PHILIPS

Annual Report 2013

Delivering innovation that matters to you

Please note: this PDF contains only the pages highlighted in the list of contents below.
The contents of this file are qualified in their entirety by reference to the printed version
of the Philips Annual Report 2013.

The information in this PDF has been derived from the audited financial statements 2013
of Koninklijke Philips Electronics N.V.

KPMG has issued unqualified auditors' reports on these financial statements.

This is the analyst selection from the Philips Annual Report 2013

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Grey text indicates parts not included in this selection from the Philips Annual Report 2013.

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IFRS basis of presentation
The financial information included in this document is based on IFRS, unless otherwise indicated.

Forward-looking statements and other information
Please refer to chapter 18, Forward-looking statements and other information, of this Annual Report for more information about forward-looking statements, third-party market share data, fair value information, IFRS basis of preparation, use of non-GAAP information, statutory financial statements and management report, and reclassifications.

Dutch Financial Markets Supervision Act
This document comprises regulated information within the meaning of the Dutch Financial Markets Supervision Act *(Wet op het Financieel Toezicht).*

Statutory financial statements and management report
The chapters Group financial statements and Company financial statements contain the statutory financial statements of the Company. The introduction to the chapter Group financial statements sets out which parts of this Annual Report form the Management report within the meaning of Section 2:391 of the Dutch Civil Code (and related Decrees).

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 chapter 14, Reconciliation of non-GAAP information, of this Annual Report.

Financial table
all amounts in millions of euros unless otherwise stated

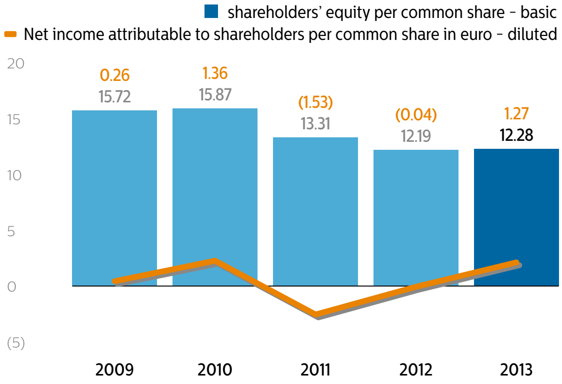
	2011	2012	2013
Sales	20,992	23,457	23,329
EBITA	1,435	1,106	2,451
as a % of sales	6.8	4.7	10.5
EBIT	(479)	648	1,991
as a % of sales	(2.3)	2.8	8.5
Net income (loss)	(1,456)	(30)	1,172
Net income attributable to shareholders per common share in euro:			
- basic	(1.53)	(0.04)	1.28
- diluted	(1.53)	(0.04)	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 Annual Report
6) As measured by Interbrand

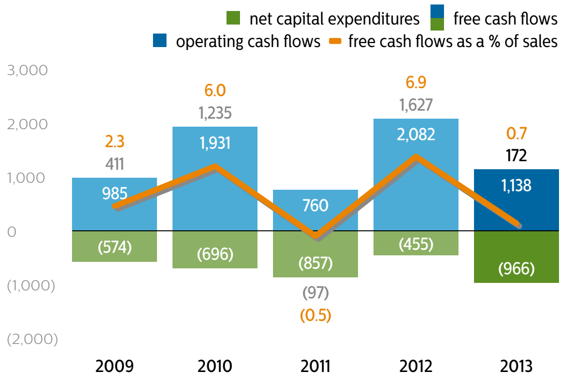
Financial performance 2013

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

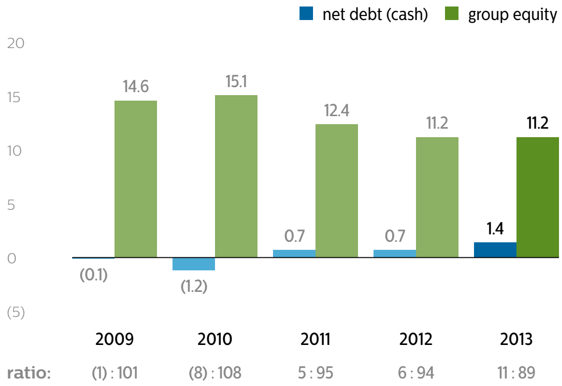
Equity and Net income per common share
in euros



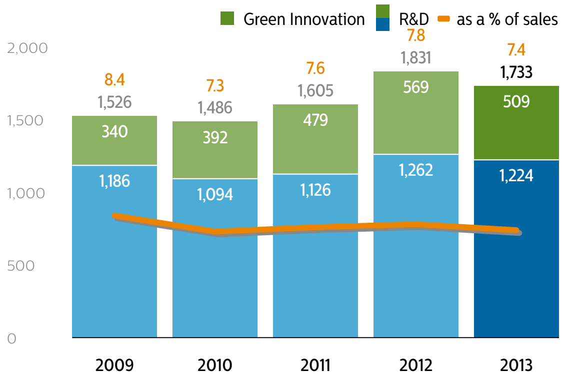
Operating cash flows
in millions of euros



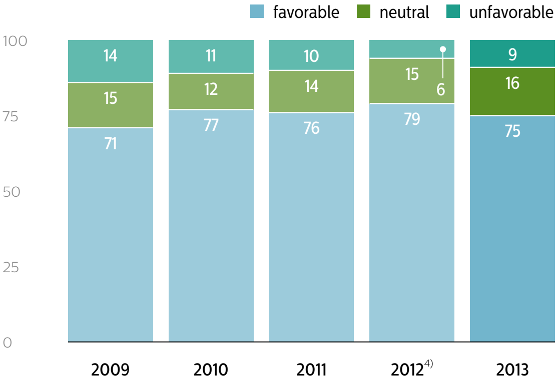
Net debt (cash) to group equity
in billions of euros



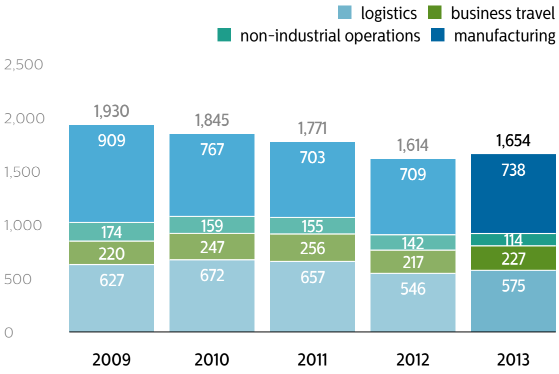
Research and development expenses
in millions of euros



Employee Engagement Index
in %



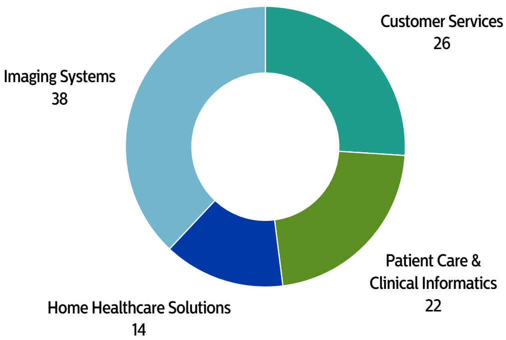
Operational carbon footprint
in kilotonnes CO_2-equivalent



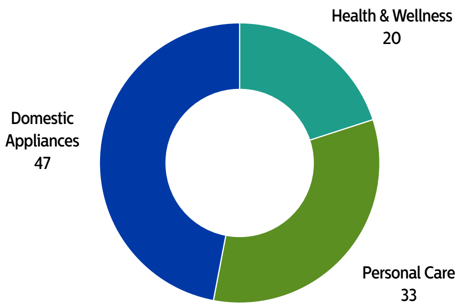
Performance
in millions of euros

	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% ▲
EBITA	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% ▲

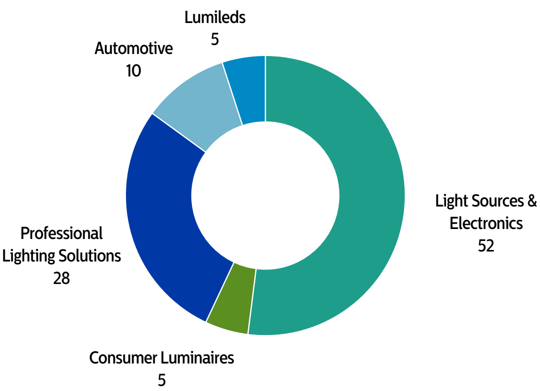
Total sales by business 2013: Healthcare
as a %



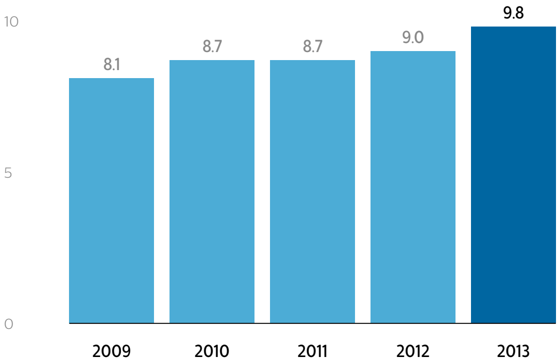
Total sales by business 2013: Consumer Lifestyle
as a %



Total sales by business 2013: Lighting
as a %



Brand value[6]
in billions of US dollars



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.

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 EBITA 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.

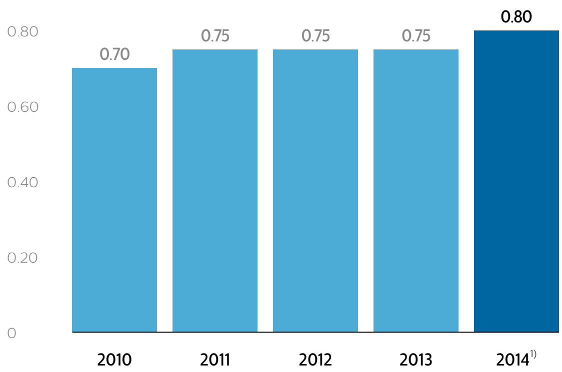
Driving productivity improvement
Over the coming years we will continue to drive operational excellence and invest in innovation and sales development. We will also continue to focus on improving profitability, e.g. by further reducing overhead costs and driving value engineering through our Design for 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.

Dividend per common share
in euros



[1] Subject to approval by the 2014 Annual General Meeting of Shareholders

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

Accelerate!

In 2011 we embarked upon our Accelerate! journey of change and performance improvement. Ultimately, Accelerate! is all about delivering meaningful innovation to our customers in local markets – and doing so faster and better than the competition.

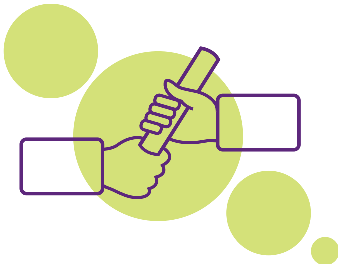
1. Our transformation

Driving change and improvement

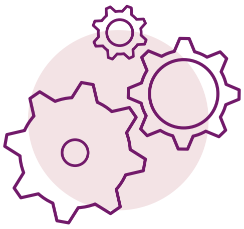
Now in its third year, Accelerate! is making Philips a more agile and entrepreneurial innovator. The program, which is set to run through 2017, is made up of five streams designed to:

make us more customer focused

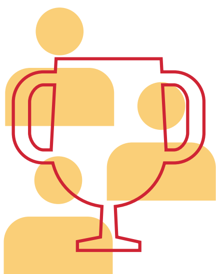
resource our business/market combinations to win



create lean end-to-end customer value chains



implement a simpler, standardized operating model



drive a growth and performance culture

Accelerate! in action

Customer alliance shaping the future of health care

In 2013 we entered into a 15-year partnership with Georgia Regents Medical Center to facilitate the delivery of innovative and affordable solutions across the continuum of care.

Read more on page 13

Faster, more efficient innovation

We are transforming our end-to-end value chain to just four Lean-based business models. This is helping us to deliver our innovations to market faster and more efficiently.

Read more on page 14

Culture change driving improvement

The renewal of our company culture continued to pay further dividends in 2013, with our engaged employees driving performance improvement across the organization.

Read more on page 16

Increasing our cost productivity

As we move toward a single value-added layer above our business and market organizations, we are on track to deliver gross overhead and indirect cost savings of € 1.5 billion by 2015.

Read more on page 18

Partners in care: new approaches, new models

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

End-to-end – building a winning value chain

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.

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.

Our people, our culture

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.

Fewer layers, faster and better services

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.

Our 2013 results

Comparable sales growth

4.5%

CAGR 2012-2013

EBITA

10.5%

group margin

Return on invested capital

15.3%

Comparable sales growth

3.3%

2013

Net income

€ 1,172 million

R&D expenditure

€ 1,733 million

7.4% of sales

Green Product sales

51%

of total sales

Patent families

13,200

1,550 patent applications in 2013

Brand value

$ 9.8 billion

No. 40 on Interbrand list of most valuable brands

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:

Our targets for 2016

Comparable sales growth CAGR 2014-2016	**4-6%**
Group reported EBITA	**11-12%**
Healthcare	16-17%
Consumer Lifestyle	11-13%
Lighting	9-11%
Return on invested capital	**>14%**

Building **a great company**

We have what it takes to be a great company, fit for the demands of the 21st century – a compelling mission and vision, a clearly defined strategic direction, and, increasingly, a culture of high performance.

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.

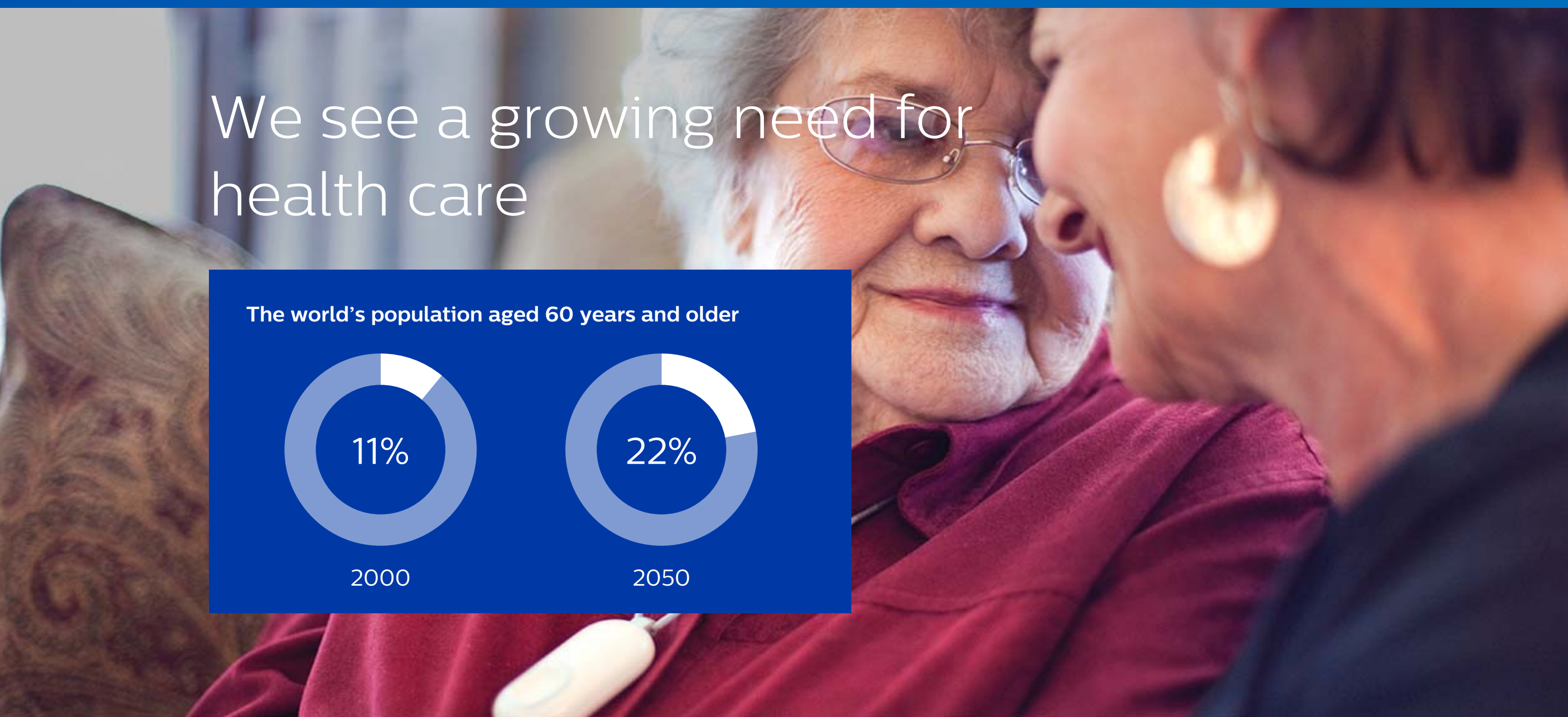
Together we will deliver superior value for our customers and shareholders.

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.

We see a growing need for health care



We see increased focus on personal well-being

Well-being of people around the world

62%

Only 62% of people around the globe rate their current state of health and well-being as “good” or “very good”.

We see rising demand for energy-efficient solutions

The world’s electricity consumption

19%

Lighting

Average saving we can make by switching to energy-efficient lighting solutions

40%

Through some 40 businesses we apply our **deep knowledge of customers, outstanding innovation capabilities, strong brand, global footprint** and **talented and engaged people** – often in value-adding partnerships – to provide solutions that address these needs and challenges and make the world healthier and more sustainable.

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.

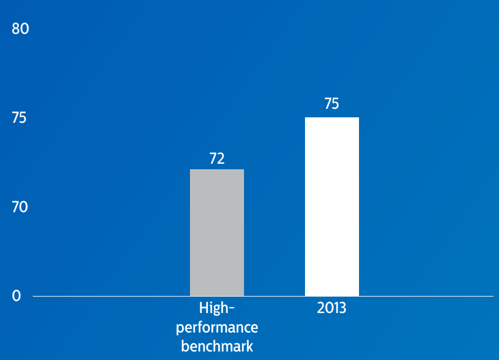
Path to Value: We define and execute business plans that deliver sustainable results along a credible Path to Value.

5. Our people

Engaged employees crucial for success

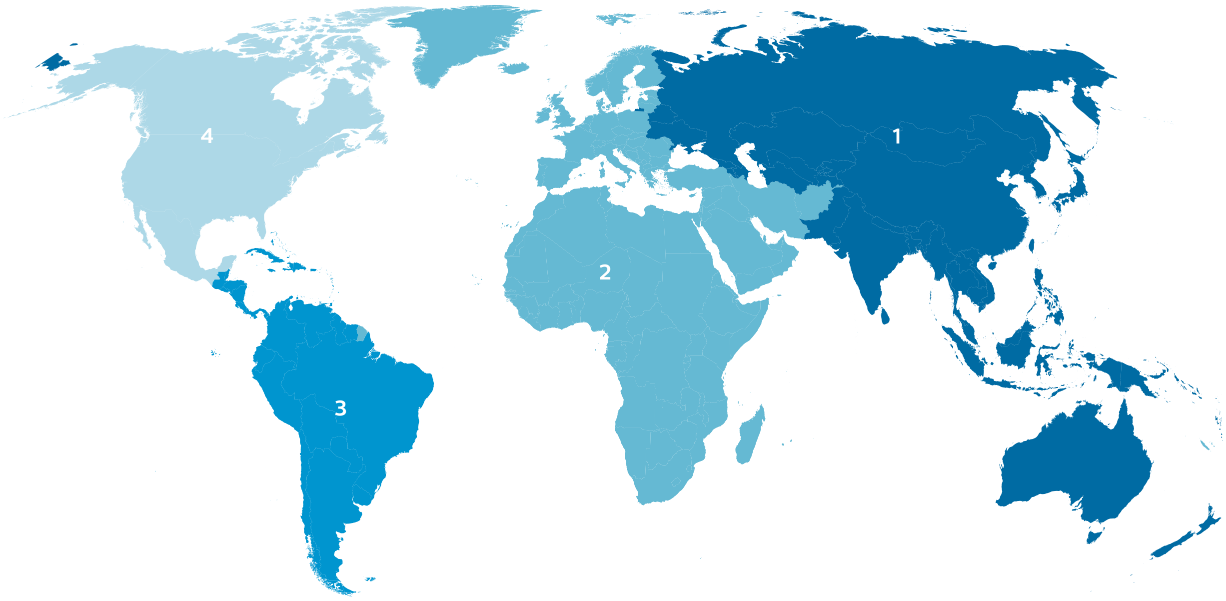
We need all our people collaborating effectively – in a diverse and inclusive environment, where they can grow and fulfill their ambitions. Engagement supports our culture of growth and performance improvement, reinforcing our goal of being the best place to work for people who share our passion.

2013 Employee Engagement Survey
% positive



Global presence

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



1 Asia & Pacific

Sales*	7,439
Number of employees	40,438
Employees female	37 %
Employees male	63 %
R&D centers	13
Manufacturing sites	25
Assets*	5,357

2 EMEA

Sales*	7,410
Number of employees	41,829
Employees female	32 %
Employees male	68 %
R&D centers	21
Manufacturing sites	40
Assets*	9,735

3 Latin America

Sales*	1,439
Number of employees	3,189
Employees female	37 %
Employees male	63 %
R&D centers	3
Manufacturing sites	6
Assets*	947

4 North America

Sales*	7,041
Number of employees	29,233
Employees female	35 %
Employees male	65%
R&D centers	22
Manufacturing sites	40
Assets*	10,520

* In millions of euros
2013 R&D centers includes group and sector centers

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 EBITA 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

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
EBITA[1]	1,435	1,106	2,451
as a % of sales	6.8	4.7	10.5
EBIT	(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 Annual 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.
- EBIT amounted to EUR 1,991 million, or 8.5% of sales, compared to EUR 648 million, or 2.8% of sales, in 2012. EBIT 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.

4.1.1 Sales

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 %

	compara-ble growth	currency effects	consolida-tion 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.

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

4.1.2 Earnings

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, EBIT and EBITA according to the 2013 sector classifications.

Sales, EBIT and EBITA
in millions of euros unless otherwise stated

	sales	EBIT	%	EBITA[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 Annual Report

In 2013, EBIT 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 EBIT 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 EBIT 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 EBIT 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.

EBITA 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. EBITA showed a year-on-year increase at all Sectors.

Healthcare

EBITA 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. EBITA 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

EBITA 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 EBITA included a EUR 160 million gain on the Senseo transaction, while 2013 EBITA included a past-service pension cost gain of EUR 1 million.

Lighting

EBITA 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 EBITA included EUR 81 million of losses related to the sale of industrial assets, while 2013 EBITA included a past-service pension cost gain of EUR 10 million. Excluding these impacts, the increase in EBITA was mainly attributable to higher operational performance.

Innovation, Group & Services

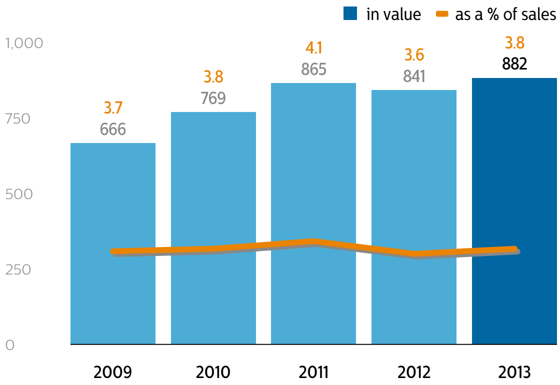
EBITA improved from a loss of EUR 704 million in 2012 to a loss of EUR 239 million in 2013. Restructuring and acquisition-related charges amounted to EUR 3 million in 2013, compared to EUR 56 million in 2012. 2013 EBITA included a net EUR 25 million loss from a past-service pension cost gain and related settlement loss. 2012 EBITA 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 Annual Report.

4.1.3 Advertising & Promotion

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.

Advertising & Promotion expenses
in millions of euros

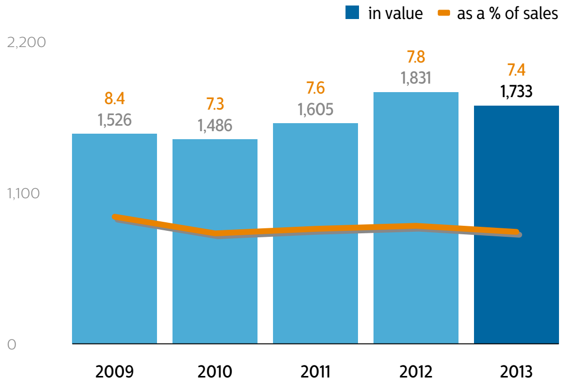


Philips increased its brand value by 8% in 2013 to over USD 9.8 billion in the ranking of the world's 100 most valuable brands, as measured by Interbrand. In the 2013 listing, Philips moved up one position to the 40th most valuable brand in the world.

4.1.4 Research and development

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 expenses
in millions of euros



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, 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

4.1.5 Pensions

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.

4.1.6 Restructuring and impairment charges

In 2013, EBIT 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).

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

4.1.7 Financial income and expenses

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.

4.1.8 Income taxes

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.

4.1.9 Results of investments in associates

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.

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.

4.1.10 Non-controlling interests

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

4.1.11 Discontinued operations

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.

4.1.12 Net income

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 EBIT 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.

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.

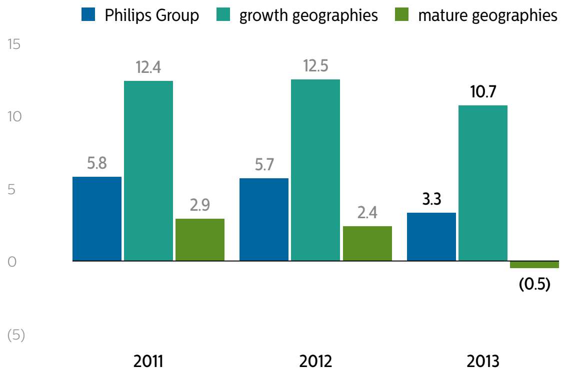
In 2011, Philips completed several divestments, of which Assembléon was the most significant. Philips sold 80% of the shares in Assembléon to H2 Equity Partners, an Amsterdam-based private equity firm, for a consideration of EUR 14 million.

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

4.1.14 Performance by geographic cluster

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

Comparable sales growth by geographic cluster[1]
in %

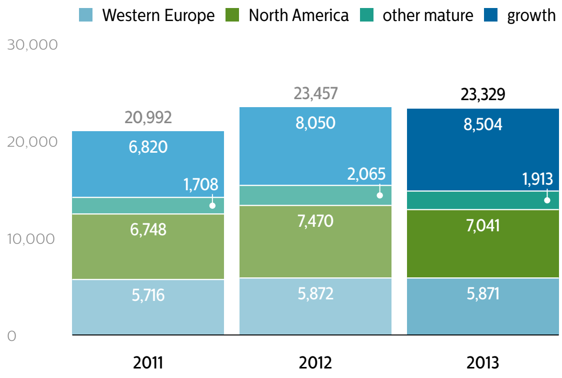


[1] For a reconciliation to the most directly comparable GAAP measures, see chapter 14, Reconciliation of non-GAAP information, of this Annual Report

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.

Sales per geographic cluster
in millions of euros

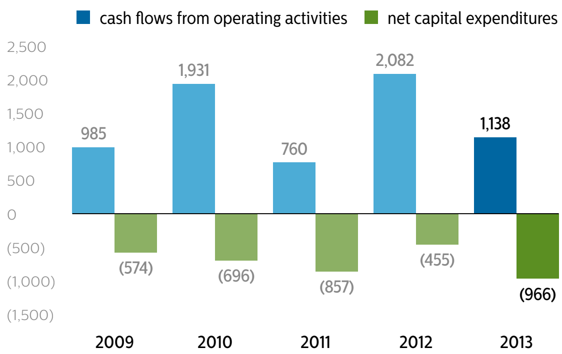


4.1.15 Cash flows provided by continuing operations

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.

Cash flows from operating activities and net capital expenditures
in millions of euros



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 Annual Report
[2] Please refer to chapter 14, Reconciliation of non-GAAP information, of this Annual Report

Cash flows from investing activities

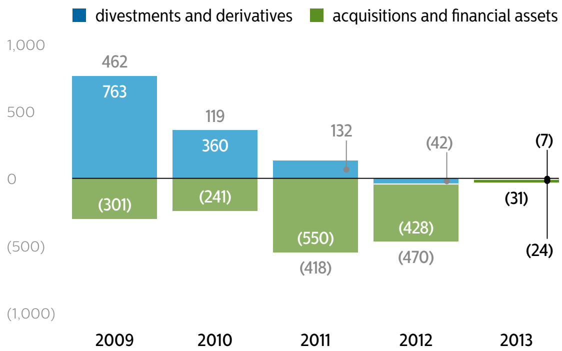
In 2013, cash flows from investing activities resulted in a net outflow of EUR 997 million. This was attributable to EUR 966 million cash used for net capital expenditures, EUR 101 million cash used for derivatives and current financial assets, as well as EUR 24 million used for acquisitions of businesses 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.

Cash flows from acquisitions and financial assets, divestments and derivatives
in millions of euros



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.

4.1.16 Cash flows from discontinued operations

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.

4.1.17 Financing

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)

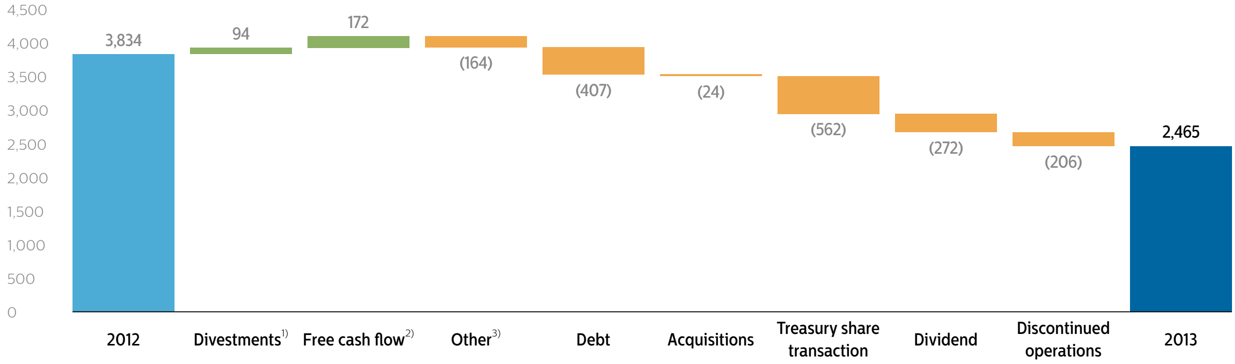
1) Please refer to section 11.6, Consolidated balance sheets, of this Annual Report

4.1.18 Cash and cash equivalents

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 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.

Cash balance movements
in millions of euros



1) Includes proceeds from divestment of Profile Pharma and Raytel Cardiac
2) Please refer to chapter 14, Reconciliation of non-GAAP information, of this Annual Report
3) Includes cash flow for derivatives and currency effect

4.1.19 Debt position

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.

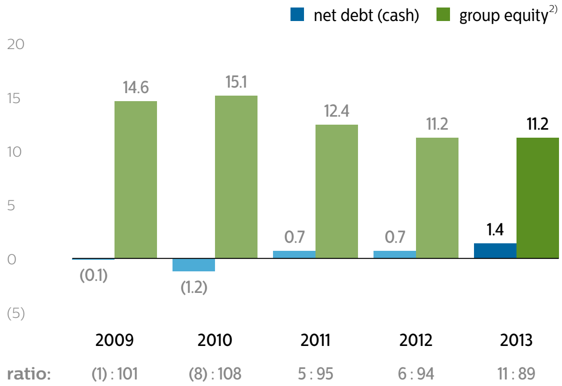
Long-term debt as a proportion of the total debt stood at 85% at the end of 2013 with an average remaining term of 12.8 years, compared to 82% and 12.7 years at the end of 2012.

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

4.1.20 Net debt to group equity

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.

Net debt (cash) to group equity[1]
in billions of euros



1) For a reconciliation to the most directly comparable GAAP measures, see chapter 14, Reconciliation of non-GAAP information, of this Annual Report
2) Shareholders' equity and non-controlling interests

4.1.21 Shareholders' equity

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).

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).

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.

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

4.4 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 Annual 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.

5 Sector performance

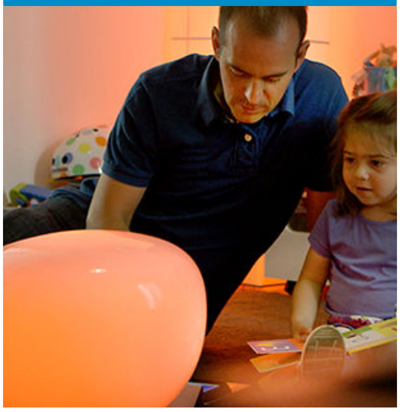
Healthcare

- Imaging Systems
- Home Healthcare Solutions
- Patient Care & Clinical Informatics
- Customer Services

Consumer Lifestyle

- Personal Care
- Domestic Appliances
- Health & Wellness

Lighting



- Light Sources & Electronics
- Consumer Luminaires
- Professional Lighting Solutions
- Automotive Lighting
- Lumileds

Innovation, Group & Services

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

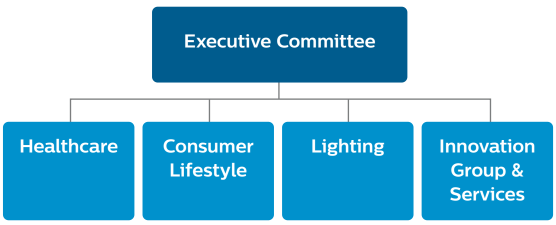
Our structure

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.

Organizational chart



Members of the Board of Management and certain key officers together form the Executive Committee

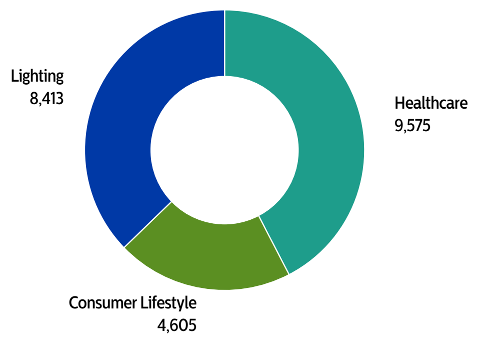
At the end of 2013, Philips had 111 production sites in 28 countries, sales and service outlets in approximately 100 countries, and 114,689 employees.

Sales, EBIT and EBITA 2013
in millions of euros unless otherwise stated

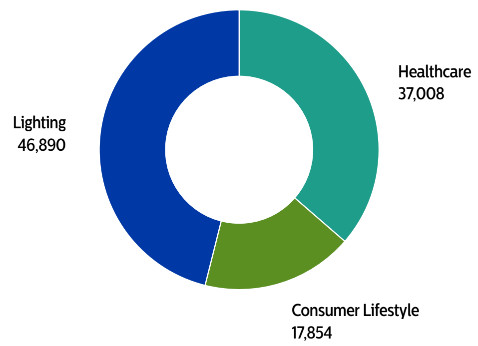
	sales	EBIT	%	EBITA[1]	%
Healthcare	9,575	1,315	13.7	1,512	15.8
Consumer Lifestyle	4,605	429	9.3	483	10.5
Lighting	8,413	489	5.8	695	8.3
Innovation, Group & Services	736	(242)	–	(239)	–
Philips Group	23,329	1,991	8.5	2,451	10.5

[1] For a reconciliation to the most directly comparable GAAP measures, see chapter 14, Reconciliation of non-GAAP information, of this Annual Report

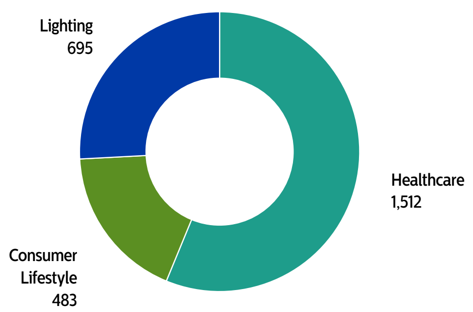
Sales per operating sector 2013
in millions of euros



Employees per operating sector 2013
in FTEs at year-end



EBITA per operating sector 2013[1]
in millions of euros



[1] For a reconciliation to the most directly comparable GAAP measures, see chapter 14, Reconciliation of non-GAAP information, of this Annual 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.

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.

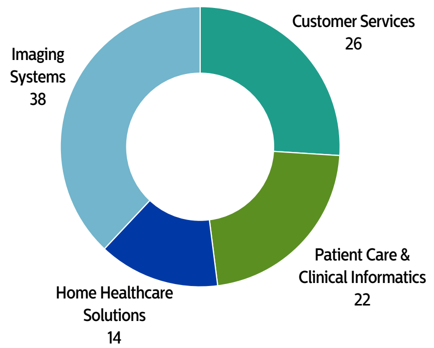
Philips is one of the world's leading healthcare companies (based on sales) along with General Electric and Siemens. The United States, our largest market, represented 40% of Healthcare's global sales in 2013, followed by China, Japan and Germany. Growth geographies accounted for 25% of Healthcare sales.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

Total sales by business 2013
as a %



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 Annual 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
EBITA [1]	1,080	1,226	1,512
as a % of sales	12.2	12.3	15.8
EBIT	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 Annual 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.

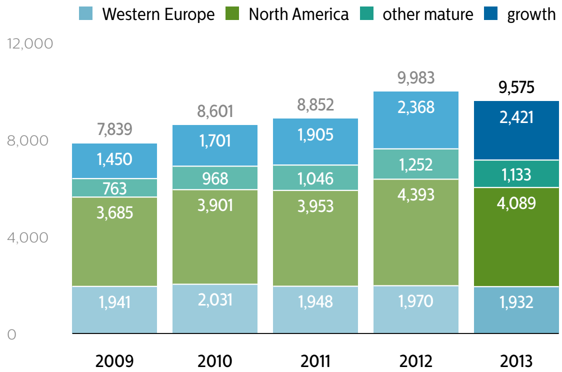
EBITA increased from EUR 1,226 million, or 12.3% of sales, in 2012 to EUR 1,512 million, or 15.8% of sales, in 2013. All businesses delivered improved EBITA, largely as a result of cost-saving programs related to overhead reduction. Restructuring and acquisition-related charges were close to zero, compared with EUR 134 million in 2012. EBITA 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.

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

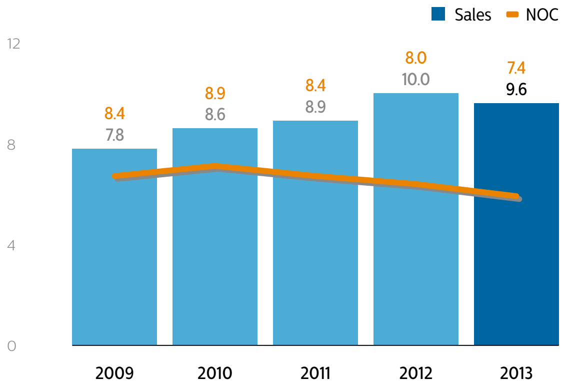
Net operating capital decreased by EUR 539 million to EUR 7.4 billion, mainly due to currency effects and lower fixed assets.

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.

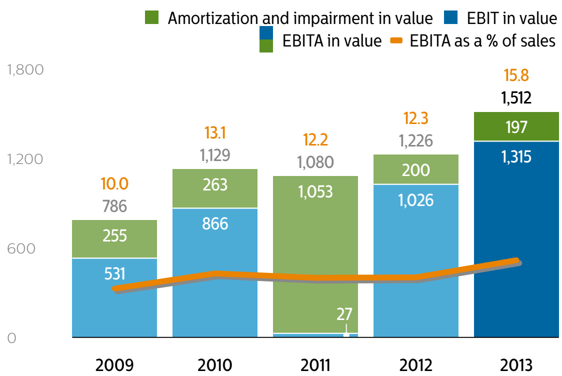
Sales per geographic cluster
in millions of euros



Sales and net operating capital
in billions of euros



EBIT and EBITA[1]
in millions of euros



[1] For a reconciliation to the most directly comparable GAAP measures, see chapter 14, Reconciliation of non-GAAP information, of this Annual Report

5.1.5 Delivering on EcoVision sustainability commitments

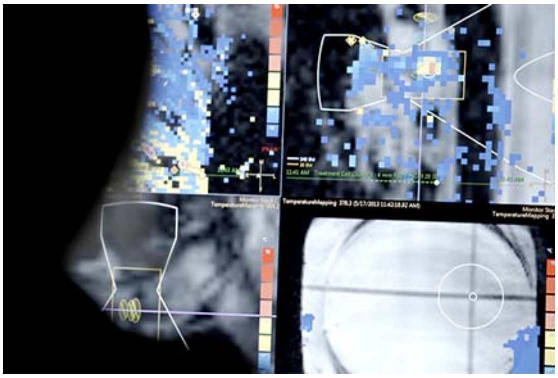
The increasing population and rising levels of human development worldwide pose a number of challenges, such as scarcity of natural resources, pollution, and stressed health care systems. Philips Healthcare continues to help increase the number of lives improved annually around the globe by developing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

Guiding cancer care: a new approach to therapy

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.

