KONINKLIJKE PHILIPS NV
Form 20-F
February 25, 2014
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As filed with the Securities and Exchange Commission on February 25, 2014

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, 2013

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)

Breitner Center, Amstelplein 2, 1096 BC Amsterdam, The Netherlands

(Address of principal executive office)

Eric Coutinho, Chief Legal Officer & Secretary to the Board of Management

+31 20 59 77232, eric.coutinho@philips.com, Breitner 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, 2013
Koninklijke Philips N.V.	937,845,789 shares, including
Common Shares par value EUR 0.20 per share	24,508,022 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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Introduction

This document contains information required for the annual report on Form 20-F for the year ended December 31, 2013 of Koninklijke Philips N.V. (the 2013 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 2013 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 Philips N.V. and as applicable to its subsidiaries and or its in in joint ventures and associates.

IFRS based information

The audited consolidated financial statements as of December 31, 2013 and 2012, and for each of the years in the three-year period ended December 31, 2013, included in the 2013 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 2013 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 fully 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 2013 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 2013 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.

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Introduction

For definitions and abbreviations reference is made to chapter 17, Definitions and abbreviations, of this report.

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, 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 similar expressions. By their na 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,

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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. (the Company) 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 growth , comparable 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 on our sales figures. 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 growth, 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 2013 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).

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Introduction

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.

Non US investors are advised that such presentation is different from the terms used in Philips results announcements and 2013 Annual Report. 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 from discontinued operations *less*: (a) cash and cash equivalents, (b) deferred tax assets, (c) other (non)-current financial assets, (d) investments in associates, and after deduction of: (e) provisions, (f) accounts and notes payable, (g) accrued liabilities, (h) current/noncurrent 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, 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.

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 5-8, 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 2013 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 2013 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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Performance highlights

Prior-period financial statements and related information have been restated for the treatment of Audio, Video, Multimedia and Accessories as discontinued operations (see note 7, Discontinued operations and other assets classified as held for sale) and the adoption of IAS 19R, which mainly relates to accounting for pensions (see note 30, Post-employment benefits). For a reconciliation to the most directly comparable GAAP measures, see Reconciliation of non-GAAP information.

Financial table

all amounts in millions of euros unless otherwise stated

	2011	**2012**	**2013**
Sales	20,992	23,457	23,329
Adjusted IFO	1,435	1,106	2,451
as a % of sales	6.8	4.7	10.5
IFO	(479)	648	1,991
as a % of sales	(2.3)	2.8	8.5
Net income (loss)	(1,456)	(30)	1,172
Net income attributable to shareholders per common share in euro:			
- basic	(1.53)	(0.04)	1.28
- diluted	(1.53)	(0.04)	1.27
Net operating capital	10,382	9,316	10,238
Free cash flows	(97)	1,627	172
Shareholders equity	12,328	11,151	11,214
Employees at December 31	125,240	118,087	116,681
of which discontinued operations	5,645	2,005	1,992

1) Mid-term financial targets
2) Including restructuring and acquisitions
3) Excluding Mergers & Acquisitions impact
4) Based on the results of 60 pulse surveys as there was no full-scope Employee Engagement Survey in 2012
5) For a definition of of mature and growth geographies, see chapter 17, Definitions and abbreviations, of this report
6) As measured by Interbrand

Financial performance 2013

	Target[1]	Actual
CAGR 2012 - 2013 %	4-6%	4.5%
Adjusted IFO as % of sales[2]	10-12%	10.5%
ROIC %[3]	12-14%	15.3%

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Performance highlights

Performance

in millions of euros

	Group			Healthcare			Consumer Lifestyle			Lighting		
	2012	2013		2012	2013		2012	2013		2012	2013	
Sales	23,457	23,329	1%	9,983	9,575	4%	4,139	4,605	7%	8,442	8,413	0%
Green product sales	10,981	11,815	8%	3,610	3,690	2%	1,619	2,270	40%	5,572	5,855	2%
Sales in mature geographies[5)]	15,407	14,825	4%	7,615	7,154	6%	2,365	2,418	2%	5,010	4,758	5%
Sales in growth geographies[5)]	8,050	8,504	6%	2,368	2,421	2%	1,954	2,187	12%	3,432	3,655	6%
Adjusted IFO	1,106	2,451	122%	1,226	1,512	23%	456	483	6%	128	695	443%
Net operating capital	9,316	10,238	10%	7,976	7,437	7%	1,205	1,261	5%	4,635	4,462	4%

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Message from the CEO

Our Accelerate! initiatives helped us to achieve our mid-term 2013 targets. We are implementing the Philips Business System across the company to improve customer focus and operational excellence, and drive our businesses systematically to global leadership performance. With our mission to deliver meaningful innovation to make the world healthier and more sustainable, we are well positioned to improve our growth rate. Frans van Houten, CEO

Dear stakeholder,

In 2013 we passed a major milestone on our Accelerate! transformation journey to unlock Philips full potential. Despite economic headwinds, especially in Europe and the United States, our Accelerate! initiatives helped us to achieve our mid-term 2013 targets. I am delighted with this result, as it underlines yet again that Philips is, above all, a case of self-help.

Accelerate! is helping us get closer to our customers, as illustrated by our landmark alliance with Georgia Regents Medical Center. And the transformation of our value chains is speeding up the introduction of locally relevant innovations in key markets around the world. Innovations like our EPIQ ultrasound imaging system, our Smart Air Purifier and Airfryer home appliances, and our energy-efficient CityTouch lighting management system.

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Message from the CEO

We are also seeing the steady development of a growth and performance culture characterized by strong employee engagement, teamwork, the drive for operational excellence and accountability for results. This is making us more agile, entrepreneurial and innovative.

Financial performance

The economic environment in 2013 was challenging. Full-year sales declined by 1% in nominal terms, but increased by 3% on a comparable basis. Closing the year with strong 7% top-line growth in the fourth quarter, we delivered a compound annual growth rate for comparable sales over the period 2012-2013 of 4.5%, compared to our target of 4-6%. In regional terms, our growth geographies delivered 11% comparable sales growth in 2013 and now make up 36% of total sales.

Profitability improved significantly on the back of increased gross margins and productivity gains from our Accelerate! program. This resulted in a reported Adjusted IFO of 10.5%, within the target bandwidth of 10-12%. And our return on invested capital was 15.3%, above the targeted range of 12-14%.

Our Healthcare business increased operational earnings despite a virtually flat top line. With the issues surrounding health care reform in the US and budget constraints in key markets, we are increasingly focusing on becoming the technology solutions partner of choice to major hospitals as a way to unlock new growth. Reflecting the success of its innovative propositions for personal health and well-being, Consumer Lifestyle posted strong growth and good earnings, while Lighting recorded higher sales, driven by a 38% increase in LED-based sales, and improved operational earnings.

In 2013 we also completed the execution of our EUR 2 billion share buy-back program, thereby improving the efficiency of our balance sheet, and announced a new EUR 1.5 billion program to be concluded over the next 2-3 years. By the end of 2013 we had completed 7% of this new program.

Other 2013 highlights

In 2013 we rose to # 40 on Interbrand s annual ranking of the top-100 global brands, with our brand value increasing by 8% to close to USD 10 billion. And in November we unveiled our new brand positioning and brand line innovation and you and our redesigned shield, which enjoyed an enthusiastic reception from customers, employees and other stakeholders.

In 2014 we celebrate 100 years of Philips Research, and over the past year we underlined our commitment to innovation by investing EUR 1.7 billion in research and development. We filed over 1,500 patent applications in 2013. Other innovation highlights included the increasing adoption of our Digital Pathology solution and the development of the 200 lm/W TLED prototype to replace fluorescent tube lighting.

We also continued to deliver on our EcoVision sustainability commitments in 2013, improving the lives of 1.8 billion people around the globe and hitting our Green Product sales target of 50% of total sales two years ahead of schedule. In Buenos Aires we were awarded the order to renovate most of the city s 125,000 street lights with our CityTouch system, and in Dubai we were selected to transform over 260 Municipality buildings with intelligent LED solutions both projects reducing energy consumption by some 50%. Our efforts to create a healthier and more sustainable world received recognition in the form of a rise to 23rd place in Interbrand s ranking of the top 50 Best Global Green Brands, as well as a top rating from the Carbon Disclosure Project.

Of course, no year is entirely free of disappointment, and in 2013 we had to contend with the termination of the deal with Funai for our Audio, Video, Multimedia and Accessories business. We also faced compliance issues relating to our General Business Principles, which we are refining and strengthening.

Looking ahead our Path to Value by 2016

Philips is a diversified technology company with a portfolio of some 40 businesses across various strategic domains. Over half of these businesses hold global leadership positions. Our portfolio is underpinned by strong assets: deep market insights; world-class innovation capabilities technology, know-how and strong IP positions; our global footprint; our talented, engaged people; and the Philips brand.

The significant changes we have made to our portfolio in recent years have created a better growth platform with higher profit potential. And with the transformation of our business model architecture, we are increasingly becoming a technology solutions partner, with recurring revenue streams accounting for over 25% of sales.

Meeting the needs of a changing world

In light of the mega-trends and challenges the world is facing, we are confident in our chosen strategic direction. With its focus on health and sustainability, our vision to improve the lives of 3 billion people a year by 2025 helps to differentiate us from the competition, have a closer relationship with our customers, create IP and ultimately create more value.

We see the shift from a linear to a circular economy as a further opportunity to create value. In a linear economy, products are used briefly and then discarded as waste. In a circular economy, products are designed so they become part of a value network where re-use and refurbishment ensure continuous re-exploitation of resources.

We are redesigning our products in order to capture their residual value. And we are shifting from transactions to relationships via service and solution business models. A good example is the 10-year performance contract we were awarded to install, monitor and maintain 13,000 connected lighting fixtures and energy management controls for parking garages in Washington, DC. Because we are ensuring light levels and delivering the solutions as a service that is paid for by the energy savings, Washington gets brighter, safer LED lighting for its garages with none of the up-front cost, thereby removing one of the main barriers to the adoption of energy-efficient technology.

Driving productivity improvement

Over the coming years we will continue to drive operational excellence and invest in innovation and sales development. We will also continue to focus on improving profitability, e.g. by further reducing overhead costs and driving value engineering through our Design for Excellence (DfX) program. Altogether we see significant potential to improve productivity over the next few years. We also have scope for value-creating bolt-on acquisitions, but will remain prudent with our capital allocation. Most of our growth opportunities are organic.

In 2014 we will roll out a new IT landscape to make Philips a truly real-time company, and we will further embed the Philips Business System (PBS). The PBS is the way we run our company to ensure business success is repeatable. This year will also see our new brand positioning being activated across the globe.

New growth initiatives

I am pleased to say that Philips has multiple new growth opportunities in the making. Within our Healthcare sector we have established the Healthcare Informatics Solutions & Services business group, which is focusing on a digital connected healthcare delivery platform, advanced informatics and big data analytics, and world-class integration and consulting services. At Consumer Lifestyle we have a new business initiative on Personal Health. And in our Innovation, Group & Services sector we have several highly promising start-ups, although it will be a few years before they are margin-accretive because of the necessary investments. Examples of these exciting new business areas include point-of-care diagnostics as well as horticultural and city farming technology.

Confident in the future

While remaining cautious about the short-term macro- economic outlook, we are committed to delivering on our 2016 financial performance targets. As a sign of our confidence in Philips future, we are proposing to the upcoming General Meeting of Shareholders to increase this year s dividend to EUR 0.80 per common share, in cash or stock.

On behalf of my colleagues on the Executive Committee, I wish to thank all our employees for embracing Accelerate!, helping to build a great company fit for the demands of the 21st century, and delivering innovations that matter to people the world over. And I would like to thank our customers, shareholders and other stakeholders, for their continued trust and support.

Frans van Houten,

Chief Executive Officer

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Driving change and improvement

Now in its third year, Accelerate! is making Philips a more agile and entrepreneurial innovator. The program, which is set to run through 2017, is made up of five streams designed to:

Accelerated! in action

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With the help of patient advisors like Alice Reece, Philips and Georgia Regents Medical Center are working to redefine patient and family care.

When I think about the future of healthcare we have to re-think everything: every square foot, every person, every dollar, every resource. And that forces real dynamic change in a way that this industry hasn t seen in years.

David Hefner

Executive Vice President

Georgia Regents Medical Center

Providing care requires us to be innovative, requires us to think differently. The partnership that we now have with Philips really stresses a better outcome for our patients.

Dr Ricardo Azziz

CEO

Georgia Regents Health System

Around the world, we are working together with our partners and customers to optimize every step in the value chain. This end-to-end approach is enabling us to innovate and execute faster and more efficiently.

Driving growth in oral healthcare

In Germany, we are building on our professional recommendation strategy and driving conversion of manual toothbrush users to electric tooth brushing through innovation leadership, portfolio expansion and distribution via new channels. This end-to-end approach resulted in a market share improvement of over 7%.

With only a third of German households owning a rechargeable toothbrush, there is a significant opportunity to expand our leadership in the sonic toothbrush segment. Taking an end-to-end perspective, we identified three key drivers for expansion: driving and communicating innovation leadership with superior propositions; creating a Philips Sonicare proposition at a price-point accessible for a broader audience; and making that proposition available to consumers in channels like drugstores and hypermarkets.

Philips Sonicare is already leading in the German market, with consumers responding to superior propositions like Flexcare Platinum and DiamondClean. In 2013, our leadership position was further supported through celebrity endorsement, which is driving awareness and conversion.

To present current manual toothbrush users with more alternatives from Philips Sonicare, driving growth in the mid-segment, we created a more accessibly priced proposition, the Philips Sonicare PowerUp. This product features similar brushing movements to manual and is gentle and effective. Research showed that over 90% of consumers surveyed preferred the Sonicare PowerUp over their manual toothbrush.

The majority of electric toothbrushes and replacement brush heads are sold in drugstores and hypermarkets. To leverage this opportunity, Sonicare PowerUp launched in DM and Budni drugstores, as well as Kaufland and Marktkauf hypermarkets, adding 2,000 stores to our distribution. We optimized our supply chain to work with these partners, designing bespoke packaging, significantly reducing time-to-market and improving transparency.

In less than a year our end-to-end strategy resulted in strong market share gains and double-digit growth in brush head sales. Consumer satisfaction increased, with patients advised by their dentist to switch to electric brushing conveniently able to purchase a Philips Sonicare and replacement brush heads at their local drugstore.

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LED façade lighting faster to market

Through our end-to-end transformation program, we have identified and driven improvements along the entire LED value chain in China. This has resulted in a broad range of competitively priced façade lighting solutions for the mid-tier market segment in China, with a 40% reduction in time-to-market for new product introductions and a significant increase in on-time delivery.

In 2012, market intelligence showed that we were missing out on the LED façade lighting segment in China a segment predicted to reach 520 million by 2015, 70% of which will be taken by mid-range solutions. The problem was that in China we only offered top-range LED façade solutions. Clearly, something had to be done.

An end-to-end transformation program was immediately initiated, and a cross-functional team representing both the business and our market organization was assembled to address all opportunities along the value chain. The team took ownership of the common goal to achieve ambitious cost targets. It invested in market research and started with market sizing and customer segmentation, before developing imaginative strategies for product positioning, go-to-market and time-to-market. From the outset, everyone knew that the new product line had to be conceived, developed and fine-tuned extremely quickly.

The result was a new range of competitive LED façade lighting solutions specially designed for the mid-range market in China. And all in just under 28 weeks a massive reduction compared to the 12 months it previously took to bring a new product line to market. Another benefit of this end-to-end collaboration is that achievement of the delivery time target of 25 days has increased from 43% to 66%, with a further rise to 95% expected by 2015.

In 2013 we continued to drive structural change through our multi-year transformation program Accelerate! We are seeing the steady emergence of a growth and performance culture that is making us more agile, entrepreneurial and innovative.

With our Accelerate! behaviors Eager to win, Take ownership and Team up to excel firmly embedded in the organization, we are rolling out a wide range of initiatives designed to harness the talents, viewpoints and experience of our employees and so build a winning culture. A culture anchored by our General Business Principles.

Transformation and change

To date, over 1,350 of our leading executives have taken part in our Accelerate! Leadership Program (ALP). This immersive program is designed to strengthen our leaders transformational capabilities so they can drive change in the organization. Complementing the ALP, the Accelerate! Team Performance (ATP) is a transformational session designed to reinforce behaviors that enhance team effectiveness. By year-end, more than 200 teams and 3,650 participants had been through the program, which also touched more than 2,000 employees via viral events.

The transformation drive is being embraced across the organization. In Healthcare, to name just one example, a group of over 160 employee advocates or Culture Champions is now in place, role-modeling and instilling the new culture from the middle of the organization outwards. They are providing invaluable insights and helping to drive changes in day-to-day activities and behaviors.

Capability building

ALP and ATP are also an integral part of our capability-building efforts. In 2013 we took the next steps in becoming a learning organization by completing the organizational design of Philips University. This involved a fundamental shift to align our learning activities with the organizational development priorities we have set to enable us to deliver on our business strategy. New flagship learning programs will be introduced early in 2014, and a move to one single learning management system is scheduled for the second half of the year.

Employee engagement

In October 2013 we launched our renewed bi-annual Employee Engagement Survey (EES), emphasizing the dimensions of employee behavior that affect performance, including change agility, alignment, and engagement. The overall engagement index shows a positive score of 75% 3 percentage points above the chosen global external high-performance benchmark.

Bringing our brand to life

Reflecting this culture of engagement, our employees also play a crucial role as ambassadors of our brand. In May 2013 our Employee Brand Jam focused on engaging employees around our new brand promise. They were asked to share, via a dedicated dashboard, their stories about how Philips delivers innovation to them. This campaign won a European Excellence Award in the Internal Communications category.

In the lead-up to brand launch day, 13 November, we invited the world to uncover our redesigned shield through a mosaic launched via social media. Over 14,000 individuals took part in the 48 hours ahead of the reveal. On the day itself, over 60 sites around the world hosted simultaneous events linked to a live feed of the unveiling at our head office in Amsterdam. In this way, a highly engaged workforce was brought together to celebrate a landmark event in the history of the company.

Diversity and inclusion

Having an inclusive culture where differences are honored, respected and encouraged and a diverse workforce that mirrors the markets we re active in, enables us to deliver innovation that matters to our customers and consumers and thus to create value for Philips and its stakeholders. Our new Diversity & Inclusion Policy defines our global standards and the role all employees need to play to create a diverse and inclusive workplace.

In 2011, Philips embarked on a comprehensive program to significantly increase the efficiency of its overhead structure: those activities which take place mainly above the level of operational businesses and market organizations. Since then, real progress has been made with more work to be done over the coming years.

The Accelerate! productivity program looked first to benchmarks to what was currently industry best-in-class and subsequently leveraged this insight to re-engineer the company s overhead activities such as IT, Finance, Human Resources and Real Estate. The objective was to deliver improved service levels to internal customers in a faster, simpler, easier-to-experience way at lower cost.

The focus of the program was on the operating model how the function was set up to deliver its services. These smarter functions looked to pool services into Centers of Expertise which then provide high-quality, 24/7 support to a wide range of businesses and geographies from a single hub. Equally impactful was the increased use of output-based delivery , swapping contract workers brought into Philips to support initiatives for clear output-based contracts with the 3rd-party suppliers. Last, but by no means least, was the reduction in managerial layers and subsequent increase in span of control of individual managers; this has led to less bureaucracy and faster decision making across the company.

Finance is a good example. Traditionally, finance professionals were spread widely across Philips, each supporting business management in everything from basic bookkeeping to analysis of upcoming Asian competition. As of 2013, we have re-engineered the operating model of our Finance activity, pooling knowledge into efficient, dedicated Centers of Expertise one focused on fundamental bookkeeping and internal control, another on financial planning and analysis of business performance, yet another on expert company-wide advice on specific topics ranging from foreign exchange to pensions. This has led to a simpler, leaner, more effective operating model which, critically, is able to deliver faster, better services to its internal customers. Similar transformations in the other functions and indeed more broadly in business management have, collectively, allowed us to substantially improve the efficiency and effectiveness of our overhead structure and in the process report a gross cost reduction of over EUR 1 billion through the end of 2013.

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3. Fast facts

Our 2013 results

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4. Next phase

The journey continues

First milestone passed

Accelerate! is working and driving our transformation. We are pleased to have achieved the first major milestone on our Accelerate! journey our mid-term 2013 financial targets. However, we still have a way to go before we have delivered Philips full potential.

New targets on Path to Value

That s why we have set ourselves challenging new 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:

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1. Our rich heritage

A born innovator

Philips was founded in Eindhoven, Netherlands, in 1891 by Frederik and Gerard Philips later joined by Gerard s brother Anton to manufacture incandescent lamps and other electrical products . For the 120-plus years since then, we have been improving people s lives with a steady flow of ground-breaking innovations.

Today, we are building upon this rich heritage as we touch billions of lives each year with our innovative healthcare and lighting solutions and our personal health and well-being products.

2. Our vision

What we aspire to

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.

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3. Market opportunities

Responding to global challenges

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.

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4. Our business system

Ensuring success is repeatable

The Philips Business System is the way we run our company to deliver on our mission and vision. It is designed to ensure that success is repeatable, i.e. that we create value for our stakeholders time after time.

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 to deliver Philips Excellence.

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

5. Our people

Engaged employees crucial for success

We need all our people collaborating effectively in a diverse and inclusive environment, where they can grow and fulfill their ambitions. Engagement supports our culture of growth and performance improvement, reinforcing our goal of being the best place to work for people who share our passion.

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Global presence

Find out more about the scale and location of our activities throughout the world.

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1. Knowing our customers

Who do we mean by you ?

Philips delivers innovation that matters to you.

But just who is you ? And what matters to you? To get ever closer to our customers, these are questions we ask every day.

With our global presence we have customer-facing staff in over 100 countries and our trusted brand, we are uniquely placed to capture local customer insights.

By understanding the challenges local people face whether they be a hospital director, a city planner, a doctor or a consumer we ensure that their actual needs and aspirations drive our innovation efforts. So we can deliver what really matters to them.

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2. Understanding people s needs

What matters to you?

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Ralph and Helen McCurdy, a loving husband and wife who can live together at home and receive high-quality health care, thanks to an innovative and efficient telemedicine program from Philips and Banner Health.

Without communication, Ralph and I could have never survived the 64 years. To be able to talk to a doctor on a video and we don t have to wait two or three days for a doctor appointment, it s fabulous.

Helen McCurdy

This is the future. It s really an amazing model of care that doesn t exist anywhere else yet. When I have a team of people, augmented by a lot of Philips technology, I can catch things earlier, treat things earlier, and intervene in a way that allows me to accomplish what I set out to do as a geriatrician, and ultimately to do some good in these patient s lives.

Edward Perrin, MD

Geriatric Care Specialist & Medical Director

Banner Hospice

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The Philips Airfryer lets Dable Kwan prepare spring rolls and other delicious fried foods with much less oil. Who knew innovation could be so good for you, and taste so good too?

My name is Dable and I live in Hong Kong. I m a housewife and I love to cook. I really started to cook seriously about 10 years ago.

My husband loves fried food. Back then I would tell him, No, there s too much oil and grease, and it s not good for your health. But since getting the Philips Airfryer, ah, what a happy man.

It really makes cooking much easier, much healthier, and much more fun. Now, I m using less oil, less salt, less everything else. We just had our check-ups and our cholesterol, blood sugar and everything else are at very healthy levels.

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The port of Da Nang has grown in prosperity since Philips LEDs began lighting up the Dragon Bridge. See how the lives of fisherman Le Van Khe and his daughter Le Thi Vinh are improving.

The lights make the structure more vibrant and interesting for people who come to marvel at it The bridge has been central to our overall growth. This year we re hoping to receive around 3 million tourists.

Tran Chi Cuong

Deputy Director

Danang Department of Culture, Sports and Tourism

I have my own sugarcane juice cart near the Dragon Bridge. When the bridge opened I saw a lot of tourists arrive and figured that selling sugarcane to them would be better than working at the factory. My father is very happy that I no longer have to struggle working at the factory.

On a Saturday and Sunday it s so much fun to see the show. The bridge is very important to my family and me. My life lit up because the bridge lit up. It has changed our lives for the better.

Le Thi Vinh

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3. Behind the scenes

How we innovate for you

Armed with deep insights into local customer needs, we then bring together our R&D and design expertise and our local business-creation capabilities to address these needs.

The locally relevant solutions we develop often in collaboration with our customers do not always involve new technology . Instead, they may mean a new application or a unique customer proposition brought about by an innovative partnership.

Discover overleaf how we applied our innovation and design capability to help women breastfeed for longer.

Almost 25% of mothers stop breastfeeding within the first three months because it becomes too painful. A further 40% stop because of a decreased milk supply. Discover how the Philips AVENT Natural range addresses these problems.

Using a breast pump to express milk can make it easier for mothers to continue breastfeeding. People researchers at Philips discovered that moms thought pumps were too cold and mechanical, and forced them to lean forward to make sure the milk flows down into the bottle.

Around the same time, a clinical study by Philips confirmed that comfort is physiologically essential to helping mothers produce lots of milk. Pain, stress or discomfort hampers the release of oxytocin, the hormone responsible for triggering milk production.

Philips AVENT Comfort breast pump

Therefore we took comfort as the starting point of the design and reshaped the pump to make it possible for moms to sit back in a more relaxing position to express milk. Using ultrasound and MRI scanners, we studied how babies actually suckle. To mimic that, we added five oval petals that gently massage the areas around the nipple to stimulate more milk. We changed the texture of the cushioned silicone funnel that cups the breast, giving it a silky feel that is warm and gentle against the skin.

Philips AVENT Natural bottle

We used the same insights to create a new baby bottle, designed to tackle two things: teat acceptance (also known as latch on) and colic. When babies suckle at the breast, they cause the nipple to elongate in a rhythmic way, so we created a teat to stretch in the same way. To create a more natural breast-like shape, the designers made the teat much wider at the base. And to prevent babies swallowing too much air when they are feeding, we added an anti-colic twin-valve system that allows air to vent into the bottle rather than the baby s stomach.

Both the bottle and the breast pump have received several awards for outstanding design.

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Lives improved

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. For additional information, please visit www.philips.com/sustainability.

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4 Group performance

2013 was a significant step forward on our Path to Value. Despite stronger headwinds than initially anticipated, we succeeded in achieving our mid-term 2013 financial targets. We delivered a compound annual growth rate for comparable sales over the period 2012-2013 of 4.5%, compared to our target of 4-6%. We achieved a reported Adjusted IFO of 10.5% of sales, within our target bandwidth of 10-12%. And our return on invested capital reached 15.3% at year-end, above the targeted range of 12-14%.

Ron Wirahadiraksa, CFO

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4 Group performance 4.1 - 4.1

4.1 Financial performance

Prior-period financial statements have been restated for the treatment of Audio, Video, Multimedia and Accessories as discontinued operations (see note 7, Discontinued operations and other assets classified as held for sale) and the adoption of IAS 19R, which mainly relates to accounting for pensions (see note 30, Post-employment benefits).

Management summary

Key data

in millions of euros unless otherwise stated

	2011	2012	2013
Sales	20,992	23,457	23,329
Adjusted IFO[1)]	1,435	1,106	2,451
as a % of sales	6.8	4.7	10.5
IFO	(479)	648	1,991
as a % of sales	(2.3)	2.8	8.5
Financial income and expenses	(331)	(329)	(330)
Income tax expense	(251)	(185)	(466)
Results of investments in associates	15	(211)	(25)
Income (loss) from continuing operations	(1,046)	(77)	1,170
Income (loss) from discontinued operations - net of income tax	(410)	47	2
Net income (loss)	(1,456)	(30)	1,172
Net income attributable to shareholders per common share in euros:			
basic	(1.53)	(0.04)	1.28
diluted	(1.53)	(0.04)	1.27
Net operating capital (NOC)[1)]	10,382	9,316	10,238
Cash flows before financing activities[1)]	(515)	1,157	141
Employees (FTEs)	125,240	118,087	116,681
of which discontinued operations	5,645	2,005	1,992

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 14, 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 23.3 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 3% above 2012, driven by Lumileds and Automotive, partly 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 11% comparable growth, while mature geographies declined by 1%, as a result of the overall macroeconomic developments, including the continued weakness of the Western European markets and the continued economic uncertainty in North America. In 2013, growth geographies accounted for 36% of total sales, compared to 34% in 2012.

IFO amounted to EUR 1,991 million, or 8.5% of sales, compared to EUR 648 million, or 2.8% of sales, in 2012. IFO improvement was seen at all sectors, but was mainly driven by Lighting and Healthcare.

In 2013 we generated EUR 1,138 million of cash flow from operating activities, which was EUR 944 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 1,016 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, and announced a new EUR 1.5 billion program to be concluded over the next 2-3 years. By the end of the year we had completed 7% of this program.

The year 2012

Despite strong economic headwinds, we continued on our steady path of improvement driven by our multi-year change and performance program, Accelerate!. We recorded 6% comparable sales growth (12% nominal growth), with a strong contribution from growth geographies. Healthcare and Consumer Lifestyle delivered solid earnings, while Lighting gained momentum in its turnaround. Net income for the year amounted to a net loss of EUR 30 million, and was impacted by substantial restructuring charges as well as the European Commission fine related to alleged violation of competition rules in the Cathode-Ray Tube (CRT) industry.

Sales amounted to EUR 23.5 billion, a 12% nominal increase for the year. Excluding favorable currency effects and portfolio changes, comparable sales were 6% above 2011, driven by all three operating sectors. Healthcare sales grew 6%, with solid growth in all businesses. Lighting sales were 4% above 2011, with strong growth coming from Light Sources & Electronics, mainly fueled by market demand for LED, and Automotive, partly tempered by a sales decline at Lumileds. Sales at Consumer Lifestyle were 9% above 2011, with double-digit growth at Domestic Appliances and Health & Wellness and mid-single-digit growth at Personal Care.

Our growth geographies achieved 13% comparable growth, while mature geographies grew by a modest 2%, as a result of the overall macroeconomic developments and the continued weakness of the Western European markets, particularly Southern Europe. In 2012, growth geographies accounted for 34% of total sales, compared to 32% in 2011.

IFO amounted to EUR 648 million, or 2.8% of sales, compared to a loss of EUR 479 million, or negative 2.3% of sales, in 2011. Excluding impairment charges of EUR 1,355 million in 2011, significant IFO improvement was seen at Consumer Lifestyle and Healthcare, while Lighting was impacted by charges related to restructuring activities.

In 2012, we completed the divestment of our Television business to TP Vision and extended our partnership in Senseo with Sara Lee. Additionally, we completed the acquisition of Indal, strengthening our position in outdoor lighting.

In 2012 we generated EUR 2,082 million of cash flow from operating activities, which was EUR 1,322 million higher than in 2011. The increase was largely a result of lower working capital requirements and higher cash earnings. Our cash flows before financing activities were EUR 1,672 million above the level of 2011, due to higher cash flow from operating activities, higher proceeds from divestments, and lower outflows related to acquisitions of new businesses.

4.1.1 Sales

The year 2013

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

Sales growth composition 2013 versus 2012

in %

	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	3.2	(3.5)	0.0	(0.3)
IG&S[1)]	(2.0)	(0.5)	5.7	3.2
Philips Group	3.3	(3.9)	0.1	(0.5)

1) Innovation, Group & Services

Group sales amounted to EUR 23,329 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 was 3% higher and Healthcare 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, while Home Healthcare Solutions and Patient Care & Clinical Informatics recorded low-single-digit growth. This was partly offset by a mid-single-digit decline at Imaging Systems. 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 8,413 million, which was EUR 29 million lower than in 2012, but 3% higher on a comparable basis. Growth was largely driven by double-digit growth at Automotive and Lumileds and low-single-digit growth at Light Sources & Electronics. This was tempered by a low-single-digit decline at Consumer Luminaires. while Professional Lighting Solutions was flat year-on-year.

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IG&S reported sales of EUR 736 million, which was EUR 23 million higher than in 2012, due to higher royalty income.

The year 2012

The composition of sales growth in percentage terms in 2012, compared to 2011, is presented in the table below.

Sales growth composition 2012 versus 2011

in %

	comparable growth	currency effects	consolidation changes	nominal growth
Healthcare	6.4	6.4	0.0	12.8
Consumer Lifestyle	8.7	4.4	1.4	14.5
Lighting	3.8	4.6	2.1	10.5
IG&S	0.3	1.7	(4.4)	(2.5)
Philips Group	5.7	5.2	0.8	11.7

Group sales amounted to EUR 23,457 million in 2012, which represents 12% nominal growth compared to 2011.

Adjusting for a 5% favorable currency effect and a 1% favorable portfolio effect, comparable sales were 6% above 2011. Comparable sales were up 9% at Consumer Lifestyle, while Healthcare was 6% higher and Lighting 4% higher than the previous year.

Healthcare sales amounted to EUR 9,983 million, which was EUR 1,131 million higher than in 2011, or 6% higher on a comparable basis. High-single-digit comparable sales growth was achieved by Imaging Systems, Home Healthcare Solutions and Patient Care & Clinical Informatics, while Customer Services showed low-single-digit growth

Consumer Lifestyle reported sales of EUR 4,319 million, which was EUR 548 million higher than in 2011, or 9% higher on a comparable basis. We achieved double-digit growth at Domestic Appliances and Health & Wellness and mid-single-digit growth at Personal Care.

