



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.

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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 mature and growth geographies, see chapter 17, Definitions and abbreviations, of this Annual Report

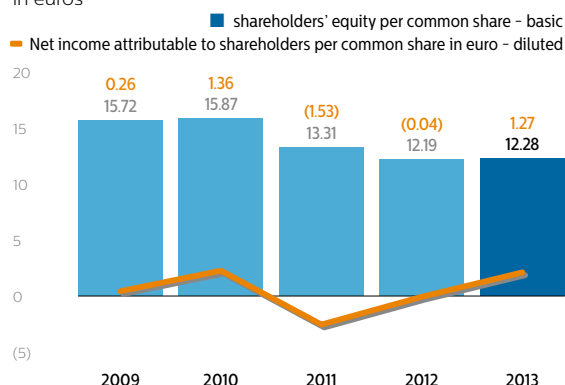
⁶⁾ As measured by Interbrand

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%

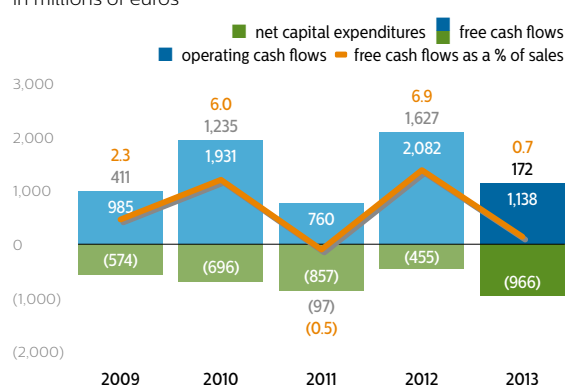
Equity and Net income per common share

in euros



Operating cash flows

in millions of euros



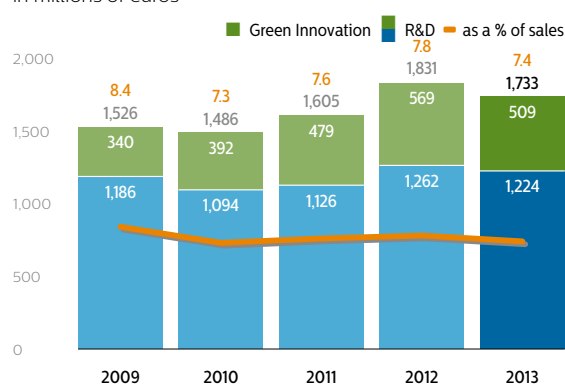
Net debt (cash) to group equity

in billions of euros



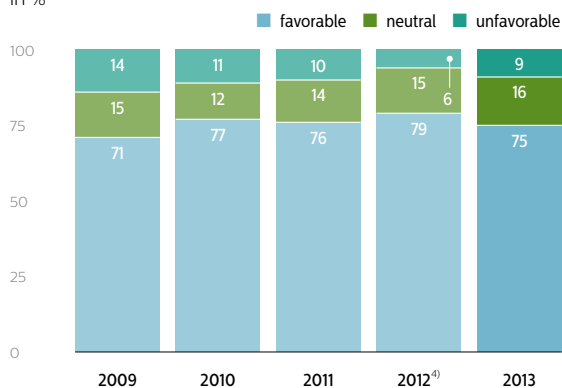
Research and development expenses

in millions of euros



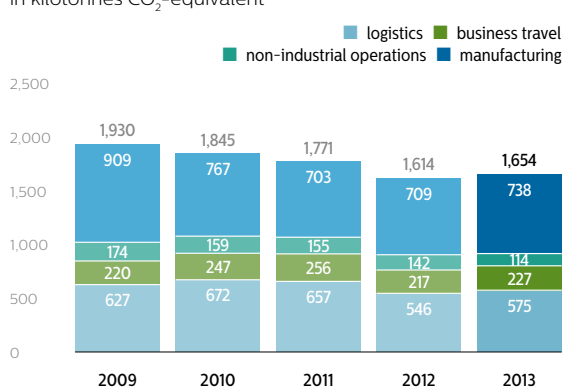
Employee Engagement Index

in %



Operational carbon footprint

in kilotonnes CO₂-equivalent



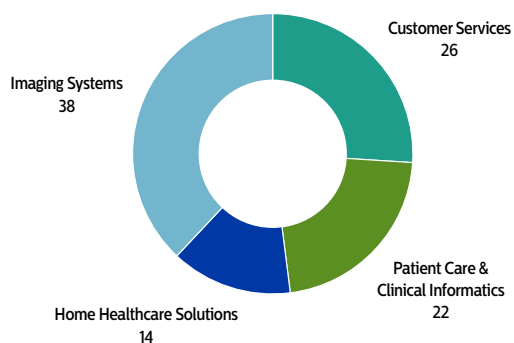
Performance

in millions of euros

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% ▲

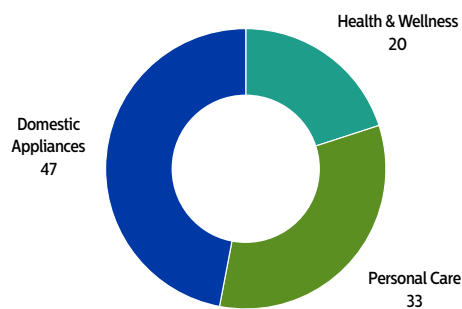
Total sales by business 2013: Healthcare

as a %



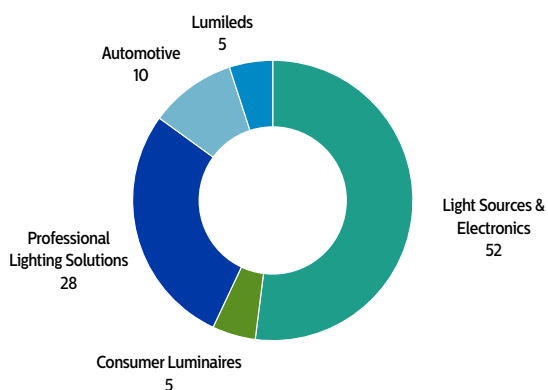
Total sales by business 2013: Consumer Lifestyle

as a %



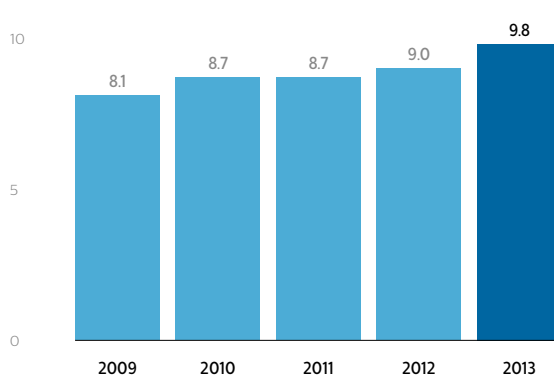
Total sales by business 2013: Lighting

as a %



Brand value⁶⁾

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

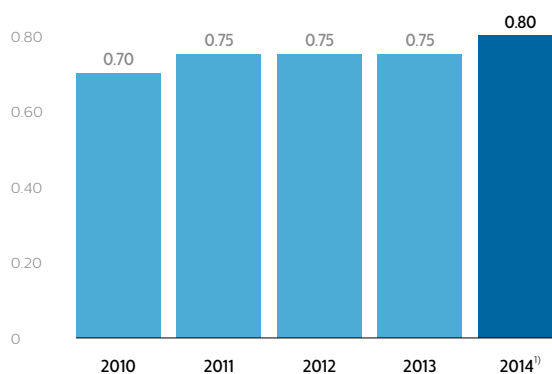
I am pleased to say that Philips has multiple new growth opportunities in the making. Within our Healthcare sector we have established the Healthcare Informatics Solutions & Services business group, which is focusing on a digital connected healthcare delivery platform, advanced informatics and big data 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

