dates during the respective years. As a result of significant currency movements during the years presented, the effects of translating foreign currency sales amounts into euros could have a material impact. Therefore, these impacts have been excluded in arriving at the comparable sales in euros. Currency effects have been calculated by translating previous years foreign currency sales amounts into euros at the following year s exchange rates in comparison with the sales in euros as historically reported. The years under review were characterized by a number of acquisitions and divestments, as a result of which activities were consolidated or deconsolidated. The effect of consolidation changes has also been excluded in arriving at the comparable sales. For the purpose of calculating comparable sales, when a previously consolidated entity is sold or contributed to a venture that is not consolidated by the Company, relevant sales are excluded from impacted prior-year periods. Similarly, when an entity is acquired, relevant sales are excluded from impacted periods.

Philips discusses adjusted income from operations in the 2014 Form 20-F. Adjusted income from operations represents income from operations before amortization and impairment of intangible assets generated in acquisitions (excluding software and capitalized development expenses).

The Company uses the term adjusted income from operations to evaluate the performance of the Philips Group and its sectors. Referencing adjusted income from operations is considered appropriate in light of the following:

Philips has announced that one of its strategic drivers is to increase profitability through re-allocation of its resources towards opportunities offering more consistent and higher returns. Moreover, Philips intends to redeploy capital through value-creating acquisitions. Since 2006, management has used the adjusted income from operations measurement internally to monitor performance of the businesses on a comparable basis. As of 2007, Philips has also set external performance targets based on this measurement as it will not be distorted by the unpredictable effects of future, unidentified acquisitions.

Philips believes that an understanding of the Group s financial condition is enhanced by the disclosure of net operating capital (NOC), as this figure is used by Philips management to evaluate the capital efficiency of the Philips Group and its operating sectors. NOC is defined as: total assets excluding assets classified as held for sale *less*: (a) cash and cash equivalents, (b) deferred tax assets, (c) other non-current financial assets and current financial assets, (d) investments in associates, and after deduction of: (e) provisions, (f) accounts and notes payable, (g) accrued liabilities, (h) other non-current liabilities and other current liabilities.

Net debt is defined as the sum of long- and short-term debt minus cash and cash equivalents. The net debt position as a percentage of the sum of group equity (shareholders equity and non-controlling interests) and net debt is presented to express the financial strength of the Company. This measure is widely used by management and investment analysts and is therefore included in the disclosure.

Cash flows before financing activities, being the sum total of net cash from operating activities and net cash from investing activities, and free cash flow, being net cash from operating activities minus net capital expenditures, are presented separately to facilitate the reader s understanding of the Company s funding requirements.

Net capital expenditures comprise of purchase of intangible assets, proceeds from sale of intangible assets, expenditures on development assets, capital expenditures on property, plant and equipment and proceeds from disposals of property, plant and equipment. This measure is widely used by management to calculate free cash flow.

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## Form 20-F cross reference table

Form 20-F cross reference table

Only (i) the information in this document that is referenced in the Form 20-F cross reference table, (ii) the Introduction, the cautionary statements concerning Forward-looking statements and explanation on use of non-GAAP information, of this report on pages 5-7, and (iii) the Exhibits shall be deemed to be filed with the Securities and Exchange Commission for any purpose. The content of Philips websites and other websites referenced herein should not be considered to be a part of or incorporated into the 2014 Form 20-F. Any additional information which is not referenced in the Form 20-F cross reference table or the Exhibits themselves shall not be deemed to be so incorporated by reference, shall not be part of the 2014 Form 20-F and is furnished to the Securities and Exchange Commission for information only.

The table below sets out the location in this document of the information required by SEC Form 20-F. The exact location is included in the column Location in this document . The column Page includes the starting page of the section/ paragraph for reference only.

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## Form 20-F cross reference table

| | | | |
|---|---|---|---|
| | A Debt securities | *Not applicable* | |
| | B Warranty and rights | *Not applicable* | |
| | C Other securities | *Not applicable* | |
| | D American depository shares | 17.8. New York Registry Shares | 273 |
| **Part 2** | | | |
| **13** | **Defaults, dividend arrearages and delinquencies** | *Not applicable* | |

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**Form 20-F cross reference table**

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## 1 Performance highlights

Prior-period financial information has been restated for the treatment of the combined businesses of Lumileds and Automotive as discontinued operations (see note 3, Discontinued operations and other assets classified as held for sale) and for two voluntary accounting policy changes (see note 1, Significant accounting policies). For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report.

Philips Group

**Key data** in millions of EUR unless otherwise stated

2013 - 2014

| | **2013** | **2014** |
|---|---|---|
| Sales | 21,990 | 21,391 |
| Comparable sales growth | 3% | (1)% |
| Adjusted IFO | 2,276 | 821 |
| *as a % of sales* | *10.4%* | *3.8%* |
| IFO | 1,855 | 486 |
| *as a % of sales* | *8.4%* | *2.3%* |
| Net income (loss) | 1,172 | 411 |
| Net income attributable to shareholders per common share in EUR: | | |
| basic | 1.28 | 0.45 |
| diluted | 1.27 | 0.45 |
| Net operating capital | 10,238 | 8,838 |
| Free cash flow | 82 | 497 |
| Shareholders   equity | 11,214 | 10,867 |
| Employees at December 31 | 116,082 | 113,678 |
| of which discontinued operations | 10,445 | 8,313 |

**Performance** in millions of EUR unless otherwise stated

2013 - 2014

| | Group | | | Healthcare | | | Consumer Lifestyle | | | Lighting | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | | 2013 | 2014 | | 2013 | 2014 | | 2013 | 2014 | |
| Sales | 21,990 | 21,391 | 3% | 9,575 | 9,186 | 4% | 4,605 | 4,731 | 3% | 7,145 | 6,869 | 4% |
| Green Product sales | 10,997 | 11,065 | 1% | 3,690 | 3,508 | 4% | 2,270 | 2,605 | 15% | 5,037 | 4,952 | 2% |
| Sales in mature geographies[1)] | 14,322 | 14,004 | 2% | 7,154 | 6,890 | 4% | 2,418 | 2,508 | 4% | 4,254 | 4,182 | 2% |
| Sales in growth geographies[1)] | 7,668 | 7,387 | 4% | 2,421 | 2,296 | 5% | 2,187 | 2,223 | 2% | 2,891 | 2,687 | 7% |
| Adjusted IFO | 2,276 | 821 | 64% | 1,512 | 616 | 59% | 483 | 573 | 19% | 580 | 293 | 49% |
| Net operating capital | 10,238 | 8,838 | 14% | 7,437 | 7,565 | 2% | 1,261 | 1,353 | 7% | 4,462 | 3,638 | 18% |

1) For a definition of mature and growth geographies see chapter 18, Definitions and abbreviations, of this report

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2 Message from the CEO

We believe that our active reshaping of the portfolio is the best way to create value for our shareholders and to ensure a successful future for the customers and employees of both companies. Frans van Houten, CEO Royal Philips

**Dear stakeholder,**

In 2014 we further sharpened our strategic focus and took the next step on our Accelerate! transformation journey by announcing our plan to establish two pure-play, customer-focused companies in the areas of HealthTech and Lighting Solutions both leveraging the trusted Philips brand.

In light of the mega-trends that are shaping our world growing and aging populations, the increase in chronic diseases, urbanization, energy resource constraints, etc. both companies will be well placed to capture growth opportunities as innovative technology solutions & services partners.

Royal Philips will help address the challenges facing the health care ecosystem through new, more integrated forms of care delivery across the health continuum aided by Big Data, clinical decision support, and the Internet of Things.

The convergence of our consumer technologies that facilitate healthy living, our medical technologies that help clinicians to deliver better treatment, and our mobile and cloud-based technologies that allow data sharing will help health care systems to improve patient outcomes, quality of care delivery and cost productivity.

We see considerable scope to grow in this space, both organically and through bolt-on acquisitions. Our acquisition of Volcano is the next step in building out our HealthTech portfolio and will strengthen our leadership in the growing image-guided therapy market.

Similarly, in the Lighting Solutions space, our LED- based connected value propositions are going beyond illumination and transforming the way we use our personal and public spaces. By giving people satisfying and inspiring experiences, solutions such as Power over Ethernet office lighting, city-wide lighting management and our Philips Hue smart home lighting are set to transform the very fabric of modern life.

The separation of our Lighting business into a lean, agile, stand-alone company will ensure it is better positioned to capture growth as the world leader in energy-efficient, digital lighting solutions.

We believe that this active reshaping of the portfolio, including the projected sale of the combined Lumileds and Automotive Lighting components businesses, is the best way to create value for our shareholders and to ensure a successful future for the customers and employees of both companies.

**Performance in 2014 - a challenging year**

As we had expected, 2014 was a difficult year. We continued to improve operational performance in most businesses, yet saw significant headwinds (e.g. market slowdown, exchange rate fluctuations) and other items (e.g. legal matters, restructuring, internal quality and supply chain issues) denting our results, with Adjusted IFO declining by 6.6 percentage points of sales.

Sales were 1% lower on a comparable basis, reflecting sustained softness in a number of markets, including China and Russia, and the voluntary temporary suspension of production at our Cleveland facility.

These factors compounded by currency effects and the delayed ramp-up of production and shipment from our Cleveland facility also impacted profitability, resulting in reported Adjusted IFO of 3.8% of sales.

Having said that, the overall figures mask some encouraging performance and strategic shifts. At Healthcare, a major effort was made to remediate the situation in Cleveland and secure external certification of the updated quality management system setting the stage for a better 2015 as the resumption of shipments gathers momentum. Expanding its offering to help consumers make healthier choices, Consumer Lifestyle continued to perform very well, posting strong growth and earnings. And, pursuing its four-pillar strategy, Lighting recorded a 32% increase in LED-based sales.

We also took decisive action to address underperformance. At Healthcare in the US we rolled out a new go-to-market model for enterprise-level integrated account management. Also in North America, we strengthened Professional Lighting Solutions management team and refined a multi-channel go-to-market model to unlock the potential we see in that market. And in Europe, we acted to strengthen Consumer Luminaires fundamentals and cost structure, including an optimized portfolio and supply chain.

By the end of 2014 we had completed 41% of our EUR 1.5 billion share buy-back program, and we continue working to further improve the efficiency of our balance sheet.

**Supported by Accelerate!**

Our Accelerate! transformation program helped us manage through this challenging year, driving improvements across the organization, not least in serving our customers better. Strong customer focus was key to securing long-term partnerships with Karolinska University Hospital and Stockholm County Council in Sweden, Mayo Clinic in the US, and Reinier de Graaf hospital in the Netherlands.

We are seeing quarter-to-quarter growth in the number of such deals, which are all about clinical knowledge, in-depth relationships, and integrated solutions rather than discrete products. Customers are not asking for specific items of equipment, but rather our advice and help in devising, for example, a care pathway to ensure a patient is accurately diagnosed as quickly as possible and in the operating room within 90 minutes of having a stroke. Faced with challenges like these, our combination of customer focus, innovative strength and solutions thinking is key to delivering a successful outcome.

In this context, I am very pleased that the KLAS organization presented Philips with the Best in KLAS award for 2014 during a ceremony at the annual RSNA event in Chicago. The Best in KLAS rankings are based on feedback from customers.

In 2014 we continued to apply Lean methodology to transform our customer value chains. This again enabled us to speed up time-to-market for our innovations locally relevant value propositions, such as our affordable VISIQ ultra-mobile ultrasound system, our smart Air Purifier in China, and our flat SlimStyle LED light bulb. Innovations like these make a real difference to people s lives.

Accelerate! also helped us to deliver gross overhead cost savings of EUR 284 million in the year, keeping us on track to hit our 2016 cumulative target of EUR 1.8 billion.

**Other key developments in 2014**

In Interbrand s annual ranking of the world s top 100 brands, our brand value rose by 5%, passing the USD 10 billion mark for the first time.

In Philips Research s centenary year, we underscored our commitment to meaningful innovation by investing EUR 1,635 million in Research & Development in line with prior years and achieving our target of EUR 2 billion spend on Green Innovation a year ahead of schedule. Turning investment into intellectual property, we filed 1,680 patent applications. And with a view to capturing opportunities to create a healthier, more sustainable Africa, we set up an Innovation Hub for the continent in Kenya.

We continued to deliver on our EcoVision commitments in 2014, and our sustainability drive again received widespread recognition a #14 ranking in Interbrand s top 50 Best Global Green Brands, acknowledgement as a leader in both carbon disclosure and performance by the Carbon Disclosure Project, and top scores in the Dow Jones Sustainability Index. We also continued to upscale our efforts in the area of circular economy, which we believe presents a significant value-creation opportunity. For instance, we opened a new refurbishment center for medical imaging systems in Best (Netherlands), signed an agreement with the island of Aruba to revamp its entire public lighting system, and expanded our partnership with the Ellen MacArthur Foundation, a circular economy advocate.

I am also delighted that we were able to set up the Philips Foundation, a registered charity organization dedicated to helping enable lasting social change in disadvantaged communities through the application of innovation, talent and resources provided by Philips.

**An exciting future**

With our decision to create two companies in the areas of HealthTech and Lighting Solutions, we have clearly set our strategic direction.

The road ahead is clear, and our determination to succeed absolute. By continuing to execute our Accelerate! program, we will serve our customers better and compete more effectively in the coming years. We will listen closely to our customers, so we continue to understand and anticipate their needs and market requirements.

We will improve operational excellence in everything we do, enhance our capabilities, and implement a standard operating model. Building upon the Philips Business System, this operating model will make us a simpler, more agile company, while also reducing overhead cost.

In order to drive growth, we have encouraged locally relevant innovation, invested in developing business with governments, boosted our advertising and promotion investments, and started new business creation in areas such as Healthcare Informatics, Solutions & Services, Healthcare Transformation Services and Personal Health Solutions.

Over the coming year we will also maintain our focus on improving gross margins, e.g. through our Design for Excellence (DfX) program. And we will realize productivity gains from the overhaul of our business model architecture, with all businesses adopting one of four standardized business models.

**In conclusion**

We are proposing to the upcoming Annual General Meeting of Shareholders to maintain this year s distribution at EUR 0.80 per share, in cash or stock.

Looking ahead, we remain cautious about the macroeconomic outlook and expect ongoing volatility in some of our end-markets. We also anticipate further restructuring and separation costs in 2015 and 2016.

As of year-end 2014 we are tracking one percentage point behind on the path to achieving each of our 2016 Group financial targets. We are convinced that this does not change our longer-term performance potential, considering the attractiveness of the Lighting Solutions and HealthTech markets and our competitive position. Later this year, as we progress with the separation of Philips and reallocation of IG&S, we will update the market about the integral performance targets for each of the two operating companies.

On behalf of my colleagues on the Executive Committee, I would like to thank all our employees for their hard work over the past year, as well as their willingness to embrace change. And I wish to thank our customers, shareholders and other stakeholders for the trust and support they continue to give us.

Frans van Houten

*Chief Executive Officer*

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3 Philips in 2014 at a glance

# 4 Our strategic focus

## 4.1 Addressing global challenges

For 124 years, Philips has been a leader in building and shaping markets with our meaningful innovations. We have always been guided by our passion to improve people s lives true to our vision of making the world healthier and more sustainable through innovation.

In 2014 we announced the next phase of our Accelerate! transformation, moving from a holding company structured around multiple divisions to two stand-alone operating companies in HealthTech and Lighting Solutions with the ambition of capturing growth and creating value, both leveraging the trusted Philips brand.

### Market opportunities

With our understanding of many of the longer-term challenges our world faces, we see major opportunities to apply our innovative competencies and create value for our stakeholders by delivering technology solutions that improve people s lives more effectively.

#### We see a growing need for integrated health care delivery

As the population gets older, with more chronic and lifestyle-related diseases, health care systems are struggling to increase access and quality of care while managing spiraling costs. At the same time, people are increasingly looking for new ways to proactively monitor and manage their health. This is driving the convergence of professional health care and consumer end-markets across the health continuum.

With customers expressing a need for integrated solutions, Royal Philips businesses in HealthTech with their combined clinical and consumer capabilities and cloud-based digital health platform are well positioned to capture growth in an increasingly connected world, where people are wanting to live healthier lives and societies are looking for more effective and lower-cost solutions along the health continuum. Their total addressable market is estimated at over EUR 100 billion.

### We see increasing demand for energy-efficient and digital lighting

The lighting industry is undergoing a radical transformation, driven by the market s transition to LED and digital technology. Three mega-trends are providing a huge opportunity.

The rapid rise in the world s population and in new lighting applications is increasing global demand for light. At the same time, with lighting accounting for 19% of global electricity consumption, the world really needs that light to be energy-efficient. And with the integration of LED technology, lighting controls and software opening up new functionality and services, the world will also benefit from the compelling new applications that digital light can offer.

As a stand-alone company, the Lighting Solutions business will be better positioned to capture the value which is shifting from individual products to connected LED lighting systems and services, more than offsetting the decline of conventional lighting. Its total addressable market is estimated at over EUR 60 billion.

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Our strategic focus 4.1

4.2 How we create value

**Understanding and meeting people s needs**

At Philips, our starting point is always to understand the specific challenges local people face whether they be a hospital director, a city planner, a doctor, a real estate developer, a consumer, etc.

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

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

**Our business system**

To ensure that success is repeatable, i.e. that we create value for our stakeholders time and time again and deliver on our mission and vision, we have adopted the Philips Business System.

Having a single business system reduces complexity, increases speed and, crucially, allows us to spend more time with customers and driving improvement across the company.

Our mission

To improve people s lives through meaningful innovation

Our vision

At Philips, we strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025. We will be the best place to work for people who share our passion. Together we will deliver superior value for our customers and shareholders.

Group strategy

We manage our portfolio with clearly defined strategies and allocate resources to maximize value creation.

CAPs

We strengthen and leverage our core Capabilities, Assets and Positions as they create differential value: deep customer insight, technology innovation, our brand, global footprint, and our people.

Excellence

We are a learning organization that applies common operating principles and practices to deliver to our customers with excellence.

### Path to Value

We define and execute business plans that deliver sustainable results along a credible Path to Value.

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

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4.3 Accelerate! journey continues

## Path to Value

In 2011 we embarked upon our multi-year Accelerate! journey of change and performance improvement. This program is made up of five streams intended to:

- make us more customer-focused
- resource our business/market combinations to win
- create lean end-to-end customer value chains
- implement a simpler, standardized operating model
- drive a growth and performance culture

Designed to transform Philips into a truly agile and entrepreneurial company, Accelerate! is all about delivering meaningful innovation to our customers in local markets and doing so in a fast and efficient way.

We are now in the fourth year of this transformation process, and our Path to Value is clearly mapped out:

To achieve our value creation goal, we have set ourselves targets to be realized by the end of 2016. These indicate the value we create, as measured by sales growth, profitability and our use of capital.

## Group financial targets for 2016

- **Comparable sales growth 4-6%**
- **Reported Adjusted IFO margin 11-12%**
- **Return on invested capital >14%**

As of year-end 2014 we are tracking 1 percentage point behind on the path to achieving each of these targets. We are convinced that this does not change our longer-term performance potential, considering the attractiveness of the Lighting Solutions and HealthTech markets and our competitive position. Later in 2015, as we progress with the separation of the Lighting business from the Philips Group and the re-allocation of IG&S, we will update the market about the integral performance targets for each of the two operating companies.

4.4 Lives improved

4.5 Global presence

| Markets | Sales | Number of employees | Employees female | Employees male | R&D centers | Manufacturing sites | Tangible and intangible assets |
|---|---|---|---|---|---|---|---|
| Asia & Pacific | 6,226 | 40,049 | 36% | 64% | 10 | 21 | 1,796 |
| EMEA | 7,261 | 34,417 | 32% | 68% | 28 | 34 | 2,916 |
| Latin America | 1,226 | 7,910 | 46% | 54% | 2 | 6 | 110 |
| North America | 6,678 | 22,989 | 35% | 65% | 20 | 32 | 7,799 |

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Our strategic focus 4.6

4.6 Our strategy in action

**Family-centered care** for newborns

In a child s first precious weeks of life, every parent knows their family is the center of the universe. And when that child is sick, medics need every tool to ensure that family gets the best care.