Lighting sales amounted to EUR 8,442 million, which was EUR 804 million higher than in 2011, or 4% higher on a comparable basis. Growth was largely driven by high-single-digit growth at Automotive and mid-single-digit growth at Light Sources & Electronics. This was tempered by low-single-digit growth at Professional Lighting Solutions and Consumer Luminaires and a sales decline at Lumileds.

IG&S reported sales of EUR 713 million, which was EUR 18 million lower than in 2011, mainly due to the divestment of Assembléon in the prior year.

4.1.2 Earnings

The year 2013

In 2013, Philips gross margin was EUR 9,688 million, or 41.5% of sales, compared to EUR 8,991 million, or 38.3% of sales, in 2012. Gross margin in 2013 included EUR 52 million of restructuring and acquisition-related charges, whereas 2012 included EUR 289 million of restructuring and acquisition-related charges. Higher gross margin percentages were seen in all sectors.

Selling expenses decreased from EUR 5,334 million in 2012 to EUR 5,075 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 22.7% to 21.8%. Selling expenses as a percentage of sales were lower in all sectors.

General and administrative expenses amounted to EUR 949 million in 2013, compared to EUR 845 million in 2012. As a percentage of sales, costs increased from 3.6% in 2012 to 4.1%. 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 1,831 million in 2012 to EUR 1,733 million in 2013. Research and development costs in 2013 included EUR 15 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 7.8% in 2012 to 7.4% in 2013.

The overview below shows sales, IFO and Adjusted IFO according to the 2013 sector classifications.

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Sales, IFO and Adjusted IFO

in millions of euros unless otherwise stated

	sales	IFO	%	Adjusted IFO[1)]	%
2013					
Healthcare	9,575	1,315	13.7	1,512	15.8
Consumer Lifestyle	4,605	429	9.3	483	10.5
Lighting	8,413	489	5.8	695	8.3
IG&S	736	(242)		(239)	
Philips Group	23,329	1,991	8.5	2,451	10.5
2012					
Healthcare	9,983	1,026	10.3	1,226	12.3
Consumer Lifestyle	4,319	400	9.3	456	10.6
Lighting	8,442	(66)	(0.8)	128	1.5
IG&S	713	(712)		(704)	
Philips Group	23,457	648	2.8	1,106	4.7

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 14, Reconciliation of non-GAAP information, of this report

In 2013, IFO increased by EUR 1,343 million year-on-year to EUR 1,991 million, or 8.5% of sales. 2013 included EUR 117 million of restructuring and acquisition-related charges, compared to EUR 561 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.

Amortization and impairment of intangibles, excluding software and capitalized product development costs, amounted to EUR 432 million in 2013, compared to EUR 458 million in 2012. Additionally, goodwill impairment charges of EUR 26 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 2,451 million, or 10.5% of sales, in 2013. Adjusted IFO showed a year-on-year increase at all Sectors.

Healthcare

Adjusted IFO improved 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 128 million, or 1.5% of sales, in 2012 to EUR 695 million, or 8.3% of sales, in 2013. Restructuring and acquisition-related charges amounted to EUR 100 million in 2013, compared to EUR 315 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 704 million in 2012 to a loss of EUR 239 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 5, Sector performance, of this report.

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The year 2012

In 2012, Philips gross margin was EUR 8,991 million, or 38.3% of sales, compared to EUR 8,260 million, or 39.3% of sales, in 2011. Gross margin in 2012 included EUR 289 million of restructuring and acquisition-related charges, whereas 2011 included EUR 52 million of restructuring and acquisition-related charges. Compared with 2011, the gross margin percentage was higher at Healthcare, but lower at Lighting and Consumer Lifestyle.

Selling expenses increased from EUR 5,025 million in 2011 to EUR 5,334 million in 2012. 2012 included EUR 184 million of restructuring and acquisition-related charges, compared to EUR 53 million of restructuring charges in 2011. The year-on-year increase was mainly attributable to restructuring activities and higher expenses aimed at supporting a higher level of sales. In relation to sales, selling expenses decreased from 23.9% to 22.7%. Selling expenses as a percentage of sales were lower in all sectors.

General and administrative expenses amounted to EUR 845 million in 2012, compared to EUR 802 million in 2011. As a percentage of sales, costs decreased from 3.8% in 2011 to 3.6%.

Research and development costs increased from EUR 1,605 million in 2011 to EUR 1,831 million in 2012. The year-on-year increase was largely attributable to higher investments in growth and innovation. As a percentage of sales, research and development costs increased from 7.6% in 2011 to 7.8% in 2012.

Sales, IFO and Adjusted IFO

in millions of euros, unless otherwise stated

	sales	IFO	%	Adjusted IFO[1)]	%
2011					
Healthcare	8,852	27	0.3	1,080	12.2
Consumer Lifestyle	3,771	109	2.9	153	4.1
Lighting	7,638	(408)	(5.3)	399	5.2
IG&S	731	(207)		(197)	
Philips Group	20,992	(479)	(2.3)	1,435	6.8

1) For reconciliation to the most directly comparable GAAP measures, see chapter 14, Reconciliation of non-GAAP information, of this report

In 2012, IFO increased by EUR 1,127 million year-on-year, to EUR 648 million, or 2.8% of sales. 2012 included EUR 561 million of restructuring and acquisition-related charges, compared to EUR 159 million in 2011. The year-on-year increase was mainly attributable to goodwill impairments of EUR 1,355 million in 2011 and higher gross margin percentages in Healthcare and Consumer Lifestyle, but was partly offset by the EUR 313 million impact of the European Commission fine.

Amortization of intangibles, excluding software and capitalized product development costs, amounted to EUR 458 million in 2012, compared to EUR 559 million in 2011.

Adjusted IFO decreased from EUR 1,435 million, or 6.8% of sales, in 2011 to EUR 1,106 million, or 4.7% of sales, in 2012. Adjusted IFO showed a year-on-year increase at Consumer Lifestyle and Healthcare, but was lower at Lighting.

Healthcare

Adjusted IFO increased from EUR 1,080 million, or 12.2% of sales, in 2011 to EUR 1,226 million, or 12.3% of sales, in 2012. Adjusted IFO improvements were realized across Patient Care & Clinical Informatics, Home Healthcare Solutions and Imaging Systems, mainly due to higher sales and reduced expenses as a result of cost-saving programs. Restructuring and acquisition-related charges totaled EUR 134 million, compared to EUR 21 million in 2011.

Consumer Lifestyle

Adjusted IFO increased from EUR 153 million, or 4.1% of sales, in 2011 to EUR 456 million, or 10.6% of sales, in 2012. Restructuring and acquisition-related charges amounted to EUR 56 million in 2012, compared to EUR 49 million in 2011. 2012 results included a EUR 160 million one-time gain from the extension of our partnership with Sara Lee, including the transfer of our 50% ownership rights to the Senseo trademark. Excluding this one-time gain, the year- on-year Adjusted IFO increase was driven by higher sales across all growth businesses as well as lower net costs formerly reported as part of the Television business.

Lighting

Adjusted IFO decreased from EUR 399 million, or 5.2% of sales, in 2011 to EUR 128 million, or 1.5% of sales, in 2012. Restructuring and acquisition-related charges amounted to EUR 315 million, compared to EUR 66 million in 2011. The decrease in Adjusted IFO was mainly attributable to higher restructuring and acquisition- related charges, as well as losses on the sale of industrial assets amounting to EUR 81 million, partly offset by higher sales. Compared to 2011, Adjusted IFO declined in all businesses except Automotive.

Innovation, Group & Services

Adjusted IFO decreased from a loss of EUR 197 million in 2011 to a loss of EUR 704 million in 2012. Results in 2012 were negatively impacted by a charge of EUR 313 million related to the European Commission fine and provisions related to various legal matters totaling EUR 132 million. Adjusted IFO in 2012 also included a EUR 25 million gain from a change in a medical retiree benefit plan and a EUR 37 million gain on the sale of the High Tech Campus, while 2011 included a EUR 21 million gain related to a change in a pension plan.

Restructuring and acquisition-related charges amounted to EUR 56 million in 2012, compared to EUR 23 million in 2011.

For further information regarding the performance of the sectors, see chapter 5, Sector performance, of this report.

4.1.3 Advertising & Promotion

The year 2013

Philips total advertising and promotion expenses were EUR 882 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. As in 2012, the Company allocated a higher proportion of its total advertising and promotion spend to growth geographies and strategic markets. Accordingly, the advertising and promotion spend in key growth geographies increased by 4% compared to 2012. The total advertising and promotion investment as a percentage of sales was 3.8% in 2013, compared to 3.6% 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.

The year 2012

Philips total advertising and promotion expenses approximated EUR 841 million in 2012, a decrease of 3% compared to 2011, mainly due to decreased investments in Western Europe.

Consistent with 2011, the Company allocated a higher proportion of its total advertising and promotion spend towards growth geographies and strategic markets, priority areas for the Company s growth strategy. Accordingly, the Company increased its advertising and promotion spend in key growth geographies by 5% compared to 2011. Total advertising and promotion investment as a percentage of sales 3.6% in 2012, compared to 4.1% in 2011.

4.1.4 Research and development

The year 2013

Research and development costs decreased from EUR 1,831 million in 2012 to EUR 1,733 million in 2013. 2013 included EUR 15 million of restructuring and acquisition-related charges, compared to EUR 57 million in 2012. As a percentage of sales, research and development costs decreased from 7.8% in 2012 to 7.4%. The year-on-year decrease was largely attributable to currency effects and lower restructuring charges.

Research and development costs within Healthcare decreased by EUR 43 million, mainly due to lower restructuring activities at Imaging Systems and Patient Care and Clinical Informatics. At Lighting, research and development costs decreased by EUR 21 million,

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primarily in the conventional businesses within Light Sources & Electronics. At Consumer Lifestyle, research and development spending was EUR 10 million higher than in 2012, mainly in Health & Wellness. In Innovation, Group & Services, research and development expenses decreased by EUR 44 million, due to lower restructuring, productivity savings as well as lower costs at Intellectual Property & Standards.

Research and development expenses per sector

in millions of euros

	2011	2012	2013
Healthcare	754	823	780
Consumer Lifestyle	249	251	261
Lighting	416	462	441
Innovation, Group & Services	186	295	251
Philips Group	1,605	1,831	1,733

The year 2012

Research and development costs increased from EUR 1,605 million in 2011 to EUR 1,831 million in 2012. The year-on-year increase was largely attributable to higher investments in growth and innovation, including an increased focus on new value spaces. As a percentage of sales, research and development costs increased from 7.6% in 2011 to 7.8%.

Research and development costs within Healthcare increased by EUR 69 million, mainly at Imaging Systems and Home Healthcare Solutions. At Lighting, research and development costs increased by EUR 46 million, primarily at Lumileds and our Controls business within Professional Lighting Solutions. At Consumer Lifestyle, research and development spending was EUR 2 million higher than in 2011. In Innovation, Group & Services, R&D expenses increased by EUR 109 million, driven by investments in new value spaces as well as innovation and design initiatives.

4.1.5 Pensions

The year 2013

In 2013, the total costs of post-employment benefits amounted to EUR 294 million for defined-benefit plans and EUR 139 million for defined-contribution plans, compared to EUR 289 million and EUR 139 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 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 30, Post-employment benefits.

The year 2012

In 2012, the total costs of post-employment benefits amounted to EUR 289 million for defined benefit plans and EUR 139 million for defined contribution plans, compared to EUR 248 million and EUR 117 million respectively in 2011.

The funded status of our defined-benefit plans improved in 2012, in spite of decreasing discount rates and improved life expectancy assumptions in the Netherlands and UK plans. The surpluses of the plans in the Netherlands and UK increased, but Philips does not recognize the surplus in these countries, the net balance sheet position was not impacted.

In 2012, past-service cost gains of EUR 31 million were recognized of which 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.

In 2011, the company recognized a past-service cost gain of EUR 40 million, including a EUR 19 million curtailment gain.

For further information, refer to note 29, Post-employment benefits

4.1.6 Restructuring and impairment charges

The year 2013

In 2013, IFO included net charges totaling EUR 101 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 511 million of restructuring charges.

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

Restructuring and related charges

in millions of euros

	2011	2012	2013
Restructuring and related charges per sector:			
Healthcare	3	116	(6)
Consumer Lifestyle	5	38	10
Lighting	54	301	94
Innovation, Group & Services	23	56	3
Continuing operations	85	511	101
Discontinued operations	18	29	16
Cost breakdown of restructuring and related charges:			
Personnel lay-off costs	105	423	103
Release of provision	(44)	(35)	(64)
Restructuring-related asset impairment	10	66	36
Other restructuring-related costs	14	57	26
Continuing operations	85	511	101
Discontinued operations	18	29	16

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 & Clinical Informatics, 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).

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For further information on restructuring, refer to note 21, Provisions.

The year 2012

2012 included EUR 511 million of restructuring. In addition to the annual goodwill impairment tests for Philips, trigger-based impairment tests were performed during the year, resulting in no goodwill impairment.

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

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 US. In Healthcare, the largest projects were undertaken at Imaging Systems and Patient Care & Clinical Informatics, 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).

In 2011, the most significant restructuring projects related to Lighting and Innovation, Group & Services and were mainly 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, Brazil and in the United States. Innovation, Group & Services restructuring projects focused on the Global Service Units (primarily in the Netherlands), Corporate and Country Overheads (mainly in the Netherlands, Brazil and Italy) and Philips Design (the Netherlands). At Healthcare, the largest projects were undertaken at Imaging Systems, Home Healthcare Solutions and Patient Care & Clinical Informatics, in various locations in the United States to reduce operating costs and simplify the organization. Consumer Lifestyle restructuring charges mainly related to the remaining Television operations in Europe.

4.1.7 Financial income and expenses

The year 2013

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

Financial income and expenses

in millions of euros

	2011	2012	2013
Interest expense (net)	(302)	(325)	(268)
Sale of securities	51	1	
Impairments	(34)	(8)	(10)
Other	(46)	3	(52)
	(331)	(329)	(330)

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 52 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 3 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.

Impairments

in millions of euros

	2011	2012	2013
TPV	(25)		
Chi-Mei Innolux	(4)	(1)	(1)
BG Medicine	(2)	(1)	(1)
Prime Technology	(1)		
Tendris		(5)	(1)
Gilde III		(1)	(2)
Lighting Science Group			(3)
Other	(2)		(2)
	(34)	(8)	(10)

Impairment charges in 2013 amounted to EUR 10 million, mainly from shareholdings in Lighting Science Group and Gilde III. In 2012, impairment charges amounted to EUR 8 million, mainly from shareholdings in Tendris.

For further information, refer to note 4, Financial income and expenses.

The year 2012

The net interest expense in 2012 was EUR 23 million higher than in 2011, mainly as a result of higher average outstanding debt.

In 2012 there was a EUR 1 million gain on the sale of securities. In 2011, income from the sale of securities totaled EUR 51 million, including a EUR 44 million gain on the sale of the remaining shares in TCL and a EUR 6 million gain on the sale of shares of Digimarc.

Impairment charges in 2012 amounted to EUR 8 million, mainly from shareholdings in Tendris. In 2011, impairment charges amounted to EUR 34 million, mainly from shareholdings in TPV Technologies Ltd.

Other financial income was a EUR 3 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.

Other financial expenses in 2011 primarily consisted of a EUR 34 million other financing charge and a EUR 33 million accretion expense (mainly associated with discounted provisions) offset by EUR 11 million dividend income and other financial income, including a net gain of EUR 6 million mostly from the revaluation impact of the option related to NXP.

For further information, refer to note 4, Financial income and expenses.

4.1.8 Income taxes

The year 2013

Income taxes amounted to EUR 466 million, compared to EUR 185 million in 2012. The effective income tax rate was 28.1%, compared to 58.0% 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 25.5%. The 2.6 percentage points increase in 2013 was mainly related to a higher weighted average statutory income tax rate in 2013 due to a change in the country mix of profit and loss, which was partly offset by lower valuation allowances.

For 2014, the effective tax rate excluding incidental non-taxable items is expected to be between 30% and 32%.

For further information, refer to note 5, Income taxes.

The year 2012

Income taxes amounted to EUR 185 million, compared to EUR 251 million in 2011. The year-on-year decrease was largely attributable to lower incidental tax expenses.

The tax burden in 2012 corresponded to an effective income tax rate of 58.0%, compared to negative 31.0% in 2011. In 2011, the negative effective income tax rate was attributable to goodwill impairment losses of EUR 1,355 million, which were largely non-tax-deductible. The effective income tax rate in 2012 included the impact of the non-tax-deductible charge of EUR 509 million arising from the European Commission fine. Excluding the European Commission fine and charges related to various legal matters in 2012, the effective tax rate in 2012 was 25.5%.

For further information, refer to note 5, Income taxes.

4.1.9 Results of investments in associates

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.

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Results of investments in associates

in millions of euros

	2011	2012	2013
Company s participation in income	18	(5)	5
Investment impairment and other charges	(3)	(206)	(30)
	15	(211)	(25)

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 6, Interests in entities.

The year 2012

The results related to investments in associates declined from income of EUR 15 million in 2011 to a loss of EUR 211 million in 2012, largely attributable to a charge of EUR 196 million related to the former LG.Philips Displays joint venture.

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 decreased from EUR 18 million in 2011 to negative EUR 5 million in 2012. The loss in 2012 was mainly attributable to the results of EMGO, while the income in 2011 was mainly due to the results of Intertrust.

For further information, refer to note 6, Interests in entities.

4.1.10 Non-controlling interests

The year 2013

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

The year 2012

Net income attributable to non-controlling interests amounted to EUR 5 million in 2012, compared to EUR 4 million in 2011.

4.1.11 Discontinued operations

The year 2013

Discontinued operations consist of the Audio, Video, Multimedia and Accessories (AVM&A) business, the Television business and certain divestments formerly reported as discontinued operations. The results related to these businesses are reported under Discontinued operations in the Consolidated statements of income and Consolidated statements of cash flows.

Philips had reached an agreement to transfer the AVM&A business to Funai Electric Co. Ltd in Q1 2013. This agreement was terminated on October 25, 2013. Since then, Philips has received expressions of interest in the business from various parties and has been actively discussing the sale of the business with potential buyers. In the meantime, the AVM&A business operates as a standalone entity named 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). On January 20, 2014, Philips announced that it has signed a term sheet to transfer the remaining 30% stake in TP Vision to TPV.

After completion, TPV will fully own TP Vision, which will enable further integration with TPV s TV business.

Income from discontinued operations decreased by EUR 45 million to EUR 2 million in 2013. The decrease was mainly attributable to lower operational results and higher disentanglement costs in the AVM&A business. In 2012, income from discontinued operations of EUR 47 million was composed of EUR 78 million of net income related to AVM&A, partly offset by a EUR 31 million net loss related to the Television business.

For further information, refer to note 7, Discontinued operations and other assets classified as held for sale.

The year 2012

Discontinued operations consist of the Audio, Video, Multimedia and Accessories (AVM&A) business, the Television business and certain divestments formerly reported as discontinued operations. The results related to these businesses are reported under Discontinued operations in the Consolidated statements of income and Consolidated statements of cash flows.

In 2012, income from discontinued operations of EUR 47 million included EUR 78 million of net income related to AVM&A, partly offset by a EUR 31 million net loss related to the Television business. In 2011, income from discontinued operations amounted to a loss of EUR 410 million and was primarily composed of EUR 78 million of net income related to AVM&A, offset by a EUR 515 million net loss related to the Television business. The net loss in the Television business was composed of a EUR 353 million transaction loss recorded on the sale of the business, as well as net operational losses of EUR 162 million.

For further information, refer to note 7, Discontinued operations and other assets classified as held for sale.

4.1.12 Net income

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 to EUR 1,343 million higher IFO and better results relating to investments in associates of EUR 186 million, offset by higher income tax charges of EUR 281 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.

The year 2012

Net income increased from a loss of EUR 1,456 million in 2011 to a loss of EUR 30 million in 2012. The increase was largely due to EUR 1,127 million higher IFO, EUR 457 million lower costs related to discontinued operations and lower income tax of EUR 66 million, partly offset by lower results relating to investments in associates of EUR 226 million.

Basic earnings per common share from net income increased from negative EUR 1.53 per common share in 2011 to negative EUR 0.04 per common share in 2012.

4.1.13 Acquisitions and divestments

Acquisitions

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.

In 2011, we completed six acquisitions. Healthcare acquisitions included Sectra, AllParts Medical and Dameca. Within Consumer Lifestyle, Philips completed the acquisition of Preethi and Povos. Within Lighting, Philips acquired Optimum Lighting. Acquisitions in 2011 and previous years led to post-merger integration charges totaling EUR 74 million in 2011: Healthcare EUR 17 million, Consumer Lifestyle EUR 45 million, and Lighting EUR 12 million.

Divestments

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

During 2012, Philips completed several divestments of business activities, namely the Television business (for further information see note 7, Discontinued operations and other assets classified as held for sale), certain Lighting manufacturing activities, Speech Processing activities and certain Healthcare service activities. The Speech Processing activities were sold to Invest AG, in line with our strategy.

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.

In 2011, Philips completed several divestments, of which Assembléon was the most significant. Philips sold 80% of the shares in Assembléon to H2 Equity Partners, an Amsterdam-based private equity firm, for a consideration of EUR 14 million.

For details, please refer to note 9, Acquisitions and divestments.

4.1.14 Performance by geographic cluster

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 582 million lower than in 2012, or 1% lower 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 429 million or 2% 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 mid-single-digit growth, mainly driven by strong performance at Consumer Lifestyle and Healthcare.

In growth geographies, sales grew by EUR 454 million, or 11% 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.

The year 2012

In 2012, sales grew 6% on a comparable basis (12% nominally), driven by growth at Consumer Lifestyle and Healthcare, notably in growth geographies.

Sales in mature geographies were EUR 1,235 million higher than in 2011, or 2% higher on a comparable basis. Sales in Western Europe were impacted by macroeconomic developments, resulting in a 1% decline in comparable sales, attributable to Lighting and Healthcare. On a nominal basis, sales in Western Europe were EUR 156 million higher than in 2011, driven by the acquisition of Indal in Lighting. Sales in North America were EUR 722 million higher, or 3% higher on a comparable basis, driven by single-digit growth in all sectors. Both nominal and comparable sales in other mature geographies showed strong growth. Comparable sales in other mature geographies showed double-digit growth at Consumer Lifestyle and Lighting, while Healthcare recorded high-single-digit growth.

In growth geographies, sales grew by EUR 1,230 million, or 13% on a comparable basis, driven by double-digit growth at Healthcare and Consumer Lifestyle. In China, all Sectors recorded solid double-digit nominal and comparable growth. Sales in Russia & Central Asia also showed double-digit comparable sales growth, attributable to strong sales performance at Consumer Lifestyle and Healthcare.

4.1.15 Cash flows provided by continuing operations

The year 2013

Cash flows from operating activities

Net cash flow from operating activities amounted to EUR 1,138 million in 2013, which is EUR 944 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.

Condensed consolidated statements of cash flows for the years ended December 31, 2011, 2012 and 2013 are presented below:

Condensed consolidated cash flow statements[1)]

in millions of euros

	2011	2012	2013
Cash flows from operating activities:			
Net income (loss)	(1,456)	(30)	1,172
Adjustments to reconcile net income to net cash provided by operating activities	2,216	2,112	(34)
Net cash provided by operating activities	760	2,082	1,138
Net cash (used for) provided by investing activities	(1,275)	(925)	(997)
Cash flows before financing activities[2)]	(515)	1,157	141
Net cash used for financing activities	(1,790)	(293)	(1,241)
Cash (used for) provided by continuing operations	(2,305)	864	(1,100)
Net cash (used for) discontinued operations	(374)	(126)	(206)
Effect of changes in exchange rates on cash and cash equivalents	(7)	(51)	(63)
Total change in cash and cash equivalents	(2,686)	687	(1,369)
Cash and cash equivalents at the beginning of year	5,833	3,147	3,834
Cash and cash equivalents at the end of year	3,147	3,834	2,465

1) Please refer to section 11.7, Consolidated statements of cash flows, of this report
2) Please refer to chapter 14, Reconciliation of non-GAAP information, of this report

Cash flows from investing activities

In 2013, cash flows from investing activities resulted in a net outflow of EUR 997 million. This was attributable to EUR 966 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 94 million of net proceeds from divestments.

In 2012, cash flows from investing activities resulted in a net outflow of EUR 925 million. This was attributable to EUR 455 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 966 million, which was EUR 511 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. Excluding these impacts in 2012, net capital expenditures were EUR 84 million lower than in 2012, mainly due to lower investments at Lighting.

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 94 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 4 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 buyback 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 730 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.

The year 2012

Cash flows from operating activities

Net cash flow from operating activities amounted to EUR 2,082 million in 2012, compared to EUR 760 million in 2011. The year-on-year improvement was largely attributable to lower working capital outflows, mainly related to accounts payable, as well as higher cash earnings. The increase in other current liabilities included a payable of EUR 509 million related to the European Commission fine. Excluding the fine payable, the increase in accounts payable and accrued and other current liabilities was attributable to increased volume from higher sales, while the outflow in 2011 was attributable to a tightening of vendor payments in the operating sectors.

Cash flows from investing activities

2012 cash flows from investing activities resulted in a net outflow of EUR 925 million. This was attributable to EUR 455 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).

In 2011, cash flows from investing activities resulted in a net outflow of EUR 1,275 million. This was attributable to EUR 857 million cash used for net capital expenditures and EUR 550 million used for acquisitions, mainly for Povos, Preethi and Sectra. This was partly offset by EUR 106 million proceeds from the sale of financial assets and divestments, mainly TCL and Digimarc shares.

Net capital expenditures

Net capital expenditures totaled EUR 455 million, which was EUR 402 million lower than in 2011, mainly reflecting the impact of proceeds received from the sale of the High Tech Campus of EUR 425 million (consisting of a EUR 373 million cash transaction and an amount of EUR 52 million that will be received in future years) and the divestment of Philips 50% ownership right in the Senseo trademark to Sara Lee for EUR 170 million. Excluding these impacts, higher investments were visible in all sectors, notably additional growth-focused investments at Lighting.

Acquisitions and 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).

The net cash impact of acquisitions of businesses and financial assets in 2011 was a total of EUR 550 million, mainly related to the acquisitions of Povos, Preethi and Sectra.

Divestments and derivatives

In 2012, cash proceeds of EUR 4 million were received from divestments. Cash flows from derivatives and securities led to a net cash outflow of EUR 46 million.

In 2011, cash proceeds of EUR 106 million were received from divestments, including EUR 69 million from the sale of remaining shares in TCL, as well as divestments of non- strategic businesses within Consumer Lifestyle and Healthcare. Cash flows from derivatives and securities led to a net cash inflow of EUR 26 million.

Cash flows from financing activities

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 730 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 buyback and share delivery totaled EUR 768 million.

Net cash used for financing activities in 2011 was EUR 1,790 million. Philips shareholders were given EUR 711 million in the form of a dividend of which the cash portion of the dividend amounted to EUR 259 million. The net impact of changes in debt was a decrease of EUR 860 million, including the redemption of a EUR 750 million bond, a USD 350 million bond and other debts totaling EUR 1,314 million, partially offset by the drawdown of a EUR 200 million committed facility and other new long-term borrowing totaling EUR 454 million. Additionally, net cash outflows for share buyback and share delivery totaled EUR 671 million.

4.1.16 Cash flows from discontinued operations

The year 2013

In 2013, EUR 206 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 68 million attributable to operating activities.

In 2012, EUR 126 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 130 million attributable to operating activities.

The year 2012

In 2012, EUR 126 million cash was used by the 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 130 million attributable to operating activities.

In 2011, EUR 374 million cash was used by the discontinued operations of the Television and Audio, Video Multimedia and Accessories businesses. The Television business used net cash of EUR 364 million, attributable to operating cash outflows of EUR 270 million and cash outflows to investing activities of EUR 94 million. The Audio, Video Multimedia and Accessories business used EUR 10 million of net cash, attributable to operating activities.

4.1.17 Financing

The year 2013

Condensed consolidated balance sheets for the years 2011, 2012 and 2013 are presented below:

Condensed consolidated balance sheet information[1)]

in millions of euros

	2011	2012	2013
Intangible assets	11,012	10,679	9,766
Property, plant and equipment	3,014	2,959	2,780
Inventories	3,625	3,495	3,240
Receivables	5,117	4,858	4,892
Assets held for sale	551	43	507
Other assets	2,931	3,213	2,909
Payables	(6,563)	(6,210)	(5,435)
Provisions	(2,680)	(2,956)	(2,554)
Liabilities directly associated with assets held for sale	(61)	(27)	(348)
Other liabilities	(3,871)	(4,169)	(3,094)
	13,075	11,885	12,663
Cash and cash equivalents	3,147	3,834	2,465
Debt	(3,860)	(4,534)	(3,901)
Net cash (debt)	(713)	(700)	(1,436)
Non-controlling interests	(34)	(34)	(13)
Shareholders equity	(12,328)	(11,151)	(11,214)
	(13,075)	(11,885)	(12,663)

[1] Please refer to section 11.6, Consolidated balance sheets, of this report

4.1.18 Cash and cash equivalents

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 966 million, cash outflows

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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 206 million outflow related to discontinued operations. This was partly offset by a EUR 1,138 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 2,082 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 455 million, a EUR 428 million outflow for acquisitions of businesses and financial assets, a EUR 255 million outflow for the cash dividend payout, and a EUR 126 million outflow related to discontinued operations.

The year 2012

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 2,082 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 455 million, a EUR 428 million outflow for acquisitions of businesses and financial assets, a EUR 255 million outflow for the cash dividend payout, and a EUR 126 million outflow related to discontinued operations.

In 2011, cash and cash equivalents decreased by EUR 2,686 million to EUR 3,147 million at year-end. The decrease was mainly attributable to an outflow on net capital expenditures of EUR 857 million, a EUR 860 million decrease in debt, a EUR 671 million outflow for treasury share transactions, a EUR 550 million outflow for acquisitions of businesses and financial assets, and a EUR 259 million outflow for the cash dividend payout. This was partly offset by cash inflows from operations amounting to EUR 760 million, EUR 106 million in proceeds from divestments, and a EUR 374 million outflow related to discontinued operations.

4.1.19 Debt position

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.

Changes in debt

in millions of euros

	2011	2012	2013
New borrowings	(454)	(1,361)	(64)
Repayments	1,314	631	471
Consolidation and currency effects	(62)	56	226
Total changes in debt	798	(674)	633

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 20, Long-term debt and short-term debt.

The year 2012

Total debt outstanding at the end of 2012 was EUR 4,534 million, compared with EUR 3,860 million at the end of 2011.

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.

In 2011, total debt decreased by EUR 798 million. The repayment of EUR 1,314 million included redemption of a EUR 750 million bond, a USD 350 million bond, and a EUR 217 million repayment of short-term debt. New borrowing and finance leases amounted to EUR 454 million. Other changes resulting from consolidation and currency effects led to an increase of EUR 62 million.

Long-term debt as a proportion of the total debt stood at 82% at the end of 2012 with an average remaining term of 12.7 years, compared to 85% and 10.4 years at the end of 2011.

For further information, please refer to note 20, Long-term debt and short-term debt.

4.1.20 Net debt to group equity

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.

The year 2012

Philips ended 2012 in a net debt position (cash and cash equivalents, net of debt) of EUR 700 million, compared to a net debt position of EUR 713 million at the end of 2011.

4.1.21 Shareholders equity

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 the share premium due to 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 a EUR 84 million increase in share premium due to share-based compensation plans.

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

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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).

The year 2012

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 of 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 a EUR 84 million increase in share premium due to share-based compensation plans.

Shareholders equity decreased by EUR 2,693 million in 2011 to EUR 12,328 million at December 31, 2011. The decrease was mainly as a result of a EUR 1,460 million net loss as well as EUR 751 million related to the purchase of treasury shares. The dividend payment to shareholders in 2011 reduced equity by EUR 263 million. The decrease was partially offset by a EUR 46 million increase related to the delivery of treasury shares and a EUR 56 million increase in share premium due to share-based compensation plans.

The number of outstanding common shares of Royal Philips at December 31, 2012 was 915 million (2011: 926 million).

At the end of 2012, the Company held 28.7 million shares in treasury to cover the future delivery of shares (2011: 33.6 million shares). This was in connection with the 52.3 million rights outstanding at the end of 2012 (2011: 47.1 million rights) under the Company s long-term incentive plan and convertible personnel debentures. At the end of 2012, the Company held 13.8 million shares for cancellation (2011: 49.3 million shares).

4.1.22 Liquidity position

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.

Liquidity position

in millions of euros

	2011	2012	2013
Cash and cash equivalents	3,147	3,834	2,465
Committed revolving credit facility/CP program/Bilateral loan	3,200	1,800	1,800
Liquidity	6,347	5,634	4,265
Available-for-sale financial assets at fair value	110	120	65
Short-term debt	(582)	(809)	(592)
Long-term debt	(3,278)	(3,725)	(3,309)
Net available liquidity resources	2,597	1,220	429

The fair value of the Company s available-for-sale financial assets amounted to EUR 65 million.

Philips has a EUR 1.8 billion committed revolving credit facility that can be used for general corporate 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, 2013, 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 stable outlook) by Standard & Poor s. It is Philips objective 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. Outstanding long-term bonds and credit facilities do not have a repetitive material adverse change clause, financial covenants or credit-rating-related acceleration possibilities.