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.

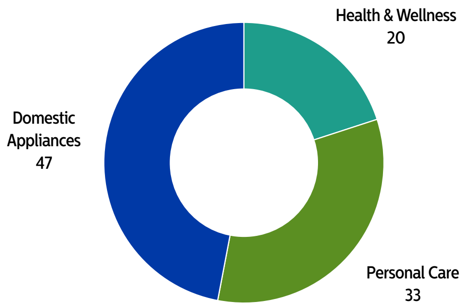
Our end-to-end approach is accelerating our specialist capability development in mature markets, to enable effective partnerships with customers and consumers, and in growth geographies, to enable development of go-to-market strategies. Additionally, an extensive change program has instilled an organizational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

Total sales by business 2013
as a %



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 Annual 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
EBITA [1]	153	456	483
as a % of sales	4.1	10.6	10.5
EBIT	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 Annual 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.

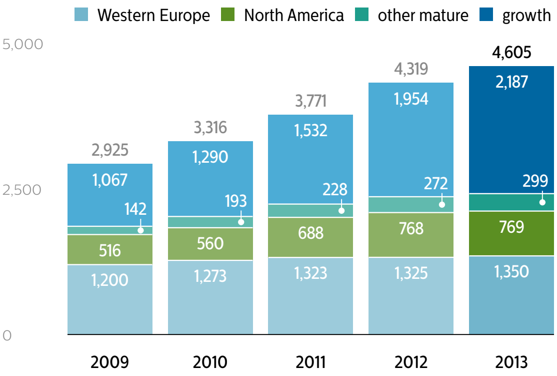
EBITA increased from EUR 456 million, or 10.6% of sales, in 2012 to EUR 483 million, or 10.5% of sales, in 2013. Restructuring and acquisition-related charges amounted to EUR 14 million in 2013, compared to EUR 56 million in 2012. EBITA in 2012 included a EUR 160 million one-time gain from the extension 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 EBITA increase was driven by improved earnings in all businesses.

EBIT 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.

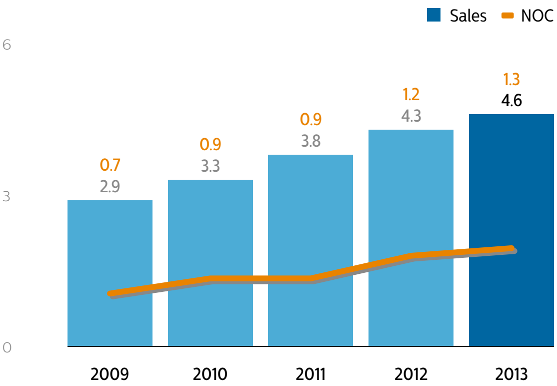
Net operating capital increased from EUR 1,205 million in 2012 to EUR 1,261 million in 2013, due to higher working capital and lower provisions.

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.

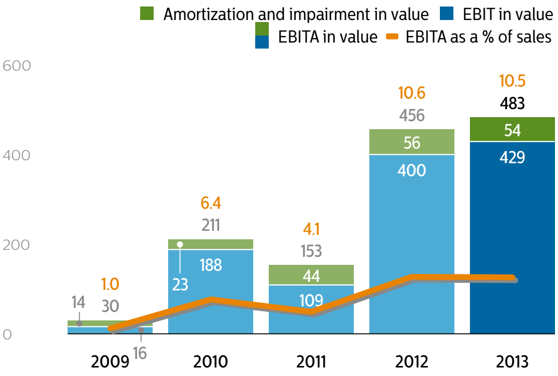
Sales per geographic cluster
in millions of euros



Sales and net operating capital
in billions of euros



EBIT and EBITA[1)]
in millions of euros



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

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

A confident man: smooth shaving with Philips SensoTouch

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 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.

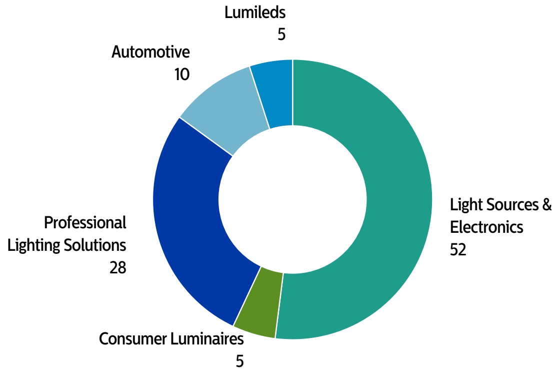
The conventional lamps industry is highly consolidated, with GE and Osram as key competitors. The LED lighting market, on the other hand, is very dynamic. We face new competition from Asia and new players from the semiconductor and building management sectors. The luminaires industry is fragmented, with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

Total sales by business 2013
as a %



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
EBITA [1]	399	128	695
as a % of sales	5.2	1.5	8.3
EBIT	(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 Annual 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.

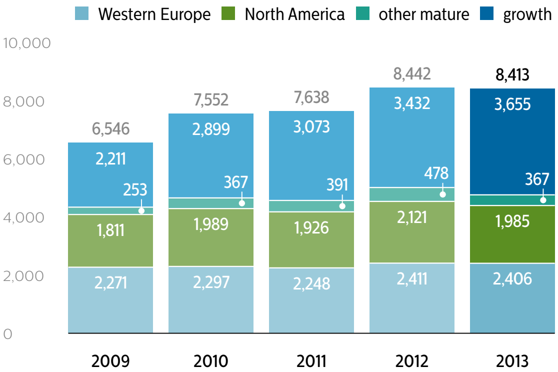
EBITA amounted to EUR 695 million, or 8.3% of sales, compared to EUR 128 million, or 1.5% of sales, in 2012. Restructuring and acquisition-related charges amounted to EUR 100 million in 2013, compared to EUR 315 million in 2012. The increase in EBITA was mainly attributable to higher operational earnings,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

EBIT 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.

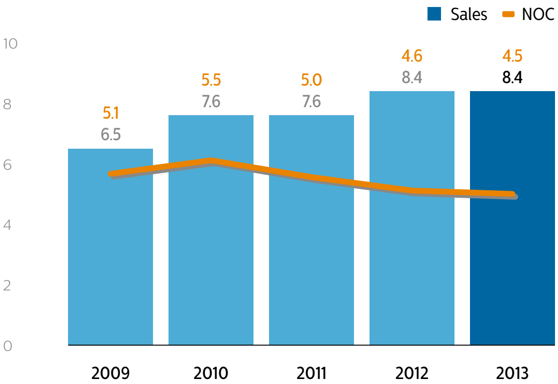
Net operating capital decreased by EUR 173 million to EUR 4.5 billion, primarily due to currency effects, partly offset by a reduction in restructuring provisions.

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.

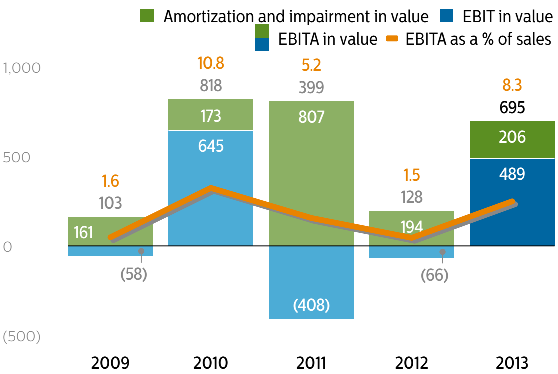
Sales per geographic cluster
in millions of euros



Sales and net operating capital
in billions of euros



EBIT and EBITA[1)]
in millions of euros



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

5.3.5 Delivering on EcoVision sustainability commitments

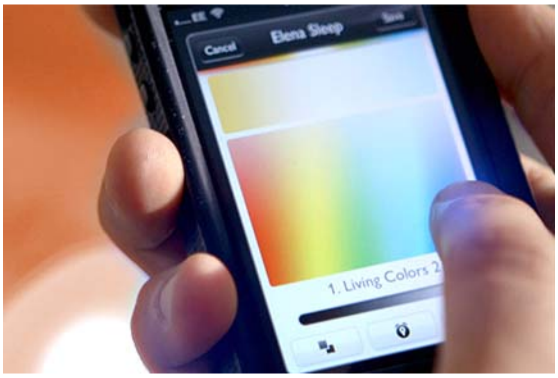
In 2013, Philips Lighting invested EUR 327 million in Green Innovation, compared to EUR 325 million in 2012. Investments continue to be made in energy-saving technologies such as LED, OLED and lighting controls and in the reduction of regulated substances in our product portfolio. In April, Philips announced 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

An inspired home: lighting up a little girl's day

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 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.

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)
EBITA 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)
EBITA [1]	(197)	(704)	(239)
EBIT	(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 Annual Report

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

EBITA in 2013 amounted to a loss of EUR 239 million, compared to a loss of EUR 704 million in 2012. In 2012, EBITA 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 EBITA 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.

EBITA 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, EBITA 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, EBITA was positively impacted by a EUR 25 million gain from a change in a medical retiree plan.

EBITA at Service Units and Other increased from a loss of EUR 543 million in 2012 to a loss of EUR 64 million. In 2012, EBITA 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 EBITA 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.

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 Annual 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 chapter 18, Forward-looking statements and other information, of this Annual Report and the overview of risk factors described in section 6.2, Risk categories and factors, of this Annual 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 Annual 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 Annual 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 Annual 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

Risks

Strategic	Operational	Compliance	Financial
• Macroeconomic changes • Changes in industry/market • Growth emerging markets • Joint ventures • Acquisitions • Intellectual property rights	• Transformation program • Innovation process • Supply chain • IT • People • Product quality and liability • Reputation	• Legal • Market practices • Regulatory • General business principles • Internal controls • Data privacy/Product security	• Treasury • Tax • Pensions • Accounting and reporting

Corporate Governance

Philips Business Control Framework

Philips General Business Principles

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.

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.

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)

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 Annual 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

Jim Andrew

Executive Vice President & Chief Strategy and Innovation Officer
Corporate responsibilities: Strategy, Innovation, Design, Sustainability
Born 1962, American

Eric Coutinho

Executive Vice President, General Secretary & Chief Legal Officer
Corporate responsibilities: Legal, General Business Principles
Born 1951, Dutch

Deborah DiSanzo

Executive Vice President & Chief Executive Officer of Philips Healthcare
Corporate responsibilities: Sector Healthcare
Born 1960, American

Ronald de Jong

Executive Vice President & Chief Market Leader
Corporate responsibilities: Markets, Areas & Countries (except Greater China), Accelerate! - Customer Centricity
Born 1967, Dutch

Patrick Kung

Executive Vice President & Chief Executive Officer Philips Greater China
Corporate responsibilities: Philips Greater China
Born 1951, American

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

Eric Rondolat

Executive Vice President & Chief Executive Officer Philips Lighting
Corporate responsibilities: Sector Lighting
Born 1966, Italian/French

Carole Wainaina

Executive Vice President & Chief Human Resources Officer
Corporate responsibilities: Human Resource Management, Accelerate! - Culture and change management
Born 1966, Kenyan

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

From top to bottom, from left to right: Frans van Houten, Ron Wirahadiraksa, Deborah DiSanzo, Ronald de Jong, Jim Andrew, Pieter Nota, Eric Coutinho, Eric Rondolat, Carole Wainaina, Patrick Kung

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 Annual Report and section 10.2, Supervisory Board, of this Annual 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

From top to bottom, from left to right: Neelam Dhawan, Jackson Tai, Ewald Kist, Heino von Prondzynski, Christine Poon, James Schiro, Kees van Lede, Jeroen van der Veer

11 Group financial statements

Introduction

This section of the Annual Report contains the audited consolidated financial statements including the notes thereon that have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code. 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 some 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.

Together with the section Company financial statements, this section contains the statutory financial statements of the Company.

The following sections and chapters:

- chapter 1, Accelerate!, of this Annual Report
- chapter 2, Building a great company, of this Annual Report
- chapter 3, Delivering innovation that matters to you, of this Annual Report
- chapter 4, Group performance, of this Annual Report
- chapter 5, Sector performance, of this Annual Report
- chapter 6, Risk management, of this Annual Report
- section 9.1, Report of the Corporate Governance and Nomination & Selection Committee, of this Annual Report
- section 9.2, Report of the Remuneration Committee, of this Annual Report
- chapter 10, Corporate governance, of this Annual Report
- chapter 18, Forward-looking statements and other information, of this Annual Report

form the Management report within the meaning of section 2:391 of the Dutch Civil Code (and related Decrees).

The sections Group performance and Sector performance provide an extensive analysis of the developments during the financial year 2013 and the results. The term EBIT has the same meaning as Income from operations (IFO), and is used to evaluate the performance of the business. These sections also provide information on the business outlook, investments, financing, personnel and research and development activities.

The Statement of income included in the section Company financial statements has been prepared in accordance with section 2:402 of the Dutch Civil Code, which allows a simplified Statement of income in the Company financial statements in the event that a comprehensive Statement of income is included in the consolidated Group financial statements.

For 'Additional information' within the meaning of section 2:392 of the Dutch Civil Code, please refer to section 11.10, Independent auditor's report - Group, of this Annual Report on the Group financial statements, section 12.5, Independent auditor's report - Company, of this Annual Report on the Company financial statements, section 4.4, Proposed distribution to shareholders, of this Annual Report, and note 36, Subsequent events.

Please refer to chapter 18, Forward-looking statements and other information, of this Annual Report for more information about forward-looking statements, third-party market share data, fair value information, and revisions and reclassifications.

The Board of Management of the Company hereby declares that, to the best of our knowledge, the Group financial statements and Company financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole and that the management report referred to above gives a true and fair view concerning the position as per the balance sheet date, the development and performance of the business during the financial year of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks that they face.

Board of Management
Frans van Houten
Ron Wirahadiraksa
Pieter Nota

February 25, 2014

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11.1 Management's report on internal control
11.2 Report of the independent auditor
11.3 Auditor's report on internal control over financial reporting

11.4 Consolidated statements of income

in millions of euros unless otherwise stated

Consolidated statements of income of the Philips Group for the years ended December 31

		2011	2012	2013
	Sales	20,992	23,457	23,329
	Cost of sales	(12,732)	(14,466)	(13,641)
	Gross margin	8,260	8,991	9,688
	Selling expenses	(5,025)	(5,334)	(5,075)
	General and administrative expenses	(802)	(845)	(949)
	Research and development expenses	(1,605)	(1,831)	(1,733)
11	Impairment of goodwill	(1,355)	-	(28)
	Other business income	124	275	123
	Other business expenses	(76)	(608)	(35)
3	Income from operations	(479)	648	1,991
4	Financial income	113	106	70
4	Financial expenses	(444)	(435)	(400)
	Income before taxes	(810)	319	1,661
5	Income tax expense	(251)	(185)	(466)
	Income (loss) after taxes	(1,061)	134	1,195
6	Results relating to investments in associates:			
	- Company's participation in income	18	(5)	5
	- Other results	(3)	(206)	(30)
	Income (loss) from continuing operations	(1,046)	(77)	1,170
7	Discontinued operations - net of income tax	(410)	47	2
	Net income (loss)	(1,456)	(30)	1,172
	Attribution of net income (loss)			
	Net income (loss) attributable to shareholders	(1,460)	(35)	1,169
	Net income (loss) attributable to non-controlling interests	4	5	3

Earnings per common share attributable to shareholders

		2011	2012	2013
	Basic earnings per common share in euros			
8	Income (loss) from continuing operations attributable to shareholders	(1.10)	(0.09)	1.28
8	Net income (loss) attributable to shareholders	(1.53)	(0.04)	1.28
	Diluted earnings per common share in euros[1]			
8	Income (loss) from continuing operations attributable to shareholders	(1.10)	(0.09)	1.27
8	Net income (loss) attributable to shareholders	(1.53)	(0.04)	1.27

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). The accompanying notes are an integral part of these consolidated financial statements.

[1] The Dilutive potential common shares are not taken into account in the periods for which there is a loss, as the effect would be antidilutive

11.5 Consolidated statements of comprehensive income

in millions of euros unless otherwise stated

Consolidated statements of comprehensive income of the Philips Group for the years ended December 31

	2011	2012	2013
Net income (loss) for the period	(1,456)	(30)	1,172
Other comprehensive income items that will not be reclassified to profit or loss:			
Pensions and other post-employment plans:			
Remeasurements	(404)	(206)	139
Income tax effect on remeasurements	120	60	(77)
Revaluation reserve:			
Release revaluation reserve	(16)	(16)	(31)
Reclassification directly into retained earnings	16	16	31
Total of items that will not be reclassified to profit or loss	(284)	(146)	62
Other comprehensive income items that are or may be reclassified to profit or loss:			
Currency translation differences:			
Net current period change, before tax	71	(99)	(427)
Income tax effect	(2)	-	(35)
Reclassification adjustment for gain (loss) realized	3	(1)	(14)
Available-for-sale financial assets:			
Net current period change, before tax	(87)	8	(5)
Income tax effect	19	(2)	-
Reclassification adjustment for (loss) gain realized	(26)	3	6
Cash flow hedges:			
Net current period change, before tax	(31)	23	68
Income tax effect	-	(8)	(2)
Reclassification adjustment for (loss) gain realized	27	14	(62)
Total of items that are or may be reclassified to profit or loss	(26)	(62)	(471)
Other comprehensive (loss) income for period	(310)	(208)	(409)
Total comprehensive income (loss) for the period	(1,766)	(238)	763
Total comprehensive income (loss) attributable to:			
Shareholders	(1,770)	(243)	760
Non-controlling interests	4	5	3

The Consolidated statements of comprehensive income have been restated for the adoption of IAS 19R, which mainly relates to pension reporting (see note 30, Post-employment benefits). The accompanying notes are an integral part of these consolidated financial statements.

11.6 Consolidated balance sheets

in millions of euros unless otherwise stated

Consolidated balance sheets of the Philips Group as of December 31

Assets

Note			2012		2013
	Non-current assets				
10 25	Property, plant and equipment:				
	- At cost	7,880		7,692	
	- Less accumulated depreciation	(4,921)		(4,912)	
			2,959		2,780
11	Goodwill		6,948		6,504
12	Intangible assets excluding goodwill:				
	- At cost	7,821		7,638	
	- Less accumulated amortization	(4,090)		(4,376)	
			3,731		3,262
13	Non-current receivables		176		144
6	Investments in associates		177		161
14	Other non-current financial assets		549		496
5	Deferred tax assets		1,919		1,675
15	Other non-current assets		94		63
	Total non-current assets		16,553		15,085
	Current assets				
16	Inventories - net		3,495		3,240
	Current financial assets		-		10
17	Other current assets		337		354
34	Derivative financial assets		137		150
5	Income tax receivable		97		70
18 32	Receivables:				
	- Accounts receivable - net	4,334		4,420	
	- Accounts receivable from related parties	13		39	
	- Other current receivables	238		219	
			4,585		4,678
7	Assets classified as held for sale		43		507
35	Cash and cash equivalents		3,834		2,465
	Total current assets		12,528		11,474
26	Contingent assets				
	Total assets		29,081		26,559

Equity and liabilities

Note			2012		2013
	Equity				
19	Shareholders' equity:				
	Preference shares, par value EUR 0.20 per share:				
	- Authorized: 2,000,000,000 shares (2012: 2,000,000,000 shares), issued none				
	Common shares, par value EUR 0.20 per share:				
	- Authorized: 2,000,000,000 shares (2012: 2,000,000,000 shares)				
	- Issued and fully paid: 937,845,789 shares (2012: 957,132,962 shares)	191		188	
	Capital in excess of par value	1,304		1,796	
	Retained earnings	10,724		10,415	
	Revaluation reserve	54		23	
	Currency translation differences	(93)		(569)	
	Available-for-sale financial assets	54		55	
	Cash flow hedges	20		24	
	Treasury shares, at cost 24,508,022 shares (2012: 42,541,687 shares)	(1,103)		(718)	
			11,151		11,214
19	Non-controlling interests		34		13
	Group equity		11,185		11,227
	Non-current liabilities				
20 25	Long-term debt		3,725		3,309
21 26 30	Long-term provisions		2,119		1,903
5	Deferred tax liabilities		92		76
22	Other non-current liabilities		2,005		1,568
	Total non-current liabilities		7,941		6,856
	Current liabilities				
20 25	Short-term debt		809		592
34	Derivative financial liabilities		517		368
5	Income tax payable		200		143
25 32	Accounts and notes payable:				
	- Trade creditors	2,835		2,458	
	- Accounts payable to related parties	4		4	
			2,839		2,462
23	Accrued liabilities		3,171		2,830
21 26 30	Short-term provisions		837		651
7	Liabilities directly associated with assets held for sale		27		348
24	Other current liabilities		1,555		1,082
	Total current liabilities		9,955		8,476
25 26	Contractual obligations and contingent liabilities				
	Total liabilities and group equity		29,081		26,559

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). The accompanying notes are an integral part of these consolidated financial statements.

11.7 Consolidated statements of cash flows

in millions of euros

Consolidated statements of cash flows of the Philips Group for the years ended December 31

	2011	2012	2013
Cash flows from operating activities			
Net income (loss)	(1,456)	(30)	1,172
Result of discontinued operations - net of income tax	410	(47)	(2)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, amortization, and impairments of fixed assets	1,400	1,398	1,349
Impairment of goodwill and other non-current financial assets	1,387	14	38
Net gain on sale of assets	(88)	(141)	(54)
Loss (income) from investments in associates	(14)	5	25
Dividends received from investments in associates	44	15	6
Dividends paid to non-controlling interests	(4)	(4)	(7)
(Increase) decrease in working capital	(622)	546	(1,417)
Increase in receivables and other current assets	(363)	(191)	(530)
Increase in inventories	(216)	(32)	(165)
(Decrease) increase in accounts payable, accrued and other current liabilities	(43)	769	(722)
Increase in non-current receivables, other assets and other liabilities	(425)	(327)	(76)
(Decrease) increase in provisions	15	429	(194)
Other items	113	224	298
Net cash provided by operating activities	760	2,082	1,138
Cash flows from investing activities			
Purchase of intangible assets	(69)	(34)	(49)
Proceeds from sale of intangible assets	-	160	-
Expenditures on development assets	(276)	(345)	(357)
Capital expenditures on property, plant and equipment	(640)	(661)	(587)
Proceeds from sales of property, plant and equipment	128	425	27
27 Cash from (used for) derivatives and current financial assets	26	(46)	(101)
Purchase of other non-current financial assets	(43)	(167)	(13)
28 Proceeds from other non-current financial assets	87	3	15
Purchase of businesses, net of cash acquired	(507)	(261)	(11)
Proceeds from sale of interests in businesses, net of cash disposed of	19	1	79
Net cash used for investing activities	(1,275)	(925)	(997)
Cash flows from financing activities			
Proceeds from issuance (payments) of short-term debt	(217)	133	(285)
Principal payments of long-term debt	(1,097)	(631)	(186)
Proceeds from issuance of long-term debt	454	1,228	64
Treasury shares transactions	(671)	(768)	(562)
Dividends paid	(259)	(255)	(272)
Net cash used for financing activities	(1,790)	(293)	(1,241)
Net cash (used for) provided by continuing operations	(2,305)	864	(1,100)

	2011	2012	2013
Cash flows from discontinued operations			
Net cash (used for) provided by operating activities	(280)	(166)	(159)
Net cash (used for) provided by investing activities	(94)	40	(47)
Net cash used for discontinued operations	(374)	(126)	(206)
Net cash (used for) provided by continuing and discontinued operations	(2,679)	738	(1,306)
Effect of changes in exchange rates on cash and cash equivalents	(7)	(51)	(63)
Cash and cash equivalents at the beginning of the year	5,833	3,147	3,834
Cash and cash equivalents at the end of the year	3,147	3,834	2,465

Supplemental disclosures to the Consolidated statements of cash flows

	2011	2012	2013
Cash flows from:			
Interest paid	(269)	(273)	(267)
Interest received	38	34	52
Pensions	(639)	(610)	(679)
Income taxes	(582)	(359)	(454)
Net gain on sale of assets:			
Cash proceeds from the sale of assets	234	589	121
Book value of these assets	(164)	(473)	(63)
Deferred results on sale and leaseback transactions	-	25	(4)
Non-cash proceeds	18	-	-
	88	141	54
Non-cash investing and financing information			
29 Assets in lieu of cash from the sale of businesses:			
Shares/share options/convertible bonds (continuing operations)	18	-	-
Shares/share options/convertible bonds (discontinued operations)	-	17	-
Conversion of convertible personnel debentures	-	4	7
Treasury shares transactions:			
Shares acquired	(751)	(816)	(669)
Exercise of stock options	80	48	107

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). The accompanying notes are an integral part of these consolidated financial statements.
For a number of reasons, principally the effects of translation differences and consolidation changes, certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items.

11.8 Consolidated statements of changes in equity

in millions of euros unless otherwise stated

Consolidated statements of changes in equity of the Philips Group

	common share	capital in excess of par value	retained earnings	revaluation reserve	currency translation differences	available-for-sale financial assets	cash flow hedges	treasury shares at cost	total shareholders' equity	non-controlling interests	total equity
Balance as of Jan. 1, 2011	197	354	15,391	86	(65)	139	(5)	(1,076)	15,021	46	15,067
Total comprehensive income (loss)			(1,728)	(16)	72	(94)	(4)	–	(1,770)	4	(1,766)
Dividend distributed	5	443	(711)						(263)		(263)
Movement in non-controlling interests			(5)						(5)	(16)	(21)
Cancellation of treasury shares	–	–	–					–	–		–
Purchase of treasury shares		–	(51)					(700)	(751)		(751)
Re-issuance of treasury shares		(34)	(6)					86	46		46
Share-based compensation plans		56	–						56		56
Income tax share-based compensation plans		(6)	–						(6)		(6)
Balance as of Dec. 31, 2011	202	813	12,890	70	7	45	(9)	(1,690)	12,328	34	12,362
Total comprehensive income (loss)			(165)	(16)	(100)	9	29	–	(243)	5	(238)
Dividend distributed	6	422	(687)						(259)		(259)
Movement in non-controlling interests			–						–	(5)	(5)
Cancellation of treasury shares	(17)	–	(1,221)					1,238	–		–
Purchase of treasury shares		–	(47)					(769)	(816)		(816)
Re-issuance of treasury shares		(22)	(46)					118	50		50
Share-based compensation plans		84	–						84		84
Income tax share-based compensation plans		7	–						7		7
Balance as of Dec. 31, 2012	191	1,304	10,724	54	(93)	54	20	(1,103)	11,151	34	11,185
Total comprehensive income (loss)			1,262	(31)	(476)	1	4	–	760	3	763
Dividend distributed	4	402	(678)						(272)		(272)
Movement in non-controlling interests			–						–	(24)	(24)
Cancellation of treasury shares	(7)		(780)					787	–		–
Purchase of treasury shares			(38)					(631)	(669)		(669)
Re-issuance of treasury shares		(36)	(75)					229	118		118
Share-based compensation plans		105							105		105
Income tax share-based compensation plans		21							21		21
Balance as of Dec. 31, 2013	188	1,796	10,415	23	(569)	55	24	(718)	11,214	13	11,227

11.9 Notes

all amounts in millions of euros unless otherwise stated

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).

Notes to the Consolidated financial statements of the Philips Group

1 Significant accounting policies

The Consolidated financial statements in this section have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code. 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 some of the 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. These accounting policies have been applied by group entities.

The Consolidated financial statements have been prepared under the historical cost convention, unless otherwise indicated.

The Consolidated financial statements are presented in euros, which is the Company's presentation currency.

On February 25, 2014, the Board of Management authorized the Consolidated financial statements for issue. The Consolidated financial statements as presented in this report are subject to the adoption by the Annual General Meeting of Shareholders, to be held on May 1, 2014.

Use of estimates

The preparation of the Consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates inherently contain certain degree of uncertainty. Actual results may differ from these estimates under different assumptions or conditions.

These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the Consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. We evaluate these estimates and judgments on an ongoing basis and base our estimates on historical experience, current and expected future outcomes, third-party evaluations and various other assumptions that we believe are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. We revise material estimates if changes occur in the circumstances or there is new information or experience on which an estimate was or can be based.

Estimates significantly impact goodwill and other intangibles acquired, tax on activities disposed, impairments, financial instruments, the accounting for an arrangement containing a lease, revenue recognition (multiple element arrangements), assets and liabilities from employee benefit plans, other provisions and tax and other contingencies, classification of assets and liabilities held for sale and the presentation of items of profit and loss and cash flows as continued or discontinued. The fair values of acquired identifiable intangible assets are based on an assessment of future cash flows. Impairment analyses of goodwill, intangible assets not yet ready for use and indefinite-lived intangible assets are performed annually and whenever a triggering event has occurred to determine whether the carrying value exceeds the recoverable amount. These analyses generally are based on estimates of future cash flows.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select from a variety of common valuation methods including the discounted cash flow method and option valuation models and to make assumptions that are mainly based on market conditions existing at each balance sheet date.

Actuarial assumptions are established to anticipate future events and are used in calculating post-employment benefit expenses and liabilities. These factors include assumptions with respect to interest rates, rates of increase in health care costs, rates of future compensation increases, turnover rates and life expectancy.

Prior-year information

The presentation of certain prior-year information has been reclassified to conform to the current year presentation, including the 2011 presentation of adjustments to the results of prior year's divestments reported as discontinued operations as a consequence of the resolution of uncertainties that arose from the relevant sales agreements. As a result, an income tax benefit of EUR 30 million was retrospectively reclassified in the 2011 comparative figures from income tax expense of continuing operations to income tax from discontinued operations.

Basis of consolidation

The Consolidated financial statements include the accounts of Koninklijke Philips N.V. ('the Company') and all subsidiaries that the Company controls, i.e. when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effect of potential voting rights are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. All intercompany balances and transactions have been eliminated in the Consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Business combinations

Business combinations are accounted for using the acquisition method. Under the acquisition method, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree are recognized at the acquisition date, which is the date on which control is transferred to the Company.

For acquisitions on or after January 1, 2010, the Company measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss (hereafter referred to as the Statement of income).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the Statement of income.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date and initially is presented as Long-term provisions. When timing and amount of the consideration become more certain, it is reclassified to Accrued liabilities. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the Statement of income.

Acquisitions between January 1, 2004 and January 1, 2010

For acquisitions between January 1, 2004 and January 1, 2010, goodwill represents the excess of the cost of the acquisition over the Company's interest in the recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurred in connection with business combinations were capitalized as part of the cost of the acquisition.

Acquisitions of and adjustments to non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

For changes to non-controlling interest without the loss of control, the difference between such change and any consideration paid or received is recognized directly in equity.

Loss of control
Upon the loss of control, the Company derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in the Statement of income. If the Company retains any interest in the previous subsidiary, then such interest is measured at fair value at the date the control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Investments in associates (equity-accounted investees)
Associates are all entities over which the Company has significant influence, but not control. Significant influence is presumed with a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Company's share of the net income of these companies is included in results relating to associates in the Statement of income, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term loans) is reduced to zero and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Remeasurement differences of equity stake resulting from gaining control over the investee previously recorded as associate are recorded under Results related to investments in associates.

Investments in associates include loans from the Company to these investees.

Accounting for capital transactions of a consolidated subsidiary or an associate
The Company recognizes dilution gains or losses arising from the sale or issuance of stock by a consolidated subsidiary or an associate in the Statement of income, unless the Company or the subsidiary either has reacquired or plans to reacquire such shares. In such instances, the result of the transaction is recorded directly in equity.

Dilution gains and losses arising in investments in associates are recognized in the Consolidated statements of income under Results relating to investments in associates.

Foreign currencies

Foreign currency transactions
The financial statements of all group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The euro (EUR) is the functional and presentation currency of the Company. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of income, except when deferred in Other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign currency differences arising from translation are recognized in profit or loss, except for available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognized in Other comprehensive income are reclassified to profit and loss), which are recognized in Other comprehensive income.

All exchange difference items are presented as part of Cost of sales, with the exception of tax items and financial income and expense, which are recognized in the same line item as they relate in the Statement of income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency using the exchange rate at the date the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of transaction.

Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euro at exchange rates at the dates of the transactions.

Foreign currency differences arising on translation of foreign operations into the Group's presentation currency are recognized in Other comprehensive income, and presented as part of Currency translation differences in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to the foreign operation is reclassified to the Statement of income as part of the gain or loss on disposal. When the Company disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to Non-controlling interests. When the Company disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the Statement of income.

Financial instruments

Non-derivative financial instruments
Non-derivative financial instruments are recognized initially at fair value when the Company becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial instruments are accounted for at the trade date. Dividend and interest income are recognized when earned. Gains or losses, if any, are recorded in Financial income and expense.

Non-derivative financial instruments comprise cash and cash equivalents, receivables, other non-current financial assets and debt and other financial liabilities that are not designated as hedges.

Cash and cash equivalents
Cash and cash equivalents include all cash balances and short-term highly liquid investments with an original maturity of three months or less that are readily convertible into known amounts of cash.

Receivables
Receivables are carried at the lower of amortized cost or the present value of estimated future cash flows, taking into account discounts given or agreed. The present value of estimated future cash flows is determined through the use of value adjustments for uncollectible amounts. As soon as individual trade accounts receivable can no longer be collected in the normal way and are expected to result in a loss, they are designated as doubtful trade accounts receivable and valued at the expected collectible amounts. They are written off when they are deemed to be uncollectible because of bankruptcy or other forms of receivership of the debtors. The allowance for the risk of non-collection of trade accounts receivable takes into account credit-risk concentration, collective debt risk based on average historical losses, and specific circumstances such as serious adverse economic conditions in a specific country or region.

In the event of sale of receivables and factoring, the Company derecognizes receivables when the Company has given up control or continuing involvement, which is deemed to have occurred when:

- the Company has transferred its rights to receive cash flows from the receivables or has assumed an obligation to pay the received cash flows in full without any material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Company has transferred substantially all of the risks and rewards of the ownership of the receivables, or (b) the Company has neither transferred nor retained substantially all of the risks and rewards, but has transferred control of the assets.

However, in case the Company neither transfers nor retains substantially all the risks and rewards of ownership of the receivables nor transfers control of the receivables, the receivable is recognized to the extent of the Company's continuing involvement in the assets. In this case, the Company also recognizes an associated liability. The transferred receivable and associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Other non-current financial assets
Other non-current financial assets include held-to-maturity investments, loans and available-for-sale financial assets and financial assets at fair value through profit or loss.

Held-to-maturity investments are those debt securities which the Company has the ability and intent to hold until maturity. Held-to-maturity debt investments are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts using the effective interest method.

Loans receivable are stated at amortized cost, less impairment.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available for sale-debt instruments are recognized in Other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to the Statement of income.

Available-for-sale financial assets including investments in privately-held companies that are not associates, and do not have a quoted market price in an active market and whose fair value could not be reliably determined, are carried at cost.

A financial asset is classified as fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company-documented risk management or investment strategy. Attributable transaction costs are recognized in the Statement of income as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Equity
Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. Where the Company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Dividends are recognized as a liability in the period in which they are declared. The income tax consequences of dividends are recognized when a liability to pay the dividend is recognized.

Debt and other liabilities
Debt and liabilities other than provisions are stated at amortized cost. However, loans that are hedged under a fair value hedge are remeasured for the changes in the fair value that are attributable to the risk that is being hedged.

Derivative financial instruments, including hedge accounting
The Company uses derivative financial instruments principally to manage its foreign currency risks and, to a more limited extent, for managing interest rate and commodity price risks. All derivative financial instruments are classified as current assets or liabilities and are accounted for at the trade date. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. The Company measures all derivative financial instruments at fair value derived from market prices of the instruments, or calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread, credit spreads and foreign exchange rates, or from option pricing models, as appropriate. Gains or losses arising from changes in fair value of derivatives are recognized in the Statement of income, except for derivatives that are highly effective and qualify for cash flow or net investment hedge accounting.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. For interest rate swaps designated as a fair value hedge of an interest bearing asset or liability that are unwound, the amount of the fair value adjustment to the asset or liability for the risk being hedged is released to the Statement of income over the remaining life of the asset or liability based on the recalculated effective yield.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge, are recorded in Other comprehensive income, until the Statement of income is affected by the variability in cash flows of the designated hedged item. To the extent that the hedge is ineffective, changes in the fair value are recognized in the Statement of income.

The Company formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is established that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively. When hedge accounting is discontinued because it is expected that a forecasted transaction will not occur, the Company continues to carry the derivative on the Balance sheet at its fair value, and gains and losses that were accumulated in equity are recognized immediately in the Statement of income. If there is a delay and it is expected that the transaction will still occur, the amount in equity remains there until the forecasted transaction affects income. In all other situations in which hedge accounting is discontinued, the Company continues to carry the derivative at its fair value on the Balance sheet, and recognizes any changes in its fair value in the Statement of income.

Foreign currency differences arising on the retranslation of financial instruments designated as a hedge of a net investment in a foreign operation are recognized directly as a separate component of equity through Other comprehensive income, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the Statement of income.

Offsetting and master netting agreements

The Company presents financial assets and financial liabilities on a gross basis as separate line items in the Consolidated balance sheet.

Master netting agreements may be entered into when the Company undertakes a number of financial instrument transactions with a single counterparty. Such an agreement provides for a net settlement of all financial instruments covered by the agreement in the event of default or certain termination events on any of the transactions. A master netting agreement may create a right of offset that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified termination event. However, if this contractual right is subject to certain limitations then it does not necessarily provide a basis for offsetting unless both of the offsetting criteria are met, i.e. there is a legally enforceable right and an intention to settle net or simultaneously.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The useful lives and residual values are evaluated annually.

Assets manufactured by the Company include direct manufacturing costs, production overheads and interest charges incurred for qualifying assets during the construction period. Government grants are deducted from the cost of the related asset. Depreciation is calculated using the straight-line method over the useful life of the asset. Depreciation of special tooling is generally also based on the straight-line method. Gains and losses on the sale of property, plant and equipment are included in Other business income. Costs related to repair and maintenance activities are expensed in the period in which they are incurred unless leading to an extension of the original lifetime or capacity.

Plant and equipment under finance leases and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. The gain realized on sale and operating leaseback transactions that are concluded based upon market conditions is recognized at the time of the sale.

The Company capitalizes interest as part of the cost of assets that take a substantial period of time to become ready for use, which is defined by the Company as a period of more than 6 months.

Goodwill

Measurement of goodwill at initial recognition is described under 'Basis of consolidation'. Goodwill is subsequently measured at cost less accumulated impairment losses. In respect of investment in associates, the carrying amount of goodwill is included in the carrying amount of investment, and an impairment loss on such investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of investment in associates.

Intangible assets other than goodwill

Acquired finite-lived intangible assets are amortized using the straight-line method over their estimated useful life. The useful lives are evaluated annually. Patents and trademarks with a finite useful life acquired from third parties either separately or as part of the business combination are capitalized at cost and amortized over their remaining useful lives. Intangible assets acquired as part of a business combination are capitalized at their acquisition-date fair value.

The Company expenses all research costs as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized as an intangible asset if the product or process is technically and commercially feasible and the Company has sufficient resources and the intention to complete development.

The development expenditure capitalized comprises of all directly attributable costs (including the cost of materials and direct labor). Other development expenditures and expenditures on research activities are recognized in the Statement of income. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses. Amortization of capitalized development expenditure is charged to the Statement of income on a straight-line basis over the estimated useful lives of the intangible assets.

Costs relating to the development and purchase of software for both internal use and software intended to be sold are capitalized and subsequently amortized over the estimated useful life.

Leased assets

Leases in which the Company is the lessee and has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to the Statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in other short-term and other non-current liabilities. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the assets and the lease term.

Leases in which substantially all risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in the Statement of income on a straight-line basis over the term of the lease.

Inventories

Inventories are stated at the lower of cost or net realizable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of conversion of inventories include direct labor and fixed and variable production overheads, taking into account the stage of completion and the normal capacity of production facilities. Costs of idle facility and abnormal waste are expensed. The cost of inventories is determined using the first-in, first-out (FIFO) method. Inventory is reduced for the estimated losses due to obsolescence. This reduction is determined for groups of products based on purchases in the recent past and/or expected future demand.

Provisions

Provisions are recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of possible outcomes against their associated probabilities.

The Company accrues for losses associated with environmental obligations when such losses are probable and can be estimated reliably. Measurement of liabilities is based on current legal and constructive requirements. Liabilities and expected insurance recoveries, if any, are recorded separately. The carrying amount of liabilities is regularly reviewed and adjusted for new facts and changes in law.

The provision for restructuring relates to the estimated costs of initiated reorganizations, the most significant of which have been approved by the Board of Management, and which generally involve the realignment of certain parts of the industrial and commercial organization. When such reorganizations require discontinuance and/or closure of lines of activities, the anticipated costs of closure or discontinuance are included in restructuring provisions. 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. Before a provision is established, the Company recognizes any impairment loss on the assets associated with the restructuring.