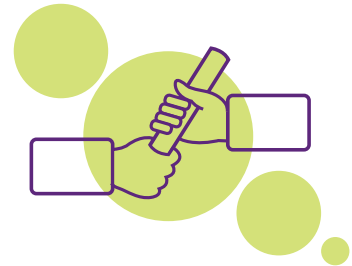
Now in its third year, Accelerate! is making Philips a more agile and entrepreneurial innovator. The program, which is set to run through 2017, is made up of five streams designed to:



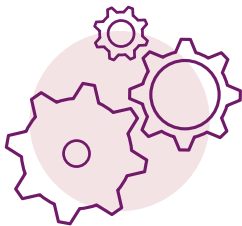
make us more customer focused



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

2. Business impact

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 12

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 13



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 15



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 € 15 billion by 2015.

Read more on page 17



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

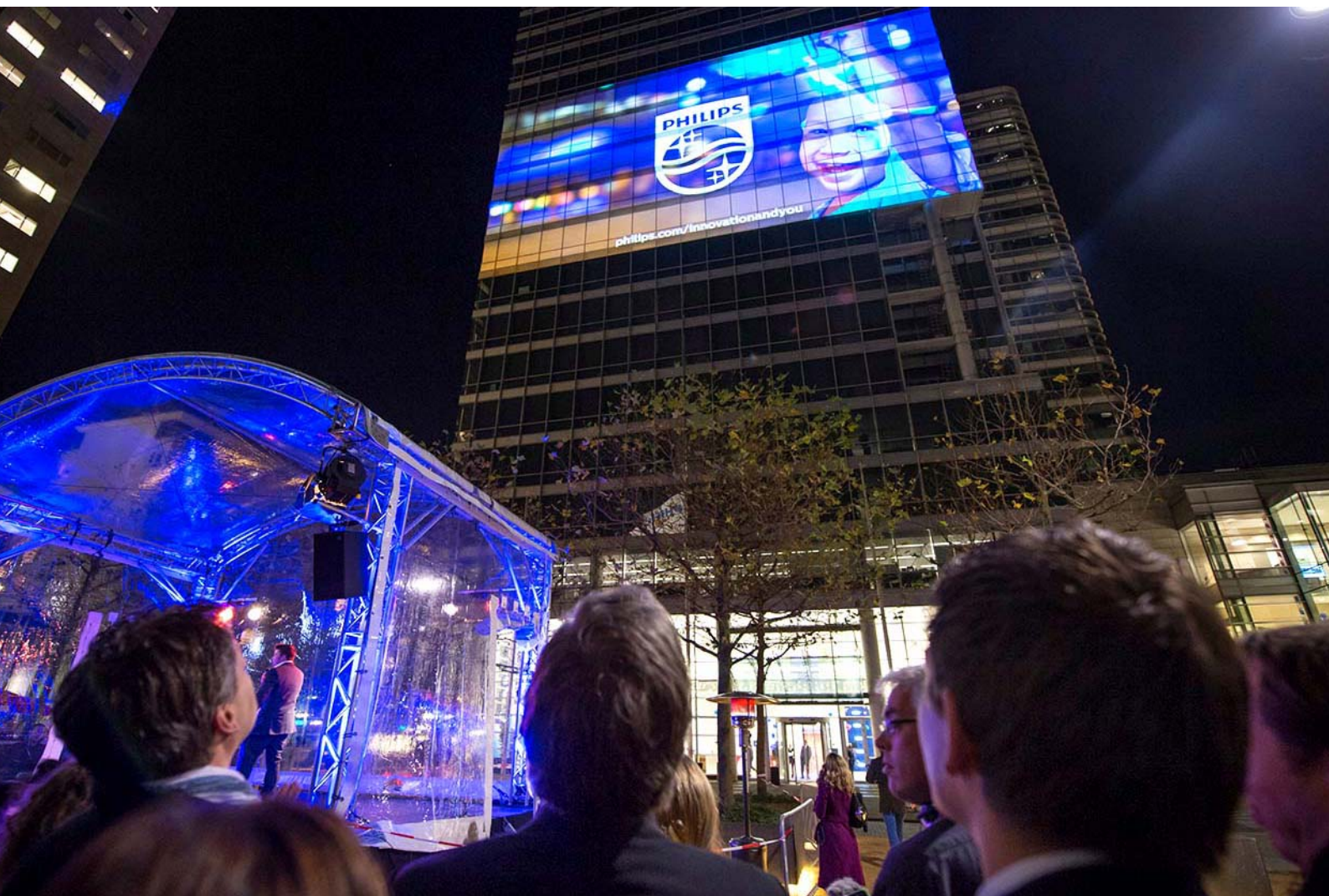
Reflecting this culture of engagement, our employees also play a crucial role as ambassadors of our brand. In May 2013 our Employee Brand Jam focused on engaging employees around our new brand promise. They were asked to share, via a dedicated dashboard, their stories about how Philips delivers innovation 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.

3. Fast facts

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.

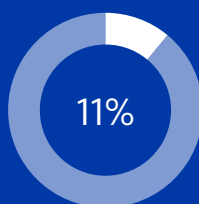
3. Market opportunities

Responding to global challenges

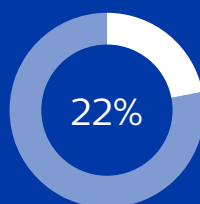
With our understanding of many of the longer-term challenges our world faces, we see major opportunities to apply our innovative competencies and create value for our stakeholders.

We see a growing need for health care

The world's population aged 60 years and older



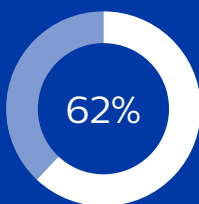
2000



2050

We see increased focus on personal well-being

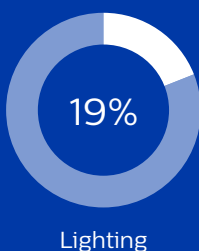
Well-being of people around the world



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



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.

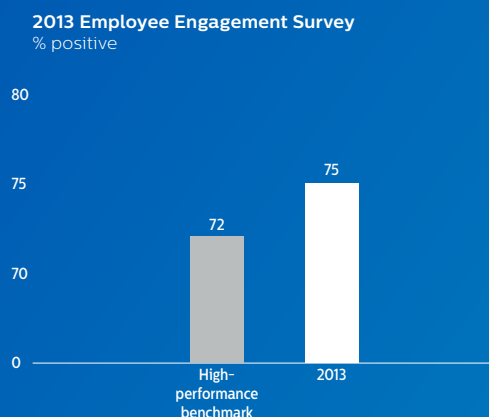
Excellence: We are a learning organization that applies common operating principles to deliver Philips Excellence.