As at December 31, 2013, Philips had total cash and cash equivalents of EUR 2,465 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 3,901 million at year-end 2013.

Philips believes its current working capital is sufficient to meet its present working capital requirements.

4.1.23 Cash obligations

Contractual cash obligations

Presented below is a summary of the Group s contractual cash obligations and commitments at December 31, 2013.

Contractual cash obligations at December 31, 2013

in millions of euros[1)]

		payments due by period			
	total	**less than 1 year**	**1-3 years**	**3-5 years**	**after 5 years**
Long-term debt[2)]	3,472	308	2	900	2,262
Finance lease obligations	241	61	78	34	68
Short-term debt	230	230			
Operating leases	1,017	237	316	182	282
Derivative liabilities	337	112	93	92	40
Interest on debt[3)]	2,421	185	346	315	1,575
Purchase obligations[4)]	184	81	76	26	1
Trade and other payables	2,462	2,462			
	10,364	3,676	911	1,549	4,228

1) Data in this table are undiscounted

2) Long-term debt includes short-term portion of long-term debt and excludes finance lease obligations

3) Approximately 20% 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, 2013 approximately EUR 343 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 30, Post-employment benefits.

The Company had EUR 203 million restructuring-related provisions by the end of 2013, of which EUR 128 million is expected to result in cash outflows in 2014. Refer to note 21, Provisions for details of restructuring provisions and potential cash flow impact for 2014 and further.

A proposal will be submitted to the General Meeting of Shareholders to declare a distribution of EUR 0.80 per common share (up to EUR 740 million), in cash or shares at the option of the shareholder, against the net income for 2013. Further details will be given in the agenda for the General Meeting of Shareholders, to be held on May 1, 2014.

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 2013, the total fair value of guarantees recognized by Philips in other non-current liabilities amounted to less than EUR 1 million. The following table outlines the total outstanding off- balance sheet credit-related guarantees and business-related guarantees provided by Philips for the benefit of unconsolidated companies and third parties as at December 31, 2012 and 2013.

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Expiration per period

in millions of euros

	total amounts committed	less than 1 year	1-5 years	after 5 years
2013				
Business-related guarantees	292	107	117	68
Credit-related guarantees	41	19	7	15
	333	126	124	83
2012				
Business-related guarantees	295	113	114	68
Credit-related guarantees	27	11		16
	322	124	114	84

4.1.24 Supply management

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 prices continued to slide, and this has contributed to realizing higher savings levels in 2013. 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 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 has not increased, this has 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 remains a constant concern, though acute shortages have not occured. Technical measures have been 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. This is supporting the competitiveness of our business propositions. All parts of the new Procurement organization have contributed to this improvement.

The year 2012

In the course of 2012, the market prices of energy and raw materials, which together represent 15% of our purchasing spend, showed diverse trends in a very volatile market. Prices of most metals dropped from their high levels in 2011 largely as a consequence of the slowdown of the global economy, and especially due to slower Chinese consumption growth. In spite of the economic slowdown, energy prices kept their high price levels in 2012, mainly due to market fears and uncertainty from turbulence in various oil-producing countries in 2012.

4.2 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.

In 2013, Philips further strengthened its focus on sustainability. This is rooted in our long-standing belief that sustainability is a key enabler of value creation and offers opportunities to innovate our way out of the challenging economic circumstances. Therefore, sustainability is an integral part of Philips vision and strategy.

4.2.1 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 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 630 million people in 2013, 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 1.49 billion people respectively. After the elimination of double counts - people touched multiple times - we arrived at 1.8 billion lives. This is an increase of 100 million compared to our total baseline of 1.7 billion people a year, established in 2012. More information on this metric can be found in chapter 13, Sustainability statements, of this report.

4.2.2 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.

In 2012, we announced our intention to move from an annual measurement of Employee Engagement Survey data to a bi-annual basis in order to allow more time for teams to analyze results and implement improvement actions. We also used this as an opportunity to review the way we approach engagement, with the aim of improving the link between the high levels of employee engagement that we achieve and improved business results.

In 2013 we applied a more contemporary model relevant for the next steps in our journey. While our employee survey using the refreshed methodology is not directly comparable to our historical metric, we see

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that 75% of our employees provided a favorable response to our new engagement index, 3 points above the external high-performing benchmark. This is a very encouraging result; especially given the speed and scale of our current transformation.

The survey results indicate the following areas as strengths:

- Clarity of strategic direction provided by senior leadership
- Adopting good ideas from all over the company
- Making good use of skills and abilities
- Providing opportunities for employees to grow and develop
- Senior leaders belief in the future of Philips

There are also improvement areas:

- Making the changes necessary to compete effectively and applying these changes in a consistent manner
- Ability as an organization to fix problems so they don t happen again
- Senior leaders have to do more to ensure we drive collaboration, execution and improvement across organizational boundaries
- Focus on customers must continue to strengthen
- Need to create a diverse workforce and inclusive culture where people of all backgrounds can succeed in Philips

Engagement is now an integral part of how we build our culture and is an ingredient in a broader portfolio of initiatives and measurement tools. For example, in our end-to-end transformations, we use surveys to ensure forward progress while creating opportunities for team dialogues. We will use shorter, targeted surveys and dialogue platforms to maintain focus on key areas until the next full-census employee survey in 2015.

4.2.3 Diversity and inclusion

We set measurable objectives for achieving diversity and inclusion within Philips. Measuring performance against defined metrics twice annually, Executive Committee members hold their organizations accountable for progress and review actions and outcomes as part of business reviews.

With the roll-out of a revised Diversity and Inclusion (D&I) strategy and the launch of a new global D&I policy in 2013, Philips has taken major steps to clearly anchor diversity and inclusion as priorities and to engage all employees and leaders in contributing to an inclusive work environment. This policy prescribes:

Championing workforce diversity. We embrace unique individuals regardless of race, color, age, gender, gender identity or expression, sexual orientation, language, religion, political or other opinion, disability, national or social origin or birth.

Valuing diverse perspectives. We leverage the diverse thinking, skills, experience and working styles of everyone in our company.

Building a flexible organization. We provide opportunities for work arrangements that accommodate the diverse needs of people at different career and life stages.

Respecting stakeholder diversity. We develop strong and sustainable relationships with diverse stakeholders including customers, communities, governments, suppliers and shareholders.

Progress has been made in ensuring a better representation of women in leadership roles: women now constitute 15% of Philips executive population, an increase of 1 percentage point year-on-year. Also, we have been appointing more local leaders: at year-end 2013, over 75% of senior leaders in countries were of local origin.

Going forward, driving D&I remains a priority for Philips. While female representation has also increased at professional and management level, Philips has made this an attention point for the coming year as well, recognizing that this is necessary in order to strengthen the leadership pipeline and create a strong basis for sustainable change. Therefore, a commitment has been made to increase the share of women in corporate grades 70 90 (refer to professionals and management category in the graphs) by 5 percentage points (per grade) by 2016 compared to the 2012 baseline. Over the same period, the share of female executives is to increase to 20% of the total executive population.

Philips has two women on its Executive Committee and two female members of the Supervisory Board. Philips executives come from more than 30 countries.

In 2013, Philips employed 35% females, a decrease of 1 percentage point compared to 2012.

In 2013, employee turnover amounted to 16% (15% in non-manufacturing sites; 20% in manufacturing locations), an increase compared to 2012 caused by the changing industrial footprint, divestments at Healthcare, the company s overhead reduction program and high turnover of manufacturing staff in our factories, mainly in the growth markets.

Employee turnover

in %

	2011	2012	2013
Female	13	14	18
Male	10	13	15
Philips Group	11	14	16

Employee turnover: manufacturing vs non-manufacturing sites

in %

	2012	2013
Manufacturing staff	17	20
Non-manufacturing staff	12	15
Group	14	16

4.2.4 Employment

The year 2013

The total number of Philips Group employees (Continued operations) was 114,689 at the end of 2013, compared to 116,082 at the end of 2012. Approximately 41% were employed in the Lighting sector, due to the continued vertical integration in this business. Some 32% were employed in the Healthcare sector and approximately 16% in the Consumer Lifestyle sector.

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Compared to 2012, the number of employees in continuing operations decreased by 1,393. This decrease reflects a reduction of 688 employees, mainly related to the industrial footprint rationalization at Lighting. It also reflects the departure of 705 employees due to divestments in Healthcare.

Approximately 52% of the Philips workforce was located in mature geographies, and about 48% in growth geographies. In 2013, the number of employees in mature geographies decreased by 1,614, mainly attributable to reductions relating to the company s overhead reduction program and the industrial footprint reduction in Lighting. Growth geographies headcount increased by 221, primarily in the growth businesses in Consumer Lifestyle.

Employees per sector

in FTEs at year-end

	2011	2012	2013
Healthcare	37,955	37,460	37,008
Consumer Lifestyle	15,471	16,542	17,854
Lighting	53,168	50,224	46,890
Innovation, Group & Services	13,001	11,856	12,937
Continuing operations	119,595	116,082	114,689
Discontinued operations	5,645	2,005	1,992
	125,240	118,087	116,681

Employees per geographic cluster

in FTEs at year-end

	2011	2012	2013
Western Europe	32,901	31,126	30,514
North America	28,129	26,134	25,080
Other mature geographies	3,232	3,359	3,478
Total mature geographies	64,262	60,619	59,072
Growth geographies	55,333	55,463	55,617
Continuing operations	119,595	116,082	114,689
Discontinued operations	5,645	2,005	1,992
	125,240	118,087	116,681

Employment

in FTEs

	2011	2012	2013
Position at beginning of year	119,775	125,240	118,087
Consolidation changes:			
acquisitions	4,759	909	
divestments	(479)	(1,024)	(705)
comparable changes	(850)	(3,398)	(688)
Divestment and other changes in discontinued operations	2,035	(3,640)	(13)
Position at year-end	125,240	118,087	116,681
of which:			
continuing operations	119,595	116,082	114,689
discontinued operations	5,645	2,005	1,992

The year 2012

The total number of Philips Group employees was 116,082 at the end of 2012, compared to 119,595 at the end of 2011. Approximately 43% were employed in the Lighting sector, due to the continued vertical integration in this business. Some 32% were employed in the Healthcare sector and approximately 14% in the Consumer Lifestyle sector.

Compared to 2011, the number of employees decreased by 3,513. This decrease reflects a reduction of 3,398 employees, mainly related to the company s overhead reduction program, primarily at Lighting and IG&S. It also reflects the departure of 1,024 employees, mainly due to the industrial footprint reduction at Lighting, and the addition of 909 employees from acquisitions (mainly Indal).

Approximately 52% of the Philips workforce was located in mature geographies, and about 48% in growth geographies. In 2012, the number of employees in mature geographies decreased by 5,036, as the additional headcount from acquisitions was more than offset by reductions relating to the company s overhead reduction program and the industrial footprint reduction in Lighting. Growth geographies headcount increased by 1,523, primarily in the growth businesses in Consumer Lifestyle.

4.2.5 Developing our people

Philips vision statement includes the following affirmation: 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.

As part of our drive to build a learning organization, learners at Philips are supported by a personalized University Portal accessible through all media, which facilitates individual learning journeys according to the 70 (on-the-job experience): 20 (coaching): 10 (classroom) model.

Our key 2013 objective in terms of leadership development was the creation of a Leadership Academy, based on a strategic framework that differentiates the learning needs of leaders at every level in the organization: Transformation, Transition and Accelerate.

The Academy flagship leadership development programs (including the market program *Shaping Markets* and the first-time manager program *Leading People@Philips*) are being co-created in collaboration with leading suppliers and business schools, with a strong emphasis on helping people to develop on the job and through external coaching and mentoring.

In 2013 we also started building a stronger, more focused and cost-effective approach to assessment for development. We introduced two new assessment tools Manager Ready, a powerful virtual manager readiness assessment solution which was piloted in key markets (China, India, ASEAN, Central Europe, Benelux, Middle East & Turkey, and the US) and the renewed 360 program based on the new Leadership Competencies and Philips behaviors.

Enrollment in functional curricula programs, including Marketing, Finance, IT, Sales, HR, Procurement and Innovation, decreased to 19,000 from 24,000 in 2012. One of the reasons for this reduction is that many functional curricula were reviewed and content rationalized in 2013, allowing us to redeploy the investment into development of new content.

number of enrollments

	2009	2010	2011	2012	2013
Core Curriculum programs	5,500	20,000	39,500	43,000	32,500

The Legal curriculum hit the record of 63,000 enrollments, largely driven by the global roll-out of mandatory Compliance programs. In 2013, we also introduced local market programs with specific training modules for our staff in various geographies, including China, India and Africa.

We recorded 1,000 enrollments for the new Philips Excellence curriculum and around 2,500 registrations for the End2End curriculum programs.

Other programs

Philips has played a pioneering role in the Netherlands with its national Vocational Qualification Program (CV) and the Philips Employment Scheme (WGP). The CV project has been running since 2004 and targets employees who know their trade well, but do not have a diploma to prove it. CV provides a solution by awarding these people a recognized qualification. To date, some 1,800 participants have obtained a qualification that will help them in their future careers.

Via WGP, we offer vulnerable groups of external jobseekers a work experience placement, usually combined with some kind of training. The program started in 1983 and over 12,500 people have participated since. After participating in the program, about 70% find a job. In 2013, Philips employed some 150 persons via the WGP program, including young people with autism who are training to become a test engineer. Of the previous group of 10 autistic persons, eight found a job, one proceeded with a course of study, and the other is applying for jobs.

Training spend

Our external training spend in 2013 amounted to EUR 47.3 million, in line with EUR 46.9 million in 2012.

4.2.6 Health and Safety

Philips strives for an injury-free and illness-free work environment, with a sharp focus on decreasing the number of injuries and process improvements. This is defined as a KPI, on which we set yearly targets for the company and our individual sectors.

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We regret to report three fatalities in 2013, all involving contractors. In Pakistan and Colombia, two contractors died while working on a Lighting project. In Poland a contractor died while working on a reconstruction at one of our factories.

In 2013, we recorded 307 Lost Workday Injuries cases, i.e. occupational injury cases where the injured person is unable to work one or more days after the injury, a significant decrease compared with 345 in 2012. The number of Lost Workdays caused by these injuries amounted to 9,603 days down from 12,630 days in 2012. The rate of Lost Workday Injuries decreased to 0.28 per 100 FTEs compared with 0.31 in 2012.

Lost Workday Injuries

per 100 FTEs

	2009	2010	2011	2012	2013
Healthcare	0.20	0.25	0.20	0.22	0.19
Consumer Lifestyle	0.26	0.26	0.23	0.25	0.24
Lighting	0.76	0.80	0.64	0.45	0.41
Innovation, Group & Services	0.07	0.13	0.04	0.05	0.04
Philips Group	0.44	0.50	0.38	0.31	0.28

All sectors showed a decrease in the Lost Workday Injury rate. At Lighting, a dedicated action program, Safety First , was launched five years ago to drive down injury levels. In 2012, various regional Health & Safety improvement programs and peer audit programs were started and further expanded in 2013. Since 2010, Lighting achieved a strong decline in reported accident rates mainly attributed to active management involvement, launch of a new policy on machine safety improvements and further strengthening of management systems at major sites implementing the Safety First program. Lighting initiated a work stream to address Health & Safety management in Turnkey projects, headed by the Lighting market leaders. In efforts to further reduce injury rates, Lighting will also roll-out a Behavior Based Safety program in 2014.

The Health & Safety performance of Healthcare improved significantly in 2013. The Lost Workday Cases (LWC) decreased from 80 to 70 while the LWC Rate decreased from 0.22 to 0.19 compared to 2012 figures.

Healthcare targeted Health & Safety performance improvement actions within their Field Service Organization (FSO) to include organizational ownership and program management among other items. The FSO overall impact on the Sector Health & Safety performance decreased in 2013 compared to 2012. FSO Lost Workday Cases decreased from 46% to 38% of the Sector total while the number of Lost Workdays decreased from 49% to 38% of the Sector total compared to 2012. While the total number of Lost Workday Cases decreased in 2013, the number of Lost Workdays increased primarily due to isolated incidents with extended healing times.

Consumer Lifestyle continued to have low injury case levels. A new governance structure was launched in the Consumer Lifestyle organization to embed Health & Safety performance review and ownership in the businesses. The acquisitions Preethi and Povos started reporting their performance in 2013.

4.2.7 General Business Principles

The Philips General Business Principles (GBP) govern Philips business decisions and actions throughout the world, applying equally to corporate actions and the behavior of individual employees. They incorporate the fundamental principles within Philips for doing business.

The GBP are available in most of the local languages and are an integral part of the labor contracts in virtually all countries where Philips has business activities. Responsibility for compliance with the principles rests primarily with the management of each business. Every country organization and each main production site has a compliance officer. Confirmation of compliance with the GBP is an integral part of the annual Statement on Business Controls that has to be issued by the management of each business unit. The GBP incorporate a whistleblower policy, standardized complaint reporting and a formal escalation procedure. The whistleblower policy is intended to supplement more specific local grievance or complaint procedures. If employees wish to raise an issue for which there is a more specific procedure or grievance channel available, they are free to use this, e.g. use the applicable human resources procedures for employment issues. However, in case of concerns of suspected violations of applicable laws or regulations employees are urged to always report these to either their GBP Compliance Officer or the Philips Ethics Line.

The global implementation of the Philips Ethics hotline seeks to ensure that alleged violations are registered and dealt with consistently within one company-wide system.

To drive the practical deployment of the GBP, a set of directives has been published, which are applicable to all employees. There are also separate directives which apply to specific categories of employees, e.g. the Supply Management Code of Ethics and Financial Code of Ethics. Details can be found at www.philips.com/gbp.

In 2013, we introduced a mandatory sign-off on GBP for all executives.

Business Integrity Survey

In June 2013, a business integrity survey has been rolled out to all employees in eight most relevant languages to get their input on the effectiveness of our GBP program. The survey provides input on a number of aspects that are recognized to influence responsible business conduct. The insights that were derived from this survey were used to further enhance the effectiveness of the current compliance activities as well as the compliance road map.

The overall conclusion that could be drawn from the survey is that the Philips culture provides a sound basis to build upon, and that leaders are well positioned to manage integrity even more actively so as to support an environment in which employees feel comfortable to discuss or report potential issues and dilemmas.

Ongoing training

The business integrity survey provided the kickoff of a global GBP communications campaign, culminating in a global event called the GBP dialogue week held in October 2013, in which managers were invited to hold sessions with their teams to discuss GBP in relation to their function or business. In their feedback, participating managers indicated they experienced this week as very meaningful and worth repeating.

The mandatory web-based GBP training, which is designed to reinforce awareness of the need for compliance with the GBP, is available in 23 languages. Every quarter, all new hires get an invitation to take this training in their local language. In addition, targeted audiences have been invited to take a web-based training on specific topics, including anti-bribery, antitrust, privacy and export controls.

More information on the Philips GBP can be found in chapter 6, Risk management, of this report. Results of the monitoring in place are provided in the chapter 13, Sustainability statements, of this report.

4.2.8 Stakeholder engagement

In organizing ourselves around customers and markets, we create dialogues with our stakeholders in order to explore common grounds in addressing societal challenges, build partnerships and jointly develop 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 is provided in chapter 13, Sustainability statements, of this report.

Strategic Partner of the World Economic Forum

In 2013, Philips entered into a strategic partnership with the World Economic Forum. The Forum s mission of Improving the state of the world closely matches our own and the Forum engages business, political, academic and other leaders of society to shape global, regional and industry agendas in an informal, action focused way.

During the first year of our partnership, Philips contributed significantly to the Forum s agenda, with active participation in three industry groups, numerous speaking roles at the various meetings and a co-chairmanship of Frans van Houten at the World Economic Forum on Africa summit in Cape Town. Furthermore, Deborah DiSanzo, CEO Healthcare, has accepted to chair a thought leadership initiative that will explore Health Systems Leapfrogging in Emerging Markets.

The Philips Center for Health and Well-being

Over the last 5 years, Philips has run The Philips Center for Health and Well-being as a knowledge-sharing forum that raised the level of dialogue on key societal questions that matter most to citizens and communities. In 2013, the Aging Well think tank, one of the initiatives of the Center, actively participated in a number of events, such as the Aging in America conference of the American Society on Aging, the International Congress on Telehealth and Telecare of the King s Fund in the UK, and a well-attended expert roundtable to explore next-generation technologies for aging well. As of 2014, the activities of the Center will be merged with our other stakeholder engagement platforms and initiatives across the businesses and markets.

Partnering to improve healthcare in Africa

In November 2013, Philips and AMREF Flying Doctors announced that they will work together in a partnership to structurally improve healthcare infrastructure and provision in Africa. Both parties will leverage their respective strengths to help tackle inadequately

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equipped medical facilities and inadequately trained staff as a way to better address the growing incidence of non-communicable diseases across the continent. AMREF and Philips will also work with local stakeholders to develop and implement large-scale projects to make healthcare more accessible to the local population.

We sought similar partnerships in our Fabric of Africa campaign launched in 2013. The campaign s primary intent is to enter into public/private partnerships with local and international stakeholders to improve healthcare delivery in the areas of non-communicable diseases, maternal and child health, healthcare infrastructure, technology and clinical training. Philips has developed innovative, low-resource setting health technologies and e-Health solutions to address the challenges in the African market. More information on this campaign can be found at www.philips.com/FabricofAfrica.

Working on global issues

In 2013, Philips participated in a number of international conferences and events focused on sustainable development and climate change. These included the Climate Week in New York City (organized by The Climate Group), co-launching the Cities & Aging policy snapshot with the Global Cities Indicator Facility in Toronto, as well as the United Nations Climate Change Conference in Warsaw, Poland. Most notably we were invited as the only private sector company to join the UN Secretary General s Chief Executives Board, with Ban Ki Moon and part of his UN leadership team. Here we highlighted that energy efficient and intelligent LED solutions will result in a 30% reduction of electricity consumption by the global lighting market in 2020 compared to 2006. This equates to a reduction of 515 megaton CO2 emissions, while also significantly reducing energy bills by around EUR 100 billion in 2020.

Innovation event

In November, Philips Research organized an Innovation Event at the High Tech Campus with external guest speakers, to share best practices, share Philips corporate ambition for more sustainable product solutions; initiate new innovative concepts to radically improve access to healthcare; new products that decrease food waste and help meet world food security goals; and to identify new approaches to the circular economy, focusing on concepts such as design for reuse and improved recycling efficiency. We believe these global challenges can only be addressed through Open Innovation and regional partnerships with all stakeholders involved. We collaborate with academics, universities through direct partnerships, Open Innovation initiatives and government driven initiatives, like FP7 and Horizon 2020, two European Union research programs.

4.2.9 Social Investment Programs

In 2013, we continued to develop and localize our global social investment program, SimplyHealthy@Schools. In Brazil, 230 employees from Philips offices and factories registered to volunteer in *Fal@ndo em Bem-Estar,* the local adaptation of SimplyHealthy@Schools. The program aims to empower kids from 8 to 12 to change their habits, health and environment and educates teenagers about safe sex and sexual transferable diseases prevention, a critical national issue.

Philips Brazil also rolled-out a new initiative in 2013 with an important Healthcare partner, Fleury. Based on the same topics and questions explored in our *Fal@ndo em Bem-Estar,* the project consists of a giant interactive board game, developed to be used in schools throughout the entire country by Fleury and Philips employees.

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, to providing safety and energy efficient home improvements to the disadvantaged, to raising awareness about the importance of cardiac health. In 2013 alone, more than 5,000 employees participated in volunteer opportunities that suited their needs, schedules, and passions in partnerships with organizations such as American heart Association, March of Dimes, and Rebuilding Together.

At the end of 2012 we signed a three year partnership agreement with the Royal Dutch Football Association (KNVB) to support their WorldCoaches program by installing more than 100 solar lighting Light Centers in rural communities throughout Africa and South America. Working together with local communities and the KNVB, the Light Centers will provide safe and functional space for sports and other community activities after dark.

Throughout 2014, Philips will roll out a new three pillar social investment strategy, comprising of a disaster relief program, a local community investment program and a signature social innovation program. The main focus will be on access to healthcare, access to light and healthy futures.

4.2.10 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 will act as a catalyst and support our suppliers in their pursuit of continuous improvement of 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 remain active, together with peers in the industry, in the Electronic Industry Citizenship Coalition (EICC) and encourage our strategic suppliers to join the EICC too. 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 added requirements on Freedom of Association and Collective Bargaining. The topics covered in the Declaration are listed below. We monitor supplier compliance with the Declaration through a system of regular audits.

2013 supplier audits in risk countries

In 2013, Philips conducted 200 full-scope audits, including four joint audits conducted on behalf of Philips and other EICC member companies. Additionally, 59 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 2013 were done in China. The total number of full-scope audits carried out since we started the program in 2005 is 2,162. This number includes repeated audits (131 in 2013), 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.

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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, being the percentage of risk suppliers that was audited within the last 3 years, and do not have any or have resolved all major non-compliance. During 2013 we achieved a compliance rate of 77% (2012: 75%).

Please refer to sub-section 13.2.2, Supplier indicators, of this report for the detailed findings of 2013.

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 2013 we continued our focus on capacity building initiatives which are offered to help suppliers improve their practices. Our supplier sustainability experts in China, India and Brazil organized trainings, 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 and chemicals management.

We also teamed up with peers in the industry and civil 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. Two years ago the program was kicked-off in China s Pearl River Delta, and now expanded to also cover supplier factories in the Yangtze River Delta area. A total of 15 Philips suppliers are now participating in the program.

4.2.11 Conflict minerals: issues further down the chain

In line with Philips commitment to supply chain sustainability, we feel obliged to implement measures in our chain to ensure that our products are not directly or indirectly funding human atrocities in the Democratic Republic of the Congo (DRC). We are concerned about the situation in eastern DRC where proceeds from the extractives sector are used to finance rebel conflicts in the region. Philips is committed to address this issue through the means and influencing mechanisms available to us, even though Philips does not directly source minerals from the DRC and mines are typically seven or more tiers removed from our direct suppliers.

Although this region has a rich supply of minerals, its economy has collapsed due to decades of ongoing conflict. In an effort to prevent minerals from financing war, many companies worldwide have shied away from purchasing minerals from the DRC, creating a de facto embargo in a region where mining is often the only source of income for local communities. We decided that this was not the right approach and instead of avoiding the DRC, we took the more difficult road, supporting conflict-free sourcing from the DRC. To promote cooperation and economic growth in the region outside the control of the rebels, we launched the Conflict-Free Tin Initiative. This initiative introduces a tightly controlled conflict-free supply chain of tin from a mine in the DRC all the way down to an end-product. Philips is one of the industry partners brought together by the Dutch government that initiated the program in 2012. To underline our commitment to conflict-free sourcing, we joined a delegation in February 2013 to visit the mine and engage with different local stakeholders in the DRC. At the end of 2013 we reached an important milestone when the first end-user products containing this conflict-free tin were made in our Philips Lighting factory.

During 2013 we continued our work with 349 priority suppliers to raise awareness and conduct supply chain investigations to determine the origin of the metals in our products. This resulted in the identification of 191 smelters in our supply chain involved to process these metals. We publish this smelter list on our website, creating transparency at deeper levels in our supply chain of those actors that we believe hold the key towards effectively addressing the concerns around conflict minerals. Philips encourages all smelters in our supply chain to join the Conflict Free Smelter program and demonstrate their conflict-free status via independent third party assessments. 29% of the smelters identified by our suppliers have now successfully passed the Conflict Free Smelter assessment. As sufficient conflict-free smelters for all four metals (Tin, Tantalum, Tungsten and Gold) will become available, Philips plans to direct its supply chain towards these smelters.

We believe that industry collaboration and stakeholder dialogue are important to create impact at these deeper levels of our supply chain. Therefore Philips continued its active contribution to the Conflict Free Sourcing Initiative, a joint effort of the EICC and GeSI and others to positively influence the social and environmental conditions in the metals extractives supply chain. To assist in developing a due diligence standard for conflict minerals, we continued our participation in the multi-stakeholder OECD-hosted program for the implementation of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas . We also continued our engagement with relevant stakeholders including the European Parliament, other industry organizations and local as well as international NGOs in Europe and the U.S. to see how we can resolve the issue.

In line with the US Dodd-Frank Act, we started preparations for publishing a Philips Conflict Minerals Report, including an audit of the Conflict Minerals Report as required by the Act.

For more details and result of our supplier sustainability program, please refer to sub-section 13.2.2, Supplier indicators, of this report.

4.3 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 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 renewed company vision stating that 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.

The main elements of the EcoVision program are:

- Improving people s lives
- Green Product sales
- Green Innovation, including Circular Economy
- Green Operations
- Health & 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 & Safety, and Supplier Sustainability are addressed in the Social performance section. Details of the EcoVision parameters can be found in the chapter 13, Sustainability statements, of this report.

4.3.1 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 2013 Philips invested some EUR 509 million in Green Innovation, with the strongest contribution from Lighting mainly stemming from investments in LED.

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Healthcare

Philips Healthcare develops innovative solutions across the continuum of care in collaborating with clinicians and customers to improve patient outcomes, provide better value, and expand access to care. While doing so, we take into account all Green Focal Areas and aim to reduce environmental impact over the total lifecycle, with a focus on energy efficiency and dose reduction. Healthcare investments in Green Innovation in 2013 amounted to EUR 80 million, a significant decrease compared with 2012. This can be attributed to a number of significant Healthcare projects which were completed in 2012. Other areas covered include increased levels of recycled content in our products, remote servicing and closing the materials loop, e.g. through upgrading strategies, parts harvesting and refurbishing programs as well as reducing environmentally relevant substances from our products. Philips 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

Green Innovation at Consumer Lifestyle amounted to EUR 75 million compared to EUR 70 million in 2012 and resulted in an increase in 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 and grooming products are completely PVC/BFR-free.

Lighting

At Lighting, we strive to make the world healthier and more sustainable through energy-efficient lighting solutions. In 2013 Lighting invested EUR 327 million in line with EUR 325 million in 2012 to develop products and solutions that address environmental and social challenges. Investments are made to advance the LED revolution, which can substantially reduce carbon dioxide emissions (by switching from inefficient to energy-efficient lighting). Recent examples include the TLED and the Philips LUXEON Altilon product family in the Mercedes S-class Intelligent Lighting System, making this the first car in which all lighting functions are LED. Furthermore, Lighting has developed solutions for water purification, solar LEDs for rural and urban locations, and LED solutions for agricultural applications supporting biodiversity.

Philips Group Innovation

Philips Group Innovation invested EUR 27 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 deployed the Sustainable Innovations Assessment tool in which innovation projects are mapped, categorized and scored along the environmental and social dimension to identify those innovation projects that drive sustainable innovation. One example of a Group Innovation project is related to low cost solar-powered LED lighting.

When the sun sets in Africa, over 600 million people on the continent rely on kerosene and candles to see in the dark. For most of the population who are at the Base of the Pyramid (BoP) these lighting solutions remain costly, give only low illumination and are highly non-sustainable. The BoP comprises four billion people living in our world today, and in the poorest socio-economic group. We engaged directly with BoP consumers in some of the poorest areas of Africa to understand their needs for lighting and energy and how they wish to use that light. The insights derived from these studies have resulted in a re-design of our entire portfolio of solar lighting for the consumer. At the same time the new products take advantage of the very latest developments in LED, solar panels and battery technology, resulting in a portfolio that is flexible in use-case, has a high performance, is robust and long lasting. All this is provided at price-points that match the spending power of the target consumers with a payback time within 3-6 months.

Energy efficiency of products

Energy efficiency is a key Green Focal Area for our Green Products. About 97% of the energy consumed during the use phase of our products is attributable to Lighting products, according to our analysis. 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 improved some 2% in 2013 (19% compared to 2009).

In 2013 LED sales continued to advance 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 2013 was limited. As the traditional incandescent lamp will be banned in more countries, we expect the energy efficiency improvement to advance in the coming years. Our target for 2015 is a 50% improvement compared to the 2009 baseline. In this target setting, assumptions were made on the speed of the regulatory developments in this area, which stayed behind expectations. Therefore, in 2015 the target of 50% improvement will probably 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

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

In 2013, Philips started its circular economy approach. Key characteristics are customer access over ownership (pay for performance e.g. pay per lux or pay per scan), business model innovations (from transactions to relationships via service and solution models), reverse cycles (including partners outside current value chains e.g. upstream-downstream integration and co-creation) and logistics, innovations for material-, component-, and product reuse, products designed for disassembly and serviceability. In 2013, Philips became a global partner of the Ellen McArthur Foundation, the leading organization on the concept of circular economy.

Closing the material loop

In 2013 we restated the 2009 baseline for global collection and recycling amounts at around 22,500 tonnes (excluding TV and AVM&A), based on the data retrieved from the WEEE collection schemes and from our own recycling and refurbishment services (mainly Healthcare). The amount of collection and recycling for 2012 (reported in 2013) was calculated at 31,000 tonnes, excluding AVM&A (which was calculated at 9,000 tonnes). A small improvement compared to the amount for 2011 due to an increase in recycled products in Healthcare.

Recycled materials

We calculated the amount of recycled materials in our products in 2013 at some 14,000 tonnes (2012: 15,000 tonnes), by focusing on the material streams plastics, aluminum, refurbished products, and spare parts harvesting depending on the relevance in each sector.