The Company provides for onerous contracts, based on the lower of the expected cost of fulfilling the contract and the expected net cost of terminating the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

The Company records a provision for decommissioning costs of certain facilities. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the Statement of income as a Financial expense. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

The Company is a provider of electrical equipment that falls under the EU Directive on Waste Electrical and Electronic Equipment (WEEE). The directive distinguishes between waste management of equipment sold to private households prior to a date as determined by each EU Member State (historical waste) and waste management of equipment sold to private households after that date (new waste). A provision for the expected costs of management of historical waste is recognized when the Company participates in the market during the measurement period as determined by each Member State, and the costs can be reliably measured. These costs are recognized as Other business expenses in the Statement of income. With respect to new waste, a provision for the expected costs is recognized when products that fall within the directive are sold and the disposal costs can be reliably measured. Derecognition takes place when the obligation expires, is settled or is transferred. These costs are recognized as part of Costs of sales. With respect to equipment sold to entities other than private households, a provision is recognized when the Company becomes responsible for the costs of this waste management, with the costs recognized as Other business expenses or Cost of sales as appropriate.

Impairment

Value in use is measured as the present value of future cash flows expected to be generated by the asset. If the carrying amount of an asset is deemed not recoverable, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the recoverable amount.

Impairment of goodwill, intangible assets not yet ready for use and indefinite-lived intangible assets

Goodwill, intangible assets not yet ready for use and indefinite-lived intangible assets are not amortized but tested for impairment annually and whenever impairment indicators require. In most cases the Company identified its cash generating units as one level below that of an operating segment. Cash flows at this level are substantially independent from other cash flows and this is the lowest level at which goodwill is monitored by the Executive Committee. The Company performed and completed annual impairment tests in the same quarter of all years presented in the Consolidated Statements of income. An impairment loss is recognized in the Statement of income whenever and to the extent that the carrying amount of a cash-generating unit exceeds the unit's recoverable amount, which is the greater of its value in use and fair value less cost to sell. An impairment loss on an investment in associates is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in associates.

Impairment of non-financial assets other than goodwill, intangible assets not yet ready for use, indefinite-lived intangible assets, inventories and deferred tax assets

Non-financial assets other than goodwill, intangible assets not yet ready for use, indefinite-lived intangible assets, inventories and deferred tax assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is recognized and measured by a comparison of the carrying amount of an asset with the greater of its value in use and fair value less cost to sell. Value in use is measured as the present value of future cash flows expected to be generated by the asset. If the carrying amount of an asset is deemed not recoverable, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the recoverable amount. The review for impairment is carried out at the level where discrete cash flows occur that are independent of other cash flows.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if and to the extent there has been a change in the estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the Statement of income.

Impairment of financial assets
A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. In case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the financial assets below its cost is considered an indicator that the financial assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the Statement of income - is reclassified from the fair value reserve in equity (through Other comprehensive income) to the Statement of income.

If objective evidence indicates that financial assets that are carried at cost need to be tested for impairment, calculations are based on information derived from business plans and other information available for estimating their fair value. Any impairment loss is charged to the Statement of income.

An impairment loss related to financial assets is reversed if in a subsequent period, the fair value increases and the increase can be related objectively to an event occurring after the impairment loss was recognized. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized. Reversals of impairment are recognized in the Statement of income except for reversals of impairment of available-for-sale equity securities, which are recognized in Other comprehensive income.

Employee benefit accounting

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the Statement of income in the periods during which services are rendered by employees.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net pension asset or liability recognized in the Consolidated balance sheet in respect of defined benefit post-employment plans is the fair value of plan assets less the present value of the projected defined benefit obligation (DBO) at the balance sheet date. The projected defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method. Recognized assets are limited to the present value of any reductions in future contributions or any future refunds.

For the Company's major plans, a full discount rate curve of high-quality corporate bonds (based on Towers Watson RATE:Link data) is used to determine the defined benefit obligation, whereas for the 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.

Pension costs in respect of defined benefit post-employment plans primarily represent the increase of the actuarial present value of the obligation for post-employment benefits based on employee service during the year and the interest on the net recognized asset or liability in respect of employee service in previous years. The Company presents service costs in Income from operations and net interest expenses related to defined benefit plans in Financial expense.

Remeasurements of the net defined benefit liability comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (excluding interest). The Company immediately recognizes all remeasurements in Other comprehensive income.

The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on settlement comprises any resulting change in the fair value of plan assets and change in the present value of defined benefit obligation. Past service costs following from the introduction of a change to the benefit payable under a plan or a significant reduction of the number of employees covered by a plan, are recognized in full in the Statement of income.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Company recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation and the obligation can be measured reliably.

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods, such as jubilee entitlements. That benefit is discounted to determine its present value. Remeasurements are recognized in the income statement in the period in which they arise.

Share-based payment

The grant-date fair value of equity-settled share-based payment awards granted to employees is recognized as personnel expense, with a corresponding increase in equity, over the vesting period of the award. The Company uses the Black-Scholes option-pricing model and Monte Carlo sampling to determine the fair value of the awards, depending on the type of instruments granted and certain vesting conditions.

Revenue recognition

Revenue from the sale of goods in the course of the ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue for sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing involvement with goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

Transfer of risks and rewards varies depending on the individual terms of the contract of sale. For consumer-type products in the sectors Lighting and Consumer Lifestyle, these criteria are met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained, or, in cases where such acceptance is not contractually required, when management has established that all aforementioned conditions for revenue recognition have been met. Examples of the above-mentioned delivery conditions are 'Free on Board point of delivery' and 'Costs, Insurance Paid point of delivery', where the point of delivery may be the shipping warehouse or any other point of destination as agreed in the contract with the customer and where title and risk for the goods pass to the customer.

Revenues of transactions that have separately identifiable components are recognized based on their relative fair values. These transactions mainly occur in the Healthcare sector and include arrangements that require subsequent installation and training activities in order to become operable for the customer. However, since payment for the equipment is contingent upon the completion of the installation process, revenue recognition is generally deferred until the installation has been completed and the product is ready to be used by the customer in the way contractually agreed.

Revenues are recorded net of sales taxes, customer discounts, rebates and similar charges. For products for which a right of return exists during a defined period, revenue recognition is determined based on the historical pattern of actual returns, or in cases where such information is not available, revenue recognition is postponed until the return period has lapsed. Return policies are typically based on customary return arrangements in local markets.

For products for which a residual value guarantee has been granted or a buy-back arrangement has been concluded, revenue recognition takes place when significant risks and rewards of ownership are transferred to the customer. The following are the principal factors that the Company considers in determining that the Company has transferred significant risks and rewards:

- the period from the sale to the repurchase represents the major (normally at least 75%) part of the economic life of the asset;
- the proceeds received on the initial transfer and the amount of any residual value or repurchase price, measured on a present value basis, is equal to substantially all (normally at least 90%) of the fair value of the asset at the sale date;
- insurance risk is borne by the customer; however, if the customer bears the insurance risk but the Company bears the remaining risks, then risks and rewards have not been transferred to the customer; and
- the repurchase price is equal to the market value at the time of the buy-back.

In case of loss under a sales agreement, the loss is recognized immediately.

Shipping and handling billed to customers is recognized as revenues. Expenses incurred for shipping and handling of internal movements of goods are recorded as cost of sales. Shipping and handling related to sales to third parties are recorded as selling expenses. When shipping and handling is part of a project and billed to the customer, then the related expenses are recorded as cost or sales. Service revenue related to repair and maintenance activities for goods sold is recognized ratably over the service period or as services are rendered.

A provision for product warranty is made at the time of revenue recognition and reflects the estimated costs of replacement and free-of-charge services that will be incurred by the Company with respect to the products. For certain products, the customer has the option to purchase an extension of the warranty, which is subsequently billed to the customer. Revenue recognition occurs on a straight-line basis over the contract period.

Revenue from services is recognized when the Company can reliably measure the amount of revenue and the associated cost related to the stage of completion of a contract or transaction, and the recovery of the consideration is considered probable.

Royalty income, which is generally earned based upon a percentage of sales or a fixed amount per product sold, is recognized on an accrual basis.

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the Statement of income over the period necessary to match them with the costs that they are intended to compensate.

Financial income and expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets) and recognized surpluses for post-employment benefit plans, dividend income, net gains on the disposal of available-for-sale financial assets, net fair value gains on financial assets at fair value through profit or loss, net gains on the remeasurement to fair value of any pre-existing available-for-sale interest in an acquiree, and net gains on hedging instruments that are recognized in the Statement of income. Interest income is recognized on accrual basis in the Statement of income, using the effective interest method. Dividend income is recognized in the Statement of income on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Financial expenses comprise interest expense on borrowings and recognized deficits for post-employment benefit plans, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, net fair value losses on financial assets at fair value through profit or loss, impairment losses recognized on financial assets (other than trade receivables), net interest expenses related to defined benefit plans and net losses on hedging instruments that are recognized in the Statement of income.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the Statement of income using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either financial income or financial cost depending on whether foreign currency movements are in a net gain or net loss position.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the Statement of income except to the extent that it relates to items recognized directly within equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially-enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized, using the balance sheet method, for the expected tax consequences of temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially-enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally-enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Deferred tax liabilities for withholding taxes are recognized for subsidiaries in situations where the income is to be paid out as dividend in the foreseeable future, and for undistributed earnings of unconsolidated companies to the extent that these withholding taxes are not expected to be refundable or deductible. Changes in tax rates are reflected in the period when the change has been enacted or substantially-enacted by the reporting date.

Discontinued operations and non-current assets held for sale

Non-current assets (disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations; and (b) is a part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to sell. A component that previously was held for use will have one or more cash-generating units. Generally, the disposal of a business that previously was part of a single cash-generating unit does not qualify as a component of an entity and therefore shall not be classified as a discontinued operation if disposed of.

Non-current assets held for sale and discontinued operations are carried at the lower of carrying amount or fair value less costs to sell. Any gain or loss from disposal of a business, together with the results of these operations until the date of disposal, is reported separately as discontinued operations. The financial information of discontinued operations is excluded from the respective captions in the Consolidated financial statements and related notes for all periods presented. Comparatives in the balance sheet are not re-presented when a non-current asset or disposal group is classified as held for sale. Comparatives are restated for presentation of discontinued operations in the Statement of cash flow and Statement of income.

Upon classification of a disposal group as held for sale the Company may agree with the buyer to retain certain assets and liabilities, in which case such items are not presented as part of assets/liabilities held for sale, even though the associated item in the Statement of income would be presented as part of discontinued operations. The presentation of cash flows relating to such items in that case mirrors the classification in the Statement of income, i.e. as cash flows from discontinued operations.

Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period are classified separately in discontinued operations. Circumstances to which these adjustments may relate include resolution of uncertainties that arise from the terms of the disposal transaction, such as the resolution of a purchase price adjustments and indemnifications, resolution of uncertainties that arise from and are directly related to the operations of the component before its disposal, such as environmental and product warranty obligations retained by the Company, or the settlement of employee benefit plan obligations provided that the settlement is directly related to the disposal transaction.

Segments

Operating segments are components of the Company's business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Board of Management of the Company). The Board of Management decides how to allocate resources and assesses performance. Reportable segments comprise the operating sectors Healthcare, Consumer Lifestyle and Lighting. Innovation, Group & Services (IG&S) is a sector but not a separate reportable segment and holds, amongst others, headquarters, overhead and regional/country organization expenses. Segment accounting policies are the same as the accounting policies as applied to the Group.

Cash flow statements

Cash flow statements are prepared using the indirect method. Cash flows in foreign currencies have been translated into euros using the weighted average rates of exchange for the periods involved. Cash flows from derivative instruments that are accounted for as fair value hedges or cash flow hedges are classified in the same category as the cash flows from the hedged items. Cash flows from other derivative instruments are classified consistent with the nature of the instrument.

Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the net income attributable to shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the Statement of income attributable to shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise convertible personnel debentures, restricted shares, performance shares and share options granted to employees.

Financial guarantees

The Company recognizes a liability at the fair value of the obligation at the inception of a financial guarantee contract. The guarantee is subsequently measured at the higher of the best estimate of the obligation or the amount initially recognized.

IFRS accounting standards adopted as from 2013

The accounting policies set out above have been applied consistently to all periods presented in these Consolidated financial statements except as explained below which addresses changes in accounting policies. In case of the absence of explicit transition requirements for new accounting pronouncements, the Company accounts for any change in accounting principle retrospectively.

The Company has adopted the following new and amended IFRSs as of January 1, 2013.

Disclosures - Offsetting Financial Assets and Liabilities (Amendments to IFRS 7)

As a result of the amendments to IFRS 7, the Company has expanded its disclosures about the offsetting of financial assets and liabilities. See note 34, Fair value of financial assets and liabilities.

IFRS 10 Consolidated Financial Statements

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. The new standard includes guidance on control with less than half of the voting rights ('de facto' control), participating and protective voting rights and agent/principal relationships. Based on a reassessment of the control conclusion for the investees at January 1, 2013, the adoption of IFRS 10 did not have a material impact on the Company's Consolidated financial statements.

IFRS 11 Joint Arrangements

Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting. Instead:

- The Company's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Company's interest in those assets and liabilities.
- The Company's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, are equity-accounted.

Prior to 2012 the Company accounted for jointly controlled entities using the equity method. The adoption therefore does not have a material impact on the Company's Consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities
This standard contains the disclosure requirements for interests in subsidiaries, joint ventures, associates and other unconsolidated interests. As a result of IFRS 12, the Company has expanded its disclosures on interests in other entities. See note 6, Interests in entities.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. More specifically, the definition of fair value was clarified to be the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. The standard also replaces and expands disclosure requirements about fair value measurements in other IFRSs, of which some of these are required in interim financial statements related to financial instruments. The Company therefore has included additional disclosures in note 34, Fair value of financial assets and liabilities. IFRS 13 has no material impact on the measurements of the Company's assets and liabilities.

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
The new amendment requires separation of items presented in Other comprehensive income into two groups, based on whether or not they can be recycled into the Statement of income in the future. Items that will not be recycled in the future are presented separately from items that may be recycled in the future. The application of this amendment impacts presentation and disclosures only. Comparative information has been re-presented.

IAS 19 Employee Benefits (2011)
As a result of the introduction of IAS 19 (2011) - or IAS 19R/Revised - the Company has changed its accounting policy with regard to the accounting of defined benefit pension plans. The main change impacts the basis of determining the income or expense for the period related to these pension plans. Under the new standard the Company determines a net interest expense (income) by applying the discount rate used to measure the defined benefit obligation (DBO) at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. As a result, this net interest now comprises:

- interest cost on the DBO;
- interest income on plan assets; and
- interest on the effect of the asset ceiling.

Previously, the Company determined interest income on plan assets based on their long-term rate of expected return. Furthermore, as from January 1, 2013 the Company presents net interest expenses related to defined benefits in Financial income and expense rather than Income from operations.

The new standard no longer allows for accrual of future pension administration costs as part of the DBO. Such costs should be expensed as incurred. Previously, for the Dutch pension plan the Company accrued a surcharge for pension administration costs as part of the service costs into the DBO. With the adoption of the new standard this accrual was eliminated, resulting in an exclusion of EUR 216 million from the DBO per January 1, 2013, thereby improving the funded status. This funded status improvement is offset by the impact of the asset ceiling test regarding the Dutch pension plan's surplus, and hence there is no further impact on the Company's balance sheet figures other than the direct recognition of previously unrecognized past service cost.

The impact on Equity from the IAS 19 (2011) accounting policy change is as follows:

	December 31, 2012
Decrease in the net defined benefit obligation (non-current, after asset ceiling restriction)	13
Increase in deferred tax assets (non-current)	(2)
Net increase on equity	11
Split to:	
Equity holders of the parent	11
Non-controlling interest	–

The limited impact on the balance sheet mainly relates to some unrecognized past service cost gains and losses which must be recognized immediately under IAS 19 (2011). The limited impact is explained by the fact that the Company already applied immediate recognition of actuarial gains and losses in Other comprehensive income.

The negative impact of IAS 19 (2011) for post-employment defined benefit plans on Income from operations, Income before taxes and Basic and Diluted earnings per share is as follows:

	2011	2012
Income from operations	(124)	(260)
Financial income and expenses	(92)	(85)
Income before taxes	(216)	(345)
Basic earnings per share	(0.17)	(0.28)
Diluted earnings per share	(0.17)	(0.28)

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) (2013)

The amendment to IAS 36 Impairment of Assets was introduced following the introduction of IFRS 13 Fair Value Measurement, to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. As the amendment is basically to avoid unintended disclosure requirements from the introduction of IFRS 13, it was early adopted by the Company. The amendment has no material impact.

Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

Initially the abovementioned IAS 19 (2011) adjustments required that employee contributions basically would have to be incorporated in the measurement of the defined benefit obligation. This amendment allows a practical expedient to continue to recognize employee contributions in the Statement of income when certain conditions are met. The Company early adopted this amendment and as a result there is no change in the way how employee contributions are currently treated compared to the treatment prior to the IAS 19 (2011) adoption. Up to 2013 the Company has very limited employee contributions in their pension plans.

IFRS accounting standards adopted as from 2014 and onwards

A number of new standards and amendments to existing standards have been published and are mandatory for the Company beginning on or after January 1, 2014 or later periods, and the Company has not yet early adopted them. Those which may be the most relevant to the Company are set out below.

IFRIC 21 Levies

IFRIC 21 provides guidance on the accounting for certain outflows imposed on entities by governments in accordance with laws and/or regulations (levies). The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. This Interpretation does not have a material impact on the financial statements.

Changes to other standards, following from Amendments and the Annual Improvement Cycles, do not have a material impact on the Company's financial statements.

Information by sector and main country
in millions of euros

Information by sector and main country

Sectors

	sales	sales including intercompany	research and development expenses	income from operations	income from operations as a % of sales	cash flow before financing activities
2013						
Healthcare	9,575	9,600	(780)	1,315	13.7	1,292
Consumer Lifestyle	4,605	4,622	(261)	429	9.3	472
Lighting	8,413	8,433	(441)	489	5.8	478
Innovation, Group & Services	736	1,049	(251)	(242)	-	(2,101)
Inter-sector eliminations		(375)				
	23,329	23,329	(1,733)	1,991	8.5	141
2012						
Healthcare	9,983	10,005	(823)	1,026	10.3	1,298
Consumer Lifestyle	4,319	4,329	(251)	400	9.3	422
Lighting	8,442	8,465	(462)	(66)	(0.8)	279
Innovation, Group & Services	713	984	(295)	(712)	-	(842)
Inter-sector eliminations		(326)				
	23,457	23,457	(1,831)	648	2.8	1,157
2011						
Healthcare	8,852	8,866	(754)	27	0.3	707
Consumer Lifestyle	3,771	3,777	(249)	109	2.9	(271)
Lighting	7,638	7,652	(416)	(408)	(5.3)	208
Innovation, Group & Services	731	984	(186)	(207)	-	(1,159)
Inter-sector eliminations		(287)				
	20,992	20,992	(1,605)	(479)	(2.3)	(515)

Our sectors are organized based on the nature of the products and services. The four sectors comprise Healthcare, Consumer Lifestyle, Lighting and Innovation, Group & Services as shown in the table above. A short description of these sectors is as follows:

Healthcare: Consists of the following businesses - Imaging Systems, Home Healthcare Solutions, Patient Care & Clinical Informatics, and Customer Services.

Consumer Lifestyle: Consists of the following businesses - Personal Care, Domestic Appliances, and Health & Wellness.

Lighting: Consists of the following businesses - Light Sources & Electronics, Professional Lighting Solutions, Consumer Luminaires, Automotive Lighting, and Lumileds.

Innovation, Group & Services: Consists of group headquarters, as well as the overhead expenses of regional and country organizations. Also included are the net results of group innovation, intellectual property & services, the global service units and Philips' pension and other postretirement benefit costs not directly allocated to the other sectors.

Transactions between the sectors mainly relate to services provided by the sector Innovation, Group & Services to the other sectors. The pricing of such transactions is determined on an arm's length basis.

Sectors

	total assets	net operating capital	total liabilities excl. debt	current accounts receivable, net	tangible and intangible assets	depreciation and amortization[1]	capital expenditures
2013							
Healthcare	10,465	7,437	2,943	1,978	6,467	(517)	132
Consumer Lifestyle	2,832	1,261	1,571	743	1,574	(199)	135
Lighting	6,711	4,462	2,229	1,567	3,857	(504)	223
Innovation, Group & Services	6,044	(2,922)	4,340	132	648	(129)	97
	26,052	10,238	11,083	4,420	12,546	(1,349)	587
Assets classified as held for sale	507		348				
	26,559		11,431				
2012							
Healthcare	11,248	7,976	3,186	1,967	7,130	(543)	135
Consumer Lifestyle	3,280	1,205	2,075	865	1,694	(198)	128
Lighting	6,970	4,635	2,313	1,364	4,293	(543)	290
Innovation, Group & Services	7,540	(4,500)	5,761	138	521	(114)	108
	29,038	9,316	13,335	4,334	13,638	(1,398)	661
Assets classified as held for sale	43		27				
	29,081		13,362				
2011							
Healthcare	11,591	8,418	3,087	1,882	7,479	(538)	153
Consumer Lifestyle	3,794	874	2,917	1,309	1,752	(167)	130
Lighting	6,915	4,965	1,927	1,261	4,320	(570)	279
Innovation, Group & Services	6,546	(3,875)	5,183	132	475	(125)	78
	28,846	10,382	13,114	4,584	14,026	(1,400)	640
Assets classified as held for sale	551		61				
	29,397		13,175				

[1] Includes impairments of tangible and intangible assets excluding goodwill

Goodwill assigned to sectors

	carrying value at January 1	reclassifi-cation	acquisitions	purchase price allocation adjustment	impairments	divestments and transfers to assets classified as held for sale	translation differences	carrying value at December 31
2013								
Healthcare	4,573	–	3	11	–	(40)	(272)	4,275
Consumer Lifestyle	668	–	–	–	–	(18)	(18)	632
Lighting	1,707	(8)	1	(15)	(26)	–	(73)	1,586
Innovation, Group & Services	–	8	–	–	–	3	–	11
	6,948	–	4	(4)	(26)	(55)	(363)	6,504
2012								
Healthcare	4,703	–	–	(1)	–	–	(129)	4,573
Consumer Lifestyle	674	–	–	(1)	–	(6)	1	668
Lighting	1,639	–	100	–	–	–	(32)	1,707
Innovation, Group & Services	–		–	–	–	–	–	–
	7,016	–	100	(2)	–	(6)	(160)	6,948

Main countries

	sales[1]	tangible and intangible assets
2013		
Netherlands	656	915
United States	6,442	7,384
China	2,942	1,057
Germany	1,355	288
Japan	1,006	401
France	915	80
United Kingdom	692	573
Other countries	9,321	1,848
	23,329	12,546
Assets classified as held for sale		62
		12,608
2012[2]		
Netherlands	627	886
United States	6,824	8,007
China	2,585	1,114
Germany	1,323	271
Japan	1,204	537
France	941	90
United Kingdom	676	628
Other countries	9,277	2,105
	23,457	13,638
Assets classified as held for sale		6
		13,644
2011[2]		
Netherlands	636	908
United States	6,159	8,473
China	1,978	1,126
Germany	1,272	252
Japan	908	618
France	892	97
United Kingdom	579	615
Other countries	8,568	1,937
	20,992	14,026
Assets classified as held for sale		287
		14,313

[1] The sales are reported based on country of destination
[2] Previous years reflect the sales and tangible and intangible assets of those respective years of the main countries of 2013

3 Income from operations

For information related to Sales and tangible and intangible assets on a geographical and sector basis, see note 2, Information by sector and main country.

Sales and costs by nature

	2011	2012	2013
Sales	20,992	23,457	23,329
Costs of materials used	(7,119)	(8,177)	(7,895)
Employee benefit expenses	(5,697)	(6,694)	(6,129)
Depreciation and amortization	(1,400)	(1,398)	(1,349)
Shipping and handling	(776)	(788)	(809)
Advertising and promotion	(865)	(841)	(882)
Lease expense	(314)	(364)	(347)[1]
Other operational costs	(3,993)	(4,214)	(3,987)
Impairment of goodwill	(1,355)	-	(28)
Other business income and expenses	48	(333)	88
Income from operations	(479)	648	1,991

[1] Lease expense includes EUR 42 million of other costs, such as fuel and electricity, and taxes to be paid and reimbursed to the lessor

Sales composition

	2011	2012	2013
Goods	17,636	19,918	19,716
Services	2,926	3,130	3,139
Royalties	430	409	474
	20,992	23,457	23,329

Philips has no single external customer that represents 10% or more of revenues.

Costs of materials used

Cost of materials used represents the inventory recognized in cost of sales.

Employee benefit expenses

	2011	2012	2013
Salaries and wages	4,668	5,499	4,983
Post-employment benefits costs	272	344	362
Other social security and similar charges:			
- Required by law	595	678	658
- Voluntary	162	173	126
	5,697	6,694	6,129

The employee benefit expenses relate to employees who are on the Philips payroll, both with permanent and temporary contracts.

For further information on pension costs, see note 30, Post-employment benefits.

Details on the remuneration of the members of the Board of Management and the Supervisory Board, see note 33, Information on remuneration.

Employees

The average number of employees by category is summarized as follows (in FTEs):

	2011	2012	2013
Production	57,011	58,031	58,116
Research and development	12,539	12,974	12,072
Other	31,789	32,730	32,006
Employees	101,339	103,735	102,194
3rd party workers	16,092	15,498	13,171
Continuing operations	117,431	119,233	115,365
Discontinued operations	6,100	2,901	1,997

Employees consist of those persons working on the payroll of Philips and whose costs are reflected in the Employee benefit expenses table. 3rd party workers consist of personnel hired on a per period basis, via extenal companies.

Depreciation and amortization

Depreciation of property, plant and equipment and amortization of intangibles are as follows:

	2011	2012	2013
Depreciation of property, plant and equipment	617	678	632
Amortization of internal-use software	55	45	39
Amortization of other intangible assets	559	458	432
Amortization of development costs	169	217	246
	1,400	1,398	1,349

Depreciation of property, plant and equipment is primarily included in cost of sales. Amortization of the categories of other intangible assets are reported in selling expenses for brand names and customer relationships and are reported in cost of sales for technology based and other intangible assets.

Amortization (including impairment) of development cost is included in research and development expenses.

Shipping and handling

Shipping and handling costs are included in cost of sales and selling expenses.

Advertising and promotion

Advertising and promotion costs are included in selling expenses.

Audit fees

Fees KPMG

	2011	2012	2013
Audit fees	15.6	14.7	15.6
- consolidated financial statements	10.1	9.7	10.1
- statutory financial statements	5.5	5.0	5.5
Audit-related fees [1]	2.4	5.6	2.2
- acquisitions and divestments	0.1	2.9	0.4
- sustainability assurance	0.5	0.8	0.7
- other	1.8	1.9	1.1
Tax fees [2]	0.9	1.3	0.8
-tax compliance services	0.9	1.3	0.8
Other fees [3]	0.5	0.7	1.3
- royalty investigation	0.4	0.1	0.0
- other	0.1	0.6	1.3
Total	19.4	22.3	19.9

1) The percentage of services provided in 2013 is 11.1% of the total fees
2) The percentage of services provided in 2013 is 4.0% of the total fees
3) The percentage of services provided in 2013 is 6.5% of the total fees

This table 'Fees KPMG' forms an integral part of the Company Financial Statements, please refer to note K, Audit fees.

Impairment of goodwill

In 2013, goodwill impairment charges amounts to EUR 28 million, including EUR 26 million as result of reduced growth expectations in Consumer Luminaires.

In 2011, goodwill was impaired in the Healthcare sector for an amount of EUR 824 million and in the Lighting sector for an amount of EUR 531 million.

For further information on impairment of goodwill, see note 11, Goodwill.

Other business income (expenses)

Other business income (expenses) consists of the following:

	2011	2012	2013
Result on disposal of businesses:			
- income	27	9	50
- expense	(26)	(84)	(1)
Result on disposal of fixed assets:			
- income	47	224	19
- expense	(11)	(9)	(13)
Result on other remaining businesses:			
- income	50	42	54
- expense	(39)	(515)	(21)
	48	(333)	88
Total other business income	124	275	123
Total other business expense	(76)	(608)	(35)

In 2013, result on disposal of businesses was mainly due to divestment of non-strategic businesses within Healthcare. For further information, see note 9, Acquisitions and divestments

In 2013, result on disposal of fixed assets was mainly due to sale of real estate assets.

In 2013, result on other remaining businesses were mainly due to release of earn out provisions. For further information, see note 21, Provisions.

4 Financial income and expenses

	2011	2012	2013
Interest income	39	37	55
Interest income from loans and receivables	5	20	33
Interest income from cash and cash equivalents	34	17	22
Dividend income from available for sale financial assets	11	4	5
Net gains from disposal of financial assets	51	1	–
Net change in fair value of financial assets at fair value through profit or loss	6	–	–
Net change in fair value of financial liabilities at fair value through profit or loss	–	44	–
Net foreign exchange gains	–	–	–
Other financial income	6	20	10
Financial income	113	106	70
Interest expense	(340)	(363)	(323)
Interest on debt and borrowings	(245)	(271)	(245)
Finance charges under finance lease contract	(3)	(7)	(7)
Interest expenses - pensions	(92)	(85)	(71)
Unwind of discount of provisions	(33)	(22)	(25)
Net foreign exchange losses	(2)	–	(6)
Impairment loss of financial assets	(34)	(8)	(10)
Net change in fair value of financial assets at fair value through profit or loss		(2)	(9)
Net change in fair value of financial liabilities at fair value through profit or loss			(3)
Other financial expenses	(35)	(40)	(24)
Financial expense	(444)	(435)	(400)
Financial income and expenses	(331)	(329)	(330)

Net financial income and expense showed a EUR 330 million expenses in 2013, which was 1 million higher than in 2012. Total finance income of EUR 70 million included EUR 55 million interest income. Remaining financial income included dividend income of EUR 5 million and other finance income of EUR 10 million. Total financial expense of EUR 400 million included EUR 10 million impairment charges and EUR 323 million interest expenses. Remaining financial expense consisted mainly of EUR 25 million of accretion expenses associated with discounted provisions and uncertain tax positions and EUR 24 million other financing charges.

Net financial income and expense showed a EUR 329 million expense in 2012, which was EUR 2 million lower than in 2011. Total financial income of EUR 106 million included a EUR 46 million gain related to a change in estimate on the valuation of long term derivative contracts. Remaining financial expense consisted mainly of EUR 22 million of accretion expenses associated with discounted provisions and uncertain tax positions and EUR 40 million other financing charges.

Net financial income and expense showed a EUR 331 million expense in 2011. Total finance income of EUR 113 million included EUR 51 million gain on the disposal of financial assets, of which EUR 44 million resulted from the sale of shares in TCL and EUR 6 million resulted from the sale of Digimarc. Remaining financial income included dividend income of EUR 11 million and a total net EUR 6 million gain from fair value changes, mainly the revaluation of the NXP option. Total finance expense of EUR 444 million included EUR 34 million impairment charges, mainly related to the shareholding in TPV Technology. Remaining financial expense consisted mainly of EUR 33 million of accretion expenses associated with discounted provisions and uncertain tax positions and EUR 35 million other financing charges.

5 Income taxes

The tax expense on income before tax of continuing operations amounted to EUR 466 million (2012: EUR 185 million, 2011: EUR 251 million).

The components of income before taxes and income tax expense are as follows:

	2011	2012	2013
Netherlands	148	(177)	314
Foreign	(958)	496	1,347
Income before taxes of continuing operations	(810)	319	1,661
Netherlands:			
Current tax income (expense)	(40)	(78)	-
Deferred tax income (expense)	82	13	(107)
	42	(65)	(107)
Foreign:			
Current tax income (expense)	(360)	(280)	(280)
Deferred tax income (expense)	163	143	(89)
	(197)	(137)	(369)
Income tax expense of continuing operations	(251)	(185)	(466)
Income tax expense of discontinued operations	96	(17)	(10)
Income tax expense	(155)	(202)	(476)

The components of income tax expense are as follows:

	2011	2012	2013
Current tax expense	(390)	(370)	(268)
Prior year results	(10)	12	(12)
Current tax income (expense)	(400)	(358)	(280)

	2011	2012	2013
Recognition of previously unrecognized tax losses	20	1	20
Current year tax loss carried forwards not recognized	(89)	(50)	(29)
Temporary differences (not recognized) recognized	15	2	(3)
Prior year results	31	(2)	15
Tax rate changes	(1)	(4)	-
Origination and reversal of temporary differences	269	209	(199)
Deferred tax income (expense)	245	156	(196)

Philips' operations are subject to income taxes in various foreign jurisdictions. The statutory income tax rates vary from 10.0% to 39.4%, which results in a difference between the weighted average statutory income tax rate and the Netherlands' statutory income tax rate of 25% (2012: 25.0%; 2011: 25.0%).

A reconciliation of the weighted average statutory income tax rate to the effective income tax rate of continuing operations is as follows:

in %

	2011	2012	2013
Weighted average statutory income tax rate	41.6	21.9	27.6
Tax rate effect of:			
Changes related to:			
- utilization of previously reserved loss carryforwards	2.4	(0.2)	(1.2)
- new loss carryforwards not expected to be realized	(7.7)	15.7	1.7
- addition (releases)	1.8	(0.6)	0.2
Non-tax-deductible impairment charges	(61.9)	0.6	0.6
Non-taxable income	7.1	(18.7)	(8.1)
Non-tax-deductible expenses	(14.1)	68.7	7.5
Withholding and other taxes	(2.9)	6.9	0.8
Tax rate changes	(0.1)	1.1	0.0
Prior year tax results	2.8	(3.0)	(0.2)
Tax expenses due to other liabilities	(2.5)	3.1	0.5
Tax incentives and other	2.5	(37.5)	(1.3)
Effective tax rate	(31.0)	58.0	28.1

The weighted average statutory income tax rate increased in 2013 compared to 2012, as a consequence of a change in the country mix of income tax rates, as well as a significant change in the mix of profits and losses in the various countries.

The effective income tax rate is higher than the weighted average statutory income tax rate in 2013, mainly due to withholding and other taxes which are partly offset by the net impact of non-taxable/non-deductible income and other tax expenses.

Deferred tax assets and liabilities

Net deferred tax assets relate to the following balance sheet captions and tax loss carryforwards (including tax credit carryforwards), of which the movements during the years 2013 and 2012 respectively are as follows:

	December 31, 2012	recognized in income	recognized in OCI	acquisitions/ divestments	other[1]	December 31, 2013
Intangible assets	(928)	13	–	–	44	(871)
Property, plant and equipment	68	–	–	–	(10)	58
Inventories	258	9	–	–	(3)	264
Prepaid pension assets	–	(24)	23	–	–	(1)
Other receivables	55	(3)	1	–	(3)	50
Other assets	42	(4)	(2)	(1)	(3)	32
Provisions:						
- pensions	598	(70)	(82)	–	(20)	426
- guarantees	26	4	–	–	(1)	29
- termination benefits	118	(28)	8	–	(1)	97
- other postretirement benefits	72	(5)	(7)	–	(3)	57
- other provisions	605	(32)	16	–	(22)	567
Other liabilities	171	27	–	–	(6)	192
Tax loss carryforwards (including tax credit carryforwards)	742	(83)	(11)	–	51	699
Net deferred tax assets	1,827	(196)	(54)	(1)	23	1,599

	December 31, 2011	recognized in income	recognized in OCI	acquisitions/ divestments	other[1]	December 31, 2012
Intangible assets	(1,074)	165	–	(35)	16	(928)
Property, plant and equipment	77	(2)	–	–	(7)	68
Inventories	221	41	–	–	(4)	258
Prepaid pension costs	2	(4)	6	–	(4)	–
Other receivables	44	13	–	–	(2)	55
Other assets	19	17	(7)	–	13	42
Provisions:						
- pensions	617	(62)	64	–	(21)	598
- guarantees	34	(10)	–	–	2	26
- termination benefits	42	67	5	–	4	118
- other postretirement benefits	71	3	(3)	–	1	72
- other provisions	636	(33)	10	–	(8)	605
Other liabilities	231	(63)	(4)	–	7	171
Tax loss carryforwards (including tax credit carryforwards)	732	24	(7)	6	(13)	742
Net deferred tax assets	1,652	156	64	(29)	(16)	1,827

[1] Primarily includes foreign currency translation differences which were recognized in OCI

Deferred tax assets and liabilities relate to the balance sheet captions, as follows:

	assets	liabilities	net
2013			
Intangible assets	116	(987)	(871)
Property, plant and equipment	107	(49)	58
Inventories	271	(7)	264
Prepaid pension costs	1	(2)	(1)
Other receivables	60	(10)	50
Other assets	48	(16)	32
Provisions:			
- pensions	426	-	426
- guarantees	29	-	29
- termination benefits	97	-	97
- other postretirement	57	-	57
- other	581	(14)	567
Other liabilities	213	(21)	192
Tax loss carryforwards (including tax credit carryforwards)	699	-	699
	2,705	(1,106)	1,599
Set-off of deferred tax positions	(1,030)	1,030	-
Net deferred tax assets	1,675	(76)	1,599

	assets	liabilities	net
2012			
Intangible assets	151	(1,079)	(928)
Property, plant and equipment	115	(47)	68
Inventories	263	(5)	258
Prepaid pension costs	2	(2)	-
Other receivables	58	(3)	55
Other assets	54	(12)	42
Provisions:		-	
- pensions	599	(1)	598
- guarantees	26	-	26
- termination benefits	117	1	118
- other postretirement	72	-	72
- other	624	(19)	605
Other liabilities	198	(27)	171
Tax loss carryforwards (including tax credit carryforwards)	742	-	742
	3,021	(1,194)	1,827
Set-off of deferred tax positions	(1,102)	1,102	-
Net deferred tax assets	1,919	(92)	1,827

Deferred tax assets are recognized for temporary differences, unused tax losses, and unused tax credits to the extent that realization of the related tax benefits is probable. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

The net deferred tax assets of EUR 1,599 million (2012: EUR 1,827 million) consist of deferred tax assets of EUR 1,675 million (2012: EUR 1,919 million) in countries with a net deferred tax asset position and deferred tax liabilities of EUR 76 million (2012: EUR 92 million) in countries with a net deferred tax liability position. Of the total deferred tax assets of EUR 1,675 million at December 31, 2013, (2012: EUR 1,919 million), EUR 543 million (2012: EUR 507 million) is recognized in respect of fiscal entities in various countries where there have been fiscal losses in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilize these deferred tax assets.

At December 31, 2013 and 2012, there were no recognized deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain foreign subsidiaries of Philips Holding USA since it has been determined that undistributed profits of such subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with the investments in subsidiaries of Philips Holding USA, for which a deferred tax liability has not been recognized, aggregate to EUR 32 million (2012: EUR 35 million).

At December 31, 2013, operating loss carryforwards expire as follows:

Total	2014	2015	2016	2017	2018	2019/ 2023	later	unlimi-ted
4,330	28	1	3	6	6	44	841	3,401

The Company also has tax credit carryforwards of EUR 138 million, which are available to offset future tax, if any, and which expire as follows:

Total	2014	2015	2016	2017	2018	2019/ 2023	later	unlimi-ted
138	3	-	1	-	4	19	95	16

At December 31, 2013 , operating loss and tax credit carryforwards for which no deferred tax assets have been recognized in the balance sheet, expire as follows:

Total	2014	2015	2016	2017	2018	2019/ 2023	later	unlimi-ted
1,928	25	1	3	2	-	39	9	1,849

At December 31, 2013, the amount of deductible temporary differences for which no deferred tax asset has been recognized in the balance sheet is EUR 151 million (2012: EUR 157 million).

Classification of the income tax payable and receivable is as follows:

	2012	2013
Income tax receivable	97	70
Income tax receivable - under non-current receivables	-	-
Income tax payable	(200)	(143)
Income tax payable - under non-current liabilities	-	(1)

Tax risks

Philips is exposed to tax uncertainties. These uncertainties include amongst others the following:

Transfer pricing uncertainties

Philips has issued transfer pricing directives, which are in accordance with international guidelines such as those of the Organization of Economic Co-operation and Development. As transfer pricing has a cross-border effect, the focus of local tax authorities on implemented transfer pricing procedures in a country may have an impact on results in another country. In order to reduce the transfer pricing uncertainties, monitoring procedures are carried out by Group Tax and Internal Audit to safeguard the correct implementation of the transfer pricing directives.

Tax uncertainties on general service agreements and specific allocation contracts

Due to the centralization of certain activities in a limited number of countries (such as research and development, centralized IT, group functions and head office), costs are also centralized. As a consequence, these costs and/or revenues must be allocated to the beneficiaries, i.e. the various Philips entities. For that purpose, apart from specific allocation contracts for costs and revenues, general service agreements are signed with a large number of group entities. Tax authorities review the implementation of GSAs, apply benefit tests for particular countries or audit the use of tax credits attached to GSAs and royalty payments, and may reject the implemented procedures. Furthermore, buy in/out situations in the case of (de)mergers could affect the tax allocation of GSAs between countries. The same applies to the specific allocation contracts.