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

5. Our people

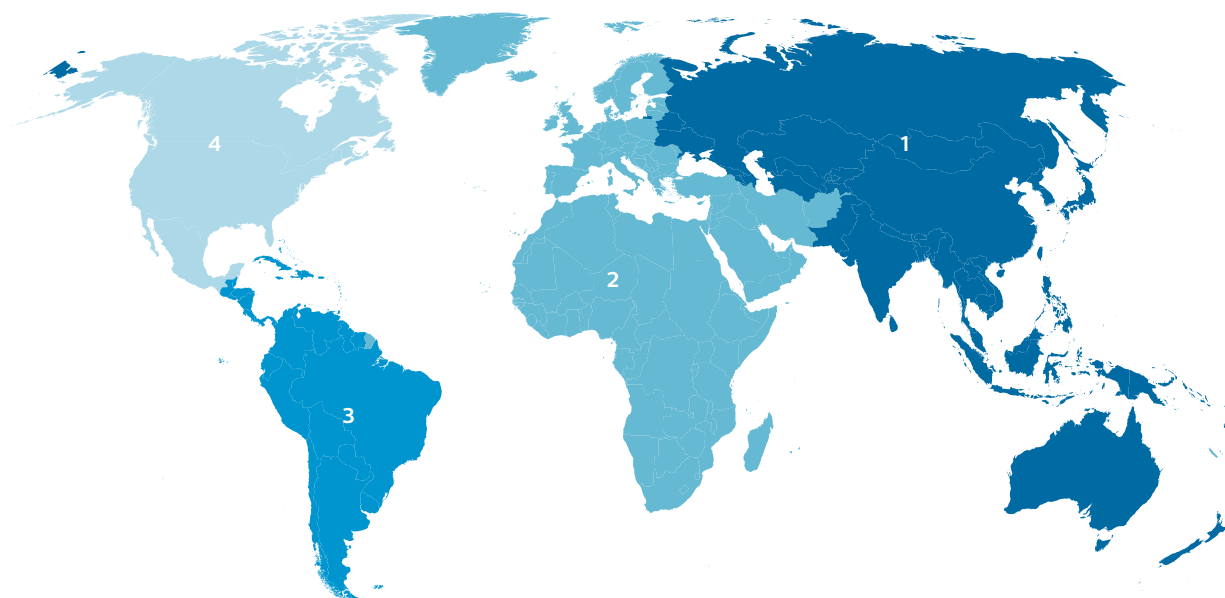
Engaged employees crucial for success

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.



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



Delivering innovation that matters to you

At Philips, our mission is to improve people's lives through meaningful innovation. In 2013 we reaffirmed our long-standing commitment to this goal with the launch of our new brand promise.

1. Knowing our customers

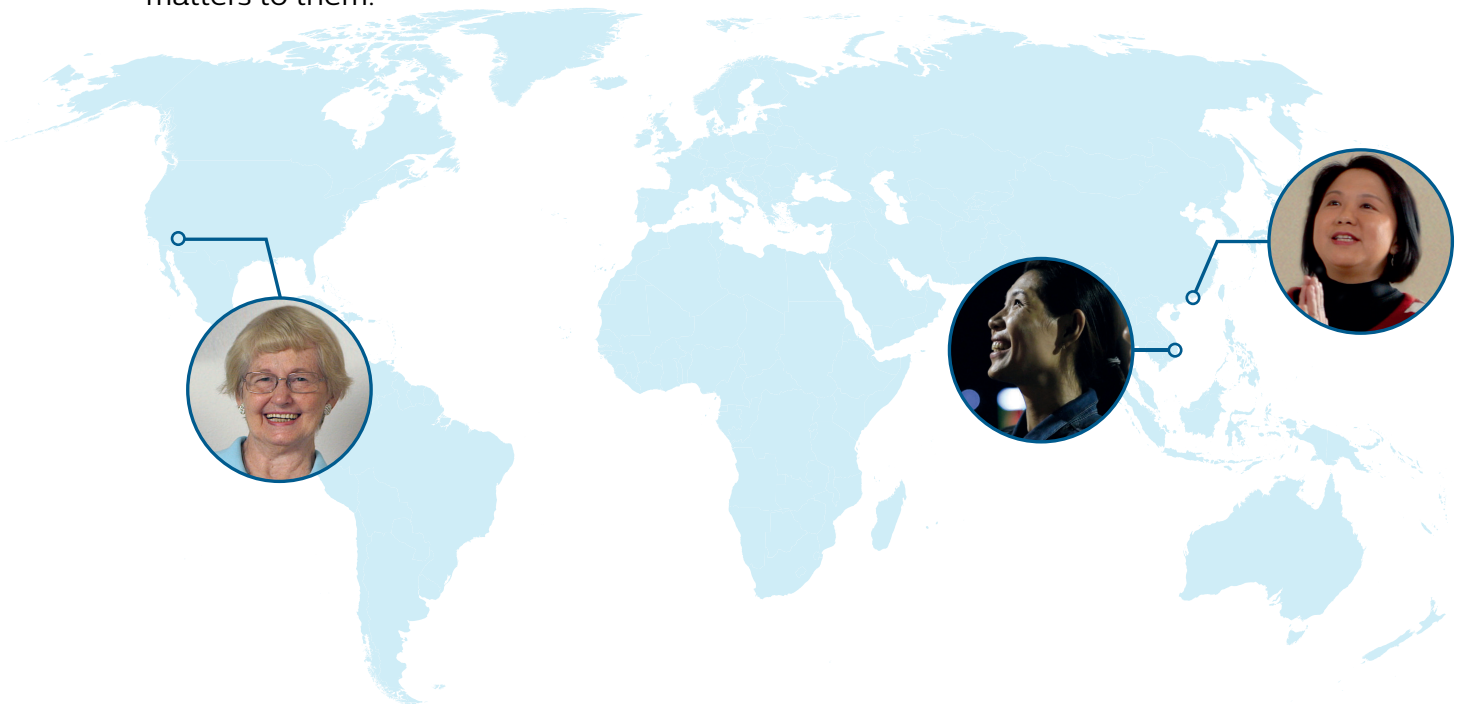
Who do we mean by 'you'?

Philips delivers innovation that matters to you.

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

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

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



2. Understanding people's needs

What matters to you?

“Without communication, Ralph and I could have never survived the 64 years.”



Helen McCurdy
Phoenix, USA

Discover how an innovative telemedicine program is enabling seniors to continue living at home.

[Read more on page 31](#)

“My husband loves fried food. Back then I would tell him, No, it’s not good for your health.”



Dable Kwan
Hong Kong

Find out how Philips Airfryer is helping people to eat more healthily.