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

4.3.2 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 increased from EUR 11.0 billion in 2012 to

EUR 11.8 billion in 2013, or 51% of sales, thereby reaching the target of 50% we set ourselves for 2015.

All sectors contributed to the growth in Green Product sales, but Consumer Lifestyle achieved the highest Green Product nominal sales growth, followed by Healthcare and Lighting. The exclusion of AVM&A had a 10% positive impact in 2013 on the Green Product sales percentage of Consumer Lifestyle (2013: 49%).

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New Green Products from each sector include the following examples.

Healthcare

During 2013, Healthcare expanded the Green Product portfolio with 13 new products to improve patient outcomes, provide better value, and expand access to care, while reducing environmental impact. Philips new EPIQ platform for example, delivers high-quality ultrasound imaging to every setting where echocardiography is used and at the same time reduces both energy use and product weight by almost 30% compared to the predecessor model. The energy consumption for each of Philips MRI models is lower than the market average according to COCIR. Other examples are new X-ray systems such as DuraDiagnost systems and a new Certeray X-ray generator, with significantly lower energy use and product weight versus predecessor models. Green Products from Patient Care & Clinical Informatics include MX400/450 and MX 500 patient monitors, for which product weight is significantly reduced (up to 27%) as well as energy consumption (up to 23%) when compared to their predecessor models.

Consumer Lifestyle

Consumer Lifestyle is focusing on the avoidance of substances of concern, the application of recycled materials and the energy efficiency of the products. In 2013, in China, Consumer Lifestyle introduced energy efficient living room Air purifiers. The products have an energy efficient motor, and score the highest grade (A) on the China energy label for Air purifiers.

Lighting

An example of a new Green Product introduced in 2013 is the Pacific LED Green Parking system covered parking solution. It ensures safety, whilst offering outstanding energy savings, low maintenance and long lifetimes. Through a mix of LED luminaires, wireless controls and presence detection, it can save up to 80% in running costs whilst typically delivering back the return on investment in under 3 years. As the solution is wireless, it is an easy retrofit solution that will match the lumen output of traditional fluorescents.

We aim to create products that have significantly less impact on the environment during their whole lifecycle through our EcoDesign process. 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 2013, the latter driven by our Circular Economy initiatives.

4.3.3 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 13, Sustainability statements, of this report.

Carbon footprint and energy efficiency

After achieving our EcoVision4 carbon emissions reduction target in 2012 (25% operational CO_2 emissions reduction compared to 2007, the baseline year) we continued our energy efficiency improvement programs across different disciplines in 2013. Examples are Work Place Innovation, partnering in the KLM BioFuel program and Green Logistics. However, in 2013 our Carbon Footprint increased by 2% to 1,654 kilotonnes CO_2 as a result of increased carbon emissions from air transport (to mitigate supply shortages), the increased use of SF6 (a substance with high Global Warming Potential impact) and increased business travel due to our increasing focus on emerging markets. These were, however, partly offset by decreasing emissions resulting from reduced office space (Work Place Innovation), consolidation of warehouses, the changing industrial footprint, and the increase in purchased electricity from renewable sources.

In 2013, CO_2 emissions from non-industrial sites decreased 20%, in large part attributable to our Work Place Innovation program which enables flex-working and thus reduces the floor space in our portfolio. But also our continuing focus on buildings   energy efficiency and the increased share of purchased electricity from renewable sources have helped achieve this.

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After a decrease in 2012, total emissions from business travel increased 5% in 2013 as reduced emissions from our lease car fleet were off-set by increased air travel. We continue to promote video conferencing as an alternative to travel. In 2013, logistics CO_2 emissions increased 5% in comparison with 2012. These were mainly caused by increased air shipments to mitigate supply shortages in our Lighting sector.

Our operational energy efficiency decreased 5% from 1.15 terajoules per million euro sales in 2012 to 1.21 terajoules per million euro sales in 2013 as a result of intensified industrial activities, increased business travel and increased logistics activities.

Ratios relating to carbon emissions and energy use

	2009	2010	2011	2012	2013
Operational CO_2 emissions in kilotonnes CO_2-equivalent	1,930	1,845	1,771	1,614	1,654
Operational CO_2 efficiency in tonnes CO_2-equivalent per million euro sales	83	73	70	65	71
Operational energy use in terajoules	31,145	32,766	31,402	28,405	28,162
Operational energy efficiency in terajoules per million euro sales	1.34	1.29	1.24	1.15	1.21

Operational carbon footprint by Greenhouse Gas Protocol scopes

in kilotonnes CO_2-equivalent

	2009	2010	2011	2012	2013
Scope 1	447	441	431	443	465
Scope 2	636	485	427	409	387
Scope 3	847	919	913	762	802
Philips Group	1,930	1,845	1,771	1,614	1,654

Water

Total water intake in 2013 was 5.0 million m^3, about 4% higher than in 2012. This increase was mainly due to a new acquisition in China that started to report in 2013, which accounted for 6% of group water consumption in 2013 as well as increased water use at two Lighting Lumileds sites, mitigated by water conservation activities across all sectors.

Lighting represents around 79% 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.

Water intake

in thousands m^3

	2009	2010	2011	2012	2013
Healthcare	363	256	308	421	454
Consumer Lifestyle	315	351	338	303	586
Lighting	3,531	3,604	3,682	4,133	4,004

Innovation, Group & Services	7	7			
Philips Group	4,216	4,218	4,328	4,857	5,044

In 2013, 82% of water was purchased and 18% was extracted from groundwater wells.

Waste

Total waste increased 5% to 92 kilotonnes in 2013 from 88 kilotonnes in 2012. Lighting (77%) and Consumer Lifestyle (12%) account for 89% of our total waste. The increase was mainly due to one-time demolition scrap at a Lighting site in the Netherlands (10 kilotonnes) and a new acquisition in China, mitigated by the exclusion of the AVM&A business in CL and waste reduction programs in all sectors.

Total waste

in kilotonnes

	2009	2010	2011	2012	2013
Healthcare	8.2	11.2	9.3	10.4	9.6
Consumer Lifestyle	20.1	23.2	19.6	12.7	11.4
Lighting	69.3	70.1	65.1	64.5	71.0
Innovation, Group & Services	0.1	0.1	0.0	0.0	0.0
Philips Group	97.7	104.6	94.0	87.6	92.0

Total waste consists of waste that is delivered for landfill, incineration or recycling. Materials delivered for recycling via an external contractor comprised 74 kilotonnes, which equated to 81%, an improvement compared to 77% in 2012, as our manufacturing sites implemented recycling programs. Of the remaining waste, 14% comprised non-hazardous waste and 5% hazardous waste.

Emissions

Emissions of restricted substances totaled 9 kilos in 2013, a significant decrease compared to 55 kilos in 2012, due to a continued reduction in mercury emissions at Lighting and more accurate measurements. The level of emissions of hazardous substances decreased by some 40% from 70,093 to 40,451 kilos, mainly as a result of a decrease in total styrene emissions at Lighting and more accurate measurements mitigated by an increase in xylene emissions in CL. All sectors have reduction programs for the restricted and hazardous substances.

Restricted and hazardous substances

in kilos

	2009	2010	2011	2012	2013
Restricted substances	272	188	111	55	9
Hazardous substances	32,869	61,795	65,477	70,093	40,451

For more details on restricted and hazardous substances, please refer to sub-section 13.3.3, Green Operations, of this report.

4.4 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, 2013, 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 2014 Annual General Meeting of Shareholders to declare a dividend of EUR 0.80 per common share (up to EUR 740 million), in cash or in shares at the option of the shareholder, against the net income for 2013.

Shareholders will be given the opportunity to make their choice between cash and shares between May 8, 2014 and May 30, 2014. If no choice is made during this election period the dividend will be paid in shares. On May 30, 2014 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 NYSE Euronext Amsterdam on 28, 29 and 30 May 2014. 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 3, 2014 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 4, 2014. 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 2, 2014.

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 is subject to 15% dividend withholding tax, but only in respect of the par value of the shares (EUR 0.20 per share).

In 2013, a dividend of EUR 0.75 per common share was paid in cash or shares, at the option of the shareholder. Approximately 59.8% elected for a share dividend resulting in the issue of 18,491,337 new common shares, leading to a 2.1% percent dilution. EUR 271,991,204 was paid in cash. For additional information, see chapter 16, 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, 2013, is before appropriation of the result for the financial year 2013.

4.5 Outlook

Achieving the 2013 financial targets was an important milestone and we have now set our sights on reaching our 2016 targets. We are confident in our ability to further improve our performance by continuing the strong focus on our Accelerate! transformation program. Looking at 2014, we remain cautious because of the ongoing macro-economic uncertainties, currency headwinds and softer order intake in Q4 2013. Therefore, we expect that 2014 will be a modest step towards our 2016 targets, also taking into account restructuring to drive the new productivity targets and investments in additional growth initiatives.

4.6 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 pensions and other postretirement benefits

Retirement benefits represent obligations that will be settled in the future and require assumptions to project benefit obligations and fair values of plan assets. Retirement benefit accounting is intended to reflect the recognition of future benefit costs over the employee s approximate service period, based on the terms of the plans and the investment and funding decisions made. The accounting requires management to make assumptions regarding variables such as discount rate, rate of compensation increase, mortality rate and future healthcare costs. Pension assumptions are set centrally by management in consultation with its local, regional or country management and locally appointed actuaries at least once a year. For the Company s major plans, a full discount rate curve of high quality corporate bonds (using Towers Watson RATE:Link data) is used to determine the defined benefit obligation whereas for other plans a single point discount rate is used based on the plan s maturity. Plans in countries without a deep corporate bond market, use a discount rate based on the local sovereign curve and the plan s maturity. Relevant data regarding various local swap curves, sovereign bond curves and/or corporate AA bonds are set by local actuaries. Changes in the key assumptions can have a significant impact on the projected benefit obligations, funding requirements and periodic cost incurred.

For a discussion of the current funded status, a sensitivity analysis with respect to pension plan assumptions, a summary of the changes in the accumulated postretirement benefit obligations and a reconciliation of the obligations to the amounts recognized in the consolidated balance sheet, please refer to note 30, Post-employment benefits.

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 5, 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 of 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 settlement 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 professional 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.

Provisions on onerous contracts represent the lesser of the unavoidable costs of either fulfilling or exiting the related contract, and in which the costs to fulfill the contract exceed the benefits expected to be received under such contract. In determining the cost of fulfilling the contract, the payments due in the period in which the contract cannot be cancelled are considered, unless there is a lesser amount of penalty to exit the

contract. Generally, unavoidable costs only include incremental costs related to the contract and exclude allocated or shared costs. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

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.

Accounting for obsolete inventories

The Company records its inventories at cost and accounts for the risk of obsolescence using the lower of cost and net realizable value principle. The expected future use of inventory is based on estimates about future demand and past experience with similar inventories and their usage.

Accounting for bad debt

The risk of uncollectability of accounts receivable is primarily estimated based on prior experience with, and the past due status of, doubtful debtors, while large accounts are assessed individually based on factors that include ability to pay, bankruptcy and payment history. In addition, debtors in certain countries are subject to a higher collectability risk, which is taken into account when assessing the risk of uncollectability. Should the outcome differ from the assumptions and estimates, revisions to the estimated valuation allowances would be required.

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.

The recoverable amount is the higher of the asset s value in use and its fair value less costs to sell, the determination of which involves significant judgment and estimates from management.

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 2013 to 2017 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.

New Accounting Standards

For a description of the new pronouncements, please refer to the information under the heading IFRS accounting standard adopted as from 2013 in note 1, Significant accounting policies.

Off-balance sheet arrangements

Please refer to the information under the heading Guarantees in sub-section 4.1.23, Cash obligations, of this report and in note 26, Contingent assets and liabilities.

5 Sector performance

Group Innovation Design New Venture Integration Group and Regional Overheads Pensions and Global Service Units

Our structure

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.

Philips activities in the field of health and well-being are 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, through which Philips invests in projects that are currently not part of the operating sectors, but which could lead to additional organic growth or create value through future spin-offs. Furthermore, Group and regional management organizations support the creation of value, connecting Philips with key stakeholders, especially our employees, customers, government and society. 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 2013, Philips had 111 production sites in 28 countries, sales and service outlets in approximately 100 countries, and 114,689 employees.

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Sales, IFO and Adjusted IFO 2013

in millions of euros unless otherwise stated

	sales	IFO	%	Adjusted IFO[1]	%
Healthcare	9,575	1,315	13.7	1,512	15.8
Consumer Lifestyle	4,605	429	9.3	483	10.5
Lighting	8,413	489	5.8	695	8.3
Innovation, Group & Services	736	(242)		(239)	
Philips Group	23,329	1,991	8.5	2,451	10.5

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 14, Reconciliation of non-GAAP information, of this report

5.1 Healthcare

As health systems around the world address the complexities of care delivery at their core, Philips Healthcare is responding to the global call for transformation through meaningful and intelligent innovation. Across our businesses, we are collaborating with customers to consistently provide better care at lower cost to more patients. Through our Accelerate! program, we are delivering on this commitment to our customers faster and more effectively than ever before. **Deborah DiSanzo**, CEO Philips Healthcare

By focusing on innovations in key areas across the continuum of care and aligning our resources with customers and clinicians, we continue to provide solutions that offer more value while helping lower the cost of care.

The ongoing implementation of Accelerate! has been enhancing our ability to move quickly and efficiently in delivering the innovation that matters most to our customers.

We continue to drive profitable growth and deliver on our commitments, despite challenging economic headwinds, for instance in North America and Europe.

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5 Sector performance 5.1.1 - 5.1.2

5.1.1 Health care landscape

Health systems in mature, developing and underserved markets around the world continue to press for new solutions that can help them provide accessible, affordable, quality care to diverse patient populations.

Increasingly, they are abandoning the notion that incremental improvements can resolve the overwhelming economic, demographic and logistic issues standing in the way of the care that is needed. Instead, they are pursuing new opportunities to approach the delivery of care differently.

This broader, deeper and bolder way of thinking is opening the door to a world of transformational solutions with far-reaching implications, ranging from cutting-edge technology platforms and protocols to innovative new business models and initiatives that are redefining the clinical experience across the continuum of care.

The demand for more effective care delivery is intensifying and unrelenting, as people live longer, suffer increasingly from chronic disease, and become bigger consumers of constrained healthcare resources. The burden that this places on health systems is unsustainable and driving the need for industry-defining solutions.

5.1.2 About Philips Healthcare

At Philips, we are dedicated to delivering innovation that matters to our customers and the patients they serve. We do this by developing innovative solutions across the continuum of care in partnership with clinicians and our customers to improve patient outcomes, provide more and better value, and expand access to care.

Philips is one of the world s leading healthcare companies (based on sales) along with General Electric and Siemens. The United States, our largest market, represented 40% of Healthcare s global sales in 2013, followed by China, Japan and Germany. Growth geographies accounted for 25% of Healthcare sales. Philips Healthcare has approximately 37,000 employees worldwide.

In 2013 our Healthcare business was organized around four strategic business groups*:

- **Imaging Systems**: Integrated clinical solutions that include radiation oncology, clinical applications and platforms, 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 & Clinical Informatics**: Enterprise-wide patient monitoring solutions, from value solutions to sophisticated connected solutions, for real-time clinical information at the patient s bedside; cardiology informatics and enterprise imaging informatics, including picture archiving and communication systems and other clinical information systems; patient monitoring and clinical informatics; 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.

- **Home Healthcare Solutions**: Sleep management, respiratory care and non-invasive ventilation; medical alert and medication dispensing services for independent living; and remote patient monitoring.

- **Customer Services**: Equipment services and support, including service contracts, installation, equipment maintenance, remote proactive monitoring and multi-vendor services; managed services, including equipment financing and asset management; and professional services, including consulting, site planning and project management, education and design.

* In January 2014 the Healthcare Informatics Solutions & Services business group was established. This business group is focusing on a common digital healthcare platform, advanced informatics and big data analytics, and world-class integration and consulting services.

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.

In 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. Currently, there is no indication of product safety issues. Please refer to note 36, Subsequent events for further details.

With regard to sourcing, please refer to sub-section 13.2.2, Supplier indicators, of this report.

5.1.3 2013 highlights

In 2013, as healthcare systems continued to move forward with fundamental changes, we remained focused on delivering innovative solutions and investing in strategic alliances that help enable this transformation:

- Addressing the world s most prevalent diseases starts with the clinician s ability to visualize clearly and accurately within the human body. By integrating imaging and information in meaningful ways and drawing on our expertise in cardiology, oncology and other critical areas we expanded our solutions offering with the launch of the EPIQ ultrasound system, advancements in image-guided interventional therapy and other innovations to improve diagnosis, treatment and management of disease.

- Achieving the best possible patient outcomes depends on the clinician s ability to access relevant information, anywhere and anytime. Through innovative devices and strategic collaboration, such as our work with Mayo Clinic on developing cloud-based solutions for the intensive care unit (ICU), we helped providers manage massive amounts of patient data for more confident diagnosis and treatment. Our solutions also helped optimize workflows in an increasingly connected care environment.

- The delivery of continuous, quality care to patients living with chronic conditions requires a thoughtful, coordinated approach. New solutions combining advanced functionality and patient-centric design, including the Wisp minimal contact nasal mask for sleep and respiratory therapy, were introduced to help patients adhere to a health regimen for more independent living.

- The complexities of healthcare delivery call for comprehensive solutions to address staggering costs, clinician shortages and demanding patient populations. Through customized models and programs, as demonstrated by our multi-year alliance with Georgia Regents Medical Center to facilitate innovative and affordable patient-centered care, we continued to help visionary health systems address these challenges today while moving toward a sustainable future.

- Optimizing resources to cost-effectively meet the needs of resource-intensive patient populations requires integrated solutions. By leveraging our leadership in telehealth technology and care coordination, we implemented new Hospital to Home programs with Banner Health in the US and opened eICUs with Guy s and St Thomas Hospitals in the UK.

2013 also marked the third year of our Accelerate! journey of change and performance improvement. We made significant progress driving customer centricity deep into our organization, embracing operational excellence through programs like Design for X (where X can be cost, quality, manufacturing, refurbishment, etc.) and fostering a growth and performance culture across our businesses. One of the key outcomes has been faster alignment across Philips Healthcare in delivering locally relevant innovations and making these solutions more cost-effective through efficiencies in product development.

5.1.4 2013 financial performance

Key data
in millions of euros unless otherwise stated

	2011	2012	2013
Sales	8,852	9,983	9,575
Sales growth			
% increase, nominal	3	13	(4)
% increase, comparable[1)]	5	6	1
Adjusted IFO[1)]	1,080	1,226	1,512
as a % of sales	12.2	12.3	15.8
IFO	27	1,026	1,315
as a % of sales	0.3	10.3	13.7
Net operating capital (NOC)[1)]	8,418	7,976	7,437
Cash flows before financing activities[1)]	707	1,298	1,292
Employees (FTEs)	37,955	37,460	37,008

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 14, Reconciliation of non-GAAP information, of this report

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 solid mid-single-digit growth. Home Healthcare Solutions and Patient Care & Clinical Informatics both posted low-single-digit growth, 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.

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 slightly 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.

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2012 financial performance

In 2012, sales amounted to EUR 9,983 million, 13% higher than in 2011 on a nominal basis, driven by higher sales in all businesses. Excluding a 7% favorable impact of currency effects, comparable sales increased by 6%. High-single-digit comparable sales growth was achieved by Imaging Systems, Home Healthcare Solutions and Patient Care & Clinical Informatics. Green Product sales amounted to EUR 3,610 million, a 36% increase year-on-year.

Geographically, comparable sales in mature geographies were higher than in 2011 in all businesses. The year-on-year sales increase was largely attributable to North America and other mature markets, as sales in Western Europe were in line with 2011. In growth geographies, we achieved 20% growth, largely driven by strong, double-digit growth in China, Brazil, India and Russia.

Adjusted IFO increased from EUR 1,080 million, or 12.2% of sales, in 2011 to EUR 1,226 million, or 12.3% of sales, in 2012. All businesses recorded an improvement in Adjusted IFO, largely as a result of higher sales and cost-saving programs. Restructuring and acquisition-related charges amounted to EUR 134 million, compared with EUR 20 million in 2011.

IFO amounted to EUR 1,026 million, or 10.3% of sales, and included EUR 200 million of charges related to amortization of intangible assets.

Net operating capital in 2012 decreased by EUR 442 million to EUR 8.0 billion, mainly due to currency effects and an increase in provisions related to restructuring charges. All businesses showed improved efficiency in inventory usage year-over-year.

Cash flows before financing activities increased from EUR 707 million in 2011 to EUR 1,298 million, mainly due to higher earnings and lower working capital requirements.

5.1.5 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 2013 we introduced 13 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.

5.1.6 Delivering innovation that matters to you

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With image-guided High Intensity Focused Ultrasound from Philips, doctors at the University Hospital in Utrecht are researching ways of providing cancer therapy with fewer side effects and reducing the need for surgery.[1)]

Up to 70% of patients with cancer will be facing bone metastases The patients we see are in a lot of pain. The problems they have are in their daily activities such as sleeping, walking. This pain can be really debilitating.

No instruments whatsoever will go into the patient s body. Without touching the patient we can treat the patient By managing their pain we restore patients quality of life.

Dr Merel Huisman

Department of Radiology

UMC Utrecht

If we have patients with cancer that don t need to be treated anymore with the surgical scalpel and leave a day after treatment in a good clinical condition, that would be a really major shift in health care and cancer treatment.

Dr Maurice van den Bosch

Interventional Radiologist

UMC Utrecht

1) This device is not available for sale in the USA: its use is limited to approved investigations only.

5.2 Consumer Lifestyle

Across the world people are increasingly motivated to look and feel their best, seeking solutions that are truly meaningful, solutions that fit their daily lives. At Philips Consumer Lifestyle we are driving profitable growth, by taking global innovations and bringing them to market in a way that is highly locally relevant. We are empowering millions of consumers to make healthier choices every day, in areas such as oral healthcare, nutrition and healthy air. **Pieter Nota**, CEO Philips Consumer Lifestyle

We are executing our strategy with rigor, delivering strong growth and improving profitability through locally relevant innovation.

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

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

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5.2.1 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 own health and well-being 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 is experiencing greater spending power.

In 2013, economic headwinds caused continued pressure on consumer spending in some markets. However, living a healthy life remained a high priority for consumers.

5.2.2 About Philips Consumer Lifestyle

At Consumer Lifestyle we aim to make a difference to people s lives by making it easier for them to achieve a healthier and better lifestyle. The sector is focused on value creation through category leadership and operational excellence. We are increasing the quality and local relevance of product innovation, the speed with which we innovate, and expanding our distribution to capture increasing spending power in growth geographies.

Accelerate! is fully embedded in Consumer Lifestyle and delivering strong results. Having moved from a functional, centrally-led organization to an organization built around businesses and markets, we are now able to direct investments to where the growth is, addressing locally relevant consumer needs. This approach enables us to take locally developed platforms and adapt them for other markets or on a global scale.

Our end-to-end approach is accelerating our specialist capability development in mature markets, to enable effective partnerships with customers and consumers, and in growth geographies, to enable development of go-to-market strategies. Additionally, an extensive change program has instilled an organizational performance culture with a strong focus on accountability.

In 2013 the Consumer Lifestyle sector consisted of the following areas of business*:

Health & Wellness: mother and childcare, oral healthcare, pain management

Personal Care: male grooming, beauty

Domestic Appliances: kitchen appliances, coffee, garment care, floor care, air purification

* Philips had reached an agreement to transfer the Audio, Video, Multimedia and Accessories (AVM&A) business to Funai Electric Co. Ltd in Q1 2013. This agreement has been terminated as of October 25. Since then, Philips has received expressions of interest in the business from various parties and has been actively discussing the sale of the business with potential buyers. In the meantime, the AVM&A business operates as a stand-alone entity named WOOX Innovations. Consequently, the AVM&A business is reported as discontinued operations throughout 2013.

We offer a broad range of products from high to low price/value quartiles, necessitating a diverse distribution model. We continue to expand our portfolio to increase its accessibility, particularly for lower-tier cities in growth geographies. We have implemented innovative approaches in online and social media to build our brand and drive sales.

Under normal economic conditions, the Consumer Lifestyle sector experiences seasonality, with higher sales in the fourth quarter.

Consumer Lifestyle employs approximately 17,900 people worldwide. Our global sales and service organization covers more than 50 developed and growth geographies. In addition, we operate manufacturing and business creation organizations in Austria, Brazil, China, India, Indonesia, Italy, the Netherlands, Romania, the UK and the US.

A new innovation site in Shanghai is fully equipped to target specific market needs. Innovating directly in the market allows us to increase the annual number of locally relevant introductions and to implement product and packaging updates faster.

Regulatory requirements

Consumer Lifestyle is subject to significant regulatory requirements in the markets where it operates. This includes the European Union s Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS), Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), Energy-use of Products (EuP) requirements and Product Safety Regulations. Consumer Lifestyle has a growing portfolio of medically regulated products in its Health & Wellness and Personal Care businesses. For these products we are subject to the applicable requirements of the US FDA, the European Medical Device Directive, the SFDA in China, the regulations stipulated by Health Authorities in India and comparable regulations in other countries. Through our growing beauty, oral healthcare and mother and childcare product portfolio the range of applicable regulations has been extended to include requirements relating to cosmetics and, on a very small scale, pharmaceuticals.

With regard to sourcing, please refer to sub-section 13.2.2, Supplier indicators, of this report.

5.2.3 2013 highlights

Building our leadership in digital innovation, we unveiled a range of connected consumer propositions at this year s IFA trade show in Berlin. Highlights included a smart air purifier, baby monitor and a digital grooming guide.

The extended Philips AVENT Natural infant feeding range was showcased at the Kind + Jugend fair in Germany. The Natural baby bottle is proven to be more easily accepted by babies, thanks to its unique teat design.

Further strengthening our global leadership, the latest introductions in Oral Healthcare, including the Philips Sonicare PowerUp and Sonicare FlexCare Platinum, have been well received by consumers and are driving strong growth in North America and China.

Continuing the geographical expansion and localization of proven product innovations, we introduced the Airfryer in Japan and the SoupMaker in markets across Europe, the Middle East and Latin America. Additionally, following major success in Russia, the MultiCooker was launched in several European markets, with initial market response exceeding expectations.

Innovative, precision tools are driving market share and brand preference in male grooming. Following the successful launch of the Click & Style range, we further expanded our portfolio with the introduction of the world s first laser-guided beard trimmer: the Philips Beard Trimmer 9000.

Demonstrating our ability to respond quickly to local market opportunities, we recorded strong sales growth in our air purifier business in China on the back of heightened awareness of outdoor air quality in the country.

5.2.4 2013 financial performance

Key data

in millions of euros unless otherwise stated

	2011	2012	2013
Sales	3,771	4,319	4,605
Sales growth			
% increase (decrease), nominal	14	15	7
% increase (decrease), comparable[1)]	11	9	10
Adjusted IFO[1)]	153	456	483
as a % of sales	4.1	10.6	10.5
IFO	109	400	429
as a % of sales	2.9	9.3	9.3
Net operating capital (NOC)[1)]	874	1,205	1,261
Cash flows before financing activities[1)]	(271)	422	472
Employees (FTEs)	15,471	16,542	17,854

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 14, Reconciliation of non-GAAP information, of this report

Sales amounted to EUR 4,605 million, a nominal increase of 7% compared to 2012. Excluding a 3% negative currency impact, comparable sales were 10% higher year-on-year. Domestic Appliances achieved strong double-digit growth, while Health & Wellness and Personal Care recorded high-single-digit growth.

From a geographical perspective, comparable sales showed a 17% increase in growth geographies and 4% growth in mature geographies. In growth geographies, the year-on-year sales increase was driven by Russia and China, primarily in our Domestic Appliances and Personal Care businesses. Growth geographies share of sector sales increased from 45% in 2012 to 47% in 2013.

Adjusted IFO increased 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. Adjusted IFO in 2012 included a EUR 160 million one-time gain from the extension of our partnership with Sara Lee, including the transfer of our 50% ownership right to the Senseo trademark. Excluding this one-time gain, the year-on-year Adjusted IFO increase was driven by improved earnings in all businesses.

IFO amounted to EUR 429 million, or 9.3% of sales, which included EUR 54 million of amortization charges, mainly related to intangible assets at Health & Wellness and Domestic Appliances.

Net operating capital increased from EUR 1,205 million in 2012 to EUR 1,261 million in 2013, due to higher working capital and lower provisions.

Cash flows before financing activities increased from EUR 422 million in 2012 to EUR 472 million in 2013. Excluding the cash proceeds of EUR 170 million received in 2012 from the Senseo transaction, cash flows before financing activities increased by EUR 120 million mainly attributable to higher cash earnings.

2012 financial performance

Sales amounted to EUR 4,319 million, a nominal increase of 15% compared to 2011, mainly driven by double-digit growth in our Health & Wellness and Domestic Appliances businesses. Excluding a 4% favorable currency impact and a 2% impact from portfolio changes, comparable sales were 9% year-on-year.

From a geographical perspective, comparable sales showed a 7% increase in growth geographies, which was partly offset by a 2% decline in mature geographies, mainly in Western Europe. In growth geographies, the year-on-year sales increase was driven by Russia and China, primarily in our Domestic Appliances and Personal Care businesses. Growth geographies share of sector sales increased from 41% in 2011 to 45% in 2012.

Adjusted IFO increased from EUR 153 million, or 4.1% of sales, in 2011 to EUR 456 million, or 10.6% of sales, in 2012. Restructuring and acquisition-related charges amounted to EUR 56 million in 2012, compared to EUR 49 million in 2011. 2012 results included a EUR 160 million one-time gain from the extension of our partnership with Sara Lee, including the transfer of our 50% ownership right to the Senseo trademark. Excluding this one-time gain, the year-on-year Adjusted IFO increase was driven by higher sales as well as lower net costs formerly reported as part of the Television business. Compared to 2011, Adjusted IFO improvements were seen in all businesses.

IFO amounted to EUR 400 million, or 9.3% of sales, which included EUR 56 million of amortization charges, mainly related to intangible assets at Health & Wellness and Domestic Appliances.

Net operating capital increased from EUR 874 million in 2011 to EUR 1,205 million in 2012, primarily due to a reduction in the accounts payable balance related to the former Television business in Consumer Lifestyle.

Cash flows before financing activities increased from a cash outflow of EUR 271 million in 2011 to a cash inflow of EUR 422 million. The increase was attributable to higher cash earnings, lower cash outflows for acquisitions as well as cash proceeds of EUR 170 million from the Senseo transaction.

5.2.5 Delivering on EcoVision sustainability commitments

Sustainability plays an important role at Consumer Lifestyle, with the main focus on optimizing the sustainability performance of our products and operations. Green products, which meet or exceed our minimum requirements in the areas of energy consumption, packaging and substances of concern, accounted for 49% of total sales in 2013. And more than 80% of our shaving and grooming products are completely PVC/BFR-free.

In 2013 we continued to increase the use of recycled materials in our products. Over 330 tons of recycled plastics were used in vacuum cleaners and almost 250 tons in irons. In our operations we continue to use more energy from renewable sources, with the ultimate aim of having CO_2-neutral production sites. In 2013 we improved the recycling percentage of our industrial waste to almost 80%.

5.2.6 Delivering innovation that matters to you

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Jialing Jin s family means the world to him. And he wants them to know it. When he shaves with a Philips SensoTouch 3D, he feels more confident and his family feels the difference.

I think having a clean-cut and neat appearance can boost a man s confidence. In the past I used a standard razor, but it irritated my skin.

Since I began using the new Philips SensoTouch 3D razor, my shaving experience has noticeably improved. My skin is even smoother and my daughter loves to touch my face. She tells me my skin is so smooth! Having a clean-cut and tidy appearance increases my confidence, and with that I am able to enjoy a full life.

5.3 Lighting

In 2013 our industry experienced a huge transformation as the shift to LED lighting gathered pace. We delivered value by improving our profitability and achieved a leading position in LED lighting solutions. Going forward, we will accelerate the drive to LED and help our customers to realize the benefits of intelligent connected lighting, serving both consumers and the growing professional market for integrated systems and services. **Eric Rondolat**, CEO Philips Lighting

The lighting industry is undergoing a radical transformation.

The lighting market is being driven by the transition to LED and digital applications.

Our four-pillar strategy will enable us to improve performance, maximize growth and strengthen our position as a global leader in the lighting market.

5.3.1 Lighting business landscape

We are witnessing a number of trends and transitions that are affecting the lighting industry and changing the way people use and experience light.

We serve a large and attractive market that is driven by the need for more light, energy-efficient lighting, and digital lighting. Over half the world s population currently lives in urban areas: a figure that is expected to rise to over 70% by 2050. That means 3 billion extra city

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dwellers. These people will all need light. In addition, the world needs energy-efficient light in the face of rising energy prices and climate change. At the same time, the lighting industry is moving from conventional to LED lighting, which is changing the way people use, experience and interact with light. LED technology, when combined with controls and software and linked into a network, is allowing light points to achieve a degree of intelligence. This is opening up the possibility of new functionalities and services based on the transmission and analysis of data.

The lighting market is expected to grow by 4-6% on a compound annual basis between 2013 and 2016. The majority of this growth will be driven by LED-based solutions and applications heading towards a 45% share by 2015 and growth geographies.