Family-centered care is our philosophy, we want to combine technology with humanization and place the mother and newborn at the center of this, says Professor Fabio Mosca, Director of the Intensive Neonatal Unit at Italy s Mangiagalli Hospital.

Instead of his intensive care unit being a place defined by life and death, it has, thanks to Philips, become a unit remarkably attuned to the specific rhythms of mother and baby. The entire unit s environment has been adapted specifically for two main reasons. First, to boost the baby s immune system and, second, to improve a mother s chance of breast-feeding successfully.

This is a great example of the kind of partnership Philips has perfected improving people s lives through using innovative technologies, skills and know-how throughout the continuum of care. By sharing the philosophy of the Family Center Care, the collaboration ensures the well-being of all the people involved the child, the family and the healthcare staff.

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Getting to the **heart of health**

Recent research suggests that the ongoing health of our teeth and gums has a connection with the health of our heart.

Which is why some innovative thinking from Philips specifically focused on how to improve dental care has had such a profound effect on the way we manage our lifestyles, no matter how old we are or where we live. Everyone knows that brushing teeth regularly is essential for good oral hygiene, but sometimes to truly improve people s lives, we need a helping hand from technology. As Michael Noack, Professor of Dental Care & Periodontology at the University of Cologne states, the applied technology of the revolutionary Philips Sonicare electric toothbrush protects gums and removes plaque far better than regular toothbrushes. The difference between the two is obvious, he says.

A consumer medical breakthrough that was first developed in the 1980s and which has been continuously perfected since, the Sonicare electric toothbrush is designed to empower people to take control of their personal dental care. It s the very embodiment of the sort of meaningful, impactful innovations that Philips has become synonymous with.

My personal experience is that patients who use Philips Sonicare have an easier time removing biofilm plaque. Michael Noack, Professor of Dental Care & Periodontology, University of Cologne

## Illumination **and beyond**

Connected lighting systems combine intelligent illumination with data and connectivity to deliver the best possible lighting experience and extraordinary value beyond illumination.

In a connected lighting system, every light point is networked together and digitally controlled, creating a more intelligent, flexible, efficient, and dynamic lighting system.

When merged with the IT network in a building or city and connected to lighting management software, a connected lighting system allows the managers of spaces to simplify and streamline the commissioning, monitoring, and management of lighting in a city or facility, exercise greater control over the ambience and atmosphere of illuminated spaces, and improve energy efficiency.

By outfitting light points with motion, occupancy, and other kinds of sensors, a connected lighting system can provide deeper insight into the usage and activities of indoor and outdoor spaces.

With real-time and historical occupancy data, managers can specifically target the distribution of lighting and other resources, such as heating, cooling, and cleaning, to achieve unprecedented levels of energy efficiency and sustainability.

In indoor spaces, light points can also be outfitted with wireless communications. Because lighting is installed virtually everywhere that people go, the lighting system becomes a pervasive platform for information and services.

Businesses can create mobile apps to deliver in-context information and a range of location-based services to the users of indoor spaces, including indoor wayfinding, in-context information, personalization, and targeted discounts.

Connected lighting can also integrate with third-party technologies, creating flexible, scalable systems that can be configured to respond to the specific requirements of professional and public environments.

Small in size, **big in recycled plastics**

With high recycled plastic content and other sustainability credentials, the new SENSEO® Up coffee machine is part of a major initiative to incorporate recycled plastics into product design.

In designing SENSEO® Up our first one-cup coffee machine aimed at single or double households we challenged our designers to specify recycled plastics right from the start of the design process.

The designers had to contend with two challenges. The first was a question of aesthetics. Recycled plastics are only available in dark colors, but not a real deep black. We overcame this problem by using a different architecture built around an internal frame that is not visible to the end-user.

The second challenge was to use recycled plastics in the baseplate. First, we textured the part to give the recycled plastic a high-quality look and feel. Then we used one matt black color for the complete range instead of many color variations. And thirdly, we made the baseplate less visible by focusing attention on the colored housing above it. This approach allowed us to make the baseplate from 90% ABS plastic from post-consumer electronic waste.

By designing-in the use of recycled plastics from the outset, we succeeded in launching the new SENSEO® Up with 13% recycled plastics content. SENSEO® Up offers other environmental benefits too. Its compact size means that it needs less packaging and causes fewer emissions in transport. And it goes to off mode immediately after the coffee is brewed, saving 10% energy compared to other SENSEO® machines shutting off automatically.

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Our strategic focus 4.6

Slim LED bulb, **slimmer utility bills**

Breaking with traditional design, the Philips SlimStyle LED bulb shows that a value-priced offering can deliver the innovation, energy efficiency and light quality that consumers want.

The main drive to start the SlimStyle project was to maintain our leadership position in LED lighting worldwide, says Agnieszka Kudyba, Integral Project Leader at Philips Lighting. We re in the midst of the LED revolution. Now we need to make sure we get mass adoption. The challenge was to get a replacement for the 60 W bulb, lasting for 25,000 hours, below 10 dollars. And we had to get it on the shelf within six months in order to strengthen our position as a leader in LED lighting. And we did it!

The main architectural challenges in this project were to achieve the lowest cost possible and to fulfill US ENERGY STAR requirements. From past experience we learned that we needed to reduce the number of components of the lamp, explains Gon Weijers, Architect, Philips Lighting. So we moved from more than 10 parts to only five parts in this lamp, which makes disassembly and recycling of the lamp much easier. And also, its compactness and low weight reduces shipping costs and $CO_2$ emissions. The combination of all these insights led us to the design of this lamp, which is flat, functional and innovative.

Having defined the required design, there were still significant technical hurdles to be overcome. As Peter Bukkems, Senior Mechanical Engineer, Philips Lighting explains: For me as mechanical engineer the biggest challenge was to combine the thermal and optical disciplines into one product. We solved the thermal performance by removing the expensive aluminum heat sink and making direct contact from the LED board towards the covers. We integrated the optics into the clean plastic materials. We made the assembly complete by using ultrasonic welding we didn t use any screws or glue in the design, but simply melted the two covers together.

Innovative design, affordable price, lasting energy savings, and no compromise on light quality it s a winning combination.

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# 5 Group performance

Overall, 2014 was a setback in our performance trajectory. We have taken clear action to drive stronger operational performance across our business, and expect sales growth and Adjusted IFO margin improvements in 2015 and beyond. Ron Wirahadiraksa, CFO Royal Philips

## 5.1 Financial performance

Prior-period financial information has been restated for the treatment of the combined businesses of Lumileds and Automotive as discontinued operations (see note 3, Discontinued operations and other assets classified as held for sale) and for two voluntary accounting policy changes (see note 1, Significant accounting policies).

### Management summary

**The year 2014**

In 2014, we continued to improve operational performance in most businesses, yet saw significant headwinds - ranging from geo-political crises and exchange rate fluctuations, to legal matters and the voluntary suspension of production at the Cleveland facility. In 2014, the voluntary suspension of production at our Cleveland facility and the jury verdict in the Masimo litigation strongly impacted our 2014 performance.

At our Healthcare facility in Cleveland, Ohio, certain issues in the general area of manufacturing process controls were identified during an ongoing US Food and Drug Administration (FDA) inspection. To address these issues, on January 10, 2014 we started a voluntary, temporary suspension of new production at the facility, primarily to strengthen manufacturing process controls. The suspension negatively impacted Healthcare s sales and Adjusted IFO in 2014.

On October 3, 2014 Philips announced that it would appeal the jury verdict in the patent infringement lawsuit by Masimo Corporation (Masimo), in which Masimo was awarded compensation of USD 467 million (EUR 366 million). The jury verdict is part of extensive litigation, which started in 2009, between Masimo and Philips involving several claims and counterclaims related to a large number of patents.

Net income for the year amounted to EUR 411 million, as lower operational earnings were partly offset by lower income tax expense and higher results from investments in associates and discontinued operations.

Sales amounted to EUR 21,391 million, a 3% nominal decline for the year. Excluding unfavorable currency effects, comparable sales were 1% below the level of 2013,

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due to Healthcare and Lighting. Healthcare comparable sales declined by 2%, mainly due to Imaging Systems. Lighting comparable sales were 3% below the level of 2013, as declines at Light Sources & Electronics and Consumer Luminaires were tempered by growth at Professional Lighting Solutions. Comparable sales at Consumer Lifestyle were 6% above the level of 2013, mainly driven by double-digit growth at Health& Wellness.

Comparable sales in growth geographies were in line with 2013, while mature geographies declined by 1% as a result of the overall macroeconomic developments. In 2014, growth geographies accounted for 35% of total sales.

IFO amounted to EUR 486 million, or 2.3% of sales, compared to EUR 1,855 million, or 8.4% of sales, in 2013. IFO declines at Healthcare, Lighting and IG&S were partly offset by an improvement at Consumer Lifestyle.

Operating activities generated cash flows of EUR 1,303 million, which was EUR 391 million higher than in 2013. The increase was mainly due to higher cash inflows and working capital reductions in 2014, as well as the payment of the European Commission fine in 2013. Cash flows before financing activities were EUR 269 million higher than in 2013, as an increase in cash flows from operating activities was partly offset by higher outflows related to acquisitions of new businesses.

By the end of 2014, Philips had completed 41% of the EUR 1.5 billion share buy-back program.

Philips Group

**Key data** in millions of EUR unless otherwise stated

2012 - 2014

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| **Condensed statement of income** | | | |
| **Sales** | **22,234** | **21,990** | **21,391** |
| **Adjusted IFO**[1)] | **1,003** | **2,276** | **821** |
| *as a % of sales* | *4.5%* | *10.4%* | *3.8%* |
| **IFO** | **592** | **1,855** | **486** |
| *as a % of sales* | *2.7%* | *8.4%* | *2.3%* |
| Financial income and expenses | (329) | (330) | (301) |
| Income tax expense | (218) | (466) | (26) |
| Results of investments in associates | (211) | (25) | 62 |
| **Income (loss) from continuing operations** | **(166)** | **1,034** | **221** |
| Income from discontinued operations - net of income tax | 136 | 138 | 190 |
| **Net income (loss)** | **(30)** | **1,172** | **411** |
| **Other indicators** | | | |
| Net income (loss) attributable to shareholders per common share in EUR: | | | |
| basic | (0.04) | 1.28 | 0.45 |
| diluted | (0.04) | 1.27 | 0.45 |

| | | | |
|---|---|---|---|
| Net operating capital (NOC)[1)] | 9,316 | 10,238 | 8,838 |
| Cash flows before financing activities[1)] | 1,174 | 50 | 319 |
| Employees (FTEs) | 118,087 | 116,082 | 113,678 |
| of which discontinued operations | 10,631 | 10,445 | 8,313 |

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

**The year 2013**

In 2013 we continued to make good progress in a challenging economic environment, particularly in the United States and Western Europe. We recorded 3% comparable sales growth (1% nominal decline), with a strong contribution from growth geographies. The profitability improved substantially, with all sectors delivering solid earnings. Net income for the year amounted to EUR 1,172 million, mainly driven by strong operational performance, including significant gross margin improvement and productivity gains coming from the Accelerate! program.

Sales amounted to EUR 22 billion, a 1% nominal decline for the year. Excluding unfavorable currency effects, comparable sales were 3% above 2012, driven by all three operating sectors. Healthcare sales grew 1%, mainly driven by Customer Services. Lighting sales were 1% above 2012, growth at Light Sources and Electronics was tempered by a sales decline at Consumer Luminaires. Sales at Consumer Lifestyle were 10% above 2012, with double-digit growth at Domestic Appliances and high-single-digit growth at Personal Care and Health & Wellness.

Our growth geographies achieved 9% comparable growth, while mature geographies declined by 1%, as a result of the overall macroeconomic developments, such as the continued economic uncertainty in North America. In 2013, growth geographies accounted for 35% of total sales, compared to 33% in 2012.

IFO amounted to EUR 1,855 million, or 8.4% of sales, compared to EUR 592 million, or 2.7% of sales, in 2012. IFO improvement was seen at all sectors, but was mainly driven by Lighting and Healthcare.

In 2013 we generated EUR 912 million of cash flow from operating activities, which was EUR 974 million lower than in 2012. The decrease is mainly a result of the payment of the European Commission fine in Q1 2013, increased working capital requirements and the payout of restructuring provisions in 2013. Our cash flows before financing activities were EUR 1,124 million lower than in 2012, due to a decrease in cash flows from operating activities and proceeds from divestments, partly offset by lower outflows related to acquisitions of new businesses.

In 2013 we completed the execution of our EUR 2 billion share buy-back program, thereby improving the efficiency of our balance sheet.

### 5.1.1 Sales

**The year 2014**

The composition of sales growth in percentage terms in 2014, compared to 2013, is presented in the table below.

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Philips Group

**Sales growth composition** in %

2014 versus 2013

| | comparable growth | currency effects | consolidation changes | nominal growth |
|---|---|---|---|---|
| Healthcare | (2.0) | (1.6) | (0.5) | (4.1) |
| Consumer Lifestyle | 5.8 | (3.1) | 0.0 | 2.7 |
| Lighting | (2.6) | (2.3) | 1.0 | (3.9) |
| Innovation, Group & Services | (11.8) | (0.1) | 2.9 | (9.0) |
| **Philips Group** | **(0.9)** | **(2.0)** | **0.2** | **(2.7)** |

Group sales amounted to EUR 21,391 million in 2014, which represents a 3% nominal decline compared to 2013.

Adjusted for a 2% negative currency effect, comparable sales were 1% below the level of 2013. Comparable sales were up 6% at Consumer Lifestyle. Healthcare and Lighting saw comparable sales decline by 2% and 3% respectively.

Healthcare sales amounted to EUR 9,186 million, which was EUR 389 million lower than in 2013. Mid-single-digit growth at Customer Services and low-single-digit growth at Patient Care & Monitoring Solutions were offset by a double-digit decline at Imaging Systems.

Healthcare Informatics, Solutions & Services sales were in line with 2013. Mature geographies recorded a low-single-digit decline, mainly due to North America and Western Europe. Growth geographies also recorded a low-single-digit decline, with solid growth in Latin America and Middle East & Turkey offset by a double-digit decline in China.

Consumer Lifestyle reported sales of EUR 4,731 million, which was EUR 126 million higher than in 2013, or 6% higher on a comparable basis. Health & Wellness achieved double-digit growth and Domestic Appliances high-single-digit growth, while Personal Care recorded low-single-digit growth. Growth geographies achieved high-single-digit growth, driven by strong growth in China, India and Middle East & Turkey. Mature geographies recorded low-single-digit growth, with mid-single-digit growth in Western Europe and other mature geographies and low-single-digit growth in North America.

Lighting sales amounted to EUR 6,869 million, which was EUR 276 million lower than in 2013, or 3% lower on a comparable basis. A high-single-digit decline at Consumer Luminaires and mid-single-digit decline at Light Sources & Electronics were tempered by low-single-digit growth at Professional Lighting Solutions. A low-single-digit decline was seen in mature geographies, largely due to Western Europe and North America. Growth geographies recorded a mid-single-digit decline, mainly driven by China.

IG&S reported sales of EUR 605 million, which was EUR 60 million lower than in 2013, mainly due to lower royalty income.

**The year 2013**

The composition of sales growth in percentage terms in 2013, compared to 2012, is presented in the table below.

Philips Group

**Sales growth composition** in %

2013 versus 2012

| | comparable growth | currency effects | consolidation changes | nominal growth |
|---|---|---|---|---|
| Healthcare | 0.8 | (4.6) | (0.3) | (4.1) |
| Consumer Lifestyle | 10.0 | (3.4) | 0.0 | 6.6 |
| Lighting | 1.3 | (3.5) | 0.0 | (2.2) |
| Innovation, Group & Services | (0.3) | (0.4) | 6.4 | 5.7 |
| **Philips Group** | **2.7** | **(3.9)** | **0.1** | **(1.1)** |

Group sales amounted to EUR 21,990 million in 2013, which represents a 1% nominal decline compared to 2012.

Adjusting for a 4% negative currency effect comparable sales were 3% above 2012. Comparable sales were up 10% at Consumer Lifestyle, while Lighting and Healthcare were 1% higher than the previous year.

Healthcare sales amounted to EUR 9,575 million, which was EUR 408 million lower than in 2012, but 1% higher on a comparable basis. Higher comparable sales were driven by mid-single-digit growth at Customer Services and low-single-digit growth at Patient Care & Clinical Solutions. HealthCare Informatics Solutions, and Services were in line with last year, while Imaging Systems posted a mid-single-digit decline. Increases in growth geographies were tempered by a decline in North America and Western Europe.

Consumer Lifestyle reported sales of EUR 4,605 million, which was EUR 286 million higher than in 2012, or 10% higher on a comparable basis. We achieved double-digit growth at Domestic Appliances and high-single-digit growth at Health & Wellness and Personal Care.

Lighting sales amounted to EUR 7,145 million, which was EUR 158 million lower than in 2012, but 1% higher on a comparable basis. Low-single-digit growth at Light Sources & Electronics was tempered by a low-single-digit decline at Consumer Luminaires. while Professional Lighting Solutions was flat year-on-year.

IG&S reported sales of EUR 665 million, which was EUR 36 million higher than in 2012, due to higher royalty income.

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## 5.1.2 Earnings

### The year 2014

In 2014, Philips gross margin was EUR 8,206 million, or 38.4% of sales, compared to EUR 9,337 million, or 42.5% of sales, in 2013. Gross margin in 2014 included EUR 249 million of restructuring and acquisition-related charges, whereas 2013 included EUR 48 million of restructuring and acquisition-related charges. 2014 also included charges of EUR 366 million related to the jury verdict in the Masimo litigation, EUR 68 million of impairment and other charges, and EUR 49 million of mainly inventory write-downs related to the voluntary suspension of production at the Cleveland facility. Excluding these items, the year-on-year decline was mainly driven by operational decline at Healthcare and Lighting as well as negative currency impacts.

Selling expenses increased from EUR 5,057 million in 2013 to EUR 5,124 million in 2014. 2014 included EUR 128 million of restructuring and acquisition-related charges, compared to EUR 45 million of restructuring charges in 2013. The year-on-year increase was mainly attributable to higher restructuring activities. Selling expenses increased from 23.0% of sales to 24.0%.

General and administrative expenses amounted to EUR 747 million in 2014, compared to EUR 825 million in 2013. As a percentage of sales, costs decreased from 3.8% in 2013 to 3.5% in 2014. 2014 included EUR 23 million of restructuring and acquisition related-charges, compared to EUR 5 million in 2013. 2014 also included a EUR 67 million past-service pension gain in the Netherlands, while 2013 included a pension settlement loss of EUR 31 million.

Research and development costs decreased from EUR 1,659 million in 2013 to EUR 1,635 million in 2014. Research and development costs in 2014 included EUR 34 million of restructuring and acquisition-related charges, compared to EUR 2 million in 2013. The year-on-year decrease was mainly due to lower spend at IG&S, partly offset by higher restructuring costs in all sectors. As a percentage of sales, research and development costs increased from 7.5% in 2013 to 7.6% in 2014.

The overview below shows sales, IFO and Adjusted IFO according to the 2014 sector classifications.

Philips Group

**Sales, IFO and Adjusted IFO**

in millions of EUR unless otherwise stated

2013 - 2014

| | Sales | IFO | % | Adjusted IFO[1)] | % |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Healthcare | 9,186 | 456 | *5.0%* | 616 | *6.7%* |
| Consumer Lifestyle | 4,731 | 520 | *11.0%* | 573 | *12.1%* |
| Lighting | 6,869 | 185 | *2.7%* | 293 | *4.3%* |
| Innovation, Group & Services | 605 | (675) | | (661) | |
| **Philips Group** | **21,391** | **486** | ***2.3%*** | **821** | ***3.8%*** |

| | | | | | |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Healthcare | 9,575 | 1,315 | *13.7%* | 1,512 | *15.8%* |
| Consumer Lifestyle | 4,605 | 429 | *9.3%* | 483 | *10.5%* |
| Lighting | 7,145 | 413 | *5.8%* | 580 | *8.1%* |
| Innovation, Group & Services | 665 | (302) | | (299) | |
| **Philips Group** | **21,990** | **1,855** | ***8.4%*** | **2,276** | ***10.4%*** |

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

In 2014, IFO decreased by EUR 1,369 million year-on-year to EUR 486 million, or 2.3% of sales. 2014 included EUR 434 million of restructuring and acquisition-related charges, compared to EUR 100 million in 2013. 2014 included EUR 366 million related to the jury verdict in the Masimo litigation, EUR 49 million mainly related to inventory write-downs in the Cleveland facility, charges of EUR 244 million related to legal matters, EUR 68 million of impairment and other charges related to industrial assets at Lighting, and a EUR 67 million past-service pension cost gain in the Netherlands. 2013 IFO was also impacted by a net gain of EUR 47 million from a past-service pension cost gain and related settlement loss in the US, as well as a EUR 21 million gain on the sale of a business in Healthcare.