Read more on page 32



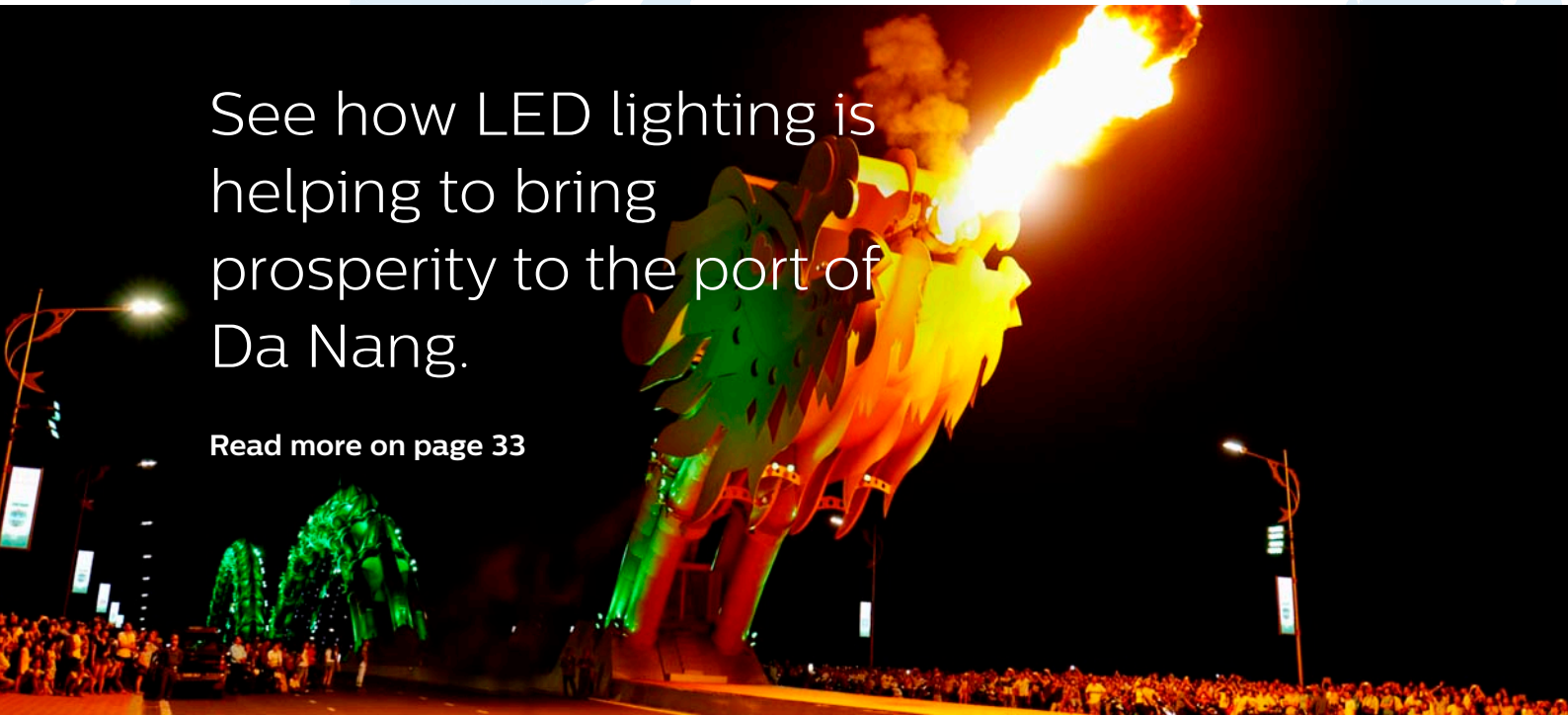
“I no longer have to
struggle working at the
factory.”



Le Thi Vinh
Da Nang, Vietnam

See how LED lighting is
helping to bring
prosperity to the port of
Da Nang.

Read more on page 33



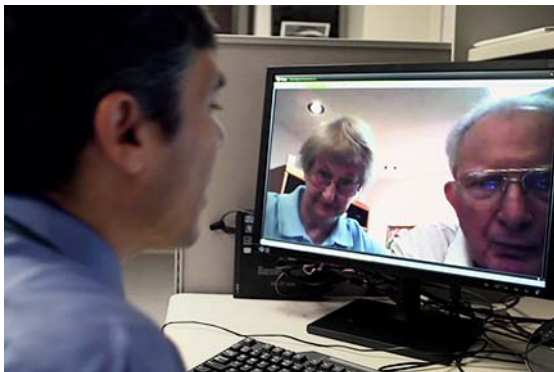


The comfort of home: a new model for care delivery

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

“Without communication, Ralph and I could have never survived the 64 years. To be able to talk to a doctor on a video and we don’t have to wait two or three days for a doctor appointment, it’s fabulous.”

Helen McCurdy



“This is the future. It’s really an amazing model of care that doesn’t exist anywhere else... yet. When I have a team of people, augmented by a lot of Philips technology, I can catch things earlier, treat things earlier, and intervene in a way that allows me to accomplish what I set out to do as a geriatrician, and ultimately to do some good in these patient’s lives.”

Edward Perrin, MD
Geriatric Care Specialist & Medical Director
Banner Hospice

Frying with air: inspiring healthy meals

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

“My name is Dable and I live in Hong Kong. I’m a housewife and I love to cook. I really started to cook seriously about 10 years ago. My husband loves fried food. Back then I would tell him, ‘No, there’s too much oil and grease, and it’s not good for your health.’ But since getting the Philips Airfryer, ah, what a happy man.”



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



Lighting a dragon: a bridge to prosperity

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

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

Tran Chi Cuong
Deputy Director
Danang Department of Culture, Sports and Tourism



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



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

Le Thi Vinh

3. Behind the scenes

How we innovate for you

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

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

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



Inside innovation

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

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

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

Philips AVENT Comfort breast pump

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

Philips AVENT Natural bottle

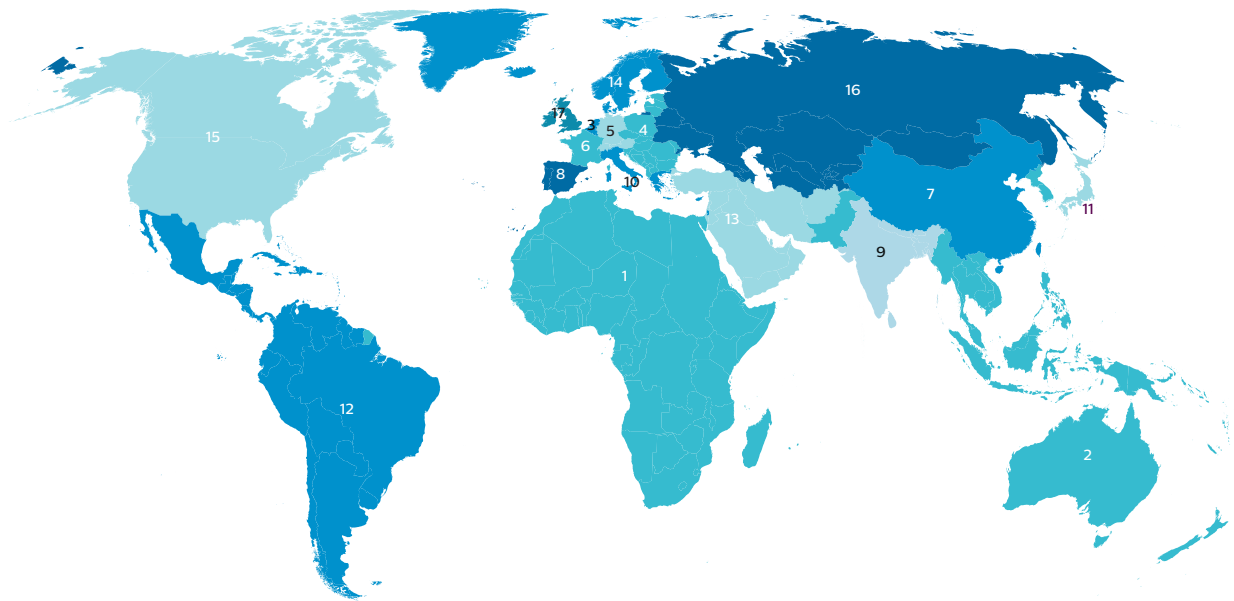
We used the same insights to create a new baby bottle, designed to tackle two things: teat acceptance (also known as 'latch on') and colic. When babies suckle at the breast, they cause the nipple to elongate in a rhythmic way, so we created a teat to stretch in the same way. To create a more natural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

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

Lives improved

We take a two-dimensional approach – social and ecological – to improving people’s lives. Products and solutions that directly support the curative (care) or preventive (well-being) side of people’s health, determine the contribution to the social dimension.