5.3.2 About Philips Lighting

Philips Lighting is a global market leader with recognized expertise in the development, manufacture and application of innovative, energy-efficient lighting products, systems and services that improve people s lives. We have pioneered many of the key breakthroughs in lighting over the past 122 years, laying the basis for our current strength and ensuring we are well-placed to be a leader in the digital transformation.

We have a firm strategy in place to deliver even greater value for our customers. This strategy is based upon four pillars:

- Lead the technological revolution strengthen our leadership position through continued innovation in high-quality, efficient and connected LED systems.

- Win in the consumer market build on our strengths in lamps by meeting consumers needs and delivering innovative products, such as the Hue personal wireless lighting system that can be controlled by a smart phone or tablet. At the same time we are addressing costs so that consumers can quickly enjoy the advantages of new LED innovations in lamps, luminaires and systems. In addition, we are developing new channels to market.

- Drive innovation in professional lighting systems and services providing integrated offerings for this market, which is an early adopter of energy-efficient LED and now intelligent connected lighting technologies.

- Accelerate! strengthen our capabilities and improve the way we work so that we reduce our costs, are more productive, and fully satisfy our customers expectations.

We aim to further strengthen our position in the digital market through added investment in LED leadership while at the same time capitalizing on our broad portfolio, distribution and brand in conventional lighting seizing the significant opportunity to grow market share and optimize profits in conventional lamps and drivers by flexibly anticipating the slower or faster phase-out of conventional products.

We address people s lighting needs across a full range of market segments. Indoors, we offer lighting solutions for homes, shops, offices, schools, hotels, factories and hospitals. Outdoors, we offer solutions for roads (street lighting and car lights) and for public spaces, residential areas and sports arenas, as well as solar-powered LED off-grid lighting. In addition, we address the desire for light-inspired experiences through architectural projects. Finally, we offer specific applications of lighting in specialized areas, such as horticulture and water purification.

Philips Lighting spans the entire lighting value chain from light sources, luminaires, electronics and controls to application-specific systems and services through the following businesses:

- Light Sources & Electronics: LED, eco-halogen, (compact) fluorescent, high-intensity discharge and incandescent light sources, plus electronic and electromagnetic gear, modules and drivers

- Consumer Luminaires: functional, decorative, lifestyle, scene-setting luminaires

- Professional Lighting Solutions: controls and luminaires for city beautification, road lighting, sports lighting, office lighting, shop/hospitality lighting, industry lighting

- Automotive Lighting: car headlights and signaling

- Lumileds: packaged LEDs

The Light Sources & Electronics business conducts its sales and marketing activities through the professional, OEM and consumer channels, the latter also being used by our Consumer Luminaires business. Professional Lighting Solutions is organized in a trade business (commodity products) and a project solutions business (project luminaires, systems and services). Automotive Lighting is organized in two businesses: OEM and Aftermarket.

The conventional lamps industry is highly consolidated, with GE and Osram as key competitors. The LED lighting market, on the other hand, is very dynamic. We face new competition from Asia and new players from the semiconductor and building management sectors. The luminaires industry is fragmented, with our competition varying per region and per market segment.

Under normal economic conditions, Lighting s sales are generally not materially affected by seasonality.

Philips Lighting has manufacturing facilities in some 25 countries in all regions of the world, and sales organizations in more than 60 countries. Commercial activities in other countries are handled via distributors working with our International Sales organization. Lighting has approximately 46,900 employees worldwide.

Regulatory requirements

Lighting is subject to significant regulatory requirements in the markets where it operates. These include the European Union s Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS), Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), Energy-using Products (EuP) and Energy Performance of Buildings (EPBD) directives.

5.3.3 2013 highlights

In 2013, our lighting innovations underlined our four-pillar strategy aimed at delivering even greater value for our customers and shareholders.

Leading the technological revolution in lighting, we delivered a number of groundbreaking innovations. Lumileds set the standard in high and mid-power LEDs, improving efficacy and light quality. In our drive to continuously reduce energy consumption, Philips was the first to show a prototype TLED providing 200 lumens per watt, which is twice as efficient as current LED-based solutions. We also continued to pioneer innovations in connected lighting, in segments such as home and city lighting.

Our smart and connected CityTouch lighting system was installed in a number of cities around the world. This intelligent lighting system enables cities to control light points in a dynamic and flexible way to deliver light where and when needed, saving energy and maintenance costs.

Our innovations in architectural lighting were used to rejuvenate some of the best-known landmarks in the world, such as the Bay Bridge in San Francisco, and to create new city icons such as the fire and water-breathing Dragon Bridge in Da Nang, Vietnam. Underlining our expertise in integrated solutions, we collaborated with the Rijksmuseum, Amsterdam to develop a customized LED lighting solution for the museum s entire exhibition area, bringing the color and detail of masterpieces such as Rembrandt s *Night Watch* to life as never before.

The latest innovation in Philips Hue, our groundbreaking connected lighting system for the home, connects to internet services, making the system even more intelligent, with new functionality to enjoy. We also launched Friends of Hue lamp fittings and luminaires such as LivingColors Bloom and LightStrips which enable consumers to create even richer lighting experiences. Resulting from our partnership with Disney, StoryLight Mickey is another addition to the Friends of Hue portfolio. It transforms bedtime stories into a unique experience. The Philips-Disney partnership combines Philips innovation in lighting with the magic of Disney characters and storytelling to transform a child s bedroom into a more imaginative place for them to read, play and fall asleep.

5.3.4 2013 financial performance

Key data
in millions of euros unless otherwise stated

	2011	2012	2013
Sales	7,638	8,442	8,413
Sales growth			
% increase, nominal	1	11	0
% increase, comparable[1)]	6	4	3
Adjusted IFO[1)]	399	128	695
as a % of sales	5.2	1.5	8.3
IFO	(408)	(66)	489
as a % of sales	(5.3)	(0.8)	5.8
Net operating capital (NOC)[1)]	4,965	4,635	4,462
Cash flows before financing activities[1)]	208	279	478
Employees (FTEs)	53,168	50,224	46,890

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 14, Reconciliation of non-GAAP information, of this report

In 2013, sales amounted to EUR 8,413 million, in line with 2012 on a nominal basis. Excluding a 3% negative currency effect, comparable sales increased by 3%. Double-digit comparable sales growth was achieved by Lumileds and Automotive. Light Sources & Electronics recorded low-single-digit growth, while comparable sales at Professional Lighting Solutions were in line with 2012. Consumer Luminaires showed a low-single-digit decline.

The year-on-year comparable sales increase was substantially driven by growth geographies, which grew 12% on a comparable basis. As a proportion of total sales, sales in growth geographies increased to 43% of total Lighting sales, driven by double-digit growth in China and Indonesia, compared to 41% in 2012. In mature geographies, sales showed a low-single-digit decline, largely due to lower demand in North America and Western Europe, particularly at Professional Lighting Solutions and Consumer Luminaires.

Sales of LED-based products grew to 29% of total sales, up from 22% in 2012, driven by Light Sources & Electronics and Professional Lighting Solutions. Sales of energy-efficient Green Products exceeded EUR 5,855 million, or 70% of sector sales.

Adjusted IFO amounted to EUR 695 million, or 8.3% of sales, compared to EUR 128 million, or 1.5% of sales, in 2012. Restructuring and acquisition-related charges amounted to EUR 100 million in 2013, compared to EUR 315 million in 2012. The increase in Adjusted IFO was mainly attributable to higher operational earnings, as well as lower restructuring and acquisition-related charges. Additionally, 2012 included losses on the sale of industrial assets amounting to EUR 81 million.

IFO amounted to EUR 489 million, or 5.8% of sales, which included EUR 180 million of amortization charges, mainly related to intangible assets at Professional Lighting Solutions, and an impairment of EUR 32 million related to customer relationships at Consumer Luminaires. Additionally, a goodwill impairment charge of EUR 26 million was taken in the fourth quarter of 2013 due to reduced growth expectations.

Net operating capital decreased by EUR 173 million to EUR 4.5 billion, primarily due to currency effects, partly offset by a reduction in restructuring provisions.

Cash flows before financing activities increased from EUR 279 million in 2012 to EUR 478 million, mainly due to higher cash earnings and lower net capital expenditures, partly offset by higher outflows for working capital.

2012 financial performance

Sales amounted to EUR 8,442 million, a nominal increase of 11% compared to 2011, mainly driven by growth at Light Sources & Electronics and Professional

Lighting Solutions, partly offset by a sales decline at Lumileds. Excluding a 5% favorable currency impact and a 2% positive effect from portfolio changes, comparable sales increased by 4%.

The year-on-year sales increase was substantially driven by growth geographies, which grew 7% on a comparable basis. Sales in growth geographies increased to 41% of total Lighting sales, driven by double-digit growth in China and India, compared to 40% in 2011. In mature geographies, sales growth was limited to low single digits due to lower demand in North America and Western Europe, particularly at Professional Lighting Solutions and Consumer Luminaires.

Sales of LED-based products grew to over 22% of total sales, up from 16% in 2011, driven by Light Sources & Electronics and Professional Lighting Solutions. Sales of energy-efficient Green Products exceeded EUR 5,752 million, or 68% of sector sales.

Adjusted IFO amounted to EUR 128 million, or 1.5% of sales, compared to EUR 399 million, or 5.2 of sales, in 2011. Restructuring and acquisition-related charges amounted to EUR 315 million in 2012, compared to EUR 66 million in 2011. The decrease in Adjusted IFO was mainly attributable to higher restructuring and acquisition-related charges, as well as losses on the sale of industrial assets amounting to EUR 81 million, partly offset by higher sales.

IFO amounted to a loss of EUR 66 million, or negative 0.8% of sales, which included EUR 194 million of amortization charges, mainly related to intangible assets at Professional Lighting Solutions.

Net operating capital decreased by EUR 330 million to EUR 4.6 billion, primarily due to an increase in provisions related to restructuring, lower inventories and currency effects, partly offset by the consolidation of Indal.

Cash flows before financing activities increased from EUR 208 million in 2011 to EUR 279 million, mainly due to lower working capital outflows, partly offset by higher outflows for acquisitions.

5.3.5 Delivering on EcoVision sustainability commitments

In 2013, Philips Lighting invested EUR 327 million in Green Innovation, compared to EUR 325 million in 2012. Investments continue to be made in energy-saving technologies such as LED, OLED and lighting controls and in the reduction of regulated substances in our product portfolio. In April, Philips announced that it had created the first LED lamp prototype delivering 200 lumens per watt of high-quality light, halving energy use compared to current LED lamps. The energy efficiency of our total product portfolio improved from 37.9 to 38.5 lumens per watt in 2013. Within the Green Operations 2015 program, we are on track to meet our commitments to reduce Lighting s environmental footprint. By using energy from renewable sources and implementing energy-saving programs in our major operational sites, we have reduced our carbon footprint from energy by approximately 15% since the baseline year of 2009. In 2013, 83% of our total waste was re-used as a result of recycling.

5.3.6 Delivering innovation that matters to you

Meet a London couple who use Philips Hue lighting to create a happy and inspiring environment for their daughter, Elena.

Being a parent is not easy, I think anyone can understand that. And I think it s about trying to find the small things that just help you through the day a bit better.

We also find during play especially, it s a great way to interact with her. Painting itself is great fun, but when you can kind of paint the colors with the light bulb, that s even better. Or dancing is great fun, but when you can dance and the lights change, it just brings a whole new element to the experience. It makes for a much more engaging and fun day for us and for her.

5.4 Innovation, Group & Services

In 2013, we continued to better align our innovation strategies with our business strategies. We are making real progress improving our ability to innovate end-to-end, all the way from gaining a deep understanding of local customer needs to actual impact in the marketplace. Our innovation process is becoming more effective, efficient and faster, allowing us to better deliver solutions that really matter to people. **Jim Andrew,** Chief Innovation & Strategy Officer

Introduction

Innovation, Group & Services comprises the activities of Group Innovation, Group headquarters, including country and regional management, and certain costs of pension and other post-retirement benefit plans. Additionally, the global shared business services for procurement, finance, human resources, IT and real estate are reported in this sector.

5.4.1 About Innovation, Group & Services

Philips Group Innovation

Philips Group Innovation (PGI) feeds the innovation pipeline, enabling its business partners the Philips operating businesses to create new business options through new technologies, new business creation, and intellectual property development. Focused research and development improvement activities drive time-to-market efficiency and increased innovation

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effectiveness. In addition, PGI opens up new value spaces beyond current business scope or focus (Emerging Business Areas), manages the Emerging-Business-Areas-related R&D portfolio, and creates synergy for cross-sector initiatives.

PGI encompasses Philips Research, Philips Innovation Services, the Philips Innovation Campus in Bangalore, the Philips Innovation Center Shanghai, Philips Design, the Philips Healthcare Incubator as well as Emerging Business Areas. In total, PGI employs some 4,900 professionals around the globe.

PGI actively participates in Open Innovation through relationships with academic and industrial partners, as well as via European and regional projects, in order to improve innovation efficiency and effectiveness, generate new ideas, enhance technology partnering capabilities, and share the related financial exposure. The High Tech Campus in Eindhoven (Netherlands), the Philips Innovation Campus in Bangalore (India), and the Philips Innovation Center in Shanghai (China) are prime examples of environments enabling Open Innovation.

Through Open Innovation, Philips also seeks to ensure proximity of innovation activities to growth geographies. For example, in 2013, Philips and Dubai Economic Council signed a memorandum of understanding to develop a series of strategic initiatives to encourage the adoption of Open Innovation strategies between businesses and government in the United Arab Emirates.

A joint initiative between PGI, IT and multiple Philips businesses aims at speeding up digital innovation to create personalized solutions that matter to people. One of the results in 2013 was that Philips, together with Accenture, simulated the first proof-of-concept for the seamless transfer of patient vital signs into Google Glass. At the IFA in Berlin, Philips also demonstrated apps that add smart personalized functionalities to consumer products, such as a facial hair style app, an air purification app, and a coffee experience app.

Philips Research

Philips Research is the main partner of Philips operating businesses for technology-enabled innovation. It creates new technologies and the related intellectual property (IP), which enables Philips to grow in businesses and markets. Together with the businesses and the markets, Philips Research co-creates innovations to strengthen the core businesses as well as to open up new opportunities in adjacent business areas. Research s innovation pipeline is aligned with our vision and strategy and inspired by unmet customer needs as well as major societal challenges.

In 2013, Philips Research created the world s most energy-efficient warm-white LED lamp. The new TLED prototype, designed to replace fluorescent tube lighting, delivers 200 lumens per watt of high-quality light, halving energy use compared to current LED lamps.

In the area of Healthcare, Philips Research co-created innovative imaging solutions with improved ultrasound, MRI and X-ray results. In the case of X-ray, the Philips AlluraClarity system provides industry-leading visibility for live image guidance at low X-ray dose levels.

The new EPIQ premium ultrasound platform received outstanding feedback from key opinion leaders about the exceptional image quality delivered by multiline beam forming (nSight Imaging) and Anatomical Intelligence.

Philips Innovation Services

Philips Innovation Services offers a range of advanced innovation services, expertise and high-tech facilities across the entire innovation activity chain. Services extend from concept creation, product development, prototyping and small series production, industrialization, quality and reliability, to sustainability and industrial consulting. Innovation Services skills are leveraged by the Philips businesses and Philips Group Innovation across all regions, on a wide range of innovation projects.

Examples of recent innovations supported by Innovation Services include the Hue personal wireless lighting, intelligent catheters such as the EchoNavigator live image-guidance tool, OLED lighting, Green Hospital energy-saving services for medical institutions, and the Smart Air Purifier.

Innovation Services also supports Philips drive to deliver innovations that are locally relevant. This year the organization opened a new Service Center at the Philips innovation site in Shanghai. Staffed by experts in electronics design, electromagnetic compatibility, reliability and mechatronics, the Service Center provides locally relevant services meeting Philips innovation needs in China.

Philips Innovation Campus Bangalore

Philips Innovation Campus Bangalore (PIC) hosts activities from most of our operating businesses, Philips Research, Design, IP&S, and IT. Healthcare is the largest R&D organization at PIC, with activities in Imaging Systems and Patient Care & Clinical Informatics. While PIC originally started as a software center, it has since developed into a broad product development center (including mechanical, electronics, and supply chain capabilities). Several Healthcare businesses have also located business organizations focusing on growth geographies at PIC.

Philips Innovation Center Shanghai

Philips Research China is Philips second-largest research lab globally. The organization currently has over 170 staff, working in the Healthcare, Consumer Lifestyle and Lighting programs, and cooperates extensively with Philips labs across the world. Research China anchors our broader commitment to our Shanghai R&D campus as an innovation hub.

Philips Design

Philips Design partners with the Philips businesses, Group Innovation, and functions to ensure that our innovations are people-focused, meaningful and locally relevant, and that the Philips brand experience is differentiating, consistent and drives customer preference across all its touch-points.

Philips Design is a global function within the company, comprised of a Group Design team that leads the function and develops new competencies, and fully integrated sector Design teams ensuring close alignment with the Philips businesses. The organization is made up of designers across various disciplines, as well as psychologists, ergonomists, sociologists and anthropologists all working together to understand people s needs and desires and to translate these into relevant solutions and experiences that create value for people and business. Design s forward-looking exploration projects deliver vital insights for new business development.

In the area of emergency care, for example, the Design team has been instrumental in developing a new user interaction concept for the next generation of automatic external defibrillation (AED). Based on new and deeper insights from onsite research into stakeholder requirements, protocols, routines and behavior in emergency settings in firehouses and police stations, it improves the ease of use for first responders, resulting in faster deployment. The Philips HeartStart FR3 AED won a red dot design award in 2013.

Philips Design is widely recognized as a world leader in people-centric design. In 2013, it won over 100 key design awards, including an unprecedented 39 iF design awards in the areas of product, communication and innovation design, 22 red dot design awards, eight Successful Design Awards China, seven Dutch Good Industrial Design Recognition prizes, and four Australian International Design Awards.

Philips Healthcare Incubator

The Philips Healthcare Incubator is a corporate organization within Philips Group Innovation dedicated to new business creation. Its mission is to identify novel business opportunities addressing unmet needs of patients, payors and care providers through ground-breaking innovation, and to transform these into successful businesses. The ultimate goal is to create new, sizeable business categories for Philips in health care.

Philips Intellectual Property & Standards

Philips IP&S proactively pursues the creation of new intellectual property in close co-operation with Philips operating businesses and Philips Group Innovation. IP&S is a leading industrial IP organization providing world-class IP solutions to Philips businesses to support their growth, competitiveness and profitability.

Philips IP portfolio currently consists of approximately 13,200 patent families, 2,680 trademark families, 3,930 design families, and 2,150 domain name families. Philips filed approximately 1,550 patent applications in 2013, with a strong focus on the growth areas in health and well-being.

IP&S participates in the setting of standards to create new business opportunities for the Healthcare, Consumer Lifestyle and Lighting sectors. A substantial portion of revenue and costs is allocated to the operating sectors. Philips believes its business as a whole is not materially dependent on any particular patent or license, or any particular group of patents and licenses.

Group and Regional Costs

Group and Regional organizations support the creation of value, connecting Philips with key stakeholders, especially our employees, customers, government and society. These organizations include the Executive Committee, Brand Management, Sustainability, New Venture Integration, the Group functions related to strategy, human resources, legal and finance, as well as country and regional management.

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Accelerate! Investments

Innovation, Group & Services plays an important role in the Accelerate! program, notably by helping to improve the end-to-end value chain. The End-to-End approach consists of three core processes: Idea-to-Market, Market-to-Order, and Order-to-Cash. Innovation, Group & Services supports a more efficient and effective Idea-to-Market process in five focal areas: speeding up time-to-market, portfolio optimization, driving breakthrough innovation, improving innovation competencies, and strengthening the position of Philips as an innovation leader. Based on deeper customer insights, and enhanced capability and competency building, we are driving value more effectively.

5.4.2 2013 financial performance

Key data
in millions of euros unless otherwise stated

	2011	2012	2013
Sales	731	713	736
Sales growth			
% increase (decrease), nominal	(23)	(2)	3
% increase (decrease), comparable[1)]	(13)		(2)
Adjusted IFO of:			
Group Innovation	(78)	(149)	(134)
IP Royalties	262	253	312
Group and Regional costs	(140)	(161)	(175)
Accelerate! investment	(28)	(128)	(137)
Pensions	22	24	(41)
Service Units and other	(235)	(543)	(64)
Adjusted IFO[1)]	(197)	(704)	(239)
IFO	(207)	(712)	(242)
Net operating capital (NOC)[1)]	(3,875)	(4,500)	(2,922)
Cash flows before financing activities[1)]	(1,159)	(842)	(2,101)
Employees (FTEs)	13,001	11,856	12,937

1) For a reconciliation to the most directly comparable GAAP measures, see chapter 14, Reconciliation of non-GAAP information, of this report

In 2013, sales amounted to EUR 736 million, EUR 23 million higher than in 2012, due to higher royalty income.

Adjusted IFO in 2013 amounted to a loss of EUR 239 million, compared to a loss of EUR 704 million in 2012. In 2012, Adjusted IFO included the EUR 313 million impact of the European Commission fine and provisions related to various legal matters totaling EUR 132 million. Restructuring and acquisition-related charges amounted to EUR 3 million in 2013, compared to EUR 56 million in 2012. 2013 Adjusted IFO also included a past-service pension cost gain of EUR 6 million, which was recorded across Group Innovation, IP Royalties, Group and Regional Overheads and Service Units and Others.

Adjusted IFO at Group Innovation was a EUR 15 million lower net cost than in 2012, mainly due to lower restructuring charges.

Group & Regional Overhead costs were EUR 14 million higher than in 2012, mainly due to increased costs related to our new brand positioning.

Accelerate! investments amounted to EUR 137 million in 2013, and include investments in IT infrastructure, internal departments and external consultancy dedicated to the Accelerate! program.

Pensions amounted to a net cost of EUR 41 million, and represent costs related to deferred pensioners covered by company plans. In 2013, Adjusted IFO was impacted by a EUR 31 million settlement loss arising from a lump-sum offering to terminated vested employees in our US pension plan. In 2012, Adjusted IFO was positively impacted by a EUR 25 million gain from a change in a medical retiree plan.

Adjusted IFO at Service Units and Other increased from a loss of EUR 543 million in 2012 to a loss of EUR 64 million. In 2012, Adjusted IFO included the EUR 313 million impact of the European Commission fine and provisions related to various legal matters totaling EUR 132 million, as well as a gain on the sale of the High Tech Campus of EUR 37 million. Excluding these impacts, the increase in Adjusted IFO in 2013 was mainly due to lower restructuring costs as well as releases of environmental provisions.

Net operating capital decreased to negative EUR 2.9 billion, primarily related to the payment of the European Commission fine, a decrease in pension liabilities, an increase in the value of currency hedges as well as a reclassification of real estate assets from the sectors to the Service Units.

Cash flows before financing activities decreased from an outflow of EUR 842 million in 2012 to an outflow of EUR 2,101 million, mainly due to the payment of the European Commission fine and lower cash inflows from the sale of fixed assets.

2012 financial performance

In 2012, sales amounted to EUR 713 million, EUR 18 million lower than in 2011, reflecting the divestment of Assembléon in 2011.

Adjusted IFO in 2012 amounted to a loss of EUR 704 million, compared to a loss of EUR 197 million in 2011. The year-on-year decrease in Adjusted IFO was largely attributable to a EUR 313 million impact of European Commission fine and provisions related to various legal matters totaling EUR 132 million. Restructuring and acquisition-related charges amounted to EUR 56 million in 2012, compared to EUR 23 million in 2011.

Adjusted IFO at Group Innovation was EUR 71 million lower than in 2011, due to new innovation and design initiatives, as well as higher investments in new value spaces.

Group & Regional Overhead costs were EUR 21 million higher than in 2011, mainly due to increased costs related to strengthening the market access and growth initiatives.

Accelerate! investments amounted to EUR 128 million in 2012, and include investments in IT infrastructure, internal departments and external consultancy dedicated to the Accelerate! program.

Adjusted IFO at Pensions was EUR 2 million higher than in 2011. 2011 was positively impacted by a EUR 21 million gain due to a plan change in one of our major plans, while 2012 was positively impacted by a EUR 25 million gain from a change in a medical retiree plan.

Adjusted IFO at Service Units and Other decreased from a loss of EUR 235 million in 2011 to a loss of EUR 543 million. The decrease was largely attributable to the EUR 313 million impact of the European Commission fine and provisions related to various legal matters totaling EUR 132 million, partly offset by a gain on the sale of High Tech Campus of EUR 37 million and lower stranded costs from the divestment of our Television business.

Net operating capital decreased to negative EUR 4.5 billion, primarily related to an increase in payables and provisions due to legal and environmental matters.

Cash flows before financing activities improved from an outflow of EUR 1,159 million in 2011 to an outflow of EUR 842 million, mainly due to higher cash inflows from the sale of fixed assets.

6 Risk management

6.1 Our approach to risk management and business control

The following section presents an overview of Philips approach to risk management and business controls and a description of the nature and the extent of its exposure to risks. Philips risk management focuses on the following risk categories: Strategic, Operational, Compliance and Financial risks. These categories are further described in section 6.2, Risk categories and factors, of this report. The risk overview highlights the main risks known to Philips, which could hinder it in achieving its strategic and financial business objectives. The risk overview may, however, not include all the risks that may ultimately affect Philips. Some risks not yet known to Philips, or currently believed not to be material, could ultimately have a major impact on Philips businesses, objectives, revenues, income, assets, liquidity or capital resources.

All oral and written forward-looking statements made on or after the date of this Annual Report and attributable to Philips are expressly qualified in their entirety by the factors described in the cautionary statement included in Forward-looking statements, of this report and the overview of risk factors described in section 6.2, Risk categories and factors, of this report.

Risk management forms an integral part of the business planning and review cycle. The company s risk and control policy is designed to provide reasonable assurance that objectives are met by integrating management control into the daily operations, by ensuring compliance with legal requirements and by safeguarding the integrity of the company s financial reporting and its related disclosures. It makes management responsible for identifying the critical business risks and for the implementation of fit-for-purpose risk responses. Philips risk management approach is embedded in the areas of corporate governance, Philips Business Control Framework and Philips General Business Principles.

Corporate governance

Corporate governance is the system by which a company is directed and controlled. Philips believes that good corporate governance is a critical factor in achieving business success. Good corporate governance derives from, amongst other things, solid internal controls and high ethical standards.

The quality of Philips systems of business controls and the findings of internal and external audits are reported to and discussed by the Audit Committee of the Supervisory Board. Internal auditors monitor the quality of the business controls through risk-based operational audits, inspections of financial reporting controls and compliance audits. Audit committees at group level (Group, Finance, Innovation and IT), at Global Market level and at Sector level (Healthcare, Lighting, Consumer Lifestyle) meet quarterly to address weaknesses in the business controls infrastructure as reported by internal and external auditors or revealed by self-assessment of management, and to take corrective action where necessary. These audit committees are also involved in determining the desired company-wide internal audit planning as approved by the Audit Committee of the Supervisory Board. An in-depth description of Philips corporate governance structure can be found in chapter 10, Corporate governance, of this report.

Philips Business Control Framework

The Philips Business Control Framework (BCF) sets the standard for risk management and business control in Philips. The objectives of the BCF are to maintain integrated management control of the company s operations, in order to ensure the integrity of the financial reporting, as well as compliance with laws and regulations. Philips is using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework on internal control (1992) as a basis for the BCF.

As part of the BCF, Philips has implemented a global standard for internal control over financial reporting (ICS). The ICS, together with Philips established accounting procedures, is designed to provide reasonable assurance that assets are safeguarded, that the books and records properly reflect transactions necessary to permit preparation of financial statements, that policies and procedures are carried out by qualified personnel and that published financial statements are properly prepared and do not contain any material misstatements. ICS has been deployed in all main reporting units, where business process owners perform an extensive number of controls, document the results each quarter, and take corrective action where necessary. ICS supports sector and functional management in a quarterly cycle of assessment and monitoring of its control environment. The findings of management s evaluation are reported to the Executive Committee and the Supervisory Board quarterly.

As part of the Annual Report process, management s accountability for business controls is enforced through the formal issuance of a Statement on Business Controls and a Letter of Representation by sector and functional management to the Executive Committee. Any deficiencies noted in the design and operating effectiveness of controls over financial reporting which were not completely remediated are evaluated at year-end by the Executive Committee. The Executive Committee s report, including its conclusions regarding the effectiveness of internal control over financial reporting, can be found in section 11.1, Management s report on internal control, of this report.

Philips General Business Principles

The Philips General Business Principles (GBP) govern Philips business decisions and actions throughout the world, applying to corporate actions and the behavior of individual employees. They incorporate the fundamental principles within Philips for doing business. The intention of the GBP is to ensure compliance with laws and regulations, as well as with Philips norms and values.

The GBP are available in most of the local languages and are an integral part of the labor contracts in virtually all countries where Philips has business activities. Responsibility for compliance with the principles rests primarily with the management of each business. Every country organization and each main production site has a compliance officer. All compliance officers operate under the supervision of the GBP Review Committee. Confirmation of compliance with the GBP is an integral part of the annual Statement on Business Controls that has to be issued by the management of each business unit. The GBP incorporate a whistleblower policy, standardized complaint reporting and a formal escalation procedure.

The Philips Ethics hotline seeks to ensure that alleged violations are registered and dealt with consistently within a company-wide system. To drive the practical deployment of the GBP, a set of directives has been published, which are applicable to all employees. There are also separate directives which apply to specific categories of employees (e.g. the Supply Management Code of Ethics and Financial Code of Ethics, refer to www.philips.com/gbp).

To seek to ensure compliance with the highest standards of transparency and accountability by all employees performing important financial functions, the Financial Code of Ethics contains, amongst other things, standards to promote honest and ethical conduct, as well as full, accurate and timely disclosure procedures in order to avoid conflicts of interest.

Both the Finance and Supply Management Code of Ethics are signed off on an annual basis by the relevant employees, to confirm their awareness of and compliance with, the respective codes.

The GBP self-assessment process is fully embedded in an automated workflow application (ICS) supporting Sector, Market and functional management in monitoring internal controls, as described under the Philips Business Control Framework. Embedding GBP self-assessments in ICS seeks to ensure that GBP compliance is now part of Sector, Market and functional management s quarterly ICS/SOx (Sarbanes-Oxley) monitoring process, and that GBP non-compliance issues, if significant, are reported to the Board of Management/Executive Committee via the Quarterly Certification Statement process.

In June 2013, as part of the global GBP communications campaign, a business integrity survey was rolled out to all employees to obtain their input on the effectiveness of our GBP program. The insights that were derived from this survey were used to further enhance the effectiveness of the current compliance activities as well as the compliance road map. The business integrity survey also provided the kickoff for a global GBP communications campaign, culminating in a global event called the GBP dialogue week held in October 2013, in which managers were invited to hold sessions with their teams to discuss GBP in relation to their function or business.

Mandatory web-based GBP training, which is designed to reinforce awareness of the need for compliance with the GBP, is available in 23 languages. Every quarter, all new employees are invited to take this training in their

local language. In 2013, targeted audiences participated in a web-based training focusing on specific topics, including anti-bribery, antitrust, privacy and export controls.

In 2013, we introduced a mandatory sign-off on GBP for all executives.

For further details, please refer to the General Business Principles paragraph in chapter 13, Sustainability statements, of this report.

Financial Code of Ethics

The Company recognizes that its businesses have responsibilities within the communities in which they operate. The Company has a Financial Code of Ethics which applies to the CEO (the principal executive officer) and CFO (the principal financial and principal accounting officer), and to the heads of the Group Control, Group Treasury, Group Fiscal and Group Internal Audit departments of the Company. The Company has published its Financial Code of Ethics within the investor section of its website located at www.philips.com. No changes have been made to the Code of Ethics since its adoption and no waivers have been granted therefrom to the officers mentioned above in 2013.

6.2 Risk categories and factors

Taking risks is an inherent part of entrepreneurial behavior. A structured risk management process allows management to take risks in a controlled manner. In order to provide a comprehensive view of Philips business activities, risks and opportunities are identified in a structured way combining elements of a top-down and bottom-up approach. Risks are reported on a regular basis as part of the Business Performance Management process. All relevant risks and opportunities are prioritized in terms of impact and likelihood, considering quantitative and/or qualitative aspects. The bottom-up identification and prioritization process is supported by workshops with the respective management at Sector, Market and Group Function level. The top-down element allows potential new risks and opportunities to be discussed at management level and included in the subsequent reporting process, if found to be applicable. Reported risks and opportunities are analyzed for potential cumulative effects and are aggregated at Sector, Market and Group level. Philips has a structured risk management process to address different risk categories: Strategic, Operational, Compliance and Financial risks.

Strategic risks and opportunities may affect Philips strategic ambitions. Operational risks include adverse unexpected developments resulting from internal processes, people and systems, or from external events that are linked to the actual running of each business (examples are solution and product creation, and supply chain management). Compliance risks cover unanticipated failures to implement, or comply with, appropriate laws, regulations, policies and procedures. Within the area of Financial risks, Philips identifies risks related to Treasury, Accounting and reporting, Pensions and Tax. Philips does not classify these risk categories in order of importance.