Amortization and impairment of intangibles, excluding software and capitalized product development costs, amounted to EUR 332 million in 2014, compared to EUR 393 million in 2013. In 2014, goodwill impairment charges amount to EUR 3 million consisting of impairments on divested businesses in Healthcare and Lighting. In 2013, goodwill impairment charges amounted to EUR 28 million, including EUR 26 million as a result of reduced growth expectations in Consumer Luminaires, see note 11, Goodwill.

Adjusted IFO declined from EUR 2,276 million, or 10.4% of sales, in 2013 to EUR 821 million, or 3.8% of sales, in 2014. Adjusted IFO showed a year-on-year decrease at all sectors except Consumer Lifestyle.

### Healthcare

Adjusted IFO decreased from EUR 1,512 million, or 15.8% of sales, in 2013 to EUR 616 million, or 6.7% of sales, in 2014. Restructuring and acquisition-related charges in 2013 were close to zero, compared to EUR 70 million in 2014. 2014 included EUR 366 million related to the jury verdict in the Masimo litigation, EUR 49 million mainly related to inventory write-downs in the Cleveland facility, and a EUR 16 million past-service pension cost gain in the Netherlands. 2013 included a past-service pension cost gain of EUR 61 million and a gain on the sale of a business of EUR 21 million. The decline in Adjusted IFO was largely due to operational losses related to the voluntary suspension of production at the Cleveland facility and negative currency impacts.

### Consumer Lifestyle

Adjusted IFO improved from EUR 483 million, or 10.5% of sales, in 2013 to EUR 573 million, or 12.1% of sales, in 2014. 2014 included restructuring and acquisition- related charges of EUR 9 million and a EUR 11 million past-service pension cost gain in the Netherlands. 2013 included restructuring and acquisition-related charges of EUR 14 million and a past-service pension cost gain of EUR 1 million in the US. The increase was largely driven by higher sales and operational improvements.

### Lighting

Adjusted IFO declined from EUR 580 million, or 8.1% of sales, in 2013 to EUR 293 million, or 4.3% of sales, in 2014. Restructuring and acquisition-related charges amounted to EUR 245 million in 2014, compared to EUR 83 million in 2013. 2014 Adjusted IFO included EUR 68 million of impairment and other charges related to industrial assets and a EUR 13 million past-service pension cost gain in the Netherlands, while 2013 Adjusted IFO included a past-service pension cost gain of EUR 10 million in the US. The decrease in Adjusted IFO was largely driven by higher restructuring charges and lower sales volume.

### Innovation, Group & Services

Adjusted IFO declined from a loss of EUR 299 million in 2013 to a loss of EUR 661 million in 2014. 2014 Adjusted IFO included restructuring and acquisition-related charges of EUR 110 million, provisions of EUR 244 million related to legal matters and a EUR 27 million gain from a past-service pension cost gain in the Netherlands. 2013 included restructuring and acquisition-related charges of EUR 3 million and a pension settlement loss of EUR 25 million. Excluding these items, the year-on-year Adjusted IFO decline was mainly driven by higher investments in emerging business areas and lower IP income.

### The year 2013

In 2013, Philips gross margin was EUR 9,337 million, or 42.5% of sales, compared to EUR 8,729 million, or 39.3% of sales, in 2012. Gross margin in 2013 included EUR 48 million of restructuring and acquisition-related charges, whereas 2012 included EUR 282 million of restructuring and acquisition-related charges. Higher gross margin percentages were seen in all sectors.

Selling expenses decreased from EUR 5,239 million in 2012 to EUR 5,057 million in 2013. 2013 included EUR 45 million of restructuring and acquisition-related charges, compared to EUR 184 million of restructuring charges in 2012. The year-on-year decrease was mainly attributable to lower restructuring activities and overhead reductions in our commercial organizations. In relation to sales, selling expenses decreased from 23.5% to 23.0%. Selling expenses as a percentage of sales were lower in all sectors.

General and administrative expenses amounted to EUR 825 million in 2013, compared to EUR 848 million in 2012. As a percentage of sales, costs decreased from 3.8% in 2012 to 3.7%. 2013 included EUR 5 million of restructuring and acquisition related-charges, compared to EUR 31 million in 2012. The 2012 figure included a EUR 25 million past-service pension cost gain from a change in a medical retiree plan, while 2013 included a pension settlement loss of EUR 31 million.

Research and development costs decreased from EUR 1,723 million in 2012 to EUR 1,659 million in 2013.

Research and development costs in 2013 included EUR 2 million of restructuring and acquisition-related charges, compared to EUR 57 million in 2012. The year- on-year decrease was largely attributable to lower restructuring charges and currency effects. As a percentage of sales, research and development costs decreased from 7.7% in 2012 to 7.5% in 2013.

The overview below shows sales, IFO and Adjusted IFO according to the 2014 sector classifications.

Philips Group

**Sales, IFO and Adjusted IFO** in millions of EUR

2012

| | Sales | IFO | % | Adjusted IFO[1)] | % |
|---|---|---|---|---|---|
| Healthcare | 9,983 | 1,026 | 10.3% | 1,226 | 12.3% |
| Consumer Lifestyle | 4,319 | 400 | 9.3% | 456 | 10.6% |
| Lighting | 7,303 | (78) | (1.1)% | 69 | 0.9% |
| IG&S | 629 | (756) | | (748) | |
| **Philips Group** | **22,234** | **592** | **2.7%** | **1,003** | **4.5%** |

1) For reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report.

In 2013, IFO increased by EUR 1,263 million year-on-year to EUR 1,855 million, or 8.4% of sales. 2013 included EUR 100 million of restructuring and acquisition-related charges, compared to EUR 554 million in 2012. 2013 IFO was also impacted by a net gain of EUR 47 million from a past-service pension cost gain and related settlement loss in the US, as well as a EUR 21 million gain on the sale of a business in Healthcare.

2012 IFO included a EUR 313 million impact of the European Commission fine related to the alleged violation of competition rules in the Cathode-Ray Tube (CRT) industry, EUR 132 million of provisions related to various legal matters, a net gain on EUR 197 million on the sale of assets, mainly for the Senseo and High Tech Campus transactions, and a EUR 81 million loss on the sale of industrial assets at Lighting. In addition, 2012 IFO also included a past-service cost gain of EUR 25 million related to a retiree medical plan.

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Amortization and impairment of intangibles, excluding software and capitalized product development costs, amounted to EUR 393 million in 2013, compared to EUR 410 million in 2012. Additionally, goodwill impairment charges of EUR 28 million were taken in the fourth quarter of 2013 mainly as a result of reduced growth expectations at Consumer Luminaires.

Adjusted IFO improved from EUR 1,106 million, or 4.7% of sales, in 2012 to EUR 2,276 million, or 10.5% of sales, in 2013. Adjusted IFO showed a year-on-year increase at all Sectors.

### Healthcare

Adjusted IFO increased from EUR 1,226 million, or 12.3% of sales, in 2012 to EUR 1,512 million, or 15.8% of sales, in 2013. Adjusted IFO improvements were realized across all businesses, due to higher sales and reduced expenses resulting from cost-saving programs.

Restructuring and acquisition-related charges in 2013 were close to zero, compared to EUR 134 million in 2012. 2013 included a past-service pension cost gain of EUR 61 million and a gain on the sale of a business of EUR 21 million.

### Consumer Lifestyle

Adjusted IFO improved from EUR 456 million, or 10.6% of sales, in 2012 to EUR 483 million, or 10.5% of sales, in 2013. Restructuring and acquisition-related charges amounted to EUR 14 million in 2013, compared to EUR 56 million in 2012. 2012 Adjusted IFO included a EUR 160 million gain on the Senseo transaction, while 2013 Adjusted IFO included a past-service pension cost gain of EUR 1 million.

### Lighting

Adjusted IFO improved from EUR 69 million, or 0.9% of sales, in 2012 to EUR 580 million, or 8.1% of sales, in 2013. Restructuring and acquisition-related charges amounted to EUR 83 million in 2013, compared to EUR 308 million in 2012. 2012 Adjusted IFO included EUR 81 million of losses related to the sale of industrial assets, while 2013 Adjusted IFO included a past-service pension cost gain of EUR 10 million. Excluding these impacts, the increase in Adjusted IFO was mainly attributable to higher operational performance.

### Innovation, Group & Services

Adjusted IFO improved from a loss of EUR 748 million in 2012 to a loss of EUR 299 million in 2013. Restructuring and acquisition-related charges amounted to EUR 3 million in 2013, compared to EUR 56 million in 2012. 2013 Adjusted IFO included a net EUR 25 million loss from a past-service pension cost gain and related settlement loss. 2012 Adjusted IFO included a EUR 313 million impact of the European Commission fine, EUR 132 million of provisions related to various legal matters, a EUR 37 million gain on the sale of the High Tech Campus, and a EUR 25 million past-service cost gain related to a medical retiree plan.

For further information regarding the performance of the sectors, see chapter 6, Sector performance, of this report.

## 5.1.3 Advertising and promotion

**The year 2014**

Philips total advertising and promotion expenses were EUR 913 million in 2014, an increase of 5% compared to 2013. The increase was mainly due to investments in mature markets, such as the Netherlands, Germany and United States. The advertising and promotion spend in key growth geographies decreased by 5% compared to 2013, largely due to lower spend in China. The total advertising and promotion investment as a percentage of sales was 4.3% in 2014, compared to 4.0% in 2013.

Philips increased its brand value by 5% to over USD 10.3 billion in the 2014 ranking of the world s 100 most valuable brands, as measured by Interbrand. In the 2014 listing, Philips is now ranked the 42nd most valuable brand in the world.

**The year 2013**

Philips total advertising and promotion expenses were EUR 869 million in 2013, an increase of 5% compared to 2012. The increase was mainly due to the launch of our new brand positioning as well as higher investments in growth geographies, such as China. Accordingly, the advertising and promotion spend in key growth geographies increased by 5% compared to 2012. The total advertising and promotion investment as a percentage of sales was 4.0% in 2013, compared to 3.7% in 2012.

Philips increased its brand value by 8% in 2013 to over USD 9.8 billion in the ranking of the world s 100 most valuable brands, as measured by Interbrand. In the 2013 listing, Philips moved up one position to the 40th most valuable brand in the world.

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### 5.1.4 Research and development

**The year 2014**

Research and development costs decreased from EUR 1,659 million in 2013 to EUR 1,635 million in 2014. 2014 included EUR 34 million of restructuring and acquisition-related charges, compared to EUR 2 million in 2013. The year-on-year decrease was driven by IG&S, partly offset by increases at Healthcare and Lighting. As a percentage of sales, research and development costs increased from 7.5% in 2013 to 7.6%.

Philips Group

**Research and development expenses** in millions of EUR

2012 - 2014

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Healthcare | 858 | 810 | 822 |
| Consumer Lifestyle | 256 | 268 | 263 |
| Lighting | 341 | 313 | 330 |
| Innovation, Group & Services | 269 | 268 | 220 |
| **Philips Group** | **1,724** | **1,659** | **1,635** |

**The year 2013**

Research and development costs decreased from EUR 1,724 million in 2012 to EUR 1,659 million in 2013. 2013 included EUR 20 million of restructuring and acquisition-related charges, compared to EUR 58 million in 2012. As a percentage of sales, research and development costs decreased from 7.8% in 2012 to 7.5%. The year-on-year decrease was largely attributable to currency effects and lower restructuring charges.

### 5.1.5 Pensions

**The year 2014**

In 2014, the total costs of post-employment benefits amounted to EUR 241 million for defined-benefit plans and EUR 144 million for defined-contribution plans, compared to EUR 291 million and EUR 134 million respectively in 2013.

The above costs are reported in Operating expenses except for the net interest cost component which is reported in Financial income and expense. The net interest cost for defined-benefit plans was EUR 59 million in 2014 (2013: EUR 71 million).

2014 included past-service cost gains in the Netherlands of EUR 67 million, which were mainly related to the mandatory plan change in the Netherlands, where a salary cap of EUR 100,000 must be applied to the pension salary with effect from January 1, 2015. This change lowers the Company s Defined Benefit Obligation which is recognized as a past-service cost gain. Compensatory measures are given in wages for employees impacted.

2013 included past-service cost gains of EUR 81 million, which included EUR 78 million related to the announced freeze of accrual after December 31, 2015 for salaried workers in the Company s US defined-benefit pension plan. In the same US plan a settlement loss of EUR 31 million was recognized in 2013 following a lump-sum offering to terminated vested employees. This offering resulted in settling the pension obligations towards these employees. The past-service cost gain is allocated to the respective sectors of the US employees involved, whereas the settlement loss is allocated fully to Pensions in IG&S as it related to inactive employees.

The overall funded status of our defined-benefit pension plans in 2014 decreased compared to 2013 due to a decrease in discount rates used to measure the defined benefit obligation. The deficits recognized on our balance sheet increased by approximately EUR 393 million due to lower discount rates in the US and Germany and a new adopted mortality table in the US.

In 2014, further progress was made in managing the financial exposure to defined-benefit plans by two further buy-ins in the UK plan.

For further information, refer to Post-employment benefits.

**The year 2013**

In 2013, the total costs of post-employment benefits amounted to EUR 291 million for defined-benefit plans and EUR 134 million for defined-contribution plans, compared to EUR 285 million and EUR 134 million respectively in 2012.

The above costs are reported in operating expenses except for the included net interest cost component which is reported in financial income and expense. The net interest cost for defined-benefit plans was EUR 71 million in 2013 (2012: EUR 85 million).

2013 included past-service cost gains of EUR 81 million, which included EUR 78 million related to the announced freeze of accrual after December 31, 2015 for salaried workers in the Company s US defined-benefit pension plan. In the same US plan a settlement

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loss of EUR 31 million was recognized in 2013 following a lump-sum offering to terminated vested employees. This offering resulted in settling the pension obligations towards these employees. The past-service cost gain is allocated to the respective sectors of the US employees involved whereas the settlement loss is allocated fully to Pensions in IG&S as it related to inactive employees.

In 2012, past-service cost gains of EUR 31 million were recognized of which EUR 25 million in the Dutch pension plan due to a restructuring. In one of the Company s defined-benefit retiree medical plans, a past-service cost gain of EUR 25 million was recognized due to a benefit change.

The overall funded status of our defined-benefit pension plans in 2013 was comparable to that of 2012. The deficits recognized on our balance sheet decreased by approximately EUR 400 million due to a higher discount rate in the US, cash contributions and the US events described above. The surpluses of the plans in the Netherlands and UK decreased, but as Philips does not recognize a surplus in these countries, the net balance sheet position was not impacted.

In 2013, major progress was made in managing the financial exposure to defined-benefit plans, such as the changes in the funding of the Dutch pension plan, the changes in the US plan as described above, and a buy-in in the UK plan.

For further information, refer to note 20, Post-employment benefits.

### 5.1.6 Restructuring and impairment charges

**The year 2014**

In 2014, IFO included net charges totaling EUR 414 million for restructuring. In addition to the annual goodwill-impairment tests for Philips, trigger-based impairment tests were performed during the year, resulting in a goodwill impairment of EUR 1 million at Healthcare and EUR 2 million at Lighting.

2013 included EUR 84 million of restructuring charges and a goodwill impairment of EUR 26 million at Consumer Luminaires, mainly as a consequence of reduced growth rates resulting from a slower-than-anticipated recovery of certain markets, as well as delays in the introduction of new product ranges.

For further information on sensitivity analysis, please refer to note 11, Goodwill.

In 2014, the most significant restructuring projects related to Lighting and IG&S and were driven by industrial footprint rationalization and the Accelerate! transformation program. Restructuring projects at Lighting centered on Light Sources & Electronics and Professional Lighting Solutions, the largest of which took place in the Belgium, Netherlands and France. Innovation, Group & Services restructuring projects mainly were related to IT and group and country overheads and centered primarily on the Netherlands, US and Belgium. Restructuring projects at Healthcare mainly took place in the US and the Netherlands. Consumer Lifestyle restructuring projects were mainly in the Netherlands.

In 2013, the more significant restructuring projects were related to industrial footprint rationalization at Lighting. The largest projects were centered at Consumer Luminaires and Light Sources & Electronics, mainly in the Unites States, France and Belgium. Innovation Group & Services restructuring projects were largely focused on the Financial Operations Service Units, primarily in Italy, France and the United States.

Restructuring projects at Consumer Lifestyle were mainly seen at Personal Care in the Netherlands and Austria and Coffee in Italy.

For further information on restructuring, refer to note 19, Provisions.

Philips Group

**Restructuring and related charges** in millions of EUR

2012 - 2014

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Restructuring and related charges per sector: | | | |
| Healthcare | 116 | (6) | 68 |
| Consumer Lifestyle | 38 | 10 | 8 |
| Lighting | 294 | 77 | 225 |
| Innovation, Group & Services | 56 | 3 | 113 |
| **Continuing operations** | **504** | **84** | **414** |
| **Discontinued operations** | **36** | **33** | **18** |
| Cost breakdown of restructuring and related charges: | | | |
| Personnel lay-off costs | 414 | 95 | 354 |
| Release of provision | (33) | (62) | (36) |
| Restructuring-related asset impairment | 66 | 25 | 57 |
| Other restructuring-related costs | 57 | 26 | 39 |
| **Continuing operations** | **504** | **84** | **414** |
| **Discontinued operations** | **36** | **33** | **18** |

**The year 2013**

In 2013, IFO included net charges totaling EUR 84 million for restructuring. In addition to the annual goodwill-impairment tests for Philips, trigger-based impairment tests were performed during the year, resulting in a goodwill impairment of EUR 26 million at Consumer Luminaires, mainly as a consequence of reduced growth rates resulting from a slower-than-anticipated recovery of certain markets, as well as delays in the introduction of new product ranges.

2012 included EUR 504 million of restructuring charges.

For further information on sensitivity analysis, please refer to Goodwill.

In 2013, the most significant restructuring projects related to Lighting and were driven by the industrial footprint rationalization. Restructuring projects at

Lighting centered on Luminaires businesses and Light Sources & Electronics, the largest of which took place in the United States, France and Belgium. Innovation, Group & Services restructuring projects mainly focused on the Financial Operations Service Unit, primarily in Italy, France and the United States. Consumer Lifestyle restructuring charges mainly related to Personal Care (primarily in the Netherlands and Austria) and Coffee (mainly Italy).

In 2012, the most significant restructuring projects related to Lighting and Healthcare and were driven by Accelerate! transformation program. Restructuring projects at Lighting centered on Luminaires businesses and Light Sources & Electronics, the largest of which took place in the Netherlands, Germany and various locations in the United States. In Healthcare, the largest projects were undertaken at Imaging Systems and Patient Care & Monitoring Solutions, in various locations in the United States, to reduce operating costs and simplify the organization. Innovation, Group & Services restructuring projects focused on the IT and Financial Operations Service Units (primarily in the Netherlands), Group & Regional Overheads (mainly in the Netherlands and Italy) and Philips Innovation Services (in the Netherlands and Belgium). Consumer Lifestyle restructuring charges mainly related to Coffee (mainly Italy) and Health & Wellness (in the United States).

For further information on restructuring, refer to note 19, Provisions.

### 5.1.7 Financial income and expenses

**The year 2014**

A breakdown of Financial income and expenses is presented in the table below.