The contribution to the ecological dimension is determined by means of our Green product portfolio, such as our energy-efficient lighting. For additional information, please visit www.philips.com/sustainability.



Markets	Lives improved* (millions)	Population** (millions)	GDP*** (USD billions)
1. Africa	32	1,095	2,095
2. ASEAN	201	938	5,687
3. Benelux	28	28	1,368
4. Central & East Europe	77	133	1,501
5. DACH	89	98	4,662
6. France	56	64	2,744
7. Greater China	330	1,392	9,737
8. Iberia	43	57	1,581
9. Indian Subcontinent	167	1,449	1,987
10. Italy, Israel and Greece	48	81	2,596
11. Japan	49	127	5,007
12. Latin America	132	492	4,655
13. Middle East & Turkey	74	338	3,426
14. Nordics	25	26	1,679
15. North America	342	470	19,881
16. Russia and Central Asia	73	264	2,699
17. UK & Ireland	49	69	2,722

* Source: Philips

** Source: IMF, CIA Factbook & Wikipedia

*** Source: IMF, CIA Factbook & Wikipedia

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

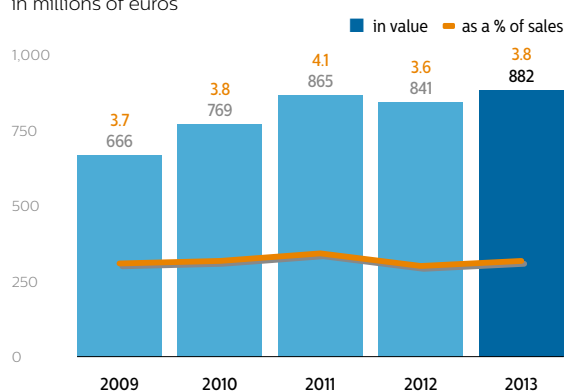
EBITA improved from a loss of EUR 704 million in 2012 to a loss of EUR 239 million in 2013. Restructuring and acquisition-related charges amounted to EUR 3 million in 2013, compared to EUR 56 million in 2012. 2013 EBITA included a net EUR 25 million loss from a past-service pension cost gain and related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

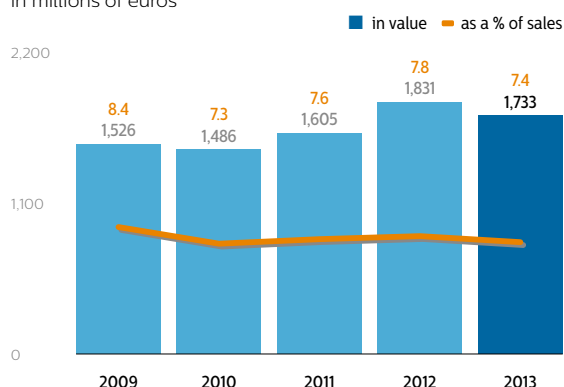


Philips increased its brand value by 8% in 2013 to over USD 9.8 billion in the ranking of the world's 100 most valuable brands, as measured by Interbrand. In the 2013 listing, Philips moved up one position to the 40th most valuable brand in the world.

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.

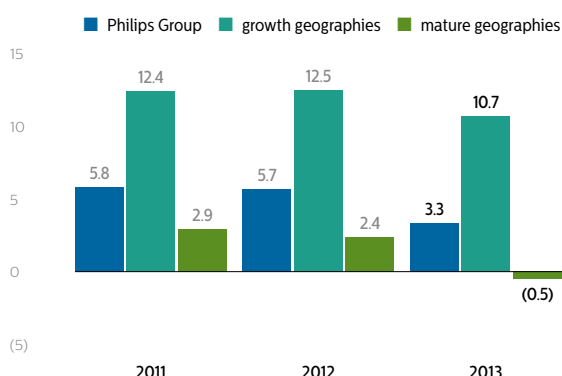
In 2011, Philips completed several divestments, of which Assembléon was the most significant. Philips sold 80% of the shares in Assembléon to H2 Equity Partners, an Amsterdam-based private equity firm, for a consideration of EUR 14 million.

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 cluster¹⁾
in %



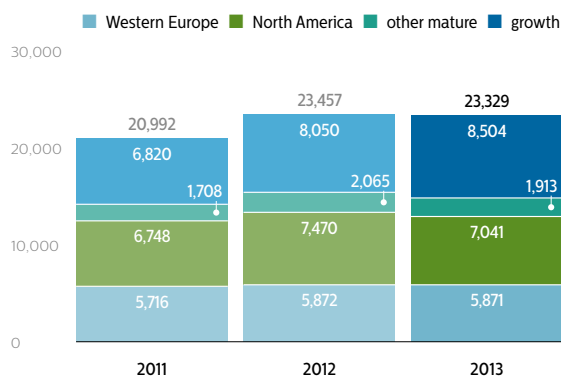
¹⁾ For a reconciliation to the most directly comparable GAAP measures, see chapter 14, Reconciliation of non-GAAP information, of this Annual Report

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

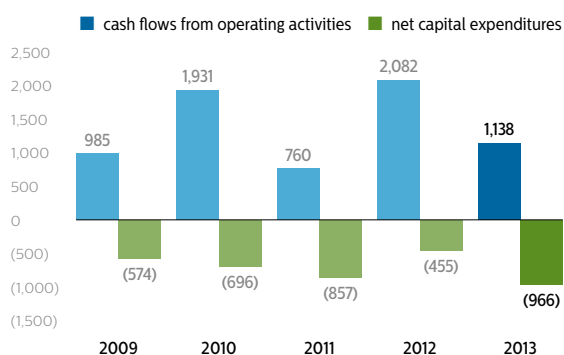


4.1.15 Cash flows provided by continuing operations

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 statements¹⁾

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.

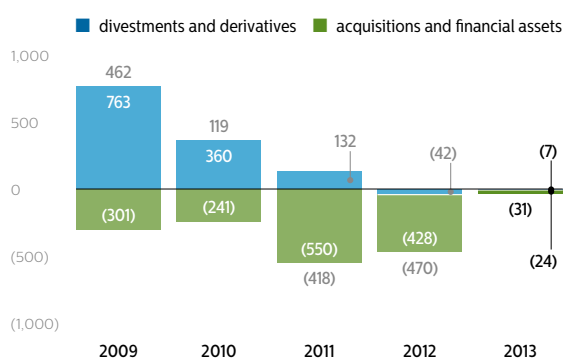
In 2012, cash flows from investing activities resulted in a net outflow of EUR 925 million. This was attributable to EUR 455 million cash used for net capital expenditures, EUR 261 million used for acquisitions, as well as a EUR 167 million outflow for financial assets, mainly due to loans provided to 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 information⁹⁾
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)

⁹⁾ Please refer to section 11.6, Consolidated balance sheets, of this Annual Report