Philips describes the risk factors within each risk category in order of Philips current view of expected significance, to give stakeholders an insight into which risks and opportunities it considers more prominent than others at present. The risk overview highlights the main risks and opportunities known to Philips, which could hinder it in achieving its strategic and financial business objectives. The risk overview may, however, not include all the risks that may ultimately affect Philips. Describing risk factors in their order of expected significance within each risk category does not mean that a lower listed risk factor may not have a material and adverse impact on Philips business, strategic objectives, revenues, income, assets, liquidity, capital resources or achievement of Philips 2016 goals. Furthermore, a risk factor described after other risk factors may ultimately prove to have more significant adverse consequences than those other risk factors. Over time Philips may change its view as to the relative significance of each risk factor.

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6.3 Strategic risks

As Philips business is global, its operations are exposed to economic and political developments in countries across the world that could adversely impact its revenues and income.

Philips business environment is influenced by conditions in the domestic and global economies. Continued concerns about the macroeconomic environment has shown its impact on global markets during 2013. Towards the end of 2013 the macroeconomic environment seemed to tilt towards a more positive outlook, however with substantial differences between geographical areas. Anticipated changes in US monetary policy during 2013 have resulted in a significant negative impact on foreign currency rates in a number of emerging markets, highlighting fiscal problems and other economic vulnerabilities in these countries. The disparate macroeconomic outlook for the main geographies and the potential impact of further changes in fiscal and monetary policy continues to provide uncertainty on the levels of capital expenditures in general, unemployment levels and consumer and business confidence, which could adversely affect demand for products and services offered by Philips. Political developments, such as healthcare reforms in various countries may impose additional uncertainties by redistributing sector spending, changing reimbursement models and fiscal changes.

Numerous other factors, such as the fluctuation of energy and raw material prices, as well as global political conflicts in North Africa, the Middle East and other regions, could continue to impact macroeconomic factors and the international capital and credit markets. Economic and political uncertainty may have a material adverse impact on Philips financial condition or results of operations and can also make it more difficult for Philips to budget and forecast accurately. Philips may encounter difficulty in planning and managing operations due to the lack of adequate infrastructure and unfavorable political factors, including unexpected legal or regulatory changes such as foreign exchange import or export controls, increased healthcare regulation, nationalization of assets or restrictions on the repatriation of returns from foreign investments. Given that growth geographies are becoming increasingly important in Philips operations, the above-mentioned risks are also expected to grow and could have a material adverse effect on Philips financial condition and operating results.

Philips may be unable to adapt swiftly to changes in industry or market circumstances, which could have a material adverse impact on its financial condition and results.

Fundamental shifts in the industry, like the transition from traditional lighting to LED lighting, may drastically change the business environment. If Philips is unable to recognize these changes in good time, is late in adjusting its business models, or if circumstances arise such as pricing actions by competitors, then this could have a material adverse effect on Philips growth ambitions, financial condition and operating result.

Philips overall performance in the coming years is dependent on realizing its growth ambitions in growth geographies.

Growth geographies are becoming increasingly important in the global market. In addition, Asia is an important production, sourcing and design center for Philips. Philips faces strong competition to attract the best talent in tight labor markets and intense competition from local companies as well as other global players for market share in growth geographies. Philips needs to maintain and grow its position in growth geographies, invest in local talents, understand developments in end-user preferences and localize the portfolio in order to stay competitive. If Philips fails to achieve this, then this could have a material adverse effect on growth ambitions, financial condition and operating result.

The growth ambitions of Philips may be adversely affected by economic volatility inherent in growth geographies and the impact of changes in macroeconomic circumstances on growth economies.

Philips may not control joint ventures or associated companies in which it invests, which could limit the ability of Philips to identify and manage risks.

Philips has invested or will invest in joint ventures or associated companies in which Philips will have a non-controlling interest. In these cases , Philips has limited influence over, and limited or no control of, the governance, performance and cost of operations of joint ventures or associated companies. Some of these joint ventures or associated companies may represent significant investments. The joint ventures and associated companies that Philips does not control may make business, financial or investment decisions contrary to Philips interests or decisions different from those, which Philips itself may have made. Additionally, Philips partners or members of a joint venture or associated company may not be able to meet their financial or other obligations, which could

expose Philips to additional financial or other obligations, as well as have a material adverse effect on the value of its investments in those entities or potentially subject Philips to additional claims.

Acquisitions could expose Philips to integration risks and challenge management in continuing to reduce the complexity of the company.

Philips acquisitions may continue to expose Philips in the future to integration risks in areas such as sales and service force integration, logistics, regulatory compliance, information technology and finance. Integration difficulties and complexity may adversely impact the realization of an increased contribution from acquisitions. Philips may incur significant acquisition, administrative and other costs in connection with these transactions, including costs related to the integration of acquired businesses.

Furthermore, organizational simplification and resulting cost savings may be difficult to achieve. Acquisitions may also lead to a substantial increase in long-lived assets, including goodwill. Write-downs of these assets due to unforeseen business developments may have a material adverse effect on Philips earnings, particularly in Healthcare and Lighting, which have significant amounts of goodwill (see also note 11, Goodwill).

Philips inability to secure and retain intellectual property rights for products, whilst maintaining overall competitiveness, could have a material adverse effect on its results.

Philips is dependent on its ability to obtain and retain licenses and other intellectual property (IP) rights covering its products and its design and manufacturing processes. The IP portfolio is the result of an extensive patenting process that could be influenced by a number of factors, including innovation. The value of the IP portfolio is dependent on the successful promotion and market acceptance of standards developed or co-developed by Philips. This is particularly applicable to Consumer Lifestyle where third-party licenses are important and a loss or impairment could have a material adverse impact on Philips financial condition and operating results.

6.4 Operational risks

Failure to deliver on the objectives of the transformation programs.

In 2011 Philips started a very extensive transformation program (Accelerate!) to unlock Philips full potential. Accelerate! spans a time period of several years. Failure to achieve the objectives of the transformation programs may have a material adverse effect on the mid and long term financial targets.

In addition the transformation program of the Finance function may expose Philips to adverse changes in the quality of its systems of internal control.

Failure to achieve improvements in Philips solution and product creation process and/or increased speed in innovation-to-market could hamper Philips profitable growth ambitions.

Further improvements in Philips solution and product creation process, ensuring timely delivery of new solutions and products at lower cost and upgrading of customer service levels to create sustainable competitive advantage, are important in realizing Philips profitable growth ambitions. The emergence of new low-cost competitors, particularly in Asia, further underlines the importance of improvements in the product creation process. The success of new solution and product creation, however, depends on a number of factors, including timely and successful completion of development efforts, market acceptance, Philips ability to manage the risks associated with new products and production ramp-up issues, the ability of Philips to attract and retain employees with the appropriate skills, the availability of products in the right quantities and at appropriate costs to meet anticipated demand and the risk that new products and services may have quality or other defects in the early stages of introduction. Accordingly, Philips cannot determine in advance the ultimate effect that new solutions and product creations will have on its financial condition and operating results. If Philips fails to accelerate its innovation-to-market processes and fails to ensure that end-user insights are fully captured and translated into solution and product creations that improve product mix and consequently contribution, it may face an erosion of its market share and competitiveness, which could have a material adverse effect on its financial condition and operating results.

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If Philips is unable to ensure effective supply chain management, e.g. facing an interruption of its supply chain, including the inability of third parties to deliver parts, components and services on time, and if it is subject to rising raw material prices, it may be unable to sustain its competitiveness in its markets.

Philips is continuing the process of creating a leaner supply base with fewer suppliers, while maintaining dual sourcing strategies where possible. This strategy very much requires close cooperation with suppliers to enhance, amongst other things, time to market and quality. In addition, Philips is continuing its initiatives to reduce assets through outsourcing. These processes may result in increased dependency on external suppliers and providers. Although Philips works closely with its suppliers to avoid supply-related problems, there can be no assurance that it will not encounter supply problems in the future or that it will be able to replace a supplier that is not able to meet its demand. Shortages or delays could materially harm its business.

Most of Philips activities are conducted outside of the Netherlands, and international operations bring challenges. For example, production and procurement of products and parts in Asian countries are increasing, and this creates a risk that production and shipping of products and parts could be interrupted by a natural disaster, such as occurred in Japan in 2011. A general shortage of materials, components or subcomponents as a result of natural disasters also bears the risk of unforeseeable fluctuations in prices and demand, which could have a material adverse effect on its financial condition and operating results.

Sectors purchase raw materials including so-called rare earth metals, copper, steel, aluminum and oil, which exposes them to fluctuations in energy and raw material prices. In recent times, commodities have been subject to volatile markets, and such volatility is expected to continue. If we are not able to compensate for our increased costs or pass them on to customers, price increases could have a material adverse impact on Philips results. In contrast, in times of falling commodity prices, Philips may not fully profit from such price decreases as Philips attempts to reduce the risk of rising commodity prices by several means, such as long-term contracting or physical and financial hedging. In addition to the price pressure that Philips may face from our customers expecting to benefit from falling commodity prices or adverse market conditions, this could also adversely affect its financial condition and operating results.

Diversity in information technology (IT) could result in ineffective or inefficient business management. IT outsourcing and off-shoring strategies could result in complexities in service delivery and contract management.

Philips is engaged in a continuous drive to create a more open, standardized and consequently, more cost-effective IT landscape. This is leading to an approach involving further outsourcing, off-shoring, commoditization and ongoing reduction in the number of IT systems. This could introduce additional risk with regard to the delivery of IT services, the availability of IT systems and the scope and nature of the functionality offered by IT systems.

Philips observes a global increase in IT security threats and higher levels of sophistication in computer crime, posing a risk to the confidentiality, availability and integrity of data and information.

The global increase in security threats and higher levels of professionalism in computer crime have increased the importance of effective IT security measures, including proper identity management processes to protect against unauthorized systems access. Nevertheless, Philips systems, networks, products, solutions and services remain potentially vulnerable to attacks, which could potentially lead to the leakage of confidential information, improper use of its systems and networks or defective products, which could in turn materially adversely affect Philips financial condition and operating results. In recent years, the risks that we and other companies face from cyber-attacks have increased significantly. The objectives of these cyber-attacks vary widely and may include, among things, disruptions of operations including provision of services to customers or theft of intellectual property or other sensitive information belonging to us or other business partners. Successful cyber-attacks may result in substantial costs and other negative consequences, which may include, but are not limited to, lost revenues, reputational damage, remediation costs, and other liabilities to customers and partners. Furthermore, enhanced protection measures can involve significant costs. Although we have experienced cyber-attacks but to date have not incurred any significant damage as a result, there can be no assurance that in the future Philips will be as successful in avoiding damages from cyber-attacks. Additionally, the integration of new companies and successful outsourcing of business processes are highly dependent on secure and well controlled IT systems.

Due to the fact that Philips is dependent on its personnel for leadership and specialized skills, the loss of its ability to attract and retain such personnel would have an adverse effect on its business.

The attraction and retention of talented employees in sales and marketing, research and development, finance and general management, as well as of highly specialized technical personnel, especially in transferring technologies to low-cost countries, is critical to Philips success. This is particularly valid in times of economic recovery. The loss of specialized skills could also result in business interruptions. There can be no assurance that Philips will continue to be successful in attracting and retaining all the highly qualified employees and key personnel needed in the future.

Warranty and product liability claims against Philips could cause Philips to incur significant costs and affect Philips results as well as its reputation and relationships with key customers.

Philips is from time to time subject to warranty and product liability claims with regard to product performance and effects. Philips could incur product liability losses as a result of repair and replacement costs in response to customer complaints or in connection with the resolution of contemplated or actual legal proceedings relating to such claims. In addition to potential losses arising from claims and related legal proceedings, product liability claims could affect Philips reputation and its relationships with key customers (both customers for end products and customers that use Philips products in their production process). As a result, product liability claims could materially impact Philips financial condition and operating results.

Any damage to Philips reputation could have an adverse effect on its businesses.

Philips is exposed to developments which could affect its reputation. Such developments could be of an environmental or social nature, or connected to the behavior of individual employees or suppliers and could relate to adherence to regulations related to labor, health and safety, environmental and chemical management. Reputational damage could materially impact Philips financial condition and operating results.

6.5 Compliance risks

Legal proceedings covering a range of matters are pending in various jurisdictions against Philips and its current and former group companies. Due to the uncertainty inherent in legal proceedings, it is difficult to predict the final outcome.

Philips, including a certain number of its current and former group companies, is involved in legal proceedings relating to such matters as competition issues, commercial transactions, product liability, participations and environmental pollution. Since the ultimate outcome of asserted claims and proceedings, or the impact of any claims that may be asserted in the future, cannot be predicted with certainty, Philips financial position and results of operations could be affected materially by adverse outcomes.

Please refer to note 26, Contingent assets and liabilities, for additional disclosure relating to specific legal proceedings.

Philips is exposed to governmental investigations and legal proceedings with regard to possible anti-competitive market practices.

Philips is facing increased scrutiny by national and European authorities of possible anti-competitive market practices. For example, Philips is one of the companies that were inspected by officials of the European Commission in December 2013. The European Commission is looking into potential restrictions on online sales of consumer electronic products and small domestic appliances. Philips is fully cooperating with the European Commission. Philips financial position and results could be materially affected by an adverse final outcome of governmental investigations and litigation, as well as any potential related claims.

Philips global presence exposes the company to regional and local regulatory rules, changes to which may affect the realization of business opportunities and investments in the countries in which Philips operates.

Philips has established subsidiaries in over 80 countries. These subsidiaries are exposed to changes in governmental regulations and unfavorable political developments, which may affect the realization of business opportunities or impair Philips local investments. Philips increased focus on the healthcare sector increases its exposure to highly regulated markets, where obtaining clearances or approvals for new products is of great importance, and where there is

a dependency on the available funding for healthcare systems. In addition, changes in reimbursement policies may affect spending on healthcare.

Philips is exposed to non-compliance with General Business Principles.

Philips attempts to realize its growth ambitions could expose it to the risk of non-compliance with the Philips General Business Principles, such as anti-bribery provisions. This risk is heightened in growth geographies as the legal and regulatory environment is less developed in growth geographies compared to mature geographies. Examples include commission payments to third parties, remuneration payments to agents, distributors, consultants and the like, and the acceptance of gifts, which may be considered in some markets to be normal local business practice. (See also note 26, Contingent assets and liabilities.)

Defective internal controls would adversely affect our financial reporting and management process.

The reliability of reporting is important in ensuring that management decisions for steering the businesses and managing both top-line and bottom-line growth are based on top-quality data. Flaws in internal control systems could adversely affect the financial position and results and hamper expected growth.

The correctness of disclosures provides investors and other market professionals with significant information for a better understanding of Philips businesses. Imperfections or lack of clarity in the disclosures could create market uncertainty regarding the reliability of the data presented and could have a negative impact on the Philips share price.

The reliability of revenue and expenditure data is key for steering the business and for managing top-line and bottom-line growth. The long lifecycle of healthcare sales, from order acceptance to accepted installation, together with the complexity of the accounting rules for when revenue can be recognized in the accounts, presents a challenge in terms of ensuring there is consistency of application of the accounting rules throughout Philips Healthcare s global business.

Philips is exposed to non-compliance with data privacy and product safety laws.

Philips brand image and reputation would be adversely impacted by non-compliance with various data protection and product security laws. In light of Philips digital strategy, data privacy laws are increasingly important. Also, Philips Healthcare is subject to various (patient) data protection and safety laws. In Philips Healthcare, privacy and product safety and security issues may arise, especially with respect to remote access or monitoring of patient data or loss of data on our customers systems.

Philips operates in a highly regulated product safety and quality environment. Philips products are subject to regulation by various government agencies, including the FDA (US) and comparable foreign agencies. Obtaining their approval is costly and time consuming, but a prerequisite for market introduction. A delay or inability to obtain the necessary regulatory approvals for new products could have a material adverse effect on business. The risk exists that product safety incidents or user concerns could trigger FDA business reviews which, if failed, could lead to business interruption which in turn could adversely affect Philips financial condition and operating results. E.g. the voluntary, temporary suspension of new production at our Healthcare facility in Cleveland, Ohio targets to further strengthen manufacturing process controls after certain issues in this area were identified during an ongoing FDA inspection.

6.6 Financial risks

Philips is exposed to a variety of treasury risks and other financial risks including liquidity risk, currency risk, interest rate risk, commodity price risk, credit risk, country risk and other insurable risk.

Negative developments impacting the global liquidity markets could affect the ability of Philips to raise or re-finance debt in the capital markets or could lead to significant increases in the cost of such borrowing in the future. If the markets expect a downgrade or downgrades by the rating agencies or if such a downgrade has actually taken place, it could increase the cost of borrowing, reduce our potential investor base and adversely affect our business.

Philips is exposed to fluctuations in exchange rates, especially between the US dollar and the euro. A high percentage of its business volume is conducted in the US but based on exports from Europe, whilst, a considerable amount of US dollar denominated imports is also sold in Europe. A weakening of the US dollar versus the euro would have an adverse effect on reported earnings of the company. In addition, Philips is exposed to the fluctuation in exchange rates of other currencies such as the Japanese yen and currencies of growth geographies such as China, India and Brazil.

The credit risk of financial and non-financial counterparties with outstanding payment obligations creates exposures for Philips, particularly in relation to accounts receivable with customers and liquid assets and fair values of derivatives and insurance receivables contracts with financial counterparties. A default by counterparties in such transactions can have a material adverse effect on Philips financial condition and operating results.

Philips supply chain is exposed to fluctuations in energy and raw material prices. Commodities such as oil are subject to volatile markets and significant price increases from time to time. If Philips is not able to compensate for, or pass on, its increased costs to customers, such price increases could have an adverse impact on its financial condition and operating results.

Philips is exposed to interest rate risk, particularly in relation to its long-term debt position; this risk can take the form of either fair value or cash flow risk. Failure to effectively hedge this risk can impact Philips financial condition and operating results.

For further analysis, please refer to note 35, Details of treasury / other financial risks.

Philips is exposed to a number of different fiscal uncertainties which could have a significant impact on local tax results.

Philips is exposed to a number of different tax uncertainties which could result in double taxation, penalties and interest payments. These include transfer pricing uncertainties on internal cross-border deliveries of goods and services, tax uncertainties related to acquisitions and divestments, tax uncertainties related to the use of tax credits and permanent establishments, tax uncertainties due to losses carried forward and tax credits carried forward and potential changes in tax law that could result in higher tax expense and payments. Those uncertainties may have a significant impact on local tax, results which in turn could adversely affect Philips financial condition and operating results.

The value of the losses carried forward is subject to having sufficient taxable income available within the loss-carried-forward period, but also to having sufficient taxable income within the foreseeable future in the case of losses carried forward with an indefinite carry-forward period. The ultimate realization of the Company s deferred tax assets, including tax losses and credits carried forward, is dependent upon the generation of future taxable income in the countries where the temporary differences, unused tax losses and unused tax credits were incurred and during the periods in which the deferred tax assets become deductible. Additionally, in certain instances, realization of such deferred tax assets is dependent upon the successful execution of tax planning strategies. Accordingly, there can be no absolute assurance that all (net) tax losses and credits carried forward will be realized.

For further details, please refer to the fiscal risks paragraph in note 5, Income taxes.

Philips has defined-benefit pension plans in a number of countries. The funded status and the cost of maintaining these plans are influenced by movements in financial market and demographic developments, creating volatility in Philips financials.

A significant proportion of employees in Europe and North America is covered by defined-benefit pension plans. The accounting for defined-benefit pension plans requires management to make estimates on discount rates, inflation, longevity and expected rates of compensation. Movements (e.g. due to the movements of financial markets) in these assumptions can have a significant impact on the Defined Benefit Obligation and pension cost. A negative performance of the financial markets could have a material impact on cash funding requirements and pension costs and also affect the value of certain financial assets and liabilities of the company.

For further details, please see note 30, Post-employment benefits and note 36, Subsequent events.

Philips is exposed to a number of reporting risks.

A risk rating is assigned for each risk identified, based on the likelihood of occurrence and the potential impact of the risk on the financial statements and related disclosures. In determining the probability that a risk will result in a misstatement of a more than inconsequential amount or material nature, the following factors are considered to be critical: complexity of the associated accounting activity or transaction process, history of accounting and reporting errors, likelihood of significant (contingent) liabilities arising from activities, exposure to losses, existence of a related party transaction, volume of activity and homogeneity of the individual transactions processed and changes to the prior period in accounting characteristics compared to the previous period.

Important critical reporting risk areas identified within Philips following the risk assessment are:

- complex accounting for sales-related accruals, warranty provisions, tax assets and liabilities, pension benefits, and business combinations
- complex sales transactions relating to multi-element deliveries (combination of goods and services)
- valuation procedures with respect to assets (including goodwill and inventories)
- significant (contingent) liabilities such as environmental claims and other litigation
- outsourcing of high volume/homogeneous transactional finance and IT operations to third-party service providers
- employee post-retirement benefits (as described separately)

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7 Management

Koninklijke Philips N.V. is managed by an Executive Committee which comprises the members of the Board of Management and certain key officers from functions, businesses and markets.

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.

Under Dutch Law, the Board of Management is accountable for the actions and decisions of the Executive Committee and has ultimate responsibility for the management and external reporting of Koninklijke Philips N.V. and is answerable to shareholders at the Annual General Meeting of Shareholders. Pursuant to the two-tier corporate structure, the Board of Management is accountable for its performance to a separate and independent Supervisory Board.

The Rules of Procedure of the Board of Management and Executive Committee are published on the Company s website (www.philips.com/investor).

Corporate governance

A full description of the Company s corporate governance structure is published in chapter 10, Corporate governance, of this report.

Frans van Houten

President/Chief Executive Officer (CEO)

Chairman of the Board of Management since April 2011

Corporate responsibilities: Chairman of the Executive Committee, Internal

Audit, Information Technology, Supply Management, Marketing &

Communication, Accelerate! - Overall transformation, End2End

Born 1960, Dutch

Eric Coutinho

Executive Vice President, General Secretary & Chief Legal Officer

Corporate responsibilities: Legal, General Business Principles

Born 1951, Dutch

Ronald de Jong

Executive Vice President & Chief Market Leader

Corporate responsibilities: Markets, Areas & Countries (except Greater

China), Accelerate! - Customer Centricity

Born 1967, Dutch

Pieter Nota

Executive Vice President & Chief Executive Officer of Philips Consumer Lifestyle

Member of the Board of Management since April 2011

Corporate responsibilities: Sector Consumer Lifestyle, Accelerate! -

Resource to Win

Born 1964, Dutch

Carole Wainaina

Executive Vice President & Chief Human Resources Officer

Corporate responsibilities: Human Resource Management, Accelerate! -

Culture and change management

Born 1966, Kenyan

Jim Andrew

Executive Vice President & Chief Strategy and Innovation Officer

Corporate responsibilities: Strategy, Innovation, Design, Sustainability

Born 1962, American

Deborah DiSanzo

Executive Vice President & Chief Executive Officer of Philips Healthcare

Corporate responsibilities: Sector Healthcare

Born 1960, American

Patrick Kung

Executive Vice President & Chief Executive Officer Philips Greater China

Corporate responsibilities: Philips Greater China

Born 1951, American

Eric Rondolat

Executive Vice President & Chief Executive Officer Philips Lighting

Corporate responsibilities: Sector Lighting

Born 1966, Italian/French

Ron Wirahadiraksa

Executive Vice President & Chief Financial Officer (CFO)

Member of the Board of Management since April 2011

Corporate responsibilities: Finance, Mergers & Acquisitions, Accelerate! -

Operating Model

Born 1960, Dutch

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8 Supervisory Board

The Supervisory Board supervises the policies of the executive management and the general course of affairs of Koninklijke Philips N.V. and advises the executive management thereon. The Supervisory Board, in the two-tier corporate structure under Dutch law, is a separate and independent corporate body.

The Rules of Procedure of the Supervisory Board are published on the Company s website. For details on the activities of the Supervisory Board, see chapter 9, Supervisory Board report, of this report and section 10.2, Supervisory Board, of this report.

Jeroen van der Veer

Chairman

Chairman of Corporate Governance and Nomination & Selection Committee

Member of the Supervisory Board since 2009; second term expires in 2017

Former Chief Executive of Royal Dutch Shell and Chairman of the Supervisory Board of ING Group. Member of the Supervisory Board of Concertgebouw N.V.

Born 1947, Dutch** ***

Kees van Lede

Member of the Supervisory Board since 2003; third term expires in 2015

Former Chairman of the Board of Management of Akzo Nobel and currently Chairman of the Supervisory Board of Royal Imtech N.V. Member of the Supervisory Boards of AirFrance/KLM, Air Liquide and Senior Advisor JP Morgan Plc.

Born 1942, Dutch*

Heino von Prondzynski

Member of the Supervisory Board since 2007; second term expires in 2015

Former member of the Corporate Executive Committee of the F. Hofmann-La Roche Group and former CEO of Roche Diagnostics, currently Chairman of the Supervisory Board of HTL Strefa and Epigenomics AG. Member of the Supervisory Board of Hospira

Born 1949, German*

Jackson Tai

Chairman of Audit Committee

Member of the Supervisory Board since 2011; first term expires in 2015

Former Vice-Chairman and CEO of DBS Group and DBS Bank Ltd and former Managing Director at J.P. Morgan &Co. Incorporated. Currently a member of the Supervisory Boards of The Bank of China Limited, Singapore Airlines, MasterCard Incorporated and Eli Lilly and Company. Also Non-Executive Director of privately-held Russell Reynolds Associates and of Vapor Stream

Born 1950, American*

James Schiro

Vice-Chairman and Secretary; Chairman of the Remuneration Committee

Member of the Supervisory Board since 2005; third term expires in 2017

Former CEO of Zurich Financial Services and Chairman of the Group Management Board. Also serves on various boards of private and listed companies including Goldman Sachs as Lead Director and member of the audit committee, PepsiCo as member of the Supervisory Board and Reva Medical as member of the Supervisory Board. Senior Advisor CVC Capital Partners Ltd.

Born 1946, American** ***

Ewald Kist

Member of the Supervisory Board since 2004; third term expires in 2016

Former Chairman of the Executive Board of ING Group and currently member of the Supervisory Boards of DSM, Moody s Investor Service and Stage Entertainment

Born 1944, Dutch**

Christine Poon

Member of the Supervisory Board since 2009; second term expires in 2017

Former Vice-Chairman of Johnson & Johnson s Board of Directors and Worldwide Chairman of the Pharmaceuticals Group. Currently dean of Ohio State University s Fisher College of Business and member of the Board of Directors of Prudential and Regeneron

Born 1952, American** ***

Neelam Dhawan

Member of the Supervisory Board since 2012; first term expires in 2016

Currently Managing Director of Hewlett-Packard India

Born 1959, Indian*

* member of the Audit Committee

** member of the Remuneration Committee

*** member of the Corporate Governance and Nomination & Selection Committee

9 Supervisory Board report

Introduction

We as members of the Supervisory Board are fully committed to our role and responsibility in respect of the proper functioning of the corporate governance of Philips. The Supervisory Board supervises and advises the Board of Management and Executive Committee in performing their management tasks and setting the direction of the business of the Philips group. The Supervisory Board acts, and we as individual members of the Board act in the interests of Koninklijke Philips N.V., its business and all its stakeholders. This report includes a more specific description of the Supervisory Board s activities during the financial year 2013 and other relevant information on its functioning.

Activities of the Supervisory Board

The full scope and details of the discussions within the Supervisory Board are confidential, (inter alia) given the business sensitive nature of the matters discussed. Nevertheless, the overview below indicates a number of matters that we discussed during meetings throughout 2013:

- Philips performance and financial headroom
- Philips strategy and the new mid-term targets that were announced during the Capital Markets Day in September 2013. In particular, the Supervisory Board focused on the nature of the Group, the portfolio of approximately 40 businesses across various strategic domains, the company s geographic footprint and the roadmap to unlock the company s full potential over the coming years with emphasis on the Philips Business System
- Philips annual management commitment for 2013
- The review of the integration of large acquisitions
- The change in (the funding of) the pension obligations in the Netherlands
- Philips progression towards becoming a more digital company
- The enterprise risk management (which included the annual risk assessment and discussion of the changing nature of the risks faced by Philips and the possible impact of such risks). For instance, the Supervisory Board discussed the impact of changing macro-economic conditions and the risks posed by information security
- Quality and regulatory matters, and
- The divestment of the Audio, Video, Multimedia and Accessories business (including the termination of the Funai agreement).

The Supervisory Board conducted so-called deep dives on a range of topics, such as: the strategy of Consumer Lifestyle; the operations of the Lighting Sector in North America and reviews of the company s activities in Latin America.

The Supervisory Board also conducted a number of reviews of the company s operations in markets, including in China, Middle-East and Turkey, and Africa. Moreover, the North American Market (including the activities of the Sectors and key functions in that geography) was discussed by the Supervisory Board and we provided feedback on the new brand identity, which was launched in November 2013. Additionally, we received updates on sustainability and the share buy-back program and the impact of currency headwinds.

On multiple occasions, we were briefed on the various aspects of the Accelerate! program, This included the transformation of the Finance and IT functions and also the progress made in transforming the culture within Philips and simplifying its operating model.

The Supervisory Board also reviewed Philips annual and interim financial statements, including non-financial information, prior to publication thereof.

Supervisory Board meetings and attendance

In 2013, the Supervisory Board convened for seven regular meetings. Moreover, we collectively and individually interacted with members of the Executive Committee and with senior management outside the formal Supervisory Board meetings. The Chairman of the Supervisory Board and the CEO met regularly for bilateral discussions about the progress of the company on a variety of matters.

The Supervisory Board meetings were well attended in 2013. The attendance percentage of the meetings - including the committee meetings - was high (in excess of 95%). The Supervisory Board committees also convened regularly (see the separate reports of the committees below) and all of the committees regularly reported back on their activities to the full Supervisory

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9 Supervisory Board report 9 - 9

Board. We as members of the Board devoted sufficient time to engage (proactively if the circumstances so required) in our supervisory responsibilities.

Composition, diversity and self-evaluation by the Supervisory Board

The Supervisory Board is a separate corporate body that is independent of the Board of Management (and the Executive Committee). Its independence is also reflected in the requirement that members of the Supervisory Board can neither be a member of the Board of Management, member of the Executive Committee nor an employee of Philips. The Supervisory Board furthermore considers all its members to be independent pursuant to the Dutch Corporate Governance Code. We will continue to pay close attention to applicable independence criteria.

The Supervisory Board currently consists of eight members. The agenda for the upcoming 2014 Annual General Meeting of Shareholders includes the proposal to appoint Ms. Orit Gadiesh as an additional member to the Supervisory Board, bringing the total to nine members.

The profile of the Supervisory Board aims for an appropriate combination of knowledge and experience among its members encompassing marketing, manufacturing, technology, financial, economic, social and legal aspects of international business, government and public administration in relation to the global and multi-product character of Philips businesses. The Supervisory Board pays great value to diversity in its composition. More particular it aims for having members with an European and a non- European background (nationality, working experience or otherwise) and one or more members with an executive or similar position in business or society no longer than five years ago.

In addition, we support the Philips policy to appoint a well-balanced mix of women and men to its Board of Management, Executive Committee and Supervisory Board. New Dutch legislation, effective per January 1, 2013, requires companies to pursue a policy of having at least 30% of the seats on the Board of Management and the Supervisory Board held by women and at least 30% of the seats held by men.

We believe we are making good progress in implementing this policy. The appointment of Orit Gadiesh, as currently proposed to the General Meeting of Shareholders, will bring the Supervisory Board s gender diversity within the statutory criteria. There were no other vacancies to fulfil in 2013. In addition, we note that there may be various other pragmatic reasons such as the other relevant selection criteria and the availability of suitable candidates within Philips that could play a complicating role in fully achieving the gender targets in the short term.

In 2013, the members of the Supervisory Board completed a questionnaire to verify compliance in 2013 with applicable corporate governance rules and its Rules of Procedure. The outcome of this survey was satisfactory.

In addition, we each submitted to the Chairman responses to a questionnaire designed to self-evaluate the functioning of the Supervisory Board. The questionnaire covered topics such as the composition and competence of the Supervisory Board (for example, the Board s size and the education and training requirements of its members), access to information, the frequency and quality of the meetings, quality and timeliness of the meeting materials, the nature of the topics discussed during meetings and the functioning of the Supervisory Board s committees.

The responses to the questionnaire were aggregated into a report, which was discussed by the Supervisory Board in a private meeting. Certain areas were identified that could be improved and it was decided that the Chairman would follow-up with individual members to address specific issues. Summarizing, the responses provided by the Supervisory Board members indicated that the Board is a well-functioning team and we believe a diversity of experience and skills is presented on the Board. The functioning of the Supervisory Board committees was considered to be commendable (or better) and specific feedback will be addressed by the chairman of each committee with its members. The evaluation lead to certain practical steps to improve the accessibility of the large quantity of materials provided to Supervisory Board members.

In 2013, the use of an external evaluator to measure the functioning of the Supervisory Board was considered; however, it was decided to continue self-evaluation for the time being. We will reconsider the use of an external evaluator as circumstances require.

Supervisory Board committees

The Supervisory Board has assigned certain of its tasks to three permanent committees: the Corporate Governance and Nomination & Selection Committee, the Remuneration Committee and the Audit

Committee. The function of the committees is to prepare the decision-making of the full Supervisory Board, and the committees currently have no independent or assigned powers. The full Board retains overall responsibility for the activities of its committees. The separate reports of the committees are part of this Supervisory Board report and are published below.