Philips Group

**Financial income and expenses** in millions of EUR

2012 - 2014

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Interest expense (net) | (326) | (269) | (251) |
| Sale of securities | 1 | | 60 |
| Impairments | (8) | (10) | (17) |
| Other | 4 | (51) | (93) |
| **Financial income and expenses** | **(329)** | **(330)** | **(301)** |

Net interest expense in 2014 was EUR 18 million lower than in 2013, mainly as a result of lower average outstanding debt and interest related to pensions in 2014.

The gain from the sale of stakes in 2014 amounted to EUR 60 million, mainly from Neusoft, Chimei Innolux, Gilde III and Sapiens.

Other financial expense amounted to EUR 93 million in 2014, primarily consisting of interest expense related to the jury verdict in the Masimo litigation, and accretion expense associated with other discounted provisions and uncertain tax positions.

For further information, refer to note 7, Financial income and expenses.

**The year 2013**

The net interest expense in 2013 was EUR 57 million lower than in 2012, mainly as a result of lower average outstanding debt and interest related to pensions in 2013.

Other financial income was a EUR 51 million loss in 2013, primarily consisting of a EUR 25 million accretion expense (mainly associated with discounted provisions) and EUR 24 million of other financing charges.

Other financial income was a EUR 4 million gain in 2012, primarily consisting of a EUR 46 million gain related to a change in estimate on the valuation of long-term derivative contracts and remaining other financial income of EUR 20 million. This was offset by a EUR 22 million accretion expense (mainly associated with discounted provisions) and EUR 41 million other financing charges.

For further information, refer to note 7, Financial income and expenses.

### 5.1.8 Income taxes

**The year 2014**

Income taxes amounted to EUR 26 million, compared to EUR 466 million in 2013. The effective income tax rate was 14.1%. The decrease in 2014 was mainly due to lower income before tax and application of favorable tax regulations relating to R&D investments. The comparable effective income tax rate for 2013 was 30.6%.

For 2015, the effective tax rate is expected to be in the range of 28% and 30%. However, the actual rate will depend on the geographical mix of actual profits.

For further information, refer to note 8, Income taxes.

**The year 2013**

Income taxes amounted to EUR 466 million, compared to EUR 218 million in 2012. The effective income tax rate was 30.6%, compared to 82.9% in 2012. Excluding the non-tax-deductible European Commission fine and charges related to various legal matters in 2012, the effective tax rate in 2012 was 32.2%. The 1.6 percentage points decrease in 2013 was mainly related to lower new loss carryforwards not expected to be realized.

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### 5.1.9 Results of investments in associates

**The year 2014**

Philips Group

**Results of investments in associates** in millions of EUR

2012 - 2014

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Company s participation in income | (5) | 5 | 30 |
| Investment impairment and other charges | (206) | (30) | |
| Dilution gain | | | 32 |
| **Results of Investments in associates** | **(211)** | **(25)** | **62** |

The results related to investments in associates improved from a loss of EUR 25 million in 2013 to a gain of EUR 62 million in 2014. 2014 included a EUR 32 million dilution gain related to Philips stake in Corindus Vascular Robotics, while 2013 included a provision for the net impact of expected payments related to the agreed transfer of the remaining 30% stake in the TP Vision joint venture.

The Company s participation in income increased from EUR 5 million in 2013 to a gain of EUR 30 million in 2014. The gain in 2013 was mainly attributable to the results of Philips Medical Capital.

For further information, refer to note 5, Interests in entities.

**The year 2013**

The results related to investments in associates improved from a loss of EUR 211 million in 2012 to a loss of EUR 25 million in 2013, largely attributable to a charge of EUR 196 million related to the former LG.Philips Displays joint venture in 2012.

The European Commission imposed fines in relation to alleged violations of competition rules in the Cathode-Ray Tube industry. Philips recorded a total charge of EUR 509 million, of which EUR 313 million was directly related to Philips and therefore recorded in Income from operations, while EUR 196 million related to LG.Philips Displays and was therefore recorded in Results of investments in associates.

The Company s participation in income increased from a loss of EUR 5 million in 2012 to a gain of EUR 5 million in 2013. The gain in 2013 was mainly attributable to the results of Philips Medical Capital, while the loss in 2012 was mainly due to the results of EMGO.

For further information, refer to note 5, Interests in entities.

### 5.1.10 Non-controlling interests

**The year 2014**

Net income attributable to non-controlling interests amounted to a loss of EUR 4 million in 2014, compared to a gain of EUR 3 million in 2013.

**The year 2013**

Net income attributable to non-controlling interests amounted to EUR 3 million in 2013, compared to EUR 5 million in 2012.

### 5.1.11 Discontinued operations

**The year 2014**

Discontinued operations consist primarily of the combined businesses of Lumileds and Automotive, the Audio, Video, Multimedia and Accessories (AVM&A) business, and the Television business. The results related to these businesses are reported under Discontinued operations in the Consolidated statements of income and Consolidated statements of cash flows.

On June 30, 2014, Philips announced the start of the process to combine the Lumileds and Automotive Lighting businesses into a stand-alone company and explore strategic options to attract capital from third-party investors for this combined business. Philips is actively discussing the sale of the business with potential buyers and expects a transaction to be completed in the first half of 2015.

The AVM&A business, also known as WooX Innovations, was divested to Gibson Brands Inc. in June 2014.

The Television business was divested as part of a strategic partnership agreement with TPV Technology Ltd (TPV) that was signed on April 1, 2012. Philips retained a 30% interest in TP Vision Holdings BV (TP Vision venture) and on May 29, 2014 transferred the remaining 30% stake in TP Vision to TPV. After completion, TPV fully owns TP Vision, which will enable further integration with TPV s TV business.

Income from discontinued operations increased by EUR 52 million to EUR 190 million in 2014. The year-on-year increase was mainly due to a net gain related to the divestment of our Television business. Income from discontinued operations mainly consisted of net income of EUR 141 million related to the combined businesses of Lumileds and Automotive, EUR 18 million related to AVM&A, and EUR 31 million mainly related to other dicontinued operations mainly net income on the Television business, partly offset by the European Commission s Smartcard fine.

For further information, refer to note 3, Discontinued operations and other assets classified as held for sale.

**The year 2013**

Discontinued operations consist primarily of the combined businesses of Lumileds and Automotive, the Audio, Video, Multimedia and Accessories (AVM&A) business, and the Television business. The results related to these businesses are reported under Discontinued operations in the Consolidated statements of income and Consolidated statements of cash flows.

The AVM&A business is also known as WooX Innovations.

The Television business was divested as part of a strategic partnership agreement with TPV Technology Ltd (TPV) that was signed on April 1, 2012. Philips retained a 30% interest in TP Vision Holdings BV (TP Vision venture).

Income from discontinued operations increased by EUR 2 million to EUR 138 million in 2013, improved operational results at the combined businesses of Lumileds and Automotive were partly offset by lower results at the AVM&A and Television business. Income from discontinued operations mainly consisted of net income of EUR 133 million related to the combined businesses of Lumileds and Automotive, EUR 6 million related to AVM&A, and a net loss of EUR 1 million related to the Television business.

For further information, refer to note 3, Discontinued operations and other assets classified as held for sale.

## 5.1.12 Net income

**The year 2014**

Net income decreased from EUR 1,172 million in 2013 to EUR 411 million in 2014. The decrease was largely due to lower IFO of EUR 1,369 million, partly offset by lower income tax charges of EUR 440 million and higher results from investment in associates of EUR 87 million.

Basic earnings per common share from net income attributable to shareholders decreased from EUR 1.28 per common share in 2013 to EUR 0.45 per common share in 2014.

**The year 2013**

Net income increased from a net loss of EUR 30 million in 2012 to a net profit of EUR 1,172 million in 2013. The increase was largely due higher IFO of EUR 1,263 million and better results of investments in associates, partly offset by higher income tax charges of EUR 248 million.

Basic earnings per common share from net income attributable to shareholders increased from negative EUR 0.04 per common share in 2012 to EUR 1.28 per common share in 2013.

## 5.1.13 Acquisitions and divestments

### Acquisitions

In 2014, Philips acquired Unisensor, a Danish healthcare company, and a 51% interest in General Lighting Company (GLC) based in The Kingdom of Saudi Arabia (KSA). Philips also purchased some minor magnetic resonance imaging (MRI) activities from Hologic, a US healthcare company. Acquisitions in 2014 and previous years led to post-merger integration charges of EUR 1 million in Healthcare, EUR 1 million in Consumer Lifestyle and EUR 19 million in Lighting.

In 2013, there were four minor acquisitions. Acquisitions in 2013 and previous years led to post-merger integration charges totaling EUR 16 million in 2013: Healthcare EUR 6 million, Consumer Lifestyle EUR 4 million, and Lighting EUR 6 million.

In 2012, Philips completed the acquisition of Indal within Lighting. Acquisitions in 2012 and previous years led to post-merger integration charges totaling EUR 50 million in 2012: Healthcare EUR 18 million, Consumer Lifestyle EUR 18 million, and Lighting EUR 14 million.

### Divestments

In 2014, Philips completed the divestment of its Lifestyle Entertainment activities to Gibson Brands Inc. Philips also completed two other divestments of business activities which related to Healthcare and Lighting activities.

In 2013, Philips completed several divestments of business activities, mainly related to certain Healthcare activities.

In 2012, Philips completed several divestments of business activities, namely the Television business, certain Lighting manufacturing activities, Speech Processing activities and certain Healthcare service activities.

Also in 2012, Philips agreed to extend its partnership with Sara Lee Corp (Sara Lee) to drive growth in the global coffee market. Under a new exclusive partnership framework, which will run through to 2020, Philips will be the exclusive SENSEO® consumer appliance manufacturer and distributor for the duration of the agreement. As part of the agreement, Philips divested its 50% ownership right in the SENSEO® trademark to Sara Lee.

For details, please refer to note 4, Acquisitions and divestments.

### 5.1.14 Performance by geographic cluster

**The year 2014**

In 2014, sales declined 1% on a comparable basis (-3% nominally largely attributable due to unfavorable foreign exchange impacts) mainly due to Healthcare and Lighting.

Sales in mature geographies were EUR 318 million lower than in 2013, or 1% lower on a comparable basis. Sales in Western Europe were 1% lower than in 2013, with declines at Healthcare and Lighting partly offset by growth at Consumer Lifestyle. Sales in North America declined by EUR 205 million, or 2% on a comparable basis. Comparable sales in other mature geographies showed a 1% decline, with growth at Healthcare and Consumer Lifestyle offset by a decline at Lighting and IG&S.

In growth geographies, sales declined by EUR 281 million mainly due to unfavorable foreign exchange impacts and were flat on a comparable basis, with high-single-digit growth at Consumer Lifestyle offset by a decline at

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Healthcare and Lighting. Strong growth was achieved in India and Middle East & Turkey, while decline was seen in China and Russia & Central Asia.

**The year 2013**

In 2013, sales grew 3% on a comparable basis (-1% nominally), driven by growth at Consumer Lifestyle, notably in growth geographies.

Sales in mature geographies were EUR 525 million lower than in 2012, but flat on a comparable basis. Sales in Western Europe were impacted by macroeconomic developments and were flat on a comparable basis.

Growth at Lighting and Consumer Lifestyle was offset by a decline at Healthcare. Sales in North America declined by EUR 457 million or 3% lower on a comparable basis, mainly due to declines at Healthcare and Lighting. Both nominal and comparable sales in other mature geographies showed strong growth.

Comparable sales in other mature geographies showed double-digit growth, mainly driven by strong performance at Consumer Lifestyle and Healthcare.

In growth geographies, sales grew by EUR 281 million, or 9% on a comparable basis, driven by double-digit growth at Consumer Lifestyle and Lighting. In China and Latin America, we achieved solid double-digit nominal and comparable growth.

### 5.1.15 Cash flows provided by continuing operations

**The year 2014**

#### Cash flows from operating activities

Net cash flows from operating activities amounted to EUR 1,303 million in 2014, which was EUR 391 million higher than in 2013, mainly due to higher inflows from working capital reductions.

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Condensed consolidated statements of cash flows for the years ended December 31, 2012, 2013 and 2014 are presented below:

Philips Group

**Condensed consolidated cash flow statements**[1)]

in millions of EUR

2012 - 2014

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Net income (loss) | (30) | 1,172 | 411 |
| Adjustments to reconcile net income to net cash provided by operating activities | 1,916 | (260) | 892 |
| **Net cash provided by operating activities** | **1,886** | **912** | **1,303** |
| Net cash used for investing activities | (712) | (862) | (984) |
| **Cash flows before financing activities**[2)] | **1,174** | **50** | **319** |
| Net cash used for financing activities | (293) | (1,241) | (1,189) |
| **Cash (used for) provided by continuing operations** | **881** | **(1,191)** | **(870)** |
| Net cash (used for) provided by discontinued operations | (143) | (115) | 193 |
| Effect of changes in exchange rates on cash and cash equivalents | (51) | (63) | 85 |
| **Total change in cash and cash equivalents** | **687** | **(1,369)** | **(592)** |
| Cash and cash equivalents at the beginning of year | 3,147 | 3,834 | 2,465 |
| **Cash and cash equivalents at the end of year** | **3,834** | **2,465** | **1,873** |

1) Please refer to section 12.7, Consolidated statements of cash flows, of this report

2) Please refer to chapter 15, Reconciliation of non-GAAP information, of this report

## Cash flows from investing activities

In 2014, cash flows from investing activities resulted in a net outflow of EUR 984 million. This was attributable to EUR 806 million cash used for net capital expenditures, EUR 258 million used for acquisitions of businesses and non-current financial assets, and EUR 7 million used for derivatives and current financial assets, partly offset by EUR 87 million of net proceeds from non-current financial assets and divestments.

In 2013, cash flows from investing activities resulted in a net outflow of EUR 862 million. This was attributable to EUR 830 million cash used for net capital expenditures, EUR 101 million cash used for derivatives and current financial assets, as well as EUR 24 million used for acquisitions of businesses and non-current financial assets, partly offset by EUR 93 million of net proceeds mainly from divestment.

## Net capital expenditures

Net capital expenditures amounted to a cash outflow of EUR 806 million, compared to an outflow of EUR 830 million in 2013. The year-on-year decrease was mainly due to lower investments at Healthcare and Lighting.

### Acquisitions and financial assets

The net cash impact of acquisitions of businesses and financial assets in 2014 was a total of EUR 258 million. There was a EUR 177 million outflow for acquisitions of businesses, mainly related to the acquisition of a 51% interest in the General Lighting Company (GLC) in The Kingdom of Saudi Arabia (KSA), and a EUR 81 million outflow for financial assets, mainly in the form of a EUR 60 million loan to TPV Technology Limited.

The net cash impact of acquisitions of businesses and financial assets in 2013, was a total of EUR 24 million. There was a EUR 11 million outflow for acquisitions of businesses and a EUR 13 million outflow for financial assets.

### Divestments and derivatives

Cash proceeds of EUR 87 million were received mainly from divestment of the Shakespeare business and the sale of shares in Neusoft. Cash flows from derivatives and current financial assets led to a net cash outflow of EUR 7 million.

In 2013, cash proceeds of EUR 93 million were received from divestments, mainly of non-strategic businesses within Healthcare. Cash flows from derivatives and current financial assets led to a net cash outflow of EUR 101 million.

### Cash flows from financing activities

Net cash used for financing activities in 2014 was EUR 1,189 million. Philips shareholders were given EUR 729 million in the form of a dividend, of which the cash portion of the dividend amounted to EUR 292 million. The net impact of changes in debt was a decrease of EUR 301 million. Additionally, net cash outflows for share buy-back and share delivery totaled EUR 596 million.

Net cash used for financing activities in 2013 was EUR 1,241 million. Philips shareholders were given EUR 678 million in the form of a dividend, of which the cash portion of the dividend amounted to EUR 272 million. The net impact of changes in debt was a decrease of

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EUR 407 million, including the redemption of a USD 143 million bond. Additionally, net cash outflows for share buy-back and share delivery totaled EUR 562 million.

**The year 2013**

**Cash flows from operating activities**

Net cash flow from operating activities amounted to EUR 912 million in 2013, which is EUR 974 million lower than in 2012. The decrease is mainly a result of the payment of the European Commission fine, increased working capital usage and the payout of restructuring charges in 2013.

**Cash flows from investing activities**

In 2013, cash flow from investing activities resulted in a net outflow of EUR 862 million. This was attributable to EUR 830 million cash used for net capital expenditures, EUR 101 million cash used for derivatives and current financial assets, as well as EUR 24 million used for acquisitions of businesses and non-current financial assets, partly offset by EUR 93 million of net proceeds from divestment.

In 2012, cash flows from investing activities resulted in a net outflow of EUR 712 million. This was mainly attributable to EUR 241 million cash used for net capital expenditures, EUR 261 million used for acquisitions, as well as a EUR 167 million outflow for financial assets, mainly due to loans provided to TPV and the TP Vision venture in connection with the divestment of the Television business (EUR 151 million in aggregate).

**Net capital expenditures**

Net capital expenditures totaled EUR 830 million, which was EUR 589 million higher than in 2012, mainly reflecting the impact of proceeds received in 2012 from the sale of the High Tech Campus of EUR 425 million and the 2012 divestment of Philips 50% ownership right in the Senseo trademark to Sara Lee for EUR 170 million.

**Acquisitions and financial assets**

The net cash impact of acquisitions of businesses and financial assets in 2013 was a total of EUR 24 million. There was a EUR 11 million outflow for acquisitions of businesses and a EUR 13 million outflow for financial assets.

The net cash impact of acquisitions of businesses and financial assets in 2012 was a total of EUR 428 million, mainly related to the acquisition of Indal. The EUR 167 million outflow for financial assets mainly related to loans provided to TPV and the TP Vision venture in connection with the divestment of the Television business (EUR 151 million in aggregate).

**Divestments and derivatives**

Cash proceeds of EUR 93 million were received from divestments, mainly of non-strategic businesses within Healthcare. Cash flows from derivatives and current financial assets led to a net cash outflow of EUR 101 million.

In 2012, cash proceeds of EUR 3 million were received from divestments. Cash flows from derivatives and securities led to a net cash outflow of EUR 46 million.

**Cash flows from financing activities**

Net cash used for financing activities in 2013 was EUR 1,241 million. Philips shareholders were given EUR 678 million in the form of a dividend, of which the cash portion of the dividend amounted to EUR 272 million. The net impact of changes in debt was a decrease of EUR 407 million, including the redemption of a USD 143 million bond. Additionally, net cash outflows for share buy-back and share delivery totaled EUR 562 million.

Net cash used for financing activities in 2012 was EUR 293 million. Philips shareholders were given EUR 687 million in the form of a dividend, of which the cash portion of the dividend amounted to EUR 255 million. The net impact of changes in debt was an increase of EUR 731 million, including the issuance of USD 1.5 billion in bonds, partially offset by the early redemption of a USD 500 million bond. Additionally, net cash outflows for share buy-back and share delivery totaled EUR 768 million.

### 5.1.16 Cash flows from discontinued operations

**The year 2014**

In 2014, cash from discontinued operations amounted to an inflow of EUR 193 million. The combined Automotive and Lumileds businesses had a cash inflow of EUR 240 million attributable to operating activities. The Television business used net cash of EUR 8 million, attributable to operating activities. The Audio, Video, Multimedia and Accessories business used net cash of EUR 19 million, with cash outflows from operating activities of EUR 107 million, partly offset by EUR 88 million of cash inflows from investing activities.

In 2013, EUR 115 million cash was used by discontinued operations. The combined Automotive and Lumileds businesses had a cash inflow of EUR 94 million attributable to operating activities. The Television business used net cash of EUR 138 million, attributable to cash outflows of EUR 91 million for operating activities and EUR 47 million for investing activities. The Audio, Video, Multimedia and Accessories business used net cash of EUR 72 million attributable to operating activities.

**The year 2013**

In 2013, EUR 115 million cash was used by discontinued operations. The Television business used net cash of EUR 138, attributable to cash outflows of EUR 91 million for operating activities and EUR 47 million for investing activities. The Audio, Video Multimedia and Accessories business used net cash of EUR 72 million attributable to operating activities. The Automotive and Lumileds business had cash inflow of EUR 94 million attributable to operating activities.