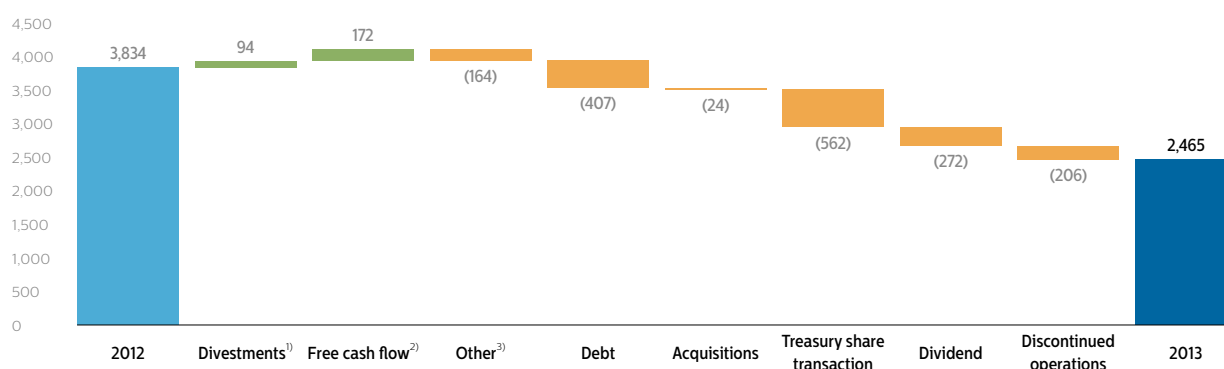
4.1.18 Cash and cash equivalents

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.

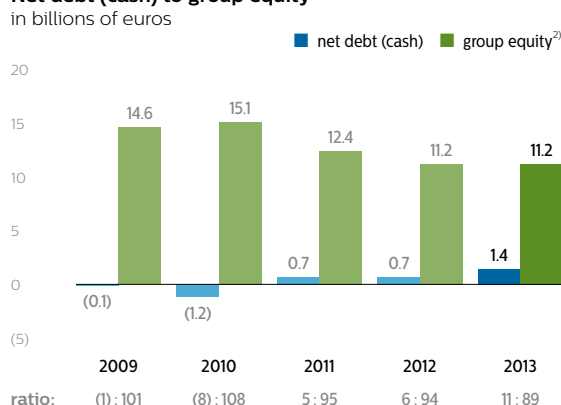
For further information, please refer to note 20, Long-term debt and short-term debt.

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 equity¹⁾

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, 2013in 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 undiscounted²⁾ Long-term debt includes short-term portion of long-term debt and excludes finance lease obligations³⁾ 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 changes⁴⁾ 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

4.2 Social performance

Our businesses provide innovative solutions that address major trends affecting the world – the demand for affordable healthcare, the need for greater energy efficiency and the desire for personal well-being.

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

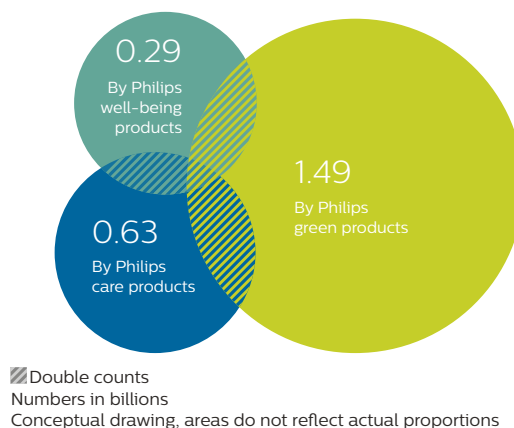
4.2.1 Improving people's lives

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

Through Philips products and solutions that directly support the curative or preventive side of people's health, we improved the lives of 630 million people in 2013, driven by our Healthcare sector. Additionally, our well-being products that help people live a healthy life, and our Green Products that contribute to a healthy ecosystem, improved the lives of 290 million and 1.49 billion people respectively. After the elimination of double counts – people touched multiple times – we arrived at 1.8 billion lives. This is an increase of 100 million compared to our total baseline of 1.7 billion people a year, established in 2012. More information on this metric can be found in chapter 13, Sustainability statements, of this Annual Report.

Lives improved by Philips in 2013

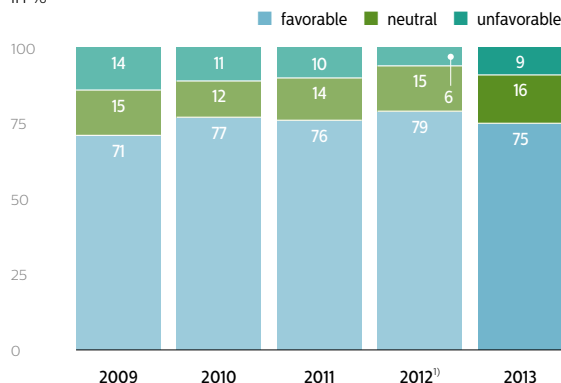
1.8 (double counts eliminated)



4.2.2 Employee engagement

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

Employee Engagement Index in %



¹⁾ Based on 60 pulse surveys conducted in 2012

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

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

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

The survey results indicate the following areas as strengths:

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

There are also improvement areas:

- Making the changes necessary to compete effectively and applying these changes in a consistent manner
- Ability as an organization to fix problems so they don't happen again
- Senior leaders have to do more to ensure we drive collaboration, execution and improvement across organizational boundaries
- Focus on customers must continue to strengthen
- Need to create a diverse workforce and inclusive culture where people of all backgrounds can succeed in Philips

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

4.2.3 Diversity and inclusion

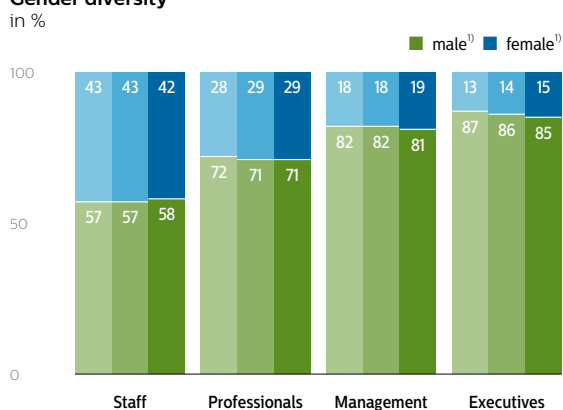
We set measurable objectives for achieving diversity and inclusion within Philips. Measuring performance against defined metrics twice annually, Executive Committee members hold their organizations accountable for progress and review actions and outcomes as part of business reviews.

With the roll-out of a revised Diversity and Inclusion (D&I) strategy and the launch of a new global D&I policy in 2013, Philips has taken major steps to clearly anchor

diversity and inclusion as priorities and to engage all employees and leaders in contributing to an inclusive work environment. This policy prescribes:

- Championing workforce diversity. We embrace unique individuals regardless of race, color, age, gender, gender identity or expression, sexual orientation, language, religion, political or other opinion, disability, national or social origin or birth.
- Valuing diverse perspectives. We leverage the diverse thinking, skills, experience and working styles of everyone in our company.
- Building a flexible organization. We provide opportunities for work arrangements that accommodate the diverse needs of people at different career and life stages.
- Respecting stakeholder diversity. We develop strong and sustainable relationships with diverse stakeholders including customers, communities, governments, suppliers and shareholders.