Tax uncertainties due to disentanglements and acquisitions

When a subsidiary of Philips is disentangled, or a new company is acquired, related tax uncertainties arise. Philips creates merger and acquisition (M&A) teams for these disentanglements or acquisitions. In addition to representatives from the involved sector, these teams consist of specialists from various group functions and are formed, amongst other things, to identify hidden tax uncertainties that could subsequently surface when companies are acquired and to reduce tax claims related to disentangled entities. These tax uncertainties are investigated and assessed to mitigate tax uncertainties in the future of the extent possible. Several tax uncertainties may surface from M&A activities. Examples of uncertainties are: applicability of the participation exemption, allocation issues, and non-deductibility of parts of the purchase price.

Tax uncertainties due to permanent establishments

In countries where Philips starts new operations or alters business models, the issue of permanent establishment may arise. This is because when operations in a country involves a Philips organization in another country, there is a risk that tax claims will arise in the former country as well as in the latter country.

6 Interests in entities

In this section we discuss the nature of, and risks associated with, the Company's interests in its consolidated entities and associates, and the effects of those interests on the Company's financial position and financial performance.

Interests in entities could in principle relate to:

- Interests in subsidiaries
- Joint arrangements
- Unconsolidated structured entities
- Investments in associates

Interests in subsidiaries

Wholly owned subsidiaries

The Group financial statements comprise the assets and liabilities of approximately 400 legal entities. Set out below is a list of material subsidiaries representing greater than 5% of either the consolidated group sales, income from operations or net income (before any intra-group eliminations). All of the entities are 100% owned and have been for the last 3 years.

Interests in subsidiaries
in order of EBIT (decreasing)

Legal entity name	Principal country of business
Philips Electronics North America Corporation	United States
Philips Medizin Systeme Böblingen GmbH	Germany
Philips Consumer Lifestyle B.V.	Netherlands
Philips Ultrasound, Inc.	United States
Philips (China) Investment Company, Ltd.	China
Philips Lighting Poland S.A.	Poland
Philips Innovative Applications	Belgium
Philips Medical Systems Nederland B.V.	Netherlands
RIC Investments, LLC	United States
Philips Lighting B.V.	Netherlands
Philips Oral Healthcare, Inc.	United States
Philips Medical Systems DMC GmbH	Germany
Philips GmbH	Germany

Not wholly owned subsidiaries
Among the consolidated legal entities is one entity where the Company owns 44% of the voting power. We have determined that the Company controls this entity on a de facto power basis. The sales, income from operations and net income of this entity is less than 1% of the consolidated financial data of the company and therefore not considered material.

In total eleven consolidated subsidiaries are not wholly owned by the Company. The sales, income from operations and net income of these entities (before any intra-group eliminations) are less than 3% of the consolidated financial data of the company and therefore not considered material.

Joint arrangements and unconsolidated structured entities

The Company did not have joint arrangements or unconsolidated structured entities that require separate disclosure under IFRS 12.

Investments in associates

Philips has investments in a number of associates, none of them are regarded as individually material.

The changes during 2013 are as follows:

Investments in associates

	Total investments
Balance as of January 1, 2013	177
Changes:	
Sales/Redemption	(2)
Reclassifications	(7)
Share in income	5
Dividends declared	(6)
Translation and exchange rate differences	(6)
Balance as of December 31, 2013	161

Philips has agreed that it will transfer the remaining 30% stake in the TP Vision venture, which has a book value of nil as at December 31, 2013, to TPV. The net impact of a transaction-related payment has been accrued in Other current liabilities at December 31, 2013 due to conditions that existed at the balance sheet date.

The Company owns four equity interests which represent more than 20% in the capital of the underlying companies. With respect to these equity interests, the Company cannot exercise significant influence based on governance agreements concluded among shareholders. These equity interests are accounted for as Other non-current financial assets. In 2013, the Company's share in net income of these entities was insignificant.

The Company has one investment where it owns 51% of the shares of an entity, however is not able to control it and therefore it is not consolidated but accounted for as an investment in associate.

During 2013 the Company's shareholding in two of its investments in associates was diluted and subsequently treated as available-for-sale financial assets. The dilution gains of EUR 16 million are recognized under results related to investments in associates.

The Company has not recognized a proportional share of losses, totaling EUR 37 million (2012: EUR 9 million) in relation to its investments in associates because the Company has no obligation in respect of these losses.

Summarized information of investments in associates

Unaudited summarized financial information on the Company's most significant investments in associates, on a combined basis, is presented below. It is based on the most recent available financial information.

Included from April 2012 is the 30%-interest in TP Vision Holding which includes the former Philips TV business.

	2011	2012	2013
Net sales	408	2,534	2,180
Income before taxes	86	(7)	(243)
Income taxes	(27)	2	12
Net income	59	(5)	(231)
Total share in net income of associates recognized in the Consolidated statements of income	18	(5)	5

	2012	2013
Current assets	1,635	1,368
Non-current assets	485	412
	2,120	1,780
Current liabilities	(1,544)	(1,327)
Non-current liabilities	(186)	(278)
Net asset value	390	175
Investments in associates included in the Consolidated balance sheet	177	161

7 Discontinued operations and other assets classified as held for sale

Discontinued operations included in the Consolidated statements of income and the Consolidated statements of cash flows consists of the Audio, Video, Multimedia and Accessories (AVM&A) business, the Television business and certain divestments formerly reported as discontinued operations.

Discontinued operations: Audio, Video, Multimedia and Accessories business

Following the agreement with Funai Electric Co. Ltd which was announced in Q1 2013, the results of the Audio, Video, Multimedia and Accessories (AVM&A) business are reported as discontinued operations in the Consolidated statements of income and Consolidated statements of cash flows. Assets classified as held for sale and Liabilities directly associated with assets held for sale are reported in the Consolidated balance sheet as of the moment of the announcement. This agreement was terminated on October 25, 2013. Since then, Philips has been actively discussing the sale of the business with various parties. Therefore the AVM&A business continues to be reported as discontinued operations in the Consolidated statements of income and Consolidated statements of cash flows with the related assets and liabilities included as Assets classified as held for sale and Liabilities directly associated with assets held for sale in the Consolidated balance sheet.

The following table summarizes the results of the AVM&A business included in the Consolidated statements of income as discontinued operations.

	2011	2012	2013
Sales	1,587	1,331	1,117
Costs and expenses	(1,499)	(1,210)	(1,067)
Disentanglement costs	-	-	(44)
Income before taxes	88	121	6
Income taxes	(10)	(40)	(3)
Investments in associates	-	(3)	-
Results from discontinued operations	78	78	3

At the moment of divestment the related balance sheet positions will be transferred, the associated currency translation differences, part of Shareholders' equity, will be recognized in the Consolidated statement of income. At December 31, 2013, the estimated release amounts to a EUR 3 million loss.

The following table presents the assets and liabilities of the AVM&A business, classified as Assets held for sale and Liabilities directly associated with the assets held for sale in the Consolidated balance sheets.

	2013
Property, plant and equipment	17
Intangible assets including goodwill	32
Inventories	130
Accounts receivable	212
Other assets	9
Assets classified as held for sale	400
Accounts payable	217
Provisions	33
Other liabilities	98
Liabilities directly associated with assets held for sale	348

Non-transferrable balance sheet positions, such as certain accounts receivable, accounts payable, accrued liabilities and provisions are reported on the respective balance sheet captions.

Discontinued operations: Television business

As announced in Q1 2012, the Television business's strategic partnership agreement with TPV Technology Limited was signed on April 1, 2012. In 2013, the discontinued Television business reported a net loss of EUR 6 million (2012: a net loss of EUR 31 million; 2011: a net loss of EUR 515 million).

The following table summarizes the results of the Television business included in the Consolidated statements of income as discontinued operations.

	2011	2012	2013
Sales	2,702	563	(3)
Costs and expenses	(2,913)	(622)	(3)
loss on sale of discontinued operations	(380)	5	4
Income (loss) before taxes	(591)	(54)	(2)
Income taxes	76	23	(4)
Operational income tax	49	28	(2)
Income tax on loss on sale of discontinued operations	27	(5)	(2)
Results from discontinued operations	(515)	(31)	(6)

In 2011, the loss on the sale of the Television business amounted to approximately EUR 380 million, which mainly comprised of present value of initial contributions made to the TV venture (EUR 183 million), total disentanglement costs (EUR 81 million), contributed assets which were not fully recovered (EUR 66 million) and various smaller other items, offset by the revenue associated with the sale, including the fair value of a contingent consideration and a retained 30% interest in the TV venture.

In addition to the contributions that were agreed and recognized as loss on onerous contract, Philips made commitments to provide further financing to the TV venture for more details see note 25, Contractual obligations and note 36, Subsequent events.

The following table presents the in 2012 divested assets and liabilities of the Television business.

	April 1, 2012
Property, plant and equipment	91
Intangible assets including goodwill	-
Write down to fair value less costs to sell	-
Inventories	124
Other assets	25
Assets classified as held for sale	240
Provisions	(6)
Liabilities classified as held for sale	(6)

Discontinued operations: Other

Certain results of other divestments formerly reported as discontinued operations are included with a net gain of EUR 5 million in 2013 (2012: a result of EUR nil million; 2011: a net gain of EUR 27 million).

Other assets classified as held for sale

On July 1, 2013, Philips announced to transfer certain assets and cash proceeds from the sale of certain assets to the Dutch pension plan. In total EUR 94 million of related assets are qualified as held for sale as of December 31, 2013. EUR 92 million relates to other non-current financial assets. For more details see note 30, Post-employment benefits.

Assets and liabilities directly associated with assets held for sale relate to property, plant and equipment for an amount of EUR 13 million (December 31, 2012 EUR 1 million) and business divestments of EUR nil million at December 31, 2013 (December 31, 2012 EUR 15 million).

In 2013, the Company divested two Healthcare businesses formerly reported under Assets classified as held for sale. For more details see note 9, Acquisitions and divestments.

On March 29, 2012, Philips announced the completion of the High Tech Campus transaction with proceeds of EUR 425 million, consisting of a EUR 373 million cash transaction and an amount of EUR 52 million to be received after the deal. The gain from the transaction, after deducting expenses related to other real estate efficiency measures which are part of the EUR 800 million cost reduction program announced in 2011, of EUR 65 million, of which EUR 37 million was recognized in the first quarter of 2012 in income from operations while EUR 28 million was deferred to future periods and is recognized periodically starting as of April 2012. The deferral of the gain relates to the finance lease element in the sale and lease-back arrangement part of the deal.

In 2012, Philips divested several industrial sites in sector Lighting, the Speech Processing business in sector Consumer Lifestyle and a minor service activity in sector Healthcare. The transactions of the industrial sites resulted in a loss of EUR 95 million, consisting of contributed assets, which were not fully recovered leading to a EUR 14 million impairment on property, plant and equipment and EUR 81 million loss reported in other business expense as result on disposal of businesses. As part of these divestments onerous supply agreements were signed, which amounted to EUR 60 million at December 31, 2012. The speech

Processing business resulted in a gain of EUR 21 million gain reported in other business income as result on disposal of business.

8 Earnings per share

Earnings per share

	2011	2012	2013
Income (loss) from continuing operations	(1,046)	(77)	1,170
Income attributable to non-controlling interest	4	5	3
Income (loss) from continuing operations attributable to shareholders	(1,050)	(82)	1,167
Income (loss) from discontinued operations	(410)	47	2
Net income (loss) attributable to shareholders	(1,460)	(35)	1,169
Weighted average number of common shares outstanding (after deduction of treasury shares) during the year	952,808,965[1]	922,101,005[1]	911,071,970
Plus incremental shares from assumed conversions of:			
Options and restricted share rights	4,309,777	5,014,991	10,896,583
Convertible debentures	173,890	106,204	103,899
Dilutive potential common shares	4,483,667	5,121,195	11,000,482
Adjusted weighted average number of shares (after deduction of treasury shares) during the year	957,292,632[1]	927,222,200[1]	922,072,452
Basic earnings per common share in euro[2]			
Income (loss) from continuing operations	(1.10)	(0.08)	1.28
Income (loss) from discontinued operations	(0.43)	0.05	-
Income (loss) from continuing operations attributable to shareholders	(1.10)	(0.09)	1.28
Net income (loss) attributable to shareholders	(1.53)	(0.04)	1.28
Diluted earnings per common share in euro[2,3,4]			
Income (loss) from continuing operations	(1.10)	(0.08)	1.27
Income (loss) from discontinued operations	(0.43)	0.05	-
Income (loss) from continuing operations attributable to shareholders	(1.10)	(0.09)	1.27
Net income (loss) attributable to shareholders	(1.53)	(0.04)	1.27
Dividend distributed per common share in euros	0.75	0.75	0.75

1) Adjusted to make previous years comparable for the bonus shares (273 thousand) issued in May 2013
2) The effect on income of convertible debentures affecting earnings per share is considered immaterial
3) In 2013, 2012 and 2011, respectively 14 million, 36 million and 37 million securities that could potentially dilute basic EPS were not included in the computation of dilutive EPS because the effect would have been antidilutive for the periods presented
4) The Dilutive potential common shares are not taken into account in the periods for which there is a loss, as the effect would be antidilutive

9 Acquisitions and divestments

2013

There were four acquisitions in 2013. These acquisitions involved an aggregated purchase price of EUR 10 million. Measured on a yearly basis, the aggregated impact of these acquisitions on Group Sales, Income from operations, Net income and Net income per common share (on a fully diluted basis) are not material in respect of IFRS 3 disclosure requirements.

Philips completed five divestments of business activities during 2013, mainly related to certain Healthcare service activities. The transactions involved an aggregate consideration of EUR 99 million and are therefore deemed immaterial in respect of IFRS 3 disclosure requirements.

2012

During 2012, Philips entered into one acquisition. On January 9, 2012 Philips acquired (in)directly 99.93% of the outstanding shares of Industrias Derivadas del Aluminio, S.L. (Indal). This acquisition involved a cash consideration of EUR 210 million and was accounted for using the acquisition method. By the end of July 2012, Indal was fully owned by Philips.

Philips completed in the first quarter of 2012 the divestment of the Television business. Furthermore there were several divestments of business activities during 2012, which comprised the divestment of certain Lighting manufacturing activities, Speech Processing activities and certain Healthcare service activities. These transactions involved an aggregated consideration of EUR 49 million and are therefore deemed immaterial in respect of IFRS 3 disclosure requirements.

On January 26, 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 transferred its 50% ownership right in the Senseo trademark to Sara Lee. Under the terms of the agreement, Sara Lee paid Philips a total consideration of EUR 170 million. The consideration was recognized in Other business income for an amount of EUR 160 million. The remainder was included in various line items of the Consolidated statements of income (EUR 8 million) or deducted from the book value of Property, plant and equipment (EUR 2 million).

2011

During 2011, Philips entered into six acquisitions. These acquisitions involved an aggregated purchase price of EUR 498 million and have been accounted for using the acquisition method. Measured on an annualized basis, the aggregated impact of the six acquisitions on group Sales, Income from operations, Net income and Net income per common share (on a fully diluted basis) is not material in respect of IFRS 3 disclosure requirements.

The divestments in 2011 involved an aggregated consideration of EUR 57 million and were therefore deemed immaterial in respect of IFRS 3 disclosure requirements.

10 Property, plant and equipment

	land and buildings	machinery and installations	other equipment	prepayments and construction in progress	total
Balance as of January 1, 2013:					
Cost	1,924	4,004	1,658	294	7,880
Accumulated depreciation	(835)	(2,851)	(1,235)	-	(4,921)
Book value	1,089	1,153	423	294	2,959
Change in book value:					
Capital expenditures	8	88	61	461	618
Assets available for use	79	244	160	(483)	-
Acquisitions	-	-	-	-	-
Disposals and sales	(1)	(14)	(7)	(4)	(26)
Depreciation	(87)	(321)	(163)	-	(571)
Impairments	(15)	(26)	(22)	-	(63)
Transfer to assets classified as held for sale	(17)	(4)	(4)	-	(25)
Translation differences	(29)	(57)	(17)	(9)	(112)
Total changes	(62)	(90)	8	(35)	(179)
Balance as of December 31, 2013:					
Cost	1,899	3,948	1,586	259	7,692
Accumulated depreciation	(872)	(2,885)	(1,155)	-	(4,912)
Book value	1,027	1,063	431	259	2,780

	land and buildings	machinery and installations	other equipment	prepayments and construction in progress	total
Balance as of January 1, 2012:					
Cost	1,981	3,914	1,552	365	7,812
Accumulated depreciation	(895)	(2,762)	(1,141)	-	(4,798)
Book value	1,086	1,152	411	365	3,014
Change in book value:					
Capital expenditures	95	114	98	497	804
Assets available for use	125	312	116	(553)	-
Acquisitions	1	4	12	-	17
Disposals and sales	(64)	(8)	(10)	(10)	(92)
Depreciation	(77)	(358)	(188)	-	(623)
Impairments	(13)	(33)	(12)	(1)	(59)
Transfer to assets classified as held for sale	(23)	(2)	(1)	1	(25)
Reclassifications	(29)	-	-	-	(29)
Translation differences	(12)	(28)	(3)	(5)	(48)
Total changes	3	1	12	(71)	(55)
Balance as of December 31, 2012:					
Cost	1,924	4,004	1,658	294	7,880
Accumulated depreciation	(835)	(2,851)	(1,235)	-	(4,921)
Book value	1,089	1,153	423	294	2,959

Land with a book value of EUR 133 million at December 31, 2013 (2012: EUR 152 million) is not depreciated.

Property, plant and equipment includes lease assets with a book value of EUR 187 million at December 31, 2013 (2012: EUR 248 million).

The expected useful lives of property, plant and equipment are as follows:

Buildings	from 5 to 50 years
Machinery and installations	from 3 to 20 years
Other equipment	from 1 to 10 years

11 Goodwill

The changes in 2012 and 2013 were as follows:

	2012	2013
Balance as of January 1:		
Cost	9,224	9,119
Amortization and impairments	(2,208)	(2,171)
Book value	7,016	6,948
Changes in book value:		
Acquisitions	100	4
Purchase price allocation adjustment	(2)	(4)
Impairments	-	(26)
Divestments and transfers to assets classified as held for sale	(6)	(55)
Translation differences	(160)	(363)
Balance as of December 31:		
Cost	9,119	8,596
Amortization and impairments	(2,171)	(2,092)
Book value	6,948	6,504

The movement of EUR 55 million in Divestments and transfers to assets classified as held for sale mainly relate to divestments in the Healthcare sector.

Acquisitions in 2012 include goodwill related to the acquisition of Indal for EUR 100 million. In addition, goodwill changed due to the finalization of purchase price accounting related to acquisitions in the prior year.

For impairment testing, goodwill is allocated to (groups of) cash-generating units (typically one level below operating sector level), which represents the lowest level at which the goodwill is monitored internally for management purposes.

Goodwill allocated to the cash-generating units Respiratory Care & Sleep Management, Imaging Systems, Patient Care & Clinical Informatics and Professional Lighting Solutions is considered to be significant in comparison to the total book value of goodwill for the Group at December 31, 2013. The amounts allocated are presented below:

	2012	2013
Respiratory Care & Sleep Management	1,706	1,544
Imaging Systems	1,482	1,414
Patient Care & Clinical Informatics	1,331	1,271
Professional Lighting Solutions	1,337	1,266

The basis of the recoverable amount used in the annual (performed in the second quarter) and trigger-based impairment tests for the units disclosed in this note is the value in use. Key assumptions used in the impairment tests for the units 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 process. Projections were extrapolated with stable or declining growth rates for a period of 5 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.

Cash flow projections of Respiratory Care & Sleep Management, Imaging Systems, Patient Care & Clinical Informatics and Professional Lighting Solutions for 2013 were based on the following key assumptions (based on the annual impairment test performed in the second quarter):

in %

	compound sales growth rate[1]			
	initial forecast period	extra-polation period[2]	used to calculate terminal value	pre-tax discount rates
Respiratory Care & Sleep Management	4.9	3.7	2.7	11.3
Imaging Systems	3.9	3.4	2.7	12.4
Patient Care & Clinical Informatics	4.1	3.5	2.7	13.2
Professional Lighting Solutions	7.4	5.4	2.7	12.8

[1] Compound sales growth rate is the annualized steady growth rate over the forecast period

[2] Also referred to later in the text as compound long-term sales growth rate

The assumptions used for the 2012 cash flow projections were as follows:

in %

	compound sales growth rate[1]			
	initial forecast period	extra-polation period[2]	used to calculate terminal value	pre-tax discount rates
Respiratory Care & Sleep Management	8.0	5.8	2.7	11.2
Imaging Systems	3.4	2.9	2.7	12.8
Patient Care & Clinical Informatics	6.5	4.1	2.7	13.2
Professional Lighting Solutions	6.6	5.3	2.7	13.0

[1] Compound sales growth rate is the annualized steady growth rate over the forecast period

[2] Also referred to later in the text as compound long-term sales growth rate

Among the mentioned units, Respiratory Care & Sleep Management and Professional Lighting Solutions have the highest amount of goodwill and the lowest excess of the recoverable amount over the carrying amount. The headroom of Respiratory Care & Sleep Management was estimated at EUR 660 million, the headroom of Professional Lighting Solutions at EUR 670 million. The increase in the headroom of Professional Lighting Solutions compared to the annual impairment test 2012, in which the headroom approximated the carrying value, is mainly explained by increased forecasted profitability assumptions driven by gross margin improvements. The following changes could, individually, cause the value in use to fall to the level of the carrying value:

	increase in pre-tax discount rate, basis points	decrease in long-term growth rate, basis points	decrease in terminal value amount, %
Respiratory Care & Sleep Management	290	550	39
Professional Lighting Solutions	290	520	39

The results of the annual impairment test of Imaging Systems and Patient Care & Clinical Informatics have indicated that a reasonably possible change in key assumptions would not cause the value in use to fall to the level of the carrying value.

Impairment charge 2013

In the fourth quarter, the updated impairment test for Consumer Luminaires resulted in EUR 26 million impairment. This was mainly a consequence of reduced growth rate due to slower anticipated recovery of certain markets and introduction delays of new product ranges. The pre-tax discount rate applied to the most recent cash flow projection is 13.5%. The pre-tax discount rate applied in the previous projection was 13.4%. Compared to the previous impairment test there has been no change in the organization structure which impacts how goodwill is allocated to this cash-generating unit.

After the impairment charge mentioned above the estimated recoverable amount for this cash-generating unit approximates the carrying value. Consequently, any adverse change in key assumptions would, individually, cause a further impairment to be recognized. Remaining goodwill allocated to Consumer Luminaires at December 31, 2013 amounts to EUR 106 million.

Additional information 2013

In addition, other units, are sensitive to fluctuations in the assumptions as set out above.

Based on the annual impairment test, it was noted that the headroom for the cash-generating unit Home Monitoring was EUR 76 million. An increase of 280 points in the pre-tax discounting rate, a 560 basis points decline in the compound long-term sales growth rate or a 38% decrease in terminal value would cause its value in use to fall to the level of its carrying value. The goodwill allocated to Home Monitoring at December 31, 2013 amounts to EUR 35 million.

Based on the annual impairment test, it was noted that with regard to the headroom for the cash-generating unit Lumileds, the estimated recoverable amount approximates the carrying value of the cash-generating unit. Consequently, any adverse change in key assumptions would, individually, cause an impairment to be recognized. The goodwill allocated to Lumileds at December 31, 2013 amounts to EUR 127 million .

Please refer to note 2, Information by sector and main country for a specification of goodwill by sector.

12 Intangible assets excluding goodwill

The changes were as follows:

	other intangible assets	product development	software	total
Balance as of January 1, 2013:				
Cost	5,868	1,584	369	7,821
Amortization/ impairments	(2,972)	(817)	(301)	(4,090)
Book value	2,896	767	68	3,731
Changes in book value:				
Additions	19	357	30	406
Acquisitions	15	–	–	15
Amortization	(387)	(213)	(37)	(637)
Impairments	(50)	(33)	(2)	(85)
Reversal of impairment	5	–	–	5
Divestments and transfers to assets classified as held for sale	(28)	(9)	(1)	(38)
Translation differences	(118)	(25)	(1)	(144)
Other	8	1	–	9
Total changes	(536)	78	(11)	(469)
Balance as of December 31, 2013:				
Cost	5,533	1,761	344	7,638
Amortization/ impairments	(3,173)	(916)	(287)	(4,376)
Book Value	2,360	845	57	3,262

	other intangible assets	product development	software	total
Balance as of January 1, 2012:				
Cost	5,857	1,437	369	7,663
Amortization/ impairments	(2,593)	(793)	(281)	(3,667)
Book value	3,264	644	88	3,996
Changes in book value:				
Additions	11	347	29	387
Acquisitions and purchase price allocation adjustments	137	–	–	137
Amortization	(455)	(190)	(44)	(689)
Impairments	(17)	(30)	(2)	(49)
Translation differences	(42)	(10)	–	(52)
Other	(2)	6	(3)	1
Total changes	(368)	123	(20)	(265)
Balance as of December 31, 2012:				
Cost	5,868	1,584	369	7,821
Amortization/ impairments	(2,972)	(817)	(301)	(4,090)
Book value	2,896	767	68	3,731

The additions for 2013 contain internally generated assets of EUR 357 million and EUR 30 million for product development and software respectively (2012: EUR 347 million, EUR 29 million).

The impairment charges in 2013 include an impairment charge of EUR 24 million in Imaging Systems, which relate to capitalized product development for EUR 7 million and other intangibles for EUR 17 million. The impairment charge is based on a trigger-based test on a specific business unit in Imaging Systems. A change in the business outlook coming from a slower than expected sales ramp up resulted in the mentioned impairment charge. The basis of the recoverable amount used in this test is the value in use and a pre-tax discount rate of 9,6% is applied. After the impairment charge the carrying value of the related intangible assets is zero.

The impairment charges in 2013 includes an impairment charge of EUR 32 million for customer relationships in Consumer Luminaires. The charge is based on a trigger-based test on specific mature markets following the initiated turnaround plan, reconsidering product ranges and growth rates. The basis of the recoverable amount used in this test is the value in use and a pre-tax discount rate of 11.4% is applied. After the impairment charge the carrying value of the related intangible assets is zero.

The acquisitions through business combinations in 2012 mainly consist of the acquired intangible assets of Indal for EUR 134 million.

The amortization of intangible assets is specified in note 3, Income from operations.

The impairment charges in 2012 for other intangibles mainly relates to brand names in Professional Lighting Solutions. As part of the rationalization of the go-to-market model in Professional Lighting Solutions, the Company decided to discontinue the use of several brands which resulted in the mentioned impairment charge. The impairment of product development of EUR 30 million relates to various projects in all three operating sectors.

Other intangible assets consist of:

	December 31, 2012		December 31, 2013	
	gross	amortization/ impairments	gross	amortization/ impairments
Brand names	966	(374)	909	(424)
Customer relationships	3,045	(1,318)	2,856	(1,447)
Technology	1,759	(1,202)	1,678	(1,226)
Other	98	(78)	90	(76)
	5,868	(2,972)	5,533	(3,173)

The estimated amortization expense for other intangible assets for each of the next five years is:

2014	310
2015	283
2016	253
2017	225
2018	217

The expected useful lives of the intangible assets excluding goodwill are as follows:

Brand names	2-20 years
Customer relationships	2-25 years
Technology	3-20 years
Other	1-8 years
Software	1-3 years
Product development	3-5 years

The expected weighted average remaining life of other intangible assets is 10.3 years as of December 31, 2013 (2012: 11.2 years).

The capitalized product development costs for which amortization has not yet commenced amounted to EUR 356 million (2012: EUR 361 million).

At December 31, 2013 the carrying amount of customer relationships of Respiratory Care & Sleep Management was EUR 459 million with a remaining amortization period of 10.2 years.

13 Non-current receivables

Non-current receivables include receivables with a remaining term of more than one year.

14 Other non-current financial assets

The changes during 2013 were as follows:

	available-for-sale financial assets	loans and receivables	held-to-maturity investments	financial assets at fair value through profit or loss	total
Balance as of January 1, 2013	232	267	3	47	549
Changes:					
Reclassifications	6	37	-	-	43
Acquisitions/ additions	17	13	1	-	31
Sales/ redemptions/ reductions	(11)	(6)	-	(8)	(25)
Impairment	(8)	(2)	-	-	(10)
Transfer to assets classified as held for sale	(62)	(30)	-	-	(92)
Value adjustments	17	1	-	(9)	9
Translation and exchange differences	1	(8)	(1)	(1)	(9)
Balance as of December 31, 2013	192	272	3	29	496

Available-for-sale financial assets
The Company's investments in available-for-sale financial assets mainly consist of investments in common stock of companies in various industries. An amount of EUR 62 million has been reclassified as assets held for sale in relation to the agreed contribution to the Dutch Pension Fund (please refer to note 30, Post-employment benefits and note 36, Subsequent events).

Loans and receivables
During 2013 loans with face value EUR 30 million were transferred to assets held for sale in relation to the agreed contribution to the Dutch Pension Fund (please refer to note 30, Post-employment benefits and note 36, Subsequent events).

Financial assets at fair value through profit or loss
The reduction of financial assets at fair value through profit and loss includes certain financial instruments that Philips received in exchange for the transfer of its television activities. The initial value of EUR 17 million was adjusted by EUR 11 million during 2012 and EUR 6 million in 2013 reported under Value adjustments. As of December 31, 2013 the fair value reported was nil. On January 20, 2014, Philips has signed a term sheet to transfer its remaining 30% stake in TP Vision, which will also impact the above commitments. For further information, please refer to note 36, Subsequent events.

In 2010 Philips sold its entire holding of common shares in NXP Semiconductors B.V. (NXP) to Philips Pension Trustees Limited (herein referred to as "UK Pension Fund"). As a result of this transaction the UK Pension Fund obtained the full legal title and ownership of the NXP shares, including the entitlement to any future dividends and the proceeds from any sale of shares. From the date of the transaction, the NXP shares became an integral part of the plan assets of the UK Pension Fund. The purchase agreement with the UK Pension Fund includes an arrangement that may entitle Philips to a cash payment from the UK Pension Fund on or after September 7, 2014, if the total value yielded by the NXP shares has increased by this date to a level in excess of a predetermined threshold, which at the time of the transaction was substantially above the transaction price, and the UK Pension Fund is in a surplus (on a swaps basis) on September 7, 2014. The arrangement qualifies as a financial instrument and is reported under Other non-current financial assets. The Trustees of the UK Pension Fund have been selling the NXP shares in a number of transactions since 2010. The remaining number of NXP shares were sold in the course of 2013 and the total sale proceeds of the NXP shares exceeded the predetermined threshold. However as of December 31, 2013 the UK Pension Fund was not in surplus (on the agreed swaps basis). The fair value of the arrangement was estimated to be EUR 14 million as of December 31, 2012. As of December 31, 2013 management's best estimate of the fair value of the arrangement is EUR 7 million, based on the current funded status as of December 31, 2013 (swaps basis) and the economic and demographic risks of the UK Pension Fund. The change in fair value in 2013 is reported under Value adjustments in the table above and also recognized in Financial income and expense.

15 Other non-current assets

Other non-current assets in 2013 are comprised of prepaid pension costs of EUR 5 million (2012: EUR 7 million) and prepaid expenses of EUR 58 million (2012: EUR 87 million).

For further details see note 30, Post-employment benefits.

16 Inventories

Inventories are summarized as follows:

	2012	2013
Raw materials and supplies	1,039	1,029
Work in process	513	375
Finished goods	1,943	1,836
	3,495	3,240

During 2013, inventories associated with the Audio, Video, Multimedia and Accessories (AVM&A) business have been reclassified to Assets held for sale. For more details, please refer note 7, Discontinued operations and other assets classified as held for sale.

The write-down of inventories to net realizable value amounted in 2013 to EUR 199 million (2012: EUR 273 million). The write-down is included in cost of sales.

17 Other current assets

Other current assets include prepaid expenses of EUR 354 million (2012: EUR 337 million).

18 Current receivables

The accounts receivable, net, per sector are as follows:

	2012	2013
Healthcare	1,967	1,978
Consumer Lifestyle	865	743
Lighting	1,364	1,567
Innovation, Group & Services	138	132
	4,334	4,420

The aging analysis of accounts receivable, net, is set out below:

	2012	2013
current	3,624	3,671
overdue 1-30 days	272	287
overdue 31-180 days	298	305
overdue > 180 days	140	157
	4,334	4,420

A large part of overdue trade accounts receivable relates to public sector customers with slow payment approval processes. The allowance for doubtful accounts receivable has been primarily established for receivables that are past due.

The changes in the allowance for doubtful accounts receivable are as follows:

	2011	2012	2013
Balance as of January 1	264	233	202
Additions charged to income	20	11	24
Deductions from allowance[1]	(31)	(43)	(23)
Other movements	(20)	1	(21)
Balance as of December 31	233	202	182

[1] Write-offs for which an allowance was previously provided

19 Equity

Common shares

As of December 31, 2013, the issued and fully paid share capital consists of 937,845,789 common shares, each share having a par value of EUR 0.20.

In June 2013, Philips settled a dividend of EUR 0.75 per common share, representing a total value of EUR 678 million. Shareholders could elect for a cash dividend or a share dividend. Approximately 59.8% of the shareholders elected for a share dividend, resulting in the issuance of 18,491,337 new common shares. The settlement of the cash dividend resulted in a payment of EUR 272 million.

The following table shows the movements in the outstanding number of shares;

Share movement schedule

	2012	2013
Balance as of January 1	926,094,902	914,591,275
Dividend distributed	30,522,107	18,491,337
Purchase of treasury shares	(46,870,632)	(27,811,356)
Re-issuance of treasury shares	4,844,898	8,066,511
Balance as of December 31	914,591,275	913,337,767

Preference shares

The ‘Stichting Preferente Aandelen Philips’ has been granted the right to acquire preference shares in the Company. Such right has not been exercised. As a means to protect the Company and its stakeholders against an unsolicited attempt to acquire (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 acquire) preference shares to a third party. As of December 31, 2013, no preference shares have been issued.

Option rights/restricted shares

The Company has granted stock options on its common shares and rights to receive common shares in the future (see note 31, Share-based compensation).

Treasury shares

In connection with the Company’s share repurchase programs, shares which have been repurchased and are held in treasury for (i) delivery upon exercise of options, performance and restricted share programs and employee share purchase programs, and (ii) capital reduction purposes, are accounted for as a reduction of shareholders’ equity. Treasury shares are recorded at cost, representing the market price on the acquisition date. When issued, shares are removed from treasury shares on a first-in, first-out (FIFO) basis.

Any difference between the cost and the cash received at the time treasury shares are issued, is recorded in retained earnings.

Dividend withholding tax in connection with the Company's purchase of treasury shares is recorded in retained earnings.

The following transactions took place resulting from employee option and share plans:

	2012	2013
Shares acquired	5,147	3,984
Average market price	EUR 17.86	EUR 22.51
Amount paid	EUR 0 million	EUR 0 million
Shares delivered	4,844,898	8,066,511
Average market price	EUR 24.39	EUR 28.35
Amount received	EUR 118 million	EUR 229 million
Total shares in treasury at year-end	28,712,954	20,650,427
Total cost	EUR 847 million	EUR 618 million

In order to reduce share capital, the following transactions took place:

	2012	2013
Shares acquired	46,865,485	27,807,372
Average market price	EUR 16.41	EUR 22.69
Amount paid	EUR 769 million	EUR 631 million
Reduction of capital stock	82,364,590	37,778,510
Total shares in treasury at year-end	13,828,733	3,857,595
Total cost	EUR 256 million	EUR 100 million

Dividend distribution

A proposal will be submitted to the General Meeting of Shareholders to pay a dividend of EUR 0.80 per common share, in cash or shares at the option of the shareholder from the 2013 net income.

Limitations in the distribution of shareholders' equity

Pursuant to Dutch law, limitations exist relating to the distribution of shareholders' equity of EUR 1,609 million (2012: EUR 1,480 million). Such limitations relate to common shares of EUR 188 million (2012: EUR 191 million) as well as to legal reserves required by Dutch law included under retained earnings of EUR 1,319 million (2012: EUR 1,161 million), revaluation reserves of EUR 23 million (2012: EUR 54 million), available-for-sale financial assets EUR 55 million (2012: EUR 54 million) and cash flow hedges EUR 24 million (2012: EUR 20 million).

The unrealized losses related to currency translation differences of EUR 569 million (2012: EUR 93 million), although qualifying as a legal reserve, reduce the distributable amount by their nature.

The legal reserve required by Dutch law of EUR 1,319 million included under retained earnings relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

Non-controlling interests

Non-controlling interests represent the claims that third parties have on equity of consolidated group companies that are not wholly-owned by the Company. The Company has no material non-controlling interests. The Net income attributable to non-controlling interests amounted to EUR 3 million in 2013 (2012: EUR 5 million).

In 2013 Philips reduced its non-controlling interest by EUR 19 million due to the sale of one of its Healthcare subsidiaries in China in which a local shareholder held an ownership percentage of 49%.

Objectives, policies and processes for managing capital

Philips manages capital based upon the measures net operating capital (NOC), net debt and cash flows before financing activities.

The Company believes that an understanding of the Philips 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 excluding deferred tax liabilities, (f) accounts and notes payable, (g) accrued liabilities, (h) current/non-current liabilities, and (i) trading securities.

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. Our net debt position is managed in such a way that we expect to continuously meet our objective to retain our target at A3 rating (Moody's) and A- rating (Standard and Poor's). Furthermore, the Group's objective when managing the net debt position is to fulfill our commitment to a stable dividend policy with a 40% to 50% target pay-out from continuing net income.

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

NOC composition

	2011	2012	2013
Intangible assets	11,012	10,679	9,766
Property, plant and equipment	3,014	2,959	2,780
Remaining assets	9,393	8,921	8,699
Provisions	(2,680)	(2,956)	(2,554)
Other liabilities	(10,357)	(10,287)	(8,453)
Net operating capital	10,382	9,316	10,238

Composition of net debt to group equity

	2011	2012	2013
Long-term debt	3,278	3,725	3,309
Short-term debt	582	809	592
Total debt	3,860	4,534	3,901
Cash and cash equivalents	3,147	3,834	2,465
Net debt (cash)[1]	713	700	1,436
Shareholders' equity	12,328	11,151	11,214
Non-controlling interests	34	34	13
Group equity	12,362	11,185	11,227
Net debt and group equity	13,075	11,885	12,663
Net debt divided by net debt and group equity (in %)	5	6	11
Group equity divided by net debt and group equity (in %)	95	94	89

[1] Total debt less cash and cash equivalents

Composition of cash flows

	2011	2012	2013
Cash flows from operating activities	760	2,082	1,138
Cash flows from investing activities	(1,275)	(925)	(997)
Cash flows before financing activities	(515)	1,157	141

20 Long-term debt and short-term debt

Long-term debt

	(range of) interest rates	average rate of interest	amount outstanding 2013	due in 1 year	due after 1 year	due after 5 years	average remaining term (in years)	amount outstanding 2012
USD bonds	3.8 - 7.8%	5.6%	2,958	–	2,958	2,059	13.7	3,198
Convertible debentures	0 - 0%	–	–	–	–	–	–	12
Private financing	0 - 0%	–	–	–	–	–	–	2
Bank borrowings	0 - 7.8%	2.0%	466	260	206	203	3.6	469
Other long-term debt	0 - 19.0%	4.4%	48	48	–	–	1.0	52
			3,472	308	3,164	2,262		3,733
Finance leases	0.7 - 15.1%	3.8%	199	54	145	53	6.3	243
		5.0%	3,671	362	3,309	2,315		3,976
Corresponding data of previous year		5.2%	3,976	251	3,725	3,357		3,417

The following amounts of long-term debt as of December 31, 2013, are due in the next five years:

2014	362
2015	42
2016	26
2017	16
2018	910
Total	1,356
Corresponding amount of previous year	619

	effective rate	2012	2013
Unsecured USD Bonds			
Due 5/15/25; 7 3/4%	7.429%	75	72
Due 6/01/26; 7 1/5%	6.885%	126	120
Due 8/15/13; 7 1/4%	6.382%	108	–
Due 5/15/25; 7 1/8%	6.794%	78	74
Due 3/11/18; 5 3/4%[1]	6.066%	948	907
Due 3/11/38; 6 7/8%[1]	7.210%	758	726
Due 3/15/22; 3.750%[1]	3.906%	758	726
Due 3/15/42; 5.000%[1]	5.273%	379	363
Adjustments[2]		(32)	(30)
		3,198	2,958

[1] The provisions applicable to these bonds, issued in March 2008 and in March 2012, contain a 'Change of Control Triggering Event'. If the Company would experience such an event with respect to a series of corporate bonds, the Company may be required to offer to purchase the bonds of the series at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest, if any.