In 2012, EUR 143 million cash was used by discontinued operations. The Television business used net cash of EUR 256 million, attributable to operating cash outflows of EUR 296 million partly offset by cash inflows from investing activities of EUR 40 million. The Audio, Video Multimedia and Accessories business generated a cash inflow of EUR 121 million attributable to operating activities. The Automotive and Lumileds business had cash ouflow of EUR 8 million attributable to operating activities.

### 5.1.17 Financing

**The year 2014**

Condensed consolidated balance sheets for the years 2012, 2013 and 2014 are presented below:

Philips Group

**Condensed consolidated balance sheet**[1] in millions of EUR

2012 - 2014

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Intangible assets | 10,679 | 9,766 | 10,526 |
| Property, plant and equipment | 2,959 | 2,780 | 2,095 |
| Inventories | 3,495 | 3,240 | 3,314 |
| Receivables | 4,858 | 4,892 | 5,040 |
| Assets held for sale | 43 | 507 | 1,613 |
| Other assets | 3,213 | 2,909 | 3,891 |
| Payables | (6,210) | (5,435) | (5,293) |
| Provisions | (2,956) | (2,554) | (3,445) |
| Liabilities directly associated with assets held for sale | (27) | (348) | (349) |
| Other liabilities | (4,169) | (3,094) | (4,193) |
| **Net asset employed** | **11,885** | **12,663** | **13,199** |
| Cash and cash equivalents | 3,834 | 2,465 | 1,873 |
| Debt | (4,534) | (3,901) | (4,104) |
| **Net debt** | **(700)** | **(1,436)** | **(2,231)** |
| Non-controlling interests | (34) | (13) | (101) |
| Shareholders equity | (11,151) | (11,214) | (10,867) |
| **Financing** | **(11,885)** | **(12,663)** | **(13,199)** |

[1] Please refer to section 12.6, Consolidated balance sheets, of this report

The financing structure in 2015 will be broadly in line with 2014.

### 5.1.18 Cash and cash equivalents

**The year 2014**

In 2014, cash and cash equivalents decreased by EUR 592 million to EUR 1,873 million at year-end. The decrease was mainly attributable to an outflow on cash outflows for treasury share transactions of EUR 596 million, cash dividend payout of EUR 292 million, EUR 301 million from decreases in debt and a EUR 258 million outflow related to acquisitions. This was partly offset by a EUR 497 million free cash flow.

**The year 2013**

In 2013, cash and cash equivalents decreased by EUR 1,369 million to EUR 2,465 million at year-end. The decrease was mainly attributable to an outflow on net capital expenditures of EUR 830 million, cash outflows for treasury share transactions of EUR 562 million, cash dividend payout of EUR 272 million, EUR 407 million from decreases in debt and a EUR 115 million outflow related to discontinued operations. This was partly offset by a EUR 912 million inflow from operations.

In 2012, cash and cash equivalents increased by EUR 687 million to EUR 3,834 million at year-end. The increase was mainly attributable to cash inflows from operations amounting to EUR 1,886 million and EUR 730 million from increases in debt. This was partly offset by a EUR 768 million outflow for treasury share transactions, an outflow on net capital expenditures of EUR 241 million, a EUR 528 million outflow for acquisitions of businesses and financial assets, a EUR 255 million outflow for the cash dividend payout, and a EUR 144 million outflow related to discontinued operations.

### 5.1.19 Debt position

**The year 2014**

Total debt outstanding at the end of 2014 was EUR 4,104 million, compared with EUR 3,901 million at the end of 2013.

Philips Group

**Changes in debt** in millions of EUR

2012 - 2014

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| New borrowings | (1,361) | (64) | (69) |
| Repayments | 631 | 471 | 370 |
| Currency effects and consolidation changes | 56 | 226 | (504) |
| **Changes in debt** | **(674)** | **633** | **(203)** |

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In 2014, total debt increased by EUR 203 million. New borrowings of EUR 69 million consisted mainly of replacements to lease contracts. Repayment of EUR 370 million included a EUR 250 million repayment of a five year loan. Other changes resulting from consolidation and currency effects led to an increase of EUR 504 million.

In 2013, total debt decreased by EUR 633 million. New borrowings of EUR 64 million consisted mainly of replacements to lease contracts. Repayment of EUR 471 million included a USD 143 million redemption on USD bonds as well as payments on short-term debt. Other changes resulting from consolidation and currency effects led to a decrease of EUR 226 million.

Long-term debt as a proportion of the total debt stood at 90% at the end of 2014 with an average remaining term of 11.6 years, compared to 85% and 12.8 years at the end of 2013.

For further information, please refer to note 18, Debt.

**The year 2013**

Total debt outstanding at the end of 2013 was EUR 3,901 million, compared with EUR 4,534 million at the end of 2012.

In 2013, total debt decreased by EUR 633 million. New borrowings of EUR 64 million consisted mainly of replacements to lease contracts. Repayment of EUR 471 million included a USD 143 million redemption on USD bonds as well as payments on short-term debt. Other changes resulting from consolidation and currency effects led to a decrease of EUR 226 million.

In 2012, total debt increased by EUR 674 million. New borrowings of EUR 1,361 million included the issuance of USD 1.5 billion in bonds. Repayment of EUR 631 million included early redemption of a USD 500 million bond. Other changes resulting from consolidation and currency effects led to a decrease of EUR 56 million.

Long-term debt as a proportion of the total debt stood at 85% at the end of 2013 with an average remaining term of 12.8 years, compared to 82% and 12.7 years at the end of 2012.

For further information, please refer to note 18, Debt.

## 5.1.20 Shareholders equity

**The year 2014**

Shareholders equity decreased by EUR 347 million in 2014 to EUR 10,867 million at December 31, 2014. The decrease was mainly a result of EUR 714 million related to purchase shares for the share buy-back program and coverage for the LTI program, partially offset by EUR 415 million net income and EUR 50 million of other comprehensive income. The dividend payment to shareholders in 2014 reduced equity by EUR 293 million including tax and service charges, while the delivery of treasury shares increased equity by EUR 116 million and share-based compensation plans increased equity by EUR 88 million.

The number of outstanding common shares of Royal Philips at December 31, 2014 was 914 million (2013: 913 million). At the end of 2014, the Company held 17.1 million shares in treasury to cover the future delivery of shares (2013: 20.7 million shares). This was in connection with the 40.8 million rights outstanding at the end of 2014 (2013: 44.3 million rights) under the Company s long-term incentive plans. At the end of 2014, the Company held 3.3 million shares for cancellation (2013: 3.9 million shares).

**The year 2013**

Shareholders equity increased by EUR 63 million in 2013 to EUR 11,214 million at December 31, 2013. The increase was mainly a result of EUR 1,169 million net income, partially offset by EUR 476 million of currency translation losses and EUR 669 million related to the purchase of treasury shares. The dividend payment to shareholders in 2013 reduced equity by EUR 272 million, while the delivery of treasury shares increased equity by EUR 118 million and share-based compensation plans increased equity by EUR 105 million.

Shareholders equity decreased by EUR 1,177 million in 2012 to EUR 11,151 million at December 31, 2012. The decrease was mainly as a result of EUR 816 million related to the purchase of treasury shares, EUR 100 million of currency translation losses and a EUR 35 million net loss. The dividend payment to shareholders in 2012 reduced equity by EUR 259 million. The decrease was partially offset by a EUR 50 million increase related to the delivery of treasury shares and share-based compensation plans increased equity by EUR 84 million.

The number of outstanding common shares of Royal Philips at December 31, 2013 was 913 million (2012: 915 million).

At the end of 2013, the Company held 20.7 million shares in treasury to cover the future delivery of shares (2012: 28.7 million shares). This was in connection with the 44.3 million rights outstanding at the end of 2013 (2012: 52.3 million rights) under the Company s long-term incentive plans. At the end of 2013, the Company held 3.9 million shares for cancellation (2012: 13.8 million shares).

### 5.1.21 Net debt to group equity

**The year 2014**

Philips ended 2014 in a net debt position (total debt less cash and cash equivalents) of EUR 2,231 million, compared to a net debt position of EUR 1,436 million at the end of 2013.

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**The year 2013**

Philips ended 2013 in a net debt position (cash and cash equivalents, net of debt) of EUR 1,436 million, compared to a net debt position of EUR 700 million at the end of 2012.

## 5.1.22 Liquidity position

**The year 2014**

Including the Company s cash position (cash and cash equivalents), as well as its EUR 1.8 billion committed revolving credit facility the Company had access to available liquidity of EUR 3.673 million vs. Gross Debt (including short and long term) of EUR 4.104 million as of December 31, 2014.

As of December 31, 2013 the Company had access to net available liquid resources of EUR 429 million including the Company s net debt (cash) position (cash and cash equivalents, net of debt), listed available-for-sale financial assets, as well as its EUR 1.8 billion committed revolving credit facility.

Philips Group

**Liquidity position** in millions of EUR

2012 - 2014

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Cash and cash equivalents | 3,834 | 2,465 | 1,873 |
| Committed revolving credit facility/CP program/Bilateral loan | 1,800 | 1,800 | 1,800 |
| **Liquidity** | **5,634** | **4,265** | **3,673** |
| Available-for-sale financial assets at fair value | 120 | 65 | 75 |
| Short-term debt | (809) | (592) | (392) |
| Long-term debt | (3,725) | (3,309) | (3,712) |
| **Net available liquidity resources** | **1,220** | **429** | **(356)** |

Philips has a EUR 1.8 billion committed revolving credit facility that can be used for general group purposes and as a backstop of its commercial paper program. In January 2013, the EUR 1.8 billion facility was extended by 2 years until February 2018. The commercial paper program amounts to USD 2.5 billion, under which Philips can issue commercial paper up to 364 days in tenor, both in the US and in Europe, in any major freely convertible currency. There is a panel of banks, in Europe and in the US, which service the program. The interest is at market rates prevailing at the time of issuance of the commercial paper. There is no collateral requirement in the commercial paper program. Also, there are no limitations on Philips use of funds from the program. As at December 31, 2014, Philips did not have any loans outstanding under these facilities.

Philips existing long-term debt is rated A3 (with stable outlook) by Moody s and A- (with negative outlook) by Standard & Poor s. As part of the capital allocation policy, it is Philips ambition to manage its financial ratios to be in line with an A3/A- rating. There is no assurance that Philips will be able to achieve this goal. Ratings are subject to change at any time. The Company s outstanding long-term debt and credit facilities do not contain financial covenants or cross acceleration provisions that are based on adverse changes in ratings or on material adverse change.

As at December 31, 2014, Philips had total cash and cash equivalents of EUR 1,873 million. Philips pools cash from subsidiaries to the extent legally and economically feasible. Cash not pooled remains available for local operational or investment needs. Philips had a total gross debt position of EUR 4,104 million at year-end 2014.

Philips believes its current liquidity is sufficient to meet its present working capital requirements. Philips intends to finance the acquisition of Volcano through a combination of cash on hand and the issuance of short-term debt.

**The year 2013**

Including the Company s net debt (cash) position (cash and cash equivalents, net of debt), listed available-for-sale financial assets, as well as its EUR 1.8 billion committed revolving credit facility, the Company had access to net available liquid resources of EUR 429 million as of December 31, 2013, compared to EUR 1,220 million one year earlier.

### 5.1.23 Cash obligations

#### Contractual cash obligations

Presented below is a summary of the Group s contractual cash obligations and commitments at December 31, 2014.

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Group performance 5.1.23

Philips Group

**Contractual cash obligations**[1] in millions of EUR

2014

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | **total** | **less than 1 year** | **1-3 years** | **3-5 years** | **after 5 years** |
| Long-term debt[2] | 3,665 | 94 | 6 | 1,030 | 2,535 |
| Finance lease obligations | 232 | 61 | 80 | 37 | 54 |
| Short-term debt | 244 | 244 | | | |
| Operating leases | 986 | 236 | 293 | 159 | 298 |
| Derivative liabilities | 860 | 353 | 166 | 253 | 88 |
| Interest on debt[3] | 2,617 | 198 | 387 | 299 | 1,733 |
| Purchase obligations[4] | 131 | 70 | 51 | 10 | |
| Trade and other payables | 2,499 | 2,499 | | | |
| **Contractual cash obligations** | **11,234** | **3,755** | **983** | **1,788** | **4,708** |

1) Obligations in this table are undiscounted
2) Long-term debt includes short-term portion of long-term debt and excludes finance lease obligations
3) Approximately 15% of the debt bears interest at a floating rate. The majority of the interest payments on variable interest rate loans in the table above reflect market forward interest rates at the period end and these amounts may change as the market interest rate changes
4) Philips has commitments related to the ordinary course of business which in general relate to contracts and purchase order commitments for less than 12 months. In the table, only the commitments for multiple years are presented, including their short-term portion

Philips has no material commitments for capital expenditures.

Additionally, Philips has a number of commercial agreements, such as supply agreements, which provide that certain penalties may be charged to the Company if it does not fulfill its commitments.

Certain Philips suppliers factor their trade receivables from Philips with third parties through supplier finance arrangements. At December 31, 2014 approximately EUR 357 million of the Philips accounts payables were known to have been sold onward under such arrangements whereby Philips confirms invoices. Philips continues to recognize these liabilities as trade payables and will settle the liabilities in line with the original payment terms of the related invoices.

### Other cash commitments

The Company and its subsidiaries sponsor post-employment benefit plans in many countries in accordance with legal requirements, customs and the local situation in the countries involved. For a discussion of the plans and expected cash outflows, please refer to note 20, Post-employment benefits.

The Company had EUR 380 million restructuring-related provisions by the end of 2014, of which EUR 230 million is expected to result in cash outflows in 2015.

Refer to note 19, Provisions for details of restructuring provisions and potential cash flow impact for 2014 and further.

A proposal will be submitted to the upcoming Annual General Meeting of Shareholders to declare a distribution of EUR 0.80 per common share (up to EUR 735 million), in cash or shares at the option of the shareholder, against the net income and retained earnings for 2014. Further details will be given in the agenda for the Annual General Meeting of Shareholders, to be held on May 7, 2015.

### Guarantees

Philips policy is to provide guarantees and other letters of support only in writing. Philips does not provide other forms of support. At the end of 2014, the total fair value of guarantees recognized on the balance sheet amounted to less than EUR 1 million (December 31, 2013: less than EUR 1 million). Remaining off-balance-sheet business and credit-related guarantees provided on behalf of third parties and associates decreased by EUR 13 million during 2014 to EUR 21 million. Off-balance-sheet guarantees for year end 2013 were restated from EUR 333 million to EUR 34 million to reflect guarantees related to associates and third-party only.

## 5.1.24 Supply management

### The year 2014

Throughout 2014, market prices for energy and raw materials showed diverse trends. These commodities represent approximately 15% of our direct and indirect spend. Within the metals commodity group, copper prices declined in the course of the year, whereas others, e.g. aluminum, showed an upward trend. Also, in steel and resins, differences were seen between grades and regions. In general, annual average market prices were around 2013 levels. The global slowdown in the economy, and more specifically slow growth in China, did not yet lead to lower commodity market prices in the first quarters of 2014. From Q4, prices for raw materials, and especially oil, started to significantly decline as a consequence of the continuing macro-economic weakness, resulting in oversupplied markets.

Rare earth element prices continued to slide, and this contributed to higher savings levels in 2014. Contingency measures are in place to delay and mitigate the impact of a possible new hike in the price of rare earths in the future. The tight availability of xenon for halogen lamps has relaxed, and also the price level has started to come down. This is partly caused by lower demand for halogen lamps in end-markets. The availability and price of helium continues to be a concern, but measures have been taken to mitigate the impact.

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The rapid progress of the Procurement transformation has led to a continued improvement in overall Procurement results. This has had a major positive and structural impact on overall cost levels in all Philips businesses.

### The year 2013

Throughout 2013 the average market prices for energy and raw materials, which represent approximately 15% of our direct and indirect spend, remained fairly stable compared to the average for 2012. The potential impact of improving economic conditions in mature economies in the second half of the year was offset by a simultaneous slow-down of demand in growth geographies, especially in China. Steel and other metals prices were stable at a historically low level, while oil and plastics stabilized at a higher level. Given the economic circumstances it was remarkable that packaging market prices increased in 2013.

Rare earth element prices continued to slide, and this contributed to higher savings levels in 2013. Contingency measures were put in place to delay and mitigate the impact of a possible new hike in the price of rare earths in the future. The major successes of eco-halogen lamps and similar products in the market have fueled demand for xenon, which is used as a filler gas in these lamps. Since global production did not increase, this led to tight supply and a price peak. Therefore a major effort was made resulting in replacement of xenon by an alternative gas for a large part of the portfolio by the end of 2013. The availability of helium remained a constant concern, though acute shortages did not occur. Technical measures were taken to almost completely prevent loss of helium in our operations.

Thanks to a rigid procurement focus on organizational set-up and performance drivers, the overall procurement performance improved substantially in 2013 in accordance with the plan to save an additional EUR 1 billion.

## 5.2 Social performance

Our businesses provide innovative solutions that address major trends affecting the world  the demand for affordable healthcare, the need for greater energy efficiency, and the desire for personal well-being. Philips further strengthened its focus on sustainability in 2014 through a number of initiatives described in the Social and Environmental performance sections.

### 5.2.1 Improving people s lives

At Philips, we strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025. To guide our efforts and measure our progress, we take a two-dimensional approach  social and ecological  to improving people s lives. Products and solutions from our portfolio that directly support the curative (care) or preventive (well-being) side of people s health, determine the contribution to the social dimension. As healthy ecosystems are also needed for people to live a healthy life, the contribution to the ecological dimension is determined by means of our steadily growing Green Product portfolio, such as our energy-efficient lighting.

Through Philips products and solutions that directly support the curative or preventive side of people s health, we improved the lives of 670 million people in 2014, driven by our Healthcare sector. Additionally, our well-being products that help people live a healthy life, and our Green Products that contribute to a healthy ecosystem, improved the lives of 290 million and 1.5 billion people respectively. After the elimination of double counts  people touched multiple times  we arrived at 1.9 billion lives. This is an increase of 200 million compared to 2013, mainly driven by Consumer Lifestyle in Greater China, Lighting in North America, Central & Eastern Europe, and Middle East & Turkey, and Healthcare in Greater China and the ASEAN countries. Our baseline of 1.7 billion people a year, established in 2012, has been adjusted to 1.6 billion to reflect the impact of the exclusion of the Automotive and Lumileds businesses. More information on this metric can be found in chapter 14, Sustainability statements, of this report.

### 5.2.2 Employee engagement

Employee engagement is key to our competitive performance. Engaged employees help us meet our business goals and help make Philips a great place to work. We have used employee engagement surveys for over a decade to gather feedback and focus areas and have seen tangible results along our journey.

As announced in 2012, we survey Employee Engagement on a bi-annual basis, starting in 2013. In 2014 we implemented a brief, complementary, team-focused survey called My Accelerate! Survey (MAS).

We have observed and shown via research the correlation between the Employee Engagement Index and the Net Promoter Score question *How likely is it you would recommend Philips as a great place to work?* (the measurement that cumulatively covers emotional commitment, pride and active recommendation). We used the Net Promoter Score as a proxy for the EES results in 2014 which was based on survey results of some 17,000 employees. In 2015 we will perform a full Employee Engagement Survey again.

For more information on MAS, please refer to sub-section 14.2.1, Engaging our employees, of this report.

### 5.2.3 Diversity and inclusion

Based on the deployment of our comprehensive strategy, in 2014 Philips continued making progress on its diversity and inclusion (D&I) agenda. We believe a diverse workforce and an inclusive work environment are essential to a thriving innovative business and we strive to attract employees from a wide range of backgrounds.

Regarding gender diversity, we recorded an increase in the share of female executives to 18% at year-end 2014 up from 15% in 2013. We are well on track to achieve the aspiration of 20% female executives by year-end 2016 having embedded D&I objectives in HR processes and culture-building activities, combined with the active engagement of senior female leaders globally.

One of the key drivers of progress is the redesigned talent management approach, which includes a comprehensive approach to succession planning for all executives and other key positions in order to also drive development and career planning for individuals. In 2014, 28% of new executives internally promoted were women, and women represented 31% of all external executive hires. Demonstrating the Group s commitment to D&I, development of gender diversity has been made a key performance indicator for Philips.

Philips has one woman on its Executive Committee and three female members of its Supervisory Board. Our executives originate from more than 30 countries.