Financial Statements 2013

The financial statements of the company for 2013, as presented by the Board of Management, have been audited by KPMG Accountants N.V. as independent external auditor appointed by the General Meeting of Shareholders. Its reports have been included in the section Group financial statements; section 11.10, Independent auditor s report - Group and the section Company financial statement; section 12.5, Independent auditor s report - Company, of this report. We have approved these financial statements, and all individual members of the Supervisory Board (together with the members of the Board of Management) have signed these documents.

We recommend to shareholders that they adopt the 2013 financial statements. We likewise recommend to shareholders that they adopt the proposal of the Board of Management to make a distribution of EUR 0.80 per common share (up to EUR 740 million), in cash or in shares at the option of the shareholder, against the net income for 2013.

Finally, we would like to express our thanks to the members of the Executive Committee and all other employees for their continued contribution during the year. In particular, we would like to express our sincere appreciation to Eric Coutinho, our Chief Legal Officer and General Secretary, who will retire in 2014. We wish him all the best for the future.

February 25, 2014

The Supervisory Board

Jeroen van der Veer

Kees van Lede

Heino von Prondzynski

Jackson Tai

James Schiro

Ewald Kist

Christine Poon

Neelam Dhawan

Further information

For a better understanding of the responsibilities of the Supervisory Board and for internal regulations and procedures for its functioning and that of its committees, please refer to chapter 10, Corporate governance, of this report and to the following documents published on the company s website:

- Articles of Association

Rules of Procedure Supervisory Board, including the Charters of the Board committees

Rules of Conduct with respect to Inside Information

(Re)appointment scheme

Changes Supervisory Board and committees 2013

Christine Poon, James Schiro and Jeroen van der Veer have been reappointed as a member of the Supervisory Board.

Changes and reappointments Supervisory Board 2014

It is proposed to appoint Orit Gadiesh as a member of the Supervisory Board.*

* Subject to approval of appointment by the General Meeting of Shareholders.

Changes Management 2014

Eric Coutinho, Chief Legal Officer and General Secretary will retire on April 30, 2014. He will be succeeded by Marnix van Ginneken (currently Philips Head of Group Legal).

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9.1 Report of the Corporate Governance and Nomination & Selection Committee

The Corporate Governance and Nomination & Selection Committee is chaired by Jeroen van der Veer and its other members are James Schiro and Christine Poon.

The Committee is responsible for the review of selection criteria and appointment procedures for the Board of Management, the Executive Committee, as well as the Supervisory Board.

In 2013, the Committee consulted with the CEO and other members of the Board of Management on the appointment or reappointment of candidates to fill current and future vacancies on the Board of Management, Executive Committee and Supervisory Board. Following which it prepared decisions and advised the Supervisory Board on the candidates for appointment.

The Committee devoted specific attention to identifying a suitable candidate matching the profile of the Supervisory Board. Subsequently, the Nomination & Selection Committee reviewed and approved the nomination of Orit Gadiesh as member of the Supervisory Board, who was selected from a shortlist of suitable candidates. The Committee also devoted specific attention to succession planning for Executive Committee members.

As indicated in its report above, the Supervisory Board believes it is making good progress in implementing a policy of gender diversity. The Committee strives to continue this trend and give appropriate weight to the diversity policy in the nomination and appointment process on future vacancies, while taking into account the overall profile and selection criteria for appointments of suitable candidates to the Board of Management, Executive Committee and Supervisory Board.

Under its responsibility for the selection criteria and appointment procedures for Philips senior management, the Committee reviewed the succession plans for top 70 positions and emergency candidates for key roles in the company.

With respect to corporate governance matters, the Committee discussed relevant developments and legislative changes. The Committee notes a number of important legislative changes to Dutch corporate law came into effect in 2013 and 2014. In addition there were changes to Dutch accountancy law, new rules on inquiry proceedings and an amendment to the European Transparency Directive. These legislative developments and other developments were discussed by the Committee, as well as their potential impact on the company s governance. Finally, the Committee discussed possible agenda items for the upcoming 2014 Annual General Meeting of Shareholders.

9.2 Report of the Remuneration Committee

Introduction

The Remuneration Committee is chaired by James Schiro and its other members are Jeroen van der Veer, Ewald Kist and Christine Poon. The Committee is responsible for preparing decisions of the Supervisory Board on the remuneration of individual members of the Board of Management and the Executive Committee. In performing its duties and responsibilities the Remuneration Committee is assisted by an external consultant and in-house remuneration expert acting on the basis of a protocol which ensures that he acts on the instructions of the Remuneration Committee. Currently, no member of the Remuneration Committee is a member of the management board of another listed company. In line with applicable statutory and other regulations this report focuses on the employment and remuneration of the members of the Board of Management.

9.2.1 Remuneration policy

The objective of the remuneration policy for members of the Board of Management, as adopted by the General Meeting of Shareholders, is in line with that for executives throughout the Philips Group: to attract, motivate and retain qualified senior executives of the highest caliber, with an international mindset and background essential for the successful leadership and effective management of a large global company. The Board of Management remuneration policy is benchmarked regularly against companies in the general industry and aims at the median market position.

One of the goals behind the policy is to focus on improving the performance of the company and enhancing the value of the Philips Group. Consequently, the remuneration package includes a variable part in the form of an annual cash incentive and a long-term incentive consisting of performance shares. The policy does not encourage inappropriate risk-taking.

The performance targets for the members of the Board of Management are determined annually at the beginning of the year. The Supervisory Board determines whether performance conditions have been met and can adjust the pay-out of the annual cash incentive and the long-term incentive grant upward or downward if the predetermined performance criteria were to produce an inappropriate result in extraordinary circumstances. The authority for such adjustments exists on the basis of contractual ultimum remedium- and claw back clauses. In addition, pursuant to new Dutch legislation effective January 1, 2014, incentives may under circumstances be amended or clawed back pursuant to statutory powers. For more information please refer to chapter 10, Corporate governance, of this report. Further information on the performance targets is given in the chapters on the Annual Incentive and the Long-Term Incentive Plan respectively.

9.2.2 Contracts

The main elements of the contracts of the members of the Board of Management are made public no later than the date of the notice convening the General Meeting of Shareholders at which the appointment of the member of the Board of Management will be proposed.

Term of appointment

The members of the Board of Management are appointed for a period of 4 years.

Contract terms for current members

	end of term
F.A. van Houten	March 31, 2015
R.H. Wirahadiraksa	March 31, 2015
P.A.J. Nota	March 31, 2015

Notice period

Termination of the contract by a member of the Board of Management is subject to three months notice. A notice period of six months will be applicable in the case of termination by the Company.

Severance payment

The severance payment is set at a maximum of one year s salary.

Share ownership

Simultaneously with the introduction of the new LTI Plan in 2013, the guideline for members of the Board of Management to hold a certain number of shares in the company has been increased to the level of at least

200% of base pay (the CEO 300%). Until this level has been reached the members of the Board of Management are required to retain all after-tax shares derived from any long-term incentive plan.

9.2.3 Scenario analysis

The Remuneration Committee annually conducts scenario analysis. This includes the calculation of remuneration under different scenarios, whereby different Philips performance assumptions and corporate actions are looked at. The Supervisory Board concluded that the current policy has proven to function well in terms of a relationship between the strategic objectives and the chosen performance criteria and believe that new Long-Term Incentive Plan has further improved this relationship.

9.2.4 Remuneration costs

The table below gives an overview of the costs incurred by the Company in the financial year in relation to the remuneration of the Board of Management. Costs related to performance shares, stock option and restricted share right grants are taken by the Company over a number of years. As a consequence, the costs mentioned below in the columns stock options and restricted share rights are the accounting cost of multi-year grants given to members of the Board of Management during their board membership.

Remuneration Board of Management 2013[1)]

in euros

					Costs in the year[2)]			
	annual base salary[3)]	base salary	realized annual incentive	performance shares	stock options	restricted share rights	pension costs	other compensation
F.A. van Houten	1,100,000	1,100,000	1,081,520	402,275	218,682	190,441	468,407	75,906
R.H. Wirahadiraksa	675,000	656,250	497,745	205,713	137,926	128,856	263,451	35,732
P.A.J. Nota	625,000	618,750	561,713	190,473	182,835	146,626	253,605	68,206

1) Reference date for board membership is December 31, 2013
2) A crisis tax levy of 16% as imposed by the Dutch government amounts to EUR 681,596 in total. This crisis tax levy is payable by the employer and is charged over income of employees exceeding a EUR 150,000 threshold in 2013. These expenses do not form part of the remuneration costs mentioned. The costs for the once-only Accelerate! Grant are not included in the table above. See the table below
3) Salary as of April 1, 2013

Accelerate! Grant

The members of the Board of Management received a special once-only performance grant related to the realization of the Accelerate! program and the mid- term targets of the company (CSG CAGR, Adjusted IFO and ROIC). This grant consists of performance shares and performance options. The costs related to the Accelerate! Grant to the members of the Board of Management have been fully taken in the financial year 2013. Around 450 other key employees received a similar performance grant.

Accelerate! Grant

	number of performance shares	number of performance stock options	Costs in euros
F.A. van Houten	55,000	55,000	1,434,933

R.H. Wirahadiraksa	38,500	38,500	1,004,453
P.A.J. Nota	38,500	38,500	1,004,453

9.2.5 Base salary

The base salaries of the members of the Board of Management have been reviewed in April 2013 as part of the regular remuneration review. The salary of Frans van Houten has not been increased per April 1, 2013 and remained at EUR 1,100,000. The salary of Pieter Nota has been increased from EUR 600,000 to EUR 625,000 and the salary of the CFO, Ron Wirahadiraksa, has been increased from EUR 600,000 to EUR 675,000 to bring it closer to market level.

9.2.6 Annual Incentive

Each year, a variable cash incentive (Annual Incentive) can be earned, based on the achievement of specific and challenging targets. The Annual Incentive criteria are for 80% the financial indicators of the Company and for 20% the team targets comprising, among others, sustainability targets as part of our EcoVision program.

The on-target Annual Incentive percentage is set at 60% of the base salary for members of the Board of Management and 80% of the base salary for the CEO, and the maximum Annual Incentive achievable is 120% of the annual base salary for members of the Board of Management and for the CEO it is 160% of the annual base salary.

To support the performance culture, the Annual Incentive plan is based on (financial) targets at own level and group level results (line-of-sight). The 2013 realization is a reflection of above target performance on Adjusted IFO, ROIC and Team Targets and a below target realization on CSG, resulting in the pay-out as presented in the table below.

Annual Incentive realization 2013 (pay-out in 2014)

in euros

	realized annual incentive	as a % of base salary (2013)
F.A. van Houten	1,081,520	98.3%
R.H. Wirahadiraksa	497,745	73.7%
P.A.J. Nota	561,713	89.9%

9.2.7 Long-Term Incentive Plan

In 2013 a new LTI Plan has been introduced. The new plan consists of performance shares only.

Grant size

The annual grant size is set by reference to a multiple of base salary. For the CEO the annual grant size is set at 120% of base salary and for the other members of the Board of Management at 100% of base salary. This is at a mid-market level against leading European listed companies. The actual number of performance shares to be awarded is determined by reference to the average of the closing price of the Philips share on the day of publication of the quarterly results and the four subsequent dealing days.

Vesting schedule

Dependent upon the achievement of the performance conditions cliff-vesting applies three years after the date of grant. During the vesting period, the value of dividends will be added to the performance shares in the form of shares. These dividend equivalent shares will only be delivered to the extent that the award actually vests.

Performance conditions

Vesting of the performance shares is based on two equally weighted performance conditions:

- 50% Adjusted Earnings per Share growth (EPS) and

- 50% Relative Total Shareholder Return (TSR)

EPS

EPS growth is calculated applying the simple point-to-point method at year end. Earnings are the income from continued operations attributable to shareholders as reported in the Annual Report.

The following performance incentive-zone applies for EPS:

Performance incentive-zone for EPS

	Below threshold	Threshold	Target	Maximum
Pay-out in %	0	40	100	200

The EPS targets are annually set by the Supervisory Board. Given the fact that these targets are considered to be company sensitive disclosure will take place retrospectively at the end of the performance period. EPS targets and the achieved performance are published in the annual report after the relevant performance period.

TSR

The TSR peer group for the new plan consists of the following 21 companies:

ABB	Hitachi	Panasonic
Covidien	Honeywell Int.	Procter & Gamble
Danaher	Johnson Controls	Schneider Electric
Eaton	Johnson & Johnson	Siemens
Electrolux	Legrand	Toshiba
Emerson Electric	LG Electronics	Smiths Group
General Electric	Medtronic	3M

A ranking approach to TSR applies with Philips itself excluded from the peer group to permit interpolation.

The performance incentive-zone is outlined in the table below:

Performance incentive-zone for TSR

Position	**³14 -21**	**³13**	**³12**	**³11**	**³10**	**³9**	**³8**	**³7**	**³6 -1**
Pay-out in %	0	60	60	100	120	140	160	180	200

Under the new LTI Plan members of the Board of Management were granted 124,171 performance shares in 2013.

The following tables provide an overview of granted but not yet vested (locked up) stock option grants, an overview of performance shares granted but not yet vested and an overview of restricted share rights granted but not yet released. The reference date for board membership is December 31, 2013. The Accelerate! Grant is reported separately under sub-section 9.2.4, Remuneration costs, of this report.

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Performance shares[1)]

in euros

	grant date	originally granted number of performance shares	value at grant date	end of vesting period	number of performance shares vested in 2013	value at vesting date in 2013
F.A. van Houten	2013	62,559	1,320,000	2016	n.a.	n.a.
R.H. Wirahadiraksa	2013	31,991	675,000	2016	n.a.	n.a.
P.A.J. Nota	2013	29,621	625,000	2016	n.a.	n.a.

1) Accelerate! Grant reported separately. Dividend performance shares resulting from the new LTI Plan not included

Stock options[2)]

in euros

	grant date	number of stock options	value at grant date	end of lock up period	value at end of lock up period[3)]
F.A. van Houten	2010	20,400[1)]	103,428	2013	86,429
	2011	75,000	366,000	2014	n.a.
	2012	75,000	212,550	2015	n.a.
R.H. Wirahadiraksa	2010	16,500[1)]	81,675	2013	36,290
	2011	51,000	248,880	2014	n.a.
	2012	51,000	144,534	2015	n.a.
P.A.J. Nota	2010	40,800[1)]	206,856	2013	172,857
	2011	51,000	248,880	2014	n.a.
	2012	51,000	144,534	2015	n.a.

1) Awarded before date of appointment as a member of the Board of Management

2) Accelerate! Grant reported separately

3) Value at end of lock up period based on Black & Scholes value

Restricted share rights

in euros

	grant date	originally granted number of restricted share rights	value at grant date	number of restricted share rights released in 2013	value at release date in 2013
F.A. van Houten	2010	5,100[1)]	116,688	1,700	41,497
	2011	20,001	418,021	6,667	145,607

	2012	20,001	296,415	6,667	136,807
R.H. Wirahadiraksa	2010	4,125[1)]	102,713	1,375	30,113
	2011	13,602	284,282	4,534	99,023
	2012	13,602	201,582	4,534	93,038
P.A.J. Nota	2010	10,200[1)]	233,376	3,400	82,994
	2011	13,602	284,282	4,534	99,023
	2012	13,602	201,582	4,534	93,038

1) Awarded before date of appointment as a member of the Board of Management

For more details of the LTI Plan, see note 31, Share-based compensation.

9.2.8 Pensions

Members of the Board of Management participate in the Executives Pension Plan in the Netherlands consisting of a combination of a defined-benefit (career average) and defined-contribution plan. The target retirement age under the plan is 62.5. The plan does not require employee contributions. For more details, see note 33, Information on remuneration.

9.2.9 Additional arrangements

In addition to the main conditions of employment, a number of additional arrangements apply to members of the Board of Management. These additional arrangements, such as expense and relocation allowances, medical insurance, accident insurance and company car arrangements, are in line with those for Philips executives in the Netherlands. In the event of disablement, members of the Board of Management are entitled to benefits in line with those for other Philips executives in the Netherlands.

Unless the law provides otherwise, the members of the Board of Management and of the Supervisory Board shall be reimbursed by the Company for various costs and expenses, like reasonable costs of defending claims, as formalized in the articles of association. Under certain circumstances, described in the articles of association, such as an act or failure to act by a member of the Board of Management or a member of the Supervisory Board that can be characterized as intentional (*opzettelijk*), intentionally reckless (*bewust roekeloos*) or seriously culpable (*ernstig verwijtbaar*), there will be no entitlement to this reimbursement. The Company has also taken out liability insurance (D&O Directors & Officers) for the persons concerned.

9.2.10 Remuneration Supervisory Board

The table below gives an overview of the remuneration structure, which has remained unchanged since 2008.

Remuneration 2013[1)]

in euros per year

	Chairman	Member
Supervisory Board	110,000	65,000
Audit Committee	15,000	10,000
Remuneration Committee	12,500	8,000
Corporate Governance and Nomination & Selection Committee	12,500	6,000
Fee for intercontinental traveling per trip	3,000	3,000
Entitlement Philips product arrangement	2,000	2,000

1) For more details, see note 33, Information on remuneration

9.2.11 Year 2014

Accelerate! Grant

Based on the 2013 financial performance on CSG CAGR, Adjusted IFO and ROIC, the Supervisory Board concluded in her January 2014 meeting that all the performance conditions exceed the mid-term targets as announced in 2011. As a consequence the total number of shares and options under the Accelerate! Grant, as these were originally granted in January 2013, became unconditional. On January 28, 2014 the shares (after tax) have been delivered to the members of the Board of Management. With respect to these shares a holding period until January 29, 2018 applies. The options can be exercised during the period January 29, 2016 - January 29, 2023.

Pensions

In view of upcoming legislation in the Netherlands, the pension arrangements will be reviewed in the course of 2014.

9.3 Report of the Audit Committee

The Audit Committee is chaired by Jackson Tai, and its other members are Neelam Dhawan, Kees van Lede and Heino von Prondzynski. The Committee assists the Supervisory Board in fulfilling its supervisory responsibilities for (inter alia) the integrity of the company s financial statements.

The Audit Committee met for four quarterly meetings and two education and training sessions during 2013 and reported its findings to the plenary Supervisory Board. The CEO, the CFO, the Head of Internal Audit, the Group Controller and the external auditor (KPMG Accountants N.V.) attended all regular meetings. Furthermore, the Committee met each quarter separately with each of the CEO, the CFO, the Head of Internal Audit and the external auditor as well as on an ad hoc basis with other company employees, such as the Group Treasurer, the Group Controller and Head of Financial Risk and Pensions Management.

The overview below indicates certain of the matters that were discussed during meetings throughout 2013:

The company s 2013 annual and interim financial statements, including non-financial information, prior to publication thereof. It also assessed in its quarterly meetings the adequacy and appropriateness of internal control policies and internal audit programs and their findings.

Matters relating to accounting policies, financial risks and compliance with accounting standards. Compliance with statutory and legal requirements and regulations, particularly in the financial domain, was also reviewed. Important findings, Philips major areas of risk (including the internal auditor s reporting thereon, and the General Counsel s review of litigation and other claims) and follow-up action and appropriate measures were examined thoroughly.

Specifically, the Committee reviewed the company s pension liabilities and its program to de-risk future pension liabilities and related economic, accounting and legal implications. The Committee reviewed the company s cash flow generation, liquidity and headroom throughout the year to undertake its financial commitments, including the company s share repurchase program and payment of dividends, The Committee also reviewed the goodwill impairment test performed in the second quarter, risk management, tax issues, IT strategy and transformation (including information security) and remediation of IT related internal control findings, the company s finance transformation, developments in regulatory investigations as well as legal proceedings including antitrust investigations and related provisions, environmental exposures and financing and performance of financial holdings and recent acquisitions and new Dutch legislation on mandatory auditor rotation and prohibition on non-audit services.

With regard to the internal audit, the Committee reviewed, and if required approved, the internal audit charter, audit plan, audit scope and its coverage in relation to the scope of the external audit, as well as the staffing, independence and organizational structure of the internal audit function. The Committee also reviewed and approved the appointment of a new Head of Internal Audit following the rotational reassignment of the previous incumbent.

With regard to the external audit, the Committee reviewed the proposed audit scope, approach and fees, the independence of the external auditor, non-audit services provided by the external auditor in conformity with the Philips Auditor Policy, as well as any changes to this policy. The Committee also reviewed the External Auditor s independence as well as its professional fitness and good standing. For information on the fees of KPMG Accountants N.V., please refer to the table Fees KPMG in note 3, Income from operations.

The company s policy on business controls, the General Business Principles including the deployment thereof and amendments thereto. The Committee was informed on, discussed and monitored closely the company s internal control certification processes, in particular compliance with section 404 of the US Sarbanes-Oxley Act and its requirements regarding assessment, review and monitoring of internal controls.

On January 1, 2016, the new legislation on mandatory auditor rotation will become effective, which has also been reflected in the Auditor Policy amended as per January 1, 2013 (please refer to chapter 10, Corporate governance, of this report for more information). Under the new rotation rules, Philips must engage a new audit firm for its statutory audit for the financial year starting January 1, 2016. The Committee has been involved in the process of selecting a new auditor and will continue to be involved in the final selection in 2014 of such future auditor, subject to appointment by the 2015 Annual General Meeting of Shareholders.

During each Audit Committee meeting, the Committee reviewed the report from the external auditor in which the auditor set forth its findings and attention points during the relevant period. The Committee also assesses the overall performance of the external auditor, as required by the Auditor Policy. Please refer to the agenda and explanatory notes thereto for the upcoming 2014 Annual General Meeting of Shareholders for more information on the proposed re-appointment, for one additional year, of the external auditor.

Finally, the Audit Committee also participated in a number of education sessions during 2013, including education on pensions and proposed changes to the IFRS accounting standards.

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10 Corporate governance

Corporate governance of the Philips group - Introduction

Koninklijke Philips N.V., a company organized under Dutch law (the Company), is the parent company of the Philips Group (Philips or the Group). The Company, which started as a limited partnership with the name Philips & Co in Eindhoven, the Netherlands, in 1891, was converted into the company with limited liability N.V. Philips Gloeilampenfabrieken on September 11, 1912. The Company s name was changed to Philips Electronics N.V. on May 6, 1994, to Koninklijke Philips Electronics N.V. on April 1, 1998, and to Koninklijke Philips N.V. on May 3, 2013. Its shares have been listed on the Amsterdam Stock Exchange, Euronext Amsterdam, since 1912. The shares have been traded in the United States since 1962 and have been listed on the New York Stock Exchange since 1987.

Over the last decades the Company has pursued a consistent policy to improve its corporate governance in line with Dutch, US and international (codes of) best practices. The Company has incorporated a fair disclosure practice in its investor relations policy, has strengthened the accountability of its executive management and its independent supervisory directors, and has increased the rights and powers of shareholders and the communication with investors. The Company is required to comply with, inter alia, Dutch Corporate Governance rules, the US Sarbanes-Oxley Act, other US securities laws and related regulations (including applicable stock exchange rules), insofar as applicable to the Company. A summary of significant differences between the Company s corporate governance practice and the New York Stock Exchange corporate governance standards is published on the Company s website (www.philips.com/investor).

In this report, the Company addresses its overall corporate governance structure and states to what extent and how it applies the principles and best practice provisions of the Dutch Corporate Governance Code (as revised on December 10, 2008; the Dutch Corporate Governance Code). This report also includes the information which the Company is required to disclose pursuant to the Dutch governmental decree on Article 10 Takeover Directive and the governmental decree on Corporate Governance. Deviations from aspects of the corporate governance structure of the Company, when deemed necessary in the interests of the Company, will be disclosed in the Annual Report. Substantial changes in the Company s corporate governance structure and in the Company s compliance with the Dutch Corporate Governance Code, if any, will be submitted to the General Meeting of Shareholders for discussion under a separate agenda item. The Supervisory Board and the Board of Management, which are responsible for the corporate governance structure of the Company, are of the opinion that the principles and best practice provisions of the Dutch Corporate Governance Code that are addressed to the Board of Management and the Supervisory Board, interpreted and implemented in line with the best practices followed by the Company, are being applied.

10.1 Board of Management

Introduction

The Board of Management is entrusted with the management of the Company. Certain key officers have been appointed to manage the Company together with the Board of Management. The members of the Board of Management and these key officers together constitute the Executive Committee (the Executive Committee). Under the chairmanship of the President/Chief Executive Officer (CEO) the members of the Executive Committee share responsibility for the deployment of its strategy and policies, and the achievement of its objectives and results. The Executive Committee has, for practical purposes, adopted a division of responsibilities indicating the functional and business areas monitored and reviewed by the individual members. For the purpose of this document, where the Executive Committee is mentioned this also includes the Board of Management unless the context requires otherwise.

The Board of Management remains accountable for the actions and decisions of the Executive Committee and has ultimate responsibility for the Company s management and the external reporting and is answerable to shareholders of the Company at the Annual General Meeting of Shareholders.

All resolutions of the Executive Committee are adopted by majority vote comprising the majority of the members of the Board of Management present or represented, such majority comprising the vote of the CEO. The Board of Management retains the authority to, at all times and in all circumstances, adopt resolutions without the participation of the other members of the Executive Committee. In discharging its duties, the Executive Committee shall be guided by the interests of the Company and its affiliated enterprise, taking into consideration the interests of the Company s stakeholders.

The Executive Committee is supervised by the Supervisory Board and provides the latter with all information the Supervisory Board needs to fulfill its own responsibilities. Major decisions of the Board of Management and Executive Committee require the approval of the Supervisory Board; these include decisions concerning (a) the operational and financial objectives of the Company, (b) the strategy designed to achieve the objectives, (c) if necessary, the parameters to be applied in relation to the strategy and (d) corporate social responsibility issues that are relevant to the Company.

The Executive Committee follows the Rules of Procedure of the Board of Management and Executive Committee, which set forth procedures for meetings, resolutions and minutes. These Rules of Procedure are published on the Company s website.

(Term of) Appointment and conflicts of interests

Members of the Board of Management as well as the CEO are appointed by the General Meeting of Shareholders upon a binding recommendation drawn up by the Supervisory Board after consultation with the CEO. This binding recommendation may be overruled by a resolution of the General Meeting of Shareholders adopted by a simple majority of the votes cast and representing at least one-third of the issued share capital. If a simple majority of the votes cast is in favor of the resolution to overrule the binding recommendation, but such majority does not represent at least one-third of the issued share capital, a new meeting may be convened at which the resolution may be passed by a simple majority of the votes cast, regardless of the portion of the issued share capital represented by such majority. In the event a binding recommendation has been overruled, a new binding recommendation shall be submitted to the General Meeting of Shareholders. If such second binding recommendation has been overruled, the General Meeting of Shareholders shall be free to appoint a board member.

Members of the Board of Management and the CEO are appointed for a term of four years, it being understood that this term expires at the end of the General Meeting of Shareholders to be held in the fourth year after the year of their appointment. Reappointment is possible for consecutive terms of four years or, if applicable, until a later retirement date or other contractual termination date in the fourth year, unless the General Meeting of Shareholders resolves otherwise. Members may be suspended by the Supervisory Board and the General Meeting of Shareholders and dismissed by the latter. Individual data on the members of the Board of Management and Executive Committee are published in chapter 7, Management, of this report.

The other members of the Executive Committee are appointed, suspended and dismissed by the CEO, subject to approval by the Supervisory Board.

The acceptance by a member of the Board of Management of a position as a member of a supervisory board or a position of non-executive director in a one-tier board (a Non-Executive Directorship) at another company requires the approval of the Supervisory Board. The Supervisory Board is required to be notified of other important positions (to be) held by a member of the Board of Management. Under the Dutch Corporate Governance Code, no member of the Board of Management shall hold more than two Non-Executive Directorships at listed companies, or is a chairman of a supervisory board or one-tier board, other than of a Group company or participating interest of the Company. New Dutch legislation, effective January 1, 2013, provides for further limitations on the Non-Executive Directorships. No member of the Board of Management shall hold more than two Non-Executive Directorships at large companies (*naamloze vennootschappen* or *besloten vennootschappen*) or large foundations (*stichtingen*) as defined under Dutch law and no member of the Board of Management shall hold the position of chairman of another one-tier board or the position of chairman of another supervisory board. In order for a company or foundation to be regarded as large, it must meet at least two of the following criteria: (i) the value of the assets according to the balance sheet with explanatory notes, considering the acquisition or manufacturing price, exceeds EUR 17.5 million; (ii) the net turnover exceeds EUR 35 million; or (iii) the average number of employees equals or exceeds 250. During the financial year 2013 all members of the Board of Management complied with the limitations on Non-Executive Directorships described above.

Pursuant to new Dutch legislation on board diversity, effective January 1, 2013, the Company must pursue a policy of having at least 30% of the seats on the Board of Management held by men and at least 30% of the seats held by women. The rule will cease to have effect on January 1, 2016. For more details on board diversity please be referred to the Report of Corporate Governance and Nomination & Selection Committee in this Annual Report.

New Dutch legislation on conflicts of interests, effective January 1, 2013, provides that a member of the Board of Management may not participate in the adoption of resolutions if he or she has a direct or indirect personal conflict of interest with the Company or related enterprise. If all members of the Board of Management have a conflict, the resolution concerned will be adopted by the Supervisory Board. The Company s corporate governance includes rules to specify situations in which a (potential) conflict may exist, to avoid (potential) conflicts of interests as much as possible, and to deal with such conflicts should they arise. The rules on conflicts of interests apply to the other members of the Executive Committee correspondingly.

Relevant matters relating to conflicts of interests, if any, shall be mentioned in the Annual Report for the financial year in question. No such matters have occurred during the financial year 2013.

Amount and composition of the remuneration of the Board of Management

The remuneration of the individual members of the Board of Management is determined by the Supervisory Board on the proposal of the Remuneration Committee of the Supervisory Board, and must be consistent with the policy thereon as adopted by the General Meeting of Shareholders. The current remuneration policy applicable to the Board of Management was adopted by the 2013 General Meeting of Shareholders, and is published on the Company s website. A full and detailed description of the composition of the remuneration of the individual members of the Board of Management is included in chapter 9, Supervisory Board report, of this report.

Pursuant to new Dutch legislation, effective January 1, 2014, the remuneration of the members of the Board of Management and the Supervisory Board must be included as a separate agenda item in the convening notice for a general meeting of shareholders and must be dealt with before the meeting can proceed to consider and adopt the Annual Accounts.

The remuneration structure of the Company, including severance pay, is such that it promotes the interests of the Company in the medium and long-term, does not encourage members of the Board of Management to act in their own interests and neglect the interests of the Company, and does not reward failing members of the Board of Management upon termination of their employment. The level and structure of remuneration shall be determined in the light of factors such as the results, the share price performance and other developments relevant to the Company. Deviations on elements of the remuneration policy in extraordinary circumstances, when deemed necessary in the interests of the Company, will be disclosed in the Annual Report or, in case of an appointment, in good time prior to the appointment of the person concerned.

The main elements of the contract of employment of a new member of the Board of Management including the amount of the fixed base salary, the structure and amount of the variable remuneration component, any severance plan, pension arrangements and the general performance criteria - shall be made public no later than at the time of issuance of the notice convening the General Meeting of Shareholders in which a proposal for appointment of that member of the Board of Management has been placed on the agenda. In compliance with the Dutch Corporate Governance Code, the term of contract of the members of the Board of Management is set at four years, and in case of termination, severance payment is limited to a maximum of one year s base salary; if the maximum of one-year s salary would be manifestly unreasonable for a member of the Board of Management who is dismissed during his first term of office, the member of the Board of Management shall be eligible for a severance payment not exceeding twice the annual salary.

All current members of the Board of Management are employed by means of a contract of employment. Pursuant to new Dutch legislation, effective January 1, 2013, new members of the Board of Management will be employed by means of a services agreement (*overeenkomst van opdracht*).

From 2003 until 2013, Philips maintained a Long-Term Incentive Plan (LTI Plan) consisting of a mix of restricted shares rights and stock options for members of the Board of Management, Philips executives and other key employees. A fully revised LTI Plan applicable to members of the Board of Management was approved by the 2013 General Meeting of Shareholders. The revised plan consists of performance shares only, with a three year post-grant performance measurement. For more details please be referred to the section 9.2, Report of the Remuneration Committee, of this report.

The so-called ultimum remedium clause and claw-back clause of best practice provisions II.2.10 and II.2.11 of the Dutch Corporate Governance Code are applicable to Annual Incentive payments and LTI grants for the year 2009 onwards to all members of the Board of Management. In respect of the LTI grants, the ultimum remedium clause can be applied to the performance-related actual number of stock options, restricted share rights and/or performance shares that is granted. In addition, pursuant to newly adopted Dutch legislation, effective January 1, 2014, the Supervisory Board will be authorized to change unpaid bonuses awarded to members of the Board of Management if payment or delivery of the bonus would be unacceptable according to the principles of reasonableness and fairness. The Company, which in this respect may also be represented by the Supervisory Board or a special representative appointed for this purpose by the General Meeting of Shareholders, may also claim repayment of bonuses paid or delivered (after December, 31, 2013) insofar as these have been granted on the basis of incorrect information on the fulfillment of the relevant performance criteria or other conditions. Bonuses are broadly defined as non-fixed remuneration, either in cash or in the form of share-based compensation, that is conditional in whole or in part on the achievement of certain targets or the occurrence of certain circumstances. The explanatory notes to the balance sheet shall report on any moderation and/or claim for repayment of board remuneration. The newly adopted legislation also introduces an obligation for the Company to reduce the remuneration of a member of the Board of Management, if and to the extent the value of such member s share-based remuneration would have increased as a result of the announcement of a large transaction (requiring shareholder approval) or a public offer for the Company.