Gender diversity



¹⁾ Left to right: 2011, 2012 and 2013

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

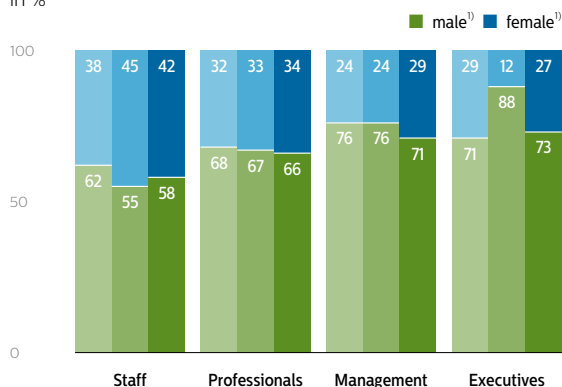
Going forward, driving D&I remains a priority for Philips. While female representation has also increased at professional and management level, Philips has made this an attention point for the coming year as well, recognizing that this is necessary in order to strengthen the leadership pipeline and create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

grade) by 2016 compared to the 2012 baseline. Over the same period, the share of female executives is to increase to 20% of the total executive population.

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

New hire diversity

in %

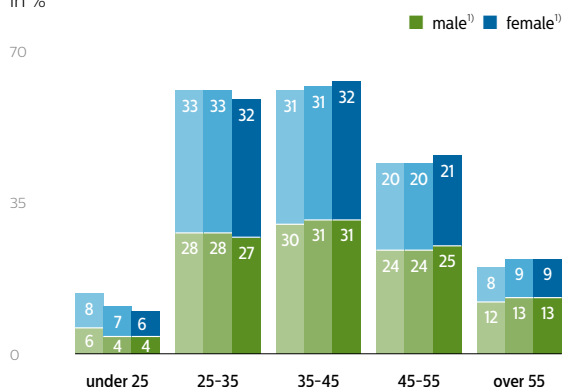


¹⁾ Left to right: 2011, 2012 and 2013

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

Employees per age category

in %



¹⁾ Left to right: 2011, 2012 and 2013

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

Employee turnover

in %

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

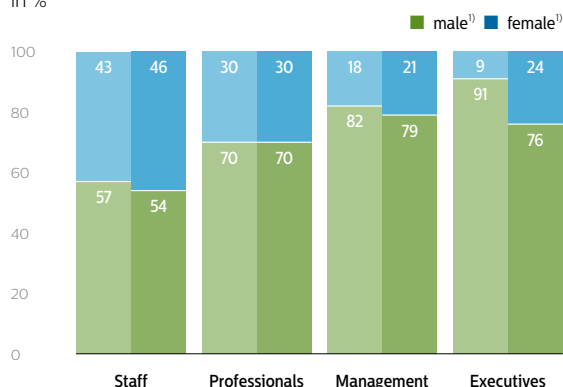
Employee turnover: manufacturing vs non-manufacturing sites

in %

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

Exit diversity

in %



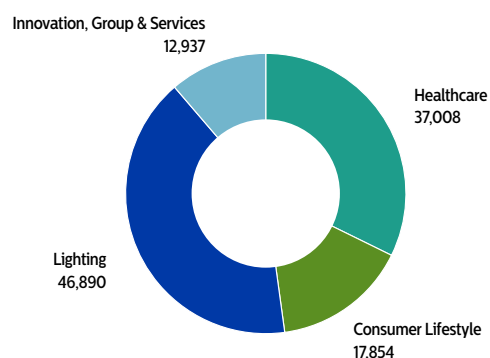
¹⁾ Left to right: 2012 and 2013

4.2.4 Employment

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

Employees per sector 2013

in FTEs at year-end



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

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

Employees per sector in FTEs at year-end

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

Employees per geographic cluster in FTEs at year-end

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

Employment in FTEs

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

4.2.5 Developing our people

Philips' vision statement includes the following affirmation: "We will be the best place to work for people who share our passion. Together we will deliver superior value for our customers and shareholders."

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

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

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

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

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

number of enrollments

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

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

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

Other programs

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

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

Training spend

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

4.2.6 Health and Safety

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

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

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

Lost Workday Injuries

per 100 FTEs

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

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

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

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

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

4.2.7 General Business Principles

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

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

suspected violations of applicable laws or regulations employees are urged to always report these to either their GBP Compliance Officer or the Philips Ethics Line.

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

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

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

Business Integrity Survey

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

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

Ongoing training

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

The mandatory web-based GBP training, which is designed to reinforce awareness of the need for compliance with the GBP, is available in 23 languages. Every quarter, all new hires get an invitation to take this training in their local language. In addition, targeted

audiences have been invited to take a web-based training on specific topics, including anti-bribery, antitrust, privacy and export controls.

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

4.2.8 Stakeholder engagement

In organizing ourselves around customers and markets, we create dialogues with our stakeholders in order to explore common grounds in addressing societal challenges, build partnerships and jointly develop supporting ecosystems for our innovations. Working with partners is crucial in delivering on our vision to make the world healthier and more sustainable through innovation. An overview of stakeholders is provided in chapter 13, Sustainability statements, of this Annual Report.

Strategic Partner of the World Economic Forum

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

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

The Philips Center for Health and Well-being

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

for aging well. As of 2014, the activities of the Center will be merged with our other stakeholder engagement platforms and initiatives across the businesses and markets.

Partnering to improve healthcare in Africa

In November 2013, Philips and AMREF Flying Doctors announced that they will work together in a partnership to structurally improve healthcare infrastructure and provision in Africa. Both parties will leverage their respective strengths to help tackle inadequately equipped medical facilities and inadequately trained staff as a way to better address the growing incidence of non-communicable diseases across the continent. AMREF and Philips will also work with local stakeholders to develop and implement large-scale projects to make healthcare more accessible to the local population.

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

Working on global issues

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

Innovation event

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

4.2.9 Social Investment Programs

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

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

In North America, the [Philips Cares](#) program provides ways for employees to work together to improve people’s lives by creating healthy, sustainable communities that contribute to the success and well-being of future generations. This can take many forms: from helping a child to excel in math, to providing safety and energy efficient home improvements to the disadvantaged, to raising awareness about the importance of cardiac health. In 2013 alone, more than 5,000 employees participated in volunteer opportunities that suited their needs, schedules, and passions in partnerships with organizations such as American heart Association, March of Dimes, and Rebuilding Together.

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

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

4.2.10 Supplier sustainability

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

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

Supplier Sustainability Involvement Program

The Philips Supplier Sustainability Involvement Program is our overarching program to help improve the sustainability performance of our suppliers. We create commitment from our suppliers by requiring them to comply with our Regulated Substances List and

the Philips Supplier Sustainability Declaration, which we include in all purchasing contracts. The Declaration is based on the EICC code of conduct and we added requirements on Freedom of Association and Collective Bargaining. The topics covered in the Declaration are listed below. We monitor supplier compliance with the Declaration through a system of regular audits.