In 2014, Philips employed 35% females, the same percentage as in 2013.

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In 2014, employee turnover amounted to 15.7% (of which 8.7% was voluntary), slightly below 2013 and mainly caused by the changing industrial footprint, the company s overhead reduction program and the high turnover of manufacturing staff in our factories, mainly in the growth markets.

Philips Group

**Employee turnover** in %

2014

| | Staff | Professionals | Management | Executives | Total |
|---|---|---|---|---|---|
| Female | 22.4 | 12.0 | 9.8 | 9.9 | 18.2 |
| Male | 19.1 | 10.2 | 8.8 | 14.0 | 14.1 |
| **Philips Group** | **20.5** | **10.7** | **9.0** | **13.3** | **15.7** |

Philips Group

**Voluntary turnover** in %

2014

| | Staff | Professionals | Management | Executives | Total |
|---|---|---|---|---|---|
| Female | 13.5 | 7.0 | 5.2 | 5.9 | 10.8 |
| Male | 10.3 | 5.5 | 3.9 | 7.4 | 7.5 |
| **Philips Group** | **11.6** | **5.9** | **4.2** | **7.2** | **8.7** |

Compared to the percentage of women employed by Philips in 2014, we see a relatively higher outflow of women in the Staff and Professionals categories and a lower outflow of female Executives.

### 5.2.4 Employment

**The year 2014**

The total number of Philips Group employees (continuing operations) was 105,365 at the end of 2014, compared to 105,637 at the end of 2013. Approximately 36% were employed in the Lighting sector, 35% in the Healthcare sector and approximately 16% in the Consumer Lifestyle sector.

Philips Group

**Employees per sector** in FTEs at year-end

2012 - 2014

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Healthcare | 37,460 | 37,008 | 37,065 |
| Consumer Lifestyle | 16,542 | 17,255 | 16,639 |
| Lighting | 41,757 | 38,671 | 37,808 |
| Innovation, Group & Services | 11,697 | 12,703 | 13,853 |
| **Continuing operations** | **107,456** | **105,637** | **105,365** |
| **Discontinued operations** | **10,631** | **10,445** | **8,313** |
| **Philips Group** | **118,087** | **116,082** | **113,678** |

Compared to 2013, the number of employees in continuing operations decreased by 272. The decrease reflects industrial footprint rationalization at Lighting, divestments at Healthcare, and a reduction in third-party workers at Consumer Lifestyle, partly offset by the consolidation of the General Lighting Company (GLC) acquisition at Lighting and an increase in temporary workers in the IT Service Units at IG&S.

Approximately 52% of the Philips workforce was located in mature geographies, and about 48% in growth geographies. In 2014, the number of employees in mature geographies decreased by 1,733, mainly due to the company s overhead reduction program and the industrial footprint reduction at Lighting. Growth geographies headcount increased by 1,461, largely driven by the GLC acquisition in The Kingdom of Saudi Arabia (KSA).

Philips Group

**Employees per geographic cluster** in FTEs at year-end

2012 - 2014

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Western Europe | 29,803 | 28,944 | 29,105 |
| North America | 25,375 | 24,401 | 22,283 |
| Other mature geographies | 3,304 | 3,419 | 3,643 |
| Mature geographies | 58,482 | 56,764 | 55,031 |
| Growth geographies | 48,974 | 48,873 | 50,334 |
| **Continuing operations** | **107,456** | **105,637** | **105,365** |
| **Discontinued operations** | **10,631** | **10,445** | **8,313** |

| | | | |
|---|---|---|---|
| **Philips Group** | **118,087** | **116,082** | **113,678** |

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Philips Group

**Employment** in FTEs at year-end

2012 - 2014

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| **Balance as of January 1** | **125,240** | **118,087** | **116,082** |
| Consolidation changes: | | | |
| Acquisitions | 909 | | 1,506 |
| Divestments | (1,024) | (705) | (247) |
| Changes in discontinued operations | (3,545) | (186) | (2,132) |
| Other changes | (3,493) | (1,114) | (1,531) |
| **Balance as of December 31** | **118,087** | **116,082** | **113,678** |

In 2015, the number of employees is expected to remain broadly in line with 2014, with increases from our acquisition of Volcano Corporation to be offset by reductions from footprint-related initiatives.

**The year 2013**

The total number of Philips Group employees was 105,637 at the end of 2013, compared to 107,465 at the end of 2012. Approximately 37% were employed in the Lighting sector, due to the continued vertical integration in this business. Some 35% were employed in the Healthcare sector and approximately 16% in the Consumer Lifestyle sector.

Compared to 2012, the number of employees decreased by 1,819. This decrease reflects industrial footprint rationalization at Lighting, divestments at Healthcare, and the company s overhead reduction program.

Approximately 54% of the Philips workforce was located in mature geographies, and about 46% in growth geographies. In 2012, the number of employees in mature geographies decreased by 1,718, largely due to industrial footprint rationalization at Lighting. Growth geographies decreased by 101, mainly due to divestments.

### 5.2.5 Developing our people

Our drive to build a learning organization which is leader led has progressed significantly, and the Philips University was launched formally in Q4. Philips University is embracing 70:20:10 as part of the long-term journey to build a learning culture that allows us to become a learning organization: 70% of learning is carried out on the job, 20% through coaching and mentoring (through others), and the remaining 10% through formal learning methods (classroom and e-learning).

**Training spend**

Our external training spend in 2014 amounted to EUR 44.7 million, a decrease compared to EUR 47.3 million in 2013, which is the result of the rationalization of content made in 2013.

For more information on developing our people, please refer to sub-section 14.2.2, People development, of this report.

### 5.2.6 Health and Safety

Philips strives for an injury-free and illness-free work environment, with a sharp focus on reducing the number of injuries and improving processes. The Lost Workday Injury Cases (LWIC) rate is defined as a KPI, on which we set yearly targets for the company and our individual sectors.

We regret to report that one of our Healthcare Field Service employees passed away after a traffic accident in France whilst traveling home.

In 2014 we recorded 227 LWIC, i.e. occupational injury cases where the injured person is unable to work one or more days after the injury. This represents a significant decrease compared with 280 in 2013, and continues the consecutive reduction trend from 2010. The LWIC rate decreased to 0.23 per 100 FTEs, compared with 0.27 in 2013. The number of Lost Workdays caused by injuries increased by 403 days to 9,068 days in 2014.

For more information on Health and Safety, please refer to sub-section 14.2.4, Health and Safety performance, of this report.

### 5.2.7 Philips General Business Principles renewed

Our General Business Principles (GBP) set the standard for how to conduct business, both for individual employees and for the company itself. In our drive for continuous improvement, the GBP were revised in 2014 to help ensure that everyone acts with integrity, and also to better reflect the changing business landscape in which we operate.

For a description of GBP processes and policies, please refer to section 7.1, Our approach to risk management and business control, of this report.

The General Business Principles have been rewritten, but without deviating from the fundamental principles for doing business which are firmly rooted in Philips heritage. Without making substantial changes to these standards, the GBP have been turned into a document that is easy to read and understand for everyone. They have been translated into 32 languages, allowing almost every employee to read them in their native language. The GBP form an integral part of labor contracts in virtually every country in which Philips operates.

#### Training and awareness

Following the updating of the General Business Principles, a new e-learning was launched in October. In this mandatory online training course employees are informed about the contents of the GBP and the way in which Philips applies them. This course, in which every employee with an e-mail account has been invited to participate, is available in 21 languages and is taken by every new hire joining the company. During the last quarter of 2014, out of the 73,000 employees with an e-mail account, well over 57,000 (77%) took this e-learning. At the end of the training course employees are asked to confirm that they will always act with integrity. In addition, GBP Compliance Officers around the world also attended a series of face-to-face training courses aimed at helping them perform their supporting role more effectively.

The launch of the e-learning was just one of the events that formed part of the global communication campaign on the GBP. These communication efforts culminated in a GBP dialog week , for the second year in a row, in which managers were invited to host dialog sessions with their teams about the Philips GBP. Tens of thousands of Philips employees participated in these sessions and managers reported very high levels of engagement.

The results of the monitoring measures in place are given in sub-section 14.2.5, General Business Principles, of this report.

### 5.2.8 Working with stakeholders

In organizing ourselves around customers and markets, we create dialogues with our stakeholders in order to explore common ground for addressing societal challenges, building partnerships and jointly developing supporting ecosystems for our innovations. Working with partners is crucial in delivering on our vision to make the world healthier and more sustainable through innovation. An overview of stakeholders and topics discussed is provided in chapter 14, Sustainability statements, of this report.

For more information on our stakeholder engagement activities, please refer to sub-section 14.2.7, Stakeholder Engagement, of this report.

### 5.2.9 Social Investment Programs

2014 was a transition year for Philips social investment program. With the creation of the Philips Foundation, a new global strategy was rolled out, focusing on disaster relief, local community investment and social entrepreneurship. The Philips Foundation is responsible for the overall strategy and global non-profit partnerships. Philips country organizations, while aligning with the global strategy, have the ability to drive regional programs that fit the specific needs of local communities.

For example, in 2014, Philips Brazil rolled out the program Light Up Your Game across 10 countries in Latin America. Working together with non-profit organizations such as the KNVB and IDEAAS, they were able to install over 27 solar and semi-solar Community Light Centers, which provide safe and functional space for sports and other community activities after dark.

In North America, the Philips Cares program provides ways for employees to work together to improve people s lives by creating healthy, sustainable communities that contribute to the success and well-being of future generations. This can take many forms:

from helping a child to excel in math, or providing safety and energy-efficient home improvements for the disadvantaged, to raising awareness about the importance of cardiac health. In 2014 alone, more than 5,000 employee volunteers participated in community outreach projects that suited their needs, schedules, and passions through partnerships with organizations such as the American Heart Association, Rebuilding Together, and the National 4-H Council.

In 2015 and beyond, all programs run by Philips country organizations on social investments will come under the umbrella of the Philips Foundation.

More information about the Philips Foundation and its purpose and scope can be found at sub-section 14.2.6, The Philips Foundation, of this report.

### 5.2.10 Supplier sustainability

Many of our products are being created and manufactured in close cooperation with a wide range of business partners, both in the electronics industry and other industries. Philips needs suppliers to share our commitment to sustainability, and not just in the development and manufacturing of products but also in the way they conduct their business. We require suppliers to provide a safe working environment for their workers, to treat workers with respect, and to work in an environmentally sound way. Our programs are designed to engage and support our suppliers on a shared journey towards continuous improvement in supply chain sustainability.

As a leading company in sustainability, Philips acts as a catalyst and supports our suppliers in their pursuit of continuous improvement in social and environmental performance. We recognize that this is a huge challenge requiring an industry-wide effort in collaboration with other societal stakeholders. Therefore, we take a leading role, together with peers in the industry, in the Electronic Industry Citizenship Coalition (EICC) and encourage our strategic suppliers to join the EICC too. In 2014, Philips initiated a new EICC taskforce on process chemicals in the supply chain. We will also continue to seek active cooperation and dialogue with other societal stakeholders including governments and civil society organizations, either directly or through institutions like the EICC, the multi-stakeholder programs of the Sustainable Trade Initiative IDH, and the OECD.

**Supplier Sustainability Involvement Program**

The Philips Supplier Sustainability Involvement Program is our overarching program to help improve the sustainability performance of our suppliers. We create commitment from our suppliers by requiring them to comply with our Regulated Substances List and the Philips Supplier Sustainability Declaration, which we include in all purchasing contracts. The Declaration is based on the EICC code of conduct and we have added requirements on Freedom of Association and Collective Bargaining. The topics covered in the

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Declaration are listed below. We monitor supplier compliance with the Declaration through a system of regular audits.

**2014 supplier audits in risk countries**

In 2014, Philips conducted 203 full-scope audits. Additionally, 35 audits of potential suppliers were performed. Potential suppliers are audited as part of the supplier approval process, and they need to close any zero-tolerance issues before they can start delivering to Philips. In our new audit approach, we place more focus on capacity-building programs to realize structural improvements leading to better audit results.

As in previous years, the majority of the audits in 2014 were done in China. The total number of full-scope audits carried out since we started the program in 2005 is 2,365. This number includes repeated audits (129 in 2014), since we execute a full-scope audit at our risk suppliers every three years. The audit program covers 90% of our spend with risk suppliers.

**Audit findings**

We believe it is important to be transparent about the issues we observe during the audits. Therefore we have published a detailed list of identified major non-compliances in our Annual Report since 2010.

To track improvements, Philips measures the compliance rate for the identified risk suppliers, i.e. the percentage of risk suppliers that were audited within the last three years and do not have any or have resolved all major non-compliances. During 2014 we achieved a compliance rate of 86% (2013: 77%).

Please refer to sub-section 14.2.8, Supplier indicators, of this report for the detailed findings of 2014.

**Supplier development and capacity building**

Based on many years of experience with the audit program, we know that a combination of audits, capacity building, consequence management and structural attention from management is crucial to realize structural and lasting changes at supplier production sites. In 2014 we continued our focus on capacity-building initiatives which are offered to help suppliers improve their practices. Our supplier sustainability experts in China organized training, visited suppliers for on-site consultancy, conducted pre-audit checks and helped suppliers to train their own employees on topics like occupational health and safety, emergency preparedness, chemicals management, dust explosion and prevention, and fire safety.

We also teamed up with peers in the industry and civil society organizations to work on capacity building at Chinese factories via the IDH Electronics Program, an innovative multi-stakeholder initiative sponsored by the Sustainable Trade Initiative (Initiatief Duurzame Handel). The goal is to improve working conditions for more than 500,000 employees in the electronics sector. Three years ago the program was kicked-off in China s Pearl River Delta, and has now expanded to also cover supplier factories in the Yangtze River Delta area. A total of 21 Philips suppliers are now participating in the program.

### 5.2.11 Conflict minerals: issues further down the chain

In line with Philips commitment to supply-chain sustainability, we are concerned about the situation in eastern DRC (the Democratic Republic of the Congo), where proceeds from the mining sector are used to finance rebel conflicts in the region. Philips does not directly source minerals from the DRC and the mines are typically seven or more tiers away from our direct suppliers. Philips nevertheless feels obliged to address this issue through the means and influencing mechanisms available to us.

We were one of the first companies to survey our suppliers to identify smelters used in the supply chain that produce the metals of concern, and one of the four companies to have our SEC Conflict Minerals report audited in 2014. We are cooperating with industry to drive the identified smelters to become compliant with the Conflict-Free Smelter Program or an equivalent third-party audit program. We also realize how important it is not to boycott the minerals from the DRC and neighboring countries entirely. That is why we are supporting verified conflict-free supply chains that contribute to economic development in the DRC region.

For more details and results of our supplier sustainability program, please refer to sub-section 14.2.8, Supplier indicators, of this report.

## 5.3 Environmental performance

### EcoVision

Philips has a long sustainability history stretching all the way back to our founding fathers. In 1994 we launched our first program and set sustainability targets for our own operations. Next we launched our first EcoVision program in 1998 which focused on the environmental dimension of our operations and products. We also started to focus on sustainability in our supply chain in 2003. We extended our scope further in 2010 by including the social dimension of products and solutions, which is now reflected in our company vision:

We strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025.

Philips publishes every year a full Integrated Annual Report with the highest (reasonable) assurance level on the financial, social and environmental performance. With that overall reasonable assurance level Philips is a frontrunner in this field. KPMG has provided reasonable assurance on whether the information in chapter 14, Sustainability statements, of this report, section 5.2, Social performance, of this report and section 5.3, Environmental performance, of this report presents fairly, in all material respects, the sustainability performance in accordance with the reporting criteria. We refer to section 14.4, Independent Auditor s Assurance Report, of this report.

The main elements of the EcoVision program are:

- Improving people s lives
- Green Product sales
- Green Innovation, including Circular Economy
- Green Operations

Health and Safety

Supplier Sustainability

In this Environmental performance section an overview is given of the most important environmental parameters of the program. Improving people s lives, Health and Safety, and Supplier Sustainability are addressed in the Social performance section. Details of the EcoVision parameters can be found in the chapter 14, Sustainability statements, of this report.

### 5.3.1 Green Innovation

Green Innovation is the Research & Development spend related to the development of new generations of Green Products and Green Technologies. We announced in 2010 our plan to invest a cumulative EUR 2 billion in Green Innovation during the coming 5 years. In 2014, Philips already achieved this EUR 2 billion target a year ahead of schedule as we invested some EUR 463 million in Green Innovation, excluding Lumileds and Automotive. Lighting continued to be the largest contributor, mainly as a result of investments in LED. The impact of Lumileds and Automotive on Green Innovation is significant at EUR 105 million in 2014 and EUR 104 million in 2013.

**Healthcare**

Healthcare develops innovative solutions across the continuum of care in collaboration with clinicians and customers, to improve patient outcomes, provide better value, and expand access to care. Healthcare investments in Green Innovation in 2014 amounted to EUR 90 million, an increase of EUR 10 million compared to 2013. In hardware innovation, we take into account all Green Focal Areas and aim to reduce environmental

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impact over the total lifecycle, with a focus on energy efficiency and substance management. Other areas covered include increased levels of recycled content in our products, remote servicing and closing the materials loop contributing to a circular economy, e.g. through upgrading strategies, parts harvesting and refurbishing. Healthcare actively supports a voluntary industry initiative (COCIR) for improving the energy efficiency of imaging equipment. Moreover, we are actively partnering with care providers to look together for innovative ways to reduce the environmental impact of healthcare, for example by optimizing energy efficient use of medical equipment.

**Consumer Lifestyle**

Increased R&D investments at Consumer Lifestyle are also reflected in increased Green Innovation which amounted to EUR 97 million in 2014 compared to EUR 75 million in 2013. This increase resulted in higher Green Product sales in all Business Groups. The sector continued its work on improving the energy efficiency of its products, closing the materials loop (e.g. by using recycled materials in products and packaging) and the voluntary phase-out of polyvinyl chloride (PVC), brominated flame retardants (BFR) and Bisphenol A (BPA) from food contact products. In particular, more than 80% of the shaving, grooming and oral healthcare products are completely PVC/BFR-free.

**Lighting**

At Lighting, we strive to make the world healthier and more sustainable through energy-efficient lighting systems. With a 2014 investment of EUR 255 million in Green Innovation (excluding Lumileds and Automotive at EUR 105 million), Lighting invested EUR 32 million more than in 2013. Increasing investments in digital lighting solutions have led to further improvements in the area of energy efficiency. In 2014, Lighting piloted a breakthrough connected lighting system for offices, featuring Power-over-Ethernet (PoE-enabled) luminaires. By offering employees personal control of the lighting above their desks, the system delivers appropriate task lighting levels while keeping general lighting levels lower, enhancing both worker efficiency and energy efficiency. The connected lighting system integrates with other building systems such as heating, ventilation, and IT services to realize significant energy savings not only on lighting, but also on HVAC and other services, which together account for up to 70% of a building s energy usage.

Beyond significant energy efficiency benefits, the connected lighting system supports the transition to a more circular economy. PoE-enabled luminaires eliminate the need for power cabling, simplifying installation and lowering initial costs. A flexible and open system architecture streamlines servicing and maintenance, affords an easy upgrade path, and extends system lifetime.

**Philips Group Innovation**

Philips Group Innovation invested EUR 21 million in Green Innovations, spread over projects focused on global challenges related to water, air, waste, energy, food and access to affordable healthcare. Group Innovation used the Sustainable Innovations Assessment tool, in which innovation projects are mapped, categorized and scored along the environmental and social dimension in order to identify those innovation projects that drive sustainable innovation.

Philips Green Patent portfolio

At the end of 2014, Philips IP portfolio comprised 8% green patent families, which means that all these patent families were labeled with at least one Green Focal Area. In 2014, 10% of our total patent filings were flagged as green patent family. Energy efficiency is the most frequently occurring Green Focal Area throughout the portfolio. Multiplying the portfolio percentage with our annual patent portfolio cost in 2014 determines the amount that we invest in Green IP, which constitutes part of Philips investment in Green Innovation.

While a product can become green by incorporating an environmentally friendly technology, such technology cannot necessarily be protected in a patent because of lack of patentability over the state-of-the-art technology. Therefore not all Green Technologies implemented in our Green Products can be captured in patents.