[2] Adjustments relate to issued bond discounts, transaction costs and fair value adjustments for interest rate derivatives

Secured liabilities

In 2013, none of the long-term and short-term debt was secured by collateral (2012: EUR nil million).

Short-term debt

	2012	2013
Short-term bank borrowings	533	207
Other short-term loans	25	23
Current portion of long-term debt	251	362
	809	592

During 2013, the weighted average interest rate on the bank borrowings was 6.4% (2012: 7.8%).

In the Netherlands, the Company issued personnel debentures with a 5-year right of conversion into common shares of Koninklijke Philips NV. Convertible personnel debentures may not be converted within a period of 3 years after the date of issue. These convertible personnel debentures were available to most employees in the Netherlands and were purchased by them with their own funds and were redeemable on demand. The convertible personnel debentures become non-convertible debentures at the end of the conversion period.

Although convertible debentures have the character of long-term financing, the total outstanding amounts have been classified as current portion of long-term debt. At December 31, 2013 the conversion period ended, so none were outstanding (2012: EUR 12 million).

The conversion price varied between EUR 14.2 and EUR 24.6 with various conversion periods ending between January 1, 2013 and December 31, 2013. As of January 1, 2009, Philips no longer issues these debentures.

Furthermore, Philips has a USD 2.5 billion Commercial Paper Program and a EUR 1.8 billion 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 18, 2018. As of December 31, 2013 Philips did not have any loans outstanding under either facility.

21 Provisions

	2012		2013	
	long-term	short-term	long-term	short-term
Provisions for defined-benefit plans (see note 30)	808	52	754	51
Other postretirement benefits (see note 30)	233	17	200	14
Postemployment benefits and obligatory severance payments	56	26	41	25
Product warranty	90	229	59	207
Environmental provisions	330	45	249	62
Restructuring-related provisions	108	277	75	128
Onerous contract provisions	67	61	40	53
Other provisions	427	130	485	111
	2,119	837	1,903	651

Post-employment benefits and obligatory severance payments

The provision for post-employment benefits covers benefits provided to former or inactive employees after employment but before retirement, including salary continuation, supplemental unemployment benefits and disability-related benefits.

	2011	2012	2013
Balance as of January 1	116	104	82
Changes:			
Additions	29	12	15
Utilizations	(41)	(37)	(29)
Translation differences	-	1	(1)
Changes in consolidation	-	2	(1)
Balance as of December 31	104	82	66

The provision for obligatory severance payments covers the Company commitment to pay employees a lump sum upon the employee's dismissal or resignation. In the event that a former employee has passed away, the Company may have a commitment to pay a lump sum to the deceased employee's relatives. The Company expects the provision will be utilized mostly within the next three years.

Product warranty

The provision for product warranty reflects the estimated costs of replacement and free-of-charge services that will be incurred by the Company with respect to products sold. The Company expects the provision will be utilized mainly within the next year. The changes in the provision for product warranty are as follows:

	2011	2012	2013
Balance as of January 1	404	378	319
Changes:			
Additions	444	370	350
Utilizations	(470)	(427)	(363)
Transfer to assets classified as held for sale	-	-	(24)
Translation differences	1	(4)	(16)
Changes in consolidation	(1)	2	-
Balance as of December 31	378	319	266

Environmental provisions

The environmental provisions include accrued losses recorded with respect to environmental remediation. Approximately half of this provision is expected to be utilized within the next five years. The remaining portion relates to longer-term remediation activities.

The changes in this provision are as follows:

	2011	2012	2013
Balance as of January 1	250	305	375
Changes:			
Additions	48	48	30
Utilizations	(15)	(22)	(21)
Releases	(15)	(1)	(16)
Changes in discount rate	25	18	(40)
Accretion	6	6	6
Translation differences	6	(4)	(8)
Purchase price allocation adjustment	-	-	(15)
Changes in consolidation	-	25	-
Balance as of December 31	305	375	311

The decrease of provision due to changes in discount rate in 2013 relates to an overall increase of the market rates used in discounting.

For more details on the main assumptions underlying environmental provisions reference is made to note 26, Contingent assets and liabilities.

Restructuring-related provisions

The most significant projects in 2013

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

- In Healthcare, the largest projects were undertaken in Customer Services, Home Healthcare Solutions and Imaging Systems in the United States, Italy and the Netherlands to reduce the operating costs and simplify the organization.
- Consumer Lifestyle restructuring charges were mainly related to Personal Care (primarily in the Netherlands and Austria) and Coffee (mainly Italy).
- 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.

The Company expects the provision will be utilized mainly within the next year. The movements in the provisions and liabilities for restructuring in 2013 are presented by sector as follows:

	Dec. 31, 2012	additions	utilized	released	other changes[1]	Dec. 31, 2013
Healthcare	77	14	(50)	(23)	(1)	17
Consumer Lifestyle	48	11	(27)	(10)	(1)	21
Lighting	198	64	(110)	(19)	(3)	130
IG&S	62	16	(30)	(15)	2	35
	385	105	(217)	(67)	(3)	203

[1] Other changes primarily relate to translation differences and transfers between sectors

The most significant projects in 2012

In 2012, the most significant restructuring projects related to Lighting and Healthcare and were driven by our change program Accelerate!.

- In Healthcare, the largest projects were undertaken in Imaging Systems and Patient Care & Clinical Informatics in various locations in the United States, the Netherlands and Germany to reduce the operating costs and simplify the organization.
- Consumer Lifestyle restructuring charges were mainly related to Lifestyle Entertainment (primarily in Hong Kong and the United States) and Coffee (mainly Italy).
- Restructuring projects at Lighting centered on Luminaires businesses and Light Sources & Electronics, the largest of which took place in the Netherlands, Belgium and in various locations in the US.
- 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).

The movements in the provisions and liabilities for restructuring in 2012 are presented by sector as follows:

	Dec. 31, 2011	additions	utilized	released	other changes[1]	Dec. 31, 2012
Healthcare	18	100	(29)	(7)	(5)	77
Consumer Lifestyle	39	58	(41)	(8)	-	48
Lighting	52	225	(61)	(16)	(2)	198
IG&S	60	67	(47)	(10)	(8)	62
	169	450	(178)	(41)	(15)	385

[1] Other changes primarily relate to translation differences and transfers between sectors

The most significant projects in 2011

In 2011, the most significant restructuring projects related to Lighting and Innovation, Group & Services were driven by our change program Accelerate!.

- In Healthcare, the largest projects were undertaken in Home Healthcare Solutions, Imaging Systems and Patient Care & Clinical Informatics in various locations in the United States to reduce the operating costs and simplify the organization.
- Consumer Lifestyle restructuring charges mainly relate to our remaining Television operations in Europe.
- Restructuring projects at Lighting are driven by our change program Accelerate!. In addition projects centered on the Luminaires business and Light

Sources & Electronics, the largest of which took place in Brazil, the Netherlands and in various locations in the US.
- Innovation, Group & Services restructuring projects focused on the Global Service Units (primarily in the Netherlands), Group & Regional Overheads (mainly the Netherlands, Brazil and Italy) and Philips Design (Netherlands).

The movements in the provisions and liabilities for restructuring in 2011 are presented by sector as follows:

	Dec. 31, 2010	additions	utilized	released	other changes[1]	Dec. 31, 2011
Healthcare	33	16	(17)	(14)	−	18
Consumer Lifestyle	75	25	(56)	(6)	1	39
Lighting	70	44	(47)	(13)	(2)	52
IG&S	48	37	(15)	(14)	4	60
	226	122	(135)	(47)	3	169

[1] Other changes primarily relate to translation differences and transfers between sectors

Onerous contract provisions

The onerous contract provisions include provisions for the loss recognized upon signing the agreement with TPV Technology Limited for the Television business of EUR 7 million (2012: EUR 24 million), provisions for unfavorable supply contracts as part of divestment transactions of EUR 38 million (2012: EUR 60 million), onerous (sub)lease contracts of EUR 38 million (2012: EUR 35 million) and expected losses on existing projects/orders of EUR 10 million (2012: EUR 9 million).

The Company expects the provision will be utilized mostly within the next three years. The changes in the provision for onerous contract are as follows:

	2011	2012	2013
Balance as of January 1	−	248	128
Changes:			
Additions	270	142	34
Utilizations	(22)	(277)	(64)
Releases	−	(6)	(4)
Reclassification	−	21	(1)
Balance as of December 31	248	128	93

Other provisions

The main elements of other provisions are: provision for employee jubilee funds totaling EUR 76 million (2012: EUR 76 million), self-insurance liabilities of EUR 56 million (2012: EUR 61 million), liabilities related to business combinations totaling EUR 9 million (2012: EUR 36 million), provisions for rights of return of EUR 45 million (2012: EUR 45 million), provisions in respect of outstanding litigation totaling EUR 236 million (2012: EUR 238 million), provision for possible taxes/social security of EUR 65 million (2012: EUR 28 million) and provision for decommissioning costs of EUR 33 million (2012: EUR nil million).

In 2013, EUR 20 million of releases related to provision for business combinations.

The reclassification in 2013 includes mainly liabilities related to decommissioning costs reclassified to provisions from other (non)current liabilities and possible taxes transferred to provisions from other non-current financial assets. The reclassification in 2012 includes mainly liabilities for rights of return which were recognized in previous years in accrued liabilities.

There are provisions in respect of certain outstanding litigation within various operations, of which management expects the outcomes of these disputes to be resolved within the forthcoming five years. The actual outcome of these disputes and the timing of the resolution cannot be estimated by the Company at this time. The further information ordinarily required by IAS 37, ‘Provisions, contingent liabilities and contingent assets’ has not been disclosed on the grounds that it can be expected to seriously prejudice the outcome of the disputes.

Less than a half of provision for employee jubilee funds and provision for possible taxes/social security is expected to be utilized within next five years. Provision for self-insurance liabilities and provision for decommissioning costs are expected to be used mainly within the next five years. All other provisions are expected to be utilized within the next three years, except for provision for rights of return, which the Company expects to use within the next year.

	2011	2012	2013
Balance as of January 1	310	389	557
Changes:			
Additions	201	396	190
Utilizations	(138)	(260)	(148)
Releases	(9)	(27)	(55)
Reclassification	-	67	84
Liabilities directly associated with assets held for sale	(6)	-	(3)
Translation differences	(4)	(9)	(29)
Changes in consolidation	35	1	-
Balance as of December 31	389	557	596

22 Other non-current liabilities

Other non-current liabilities are summarized as follows:

	2012	2013
Accrued pension costs	1,166	813
Income tax payable	-	1
Decommissioning cost	23	-
Deferred income	194	214
Other tax liability	488	443
Other liabilities	134	97
	2,005	1,568

The decrease in the accrued pension costs is mainly attributable to the US defined benefit plan. See also note 30, Post-employment benefits.

In 2013, liabilities related to decommissioning cost were reclassified from (non)current liabilities to other provisions.

For further details on tax related liabilities refer to note 5, Income taxes.

23 Accrued liabilities

Accrued liabilities are summarized as follows:

	2012	2013
Personnel-related costs:		
- Salaries and wages	590	560
- Accrued holiday entitlements	192	184
- Other personnel-related costs	148	130
Fixed-asset-related costs:		
- Gas, water, electricity, rent and other	69	61
Distribution costs	114	104
Sales-related costs:		
- Commission payable	52	24
- Advertising and marketing-related costs	149	159
- Other sales-related costs	118	98
Material-related costs	186	175
Interest-related accruals	75	57
Deferred income	824	812
Other accrued liabilities	654	466
	3,171	2,830

24 Other current liabilities

Other current liabilities are summarized as follows:

	2012	2013
Advances received from customers on orders not covered by work in process	308	240
Other taxes including social security premiums	176	193
Other liabilities	1,071	649
	1,555	1,082

Other liabilities include EUR 530 million (2012: EUR 442 million) accrued customer rebates that cannot be offset with accounts receivables for those customers.

On December 5, 2012 the Company announced that it received a fine of EUR 313 million from the European Commission following an investigation into alleged violation of competition rules in the Cathode-Ray Tubes (CRT) industry. In addition, the European Commission has ordered Philips and LG Electronics to be jointly and severally liable to pay a fine of EUR 392 million for an alleged violation of competition rules by LG.Philips Displays (LPD), a 50/50 joint venture between the Company and LG Electronics. In 2006, LPD went bankrupt. The aggregate of the amount of EUR 313 million and EUR 196 million (being 50% of the fine related to LPD) has been recorded under Other liabilities in December 2012 and paid in Q1 2013.

25 Contractual obligations

Contractual cash obligations at December 31, 2013[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 is 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. 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 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

The long-term operating lease commitments are mainly related to the rental of buildings. A number of these leases originate from sale-and-leaseback arrangements. Operating lease payments under sale-and-leaseback arrangements for 2013 totaled EUR 42 million (2012: EUR 35 million).

The remaining minimum payments from operating leases originating from sale-and-leaseback arrangements are as follows:

2014	42
2015	37
2016	36
2017	35
2018	34
Thereafter	171

Finance lease liabilities

		2012			2013	
	future minimum lease payments	interest	present value of minimum lease payments	future minimum lease payments	interest	present value of minimum lease payments
Less than one year	73	7	65	61	7	54
Between one and five years	137	25	113	112	20	92
More than five years	88	23	65	68	15	53
	298	55	243	241	42	199

Philips entered into contracts with several venture capitalists where it committed itself to make, under certain conditions, capital contributions to investment funds to an aggregated amount of EUR 40 million (2012: EUR 48 million) until June 30, 2021. As at December 31, 2013 capital contributions already made to these investment funds are recorded as available-for-sale financial assets within Other non-current financial assets.

Based on its 30% share in the TP Vision venture, Philips had various commitments to provide further funding to the TP Vision venture at December 31, 2013 (see note 32, Related-party transactions).

On 20 January 2014, Philips has signed a term sheet to transfer its remaining 30% stake in the TP Vision venture, which will also impact the above commitments (see note 36, Subsequent events).

See also note 7, Discontinued operations and other assets classified as held for sale for further details on the Television business divestment.

26 Contingent assets and liabilities

Contingent assets

In 1996, CIEM (Labor Union of Manaus) representing, among other companies Philips Brazil, filed a fiscal claim against Manaus Free Trade Zone Superintendence (SUFRAMA), in order to obtain a judicial declaration of the illegality and unconstitutionality of the Public Price tax, charged by SUFRAMA. The Lower Court ruled favorable for Philips.

In September 2007, Philips requested the Settlement of Declaratory Judgment, in order to refund the amounts unduly paid to SUFRAMA during 1992 to 1999. In August 2011, a ruling was issued to approve Philips credit for the amount of EUR 36 million (BRL 118 million). The estimated amount as of year-end 2013 is EUR 40 million (BRL 130 million), the increase explained by interest.

In December 2008, SUFRAMA filed the appeal against the decision issued in the records of the Settlement of Declaratory Judgment. The Regional Court unanimously upheld the Lower Court decision to reject SUFRAMA's appeal. SUFRAMA filed two appeals against the Regional Court decision. One to the Superior Court of Justice (STJ) and the other to Supreme Court. Both appeals were denied. SUFRAMA filed a Bill of Review against the decision that denied both appeals. The appeal was admitted in STJ. The judgment is pending since October 2013. Final decision is expected in two years.

Contingent liabilities

Guarantees

Philips' policy is to provide guarantees and other letters of support only in writing. Philips does not stand by 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, 2013.

Expiration per period
in millions of euros

	business-related guarantees	credit-related guarantees	total
2013			
Total amounts committed	292	41	333
Less than one year	107	19	126
Between one and five years	117	7	124
After five years	68	15	83
2012			
Total amounts committed	295	27	322
Less than one year	113	11	124
Between one and five years	114	-	114
After five years	68	16	84

Environmental remediation

The Company and its subsidiaries are subject to environmental laws and regulations. Under these laws, the Company and/or its subsidiaries may be required to remediate the effects of certain chemicals on the environment. The Company accrues for losses associated with environmental obligations when such losses are probable and reliably estimable. Such amounts are recognized on a discounted basis since they reflect the present value of estimated future cash flows.

Provisions for environmental remediation can change significantly due to the emergence of additional information regarding the extent or nature of the contamination, the need to utilize alternative technologies, actions by regulatory authorities and changes in judgments, assumptions, and discount rates.

The Company and/or its subsidiaries have recognized environmental remediation provisions for sites in various countries. In the United States, subsidiaries of the Company have been named as potentially responsible parties in state and federal proceedings for the clean-up of certain sites.

Legal proceedings

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, including discussions on potential remedial actions, relating to such matters as competition issues, commercial transactions, product liability, participations and environmental pollution.

In respect of antitrust laws, the Company and certain of its (former) group companies are involved in investigations by competition law authorities in several jurisdictions and are engaged in litigation in this respect. 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.

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 position, results of operations and cash flows.

Provided below are disclosures of the more significant cases:

Cathode-Ray Tubes (CRT)
On November 21, 2007, the Company announced that competition law authorities in several jurisdictions had commenced investigations into possible anticompetitive activities in the Cathode-Ray Tubes, or CRT industry. On December 5, 2012, the European Commission issued a decision imposing fines on (former) CRT manufacturers including the Company. The European Commission imposed a fine of EUR 313 million on the Company and a fine of EUR 392 million jointly and severally on the Company and LG Electronics, Inc. In total a payable of EUR 509 million was recognized and the fine was paid in the first quarter of 2013. The Company has appealed the decision of the European Commission. The authorities in Brazil and Hungary are continuing to pursue the matter against Philips and other defendants. Philips will respond to these allegations in 2014.

Subsequent to the public announcement of these investigations in 2007, certain Philips group companies were named as defendants in over 50 class action antitrust complaints filed in various federal district courts in the United States. These actions allege anticompetitive conduct by manufacturers of CRTs and seek treble damages on behalf of direct and indirect purchasers of CRTs and products incorporating CRTs. These complaints assert claims under federal antitrust law, as well as various state antitrust and unfair competition laws and may involve joint and several liability among the named defendants. These actions have been consolidated by the Judicial Panel for Multidistrict Litigation for pretrial proceedings in the United States District Court for the Northern District of California.

In 2012 a settlement agreement was approved between the Company and counsel for direct purchaser plaintiffs fully resolving all claims of the direct purchaser class and obtaining a complete release by class members. Sixteen individual plaintiffs, principally large retailers of CRT products who sought exclusion from the direct purchaser class settlement, filed separate “opt-out” actions against Philips and other defendants based on the same substantive allegations as the putative class plaintiff complaints. These cases are consolidated for pre-trial purposes with the putative class actions in the Northern District of California and discovery is being coordinated. Philips’ motions to dismiss the complaints of the individual plaintiffs have been denied. Trials on the individual claims have not yet been scheduled.

On September 24, 2013 a class of indirect purchasers was certified pursuant to F.R.C.P. 23. Discovery is proceeding in the indirect purchaser action and a trial on these claims is currently scheduled for 2015. Philips intends to continue to vigorously defend these indirect purchaser and individual lawsuits.

In addition, the state attorneys general of California, Florida, Illinois, Oregon and Washington filed actions against Philips and other defendants seeking to recover damages on behalf of the states and, in parens patriae capacity, their consumers. In 2012 the Florida complaint was withdrawn. In 2013 a settlement agreement with the state attorney general of California has been approved. The actions brought by the state attorneys general of Illinois, Oregon and Washington are pending in the respective state courts of the plaintiffs. The Courts have not set trial dates and there is no timetable for the resolution of these cases. Philips intends to continue to vigorously defend these remaining lawsuits.

Certain Philips group companies have also been named as defendants, in proposed class proceedings in Ontario, Quebec and British Columbia, Canada, along with numerous other participants in the industry. At this time, no statement of defense has been filed, no certification motion has been scheduled and no class proceeding has been certified as against the Philips defendants. Philips intends to vigorously oppose these claims.

Due to the considerable uncertainty associated with certain of these matters, on the basis of current knowledge, the Company has concluded that potential losses cannot be reliably estimated with respect to these matters. These investigations and litigation could have a materially adverse effect on the Company’s consolidated financial position, results of operations and cash flows.

In addition to the above cases, in 2006 Italian investor Mr. Carlo Vichi filed a claim against Philips for the repayment of a 2002 EUR 200 million loan (plus interest and damages) that was given to an affiliate of the CRT joint venture LG.Philips Displays (“LPD”) that went bankrupt in January of 2006. One of the issues in the case was whether LPD’s alleged participation in the CRT cartel as determined by the European Commission was a matter that should have been disclosed to Mr. Vichi. The trial in the case took place in December 2012 and after a period of post-trial briefing, the Delaware Chancery Court ruled in favor of Philips on February 18, 2014. The decision is subject to appeal to the Delaware Supreme Court.

Optical Disc Drive (ODD)
On October 27, 2009, the Antitrust Division of the United States Department of Justice confirmed that it had initiated an investigation into possible anticompetitive practices in the Optical Disc Drive (ODD) industry. Philips Lite-On Digital Solutions Corp. (PLDS), a joint venture owned by the Company and Lite-On IT Corporation, as an ODD market participant, is included in this investigation. PLDS and the Company have been accepted under the Corporate Leniency program of the US Department of Justice and have continued to cooperate with the authorities in these investigations. On this basis, the Company expects to be immune from governmental fines.

In July 2012, the European Commission issued a Statement of Objections addressed to (former) ODD suppliers including the Company. The European Commission granted the Company immunity from fines, conditional upon the Company's continued cooperation. The Company responded to the Statement of Objections both in writing and at an oral hearing. PLDS is also subject to similar investigations outside the US and Europe relating to the ODD market. Where relevant, the Company is cooperating with the authorities.

Subsequent to the public announcement of these investigations in 2009, the Company, PLDS and Philips & Lite-On Digital Solutions USA, Inc. (PLDS USA), among other industry participants, were named as defendants in numerous class action antitrust complaints filed in various federal district courts in the United States. These actions allege anticompetitive conduct by manufacturers of ODDs and seek treble damages on behalf of direct and indirect purchasers of ODDs and products incorporating ODDs. These complaints assert claims under federal antitrust law, as well as various state antitrust and unfair competition laws and may involve joint and several liability among the named defendants. These actions have been consolidated for pre-trial proceedings in the United States District Court for the Northern District of California.

Consolidated Amended Complaints were filed by direct and indirect purchasers. The defendants' motions to dismiss these Complaints were denied and Philips has filed Answers to the Complaints. Discovery is proceeding. Plaintiffs filed motions seeking to certify the putative classes of direct and indirect purchasers under F.R.C.P. Rule 23 in May 2013, and Defendants have filed responses opposing class certification. Plaintiffs are scheduled to file reply briefs in February 2014, and oral argument will be scheduled after briefing is complete. In addition, five individual entities have filed separate actions against the Company, PLDS, PLDS USA and other defendants. The allegations contained in these individual complaints are substantially identical to the allegations in the direct purchaser class complaints. The Company is in the process of submitting answers to these various individual complaints. All of these matters have been consolidated into the action in the Northern District of California for pre-trial purposes and discovery is being coordinated. The Company intends to vigorously defend all of the civil actions in the US courts.

Also, in June 2013, the State of Florida filed a separate complaint in the Northern District of California against the Company, PLDS, PLDS USA and other defendants containing largely the same allegations as the class and individual complaints. Florida seeks to recover damages sustained in its capacity as a buyer of ODDs and, in its parens patriae capacity, on behalf of its citizens. This case has been joined with the ODD class action cases in the Northern District of California for pre-trial purposes. The Company intends to seek dismissal of the Florida complaint. The Company and certain Philips group companies have also been named as defendants, in proposed class proceedings in Ontario, Quebec, British Columbia, and Manitoba, Canada along with numerous other participants in the industry. These complaints assert claims against various ODD manufacturers under federal competition laws as well as tort laws and may involve joint and several liability among the named defendants. Philips intends to vigorously defend these lawsuits.

Due to the considerable uncertainty associated with these matters, on the basis of current knowledge, the Company has concluded that potential losses cannot be reliably estimated with respect to these matters. These investigations and litigation could have a materially adverse effect on the Company's consolidated financial position, results of operations and cash flows.

Smart card chips
Philips is part of an investigation by the European Commission into alleged anti-competitive conduct in the period September 2003 to September 2004 relating to the former Philips smart card chips business. This business was part of Philips' former Product Division Semiconductors, which was divested in 2006. The European Commission issued its Statement of Objections on April 22, 2013. The Company responded to the Statement of Objections both in writing and at a

hearing. Based on our current knowledge, the Company does not believe that this investigation will have a materially adverse effect on the Company's consolidated financial position.

27 Cash from (used for) derivatives and current financial assets

A total of EUR 93 million cash was paid with respect to foreign exchange derivative contracts related to financing activities (2012: EUR 47 million outflow; 2011: EUR 25 million inflow).

A total of EUR 8 million was paid with respect to current financial assets (2012: EUR 1 million inflow; 2011: EUR 1 million inflow).

28 Purchase and proceeds from non-current financial assets

In 2013, there were no significant cash flows resulting from investing activities.

In 2012, the cash outflow was mainly due to loans provided to TPV Technology Limited and TP Vision venture in connection with the divestment of the Television business (EUR 151 million in aggregate).

In 2011, the sale of Philips' interest in TCL Corporation (TCL) and Digimarc generated cash totaling EUR 79 million.

29 Assets in lieu of cash from sale of businesses

In 2013, there were no transactions related to the sale of businesses that involved assets in lieu of cash.

In 2012, Philips received certain financial instruments in exchange for the transfer of its television business. At the date of this transaction the fair value of these financial instruments involved an amount of EUR 17 million.

In 2011, the Company entered into four transactions with different venture capital partners where certain incubator activities were transferred in exchange for shares in separately established investment entities. The investment entities represented a value of EUR 18 million at the date that these transactions were closed.

30 Post-employment benefits

Employee post-employment plans have been established in many countries in accordance with the legal requirements, customs and the local practice in the countries involved.

The Company sponsors a number of defined-benefit pension plans. The benefits provided by these plans are based on employees' years of service and compensation levels. The Company also sponsors a limited number of defined-benefit retiree medical plans. The benefits provided by these plans are typically covering a part of the healthcare insurance costs after retirement. Most employees that take part in a Company pension plan however are covered by defined-contribution (DC) pension plans.

The largest defined-benefit pension plans are in;

- The Netherlands,
- The United Kingdom (UK) and
- The United States (US).

Together these plans account for more than 90% of the total defined-benefit obligation and plan assets.

The Netherlands

The pension plan in the Netherlands is of a defined-benefit nature. The annual accrual rate in this career average pay plan that covers all employees covered under the Collective Labour Agreement is 1.85% of the pension salary. Executives are in a 'hybrid plan' with an accrual rate of 1.25% per service year next to a DC contribution, the level of which depends on the executive grade. Both plans are executed by the Company Pension Fund.

Indexation of benefits is conditional and depends among others on the statutory and regulatory funding ratio of the Fund. The Company is required to fund the annual service cost plus surcharges for solvency requirements, costs and a contribution for indexation. The Company is required to pay additional surcharges in case the funded status of the Company Pension Fund drops below an agreed level. The Company is entitled to discounts and refunds if the funded status of the Company Pension Fund exceeds an agreed surplus level.

Following the new Collective Labour Agreement with the respective trade unions in 2013 a new funding agreement has been agreed with the Trustees of the Company Pension Fund. Under the new funding agreement, which becomes effective January 1, 2014, the Company has no further financial obligation to the Pension Fund other than to pay an agreed fixed contribution for the annual accrual of active members. Although the new funding agreement will de-risk the plan, the annual premium can be subject to variability after five years due to potential discounts and as a result, the plan continues to be accounted for as a defined benefit plan. The other changes in the plan are a new pensionable age of 67 (was 65) and the introduction of an employee contribution. These changes had practically no impact on the existing defined benefit obligation. For further details we refer to note 36, Subsequent events.

United Kingdom

The UK plan is executed by a Company Pension Fund. In the UK plan the accrual of new benefits ceased in 2011. A legally mandatory indexation for accrued benefits still applies. The Company does not pay regular contributions, other than an agreed portion of the administration costs.

The UK plan assets until September 2013 contained a high concentration of NXP shares. The NXP shares were transferred to the Fund by the Company in 2010 as part of a recovery plan and have by now all been sold by the UK Fund. In 2013 the Trustee of the UK Fund entered into a bulk insurance contract - a buy-in - which provides for payment in respect of a part of the Fund's pensioners. The asset value related to this buy-in included in the UK plan assets equals the defined-benefit obligation of the related pensioners and is EUR 508 million per December 31, 2013.

United States

The US defined-benefit plan covers certain hourly workers and salaried workers hired before January 1, 2005.

The accrual for salaried workers in the US plan will end per December 31, 2015. The announcement in 2013 of this delayed freeze in the US plan triggered a past service cost gain of EUR 78 million. In the same US plan in 2013 a large group of terminated vested employees accepted a lump-sum offering thus lowering the plan assets and liabilities. The related settlement result was a loss of EUR 31 million.

Indexation of benefits is not mandatory. The Company pays contributions for the annual service costs as well as additional contributions to cover a deficit. The assets of the US plan are in a Trust governed by Trustees.

Risks related to defined-benefit plans

These defined-benefit plans expose the Company to various demographic and economic risks such as longevity risk, investment risks, currency and interest rate risk and in some cases inflation risk. The latter plays a role in the assumed wage increase and in the UK plan where indexation is mandatory. Pension fund Trustees are responsible for and have full discretion over the investment strategy of the plan assets. In general Trustees manage pension fund risks by diversifying the investments of plan assets and by (partially) matching interest rate risk of liabilities.

The Company has an active derisking strategy in which it constantly looks for opportunities to reduce the risks associated with its defined benefit plans. Liability driven investment strategies, lump sum cash-out options, buy-ins, buy-outs and the above mentioned change in the funding of the Dutch plan are examples of that strategy. The larger plans are either governed by independent Boards or by Trustees who have a legal obligation to evenly balance the interests of all stakeholders and operate under the local regulatory framework.

Balance sheet positions

The net balance sheet position presented in this note can be explained as follows:

- The surpluses in our plans in The Netherlands, UK as well some other countries are not recognized as a net defined benefit asset because in The Netherlands the current surplus will not bring sufficient future economic benefits to the Company (asset ceiling restrictions) whereas the regulatory framework in the other countries involved explicitly prohibits refunds to the employer.
- The deficit of the US defined-benefit plan presented under other liabilities and the provisions of the unfunded plans therefore count for the largest part of the net balance sheet position.

The measurement date for all defined-benefit plans is December 31.

Summary of pre-tax costs for post-employment benefits

The below table contains the total of current- and past service costs, admin costs and settlement results as included in operating cost and the interest cost as included in financial income and expense.

	2011	2012	2013
Defined-benefit plans	253	290	297
included in operating cost	155	205	223
included in financial expense	93	85	71
included in discontinued operations	5	-	3
Defined-contribution plans including multi-employer plans	123	144	142
included in operating cost	117	139	139
included in discontinued operations	6	5	3

Defined-benefit plans: Pensions

Movements in the net liabilities and - assets for defined benefit pension plans:

			2012			2013
	Netherlands	other	total	Netherlands	other	total
Defined-benefit obligation at the beginning of year	13,294	8,920	22,214	14,433	9,021	23,454
Service cost	170	81	251	183	77	260
Interest cost	502	388	890	467	351	818
Employee contributions	-	4	4	-	4	4
Actuarial (gains) / losses						
– demographic assumptions	133	64	197	205	17	222
– financial assumptions	1,151	358	1,509	(214)	(385)	(599)
– experience adjustment	(76)	8	(68)	(75)	(32)	(107)
(Negative) past service cost	(25)	(6)	(31)	(1)	(80)	(81)
Divestments	-	(13)	(13)	-	(3)	(3)
Settlements	-	(294)	(294)	-	(279)	(279)
Benefits paid	(716)	(465)	(1,181)	(704)	(462)	(1,166)
Exchange rate differences	-	(36)	(36)	-	(318)	(318)
Miscellaneous	-	12	12	-	-	-
Defined-benefit obligation at end of year	14,433	9,021	23,454	14,294	7,911	22,205
Present value of funded obligations at end of year	14,426	8,168	22,594	14,288	7,112	21,400
Present value of unfunded obligations at end of year	7	853	860	6	799	805

			2012			2013
	Netherlands	other	total	Netherlands	other	total
Fair value of plan assets at beginning of year	13,946	7,303	21,249	15,203	7,588	22,791
Interest income on plan assets	531	337	868	496	317	813
Admin expenses paid	(4)	(5)	(9)	(9)	(5)	(14)
Return on plan assets excluding interest income	1,237	460	1,697	(426)	(338)	(764)
Employee contributions	-	4	4	-	4	4
Employer contributions	209	216	425	283	187	470
Divestments	-	(1)	(1)	-	(1)	(1)
Settlements	-	(294)	(294)	-	(311)	(311)
Benefits paid	(716)	(407)	(1,123)	(704)	(407)	(1,111)
Exchange rate differences	-	(25)	(25)	-	(306)	(306)
Fair value of plan assets at end of year	15,203	7,588	22,791	14,843	6,728	21,571
Funded status	770	(1,433)	(663)	549	(1,183)	(634)
Unrecognized net assets	(777)	(586)	(1,363)	(555)	(428)	(983)
Net balance sheet position	(7)	(2,019)	(2,026)	(6)	(1,611)	(1,617)

The classification of the net balance is as follows:

	2012			2013		
	Netherlands	other	total	Netherlands	other	total
Prepaid pension costs under other non-current assets	–	7	7	–	5	5
Accrued pension costs under other liabilities	–	(1,173)	(1,173)	–	(817)	(817)
Provision for pensions under provisions	(7)	(853)	(860)	(6)	(799)	(805)
	(7)	(2,019)	(2,026)	(6)	(1,611)	(1,617)

Changes in the effect of the asset ceiling

	2012			2013		
	Netherlands	other	total	Netherlands	other	total
Unrecognized assets at the beginning of year	660	399	1,059	777	586	1,363
Interest on unrecognized assets	26	25	51	25	31	56
Remeasurements	91	173	264	(247)	(155)	(402)
Exchange rate differences	–	(11)	(11)	–	(34)	(34)
Unrecognized assets at the end of year	777	586	1,363	555	428	983

Plan assets allocation

The asset allocation in the Company's pension plans at December 31 was as follows:

	2012		2013	
	Netherlands	other	Netherlands	other
Matching portfolio:				
- Debt securities	11,734	6,106	11,238	4,282
Return portfolio:				
- Equity securities	2,366	1,083	2,524	910
- Real estate	683	19	790	9
- Other	420	380	291	1,527
	15,203	7,588	14,843	6,728

The assets in 2013 contain 14% (2012: 11%) unquoted assets, the increase compared to 2012 mainly related to the buy-in value in the UK plan. Plan assets in 2013 do not include property occupied by or financial instruments issued by the Company

Assumptions

The mortality tables used for the Company's major schemes are:

- Netherlands: Prognosis table 2012-2062 including experience rating TW2012.
- United Kingdom retirees: SAPS 2002- Core CMI 2011 projection
- United States: RP2000 CH Fully Generational

The weighted averages of the assumptions used to calculate the defined-benefit obligations as of December 31 were as follows:

	2012		2013	
	Netherlands	other	Netherlands	other
Discount rate	3.3%	4.1%	3.4%	4.5%
Rate of compensation increase	*	3.3%	*	3.2%

* The rate of compensation increase for the Netherlands consists of a general compensation increase and an individual salary increase based on merit, seniority and promotion. In 2013 the Company determined new turnover- and disability rates and individual salary rates for all active participants based on the period 2010-2012. The individual increase at the average age of 45 is 1.75% (2012 0.75% for CLA A). The indexation assumption used to calculate the defined benefit obligations for the Netherlands is 1.0% (2012: 1.0%).

The (average) duration of the DBO of the pension plans is 15 years for the Netherlands (2012: 14 years) and 11 years for other countries (2012: 11 years).

Defined-benefit plans: retiree medical plans

Movements in the net liability for retiree medical plans:

	2012	2013
Defined-benefit obligation at the beginning of year	269	250
Service cost	1	1
Interest cost	12	10
Actuarial (gains) or losses arising from:		
– financial assumptions	1	(17)
Past service cost	(25)	-
Benefits paid	(17)	(15)
Exchange rate differences	(6)	(16)
Miscellaneous	15	-
Defined-benefit obligation at end of year	250	213
Present value of funded obligations at end of year	-	-
Present value of unfunded obligations at end of year	250	213
Funded status	(250)	(213)
Net balances	(250)	(213)
Classification of the net balance is as follows:		
Provision for other postretirement benefits	(250)	(213)

The weighted average assumptions used to calculate the defined benefit obligations for retiree medical plans as of December 31 were as follows:

	2012	2013
Discount rate	4.5%	4.8%
Compensation increase (where applicable)	-	-

Assumed healthcare cost trend rates at December 31:

	2012	2013
Healthcare cost trend rate assumed for next year	7.5%	7.5%
Rate that the cost trend rate will gradually reach	5.2%	5.2%
Year of reaching the rate at which it is assumed to remain	2019	2019

The average duration of the DBO of the retiree medical plans is 9 years (2012: 8 years).

Investment policy in our largest pension plans

It must be acknowledged that trustees of the Philips pension plans are responsible for and have full discretion over the investment strategy of the plan assets.

The objective of the liability hedging portfolio of the Philips pension plan in the Netherlands is to match part of the interest rate sensitivity of the plan's inflation-linked pension liabilities (based on a 2% inflation assumption). The liability hedging portfolio is mainly invested in euro-denominated government bonds, investment grade debt securities and long-duration interest rate swaps. The size of the liability hedging portfolio is targeted to be at least 64% of the fair value of the plan's inflation-linked pension liabilities. The objective of the return portfolio is to maximize investment returns within well-specified risk constraints.

The Philips pension plan in the United Kingdom operates a fixed income portfolio that aims to fully hedge the interest rate and inflation rate sensitivities of the fair value of the plan's pension liabilities. Part of the portfolio is invested in a buy-in policy, in which an insurance company guarantees all future benefit payments to the plan, thereby matching the investment and longevity risks of the pension liabilities covered in the buy-in policy.

The plan assets of the Philips pension plan in the United States are invested in a well diversified portfolio. The interest rate sensitivity of the fixed income portfolio is closely aligned to that of the plan's pension liabilities. Any contributions from the sponsoring company are used to further increase the fixed income part of the assets. As part of the investment strategy, any additional investment returns of the return portfolio are used to further decrease the interest rate mismatch between the plan assets and the pension liabilities.

Cash flows and costs in 2014

Philips expects considerable cash outflows in relation to employee benefits which are estimated to amount to EUR 626 million in 2014, consisting of EUR 417 million employer contributions to defined benefit pension plans, EUR 140 million employer contributions to defined contribution pension plans, EUR 52 million expected cash outflows in relation to unfunded pension plans and EUR 17 million in relation to unfunded retiree medical plans. The employer contributions to defined benefit pension plans are expected to amount to EUR 223 million for the Netherlands and EUR 194 million for other countries. The Company continues to fund a part of the existing deficit in the US pension plan in 2014, which amount is included in the amounts aforementioned. For the funding of the deficit in the US plan the Group adheres to the minimum funding requirements of the US

Pension Protection Act. The UK plan is currently in a surplus on a regulatory basis and does not require any funding in 2014 other than the agreed administration cost.
The funding of the pension fund in the Netherlands for 2014 consists of a fixed percentage of payroll which applies for a period of 5 years. The additional contribution to the pension fund for the Netherlands is not included in the above figures. For further details we refer to note 36, Subsequent events. It is noted that the (majority of the) contribution will need to be written off through Other comprehensive income due to the asset ceiling restrictions in the pension plan in the Netherlands.

The service and administration cost for 2014 is expected to amount to EUR 256 million, consisting of EUR 255 million for defined-benefit pension plans and EUR 1 million for defined-benefit retiree medical plans. The net interest expense for 2014 is expected to amount to EUR 54 million, consisting of EUR 43 million for defined-benefit pension plans and EUR 11 million for defined-benefit retiree medical plans. The cost for defined-contribution pension plans in 2014 is expected to amount to EUR 140 million.

Sensitivity analysis

The table below illustrates the approximate impact on the defined-benefit obligation if the Company were to change key assumptions. The DBO was recalculated using a change in the assumptions of 1% which overall is considered a reasonably possible change. The impact on the DBO because of changes in discount rate is normally accompanied by offsetting movements in plan assets, especially when using matching strategies.

	Defined benefit obligation		
			2013
	Pension Netherlands	Pension other	Retiree medical
Increase			
Discount rate (1% movement)	(1,708)	(822)	(12)
Wage increase (1% movement)	165	28	-
Inflation (1% movement)	979	461	-
Longevity (see explanation)	355	232	7
Medical benefit level (1% price increase)	-	-	12
Decrease			
Discount rate (1% movement)	2,158	962	16
Wage increase (1% movement)	(147)	(26)	-
Inflation (1% movement)	(876)	(418)	-

Longevity also impacts post-employment benefit liabilities. The above sensitivity table illustrates the impact on the defined-benefit obligation of a further 10% decrease in the assumed rates of mortality for the Company's major schemes. A 10% decrease in assumed mortality rates equals improvement of life expectancy by 0.5 - 1 year.