Members of the Board of Management hold shares in the Company for the purpose of long-term investment and are required to refrain from short-term transactions in Philips securities. According to the Philips Rules of Conduct on Inside Information, members of the Board of Management are only allowed to trade in Philips securities (including the exercise of stock options) during windows of twenty business days following the publication of annual and quarterly results (provided the person involved has no inside information regarding Philips at that time unless an exemption is available). Furthermore, the Rules of Procedure of the Board of Management and Executive Committee contain provisions concerning ownership of and transactions in non-Philips securities by members of the Board of Management. Members of the Board of Management are prohibited from trading, directly or indirectly, in securities of any of the companies belonging to the peer group, during one week preceding the disclosure of Philips annual or quarterly results. These rules referred to above in this paragraph apply to members of the Executive Committee correspondingly. Transactions in shares in the Company carried out by members of the Board of Management or members of the Supervisory Board and other Insiders (if applicable) are notified to the Netherlands Authority for the Financial Markets (AFM) in accordance with Dutch law and, if necessary, to other relevant authorities.

Indemnification of members of the Board of Management and Supervisory Board

Unless the law provides otherwise, the members of the Board of Management and of the Supervisory Board shall be reimbursed by the Company for various costs and expenses, such as the reasonable costs of defending claims, as formalized in the Articles of Association. Under certain circumstances, described in the Articles of Association, such as an act or failure to act by a member of the Board of Management or a member of the Supervisory Board that can be characterized as intentional (opzettelijk), intentionally reckless (bewust roekeloos) or seriously

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culpable (ernstig verwijtbaar), there will be no entitlement to this reimbursement unless the law or the principles of reasonableness and fairness require otherwise. The Company has also taken out liability insurance (D&O - Directors & Officers) for the persons concerned.

In line with regulatory requirements, the Company s policy forbids personal loans to and guarantees on behalf of members of the Board of Management or the Supervisory Board, and no loans and guarantees have been granted and issued, respectively, to such members in 2013, nor are any loans or guarantees outstanding as of December 31, 2013.

The aggregate share ownership of the members of the Board of Management and the Supervisory Board represents less than 1% of the outstanding ordinary shares in the Company.

Risk management approach

Within Philips, risk management forms an integral part of business management. The Company has implemented a risk management and internal control system that is designed to provide reasonable assurance that strategic objectives are met by creating focus, by integrating management control over the Company s operations, by ensuring compliance with applicable laws and regulations and by safeguarding the reliability of the financial reporting and its disclosures. The Executive Committee reports on and accounts for internal risk management and control systems to the Supervisory Board and its Audit Committee. The Company has designed its internal control system in accordance with the recommendations of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company s risk management approach is embedded in the periodic business planning and review cycle and forms an integral part of business management. On the basis of risk assessments, management determines the risks and appropriate risk responses related to the achievement of business objectives and critical business processes. Risk factors and the risk management approach, as well as the sensitivity of the Company s results to external factors and variables, are described in more detail in [Risk management]. Significant changes and improvements in the Company s risk management and internal control system have been discussed with the Supervisory Board s Audit Committee and the external auditor and are disclosed in that section as well.

With respect to financial reporting a structured self-assessment and monitoring process is used company-wide to assess, document, review and monitor compliance with internal control over financial reporting. Internal representations received from management, regular management reviews, reviews of the design and effectiveness of internal controls and reviews in corporate and divisional audit committees are integral parts of the Company s risk management approach. On the basis thereof, the Board of Management confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirms that these controls have properly functioned in 2013. The financial statements fairly represent the financial condition and result of operations of the Company and provide the required disclosures.

It should be noted that the above does not imply that these systems and procedures provide certainty as to the realization of operational and financial business objectives, nor can they prevent all misstatements, inaccuracies, errors, fraud and non-compliances with rules and regulations.

In view of the above the Board of Management believes that it is in compliance with the requirements of recommendation II.1.4. of the Dutch Corporate Governance Code. The above statement on internal controls should not be construed as a statement in response to the requirements of section 404 of the US Sarbanes-Oxley Act. The statement as to compliance with section 404 is set forth in the section Management s report on internal control over financial reporting of this Annual Report.

Philips has a financial code of ethics which applies to certain senior officers, including the CEO and CFO, and to employees performing an accounting or financial function (the financial code of ethics has been published on the Company s website). The Company, through the Supervisory Board s Audit Committee, also has appropriate procedures in place for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Internal whistleblowers have the opportunity, without jeopardizing their position, to report on irregularities of a general, operational or financial nature and to report complaints about members of the Executive Committee to the Chairman of the Supervisory Board.

In view of the requirements under the US Securities Exchange Act, procedures are in place to enable the CEO and the CFO to provide certifications with respect to the Annual Report on Form 20-F.

A Disclosure Committee is in place, which advises the various officers and departments involved, including the CEO and the CFO, on the timely review, publication and filing of periodic and current (financial) reports. In addition to the certification by the CEO and CFO under US law, each individual member of the Supervisory Board and the Board of Management must under Dutch law, sign the Group and Company financial statements being disclosed and submitted to the General Meeting of Shareholders for adoption. If one or more of their signatures is missing, this shall be stated, and the reasons given for this. The members of the Board of Management issue the responsibility statement with regard to chapter 11, Group financial statements, of this report, as required by applicable Dutch company law and securities law.

10.2 Supervisory Board

Introduction

The Supervisory Board supervises the policies of the Board of Management and Executive Committee and the general course of affairs of Philips and advises the executive management thereon. The Supervisory Board, in the two-tier corporate structure under Dutch law, is a separate body that is independent of the Board of Management. Its independent character is also reflected in the requirement that members of the Supervisory Board can be neither a member of the Board of Management nor an employee of the Company. The Supervisory Board considers all its members to be independent pursuant to the Dutch Corporate Governance Code and under the applicable US Securities and Exchange Commission standards.

The Supervisory Board, acting in the interests of the Company and the Group and taking into account the relevant interest of the Company s stakeholders, supervises and advises the Board of Management and Executive Committee in performing its management tasks and setting the direction of the Group s business, including (a) the Philips group s performance, (b) the Philips group s general strategy and the risks connected to its business activities, (c) the operational and financial objectives, (d) the parameters to be approved in relation to the strategy, (e) corporate social responsibility issues (f) the structure and management of the systems of internal business controls, (g) the financial reporting process, (h) the compliance with applicable laws and regulations, (i) the company-shareholders relationship, and (j) the corporate governance structure of the Company. The Group s strategy and major management decisions are discussed with and approved by the Supervisory Board. For a description of further responsibilities and tasks of the Supervisory Board please refer to the Supervisory Board s Rules of Procedure which is published on the Company s website.

In its report, the Supervisory Board describes the composition and functioning of the Supervisory Board and its committees, the activities of the board and its committees in the financial year, the number of committee meetings and the main items discussed.

Rules of Procedure of the Supervisory Board

The Supervisory Board s Rules of Procedure set forth its own governance rules (including meetings, items to be discussed, resolutions, appointment and re-election, committees, conflicts of interests, trading in securities, profile of the Supervisory Board). Its composition follows the profile, which aims for an appropriate combination of knowledge and experience among its members encompassing marketing, technological, manufacturing, financial, economic, social and legal aspects of international business and government and public administration in relation to the global and multi- product character of the Group s businesses. The Supervisory Board attaches great importance to diversity in its composition. More particularly, it aims at having members with a European and a non- European background (nationality, working experience or otherwise) and one or more members with an executive or similar position in business or society no longer than 5 years ago.

Pursuant to new Dutch legislation on board diversity, effective January 1, 2013, the Company shall pursue a policy of having at least 30% of the seats on the Supervisory Board held by men and at least 30% of the seats held by women. The rule will cease to have effect on January 1, 2016. For more details on board diversity please be referred to section 9.1, Report of the Corporate Governance and Nomination & Selection Committee, of this report.

The Rules of Procedure of the Supervisory Board are published on the Company s website. They include the charters of its committees, to which the plenary Supervisory Board, while retaining overall responsibility, has assigned certain tasks: the Corporate Governance and Nomination & Selection Committee, the Audit Committee and the Remuneration Committee. Each committee reports, and submits its minutes for information, to the Supervisory Board.

In line with US and Dutch best practices, the Chairman of the Supervisory Board must be independent pursuant to the Dutch Corporate Governance Code and under the applicable US standards. Furthermore, the Dutch Corporate Governance Code allows a maximum of one member of each Supervisory Board committee not to be independent (as defined by the Code). As mentioned in the introduction of this section 10.2 above, the Supervisory Board considers all its members to be independent.

The Supervisory Board is assisted by the General Secretary of the Company. The General Secretary sees to it that correct procedures are followed and that the Supervisory Board acts in accordance with its statutory obligations and its obligations under the Articles of Association. Furthermore the General Secretary assists the Chairman of the Supervisory Board in the actual organization of the affairs of the Supervisory Board (information, agenda, evaluation, introductory program) and is the contact person for interested parties who want to make concerns known to the Supervisory Board. The General Secretary shall, either on the recommendation of the Supervisory Board or otherwise, be appointed and may be dismissed by the Board of Management, after the approval of the Supervisory Board has been obtained.

(Term of) Appointment, individual data and conflicts of interests

The Supervisory Board consists of at least five members (currently eight), including a Chairman, Vice-Chairman and Secretary. The Dutch structure regime does not apply to the Company itself. Members are currently elected by the General Meeting of Shareholders for fixed terms of four years, upon a binding recommendation from the Supervisory Board. According to the Company s Articles of Association, this binding recommendation may be overruled by a resolution of the General Meeting of Shareholders adopted by a simple majority of the votes cast and representing at least one-third of the issued share capital. If a simple majority of the votes cast is in favor of the resolution to overrule the binding recommendation, but such majority does not represent at least one-third of the issued share capital, a new meeting may be convened at which the resolution may be passed by a simple majority of the votes cast, regardless of the portion of the issued share capital represented by such majority. In the event a binding recommendation has been overruled, a new binding recommendation shall be submitted to the General Meeting of Shareholders. If such second binding recommendation has been overruled, the General Meeting of Shareholders shall be free to appoint a board member.

There is no age limit applicable, and members may be re-elected twice. The date of expiration of the terms of Supervisory Board members is published on the Company s website. Individual data on the members of the Supervisory Board are published in the Annual Report, and updated on the Company s website. Members may be suspended and dismissed by the General Meeting of Shareholders. In the event of inadequate performance, structural incompatibility of interests, and in other instances in which resignation is deemed necessary in the opinion of the Supervisory Board, the Supervisory Board shall submit to the General Meeting of Shareholders a proposal to dismiss the respective member of the Supervisory Board.

After their appointment, all members of the Supervisory Board shall follow an introductory program, which covers general financial and legal affairs, financial reporting by the Company, any specific aspects that are unique to the Company and its business activities, and the responsibilities of a Supervisory Board member. Any need for further training or education of members will be reviewed annually, also on the basis of an annual evaluation survey.

Under the Dutch Corporate Governance Code, no member of the Supervisory Board shall hold more than five supervisory board memberships of Dutch listed companies, the chairmanship of a supervisory board counting as two regular memberships. In addition, new Dutch legislation, effective January 1, 2013, provides that no member of the Supervisory Board shall hold more than five Non-Executive Directorships at large companies or foundations as defined under Dutch law (see section 10.1, Board of Management, of this report), with a position as chairman counting for two. During the financial year 2013 all members of the Supervisory Board complied with the limitations on Non-Executive Directorships described above.

New Dutch legislation on conflicts of interests, effective January 1, 2013, provides that a member of the Supervisory Board may not participate in the adoption of resolutions if he or she has a direct or indirect personal conflict of interest with the Company or related enterprise. If all members of the Supervisory Board have a conflict, the resolution concerned will be adopted by the General Meeting of Shareholders. The Company s corporate governance includes rules to specify situations in which a (potential) conflict may exist, to avoid (potential) conflicts of interests as much as possible, and to deal with such conflicts should they arise.

Relevant matters relating to conflicts of interests, if any, shall be mentioned in the Annual Report for the financial year in question. No decisions to enter into material transactions in which there are conflicts of interest with members of the Supervisory Board were taken during the financial year 2013.

Meetings of the Supervisory Board

The Supervisory Board meets at least six times per year, including a meeting on strategy. The Supervisory Board, on the advice of its Audit Committee, also discusses, in any event at least once a year, the main risks of the business, and the result of the assessment of the structure and operation of the internal risk management and control systems, as well as any significant changes thereto. The members of the Executive Committee attend meetings of the Supervisory Board except in matters such as the desired profile, composition and competence of the Supervisory Board and the Executive Committee, as well as the remuneration and performance of individual members of the Executive Committee and the conclusions that must be drawn on the basis thereof. In addition to these items, the Supervisory Board, being responsible for the quality of its own performance, discusses, at least once a year on its own, without the members of the Executive Committee being present, (i) both its own functioning and that of the individual members, and the conclusions that must be drawn on the basis thereof, as well as (ii) both the functioning of the Board of Management and that of the individual members, and the conclusions that must be drawn on the basis thereof. The President/CEO and other members of the Executive Committee have regular contacts with the Chairman and other members of the Supervisory Board. The Executive Committee is required to keep the Supervisory Board informed of all facts and developments concerning Philips that the Supervisory Board may need in order to function as required and to properly carry out its duties, to consult it on important matters and to submit certain important decisions to it for its prior approval. The Supervisory Board and its individual members each have their own responsibility to request from the Executive Committee and the external auditor all information that the Supervisory Board needs in order to be able to carry out its duties properly as a supervisory body. If the Supervisory Board considers it necessary, it may obtain information from officers and external advisers of the Company. The Company provides the necessary means for this purpose. The Supervisory Board may also require that certain officers and external advisers attend its meetings.

The Chairman of the Supervisory Board

The Supervisory Board s Chairman will see to it that: (a) the members of the Supervisory Board follow their introductory program, (b) the members of the Supervisory Board receive in good time all information which is necessary for the proper performance of their duties, (c) there is sufficient time for consultation and decision-making by the Supervisory Board, (d) the committees of the Supervisory Board function properly, (e) the performance of the Executive Committee members and Supervisory Board members is assessed at least once a year, and (f) the Supervisory Board elects a Vice-Chairman. The Vice-Chairman of the Supervisory Board shall deputize for the Chairman when the occasion arises. The Vice- Chairman shall act as contact of individual members of the Supervisory Board or the Board of Management concerning the functioning of the Chairman of the Supervisory Board.

Remuneration of the Supervisory Board and share ownership

The remuneration of the individual members of the Supervisory Board, as well as the additional remuneration for its Chairman and the members of its committees is determined by the General Meeting of Shareholders. The remuneration of a Supervisory Board member is not dependent on the results of the Company. Further details are published in the Supervisory Board report.

Shares or rights to shares shall not be granted to a Supervisory Board member. In accordance with the Rules of Procedure of the Supervisory Board, any shares in the Company held by a Supervisory Board member are long-term investments. The Supervisory Board has adopted a policy on ownership of and transactions in non-Philips securities by members of the Supervisory Board. This policy is included in the Rules of Procedure of the Supervisory Board.

The Corporate Governance and Nomination & Selection Committee

The Corporate Governance and Nomination & Selection Committee consists of at least the Chairman and Vice-Chairman of the Supervisory Board. The Committee reviews the corporate governance principles applicable to the Company at least once a year, and advises the Supervisory Board on any changes to these principles as it deems appropriate. It also (a) draws up selection criteria and appointment procedures for members of the Supervisory Board, the Board of Management and the Executive Committee; (b) periodically assesses the size and composition of the Supervisory Board, the Board of Management and the Executive Committee, and makes the proposals for a composition profile of the Supervisory Board, if appropriate; (c) periodically assesses the functioning of individual members of the Supervisory Board, the Board of Management and the Executive Committee, and reports on this to the Supervisory Board. The Committee also consults with the President/CEO and the Executive Committee on candidates to fill vacancies on the Supervisory Board, the Executive Committee, and advises the Supervisory Board on the candidates for appointment. It further supervises the policy of the Executive Committee on the selection criteria and appointment procedures for Philips Executives.

The Remuneration Committee

The Remuneration Committee meets at least twice a year and is responsible for preparing decisions of the Supervisory Board on the remuneration of individual members of the Board of Management and the Executive Committee.

The Remuneration Committee prepares an annual remuneration report. The remuneration report contains an account of the manner in which the remuneration policy has been implemented in the past financial year, as well as an overview of the implementation of the remuneration policy planned by the Supervisory Board for the next year(s). The Supervisory Board aims to have appropriate experience available within the Remuneration Committee. No more than one member of the Remuneration Committee shall be an executive board member of another Dutch listed company.

In performing its duties and responsibilities the Remuneration Committee is assisted by an in-house remuneration expert acting on the basis of a protocol ensuring that the expert acts on the instructions of the Remuneration Committee and on an independent basis in which conflicts of interests are avoided.

The Audit Committee

The Audit Committee meets at least four times a year, before the publication of the annual, semi-annual and quarterly results. All of the members of the Audit Committee are considered to be independent under the applicable US Securities and Exchange Commission rules and at least one of the members of the Audit Committee, which currently consists of four members of the Supervisory Board, is a financial expert as set out in the Dutch Corporate Governance Code and each member is financially literate. In accordance with this code, a financial expert has relevant knowledge and experience of financial administration and accounting at the company in question. The Supervisory Board considers the fact of being compliant with the Dutch Corporate Governance Code, in combination with the knowledge and experience available in the Audit Committee as well as the possibility to take advice from internal and external experts and advisors, to be sufficient for the fulfillment of the tasks and responsibilities of the Audit Committee. None of the members of the Audit Committee is an Audit Committee financial expert as defined under the regulations of the US Securities and Exchange Commission. The Audit Committee may not be chaired by the Chairman of the Supervisory Board or by a (former) member of the Board of Management.

All members of the Audit Committee are independent

The tasks and functions of the Audit Committee, as described in its charter, which is published on the Company s website as part of the Rules of Procedure of the Supervisory Board, include the duties recommended in the Dutch Corporate Governance Code. More specifically, the Audit Committee assists the Supervisory Board in fulfilling its oversight responsibilities for the integrity of the Company s financial statements, the financial reporting process, the system of internal business controls and risk management, the internal and external audit process, the internal and external auditor s qualifications, its independence and its performance, as well as the Company s process for monitoring compliance with laws and regulations and the General Business Principles (GBP). It reviews the Company s annual and interim financial statements, including non-financial information, prior to publication and advises the Supervisory Board on the adequacy and appropriateness of internal control policies and internal audit programs and their findings.

In reviewing the Company s annual and interim statements, including non-financial information, and advising the Supervisory Board on internal control policies and internal audit programs, the Audit Committee reviews matters relating to accounting policies and compliance with accounting standards, compliance with statutory and legal requirements and regulations, particularly in the financial domain. Important findings and identified risks are examined thoroughly by the Audit Committee in order to allow appropriate measures to be taken. With regard to the internal audit, the Audit Committee, in cooperation with the external auditor, reviews the internal audit charter, audit plan, audit scope and its coverage in relation to the scope of the external audit, staffing, independence and organizational structure of the internal audit function.

With regard to the external audit, the Audit Committee reviews the proposed audit scope, approach and fees, the independence of the external auditor, its performance and its (re-)appointment, audit and permitted non-audit services provided by the external auditor in conformity with the Philips Policy on Auditor Independence, as well as any changes to this policy. The Audit Committee also considers the report of the external auditor and its report with respect to the annual financial statements. According to the procedures, the Audit Committee acts as the principal contact for the external auditor if the auditor discovers irregularities in the content of the financial reports. It also advises on the Supervisory Board s statement to shareholders in the annual accounts. The Audit Committee periodically discusses the Company s policy on business controls, the GBP including the deployment thereof, overviews on tax, IT, litigation and legal proceedings, environmental exposures, financial exposures in the area of treasury, real estate, pensions, and the Group s major areas of risk. The Company s external auditor, in general, attends all Audit Committee meetings and the Audit Committee meets separately at least on a quarterly basis with each of the President/CEO, the CFO, the internal auditor and the external auditor.

10.3 General Meeting of Shareholders

Introduction

A General Meeting of Shareholders is held at least once a year to discuss the Annual Report, including the report of the Board of Management, the annual financial statements with explanatory notes thereto and additional information required by law, and the Supervisory Board report, any proposal concerning dividends or other distributions, the appointment of members of the Board of Management and Supervisory Board (if any), important management decisions as required by Dutch law, and any other matters proposed by the Supervisory Board, the Board of Management or shareholders in accordance with the provisions of the Company s Articles of Association. The Annual Report, the financial statements and other regulated information such as defined in the Dutch Act on Financial Supervision (*Wet op het Financieel Toezicht*), will solely be published in English. As a separate agenda item and in application of Dutch law, the General Meeting of Shareholders discusses the discharge of the members of the Board of Management and the Supervisory Board from responsibility for the performance of their respective duties in the preceding financial year. However, this discharge only covers matters that are known to the Company and the General Meeting of Shareholders when the resolution is adopted. The General Meeting of Shareholders is held in Eindhoven, Amsterdam, Rotterdam, The Hague, Utrecht or Haarlemmermeer (Schiphol Airport) no later than six months after the end of the financial year.

Meetings are convened by public notice, via the Company s website or other electronic means of communication and to registered shareholders by letter or by the use of electronic means of communication, at least 42 days prior to the (Extraordinary) General Meeting of Shareholders. Extraordinary General Meetings of Shareholders may be convened by the Supervisory Board or the Board of Management if deemed necessary and must be held if shareholders jointly representing at least 10% of the outstanding share capital make a written request to that effect to the Supervisory Board and the Board of Management, specifying in detail the business to be dealt with. The agenda of a General Meeting of Shareholders shall contain such business as may be placed thereon by the Board of Management or the Supervisory Board, and agenda items will be explained where necessary in writing. The agenda shall list which items are for discussion and which items are to be voted upon. Material amendments to the Articles of Association and resolutions for the appointment of members of the Board of Management and Supervisory Board shall be submitted separately to the General Meeting of Shareholders, it being understood that amendments and other proposals that are connected in the context of a proposed (part of the) governance structure may be submitted as one proposal. In accordance with the Articles of Association and Dutch law, requests from shareholders for items to be included on the agenda will generally be honored, subject to the Company s rights to refuse to include the requested agenda item under Dutch law and the Dutch Corporate Governance Code, provided that such requests are made in writing at least 60 days before a General Meeting of Shareholders to the Board of Management and the Supervisory Board by shareholders representing at least 1% of the Company s outstanding capital or, according to the official price list of NYSE Euronext Amsterdam, representing a value of at least EUR 50 million. Written requests may be submitted electronically and shall comply with the procedure stipulated by the Board of Management, which procedure is posted on the Company s website. Pursuant to new legislation, effective July 1, 2013, shareholders requesting an item to be included on the agenda, have an obligation to disclose their full economic interest (i.e. long position and short position) to the Company. The Company has the obligation to publish such disclosures on its website.

Main powers of the General Meeting of Shareholders

All outstanding shares carry voting rights. The main powers of the General Meeting of Shareholders are to appoint, suspend and dismiss members of the Board of Management and of the Supervisory Board, to adopt the annual accounts, declare dividends and to discharge the Board of Management and the Supervisory Board from responsibility for the performance of their respective duties for the previous financial year, to appoint the external auditor as required by Dutch law, to adopt amendments to the Articles of Association and proposals to dissolve or liquidate the Company, to issue shares or rights to shares, to restrict or exclude pre-emptive rights of shareholders and to repurchase or cancel outstanding shares. Following common corporate practice in the Netherlands, the Company each year requests limited authorization to issue (rights to) shares, to restrict or exclude pre-emptive rights and to repurchase shares. In compliance with Dutch law, decisions of the Board of Management that are so far-reaching that they would greatly change the identity or nature of the Company or the business require the approval of the General Meeting of Shareholders. This includes resolutions to (a) transfer the business of the Company, or almost the entire business of the Company, to a third party (b) enter into or discontinue long-term cooperation by the Company or a subsidiary with another legal entity or company or as a fully liable partner in a limited partnership or ordinary partnership, if this cooperation or its discontinuation is of material significance to the Company or (c) acquire or dispose of a participating interest in the capital of a company to the value of at least one-third of the amount of the assets according to the balance sheet and notes thereto or, if the Company prepares a consolidated balance sheet, according to the consolidated balance sheet and notes thereto as published in the last adopted annual accounts of the Company, by the Company or one of its subsidiaries. Thus the Company applies principle IV.1 of the Dutch Corporate Governance Code within the framework of the Articles of Association and Dutch law and in the manner as described in this corporate governance report.

The Board of Management and Supervisory Board are also accountable, at the Annual General Meeting of Shareholders, for the policy on the additions to reserves and dividends (the level and purpose of the additions to reserves, the amount of the dividend and the type of dividend). This subject is dealt with and explained as a separate agenda item at the General Meeting of Shareholders. Philips aims for a sustainable and stable dividend distribution to shareholders in the long term. A resolution to pay a dividend is dealt with as a separate agenda item at the General Meeting of Shareholders.

The Board of Management and the Supervisory Board are required to provide the General Meeting of Shareholders with all requested information, unless this would be prejudicial to an overriding interest of the Company. If the Board of Management and the Supervisory Board invoke an overriding interest in refusing to provide information, reasons must be given. If a serious private bid is made for a business unit or a participating interest and the value of the bid exceeds a certain threshold (currently one-third of the amount of the assets according to the balance sheet and notes thereto or, if the Company prepares a consolidated balance sheet, according to the consolidated balance sheet and notes thereto as published in the last adopted annual accounts of the Company), and such bid is made public, the Board of Management shall, at its earliest convenience, make public its position on the bid and the reasons for this position.

A resolution to dissolve the Company or change its Articles of Association can be adopted at the General Meeting of Shareholders by at least three- fourths of the votes cast, at which meeting more than half of the issued share capital is represented. If the requisite share capital is not represented, a further meeting shall be convened, to be held within eight weeks of the first meeting, to which no quorum requirement applies. Furthermore, the resolution requires the approval of the Supervisory Board. If the resolution is proposed by the Board of Management, the adoption needs an absolute majority of votes and no quorum requirement applies to the meeting.

Repurchase and issue of (rights to) own shares

The 2013 General Meeting of Shareholders has resolved to authorize the Board of Management, subject to the approval of the Supervisory Board, to acquire shares in the Company within the limits of the Articles of Association and within a certain price range up to and including November 2, 2014. The maximum number of shares the company may hold, will not exceed 10% of the issued share capital as of May 3, 2013, which number may be increased by 10% of the issued capital as of that same date in connection with the execution of share repurchase programs for capital reduction programs.

In addition, the 2013 General Meeting of Shareholders resolved to authorize the Board of Management, subject to the approval of the Supervisory Board, to issue shares or grant rights to acquire shares in the Company as well as to restrict or exclude the pre-emption right accruing to shareholders up to and including November 2, 2014. This authorization is limited to a maximum of 10% of the number of shares issued as of May 3, 2013 plus 10% of the issued capital in connection with or on the occasion of mergers and acquisitions.

10.4 Logistics of the General Meeting of Shareholders and provision of information

Introduction

Pursuant to Dutch law, the record date for the exercise of the voting rights and the rights relating to General Meetings of Shareholders is set at the 28th day prior to the day of the meeting. Shareholders registered at such date are entitled to attend the meeting and to exercise the other shareholder rights (in the meeting in question) notwithstanding subsequent sale of their shares thereafter. This date will be published in advance of every General Meeting of Shareholders.

Information which is required to be published or deposited pursuant to the provisions of company law and securities law applicable to the Company and which is relevant to the shareholders, is placed and updated on the Company s website, or hyperlinks are established. The Board of Management and Supervisory Board shall ensure that the General Meeting of Shareholders is informed of facts and circumstances relevant to proposed resolutions in explanatory notes to the agenda and, if deemed appropriate, by means of a shareholders circular published on the Company s website.

Resolutions adopted at a General Meeting of Shareholders shall be recorded by a civil law notary and co-signed by the chairman of the meeting; such resolutions shall also be published on the Company s website within 15 days after the meeting. A draft summary of the discussions during the General Meeting of Shareholders, in the language of the meeting, is made available to shareholders, on request, no later than three months after the meeting. Shareholders shall have the opportunity to respond to this summary for three months, after which a final summary is adopted by the chairman of the meeting in question. Such final summary shall be made available on the Company s website.

Registration, attending meetings and proxy voting

Holders of common shares who wish to exercise the rights attached to their shares in respect of a General Meeting of Shareholders, are required to register for such meeting. Shareholders may attend a General Meeting of Shareholders in person, or may grant a power of attorney to a third party to attend the meeting and to vote on their behalf. The Company will also distribute a voting instruction form for a General Meeting of Shareholders (assuming the agenda for such meeting includes voting items). By returning this form, shareholders grant power to an independent proxy holder who will vote according to the instructions expressly given on the voting instruction form. Also other persons entitled to vote shall be given the possibility to give voting proxies or instructions to an independent third party prior to the meeting. Details on the registration for meetings, attending and proxy voting will be included in the notice convening a General Meeting of Shareholders. The Dutch Shareholders Communication Channel decided to terminate its activities as per the end of 2013. Their decision follows the entry into force of new legislation on July 1, 2013 which provides a legal basis in Dutch law for shareholder communication.

Preference shares and the Stichting Preferente Aandelen Philips

As a means to protect the Company and its stakeholders against an unsolicited attempt to obtain (de facto) control of the Company, the General Meeting of Shareholders in 1989 adopted amendments to the Company s Articles of Association that allow the Board of Management and the Supervisory Board to issue (rights to) preference shares to a third party. As a result, the Stichting Preferente Aandelen Philips (the Foundation) was created, which was granted the right to acquire preference shares in the Company. The mere notification that the Foundation wishes to exercise its rights, should a third party ever seem likely in the judgment of the Foundation to obtain (de facto) control of the Company, will result in the preference shares being effectively issued. The Foundation may exercise this right for as many preference shares as there are ordinary shares in the Company outstanding at that time. No preference shares have been issued as of December 31, 2013. In addition, the Foundation has the right to file a petition with the Enterprise Chamber of the Amsterdam Court of Appeal to commence an inquiry procedure within the meaning of section 2:344 Dutch Civil Code.

The object of the Foundation is to represent the interests of the Company, the enterprises maintained by the Company and its affiliated companies within the Group, in such a way that the interests of Philips, those enterprises and all parties involved with them are safeguarded as effectively as possible, and that they are afforded maximum protection against influences which, in conflict with those interests, may undermine the autonomy and identity of Philips and those enterprises, and also to do anything related to the above ends or conducive to them. In the event of (an attempt at) a hostile takeover or other attempt to obtain (de facto) control of the Company this arrangement will allow the Company and its Board of Management and Supervisory Board to determine its position in relation to the third party and its plans, seek alternatives and defend Philips interests and those of its stakeholders from a position of strength. The members of the self-electing Board of the Foundation are Messrs S.D. de Bree, F.J.G.M. Cremers and M.W. den Boogert. No Philips board members or officers are represented on the board of the Foundation.

The Company does not have any other anti-takeover measures in the sense of other measures which exclusively or almost exclusively have the purpose of frustrating future public bids for the shares in the capital of the Company in case no agreement is reached with the Board of Management on such public bid. Furthermore, the Company does not have measures which specifically have the purpose of preventing a bidder who has acquired 75% of the shares in the capital of the Company from appointing or dismissing members of the Board of Management and subsequently amending the Articles of Association of the Company. It should be noted that also in the event of (an attempt at) a hostile takeover or other attempt to obtain (de facto) control of the Company, the Board of Management and the Supervisory Board are authorized to exercise in the interests of Philips all powers vested in them.

Audit of the financial reporting and the position of the external auditor

The annual financial statements are prepared by the Board of Management and reviewed by the Supervisory Board upon the advice of its Audit Committee and taking into account the report of the external auditor. Upon approval by the Supervisory Board, the accounts are signed by all members of both the Board of Management and the Supervisory Board and are published together with the final opinion of the external auditor. The Board of Management is responsible, under the supervision of the Supervisory Board, for the quality and completeness of such publicly disclosed financial reports. The annual financial statements are presented for discussion and adoption to the Annual General Meeting of Shareholders, to be convened subsequently. The Company, under US securities regulations, separately files its Annual Report on Form 20-F, incorporating major parts of the Annual Report as prepared under the requirements of Dutch law.

Internal controls and disclosure policies

Comprehensive internal procedures, compliance with which is supervised by the Supervisory Board, are in place for the preparation and publication of the Annual Report, the annual accounts, the quarterly figures and ad hoc financial information. As from 2003, the internal assurance process for business risk assessment has been strengthened and the review frequency has been upgraded to a quarterly review cycle, in line with best practices in this area.

As part of these procedures, a Disclosure Committee has been appointed by the Board of Management to oversee the Company s disclosure activities and to assist the Executive Committee in