**Energy efficiency of products**

Energy efficiency is a key Green Focal Area for our Green Products. According to our analysis, about 97% of the energy consumed during the use phase of our products is attributable to Lighting products. The remaining 3% is split over Consumer Lifestyle and Healthcare. Therefore, we focus on the energy efficiency of our Lighting products in the calculation. The annual energy consumption per product category is calculated by multiplying the power consumption of a product by the average annual operating hours and the annual pieces sold and then dividing the light output (lumens) by the energy consumed (watts). The average energy efficiency of our total product portfolio increased slightly in 2014 to 40.5 lumen per watt (but improved 21% compared to 2009, the baseline year). The exclusion of Lumileds and Automotive has a limited upward effect on the energy efficiency of the portfolio.

In 2014 LED sales advanced well, but demand for conventional lighting remained fairly stable due to the challenging economic environment. Since the number of traditional lamps sold is significantly higher than LEDs, the energy efficiency improvement of the total Lighting portfolio in 2014 was limited. We expect the energy efficiency to improve in the coming years as the traditional incandescent lamp is banned in more countries. Our target for 2015 is a 50% improvement compared to the 2009 baseline. In this target setting, assumptions were made about the speed of the regulatory developments in this area, which fell short of expectations. Therefore, in 2015 the target of 50% improvement will not yet be achieved. Further details on this parameter and the methodology can be found in the document Energy efficiency of Philips products at www.philips.com/sustainability.

**Circular Economy**

The transition from a linear to a circular economy is essential to create a sustainable world. A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using these resources more effectively. It is a driver of innovation in the areas of material, component and product re-use, as well as new business models such as system solutions and services. In a circular economy, more effective (re)use of materials enables the creation of more value, both by means of cost savings and by developing new markets or growing existing ones.

For more information on our Circular Economy activities, please refer to sub-section 14.3.1, EcoVision, of this report.

### Closing the materials loop

The amount of collection and recycling for 2013 (reported in 2014) was calculated at 31,500 tonnes, a 3% increase compared to 31,000 tonnes reported in 2013, mainly driven by lower weight of products and components in Healthcare, offset by higher volumes in Lighting. The 2009 baseline for global collection and recycling amounts was around 22,500 tonnes, based on the data retrieved from the WEEE collection schemes and from our own recycling and refurbishment services (mainly Healthcare).

### Recycled materials

We calculated the amount of recycled materials used in our products in 2014 at some 13,000 tonnes (2013: 14,000 tonnes), by focusing on the material streams plastics (Consumer Lifestyle), aluminum (Lighting), refurbished products, and spare parts harvesting (Healthcare) depending on the relevance in each sector.

Our target is to double global collection and recycling and the amount of recycled materials in our products by 2015 compared to 2009, when the baseline was set at 7,500 tonnes. Further details on this parameter and the methodology can be found in the document Closing the materials loop at www.philips.com/sustainability.

### 5.3.2 Green Product sales

Green Products offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Recycling and disposal and Lifetime reliability. Sales from Green Products, excluding the Lumileds and Automotive business, increased to EUR 11.1 billion in 2014, or 52% of sales (50% in 2013), thereby reaching a record level for Philips.

The exclusion of Lumileds and Automotive had a 1% negative impact on the total Green Product sales percentage.

Through our EcoDesign process, we aim to create products that have significantly less impact on the environment during their whole lifecycle. Overall, the most significant improvements have been realized in our energy efficiency Green Focal Area, an important objective of our EcoVision program, although there was also growing attention for hazardous substances and recyclability in all sectors in 2014, the latter driven by our Circular Economy initiatives.

New Green Products from each sector include the following examples.

**Healthcare**

During 2014, Healthcare expanded the Green Product portfolio with seven new products, although Green Product sales decreased slightly due to the Cleveland production suspension. The newly introduced products improve patient outcomes, provide better value, and expand access to care, while reducing environmental impact. Philips new Affinity platform, for example, delivers superb image quality and performance, and features a modern and elegant cart design with a simple-to-use touchscreen-based control panel, and ease-of-use imaging workflow. At the same time it reduces energy use by almost 40% compared to its predecessor model. Other examples are new X-ray systems such as DuraDiagnost compact and MobileDiagnost Opta systems, which feature significantly lower product and packaging weight (ranging between 20% and 38%), and, in the case of the MobileDiagnost Opta, a 67% reduction in energy usage compared to its predecessor model. Green Products from Patient Care & Monitoring Systems include the MX550 patient monitor, Avalon CL fetal monitor and PageWriter TC10 cardiograph, for which product weight, energy consumption and packaging weight have been significantly reduced (by between 24% and 62%).

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**Consumer Lifestyle**

Consumer Lifestyle focuses on Green Products which meet or exceed our minimum requirements in the areas of energy consumption, packaging, and substances of concern. The sales of Green Products in 2014 surpassed 55% of total sales. All our Green Products with rechargeable batteries (like toothbrushes, shavers, and grooming products) exceed the stringent California energy efficiency norm by at least 10%. We are making steady progress in developing PVC/BFR-free products. More than 60% of sales consist of PVC/BFR-free products, with the exception of the power cords, for which there are not yet economical viable alternatives available.

In 2014, more vacuum cleaners, coffee machines and irons were launched with parts made of recycled plastics. In total we have applied some 625 tons of recycled plastics in our products. An example is the new SENSEO® Up, the plastic parts of which consist of 13% recycled material.

**Lighting**

Green Product sales within Lighting increased from 70% in 2013 to 72% in 2014. Connected lighting systems contributed to Green Product sales with solutions like CityTouch, a system for outdoor lighting management. CityTouch offers simple web applications to remotely control street lights and analyze related data. This gives cities the flexibility to dim lights to low levels wherever possible to save energy, or to boost light levels at the touch of a button when more light is needed (for example, in the case of an accident). The system helps cities save energy and operate more efficiently, while increasing citizens feeling of safety.

CityTouch technology is spreading around the world, with installations in Buenos Aires, Rotterdam, and Markham, Ontario, Canada. In the Spanish town of Salobre, CityTouch software combines with LED luminaires to reduce the municipality s energy consumption by more than 70% and cut $CO_2$ emissions by 29 tons per year. In a number of London boroughs, over 70,000 light points will be managed by CityTouch.

### 5.3.3 Green Operations

The Green Operations program focuses on the main contributors to climate change, recycling of waste, reduction of water consumption and reduction of emissions of restricted and hazardous substances. Full details can be found in chapter 14, Sustainability statements, of this report.

**Carbon footprint and energy efficiency**

After achieving our EcoVision4 carbon emissions reduction target in 2012, we continued our energy efficiency improvement programs across different disciplines. In 2014 our carbon footprint decreased by 5% compared to 2013, resulting in a total of 1,375 kilotonnes $CO_2$. This was mainly achieved by emissions reductions in our manufacturing facilities, resulting from operational changes and decreased energy usage due to lower load with an increased share coming from renewable sources (some 55% in 2014), and less transport activities. These reductions were, however, partly offset by increased emissions from our non- industrial activities, the floor space of our global non- industrial property portfolio increased by 2%. Business travel emissions remained stable compared to 2013, however we have noted a decrease in emissions from lease cars due to our successful Green Lease car program, whilst air travel increased over the course of 2014. We continue to promote video conferencing as an alternative to travel.

Our operational energy efficiency increased 2% from 1.17 terajoules per million euro sales in 2013 to 1.14 terajoules per million euro sales in 2014 as a result of energy efficiency programs in our industrial sites.

The impact of the exclusion of Lumileds and Automotive is displayed as discontinued operations in the graph below; the size of which varies over the years, but averages around 10% over the past 5 years. Emissions from discontinued operations in our industrial activities have been identified exactly. Emissions from our non-industrial facilities and business travel have been estimated based on FTE data. For our logistics emissions the part of discontinued operations has been estimated using revenue share as a proxy where applicable.

Philips Group

**Operational carbon footprint by Greenhouse Gas Protocol scopes** in kilotonnes $CO_2$-equivalent

2010 - 2014

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Scope 1 | 403 | 378 | 355 | 360 | 320 |
| Scope 2 | 458 | 368 | 345 | 315 | 283 |
| Scope 3 | 895 | 889 | 741 | 776 | 772 |
| **Philips Group** | **1,756** | **1,635** | **1,441** | **1,451** | **1,375** |

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**Ratios relating to carbon emissions and energy use**

2010 - 2014

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| **Operational $CO_2$ emissions** in kilotonnes $CO_2$-equivalent | 1,756 | 1,635 | 1,441 | 1,451 | 1,375 |
| **Operational $CO_2$ efficiency** in tonnes $CO_2$-equivalent per million euro sales | 91 | 82 | 65 | 66 | 64 |
| **Operational energy use** in terajoules | 28,030 | 26,570 | 25,052 | 25,646 | 24,464 |
| **Operational energy efficiency** in terajoules per million euro sales | 1.45 | 1.33 | 1.13 | 1.17 | 1.14 |

**Water**

Total water intake in 2014 was 3.1 million m3, about 6% lower than in 2013. This decrease was mainly due to lower production volumes at multiple Lighting sites as well as a significant reduction at a Consumer Lifestyle site in China which implemented various water savings actions. This was partly offset by one Healthcare site that cooled magnets with water instead of helium. Many Philips sites have water savings programs.

Lighting represents around 66% of total water usage. In this sector, water is used in manufacturing as well as for domestic purpose. The other sectors use water mainly for domestic purposes. The exclusion of Lumileds and Automotive has a significant downward impact on the water consumption of Philips. In 2014, Lumileds and Automotive accounted for 1.7 million $m^3$ of water.

Philips Group

**Water intake** in thousands of $m^3$

2010 - 2014

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Healthcare | 256 | 308 | 421 | 454 | 514 |
| Consumer Lifestyle | 351 | 338 | 303 | 586 | 537 |
| Lighting | 2,282 | 2,249 | 2,413 | 2,249 | 2,052 |
| Innovation, Group & Services | 7 | | | | |
| **Continuing operations** | **2,896** | **2,895** | **3,137** | **3,289** | **3,103** |
| **Discontinued operations** | **1,322** | **1,433** | **1,720** | **1,755** | **1,700** |
| **Philips Group** | **4,218** | **4,328** | **4,857** | **5,044** | **4,803** |

In 2014, 72% of water was purchased and 28% was extracted from groundwater wells.

**Waste**

In 2014, total waste was comparable to 2013 at 75 kilotonnes. Lighting contributed to 72% of total waste, Consumer Lifestyle to 15% and Healthcare to 13%. Waste generated by 8 new reporting sites was offset by 5 discontinued sites. The exclusion of Lumileds and Automotive had a 7% downward impact on total waste. In 2013, an Automotive site in the Netherlands reported 10 kilotonnes of demolition scrap.

Philips Group

**Total waste** in kilotonnes

2010 - 2014

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Healthcare | 11.2 | 9.3 | 10.4 | 9.6 | 9.8 |
| Consumer Lifestyle | 23.2 | 19.6 | 12.7 | 11.4 | 11.3 |
| Lighting | 61.7 | 58.1 | 57.5 | 54.9 | 53.9 |
| Innovation, Group & Services | 0.1 | | | | |
| **Continuing operations** | **96.2** | **87.0** | **80.6** | **75.9** | **75.0** |
| **Discontinued operations** | **8.4** | **7.0** | **7.0** | **16.1** | **5.4** |
| **Philips Group** | **104.6** | **94.0** | **87.6** | **92.0** | **80.4** |

Total waste consists of waste that is delivered for landfill, incineration or recycling. Materials delivered for recycling via an external contractor comprised 60 kilotonnes, which equals 80% of total waste, an improvement compared to 79% in 2013, as our manufacturing sites implemented recycling programs. Of the 20% remaining waste, 75% comprised non-hazardous waste and 25% hazardous waste.

**Emissions**

Emissions of restricted substances totaled 9 kilos in 2014, on par with 2013, as our mercury emissions at Lighting were for the second year in a row as low as reasonably achievable, according to our assessment. The level of emissions of hazardous substances decreased from 35,118 kilos to 28,310 kilos (-19%), driven by a reduction of Xylene emissions at various Consumer Lifestyle sites, due to a decrease in use of specific lacquers and thinners. All sectors have reduction programs for the restricted and hazardous substances.

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**Restricted and hazardous substances** in kilos

2010 - 2014

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Restricted substances | 188 | 111 | 55 | 9 | 9 |
| Hazardous substances | 60,272 | 63,604 | 67,530 | 35,118 | 28,310 |

For more details on restricted and hazardous substances, please refer to sub-section 14.3.3, Green Operations, of this report

## 5.4 Proposed distribution to shareholders

Pursuant to article 34 of the articles of association of Royal Philips, a dividend will first be declared on preference shares out of net income. The remainder of the net income, after reservations made with the approval of the Supervisory Board, shall be available for distribution to holders of common shares subject to shareholder approval after year-end. As of December 31, 2014, the issued share capital consists only of common shares; no preference shares have been issued. Article 33 of the articles of association of Royal Philips gives the Board of Management the power to determine what portion of the net income shall be retained by way of reserve, subject to the approval of the Supervisory Board.

A proposal will be submitted to the 2015 Annual General Meeting of Shareholders to declare a dividend of EUR 0.80 per common share (up to EUR 735 million), in cash or in shares at the option of the shareholder, against the net income for 2014 and retained earnings.

Shareholders will be given the opportunity to make their choice between cash and shares between May 13, 2015 and June 5, 2015. If no choice is made during this election period the dividend will be paid in shares. On June 5, 2015 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume weighted average price of all traded common shares Koninklijke Philips N.V. at Euronext Amsterdam on June 3,4 and 5, 2015. The Company will calculate the number of share dividend rights entitled to one new common share (the ratio ), such that the gross dividend in shares will be approximately equal to the gross dividend in cash. On June 9, 2015 the ratio and the number of shares to be issued will be announced. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 10, 2015. The distribution of dividend in cash to holders of New York Registry shares will be made in USD at the USD/EUR rate fixed by the European Central Bank on June 8, 2015.

Dividend in cash is in principle subject to 15% Dutch dividend withholding tax, which will be deducted from the dividend in cash paid to the shareholders. Dividend in shares paid out of net income and retained earnings is subject to 15% dividend withholding tax, but only in respect of the par value of the shares (EUR 0.20 per share).

In 2014, a dividend of EUR 0.80 per common share was paid in cash or shares, at the option of the shareholder. For 60% of the shares, the shareholders elected for a share dividend resulting in the issue of 18,811,534 new common shares, leading to a 2.1% percent dilution. EUR 292 million was paid in cash. For additional information, see chapter 17, Investor Relations, of this report.

The balance sheet presented in this report, as part of the Company financial statements for the period ended December 31, 2014, is before appropriation of the result for the financial year 2014.

## 5.5 Outlook

Overall, 2014 was a setback in our performance trajectory. We have been taking clear actions to drive stronger operational performance across our businesses and expect sales growth and Adjusted IFO margin improvements in 2015 and beyond. However, looking ahead, we remain cautious regarding the macroeconomic outlook and expect ongoing volatility of some of our end-markets. We also anticipate further restructuring and separation costs in 2015 and 2016.

Due to these factors, we are tracking 1 percentage point behind on the path to achieving each of our 2016 comparable sales growth, Adjusted IFO and ROIC Group targets. We are convinced that this does not change our longer-term performance potential, considering the attractiveness of the Lighting Solutions and HealthTech markets and our competitive position. Later this year, as we progress with the separation of Philips and reallocation of IG&S, we will update the market about the integral performance targets for each of the two operating companies.

5.6 Critical accounting policies

## Critical accounting policies

The preparation of Philips financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of our financial statements. The policies that management considers both to be most important to the presentation of Philips financial condition and results of operations and to make the most significant demands on management s judgments and estimates about matters that are inherently uncertain, are discussed below. Management cautions that future events often vary from forecasts and that estimates routinely require adjustment. A more detailed description of Philips accounting policies appears in the note 1, Significant accounting policies section.

**Accounting for income taxes**

As part of the process of preparing consolidated financial statements, the Company is required to estimate income taxes in each of the jurisdictions in which it conducts business. This process involves estimating actual current tax expense and temporary differences between tax and financial reporting. Temporary differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet. The Company regularly reviews the deferred tax assets for recoverability and will only recognize these if it is believed that sufficient future taxable profit is available, including income from forecasted operating earnings, the reversal of existing taxable temporary differences and established tax planning relating to the same taxation authority and the same taxable entity. For a discussion of the fiscal uncertainties, please refer to the information under the heading Tax risks in note 8, Income taxes.

**Multi-element sales transactions**

From time to time the Company is engaged in complex sales transactions relating to multi-element deliveries (for example a single sales transaction that combines the delivery of goods and rendering of services). The process of revenue recognition of such multi-element sales transactions involves the identification of the different sales components, the allocation of revenue to these different components and the timing of revenue recognition per component. Each of these process steps can be complex and requires judgment. In order to identify different components in a single sales contract, the Company verifies if a component has a stand-alone value to the customer and whether the fair value of the component can be measured reliably. Allocation of revenue to the different components is performed based on either a relative fair value approach or by means of a residual or fair value method, depending on which method is deemed most appropriate to the transaction. Eventually, revenue for each component is recognised when meeting the revenue recognition criteria in accordance with IAS 18 or IAS 11.

**Provisions and Contingent liabilities**

The Company and certain of its group companies and former group companies are involved as a party in legal proceedings, including regulatory and other governmental proceedings, and discussions on potential remedial actions, relating to such matters as antitrust laws, competition issues, commercial transactions, product liabilities, participations and environmental pollution. Since the ultimate disposition of asserted claims and proceedings and investigations cannot be predicted with certainty, an adverse outcome could have a material adverse effect on the Company s Consolidated financial statements.

The Company recognizes a liability when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the outflow will take place can be measured reliably. If the likelihood of the outcome is less than probable and more than remote or a reliable estimate is not determinable, the matter is disclosed as a contingent liability if management concludes that it is material.

In determining the provision for losses associated with environmental remediation obligations, significant judgments are necessary. The Company utilizes experts in the estimation process. The Company accrues for losses associated with environmental obligations when such losses are probable and can be estimated reliably. The provisions are adjusted as new information becomes available and they are remeasured at the end of each period using the current discount rate.

Provisions on restructuring represents estimated costs of initiated reorganizations, the most significant of which have been approved by the Board of Management. A liability is recognized for those costs only when the Company has a detailed formal plan for the restructuring and has raised a valid expectation with those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The Company provides for warranty costs based on historical trends in product return rates and the expected material and labor costs to provide warranty services. The provision is based on historical warranty data and a weighing of possible outcomes against their associated probabilities.

**Impairment of non-financial assets**

Goodwill is not amortized, but tested for impairment annually and whenever impairment indicators require so. The Company reviews non-financial assets, other than goodwill for impairment, when events or circumstances indicate that carrying amounts may not be recoverable.

In determining impairments of non-current assets like intangible assets, property, plant and equipment, investments in associates and goodwill, management must make significant judgments and estimates to determine whether the recoverable amount is lower than the carrying value. Changes in assumptions and estimates included within the impairment reviews and tests could result in significantly different results than those recorded in the consolidated financial statements.

Goodwill is allocated to the cash generating units. The basis of the recoverable amount used in the annual impairment test (performed in Q2) and trigger-based impairment tests is generally the value in use. Key assumptions used in the impairment tests were sales growth rates, income from operations and the rates used for discounting the projected cash flows. These cash flow projections were determined using management s internal forecasts that cover an initial period from 2014 to 2018 that matches the period used for our strategic review. Projections were extrapolated with stable or declining growth rates for a period of five years, after which a terminal value was calculated. For terminal value calculation, growth rates were capped at a historical long term average growth rate.

The sales growth rates and margins used to estimate cash flows are based on past performance, external market growth assumptions and industry long-term growth averages. Income from operations in all units is expected to increase over the projection period as a result of volume growth and cost efficiencies. Please refer to note 11, Goodwill.

**Discontinued operations and non-current assets held for sale**

Non-current assets (disposal groups comprising assets and liabilities), that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations; and (b) is a part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to sell. Non-current assets held for sale and discontinued operations are carried at the lower of carrying amount or fair value less costs to sell.