Changes in assumed health care cost trend rates can have a significant effect on the amounts reported for the retiree medical plans. A one percentage-point increase in medical benefit level is therefore included in above table as a likely scenario.

Philips Pension Fund in the Netherlands

In relation to the fraud in the Dutch real estate sector uncovered in 2007, Philips and the Philips Pension Fund in the Netherlands have jointly and amicably assessed any residual damages in 2013. In view of the new pension agreement, which includes a new funding structure, effective as of January 1, 2014, Philips decided to make a special cash contribution in 2013 to ensure that any potential financial issues from the past, including this real estate fraud, were cleared. As a result of this special contribution the real estate case has been closed.

31 Share-based compensation

The purpose of the share-based compensation plans is to align the interests of management with those of shareholders by providing incentives to improve the Company's performance on a long-term basis, thereby increasing shareholder value.

The Company has the following plans:

- options on its common shares;
- rights to receive common shares in the future based on a service condition (restricted shares);
- rights to receive common shares in the future based on performance and service conditions (performance shares).

Restricted shares and options were granted to members of the Board of Management and other members of the Executive Committee, executives and certain selected employees. Options were last granted in January 2013. Restricted shares are still granted to new employees or certain selected employees.

Furthermore, in January 2012 and 2013, as part of the Accelerate! program, the Company has granted the following:

- options on its common shares (Accelerate! options);
- rights to receive common shares in the future (Accelerate! shares).

These Accelerate! options and shares were granted to a group of approximately 500 key employees below the level of Board of Management in January 2012 and to the Board of Management in January 2013.

In May 2013 a new long-term incentive plan was approved at the Annual General Meeting of Shareholders granting performance shares to members of the Board of Management and other members of the Executive Committee, executives and certain selected employees.

USD-denominated options, restricted and performance shares are granted to employees in the United States only.

Share-based compensation costs were EUR 109 million (EUR 91 million, net of tax), EUR 86 million (EUR 75 million, net of tax) and EUR 55 million (EUR 57 million, net of tax) in 2013, 2012 and 2011, respectively.

Option plans

Under the Company's plans, options are granted at fair market value on the date of grant.

The Company granted options that expire after 10 years. Generally, these options vest after 3 years, provided the grantee is still employed with the Company. A limited number of options granted to certain employees of acquired businesses may contain accelerated vesting. As of December 31, 2013 there are no non-vested options which contain non-market performance conditions.

The fair values of the Company's 2013, 2012 and 2011 option grants were estimated using a Black-Scholes option valuation model and the following weighted average assumptions:

	2011	2012	2013
EUR-denominated			
Risk-free interest rate	2.89%	1.87%	1.20%
Expected dividend yield	3.3%	4.7%	4.5%
Expected option life	6.5 yrs	6.5 yrs	6.5 yrs
Expected share price volatility	30%	32%	33%
USD-denominated			
Risk-free interest rate	2.78%	1.23%	1.32%
Expected dividend yield	3.6%	4.5%	4.6%
Expected option life	6.5 yrs	6.5 yrs	6.5 yrs
Expected share price volatility	34%	38%	39%

The fair value of the Company's 2013 and 2012 Accelerate! option grants were estimated using a Black-Scholes option valuation model and the following assumptions:

	2012	2013
EUR-denominated		
Risk-free interest rate	1.52%	0.89%
Expected dividend yield	4.3%	3.9%
Expected option life	6.5 yrs	6.5 yrs
Expected share price volatility	32%	32%
USD-denominated		
Risk-free interest rate	1.19%	–
Expected dividend yield	4.0%	–
Expected option life	6.5 yrs	–
Expected share price volatility	38%	–

The assumptions were used for these calculations only and do not necessarily represent an indication of Management's expectations of future developments.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of subjective assumptions, including the expected price volatility.

The Company has based its volatility assumptions on historical experience for a period equal to the expected life of the options. The expected life of the options is also based upon historical experience.

The Company's employee stock options have characteristics significantly different from those of traded options, and changes in the assumptions can materially affect the fair value estimate.

The following tables summarize information about the Company's options as of December 31, 2013 and changes during the year:

Option plans (excluding Accelerate! options)
EUR-denominated

	options	weighted average exercise price
Outstanding at January 1, 2013	23,109,265	21.43
Granted	35,193	22.28
Exercised	2,664,550	18.45
Forfeited	1,807,077	23.74
Expired	15,003	22.12
Outstanding at December 31, 2013	18,657,828	21.63
Exercisable at December 31, 2013	11,657,060	23.99

The exercise prices range from EUR 12.63 to EUR 32.04. The weighted average remaining contractual term for options outstanding and options exercisable at December 31, 2013, was 5.3 years and 3.8 years, respectively. The aggregate intrinsic value of the options outstanding and options exercisable at December 31, 2013, was EUR 104 million and EUR 41 million, respectively.

The weighted average grant-date fair value of options granted during 2013, 2012, and 2011 was EUR 4.21, EUR 2.84 and EUR 4.82, respectively. The total intrinsic value of options exercised during 2013, 2012, and 2011 was approximately EUR 15 million, EUR 3 million and EUR 1 million, respectively.

Option plans (excluding Accelerate! options)
USD-denominated

	options	weighted average exercise price
Outstanding at January 1, 2013	16,606,652	29.04
Granted	22,275	28.69
Exercised	1,969,901	23.27
Forfeited	1,209,456	30.66
Expired	–	–
Outstanding at December 31, 2013	13,449,570	29.74
Exercisable at December 31, 2013	8,313,489	33.26

The exercise prices range from USD 16.76 to USD 44.15. The weighted average remaining contractual term for options outstanding and options exercisable at December 31, 2013, was 5.4 years and 3.9 years, respectively. The aggregate intrinsic value of the options outstanding and options exercisable at December 31, 2013, was USD 106 million and USD 40 million, respectively.

The weighted average grant-date fair value of options granted during 2013, 2012 and 2011 was USD 6.70, USD 4.56 and USD 7.47, respectively. The total intrinsic value of options exercised during 2013, 2012 and 2011 was USD 17 million, USD 4 million and USD 4 million.

At December 31, 2013, a total of EUR 9 million of unrecognized compensation costs relate to non-vested EUR and USD denominated options. These costs are expected to be recognized over a weighted-average period of 1.0 years. Cash received from exercises under the Company's option plans amounted to EUR 84 million, EUR 19 million and EUR 20 million in 2013, 2012, and 2011, respectively. The actual tax deductions realized as a result of option exercises totaled approximately EUR 5 million, EUR 1 million and EUR 1 million, in 2013, 2012, and 2011, respectively.

The outstanding options are categorized in exercise price ranges as follows:

Option plans (excluding Accelerate! options)

exercise price	options	intrinsic value in millions	weighted average remaining contractual term
EUR-denominated			
10-15	4,967,645	61	7.4 yrs
15-20	1,104,222	9	2.5 yrs
20-25	8,547,886	33	5.6 yrs
25-30	1,693,773	1	2.3 yrs
30-35	2,344,302	-	3.3 yrs
	18,657,828	104	5.3 yrs
USD-denominated			
15-20	3,406,981	62	7.6 yrs
20-25	335,769	5	7.8 yrs
25-30	3,220,919	26	5.3 yrs
30-35	2,943,429	12	4.7 yrs
35-40	1,813,212	1	4.2 yrs
40-55	1,729,260	-	3.3 yrs
	13,449,570	106	5.4 yrs

The aggregate intrinsic value in the tables and text above represents the total pre-tax intrinsic value (the difference between the Company's closing share price on the last trading day of 2013 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders if the options had been exercised on December 31, 2013.

The following table summarizes information about the Company's Accelerate! options as of December 31, 2013 and changes during the year:

Accelerate! options

	options	weighted average exercise price
EUR-denominated		
Outstanding at January 1, 2013	2,927,000	15.24
Granted	152,000	22.43
Forfeited	225,000	15.24
Outstanding at December 31, 2013	2,854,000	15.62
Exercisable at December 31, 2013	2,722,000	15.29
USD-denominated		
Outstanding at January 1, 2013	860,000	20.02
Granted	-	-
Forfeited	65,000	20.02
Outstanding at December 31, 2013	795,000	20.02
Exercisable at December 31, 2013	795,000	20.02

The exercise price of the Accelerate! options granted in 2012 are EUR 15.24 and USD 20.02 and in 2013 EUR 22.43. The weighted average remaining contractual term for EUR and USD Accelerate! options outstanding and exercisable at December 31, 2013 was 8.1 years. The aggregate intrinsic value of the Accelerate! options outstanding at December 31, 2013, was EUR 31 million and USD 13 million, respectively.

The grant-date fair value of Accelerate! options granted during 2013 was EUR 4.41 per option. At December 31, 2013 there are no unrecognized compensation costs related to both EUR and USD Accelerate! options. At December 31, 2013 all performance targets under the Accelerate! program, which were based on the 2013 mid-term financial targets, have been met.

Restricted and Accelerate! shares

The fair value of restricted and Accelerate! shares is equal to the fair value of the share at grant date less the present value, using the risk-free interest rate, of dividends which will not be received up to the vesting date.

The Company issues restricted shares that, in general, vest in equal annual installments over a three-year period, starting one year after the date of grant. For grants up to and including January 2013 the Company granted 20% additional (premium) shares, provided the grantee still holds the shares after three years from the delivery date and the grantee is still with the Company on the respective delivery dates.

A summary of the status of the Company's restricted shares as of December 31, 2013 and changes during the year are presented below:

Restricted shares (excluding Accelerate! shares)[1)]

	shares	weighted average grant-date fair value
EUR-denominated		
Outstanding at January 1, 2013	1,954,985	16.45
Granted	85,296	21.90
Vested/Issued	885,733	18.07
Forfeited	89,379	16.01
Outstanding at December 31, 2013	1,065,169	15.31
USD-denominated		
Outstanding at January 1, 2013	1,924,156	20.99
Granted	114,127	31.48
Vested/Issued	795,668	23.14
Forfeited	102,369	20.18
Outstanding at December 31, 2013	1,140,246	20.33

1) Excludes 20% additional (premium) shares that may be received if shares delivered under the restricted share rights plan are not sold for a three-year period

At December 31, 2013, a total of EUR 16 million of unrecognized compensation costs relate to non-vested restricted shares. These costs are expected to be recognized over a weighted-average period of 1.8 years.

A summary of the status of the Company's Accelerate! shares as of December 31, 2013 and changes during the year are presented below:

Accelerate! shares

	shares	weighted average grant-date fair value
EUR-denominated		
Outstanding at January 1, 2013	2,927,000	13.75
Granted	152,000	21.68
Forfeited	225,000	13.75
Vested	2,854,000	14.17
Outstanding at December 31, 2013	-	-
USD-denominated		
Outstanding at January 1, 2013	860,000	18.05
Granted	-	-
Forfeited	65,000	18.05
Vested	795,000	18.05
Outstanding at December 31, 2013	-	-

On January 28, 2014 the Supervisory Board resolved that all performance targets under the Accelerate! program, which were based on the 2013 mid-term financial targets, have been met. This means that in accordance with IFRS accounting requirements the Accelerate! shares vested and that at December 31, 2013 there are no unrecognized compensation costs to both EUR and USD Accelerate! shares. After delivery an additional two-year holding period applies, except for Accelerate! shares granted to the Board of Management of which after delivery an additional four-year holding period applies.

Performance shares

The performance is measured over a three-year performance period. The performance shares have two performance conditions, relative Total Shareholders' Return compared to a peer group of 21 companies and adjusted Earnings Per Share growth. The performance shares vest three years after the grant date. The number of performance shares that will vest is dependent on achieving the two performance conditions, which are equally weighted, and provided that the grantee is still employed with the Company.

The fair value of the performance shares is measured based on Monte-Carlo simulation and the following weighted average assumptions:

	2013
EUR-denominated	
Risk-free interest rate	0.55%
Expected dividend yield	3.7%
Expected share price volatility	27%
USD-denominated	
Risk-free interest rate	0.55%
Expected dividend yield	3.7%
Expected share price volatility	30%

The Company has based its volatility assumptions on historical experience measured over a ten-year period.

A summary of the status of the Company's performance share plans as of December 31, 2013 and changes during the year are presented below:

	shares	weighted average grant-date fair value
EUR-denominated		
Granted	3,509,518	23.53
Forfeited	66,595	23.45
Outstanding at December 31, 2013	3,442,923	23.53
USD-denominated		
Granted	2,419,445	30.77
Forfeited	121,219	30.70
Outstanding at December 31, 2013	2,298,226	30.77

At December 31, 2013, a total of EUR 116 million of unrecognized compensation costs relate to non-vested performance shares. These costs are expected to be recognized over a weighted-average period of 2.3 years.

Other plans

Employee share purchase plan
Under the terms of employee stock purchase plans established by the Company in various countries, substantially all employees in those countries are eligible to purchase a limited number of Philips shares at discounted prices through payroll withholdings, of which the maximum ranges from 10% to 20% of total salary. Generally, the discount provided to the employees is in the range of 10% to 20%. A total of 1,425,048 shares were bought by employees in 2013 under the plan at an average price of EUR 21.92 (2012: 1,906,183 shares at EUR 15.69; 2011: 1,851,718 shares at EUR 17.93).

Convertible personnel debentures
In the Netherlands, the Company issued personnel debentures with a 2-year right of conversion into its common shares starting three years after the date of issuance, with a conversion price equal to the share price on that date. The last issuance of this particular plan was in December 2008. From 2009 onwards, employees in the Netherlands are able to join an employee share purchase plan as described in the previous paragraph. In 2013, 509,195 shares were issued in conjunction with conversions at an average price of EUR 14.21 (2012: 270,827 shares at an average price of EUR 14.22; 2011: 1,079 shares at an average price of EUR 24.66).

32 Related-party transactions

In the normal course of business, Philips purchases and sells goods and services from/to various related parties in which Philips typically holds a 50% or less equity interest and has significant influence. These transactions are generally conducted with terms comparable to transactions with third parties.

	2011	2012	2013
Sales of goods and services	278	288	305
Purchases of goods and services	117	130	143
Receivables from related parties	19	13	39
Payables to related parties	6	4	4

Based on its 30% share in the TP Vision venture, Philips had various commitments to provide further funding to the TP Vision venture at December 31, 2013:

- A subordinated shareholder loan of EUR 51 million (fully drawn) can be extended depending on the venture's funding needs. EUR 21 million of this loan is due in April 2015 and EUR 30 million due in April 2017,
- A senior 12-month EUR 30 million bridge loan facility (undrawn) to the venture can be extended up to April 2017 depending on the venture's funding needs,
- A committed EUR 60 million loan facility (undrawn) that can be extended up to April 2018, depending on the venture's funding needs.

On 20 January 2014, Philips has signed a term sheet to transfer its remaining 30% stake in the TP Vision venture, which will also impact the above commitments (note 36, Subsequent events).

See also, note 7, Discontinued operations and other assets classified as held for sale for further details on the Television business divestment.

In light of the composition of the Executive Committee during 2012 and 2013, the Company considered the members of the Executive Committee and the Supervisory board to be the key management personnel as defined in IAS 24 'Related parties'. In 2011, the Company considered the members of the Board of Management and the Supervisory Board to be the key management personnel.

For remuneration details of the Executive Committee, the Board of Management and the Supervisory Board see note 33, Information on remuneration.

For employee benefit plans see note 30, Post-employment benefits.

33 Information on remuneration

Remuneration of the Executive Committee

In 2013, the total remuneration costs relating to the members of the Executive Committee (including the members of the Board of Management) amounted to EUR 24,773,537 (2012: EUR 18,585,112) consisting of the elements in the table below.

Remuneration costs of the Executive Committee
in euros

	2012	2013
Salary	5,640,090	6,011,557
Annual incentive[1]	4,839,949	4,422,732
Performance shares[2]	1,049,205	6,478,554
Stock options[2]	1,194,444	2,020,040
Restricted share rights[2]	1,566,448	1,115,504
Pension costs	2,054,516	2,277,705
Other compensation[3]	2,240,460	2,447,445

1) The annual incentives are related to the performance in the year reported which are paid out in the subsequent year
2) Costs of performance shares, stock options and restricted share rights are based on accounting standards (IFRS) and do not reflect the value of stock options at the end of the lock up period and the value of performance shares and restricted share rights at the vesting/release date. Costs for the Accelerate! Grant are included
3) The stated amount concern (share of) allowances to members of the Executive Committee that can be considered as remuneration. In a situation where such a share of an allowance can be considered as (indirect) remuneration (for example, private use of the company car), then the share is both valued and accounted for here. The method employed by the fiscal authorities in the Netherlands is the starting point for the value stated. The crisis tax levy of 16% as imposed by the Dutch government amounts to EUR 1,245,944 (2012: EUR 702,940). This crisis tax is payable by the employer and is charged over income of employees exceeding a EUR 150,000 threshold in 2012 and 2013. These amounts are included in the amounts stated under Other compensation

At December 31, 2013, the members of the Executive Committee (including the members of the Board of Management) held 1,479,498 (2012: 1,376,913) stock options at a weighted average exercise price of EUR 18.69 (2012: EUR 18.23).

Remuneration of the Board of Management

In 2013, the total remuneration costs relating to the members of the Board of Management amounted to EUR 10,928,951 (2012: EUR 7,301,334; 2011: EUR 10,844,833).

At December 31, 2013, the members of the Board of Management held 586,500 stock options (2012: 454,500; 2011: 1,072,431) at a weighted average exercise price of EUR 19.60. (2012: EUR 18.78; 2011: EUR 23.01).

Remuneration costs of individual members of the Board of Management
in euros

	salary	annual incentive[1]	performance shares[2]	stock options[2]	restricted share rights[2]	pension costs	other compen-sation[3]
2013[4]							
F.A. van Houten	1,100,000	1,081,520	1,594,675	461,215	190,441	468,407	75,906
R.H. Wirahadiraksa	656,250	497,745	1,040,393	307,699	128,856	263,451	35,732
P.A.J. Nota	618,750	561,713	1,025,153	352,608	146,626	253,605	68,206
	2,375,000	2,140,978	3,660,221	1,121,522	465,923	985,463	179,844
2012[4]							
F.A. van Houten	1,100,000	1,279,520	-	209,589	315,760	422,845	47,154
R.H. Wirahadiraksa	600,000	523,440	-	149,067	217,020	243,438	34,961
P.A.J. Nota	600,000	556,200	-	188,029	253,836	247,883	60,754
S.H. Rusckowski (Jan.-Apr.)	233,333	178,500	-	(200,400)	(209,638)	90,211	159,833
	2,533,333	2,537,660	-	346,285	576,978	1,004,377	302,701
2011							
F.A. van Houten (Apr. - Dec.)	825,000	363,000	-	125,957	253,926	297,179	39,709
R.H. Wirahadiraksa (Apr. - Dec.)	450,000	148,500	-	105,477	180,686	170,299	72,125
G.H.A. Dutiné	650,000	214,500	-	462,263	334,186	245,018	143,774
P.A.J. Nota (Apr. - Dec.)	450,000	148,500	-	131,159	255,159	168,532	67,067
S.H. Rusckowski	687,500	231,000	-	211,915	341,856	254,975	336,773
G.J. Kleisterlee (Jan. - March)	275,000	92,400	-	375,736	29,973	(48,117)[5]	105,679
P-J. Sivignon (Jan. - March)	178,750	45,045	-	213,435	7,041	68,830	9,340
R.S. Provoost (Jan. - Sept.)	512,500	132,300	-	213,434	69,545	175,301	22,606
	4,028,750	1,375,245	-	1,839,376	1,472,372	1,332,017	797,073

1) The annual incentives are related to the performance in the year reported which are paid out in the subsequent year. For more details on the annual incentives, see sub-section 9.2.6, Annual Incentive, of this Annual Report
2) Costs of performance shares, stock options and restricted share rights (including the once-only Accelerate! Grant) are based on accounting standards (IFRS) and do not reflect the value of stock options at the end of the lock up period and the value of performance shares and restricted share rights at the vesting/release date
3) The stated amounts concern (share of) allowances to members of the Board of Management that can be considered as remuneration. In a situation where such a share of an allowance can be considered as (indirect) remuneration (for example, private use of the company car), then the share is both valued and accounted for here. The method employed by the fiscal authorities in the Netherlands is the starting point for the value stated. In 2011 the other compensation for Mr Rusckowski includes an amount of USD 445,976 (= EUR 325,352) related to tax equalization in connection with pension obligations
4) A crisis levy of 16% as imposed by the Dutch government amounts to EUR 681,596 in 2013 (2012: EUR 413,405) 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 2012 and 2013. These expenses do not form part of the remuneration costs mentioned
5) As Mr Kleisterlee was born before January 1, 1950, he continued to be a member of the final pay plan with a pensionable age of 60. No further accrual took place

For further information on remuneration costs, see sub-section 9.2.4, Remuneration costs, of this Annual Report.

The tables below give an overview of the holding of the members of the Board of Management under the performance share plans, restricted share rights plan and the stock option plans of the Company:

Number of performance shares (holdings)

	January 1, 2013	awarded 2013	awarded dividend shares 2013	December 31, 2013
F.A. van Houten	–	62,559	2,112	64,671
	–	55,000[1]	–	55,000
R.H. Wirahadiraksa	–	31,991	1,080	33,071
	–	38,500[1]	–	38,500
P.A.J. Nota	–	29,621	1,000	30,621
	–	38,500[1]	–	38,500
	–	256,171	4,192	260,363

[1] Once-only Accelerate! Grant

Number of restricted share rights (holdings)

	January 1, 2013	awarded 2013	released 2013	December 31, 2013	potential premium shares
F.A. van Houten	35,035[1]	–	15,034	20,001	9,024
R.H. Wirahadiraksa	24,045[1]	–	10,443	13,602	6,935
P.A.J. Nota	26,070[1]	–	12,468	13,602	7,482
	85,150	–	37,945	47,205	23,441

[1] (Partly) awarded before date of appointment as a member of the Board of Management

Stock options (holdings)

	January 1, 2013	granted	exercised	expired	December 31, 2013	grant price (in euros)	share (closing) price on exercise date	expiry date
F.A. van Houten	20,400[1]	–	–	–	20,400	22.88	–	10.18.2020
	75,000	–	–	–	75,000	20.90	–	04.18.2021
	75,000	–	–	–	75,000	14.82	–	04.23.2022
	–	55,000[2]	–	–	55,000	22.43	–	01.29.2023
R.H. Wirahadiraksa	10,800[1]	–	–	–	10,800	23.11	–	04.14.2018
	12,000[1]	–	–	–	12,000	12.63	–	04.14.2019
	16,500[1]	–	–	–	16,500	24.90	–	04.19.2020
	51,000	–	–	–	51,000	20.90	–	04.18.2021
	51,000	–	–	–	51,000	14.82	–	04.23.2022
	–	38,500[2]	–	–	38,500	22.43	–	01.29.2023
P.A.J. Nota	40,800[1]	–	–	–	40,800	22.88	–	10.18.2020
	51,000	–	–	–	51,000	20.90	–	04.18.2021
	51,000	–	–	–	51,000	14.82	–	04.23.2022
	–	38,500[2]	–	–	38,500	22.43	–	01.29.2023
	454,500	132,000	–	–	586,500			

1) Awarded before date of appointment as a member of the Board of Management
2) Performance Accelerate! Grant options as of January 29, 2013

See note 31, Share-based compensation for further information on performance shares, stock options and restricted share rights as well sub-section 9.2.7, Long-Term Incentive Plan, of this Annual Report.

The accumulated annual pension entitlements and the pension costs of individual members of the Board of Management are as follows (in euros):

	age at December 31, 2013	accumulated annual pension as of December 31, 2013[1]	pension costs[2,3]
F.A. van Houten	53	60,203	468,407
R.H. Wirahadiraksa	53	33,208	263,451
P.A.J. Nota	49	24,785	253,605
			985,463

1) Under average pay plan, including - if applicable - transferred pension entitlements under pension scheme(s) of previous employer(s)
2) Including costs related to employer contribution in defined-contribution pension plan
3) Cost are related to the period of board membership

When pension rights are granted to members of the Board of Management, necessary payments (if insured) and all necessary provisions are made in accordance with the applicable accounting principles. In 2013, no (additional) pension benefits were granted to former members of the Board of Management.

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board amounted to EUR 747,000 (2012: EUR 799,500; 2011: EUR 803,250); former members received no remuneration.

At December 31, 2013, the members of the Supervisory Board held no stock options.

The individual members of the Supervisory Board received, by virtue of the positions they held, the following remuneration (in euros):

	membership	committees	other compensation[1]	total
2013[2]				
J. van der Veer	110,000	20,500	5,000	135,500
J.J. Schiro	65,000	18,500	8,000	91,500
C.J.A. van Lede	65,000	10,000	5,000	80,000
E. Kist	65,000	8,000	5,000	78,000
H. von Prondzynski	65,000	10,000	5,000	80,000
C. Poon	65,000	14,000	11,000	90,000
J.P. Tai	65,000	15,000	20,000	100,000
N. Dhawan	65,000	10,000	17,000	92,000
	565,000	106,000	76,000	747,000
2012				
J. van der Veer	110,000	20,500	5,000	135,500
J.M. Thompson (Jan. - Apr.)	32,500	4,667	11,000	48,167
C.J.A. van Lede	65,000	10,834	5,000	80,834
E. Kist	65,000	10,333	5,000	80,333
J.J. Schiro	65,000	17,000	17,000	99,000
H. von Prondzynski	65,000	10,000	5,000	80,000
C. Poon	65,000	12,666	14,000	91,666
J.P. Tai	65,000	13,333	17,000	95,333
N. Dhawan (Apr. - Dec.)	65,000	6,667	17,000	88,667
	597,500	106,000	96,000	799,500
2011				
J. van der Veer	98,750	19,375	2,000	120,125
J-M. Hessels (Jan. - March)	55,000	5,125	2,000	62,125
J.M. Thompson	65,000	14,000	20,000	99,000
C.J.A. van Lede	65,000	12,500	2,000	79,500
E. Kist	65,000	15,000	2,000	82,000
J.J. Schiro	65,000	14,000	17,000	96,000
H. von Prondzynski	65,000	10,000	2,000	77,000
C. Poon	65,000	10,000	20,000	95,000
J.P. Tai (Apr, - Dec.)	65,000	7,500	20,000	92,500
	608,750	107,500	87,000	803,250

[1] The amounts mentioned under other compensation relate to the fee for intercontinental travel and the entitlement of EUR 2,000 under the Philips product arrangement
[2] As of 2013, part of the renumeration of members of the Supervisory Board living in the Netherlands is subject to VAT. The amounts mentioned in this table are excluding VAT.

Supervisory Board members' and Board of Management members' interests in Philips shares

Members of the Supervisory Board and of the Board of Management are not allowed to hold any interests in derivative Philips securities.

Number of shares[1]

	December 31, 2012	December 31, 2013
J. van der Veer	16,624	17,192
H. von Prondzynski	3,290	3,402
J.P. Tai	1,053	2,175
F.A. van Houten	21,048	37,258
R.H. Wirahadiraksa	16,060	27,879
P.A.J. Nota	11,757	24,937

[1] Reference date for board membership is December 31, 2013

34 Fair value of financial assets and liabilities

The estimated fair value of financial instruments has been determined by the Company using available market information and appropriate valuation methods. The estimates presented are not necessarily indicative of the amounts that will ultimately be realized by the Company upon maturity or disposal. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

For cash and cash equivalents, current receivables, accounts payable, interest accrual and short-term debts, the carrying amounts approximate fair value, because of the short maturity of these instruments, and therefore fair value information is not included in the table below.

The fair value of Philips' debt is estimated on the basis of the quoted market prices for certain issues, or on the basis of discounted cash flow analysis based upon market rates plus Philips' spread for the particular tenors of the borrowing arrangement. Accrued interest is not included within the carrying amount or estimated fair value of debt.

	December 31, 2012		December 31, 2013	
	carrying amount	estimated fair value	carrying amount	estimated fair value
Financial assets				
Carried at fair value:				
Available-for-sale financial assets - non-current	153	153	96	96
Available-for-sale financial assets - current	-	-	10	10
Securities classified as assets held for sale	-	-	62	62
Fair value through profit and loss - non-current	47	47	29	29
Derivative financial instruments	137	137	150	150
	337	337	347	347
Carried at (amortized) cost:				
Cash and cash equivalents	3,834		2,465	
Loans and receivables:				
Non-current loans and receivables	140	140	143	143
Other non-current loans and receivables	127		129	
Loans classified as assets held for sale	-		30	
Receivables - current	4,585		4,678	
Receivables - non-current	176	176	144	144
Held-to-maturity investments	3		3	
Available-for-sale financial assets	79		96	
	8,944	316	7,688	287
Financial liabilities				
Carried at fair value:				
Fair value through profit and loss - non-current	(11)	(11)	(13)	(13)
Derivative financial instruments	(517)	(517)	(368)	(368)
Carried at (amortized) cost:				
Accounts payable	(2,839)		(2,462)	
Interest accrual	(75)		(57)	
Debt (Corporate bond and finance lease)	(3,412)	(4,162)	(3,157)	(3,545)
Debt (Bank loans, overdrafts etc.)	(1,122)		(744)	
	(7,448)	(4,162)	(6,420)	(3,545)

The table below represents categorization of measurement of the estimated fair values of financial assets and liabilities.

Fair value hierarchy

	level 1	level 2	level 3	total
December 31, 2013				
Available-for-sale financial assets - non-current	42	-	54	96
Available-for-sale financial assets - current	6	4	-	10
Securities classified as assets held for sale	62	-	-	62
Financial assets designated at fair value through profit and loss - non-current	22	-	7	29
Derivative financial instruments - assets	-	150	-	150
Non-current loans and receivables including guarantee deposits	-	143	-	143
Receivables - non-current	-	144	-	144
Total financial assets	132	441	61	634
Financial liabilities designated at fair value through profit and loss - non-current	-	-	(13)	(13)
Derivative financial instruments - liabilities	-	(368)	-	(368)
Debt	(3,345)	(200)	-	(3,545)
Total financial liabilities	(3,345)	(568)	(13)	(3,926)
December 31, 2012				
Available-for-sale financial assets - non-current	110	-	43	153
Financial assets designated at fair value through profit and loss - non-current	28	-	19	47
Derivative financial instruments - assets		137	-	137
Non-current loans and receivables including guarantee deposits	-	140	-	140
Receivables - non-current	-	176	-	176
Total financial assets	138	453	62	653
Financial liabilities designated at fair value through profit and loss - non-current	-	-	(11)	(11)
Derivative financial instruments - liabilities	-	(517)	-	(517)
Debt	(3,948)	(214)	-	(4,162)
Total financial liabilities	(3,948)	(731)	(11)	(4,690)

Specific valuation techniques used to value financial instruments include:

Level 1

Instruments included in level 1 are comprised primarily of listed equity investments classified as available-for-sale financial assets, investees and financial assets designated at fair value through profit and loss.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives or convertible bond instruments) are determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are based on observable market data, the instrument is included in level 2.

The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread and foreign exchange rates.

The valuation of convertible bond instruments uses observable market quoted data for the options and present value calculations using observable yield curves for the fair value of the bonds.

Level 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

The arrangement with the UK Pension Fund in conjunction with the sale of NXP is a financial instrument carried at fair value classified as level 3. At the end of 2013, the fair value of this instrument is estimated to be EUR 7 million with the changes of fair value recorded to financial income and expense. Please refer to note 14, Other non-current financial assets for more details.

Furthermore, deferred consideration and loan extension options to TP Vision are also included in level 3. On January 20, 2014, Philips has signed a term sheet to transfer its remaining 30% stake in TP Vision, which will also impact the above commitments. For further information, please refer to note 36, Subsequent events.

The table below shows the reconciliation from the beginning balance to the end balance for fair value measured in Level 3 of the fair value hierarchy.

	financial assets	financial liabilities
Balance at January 1, 2013	62	(11)
Total gains and losses recognized in:		
- profit or loss	(12)	(2)
- other comprehensive income	11	-
Balance at December 31, 2013	61	(13)

Philips has the following balances related to its derivative activities. These transactions are subject to master netting and set-off agreements. In case of certain termination events, under the terms of the Master Agreement, Philips can terminate the outstanding transactions and aggregate their positive and negative values to arrive at a single net termination sum (or close-out amount). This contractual right is subject to the following:

- The right may be limited by local law if the counterparty is subject to bankruptcy proceedings;
- The right applies on a bilateral basis.

Financial assets subject to offsetting, enforceable master netting arrangements or similar agreements

	2012	2013
Derivatives		
Gross amounts of recognized financial assets	137	150
Gross amounts of recognized financial liabilities offset in the statement of financial position	-	-
Net amounts of financial assets presented in the statement of financial position	137	150
Related amounts not offset in the statement of financial position		
Financial instruments	(67)	(85)
Cash collateral received	-	-
Net amount	70	65

Financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements

	2012	2013
Derivatives		
Gross amounts of recognized financial liabilities	(517)	(368)
Gross amounts of recognised financial assets offset in the statement of financial position	-	-
Net amounts of financial liabilities presented in the statement of financial position	(517)	(368)
Related amounts not offset in the statement of financial position		
Financial instruments	67	85
Cash collateral received	-	-
Net amount	(450)	(283)

35 Details of treasury / other financial risks

Philips is exposed to several types of financial risk. This note further analyzes financial risks. Philips does not purchase or hold derivative financial instruments for speculative purposes. Information regarding financial instruments is included in note 34, Fair value of financial assets and liabilities.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk for the group is monitored through the Treasury liquidity committee which tracks the development of the actual cash flow position for the group and uses input from a number of sources in order to forecast the overall liquidity position both on a short and long term basis. Group Treasury invests surplus cash in money market deposits with appropriate maturities to ensure sufficient liquidity is available to meet liabilities when due.

The rating of the Company's debt by major rating services may improve or deteriorate. As a result, Philips' future borrowing capacity may be influenced and its financing costs may fluctuate. Philips has various sources to mitigate the liquidity risk for the group. At December 31, 2013, Philips had EUR 2,465 million in cash and cash equivalents (2012: EUR 3,834 million), within which short-term deposits of EUR 1,714 million (2012: EUR 3,177 million) and other liquid assets of EUR 18 million (2012: EUR 120 million). Philips pools cash from subsidiaries to the extent legally and economically feasible; cash not pooled remains available for operational or investment needs by the Company.

Furthermore, Philips has a USD 2.5 billion Commercial Paper Program and a EUR 1.8 billion revolving credit facility that can be used for general group purpose and as a backstop for its commercial paper program. In January 2013 the EUR 1.8 billion facility was extended by 2 years until February 18, 2018. The facility has no financial covenants and repetitive material adverse change clauses and can be used for general group purposes. As of December 31, 2013, Philips did not have any amounts outstanding under any of these facilities. Additionally Philips also held EUR 65 million of equity investments in available-for-sale financial assets (fair value at December 31, 2013).

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency fluctuations may impact Philips' financial results. Philips is exposed to currency risk in the following areas:

- Transaction exposures, related to forecasted sales and purchases and on-balance-sheet receivables/ payables resulting from such transactions
- Translation exposure of net income in foreign entities
- Translation exposure of foreign-currency intercompany and external debt and deposits
- Translation exposure of foreign-currency-denominated equity invested in consolidated companies
- Translation exposure to equity interests in non-functional-currency investments in associates and available-for-sale financial assets.

It is Philips' policy that significant transaction exposures are hedged by the businesses. Accordingly, all businesses are required to identify and measure their exposures resulting from material transactions denominated in currencies other than their own functional currency. Philips' policy generally requires committed foreign currency exposures to be fully hedged using forwards. Anticipated transactions may be hedged using forwards or options or a combination thereof. The amount hedged as a proportion of the total anticipated exposure identified varies per business and is a function of the ability to project cash flows, the time horizon for the cash flows and the way in which the businesses can adapt to changing levels of foreign-currency exchange rates. As a result, hedging activities cannot and will not eliminate all currency risks for these anticipated transaction exposures. Generally, the maximum tenor of these hedges is 18 months.

The following table outlines the estimated nominal value in millions of euros for transaction exposure and related hedges for Philips' most significant currency exposures consolidated as of December 31, 2013:

Estimated transaction exposure and related hedges
in millions of euros

	maturity 0-60 days		maturity over 60 days	
	exposure	hedges	exposure	hedges
December 31, 2013				
Receivables				
Functional vs. exposure currency				
EUR vs. USD	387	(364)	1,718	(1,169)
USD vs. EUR	191	(166)	695	(354)
EUR vs. GBP	83	(71)	284	(158)
USD vs. JPY	46	(42)	217	(113)
EUR vs. JPY	39	(39)	166	(116)
EUR vs. CNY	18	(18)	73	(41)
USD vs. AUD	16	(12)	65	(33)
EUR vs. CHF	21	(18)	57	(33)
USD vs. CAD	10	(8)	63	(33)
GBP vs. USD	12	(12)	57	(33)
Others	148	(124)	296	(156)
Total 2013	971	(874)	3,691	(2,239)
Total 2012	1,098	(998)	4,037	(2,453)
Payables				
Functional vs. exposure currency				
EUR vs. USD	(171)	253	(831)	518
USD vs. CNY	(70)	70	(162)	92
EUR vs. PLN	(30)	24	(102)	36
EUR vs. GBP	(23)	18	(81)	46
USD vs. SGD	(14)	12	(26)	19
INR vs. USD	(21)	21	(16)	16
IDR vs. USD	(24)	14	(12)	7
EUR vs. RON	(3)	3	(28)	15
BRL vs. USD	(14)	11	(15)	8
USD vs. EUR	(5)	4	(18)	9
Others	(82)	72	(106)	65
Total 2013	(457)	502	(1,397)	831
Total 2012	(622)	560	(1,875)	1,050

The derivatives related to transactions are, for hedge accounting purposes, split into hedges of on-balance-sheet accounts receivable/payable and forecasted sales and purchases. Changes in the value of on-balance-sheet foreign-currency accounts receivable/ payable, as well as the changes in the fair value of the hedges related to these exposures, are reported in the income statement under costs of sales. Hedges related to forecasted transactions, where hedge accounting is applied, are accounted for as cash flow hedges. The results from such hedges are deferred in other comprehensive income within equity to the extent that the hedge is effective. As of December 31, 2013, a gain of EUR 24 million was deferred in equity as a result of these hedges. The result deferred in equity will be released to earnings mostly during 2014 at the time when the related hedged transactions affect the income statement. During 2013, a net gain of EUR 5 million was recorded in the consolidated statement of income as a result of ineffectiveness on certain anticipated cash flow hedges.

The total net fair value of hedges related to transaction exposure as of December 31, 2013 was an unrealized asset of EUR 44 million. An instantaneous 10% increase in the value of the euro against all currencies would lead to a decrease of EUR 68 million in the value of the derivatives; including a EUR 58 million decrease related to foreign exchange transactions of the US dollar against the euro, a EUR 15 million decrease related to foreign exchange transactions of the Japanese yen against euro, a EUR 15 million decrease related to foreign exchange transactions of the Pound sterling, partially offset by a EUR 46 million increase related to foreign exchange transactions of the euro against the US dollar.

The EUR 68 million decrease includes a loss of EUR 19 million that would impact the income statement, which would largely offset the opposite revaluation effect on the underlying accounts receivable and payable, and the remaining loss of EUR 49 million would be recognized in equity to the extent that the cash flow hedges were effective.

The total net fair value of hedges related to transaction exposure as of December 31, 2012 was an unrealized asset of EUR 25 million. An instantaneous 10% increase in the value of the euro against all currencies would lead to a decrease of EUR 69 million in the value of the derivatives; including a EUR 96 million decrease related to foreign exchange transactions of the US dollar against the euro, a EUR 17 million decrease related to foreign exchange transactions of the Japanese yen against euro, a EUR 8 million decrease related to foreign exchange transactions of the Pound sterling, partially offset by a EUR 69 million increase related to foreign exchange transactions of the euro against the US dollar.

Foreign exchange exposure also arises as a result of inter-company loans and deposits. Where the Company enters into such arrangements the financing is generally provided in the functional currency of the subsidiary entity. The currency of the Company's external funding and liquid assets is matched with the required financing of subsidiaries either directly through external foreign currency loans and deposits, or synthetically by using foreign exchange derivatives, including cross currency interest rate swaps and foreign exchange forward contracts. In certain cases where group companies may also have external foreign currency debt or liquid assets, these exposures are also hedged through the use of foreign exchange derivatives. Changes in the fair value of hedges related to this exposure are either recognized within financial income and expenses in the statements of income, accounted for as cash flow hedges or where such loans would be considered part of the net investment in the subsidiary then net investment hedging would be applied. Translation exposure of foreign-currency equity invested in consolidated entities may be hedged. If a hedge is entered into, it is accounted for as a net investment hedge. As of December 31, 2013 cross currency interest rate swaps and foreign exchange forward contracts with a fair value liability of EUR 261 million and external bond funding for a nominal value of USD 4,059 million were designated as net investment hedges of our financing investments in foreign operations. During 2013 a total gain of EUR 2 million was recognized in the income statement as ineffectiveness on net investment hedges. The total net fair value of these financing derivatives as of December 31, 2013, was a liability of EUR 260 million. An instantaneous 10% increase in the value of the euro against all currencies would lead to an increase of EUR 245 million in the value of the derivatives, including a EUR 272 million increase related to the US dollar.