Determining whether a non-current asset will be primarily recovered through sale rather than through continuing use requires judgment. The Company assesses whether such asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets or disposal groups, and its sale is assessed to be highly probably. Furthermore, in order to determine if that component qualifies as discontinued operations, judgment is required when the Company assesses whether a component of an entity represents a major line of business or geographical area compared to the whole of the Company and whether the sale is a part of a single coordinated plan.

**New Accounting Standards**

For a description of the new pronouncements, please refer to the information under the heading IFRS accounting standard adopted as from 2014 in note 1, Significant accounting policies.

**Off-balance sheet arrangements**

Please refer to the information under the heading Guarantees in sub-section 5.1.23, Cash obligations, of this report and in note 26, Contingent assets and liabilities.

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# 6 Sector performance

## Our structure in 2014

Koninklijke Philips N.V. (the Company ) is the parent company of the Philips Group ( Philips or the Group ). The Company is managed by the members of the Board of Management and Executive Committee under the supervision of the Supervisory Board. The Executive Committee operates under the chairmanship of the Chief Executive Officer and shares responsibility for the deployment of Philips strategy and policies, and the achievement of its objectives and results.

In 2014, Philips activities in the field of health and well-being were organized on a sector basis, with each operating sector Healthcare, Consumer Lifestyle and Lighting being responsible for the management of its businesses worldwide.

The Innovation, Group & Services sector includes the activities of Group Innovation and Group and regional management organizations. Additionally, the global shared business services for procurement, finance, human resources, IT and real estate are reported in this sector, as well as certain pension costs.

At the end of 2014, Philips had 93 production sites in 25 countries, sales and service outlets in approximately 100 countries, and 113,678 employees.

## 2015 and beyond

In September 2014 Philips announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on the HealthTech and Lighting Solutions opportunities.

To achieve this transformation, from January 1, 2015, Philips started to integrate the sectors Consumer Lifestyle and Healthcare into one operating company focused on our HealthTech businesses. At the same time Philips is taking the next step in the implementation of its new operating model which will give the company a dedicated, focused and lean management structure, as a result of the planned integration of the relevant sector and group layers.

Philips also started the process to carve out its Lighting business into a separate legal structure and will consider various options for ownership structures with direct access to capital markets.

The establishment of the two stand-alone companies will also involve the split and allocation of the current Innovation, Group & Services sector to each company in 2015. This means that in the course of 2015 the IG&S sector as currently described in this Annual Report will disappear and no longer be presented as a separate segment for reporting purposes.

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Sector performance 6.1

# 6.1 Healthcare

We remain steadfast in our commitment to enable the best possible care provision at the lowest cost wherever care is provided, from the hospital to the home. Frans van Houten, CEO Royal Philips

By leveraging world-class innovation, deep clinical expertise and extensive relationships, global access to healthcare providers, and an integrated solutions portfolio, we provide greater value while helping lower the cost of care across the health continuum.

Our multi-year Accelerate! program continues to improve our operational performance, helping offset market headwinds.

We are focused on delivering on our financial commitments and driving growth, despite ongoing softness in a number of markets, including the US, Europe and China.

Capitalizing on the convergence of professional healthcare and consumer end-markets, we will leverage our consumer and healthcare businesses to capture the vast opportunities along the health continuum from healthy living to preventative care, definitive diagnostics, minimally invasive therapy, and hospital and home care for recovering and chronically ill patients.

## 6.1.1 Health care landscape

Health care systems around the world are under increasing economic pressure. More people are living longer, and more are living with chronic conditions driving healthcare spending to unsustainable levels.

Shortages of healthcare professionals are also adding to the relentless challenge of delivering better care at lower cost to growing patient populations.

Fundamental transformative changes are already taking place in the health care industry to enable the provision of affordable, quality care to everyone who needs it. There is a shift in emphasis from volume to value, and from a singular focus on clinical outcomes to a more holistic approach to population health. Greater attention is also being paid to the benefits of healthy living and home care as a way to lessen the burden on health systems.

Increasingly, providers and patients see the need for patients to take a more active role in managing their health giving rise to the health consumer. Mobile and digital technologies will be significant enablers of this trend, leading to new care delivery models that give patients more control and responsibility for their healthcare, and offer providers more solutions for improving access and outcomes while managing costs.

## 6.1.2 About Philips Healthcare

At Philips, we deliver innovative, integral technology solutions designed to create value by improving the quality and delivery of care while lowering cost. Our

broad and deep clinical expertise and technology leadership across the health continuum and commitment to customer collaboration are core to our business and truly differentiate us.

Philips is one of the world s leading health care companies (based on sales) along with General Electric and Siemens. The competitive landscape in the health care industry is evolving with the emergence of a considerable number of new market players. The United States, our largest market, represented 40% of Healthcare s global sales in 2014, followed by China, Japan and Germany. Growth geographies accounted for 25% of Healthcare sales. Philips Healthcare has approximately 37,000 employees worldwide.

In 2014, our Healthcare business was organized around four strategic business groups, including the newly formed Healthcare Informatics, Solutions & Services group, which brings together key assets across Healthcare to address opportunities arising from rapid changes in the industry and the increasing importance of technologies, such as mobile devices, the Cloud, social media, Big Data and the Internet of Things. In 2014, these business groups were:

- **Imaging Systems**: Integrated clinical solutions that include radiation oncology and portfolio management; advanced diagnostic imaging, including computed tomography (CT), magnetic resonance imaging (MRI) and molecular imaging (MI); diagnostic X-ray, including digital X-ray and mammography; interventional X-ray, encompassing cardiology, radiology, surgery and other areas; and ultrasound, a modality with diverse customers and broad clinical presence

- **Patient Care & Monitoring Solutions**: Enterprise-wide patient monitoring solutions, from value solutions to sophisticated connected solutions, for real-time clinical information at the patient s bedside; patient analytics, patient monitoring and clinical decision support systems; mother and child care, including products and solutions for pregnancy, labor and delivery, newborn and neonatal intensive care and the transition home; and therapeutic care, including cardiac resuscitation, emergency care solutions, therapeutic temperature management, anesthesia care, hospital respiratory systems and ventilation, sleep management, respiratory care and non-invasive ventilation

- **Customer Services:** Product and solution services and support, including clinical support and performance services; education and value-added services; installation; remote proactive monitoring; and customer service agreement

- **Healthcare Informatics, Solutions & Services:** Advanced Healthcare IT consisting of integrated software solutions, imaging informatics for radiology and cardiology departments, Picture Archiving and Communication systems (PACS) and fully integrated Electronic Medical Record (EMR) systems; a professional services business (Healthcare Transformation Services) spanning consulting, education, clinical and business performance improvement, program management, system integration services; specialized solutions including care coordination, home monitoring to make the aging experience better, and primary and secondary care solutions to expand access to care in emerging markets. All solutions and software businesses will be supported by the Philips HealthSuite Digital Platform to enable interoperability, Big Data analytics, optimized workflows and care pathways, rapid application development, enhanced patient centricity and engagement.

Sales at Healthcare are generally higher in the second half of the year largely due to the timing of new product availability and customer spending patterns.

**Regulatory requirements**

Philips Healthcare is subject to extensive regulation. We are committed to compliance with regulatory product approval and quality system requirements in every market we serve, by addressing specific terms and conditions of local and national regulatory authorities, including the US FDA, the SFDA in China, and other comparable foreign agencies. Obtaining regulatory approval is costly and time-consuming, but a prerequisite for market introduction.

Progress was made in 2014 in the remediation of the quality management system at our Healthcare facility in Cleveland, Ohio. Following external certification of the updated quality management system we resumed production, which had been voluntarily suspended earlier in the year, with production ramp-up expected to continue through 2015.

With regard to sourcing, please refer to sub-section 14.2.8, Supplier indicators, of this report.

### 6.1.3 2014 highlights

The health continuum of healthy living, prevention, diagnosis, treatment, recovery and home care remained a growing and exciting market for Philips Healthcare. Leveraging our portfolio, insights and capabilities, we focused on creating value across our businesses and markets through collaborative innovation, including:

- **Large-scale partnerships** We entered into a number of strategic, multi-year agreements that address government and health system goals of improving population health and delivering quality care more effectively. These included a 15-year contract with Reinier de Graaf Hospital in the Netherlands, a 14-year contract with Karolinska University Hospital and the Stockholm County Council in Sweden, and a 10-year contract related to the 700-bed Philippine Orthopedic Centre in the Philippines.

- **Co-created solutions** We collaborated on smart solutions co-created in the clinical environment, such as working with the University of Washington on advancements in diagnostics and informatics to improve outcomes, drive operational efficiency and reduce costs per patient.

- **Strategic alliances** We formed key partnerships to help drive healthcare transformation, including an alliance with Salesforce.com to deliver an open, cloud-based healthcare platform that will enable collaborative care management between patients and healthcare professionals.

We also introduced locally relevant solutions for making quality care accessible to wider patient populations in markets such as India and Africa. These innovations included VISIQ, an ultra-mobile, tablet-based system for ultrasound imaging, and Efficia DFM100, an integrated defibrillator and monitor solution.

We are proud that customers named Philips Healthcare as the overall Best in KLAS Imaging Equipment Company in 2014 for the second year in a row.

In 2014, we entered the fourth year of our Accelerate! journey, which continued to drive improvements in operational performance, as we focused on strengthening our innovation pipeline while making progress on cost savings.

In December 2014 Philips entered into an agreement to acquire Volcano Corporation, a global leader in catheter-based imaging and measurement solutions for cardiovascular applications. Volcano s complementary portfolio and expertise will create opportunities to accelerate revenue growth for our image-guided therapy business.

### 6.1.4 2014 financial performance

Philips Healthcare
**Key data** in millions of EUR unless otherwise stated
2012 - 2014

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Sales | 9,983 | 9,575 | 9,186 |
| Sales growth | | | |
| % increase (decrease), nominal | 13% | (4)% | (4)% |
| % increase (decrease), comparable[1)] | 6% | 1% | (2)% |
| Adjusted IFO [1)] | 1,226 | 1,512 | 616 |
| *as a % of sales* | *12.3%* | *15.8%* | *6.7%* |
| IFO | 1,026 | 1,315 | 456 |
| *as a % of sales* | *10.3%* | *13.7%* | *5.0%* |

| | | | |
|---|---|---|---|
| Net operating capital (NOC)[1)] | 7,976 | 7,437 | 7,565 |
| Cash flows before financing activities[1)] | 1,298 | 1,292 | 910 |
| Employees (in FTEs) | 37,460 | 37,008 | 37,065 |

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this report

In 2014, sales amounted to EUR 9,186 million, 4% lower than in 2013 on a nominal basis. Excluding a 2% negative currency effect, comparable sales decreased by 2%. Customer Services achieved mid-single-digit growth and Patient Care & Monitoring Solutions posted low-single-digit growth, while HealthCare Informatics, Services & Solutions sales were in line with 2013. Imaging Systems recorded a double-digit decline. Green Product sales amounted to EUR 3,508 million, or 38% of sector sales.

Geographically, comparable sales in growth geographies showed a low-single-digit decline, with strong growth in Latin America and Middle East & Turkey offset by a double-digit decline in China. In mature geographies, comparable sales also showed a low-single-digit decline. The year-on-year sales decrease was largely attributable to North America and Western Europe, as sales in other mature geographies showed a low-single-digit increase, led mainly by Japan.

Adjusted IFO decreased from EUR 1,512 million, or 15.8% of sales, in 2013 to EUR 616 million, or 6.7% of sales, in 2014. Restructuring and acquisition-related charges amounted to EUR 70 million in 2014, while in 2013 they were close to zero. 2014 Adjusted IFO included charges of EUR 366 million related to the jury verdict in the Masimo litigation, EUR 49 million of mainly inventory write-downs related to the Cleveland facility, and a EUR 16 million past-service pension cost gain in the Netherlands.

In 2014, the voluntary suspension of production at our Cleveland facility and the jury verdict in the Masimo litigation strongly impacted our 2014 performance. At our Healthcare facility in Cleveland, Ohio, certain issues in the general area of manufacturing process controls were identified during an ongoing US Food and Drug Administration (FDA) inspection. To address these issues, on January 10, 2014 we started a voluntary, temporary suspension of new production at the facility, primarily to strengthen manufacturing process controls. The suspension negatively impacted Healthcare s sales and Adjusted IFO in 2014.

On October 3, 2014 Philips announced that it would appeal the jury verdict in the patent infringement lawsuit by Masimo Corporation (Masimo), in which Masimo was awarded compensation of USD 467 million (EUR 366 million). The jury verdict is part of extensive litigation, which started in 2009, between Masimo and Philips involving several claims and counterclaims related to a large number of patents.

Adjusted IFO in 2013 also included EUR 61 million from a past-service pension gain and a EUR 21 million gain on the sale of a business excluding these items. The decrease in Adjusted IFO was mainly driven by operational losses related to the voluntary suspension of production at the Cleveland facility and negative currency impacts.

IFO amounted to EUR 456 million, or 5.0% of sales, and included EUR 159 million of charges related to intangible assets.

Net operating capital increased by EUR 128 million to EUR 7,565 million. Higher provisions and lower fixed assets were offset by currency impacts.

Cash flows before financing activities decreased from EUR 1,292 million in 2013 to EUR 910 million in 2014, largely due to lower earnings.

## 2013 financial performance

In 2013, sales amounted to EUR 9,575 million, 4% lower than in 2012 on a nominal basis. Excluding a 5% negative currency effect, comparable sales increased by 1%. Customer Services achieved mid-single-digit growth and Patient Care & Monitoring Systems recorded low-single-digit growth. HealthCare Informatics, Solutions & Services was in line with last year, while Imaging Systems recorded a mid-single- digit decline. Green Product sales amounted to EUR 3,690 million, or 39% of sector sales.

Geographically, comparable sales in growth geographies showed high-single digit growth, largely driven by strong double-digit growth in China and Latin America, partly offset by a decline in Russia & Central Asia. In mature geographies, comparable sales declined by 1%. The year-on-year sales decrease was largely attributable to North America and Western Europe, as sales in other mature geographies showed a high-single-digit increase, led mainly by Japan.

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Adjusted IFO increased from EUR 1,226 million, or 12.3% of sales, in 2012 to EUR 1,512 million, or 15.8% of sales, in 2013. All businesses delivered improved Adjusted IFO, largely as a result of cost-saving programs related to overhead reduction. Restructuring and acquisition-related charges were close to zero, compared with EUR 134 million in 2012. Adjusted IFO in 2013 also included EUR 61 million from a past-service pension gain and a EUR 21 million gain on the sale of a business.

IFO amounted to EUR 1,315 million, or 13.7% of sales, and included EUR 197 million of charges related to intangible assets.

Net operating capital decreased by EUR 539 million to EUR 7.4 billion, mainly due to currency effects and lower fixed assets.

Cash flows before financing activities decreased from EUR 1,298 million in 2012 to EUR 1,292 million, as higher earnings were more than offset by higher outflows from working capital and provisions.

### 6.1.5 Delivering on EcoVision sustainability commitments

The increasing population and rising levels of human development worldwide pose a number of challenges, such as scarcity of natural resources, pollution, and stressed health care systems. Philips Healthcare continues to help increase the number of lives improved annually around the globe by developing solutions that improve access to care, while at the same time respecting the boundaries of natural resources.

In 2014, Green Product sales in Healthcare amounted to EUR 3.5 billion and we introduced seven new Green Products to support energy efficiency, materials reduction and other sustainability goals. We are also actively collaborating with care providers to look for innovative ways to reduce the environmental impact of health care, for example by improving the energy efficiency of medical equipment. Another example is the launch of a new imaging systems refurbishment facility in Best, the Netherlands, in support of the transition to a circular economy in Healthcare.

Philips was presented with the 2014 Champion for Change Award by Practice Greenhealth. The award honors businesses who have not only taken steps to improve their organization s green practices, but have also gone the extra mile to help their clients and associates expand their sustainable practices as well.

### 6.1.6 2015 and beyond

In September 2014 Philips announced its plan to sharpen its strategic focus by establishing two stand- alone companies focused on the HealthTech and Lighting Solutions opportunities. To achieve this transformation, from January 1, 2015, Philips started to integrate the sectors Healthcare and Consumer Lifestyle into one operating company focused on our HealthTech businesses.

In the HealthTech space, Royal Philips will focus on the vast market opportunities created by the convergence of professional healthcare and consumer end-markets across the health continuum, from healthy living and prevention to diagnosis, treatment, recovery and home care.

Building on combined clinical and consumer capabilities, we will focus on solutions aimed at empowering consumers and patients to take greater control of their own health, enabling payers and providers to improve outcomes while managing overall cost, and helping governments increase access to high-quality, affordable care.

From an external financial reporting perspective, it should be noted that the planned organizational changes will require Philips to transition to a new reporting structure in the course of 2015. At that stage, and in view of applicable IFRS requirements, Philips will report and discuss its financial performance on the basis of different reportable segments than the sectors currently presented and discussed in this Annual Report.

Further updates will be provided in the course of 2015.

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## Innovating **on the ward**

A unique partnership with a hospital in China has yielded astonishing results in the field of diagnostics, in a country with rising health problems, where many specialists are unable to cope with increased workloads.

The huge West China Hospital in the country s fourth largest city, Chengdu, plays host to a ground-breaking collaboration between doctors and engineers from Philips. China accounts for half of all new cases of liver cancer in Asia, but old cancer diagnostic technologies involved complex and time-consuming invasive procedures that presented risk to the patient and meant their recovery times were lengthened.

The Philips ElastPQ is a non-invasive machine using state-of-the-art ultrasound technology. It provides medics with valuable data that can be used to accurately diagnose liver cancer both at a fraction of the cost and at greater speed. However, it s not simply the innovation the presence of Philips engineers on site facilitates ongoing research and development in a hospital setting. This continuous innovation is an inspiring medical partnership where doctors and engineers join forces to match technology with actual clinical need. It s leading to faster and more accurate cancer diagnosis with all the obvious benefits that entails for patients.

Having joined forces (with Philips), we re bridging the gap to match technology with actual clinical need. Today the focus is on liver cancer, but I hope to expand the collaboration to other areas. Dr. Yan Luo, Director of the Ultrasound Department, West China Hospital

## 6.2 Consumer Lifestyle

Across the world people are looking for new ways to take greater control of their personal health. Ways to cook healthily, to breathe clean air, to ensure good oral health. Ways to care for themselves and their families at home. At Consumer Lifestyle we are playing a key role in this consumerization of healthcare, expanding our offering to help consumers make healthier choices every day. We empower them to be healthy and live well, avoiding illness through conscious healthy behavior. Pieter Nota, CEO Philips Consumer Lifestyle

We are rigorously executing our strategy, with locally relevant innovation delivering strong growth and driving profitability.

Future growth drivers are clearly set: grow the core businesses through local and global innovation platforms, and geographical expansion of proven propositions; further expand in the domain of personal health by exploring new business adjacencies and new business areas.

The sector has made strong progress to reposition towards a healthy living and disease prevention portfolio, in more attractive markets, with better margins.

Our multi-year Accelerate! program has transformed the sector into a market-driven organization, by changing our operating model and instilling a strong performance culture and end-to-end approach.

### 6.2.1 Lifestyle retail landscape

Across the world, consumers are looking for solutions that help them to be healthy, live well and enjoy life. They want to be in control of their personal health and to care for their family and friends. They want to look and feel good.

In a connected, digital world, consumers are looking for smart, personalized solutions. Purchase decisions are increasingly made or influenced online; this is as true of consumers in growth geographies such as China, as it is in developed markets such as Western Europe.

The rise of the middle class in growth geographies is another trend impacting the retail landscape. This rapidly expanding group has increasing spending power.

In 2014, economic headwinds caused continued pressure on consumer spending in some markets. However, living a healthy life remained a high priority for consumers.

### 6.2.2 About Philips Consumer Lifestyle

At Consumer Lifestyle we aim to make a difference to people s lives by enabling them to make healthy choices every day, and through conscious healthy behavior avoid illness. In recent years, Consumer Lifestyle has been responding to the need and desire of consumers to take greater control of their own health. We have largely reshaped our portfolio toward the healthy living and disease prevention areas of the health continuum, targeting more attractive markets with better margins.