Philips does not currently hedge the foreign exchange exposure arising from equity interests in non-functional-currency investments in associates and available-for-sale financial assets.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Philips had outstanding debt of EUR 3,901 million, which created an inherent interest rate risk. Failure to effectively hedge this risk could negatively impact financial results. At year-end, Philips held EUR 2,465 million in cash and cash equivalents, total long-term debt of EUR 3,309 million and total short-term debt of EUR 592 million. At December 31, 2013, Philips had a ratio of fixed-rate long-term debt to total outstanding debt of approximately 80%, compared to 72% one year earlier.

A sensitivity analysis conducted as of January 2014 shows that if long-term interest rates were to decrease instantaneously by 1% from their level of December 31, 2013, with all other variables (including foreign exchange rates) held constant, the fair value of the long-term debt would increase by approximately EUR 317 million. If there was an increase of 1% in long-term interest rates, this would reduce the market value of the long-term debt by approximately EUR 251 million.

If interest rates were to increase instantaneously by 1% from their level of December 31, 2013, with all other variables held constant, the annualized net interest expense would decrease by approximately EUR 18 million. This impact was based on the outstanding net cash position at December 31, 2013.

A sensitivity analysis conducted as of January 2013 shows that if long-term interest rates were to decrease instantaneously by 1% from their level of December 31, 2012, with all other variables (including foreign exchange rates) held constant, the fair value of the long-term debt would increase by approximately EUR 422 million. If there was an increase of 1% in long-term interest rates, this would reduce the market value of the long-term debt by approximately EUR 339 million.

If interest rates were to increase instantaneously by 1% from their level of December 31, 2012, with all other variables held constant, the annualized net interest expense would decrease by approximately EUR 25 million. This impact was based on the outstanding net cash position at December 31, 2012.

Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in equity prices.

Philips is a shareholder in several publicly listed companies, including Chimei Innolux, Shenyang Neusoft Corporation Ltd, and TPV Technology Ltd. As a result, Philips is exposed to potential financial loss through movements in their share prices. The aggregate equity price exposure in its main available-for-sale financial assets amounted to approximately EUR 65 million at year-end 2013 (2012: EUR 120 million including investments in associates shares that were sold during 2012) and a further EUR 62 million that has been reclassified as assets held for sale in relation to the agreed contribution to the Dutch Pension Fund (please refer to note 36, Subsequent events). Philips does not hold derivatives in its own stock or in the above-mentioned listed companies. Philips is also a shareholder in several privately-owned companies amounting to EUR 50 million. As a result, Philips is exposed to potential value adjustments.

As part of the sale of shares in NXP to Philips Pension Trustees Limited there was an arrangement that may entitle Philips to a cash payment from the UK Pension Fund on or after September 7, 2014 if the value of the NXP shares has increased by this date to a level in excess of a predetermined threshold, which at the time of the transaction was substantially above the transaction price, and the UK Pension Fund is in surplus (on the regulatory funding basis) on September 7, 2014.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices.

Philips is a purchaser of certain base metals, precious metals and energy. Philips hedges certain commodity price risks using derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility. The commodity price derivatives that Philips enters into are accounted for as cash flow hedges to offset forecasted purchases. As of December 2013, a loss of EUR 2.2 million was deferred in equity as a result of these hedges. A 10% increase in the market price of all commodities as of December 31, 2013 would increase the fair value of the derivatives by EUR 1.4 million.

As of December 2012, a loss of EUR 0.3 million was deferred in equity as a result of these hedges. A 10% increase in the market price of all commodities as of December 31, 2012 would increase the fair value of the derivatives by EUR 2 million.

Credit risk

Credit risk represents the loss that would be recognized at the reporting date, if counterparties failed completely to perform their payment obligations as contracted. Credit risk is present within Philips trade receivables. To have better insights into the credit exposures, Philips performs ongoing evaluations of the financial and non-financial condition of its customers and adjusts credit limits when appropriate. In instances where the creditworthiness of a customer is determined not to be sufficient to grant the credit limit required, there are a number of mitigation tools that can be utilized to close the gap including reducing payment terms, cash on delivery, pre-payments and pledges on assets.

Philips invests available cash and cash equivalents with various financial institutions and is exposed to credit risk with these counterparties. Philips is also exposed to credit risks in the event of non-performance by financial institutions with respect to financial derivative instruments. Philips actively manages concentration risk and on a daily basis measures the potential loss under certain stress scenarios, should a financial institution default. These worst-case scenario losses are monitored and limited by the Company.

The Company does not enter into any financial derivative instruments to protect against default by financial institutions. However, where possible the Company requires all financial institutions with whom it deals in derivative transactions to complete legally enforceable netting agreements under an International Swap Dealers Association master agreement or otherwise prior to trading, and whenever possible, to have a strong credit rating from Standard & Poor's and Moody's Investor Services. Philips also regularly monitors the development of the credit risk of its financial counterparties. Wherever possible, cash is invested and financial transactions are concluded with financial institutions with strong credit ratings or with governments or government-backed institutions.

Below table shows the credit ratings of the financial institutions with which Philips had short-term deposits above EUR 25 million as of December 31, 2013:

Credit risk with number of counterparties
for deposits above EUR 25 million

	25-100 million	100-500 million	500-2,000 million
AA-rated governments	-	2	-
AA-rated government banks	-	1	-
AAA-rated bank counterparties	-	-	-
AA-rated bank counterparties	1	2	-
A-rated bank counterparties	1	3	-
	2	8	-

For an overview of the overall maximum credit exposure of the group's financial assets, please refer to note 34, Fair value of financial assets and liabilities for details of carrying amounts and fair value.

Country risk

Country risk is the risk that political, legal, or economic developments in a single country could adversely impact our performance. The country risk per country is defined as the sum of the equity of all subsidiaries and associated companies in country cross-border transactions, such as intercompany loans, accounts receivable from third parties and intercompany accounts receivable. The country risk is monitored on a regular basis.

As of December 31, 2013, the Company had country risk exposure of EUR 7.8 billion in the United States, EUR 2.5 billion in Belgium and EUR 1.5 billion in China (including Hong Kong). Other countries higher than EUR 500 million are United Kingdom (EUR 673 million), Japan (EUR 608 million) and the Netherlands (EUR 517 million). Countries where the risk exceeded EUR 300 million but was less than EUR 500 million are Poland, Germany and Malaysia. The degree of risk of a country is taken into account when new investments are considered. The Company does not, however, use financial derivative instruments to hedge country risk.

Other insurable risks

Philips is covered for a broad range of losses by global insurance policies in the areas of property damage/ business interruption, general and product liability, transport, directors' and officers' liability, employment practice liability, crime, and aviation product liability. The counterparty risk related to the insurance companies participating in the above mentioned global insurance policies are actively managed. As a rule Philips only selects insurance companies with a S&P credit rating of at least A-. Throughout the year the counterparty risk is monitored on a regular basis.

To lower exposures and to avoid potential losses, Philips has a global Risk Engineering program in place. The main focus of this program is on property damage and business interruption risks including company interdependencies. Regular on-site assessments take place at Philips locations and business critical suppliers by risk engineers of the insurer in order to provide an accurate assessment of the potential loss and its impact. The results of these assessments are shared across the Company's stakeholders. On-site assessments are carried out against the predefined Risk Engineering standards which are agreed between Philips and the insurers. Recommendations are made in a Risk Improvement report and are monitored centrally. This is the basis for decision-making by the local management of the business as to which recommendations will be implemented.

For all policies, deductibles are in place, which vary from EUR 250,000 to EUR 2,500,000 per occurrence and this variance is designed to differentiate between the existing risk categories within Philips. Above this first layer of working deductibles, Philips operates its own re-insurance captive, which during 2013 retained EUR 2.5 million per occurrence for property damage and business interruption losses and EUR 5 million in the aggregate per year. For general and product liability claims, the captive retained EUR 1.5 million per claim and EUR 6 million in the aggregate. New contracts were signed on December 31, 2013, for the coming year, whereby the re-insurance captive retentions remained unchanged.

36 Subsequent events

Dutch pension plan contribution

On July 1, 2013, Philips announced that it had reached an agreement with the Dutch trade unions on a new collective labor agreement that covers the period January 1, 2013 till December 31, 2014. The new agreement includes changes in the plan rules and the funding agreement with the Dutch pension plan, which is the company's largest Defined Benefit pension plan. The plan changes have become effective as of January 1, 2014 and the new funding agreement has been signed by the Trustees of the Dutch pension plan. As part of these changes, Philips agreed to make a EUR 600 million contribution to the Dutch pension plan, of which EUR 240 million has been settled in cash on February 19, 2014. During 2014 and 2015, the remainder of the consideration will be settled through the transfer of assets and cash proceeds from the sale of assets which are currently owned by Philips. The (majority of the) contribution will need to be written off through other comprehensive income due to the asset ceiling restrictions in the plan.

Healthcare facility in Cleveland, Ohio

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. This action is estimated to have a negative impact on the sector's operational results of approximately EUR 60 to 70 million in the first half of 2014, of which we expect to recover a substantial part in the second half of 2014.

Transfer of the remaining 30%-stake in TP Vision Holding to TPV Technology Limited (TPV)

On January 20, 2014 Philips announced that it has signed a term sheet to transfer the remaining 30% stake in the TP Vision venture to TPV Technology Limited. The signing of definitive agreements is expected to take place in the first quarter of 2014, with completion expected in the second half of 2014, subject to certain regulatory and TPV shareholder approvals. After completion, TPV will fully own TP Vision, which will enable further integration with TPV's TV business.

The remaining 30% stake in the TP Vision venture will be transferred for a deferred purchase price and all outstanding loans and stand-by facilities between Philips and the TP Vision venture will be transferred to TPV. The brand license agreement between Philips and the TP Vision venture will remain in place, with an annual royalty of 2.2% of sales payable by the TP Vision venture to Philips. The minimum annual royalty has been reduced from EUR 50 million to EUR 40 million. The agreement includes a EUR 50 million transaction-related payment, which Philips has accounted for in the fourth quarter of 2013 under Results relating to investments in associates (see note 6, Interests in entities).

LTI coverage program

To cover Philips' outstanding obligations resulting from past and present long-term incentive and employee stock purchase programs dating back to 2004, Philips will repurchase up to 12 million additional Philips shares on NYSE Euronext Amsterdam, to be executed during 2014. The shares repurchased will be held by Philips as treasury shares until they are distributed to participants.

Philips started this program as of January 28, 2014 and will enter into subsequent discretionary management agreements with one or more banks to repurchase Philips shares within the limits of relevant laws and regulations (in particular EC Regulation 2273/2003) and Philips' articles of association. All transactions are published on Philips' website (www.philips.com/investor) on a weekly basis.

The LTI coverage program is over and above the existing EUR 1.5 billion share repurchase program for cancellation purposes which started on October 21, 2013.

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11.10 Independent auditor's report - Group

12 Company financial statements

Introduction

Statutory financial statements
The sections Group financial statements and Company financial statements contain the statutory financial statements of Koninklijke Philips N.V. (the Company).

A description of the Company's activities and group structure is included in the Consolidated Financial Statements.

Accounting policies applied
The financial statements of the Company included in this section are prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code. Section 362 (8), Book 2, Dutch Civil Code, allows companies that apply IFRS as adopted by the European Union in their consolidated financial statements to use the same measurement principles in their company financial statements. The Company has prepared these Company financial statements using this provision.

The accounting policies are described in note 1, Significant accounting policies.

Investments in group companies are accounted for using the equity method in these Company financial statements.

Presentation of Company financial statements

The structure of the Company balance sheets is aligned with the Consolidated balance sheets in order to achieve optimal transparency between the Group financial statements and the Company financial statements. Consequently, the presentation of the Company balance sheets deviates from Dutch regulations.

The Company balance sheet has been prepared before the appropriation of result.

The Company statement of income has been prepared in accordance with Section 2:402 of the Dutch Civil Code, which allows a simplified Statement of income in the Company financial statements in the event that a comprehensive Statement of income is included in the consolidated Group financial statements.

Additional information
For 'Additional information' within the meaning of Section 2:392 of the Dutch Civil Code, please refer to section 11.10, Independent auditor's report - Group, of this Annual Report, section 12.5, Independent auditor's report - Company, of this Annual Report, and section 4.4, Proposed distribution to shareholders, of this Annual Report.

Adjustments
Prior-period financial statements have been restated following the adoption of IAS 19R, which mainly relates to accounting for pensions.

12.1 Balance sheets before appropriation of results

Balance sheets of Koninklijke Philips N.V. as of December 31
in millions of euros

		2012		2013	
	Assets				
	Non-current assets:				
	Property, plant and equipment	2		18	
A	Intangible assets	9		55	
B	Financial fixed assets	16,597		19,535	
	Non-current receivables	49		32	
	Deferred tax assets	212		161	
C	Other non-current financial assets	325		283	
			17,194		20,084
	Current assets:				
D	Receivables	7,988		7,500	
	Assets classified as held for sale	-		45	
	Cash and cash equivalents	2,879		1,282	
			10,867		8,827
			28,061		28,911
	Liabilities and shareholders' equity				
E	Shareholders' equity:				
	Preference shares, par value EUR 0.20 per share:				
	- Authorized: 2,000,000,000 shares (2012: 2,000,000,000 shares)				
	- Issued: none				
	Common shares, par value EUR 0.20 per share:				
	- Authorized: 2,000,000,000 shares (2012: 2,000,000,000 shares)				
	- Issued and fully paid: 937,845,789 shares (2012: 957,132,962 shares)	191		188	
	Capital in excess of par value	1,304		1,796	
	Legal reserve: revaluation	54		23	
	Legal reserve: available-for-sale financial assets	54		55	
	Legal reserve: cash flow hedges	20		24	
	Legal reserve: affiliated companies	1,161		1,319	
	Legal reserve: currency translation differences	(93)		(569)	
	Retained earnings	9,598		7,927	
H	Net income [1]	(35)		1,169	
	Treasury shares, at cost: 24,508,022 shares (2012: 42,541,687 shares)	(1,103)		(718)	
			11,151		11,214
	Non-current liabilities:				
F	Long-term debt	3,539		3,158	
	Long-term provisions	10		16	
	Deferred tax liabilities	19		15	
	Other non-current liabilities	139		161	
			3,707		3,350
	Current liabilities:				
F	Short-term debt	11,742		13,645	
G	Other current liabilities	1,461		702	
			13,203		14,347
J	Contractual obligations and contingent liabilities not appearing in the balance sheet				
			28,061		28,911

[1] Prepared before appropriation of results

12.2 Statements of income

Statements of income of Koninklijke Philips N.V. for the years ended December 31
in millions of euros

	2012	2013
Net income from affiliated companies	375	1,276
Other net income	(410)	(107)
Net income	(35)	1,169

12.3 Statement of changes in equity

Statement of changes in equity of Koninklijke Philips N.V.
in millions of euros unless otherwise stated

			legal reserves								
	common shares	capital in excess of par value	revaluation	available-for-sale financial assets	cash flow hedges	affiliated companies	currency translation differences	retained earnings	net income	treasury shares at cost	shareholders' equity
Balance as of January 1, 2013	191	1,304	54	54	20	1,161	(93)	9,598	(35)	(1,103)	11,151
Appropriation of prior year result								(35)	35		
Net income									1,169		1,169
Release revaluation reserve			(31)					31			-
Net current period change				(5)	68	158	(427)	(96)			(302)
Income tax on net current period change					(2)		(35)				(37)
Reclassification into income				6	(62)		(14)				(70)
Dividend distributed	4	402						(678)			(272)
Cancellation of treasury shares	(7)							(780)		787	-
Purchase of treasury shares								(38)		(631)	(669)
Re-issuance of treasury shares		(36)						(75)		229	118
Share-based compensation plans		105									105
Income tax on share-based compensation plans		21									21
Balance as of December 31, 2013	188	1,796	23	55	24	1,319	(569)	7,927	1,169	(718)	11,214

12.4 Notes

All amounts in millions of euros unless otherwise stated

Notes to the Company financial statements

A Intangible assets

Intangible assets includes mainly licenses and patents. The changes during 2013 are as follows;

	intangible assets
Balance as of January 1, 2013:	
Cost	55
Amortization/ impairments	(46)
Book value	9
Changes in book value:	
Reclassifications	7
Additions	41
Amortization	(2)
Total changes	46
Balance as of December 31, 2013:	
Cost	67
Amortization/ impairments	(12)
Book value	55

B Financial fixed assets

The investments in group companies and associates are presented as financial fixed assets in the balance sheet using the equity method. Goodwill paid upon acquisition of investments in group companies or associates is included in the net equity value of the investment and is not shown separately on the face of the balance sheet.

Loans are provided to group companies and associates and are stated at amortized cost, less impairment.

	investments in group companies	investments in associates	loans	total
Balance as of January 1, 2013	10,407	87	6,103	16,597
Changes:				
Reclassification	-	(3)	-	(3)
Acquisitions/ additions	2,632	-	529	3,161
Sales/redemptions	(131)	(2)	(524)	(657)
Net income from affiliated companies	1,309	(8)	-	1,301
Dividends received	(340)	-	-	(340)
Translation differences	(458)	(3)	(235)	(696)
Other	172	-	-	172
Balance as of December 31, 2013	13,591	71	5,873	19,535

A list of investments in group companies, prepared in accordance with the relevant legal requirements (Dutch Civil Code, Book 2, Sections 379 and 414), is deposited at the Chamber of Commerce in Eindhoven, The Netherlands.

In December 2013, investments in group companies increased by EUR 2,111 million due to the purchase of 25% of a group company which was previously owned by another group company. This transaction was executed in view of our continued effort to restructure and optimize our foreign based intra-group finance activities. In addition, investments in group companies also increased by EUR 517 million as a result of capital injections. These transactions reflect most of the the increase in the line Acquisitions/additions.

C Other non-current financial assets

	available-for-sale financial assets	loans and receivables	financial assets at fair value through profit and loss	total
Balance as of January 1, 2013	84	221	20	325
Changes:				
Reclassifications	3	-	-	3
Acquisitions/ additions	9	-	-	9
Sales/redemptions/ reductions	-	(1)	-	(1)
Impairments	(7)	(1)	-	(8)
Transfer to assets classified as held for sale	(15)	(30)	-	(45)
Value adjustments	12	1	(13)	-
Balance as of December 31, 2013	86	190	7	283

Available-for-sale financial assets

The Company's investments in available-for-sale financial assets mainly consist of investments in common stock of companies in various industries. An amount of EUR 15 million has been reclassified to assets held for sale in relation to the agreed contribution to the Philips Pension Fund (please refer to note 30, Post-employment benefits and note 36, Subsequent events).

Loans and receivables

During 2013 loans with face value EUR 30 million were transferred to assets held for sale in relation to the agreed contribution to the Philips Pension Fund (please refer to note 30, Post-employment benefits and note 36, Subsequent events).

Financial assets at fair value through profit and loss

Included in this category are certain financial instruments that Philips received in exchange for the transfer of its television activities. The initial value of EUR 17 million was adjusted by EUR 11 million during 2012 and EUR 6 million in 2013 reported under Value adjustments. As of December 31, 2013 the fair value reported was nil. For more information please refer to note 36, Subsequent events.

In 2010, Philips sold its entire holding of common shares in NXP Semiconductors B.V. (NXP) to Philips Pension Trustees Limited (herein referred to as "UK Pension Fund"). As a result of this transaction the UK Pension Fund obtained the full legal title and ownership of the NXP shares, including the entitlement to any future dividends and the proceeds from any sale of shares. From the date of the transaction the NXP shares became an integral part of the plan assets of the UK Pension Fund. The purchase agreement with the UK Pension Fund includes an arrangement that may entitle Philips to a cash payment from the UK Pension Fund on or after September 7, 2014, if the total value yielded by the NXP shares has increased by this date to a level in excess of a predetermined threshold, which at the time of the transaction was substantially above the transaction price, and the UK Pension Fund is in a surplus (on a swaps basis) on September 7, 2014. The arrangement qualifies as a financial instrument and is reported under Other non-current financial assets. The Trustees of the UK Pension Fund have been selling the NXP shares in a number of transactions since 2010. The remaining number of NXP shares were sold in the course of 2013 and the total sale proceeds of the NXP shares exceeded the predetermined threshold. However, as of December 31, 2013 the UK Pension Fund was not in surplus (on the agreed swaps basis). The fair value of the arrangement was estimated to be EUR 14 million as of December 31, 2012. As of December 31, 2013 management's best estimate of the fair value of the arrangement is EUR 7 million, based on the current funded status as of December 31, 2013 (swaps basis) and the economic and demographic risks of the UK Pension Fund. The change in fair value in 2013 is reported under Value adjustments in the table above.

D Receivables

	2012	2013
Trade accounts receivable	83	80
Affiliated companies	7,690	7,177
Other receivables	23	5
Advances and prepaid expenses	16	28
Derivative instruments - assets	176	210
	7,988	7,500

E Shareholders' equity

Common shares

As of December 31, 2013, the issued and fully paid share capital consists of 937,845,789 common shares, each share having a par value of EUR 0.20.

In June 2013, Philips settled a dividend of EUR 0.75 per common share, representing a total value of EUR 678 million. Shareholders could elect for a cash dividend or a share dividend. Approximately 59.8% of the shareholders elected for a share dividend, resulting in the issuance of 18,491,337 new common shares. The settlement of the cash dividend resulted in a payment of EUR 272 million.

The following table shows the movements in the outstanding number of shares;

Share movement schedule

	2012	2013
Balance as of January 1	926,094,902	914,591,275
Dividend distributed	30,522,107	18,491,337
Purchase of treasury shares	(46,870,632)	(27,811,356)
Re-issuance of treasury shares	4,844,898	8,066,511
Balance as of December 31	914,591,275	913,337,767

Preference shares

The ‘Stichting Preferente Aandelen Philips’ has been granted the right to acquire preference shares in the Company. Such right has not been exercised. As a means to protect the Company and its stakeholders against an unsolicited attempt to (de facto) take over 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 acquire) preference shares to a third party. As of December 31, 2013, no preference shares have been issued.

Option rights/restricted shares

The Company has granted stock options on its common shares and rights to receive common shares in the future. Please refer to note 31, Share-based compensation, which is deemed incorporated and repeated herein by reference.

Treasury shares

In connection with the Company’s share repurchase programs, shares which have been repurchased and are held in treasury for (i) delivery upon exercise of options, performance and restricted share programs and employee share purchase programs, and (ii) capital reduction purposes, are accounted for as a reduction of shareholders’ equity. Treasury shares are recorded at cost, representing the market price on the acquisition date. When issued, shares are removed from treasury shares on a FIFO basis.

Any difference between the cost and the cash received at the time treasury shares are issued, is recorded in retained earnings.

Dividend withholding tax in connection with the Company’s purchase of treasury shares is recorded in retained earnings.

The following transactions took place resulting from employee option and share plans:

	2012	2013
Shares acquired	5,147	3,984
Average market price	EUR 17.86	EUR 22.51
Amount paid	EUR 0 million	EUR 0 million
Shares delivered	4,844,898	8,066,511
Average market price	EUR 24.39	EUR 28.35
Amount received	EUR 118 million	EUR 229 million
Total shares in treasury at year-end	28,712,954	20,650,427
Total cost	EUR 847 million	EUR 618 million

In order to reduce share capital, the following transactions took place:

	2012	2013
Shares acquired	46,865,485	27,807,372
Average market price	EUR 16.41	EUR 22.69
Amount paid	EUR 769 million	EUR 631 million
Reduction of capital stock	82,364,590	37,778,510
Total shares in treasury at year-end	13,828,733	3,857,595
Total cost	EUR 256 million	EUR 100 million

Dividend distribution

A proposal will be submitted to the 2014 General Meeting of Shareholders to pay a dividend of EUR 0.80 per common share, in cash or shares at the option of the shareholder, from the 2013 net income.

Legal reserves

As of December 31, 2013, legal reserves relate to the revaluation of assets and liabilities of acquired companies in the context of multi-stage acquisitions of EUR 23 million (2012: EUR 54 million), unrealized gains on available-for-sale financial assets of EUR 55 million (2012: EUR 54 million), unrealized gains on cash flow hedges of EUR 24 million (2012: EUR 20 million), ‘affiliated companies’ of EUR 1,319 million (2012: EUR 1,161 million) and unrealized currency translation losses of EUR 569 million (2012: EUR 93 million).

The item 'affiliated companies' relates to the 'wettelijke reserve deelnemingen', which is required by Dutch law. This reserve relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

Limitations in the distribution of shareholders' equity

Pursuant to Dutch law, limitations exist relating to the distribution of shareholders' equity of EUR 1,609 million (2012: EUR 1,480 million). As at December 31, 2013, such limitations relate to common shares of EUR 188 million (2012: EUR 191 million) as well as to legal reserves included under 'revaluation' of EUR 23 million (2012: EUR 54 million), available-for-sale financial assets of EUR 55 million (2012: EUR 54 million), unrealized gains on cash flow hedges of EUR 24 million (2012: EUR 20 million) and 'affiliated companies' of EUR 1,319 million (2012: EUR 1,161 million).

The unrealized losses related to currency translation differences of EUR 569 million (2012: EUR 93 million), although qualifying as a legal reserve, reduce the distributable amount by their nature.

F

Long-term debt and short-term debt

Long-term debt

	(range of) interest rates	average interest rate	amount outstanding	due in 1 year	due after 1 year	due after 5 years	average remaining term (in years)	amount outstanding 2012
USD bonds	3.8 - 7.8%	5.6%	2,958	–	2,958	2,059	13.7	3,198
Convertible debentures								12
Private financing								2
Intercompany financing	0.0 - 2.3%	0.7%	2,296	2,296	–	–	0.6	442
Bank borrowings	1.5 - 2.2%	1.9%	450	250	200	200	3.6	450
Other long-term debt	1.8 - 19.0%	4.5%	47	47	–	–	1.0	49
			5,751	2,593	3,158	2,259		4,153
Corresponding data previous year			4,153	614	3,539	3,289		4,030

The following amounts of the long-term debt as of December 31, 2013, are due in the next five years:

2014	2,593
2015	–
2016	–
2017	–
2018	899
	3,492
Corresponding amount previous year	864

Short-term debt

Short-term debt includes the current portion of outstanding external and intercompany long-term debt of EUR 2,593 million (2012: EUR 614 million), other debt to group companies totaling EUR 10,976 million (2012: EUR 11,015 million) and short-term bank borrowings of EUR 76 million (2012: EUR 113 million).

G

Other current liabilities

	2012	2013
Income tax payable	78	4
Other short-term liabilities	538	53
Accrued expenses	253	174
Derivative instruments - liabilities	592	471
	1,461	702

In 2012, Other short-term liabilities included a payable amount of EUR 509 million related to a fine from the European Commission following an investigation into alleged violation of competition rules in the Cathode-Ray Tubes (CRT) industry. The payable amount represented the aggregate of EUR 313 million paid by the Company and EUR 196 million, being 50% of the fine related to LPD. This amount was paid in 2013 and is therefore reflected in the reduction of other short-term liabilities compared with 2012.

H

Net income

Net income in 2013 amounted to a profit of EUR 1,169 million (2012: a loss of EUR 35 million). The increase of net results in 2013 compared to 2012 is especially due to the financial performance of affiliated companies.

I

Employees

The number of persons employed by the Company at year-end 2013 was 10 (2012: 10) and included the members of the Board of Management and certain leaders from functions, businesses and markets, together referred to as the Executive Committee.

For the remuneration of past and present members of both the Board of Management and the Supervisory Board, please refer to note 33, Information on remuneration, which is deemed incorporated and repeated herein by reference.

J

Contractual obligations and contingent liabilities not appearing in the balance sheet

Philips entered into contracts with several venture capitalists where it committed itself to make, under certain conditions, capital contributions to investment funds to an aggregated amount of EUR 40 million (2012: EUR 48 million) until June 30, 2021. As at December 31, 2013 capital contributions already made to these investment funds are recorded as available-for-sale financial assets within Other non-current financial assets. Furthermore, Philips made commitments to third parties in 2013 of EUR 16 million (2012: EUR 25 million) with respect to sponsoring activities. The amounts are due before 2016.

General guarantees as referred to in Section 403, Book 2, of the Dutch Civil Code, have been given by the Company on behalf of several group companies in the Netherlands. The liabilities of these companies to third parties and investments in associates totaled EUR 1,255 million as of year-end 2013 (2012: EUR 1,416 million).

Guarantees totaling EUR 255 million (2012: EUR 284 million) have also been given on behalf of other group companies and credit guarantees totaling EUR 15 million (2012: EUR 4 million) on behalf of unconsolidated companies and third parties. The Company is the head of a fiscal unity that contains the most significant Dutch wholly-owned group companies. The Company is therefore jointly and severally liable for the tax liabilities of the tax entity as a whole. For additional information, please refer to note 26, Contingent assets and liabilities , which is deemed incorporated and repeated herein by reference.

K

Audit fees

For a summary of the audit fees, please refer to the Group Financial statements, note 3, Income from operations, which is deemed incorporated and repeated herein by reference.

L

Subsequent events

Dutch pension plan contribution

On July 1 2013, Philips announced that it had reached an agreement with the Dutch trade unions on a new collective labor agreement that covers the period January 1, 2013 till December 31, 2014. The new agreement includes changes in the plan rules and the funding agreement with the Dutch pension plan, which is the company's largest Defined Benefit pension plan. The plan changes have become effective as of January 1, 2014 and the new funding agreement has been signed by the Trustees of the Dutch pension plan. As part of these changes, Philips agreed to make a EUR 600 million contribution to the Dutch pension plan, of which EUR 240 million has been settled in cash on February 19, 2014. During 2014 and 2015, the remainder of the consideration will be settled through the transfer of assets and cash proceeds from the sale of assets which are currently owned by Philips. The (majority of the) contribution will need to be written off through other comprehensive income due to the asset ceiling restrictions in the plan.

Healthcare facility in Cleveland, Ohio

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 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. This action is estimated to have a negative impact on the sector's EBITA of approximately EUR 60 to 70 million in the first half of 2014, of which we expect to recover a substantial part in the second half of 2014.

Transfer of the remaining 30%-stake in TP Vision Holding to TPV Technology

On January 20, 2014 Philips announced that it has signed a term sheet to transfer the remaining 30% stake in the TP Vision venture to TPV Technology Limited. The signing of definitive agreements is expected to take place in the first quarter of 2014, with completion expected in the second half of 2014, subject to certain regulatory and TPV shareholder approvals. After completion, TPV will fully own TP Vision, which will enable further integration with TPV's TV business.

The remaining 30% stake in the TP Vision venture will be transferred for a deferred purchase price and all outstanding loans and stand-by facilities between Philips and the TP Vision venture will be transferred to TPV. The brand license agreement between Philips and the TP Vision venture will remain in place, with an annual royalty of 2.2% of sales payable by the TP Vision venture to Philips. The minimum annual royalty has been reduced from EUR 50 million to EUR 40 million. The agreement includes a EUR 50 million transaction-related payment, which Philips has accounted for in the fourth quarter of 2013 under Results relating to investments in associates (see note 6, Interests in entities).

LTI coverage program

To cover Philips' outstanding obligations resulting from past and present long-term incentive and employee stock purchase programs dating back to 2004, Philips will repurchase up to 12 million additional Philips shares on NYSE Euronext Amsterdam, to be executed during 2014. The shares repurchased will be held by Philips as treasury shares until they are distributed to participants.

Philips started this program as of January 28, 2014 and will enter into subsequent discretionary management agreements with one or more banks to repurchase Philips shares within the limits of relevant laws and regulations (in particular EC Regulation 2273/2003) and Philips' articles of association. All transactions are published on Philips' website (www.philips.com/investor) on a weekly basis.

The LTI coverage program is over and above the existing EUR 1.5 billion share repurchase program for cancellation purposes which started on October 21, 2013.

February 25, 2014

The Supervisory Board

The Board of Management

Content you didn't download
12.5 Independent auditor's report - Company

15 Five-year overview

all amounts in millions of euros unless otherwise stated

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 pension reporting (see note 30, Post-employment benefits).

Due to factors such as acquisitions and divestments, the amounts, percentages and ratios are not directly comparable.

General data

	2009	2010	2011	2012	2013
Sales	18,149	20,415	20,992	23,457	23,329
% increase over previous year	(6)	12	3	12	(1)
Income from operations (EBIT) (loss)	377	1,721	(479)	648	1,991
Financial income and expenses - net	(280)	(175)	(331)	(329)	(330)
Income (loss) from continuing operations	173	1,157	(1,046)	(77)	1,170
Income (loss) from continuing operations attributable to shareholders	159	1,151	(1,050)	(82)	1,167
Income (loss) from discontinued operations	86	144	(410)	47	2
Net income (loss)	259	1,301	(1,456)	(30)	1,172
Net income (loss) attributable to shareholders	245	1,295	(1,460)	(35)	1,169
Free cash flow	411	1,235	(97)	1,627	172
Net assets	14,631	15,067	12,362	11,185	11,227
Turnover rate of net operating capital[1]	1.39	1.50	1.75	2.12	2.27
Total employees at year-end	116,153	119,775	125,240	118,087	116,681

1) Calculated based on balance sheet positions related to continued operations
2) In euros unless otherwise stated
3) In thousands of shares
4) Adjusted to make previous years comparable for the bonus shares (273 thousand) issued in May 2013
5) In manufacturing excluding new acquisitions

Income

	2009	2010	2011	2012	2013
EBIT	377	1,721	(479)	648	1,991
as a % of sales	2.1	8.4	(2.3)	2.8	8.5
EBITA	807	2,188	1,435	1,106	2,451
as a % of sales	4.4	10.7	6.8	4.7	10.5
Income taxes	0.0	(407)	(251)	(185)	(466)
as a % of income before taxes	0.0	(26.3)	31.0	(58.0)	(28.1)
Income (loss) from continuing operations	173	1,157	(1,046)	(77)	1,170
as a % of shareholders' equity (ROE)	1.2	7.6	(7.8)	(0.6)	10.6
Net income (loss)	259	1,301	(1,456)	(30)	1,172

Capital employed

	2009	2010	2011	2012	2013
Cash and cash equivalents	4,386	5,833	3,147	3,834	2,465
Receivables and other current assets	4,966	5,324	5,570	5,156	5,262
Assets classified as held for sale	-	120	551	43	507
Inventories	2,913	3,865	3,625	3,495	3,240
Non-current financial assets/investments in associates	972	660	549	726	657
Non-current receivables/assets	2,885	1,532	1,929	2,189	1,882
Property, plant and equipment	3,252	3,145	3,014	2,959	2,780
Intangible assets	11,523	12,233	11,012	10,679	9,766
Total assets	30,897	32,712	29,397	29,081	26,559
Property, plant and equipment:					
Capital expenditures for the year	444	555	640	661	587
Depreciation for the year	686	612	617	678	632
Capital expenditures : depreciation	0.6	0.9	1.0	1.0	0.9
Inventories as a % of sales[1]	14.5	16.0	16.5	14.3	13.9
Outstanding trade receivables, in days sales[1]	50	56	54	50	52

Financial structure

	2009	2010	2011	2012	2013
Other liabilities	9,523	10,610	10,434	10,379	8,529
Liabilities directly associated with assets held for sale	-	-	61	27	348
Debt	4,267	4,658	3,860	4,534	3,901
Provisions	2,476	2,377	2,680	2,956	2,554
Total provisions and liabilities	16,266	17,645	17,035	17,896	15,332
Shareholders' equity	14,582	15,021	12,328	11,151	11,214
Non-controlling interests	49	46	34	34	13
Group equity and liabilities	30,897	32,712	29,397	29,081	26,559
Net debt : group equity ratio	(1):101	(8):108	5:95	6:94	11:89
Market capitalization at year-end	19,180	21,694	15,077	18,200	24,340

Key figures per share[2)]

	2009	2010	2011	2012	2013
Sales per common share	19.56	21.68	22.03	25.44	25.61
EBITA per common share - diluted	0.87	2.30	1.50	1.19	2.66
Weighted average amount of shares outstanding:					
- basic[3,4)]	927,709	941,691	952,809	922,101	911,072
- diluted[3,4)]	931,264	949,554	957,293	927,222	922,072
Basic earnings per common share:					
Income (loss) from continuing operations attributable to shareholders per share	0.17	1.22	(1.10)	(0.09)	1.28
Net income (loss) attributable to shareholders	0.26	1.38	(1.53)	(0.04)	1.28
Diluted earnings per common share:					
Income (loss) from continuing operations attributable to shareholders per share	0.17	1.21	(1.10)	(0.09)	1.27
Net income (loss) attributable to shareholders	0.26	1.36	(1.53)	(0.04)	1.27
Dividend distributed per common share	0.70	0.70	0.75	0.75	0.75
Total shareholder return per common share	7.55	2.94	(5.89)	4.37	7.50
Shareholders' equity per common share	15.72	15.87	13.31	12.19	12.28
Price/earnings ratio	121.65	18.79	(14.80)	(221.11)	20.82
Share price at year-end	20.68	22.92	16.28	19.90	26.65
Highest closing share price during the year	21.03	26.94	25.34	20.33	26.78
Lowest closing share price during the year	10.95	20.34	12.23	13.76	20.26
Average share price	15.26	23.35	18.11	16.92	23.33
Amount of common shares outstanding at year-end[3)]	927,457	946,506	926,095	914,591	913,338

Sustainability

	2009	2010	2011	2012	2013
Lives improved, in billions				1.7	1.8
Energy efficiency of products, in lumen/watt	32.5	34.7	35.5	37.9	38.5
Collection and recycling amount, in tonnes		22,500	27,500	30,500	31,000
Recycled material in products, in tonnes		7,500	10,000	15,000	14,000
Green Product sales, as a % of total sales	33	37	40	47	51
Green Innovation, in millions of euros	340	392	479	569	509
Operational carbon footprint, in kilotonnes CO_2-equivalent	1,930	1,845	1,771	1,614	1,654
Operational energy efficiency, in terajoules per million euro sales	1.34	1.29	1.24	1.15	1.21
Total energy consumption in manufacturing, in terajoules[5)]	14,421	14,426	13,982	14,421	14,160
Total carbon emissions in manufacturing, in kilotonnes CO_2-equivalent [5)]	816	675	635	691	705
Water intake, in thousands m^3 [5)]	4,216	4,218	4,328	4,857	5,044
Total waste, in kilotonnes[5)]	97.7	104.6	94.0	87.6	92.0
Materials provided for recycling via external contractor per total waste, in %	77	78	77	77	81
Restricted substances, in kilos	272	188	111	55	9
Hazardous substances, in kilos	32,869	61,795	65,477	70,093	40,451
ISO 14001 certification, as a % of all reporting organizations[5)]	92	95	89	71	80
Employee Engagement Index, % favorable	71	77	76	79	75
Female executives, in % of total	10	11	13	14	15
Lost Workday Injuries, per 100 FTEs	0.44	0.50	0.38	0.31	0.28
Fatalities	-	-	2	7	3
Initial and continual conformance audits, number of audits	360	273	212	159	200
Suppliers audits, compliance rate, in %	-	-	72	75	77

16 Investor Relations

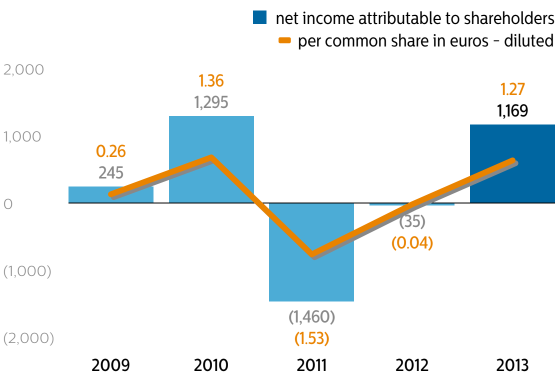
16.1 Key financials and dividend policy

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 pension reporting (see note 30, Post-employment benefits).

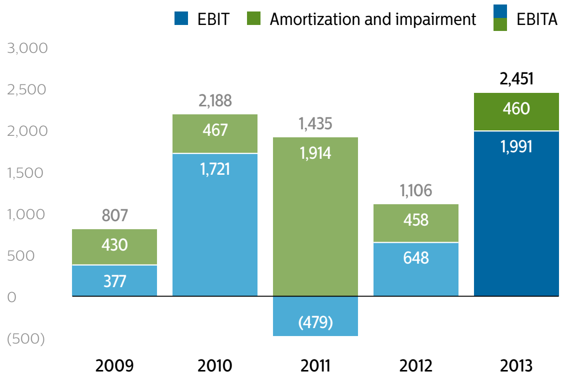
Key financials

Net income attributable to shareholders of the Philips Group in 2013 showed a gain of EUR 1,169 million, or EUR 1.27 per common share (diluted; basic EUR 1.28 per common share). This compares to a loss of EUR 35 million, or EUR 0.04 per common share (diluted; basic EUR 0.04 per common share), in 2012.

Net income attributable to shareholders
in millions of euros

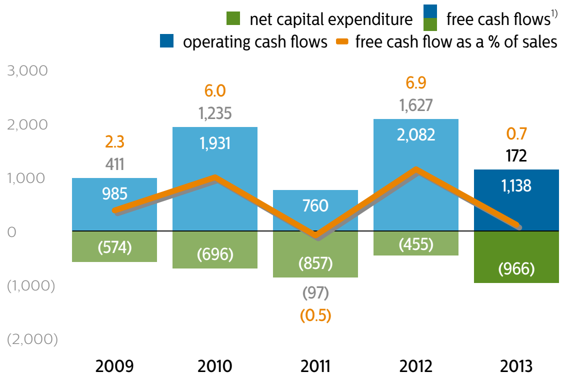


EBIT and EBITA[1)]
in millions of euros



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

Operating cash flows
in millions of euros



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

Dividend policy

We are committed to a stable dividend policy with a 40% to 50% target pay-out of continuing net income.

Continuing net income is the base figure used to calculate the dividend payout for the year. For 2013, the key exclusions from net income to arrive at continuing net income are the following: the results related to the Television and Audio, Video, Multimedia and Accessories businesses of Consumer Lifestyle that are shown as discontinued operations, the gains related to past-service pension costs in the US and the settlement loss arising from a lump sum offering to terminated vested employees in the US pension plan, as well as the impairment of goodwill in Lighting and of other intangible assets in Healthcare and Lighting.

Restructuring and acquisition-related charges and the result of the sale of the 30% stake in investment in associate TP Vision are also excluded.

Proposed distribution

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.

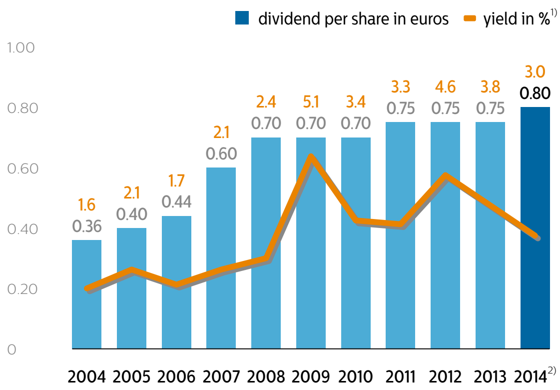
Shareholders will be given the opportunity to make their choice between cash and shares between May 8, 2014, and May 30, 2014. If no choice is made during this election period, the dividend will be paid in shares. On May 30, 2014 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume weighted average price of all traded common shares of 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, 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). Shareholders are advised to consult their own tax advisor on the applicable situation with respect to taxes on the dividend received.

In 2013, a dividend of EUR 0.75 per common share was paid in cash or shares, at the option of the shareholder. For 59.8% of the shares an election was made for a share dividend resulting the issuance 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 section 4.4, Proposed distribution to shareholders, of this Annual Report.

	ex-dividend date	record date	payment date
Amsterdam shares	May 5, 2014	May 7, 2014	June 4, 2014
New York shares	May 5, 2014	May 7, 2014	June 4, 2014

Dividend and dividend yield per common share



[1] Dividend yield % is as of December 31 of previous year
[2] Subject to approval by the 2014 Annual General Meeting of Shareholders

Information for investors in New York Registry shares program

Dividends and distributions per common share

The following table sets forth in euros the gross dividends on the common shares in the fiscal years indicated (from prior-year profit distribution) and such amounts as converted into US dollars and paid to holders of shares of the New York registry:

	2009	2010	2011	2012	2013
in EUR	0.70	0.70	0.75	0.75	0.75
in USD	0.94	0.93	1.11	0.94	0.98

Exchange rates USD : EUR

The following two tables set forth, for the periods and dates indicated, certain information concerning the exchange rate for US dollars into euros based on the Noon Buying Rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"). The Noon Buying Rate on February 14, 2014 was EUR 0.7305 per USD 1.

			EUR per USD	
	period end	average	high	low
2008	0.7184	0.6844	0.8035	0.6246
2009	0.6977	0.7187	0.7970	0.6623
2010	0.7536	0.7579	0.8362	0.6879
2011	0.7708	0.7186	0.7736	0.6723
2012	0.7584	0.7782	0.8290	0.7428
2013	0.7257	0.7532	0.7828	0.7238

	highest rate	lowest rate
August, 2013	0.7578	0.7448
September, 2013	0.7622	0.7387
October, 2013	0.7413	0.7241
November, 2013	0.7487	0.7350
December, 2013	0.7379	0.7238
January, 2014	0.7407	0.7309

Philips publishes its financial statements in euros while a substantial portion of its net assets, earnings and sales are denominated in other currencies. Philips conducts its business in more than 50 different currencies.

Unless otherwise stated, for the convenience of the reader the translations of euros into US dollars appearing in this report have been made based on the closing rate on December 31, 2013 (USD 1 = EUR 0.7255). This rate is not materially different from the Noon Buying Rate on such date (USD 1 = EUR 0.7257).

The following table sets out the exchange rate for US dollars into euros applicable for translation of Philips' financial statements for the periods specified.

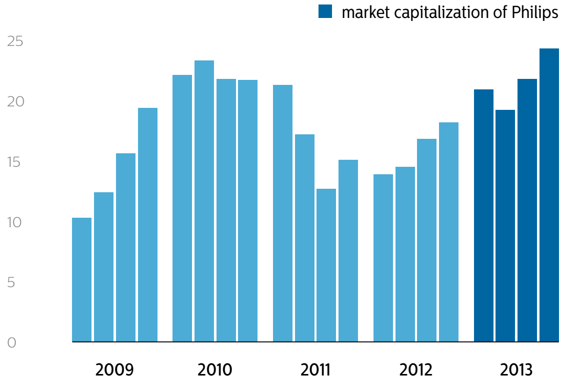
			EUR per USD	
	period end	average	high	low
2008	0.7096	0.6832	0.7740	0.6355
2009	0.6945	0.7170	0.7853	0.6634
2010	0.7485	0.7540	0.8188	0.7036
2011	0.7728	0.7192	0.7728	0.6721
2012	0.7582	0.7776	0.8166	0.7500
2013	0.7255	0.7527	0.7805	0.7255

16.2 Share information

Market capitalization

Philips' market capitalization was EUR 24.3 billion at year-end 2013. The highest closing price for Philips' shares during 2013 in Amsterdam was EUR 26.78 on December 27, 2013 and the lowest was EUR 20.26 on January 4, 2013. The highest closing price for Philips' shares during 2013 in New York was USD 36.97 on December 31, 2013 and the lowest was USD 26.60 on January 4, 2013.

Market capitalization
in billions of euros



Share capital structure

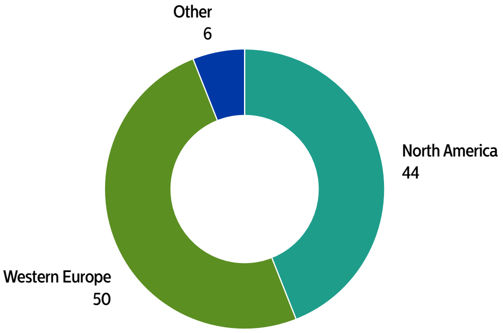
During 2013, Philips' issued share capital decreased by approximately 19 million common shares to a level of 938 million common shares. The main reasons for this are the cancellation of 37,778,510 Philips shares acquired pursuant to the EUR 2 billion share repurchase program and the issuance of 18,491,337 shares related to the elective dividend. The basic shares outstanding decreased from 915 million at the end of December 2012 to 913 million at the end of 2013. As of December 31, 2013, the shares held in treasury amounted to 25 million shares, of which 21 million are held by Philips to cover long-term incentive and employee stock purchase plans.

The Dutch Act on Financial Supervision imposes an obligation to disclose (inter alia) percentage holdings in the capital and/or voting rights in the Company when such holdings reach, exceed or fall below 3, 5, 10, 15, 20, 25, 30, 40, 50, 60, 75 and 95 percent (as a result of an acquisition or disposal by a person, or as a result of a change in the company's total number of voting rights or capital issued). Certain cash settled derivatives are also taken into account when calculating the capital interest. Pursuant to new legislation, effective July 1, 2013, the obligation to disclose capital interest does not only relate to gross long positions, but also to gross short positions. Required disclosures must be made to the Netherlands Authority for the Financial Markets (AFM) without delay. The AFM then notifies such disclosures to the Company and includes them in a register which is published on the AFM's website. Furthermore, an obligation to disclose (net) short positions is set out in the EU Regulation on Short Selling.

On July 1, 2013 the Company received notification from the AFM that it had received disclosures under the Dutch Act on Financial Supervision of a substantial holding of 4.3% by Dodge & Cox International Stock Fund. On August 14, 2013 the Company received notification from the AFM that it had received disclosures under the Dutch Act on Financial Supervision of a total shareholding of 3.01% and 3.45% of the voting rights by BlackRock Inc. On January 3, 2014 the Company received notification from the AFM that it had received disclosures under the Dutch Act on Financial Supervision of a substantial holding of 3.08% by Norges Bank.

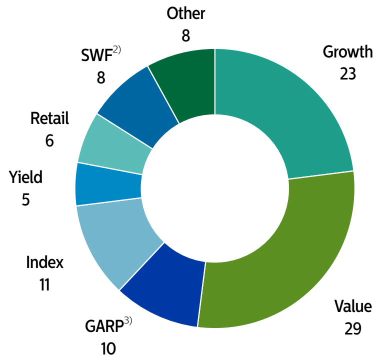
Based on a survey in December 2013 and information provided by several large custodians, the following shareholder portfolio information is included in the graphs Shareholders by region and Shareholders by style.

Shareholders by region (estimated)[1]
in %



[1] Split based on identified shares in shareholder identification

Shareholders by style (estimated)[1]
in %



[1] Split based on identified shares in shareholder identification
[2] SWF: Sovereign Wealth Fund
[3] GARP: growth at reasonable price

Share repurchase programs

Share repurchases for capital reduction purposes
By the end of Q2 2013, Philips completed the EUR 2 billion share repurchase program that started in July 2011. On September 17, 2013, Philips announced a new EUR 1.5 billion share repurchase program. This program started on October 21, 2013 and is to be completed over the next two to three years. By the end of 2013, Philips had completed 7% of the EUR 1.5 billion share repurchase program.

Share repurchases related to Long-Term Incentive (LTI) and employee stock purchase programs
To cover Philips' outstanding obligations resulting from past and present long-term incentive and employee stock purchase programs dating back to 2004, Philips will repurchase up to 12 million additional Philips shares on NYSE Euronext Amsterdam, to be executed during 2014. The shares repurchased will be held by Philips as treasury shares until they are distributed to participants. Philips started this program on January 28, 2014 and will enter into subsequent discretionary management agreements with one or more banks to repurchase Philips shares within the limits of relevant laws and regulations (in particular EC Regulation 2273/2003) and Philips' articles of association.

Further details on the share repurchase programs can be found on the Investor Relations website. For more information see chapter 10, Corporate governance, of this Annual Report.

Impact of share repurchases on share count
in thousands of shares

	2009	2010	2011	2012	2013
Shares issued	972,412	986,079	1,008,975	957,133	937,846
Shares in treasury	44,955	39,573	82,880	42,542	24,508
Shares outstanding	927,457	946,506	926,095	914,591	913,338
Shares repurchased	2	15	47,508	46,871	27,811
Shares cancelled	–	–	–	82,365	37,779

A total of 24,508,022 shares were held in treasury by the Company at December 31, 2013 (2012: 42,541,687 shares). As of that date, a total of 44 million rights to acquire shares (under long-term incentive plans) were outstanding (2012: 52 million).

Period	total number of shares purchased	average price paid per share in EUR	total number of shares purchased as part of publicly announced programs	maximum EUR amount of shares that may yet be purchased under the programs
January, 2013	2,806,796	21.38	2,806,796	471,195,448
February, 2013	6,340,305	22.55	6,339,803	328,260,385
March, 2013	2,368,862	23.12	2,367,018	273,523,670
April, 2013	4,552,000	22.10	4,552,000	172,938,033
May, 2013	5,119,261	22.12	5,117,783	59,707,937
June, 2013	2,766,495	21.58	2,766,377	–
July, 2013	–	–	–	–
August, 2013	35	21.05	–	–
September, 2013	–	–	–	–
October, 2013	766,047	25.85	766,040	1,480,195,100
November, 2013	1,434,010	26.10	1,434,010	1,442,763,231
December, 2013	1,657,545	25.70	1,657,545	1,400,158,416

16.3 Philips' rating

Philips' existing long-term debt is rated A3 (with stable outlook)[2] by Moody's and A- (with stable outlook)[1] 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.

Credit rating summary

	long-term	short-term	outlook
Standard and Poor's	A-	A-2	Stable[1]
Moody's	A3	P-2	Stable[2]

1) On July 24, 2013, Standard and Poor's changed the outlook from negative to stable

2) On February 6, 2014, Moody's changed the outlook from negative to stable

16.4 Performance in relation to market indices

The common shares of the Company are listed on the stock market of NYSE Euronext Amsterdam. The New York Registry Shares of the Company, representing common shares of the Company, are listed on the New York Stock Exchange. The principal market for the common shares is NYSE Euronext Amsterdam. For the New York Registry Shares it is the New York Stock Exchange.

The following table shows the high and low closing sales prices of the common shares on the stock market of NYSE Euronext Amsterdam as reported in the Official Price List and the high and low closing sales prices of the New York Registry Shares on the New York Stock Exchange:

		Euronext Amsterdam (EUR)		New York stock exchange (USD)	
		high	low	high	low
2009		21.03	10.95	30.19	13.98
2010	1st quarter	25.28	20.34	33.48	28.26
	2nd quarter	26.94	22.83	35.90	28.09
	3rd quarter	26.23	21.32	33.32	26.84
	4th quarter	24.19	20.79	33.90	27.10
2011	1st quarter	25.34	21.73	33.81	29.81
	2nd quarter	22.84	16.33	32.44	23.36
	3rd quarter	17.84	12.23	25.74	16.87
	4th quarter	16.28	12.77	22.54	17.22
2012	1st quarter	16.56	14.48	21.51	18.34
	2nd quarter	15.57	13.76	20.26	17.32
	3rd quarter	19.49	15.51	24.89	19.11
	4th quarter	20.33	18.27	26.81	23.52
2013	1st quarter	23.67	20.26	31.72	26.60
	2nd quarter	23.48	20.36	30.65	26.75
	3rd quarter	25.32	20.89	33.60	27.28
	4th quarter	26.78	23.17	36.97	31.36
August, 2013		24.58	22.90	32.45	30.62
September, 2013		25.32	23.83	33.60	31.57
October, 2013		26.08	23.17	35.69	31.36
November, 2013		26.50	25.70	35.76	34.81
December, 2013		26.78	24.64	36.97	33.92
January, 2014		28.10	25.52	38.36	34.61

Euronext Amsterdam

Share price development in Amsterdam
in euros

PHIA	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013												
High	23.13	23.31	23.67	23.48	22.90	21.81	24.41	24.58	25.32	26.08	26.50	26.78
Low	20.26	21.23	21.56	20.54	20.45	20.36	20.89	22.90	23.83	23.17	25.70	24.64
Average	21.34	22.26	22.93	22.15	21.97	21.29	22.81	24.00	24.54	24.68	26.14	25.81
Average daily volume[1]	5.50	6.11	6.09	6.57	6.17	5.90	5.33	3.81	6.32	5.41	3.90	4.99
2012												
High	16.56	16.42	16.26	15.32	15.26	15.57	17.90	18.86	19.49	20.11	20.21	20.33
Low	14.48	15.45	14.95	13.76	14.00	13.87	15.51	18.09	18.16	18.27	19.47	19.83
Average	15.31	15.80	15.55	14.51	14.49	14.67	16.47	18.46	18.80	18.95	19.95	20.05
Average daily volume[1]	6.77	5.53	5.54	8.05	6.91	6.10	6.15	4.68	5.60	4.97	4.89	3.88

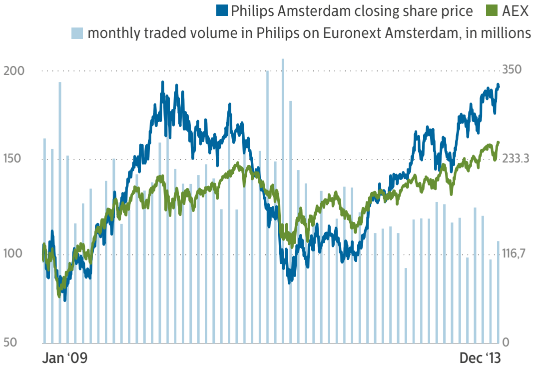
New York Stock Exchange

Share price development in New York
in US dollars

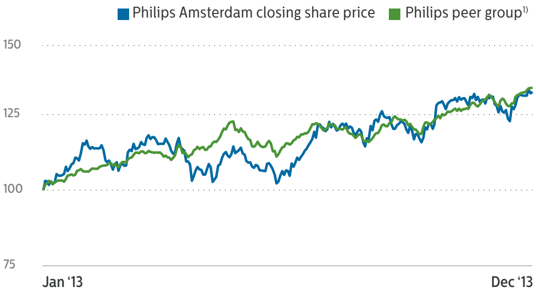
PHG	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013												
High	31.16	31.72	30.72	30.65	29.21	29.19	32.47	32.45	33.60	35.69	35.76	36.97
Low	26.60	27.82	28.23	26.88	26.75	26.94	27.28	30.62	31.57	31.36	34.81	33.92
Average	28.41	29.68	29.71	28.84	28.37	28.12	29.91	31.92	32.86	33.63	35.22	35.48
Average daily volume[1]	0.85	0.77	0.82	0.77	0.80	0.93	0.86	0.44	0.66	0.66	0.39	0.39
2012												
High	21.47	21.36	21.51	20.26	20.00	19.67	22.11	23.30	24.89	26.23	26.01	26.81
Low	18.34	20.24	19.58	17.98	17.68	17.32	19.11	22.00	22.99	23.52	24.80	25.91
Average	19.73	20.85	20.57	19.10	18.57	18.41	20.26	22.84	24.20	24.48	25.51	26.27
Average daily volume[1]	1.64	0.93	1.32	1.80	1.03	0.83	0.63	0.54	0.82	0.64	0.77	0.62

[1] In millions of shares

5-year relative performance: Philips and AEX
base 100 = Dec 31, 2008

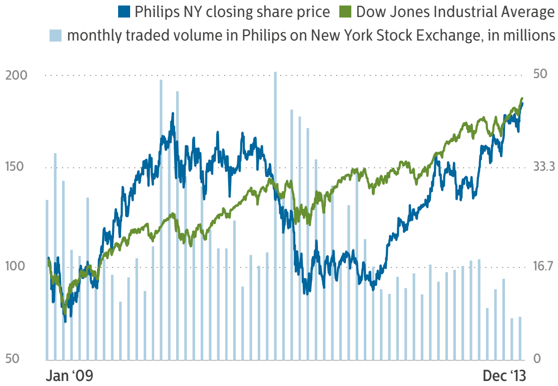


Relative performance: Philips and unweighted peer group index[1] base 100 = Dec 31, 2012



[1] The peer group has been extended from 11 to 21 companies, in line with the TSR peer group as defined in the new Long-Term Incentive Plan, implemented in 2013. The peer group consists of: 3M, ABB, Covidien, Danaher, Eaton, Electrolux, Emerson, General Electric, Hitachi, Honeywell, Johnson Control, Johnson & Johnson, Legrand, LG Electronics, Medtronic, Panasonic, Procter & Gamble, Schneider, Siemens, Smiths Group, Toshiba. The index shows the unweighted average closing share prices of the peer group. This graph is not linked to the TSR performance calculation as part of the Long-Term Incentive Plan.

5-year relative performance: Philips and Dow Jones
base 100 = Dec 31, 2008



Share listings	Amsterdam, New York
Ticker code	PHIA, PHG
No. of shares issued at Dec. 31, 2013	938 million
No. of shares outstanding issued at Dec. 31, 2013	913 million
Market capitalization at year-end 2013	EUR 24.3 billion
Industry classification	
MSCI: Capital Goods	20105010
ICB: Diversified Industrials	2727
Members of indices	
AEX, NYSE, DJSI, and others	

16.5 Philips' acquisitions

Philips made no announcements of acquisitions in 2013 and 2012.

Acquisitions 2011 / Announcement dates

January 5, 2011	Optimum Lighting, LLC	Professional Luminaires	Expand portfolio with customized energy-efficient lighting solutions
January 20, 2011	Preethi[1]	Domestic Appliances	Become a leading kitchen appliances company in India
March 9, 2011	Dameca A/S	Patient Care & Clinical Informatics	Expand portfolio with integrated, advanced anesthesia care solutions
June 20, 2011	AllParts Medical	Customer Services	Expand capabilities in imaging equipment services, strengthening Philips' Multi-Vendor Services business
June 27, 2011	Sectra Mamea AB[2]	Imaging Systems	Expand Women's Healthcare portfolio with a unique digital mammography solution in terms of radiation dose
June 29, 2011	Indal Group	Professional Luminaires	Strengthen leading position in professional lighting within Europe
July 11, 2011	Povos Electric Appliance (Shanghai) Co., Ltd.[2]	Domestic Appliances	Expand product portfolio in China and continue to build business creation capabilities in growth geographies

[1] Asset transaction
[2] Combined asset transaction / share transaction

Acquisitions 2010 / Announcement dates

February 11, 2010	Luceplan	Consumer Luminaires	Iconic brand in the premium design segment for residential applications
February 24, 2010	Somnolyzer[1]	Home Healthcare	Somnolyzer 24x7 automated-scoring solution that can improve the productivity of sleep centers
March 26, 2010	Tecso	Patient Care & Clinical Informatics	Strengthen clinical informatics portfolio with leading Brazilian provider of Radiology Information Systems (RIS)
July 13, 2010	Street Light Control Portfolio[1]	Lighting Electronics	Strengthen outdoor lighting portfolio with acquisition control portfolio. Street Lighting controls activities of Amplex A/S
July 28, 2010	Apex	Imaging Systems	Strengthen portfolio of high-quality transducers aimed at the value segment in emerging markets
August 2, 2010	CDP Medical[1]	Patient Care & Clinical Informatics	Expand clinical informatics portfolio in high-growth markets in the area of PACS
August 20, 2010	Burton	Professional Luminaires	Expand portfolio with leading provider of specialized lighting solutions for healthcare facilities
September 13, 2010	Wheb Sistemas	Patient Care & Clinical Informatics	Strengthen clinical informatics portfolio with a leading Brazilian provider of clinical information systems
October 11, 2010	Discus	Health & Wellness	Expand oral healthcare portfolio with leading manufacturer of professional tooth whitening products
December 6, 2010	NCW	Professional Luminaires	Expand global leadership position of professional lighting entertainment solutions
January 6, 2011	medSage Technologies[1]	Home Healthcare	Strengthen portfolio by becoming a leading provider of patient interaction and management applications

[1] Asset transaction

16.6 Financial calendar

Financial calendar

Annual General Meeting of Shareholders	
Record date Annual General Meeting of Shareholders	April 3, 2014
Annual General Meeting of Shareholders	May 1, 2014
Quarterly reports 2014	
First quarter results 2014	April 22, 2014
Second quarter results 2014	July 21, 2014
Third quarter results 2014	October 20, 2014
Fourth quarter results 2014	January 27, 2015[1]
Capital Markets Days 2014	
Capital Markets Days (Healthcare, Consumer Lifestyle and Lighting)	September 23-24, 2014

[1] Subject to final confirmation

16.7 Investor contact

Shareholder services

Holders of shares listed on Euronext

Philips offers a dynamic print manager that facilitates the creation of a customized PDF. Non-US shareholders and other non-US interested parties can make inquiries about the Annual Report 2013 to:

Royal Philips
Annual Report Office
Philips Center, HBT 12
P.O. Box 77900
1070 MX Amsterdam, The Netherlands
E-mail: annual.report@philips.com

Communications concerning share transfers, lost certificates, dividends and change of address should be directed to:

ABN AMRO Bank N.V.
Department Equity Capital Markets/Corporate Broking HQ7050
Gustav Mahlerlaan 10, 1082 PP Amsterdam, The Netherlands
Telephone: +31-20-34 42000
Fax: +31-20-62 88481

Holders of New York Registry shares

Philips offers a dynamic print manager that facilitates the creation of a customized PDF. Holders of New York Registry shares and other interested parties in the US can make inquiries about the Annual Report 2013 to:

Citibank Shareholder Service
P.O. Box 43077 Providence, Rhode Island 02940-3077
Telephone: 1-877-CITI-ADR (toll-free)
Telephone: 1-781-575-4555 (outside of US)
Fax: 1-201-324-3284
Website: www.citi.com/dr
E-mail: citibank@shareholders-online.com

Communications concerning share transfers, lost certificates, dividends and change of address should be directed to Citibank. The Annual Report on Form 20-F is filed electronically with the US Securities and Exchange Commission.

International direct investment program

Philips offers a dividend reinvestment and direct stock purchase plan designed for the US market. This program provides existing shareholders and interested investors with an economical and convenient way to purchase and sell Philips New York Registry shares and to reinvest cash dividends. Philips does not administer or sponsor the program and assumes no obligation or liability for the operation of the plan. For further information on this program and for enrollment forms, contact:

Citibank Shareholder Service
Telephone: 1-877-248-4237 (1-877-CITI-ADR)
Monday through Friday 8:30 AM EST
through 6:00 PM EST
Website www.citi.com/dr

or by writing to:

Citibank Shareholder Service
International Direct Investment Program
P.O. Box 2502, Jersey City, NJ 07303-2502

2014 Annual General Meeting of Shareholders

The Agenda and the explanatory notes of the Agenda for the 2014 Annual General Meeting of Shareholders are published on the Company's website.

For the Annual General Meeting of Shareholders on May 1, 2014, a record date of April 3, 2014 will apply. Those persons who on April 3, 2014 hold shares in the Company and are registered as such in one of the registers designated by the Board of Management for the Annual General Meeting of Shareholders will be entitled to participate in and vote at the meeting.

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.

Investor relations activities

From time to time the Company engages in communications with investors via road shows, one-on-one meetings, group meetings, broker conferences and capital markets days. The purpose of these meetings is to inform the market on the results, strategy and decisions made, as well as to receive feedback from shareholders. Also, the Company engages in bilateral communications with investors. These communications take place either at the initiative of the Company or at the initiative of investors. During these communications the Company is generally represented by its Investor Relations department. However, on a limited number of occasions the Investor Relations department is accompanied by one or more members of the Board of Management. The subject matter of the bilateral communications ranges from individual queries from investors to more elaborate discussions following disclosures that the Company has made such as its annual and quarterly reports. The Company is strict in its compliance with applicable rules and regulations on fair and non-selective disclosure and equal treatment of shareholders.

More information on the activities of Investor Relations can be found in chapter 10, Corporate governance, of this Annual Report.

Analysts' coverage

Philips is covered by approximately 35 analysts who frequently issue reports on the company.

How to reach us

Investor Relations contact

Royal Philips
Philips Center, HBT 14
P.O. Box 77900
1070 MX Amsterdam, The Netherlands
Telephone: +31-20-59 77222
Website: www.philips.com/investor
E-mail: investor.relations@philips.com

Robin Jansen
Head of Investor Relations
Telephone: +31-20-59 77222

Vanessa Bruinsma-Kleijkers
Investor Relations Manager
Telephone: +31-20-59 77447

Leandro Mazzoni
Investor Relations Manager
Telephone: +31-20-59 77055

The registered office of Royal Philips is
High Tech Campus 5
5656 AE Eindhoven, The Netherlands
Switch board, telephone: +31-40-27 91111

Sustainability contact

Philips Group Sustainability
High Tech Campus 5 (room 2.56)
5656 AE Eindhoven, The Netherlands
Telephone: +31-40-27 83651
Fax: +31-40-27 86161
Website: www.philips.com/sustainability
E-mail: philips.sustainability@philips.com

Corporate Communications contact

Royal Philips
Philips Center, HBT 19
P.O. Box 77900
1070 MX Amsterdam, The Netherlands
E-mail: corporate.communications@philips.com
For media contacts please refer to:
www.newscenter.philips.com/main/standard/news/contacts

17 Definitions and abbreviations

Base of the Pyramid
The base of the pyramid is the largest, but poorest socio-economic group. In global terms, this is the 4 billion people who live on less than USD 2.50 per day.

BMC
Business Market Combination - As a diversified technology group, Philips has a wide portfolio of categories/business innovation units which are grouped in business groups based primarily on technology or customer needs. Philips has physical market presence in over 100 countries, which are grouped into 17 market clusters. Our primary operating modus is the Business Market matrix comprising Business Groups and Markets. These Business Market Combinations (BMCs) drive business performance on a granular level at which plans are agreed between global businesses and local market teams.

Brominated flame retardants (BFR)
Brominated flame retardants are a group of chemicals that have an inhibitory effect on the ignition of combustible organic materials. Of the commercialized chemical flame retardants, the brominated variety are most widely used.

Compound annual growth rate (CAGR)
The CAGR is the average Comparable Sales calculated over a period of more than one year. Compound comparable sales exclude the effect of currency movements and acquisitions and divestments (changes in consolidation) over the total period. Philips believes that CAGR information enhances understanding of sales performance over a period longer than a year.

CO_2-equivalent
CO_2-equivalent or carbon dioxide equivalent is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO_2 that would have the same global warming potential (GWP), when measured over a specified timescale (generally 100 years).

Cash flow before financing activities
The cash flow before financing activities is the sum of net cash flow from operating activities and net cash flow from investing activities.

Chlorofluorocarbon (CFC)
A chlorofluorocarbon is an organic compound that contains carbon, chlorine and fluorine, produced as a volatile derivative of methane and ethane. CFCs were originally developed as refrigerants during the 1930s.

Comparable sales
Comparable sales exclude the effect of currency movements and acquisitions and divestments (changes in consolidation). Philips believes that comparable sales information enhances understanding of sales performance.

Continuing net income
This equals recurring net income from continuing operations, or net income excluding discontinued operations and excluding material non-recurring items.

Dividend yield
The dividend yield is the annual dividend payment divided by Philips' market capitalization. All references to dividend yield are as of December 31 of the previous year.

EBITA
Earnings before interest, tax and amortization (EBITA) represents income from continuing operations excluding results attributable to non-controlling interest holders, results relating to investments in associates, income taxes, financial income and expenses, amortization and impairment on intangible assets (excluding software and capitalized development expenses). Philips believes that EBITA information makes the underlying performance of its businesses more transparent by factoring out the amortization of these intangible assets, which arises when acquisitions are consolidated. In our Annual Report on form 20-F this definition is referred to as Adjusted IFO.

EBITA per common share
EBITA divided by the weighted average number of shares outstanding (basic). The same principle is used for the definition of net income per common share, replacing EBITA.

Electronic Industry Citizenship Coalition (EICC)
The Electronic Industry Citizenship Coalition was established in 2004 to promote a common code of conduct for the electronics and information and communications technology (ICT) industry. EICC now includes more than 40 global companies and their suppliers.

Employee Engagement Index (EEI)
The Employee Engagement Index (EEI) is the single measure of the overall level of employee engagement at Philips. It is a combination of perceptions and attitudes related to employee satisfaction, commitment and advocacy.

Energy-using Products (EuP)
An energy-using product is a product that uses, generates, transfers or measures energy (electricity, gas, fossil fuel). Examples are boilers, computers, televisions, transformers, industrial fans, industrial furnaces etc.

Free cash flow
Free cash flow is the net cash flow from operating activities minus net capital expenditures.

Full-time equivalent employee (FTE)
Full-time equivalent is a way to measure a worker's involvement in a project. An FTE of 1.0 means that the person is equivalent to a full-time worker, while an FTE of 0.5 signals that the worker is only half-time.

Global Reporting Initiative (GRI)
The Global Reporting Initiative (GRI) is a network-based organization that pioneered the world's most widely used sustainability reporting framework. GRI is committed to the framework's continuous improvement and application worldwide. GRI's core goals include the mainstreaming of disclosure on environmental, social and governance performance.

Green Innovation
Green Innovation comprise all R&D activities directly contributing to the development of Green Products or Green Technologies.

Green Products
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. The life cycle approach is used to determine a product's overall environmental improvement. It calculates the environmental impact of a product over its total life cycle (raw materials, manufacturing, product use and disposal). Green Products need to prove leadership in at least one Green Focal Area compared to industry standards, which is defined by a sector specific peer group. This is done either by outperforming reference products (which can be a competitor or predecessor product in the particular product family) by at least 10%, outperforming product specific eco-requirements or by being awarded with a recognized eco-performance label. Because of different product portfolios, sectors have specified additional criteria for Green Products, including product specific minimum requirements where relevant.

Growth geographies
Growth geographies are the developing geographies comprising of Asia Pacific (excluding Japan, South Korea, Australia and New Zealand), Latin America, Central & Eastern Europe, the Middle East (excluding Israel) and Africa.

Hydrochlorofluorocarbon (HCFC)
Hydrochlorofluorocarbon is a fluorocarbon that is replacing chlorofluorocarbon as a refrigerant and propellant in aerosol cans.

Income as % of shareholders' equity (ROE)
This ratio measures income from continuing operations as a percentage of average shareholders' equity. ROE rates Philips' overall profitability by evaluating how much profit the company generates with the money shareholders have invested.

Income from continuing operations
Net income from continuing operations, or net income excluding discontinued operations.

Initiatief Duurzame Handel (IDH)
IDH is the Dutch Sustainable Trade Initiative. It brings together government, frontrunner companies, civil society organizations and labor unions to accelerate and up-scale sustainable trade in mainstream commodity markets from the emerging countries to Western Europe.

International Standardization Organization (ISO)
The International Standardization Organization (ISO)is the world's largest developer and publisher of International Standards. ISO is a network of the national standards institutes of more than 160 countries, one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system. ISO is a non-governmental organization that forms a bridge between the public and private sectors.

Light-Emitting Diode (LED)
Light-Emitting Diode (LED), in electronics, is a semiconductor device that emits infrared or visible light when charged with an electric current. Visible LEDs are used in many electronic devices as indicator lamps, in automobiles as rear-window and brake lights, and on billboards and signs as alphanumeric displays or even full-color posters. Infrared LEDs are employed in autofocus cameras and television remote controls and also as light sources in fiber-optic telecommunication systems.

Lives improved by Philips
To calculate how many lives we are improving, market intelligence and statistical data on the number of people touched by the products contributing to the social or ecological dimension over the lifetime of a product are multiplied by the number of those products delivered in a year. After elimination of double counts – multiple different product touches per individual are only counted once – the number of lives improved by our innovative solutions is calculated. In 2012 we established our baseline at 1.7 billion a year.

Mature geographies
Mature geographies are the highly developed markets comprising of Western Europe, North America, Japan, South Korea, Israel, Australia and New Zealand.

Millennium Development Goals (MDG)
Adopted by world leaders in the year 2000 and set to be achieved by 2015, the Millennium Development Goals (MDGs) provide concrete, numerical benchmarks for tackling extreme poverty in its many dimensions. The MDGs also provide a framework for the entire international community to work together towards a common end – making sure that human development reaches everyone, everywhere. Goals include for example eradicating extreme poverty and hunger, achieving universal primary education and ensuring environmental sustainability.

Net debt : group equity ratio
The % distribution of net debt over group equity plus net debt.

Non-Governmental Organization (NGO)
A non-governmental organization (NGO) is any non-profit, voluntary citizens' group which is organized at a local, national or international level.

OEM
Original Equipment Manufacturer.

Operational carbon footprint
A carbon footprint is the total set of greenhouse gas emissions caused by an organization, event, product or person; usually expressed in kilotonnes CO_2-equivalent. The Philips operational carbon footprint is calculated on a half-year basis and includes industrial sites (manufacturing and assembly sites), non-industrial sites (offices, warehouses, IT centers and R&D facilities), business travel (lease and rental cars and airplane travel) and logistics (air, sea and road transport).

Perfluorinated compounds (PFC)
A perfluorinated compound (PFC) is an organofluorine compound with all hydrogens replaced by fluorine on a carbon chain—but the molecule also contains at least one different atom or functional group. PFCs have unique properties to make materials stain, oil, and water resistant, and are widely used in diverse applications. PFCs persist in the environment as persistent organic pollutants, but unlike PCBs, they are not known to degrade by any natural processes due to the strength of the carbon–fluorine bond.

Polyvinyl chloride (PVC)
Polyvinyl chloride, better known as PVC or vinyl, is an inexpensive plastic so versatile it has become completely pervasive in modern society. The list of products made from polyvinyl chloride is exhaustive, ranging from phonograph records to drainage and potable piping, water bottles, cling film, credit cards and toys. More uses include window frames, rain gutters, wall paneling, doors, wallpapers, flooring, garden furniture, binders and even pens.

Productivity
Philips uses Productivity internally and as mentioned in this annual report as a non-financial indicator of efficiency that relates the added value, being income from operations adjusted for certain items such as restructuring and acquisition-related charges etc. plus salaries and wages (including pension costs and other social security and similar charges), depreciation of property, plant and equipment, and amortization of intangibles, to the average number of employees over the past 12 months.

Regulation on Hazardous Substances (RoHS)
The RoHS Directive prohibits all new electrical and electronic equipment placed on the market in the European Economic Area from containing lead, mercury, cadmium, hexavalent chromium, poly-brominated biphenyls (PBB) or polybrominated diphenyl ethers (PBDE), except in certain specific applications, in concentrations greater than the values decided by the European Commission. These values have been established as 0.01% by weight per homogeneous material for cadmium and 0.1% for the other five substances.

Return on equity (ROE)
Income from continuing operations as a % of average shareholders' equity (calculated on the quarterly balance sheet positions).

Return on invested capital (ROIC)
Return on Invested Capital consists of income from continuing operations excluding results attributable to non-controlling interest holders, results relating to investments in associates and financial income and expenses, divided by the average net operating capital at year end and the preceding four quarter ends. Philips believes that ROIC information makes the underlying performance of its businesses more transparent as it relates returns to the operating capital in use.

SF_6
SF_6 (Sulfur hexafluoride) is used in the electrical industry as a gaseous dielectric medium.

Turnover rate of net operating capital
Sales divided by average net operating capital (calculated on the quarterly balance sheet positions).

Waste Electrical and Electronic Equipment (WEEE)
The Waste Electrical and Electronic Equipment Directive (WEEE Directive) is the European Community directive on waste electrical and electronic equipment which became European Law in February 2003, setting collection, recycling and recovery targets for all types of electrical goods. The directive imposes the responsibility for the disposal of waste electrical and electronic equipment on the manufacturers of such equipment.

Weighted Average Statutory Tax Rate (WASTR)
The reconciliation of the effective tax rate is based on the applicable statutory tax rate, which is a weighted average of all applicable jurisdictions. This weighted average statutory tax rate (WASTR) is the aggregation of the result before tax multiplied by the applicable statutory tax rate without adjustment for losses, divided by the group result before tax.

18 Forward-looking statements and other information

Forward-looking statements

This document 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 section 4.5, Outlook, of this Annual Report, of this Annual Report. Examples of forward-looking statements include statements made about our strategy, estimates of sales growth, future EBITA and future developments in our organic business. 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 nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances and there are many 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, the successful implementation of our strategy and our ability to realize the benefits of this strategy, our ability to develop and market new products, changes in legislation, legal claims, changes in exchange and interest rates, changes in tax rates, pension costs and actuarial assumptions, raw materials and employee costs, our ability to identify and complete successful acquisitions and to integrate those acquisitions into our business, our ability to successfully exit certain businesses or restructure our operations, the rate of technological changes, political, economic and other developments in countries where Philips operates, industry consolidation and competition. As a result, Philips’ actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, see also chapter 6, Risk management, of this Annual Report, of this Annual Report.

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, those 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.

IFRS basis of presentation

The financial information included in this document is based on IFRS, unless otherwise indicated. As used in this document, the term EBIT has the same meaning as Income from operations (IFO).

Use of 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 like: comparable growth; EBITA; NOC; net debt (cash); free cash flow; and cash flow before financing activities. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent GAAP measures.

Further information on non-GAAP information and a reconciliation of such measures to the most directly comparable GAAP measures can be found in chapter 14, Reconciliation of non-GAAP information, of this Annual Report, of this Annual Report.

Statutory financial statements and management report

The chapters Group financial statements and Company financial statements contain the statutory financial statements of the Company. The introduction to the chapter Group financial statements sets out which parts of this Annual Report form the management report within the meaning of Section 2:391 of the Dutch Civil Code (and related Decrees).

Analysis of 2012 compared to 2011

The analysis of the 2012 financial results compared to 2011, and the discussion of the critical accounting policies, have not been included in this Annual Report. These sections are included in Philips’ Form 20-F for the financial year 2013, which will be filed electronically with the US Securities and Exchange Commission.

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