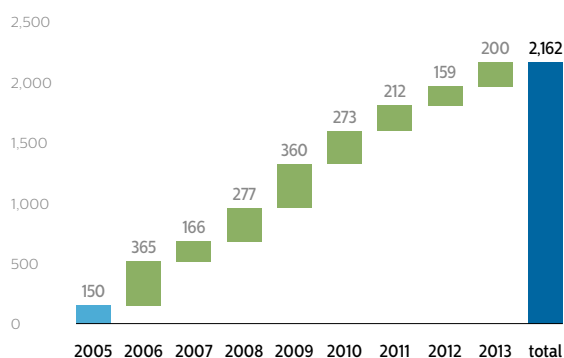
Labor	Health and Safety
<ul style="list-style-type: none"> • Freely Chosen Employment • Child Labor Prohibition • Working Hours • Wages and Benefits • Humane Treatment • Non-Discrimination • Freedom of Association 	<ul style="list-style-type: none"> • Occupational Safety • Emergency Preparedness • Occupational Injury and Illness • Industrial Hygiene • Physically Demanding Work • Machine Safeguarding • Sanitation, Food and Housing
Environmental	Ethics
<ul style="list-style-type: none"> • Environmental Permits and Reporting • Pollution Prevention and Resource Reduction • Hazardous Substances • Wastewater and Solid Waste • Air Emissions • Product Content Restrictions 	<ul style="list-style-type: none"> • Business Integrity • No Improper Advantage • Disclosure of Information • Intellectual Property • Fair Business, Advertising and Competition • Protection of Identity • Responsible Sourcing of Minerals • Privacy • Non-Retaliation
Management system	
<ul style="list-style-type: none"> • Company Commitment • Risk Assessment and Risk Management • Management Accountability and Responsibility • Improvement Objectives • Legal and Customer Requirements 	<ul style="list-style-type: none"> • Training • Communication • Corrective Action Process • Worker Feedback and Participation • Documentation and Records • Audits and Assessments • Supplier Responsibility

2013 supplier audits in risk countries

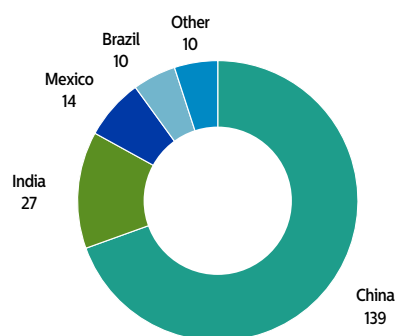
In 2013, Philips conducted 200 full-scope audits, including four joint audits conducted on behalf of Philips and other EICC member companies. Additionally, 59 audits of potential suppliers were performed. Potential suppliers are audited as part of the supplier approval process, and they need to close any zero-tolerance issues before they can start delivering to Philips. In our new audit approach, we place more focus on capacity building programs to realize structural improvements leading to better audit results.

As in previous years, the majority of the audits in 2013 were done in China. The total number of full-scope audits carried out since we started the program in 2005 is 2,162. This number includes repeated audits (131 in 2013), since we execute a full-scope audit at our risk suppliers every three years. The audit program covers 90% of our spend with risk suppliers.

Accumulative number of initial and continual conformance audits



Distribution of supplier audits by country



Audit findings

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

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

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

Supplier development and capacity building

Based on many years of experience with the audit program, we know that a combination of audits, capacity building, consequence management and structural attention from management is crucial to realize structural and lasting changes at supplier production sites. In 2013 we continued our focus on capacity building initiatives which are offered to help suppliers improve their practices. Our supplier sustainability experts in China, India and Brazil organized trainings, visited suppliers for on-site consultancy, conducted pre-audit checks and helped suppliers to train their own employees on topics like occupational health and safety, emergency preparedness and chemicals management.

We also teamed up with peers in the industry and civil society organizations to work on capacity building at Chinese factories via the [IDH Electronics Program](#), an innovative multi-stakeholder initiative sponsored by the Sustainable Trade Initiative (Initiatief Duurzame Handel). The goal is to improve working conditions for more than 500,000 employees in the electronics sector. Two years ago the program was kicked-off in China's Pearl River Delta, and now expanded to also cover supplier factories in the Yangtze River Delta area. A total of 15 Philips suppliers are now participating in the program.

4.2.11 Conflict minerals: issues further down the chain

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

Although this region has a rich supply of minerals, its economy has collapsed due to decades of ongoing conflict. In an effort to prevent minerals from financing war, many companies worldwide have shied away from purchasing minerals from the DRC, creating a de facto embargo in a region where mining is often the only source of income for local communities. We decided that this was not the right approach and instead of avoiding the DRC, we took the more difficult road, supporting conflict-free sourcing from the DRC. To promote cooperation and economic growth in the

region outside the control of the rebels, we launched the [Conflict-Free Tin Initiative](#). This initiative introduces a tightly controlled conflict-free supply chain of tin from a mine in the DRC all the way down to an end-product. Philips is one of the industry partners brought together by the Dutch government that initiated the program in 2012. To underline our commitment to conflict-free sourcing, we joined a delegation in February 2013 to visit the mine and engage with different local stakeholders in the DRC. At the end of 2013 we reached an important milestone when the first end-user products containing this conflict-free tin were made in our Philips Lighting factory.

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

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

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

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

4.3 Environmental performance

EcoVision

Philips has a long sustainability history stretching all the way back to our founding fathers. In 1994 we launched our first program and set sustainability targets for our own operations. Next we launched our first EcoVision program in 1998 which focused on operations and products. We also started to focus on sustainability in our supply chain in 2003. We extended our scope further in 2010 by including the social dimension of products and solutions, which is now reflected in our renewed company vision stating that we strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025.

The main elements of the EcoVision program are:

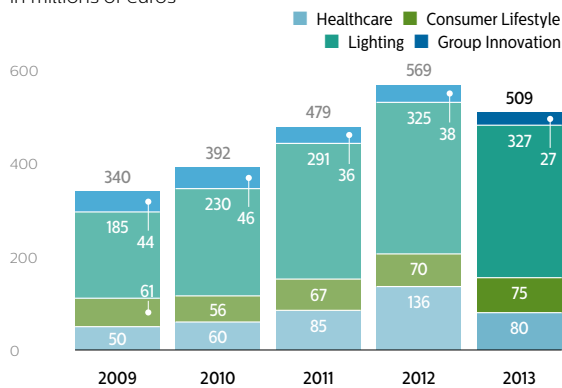
- Improving people's lives
- Green Product sales
- Green Innovation, including Circular Economy
- Green Operations
- Health & Safety
- Supplier Sustainability

In this environmental performance section an overview is given of the most important environmental parameters of the program. Improving people's lives, Health & Safety, and Supplier Sustainability are addressed in the Social performance section. Details of the EcoVision parameters can be found in the chapter 13, Sustainability statements, of this Annual Report.

4.3.1 Green Innovation

Green Innovation is the Research & Development spend related to the development of new generations of Green Products and Green Technologies. We announced in 2010 our plan to invest a cumulative EUR 2 billion in Green Innovation during the coming 5 years. In 2013 Philips invested some EUR 509 million in Green Innovation, with the strongest contribution from Lighting mainly stemming from investments in LED.

Green Innovation per sector
in millions of euros



Healthcare

Philips Healthcare develops innovative solutions across the continuum of care in collaborating with clinicians and customers to improve patient outcomes, provide better value, and expand access to care. While doing so, we take into account all Green Focal Areas and aim to reduce environmental impact over the total lifecycle, with a focus on energy efficiency and dose reduction. Healthcare investments in Green Innovation in 2013 amounted to EUR 80 million, a significant decrease compared with 2012. This can be attributed to a number of significant Healthcare projects which were completed in 2012. Other areas covered include increased levels of recycled content in our products, remote servicing and closing the materials loop, e.g. through upgrading strategies, parts harvesting and refurbishing programs as well as reducing environmentally relevant substances from our products. Philips Healthcare actively supports a voluntary industry initiative (COCIR) for improving the energy efficiency of imaging equipment. Moreover, we are actively partnering with care providers to look together for innovative ways to reduce the environmental impact of healthcare, for example by optimizing energy efficient use of medical equipment.

Consumer Lifestyle

Green Innovation at Consumer Lifestyle amounted to EUR 75 million compared to EUR 70 million in 2012 and resulted in an increase in Green Product sales in all Business Groups. The sector continued its work on improving the energy efficiency of its products, closing the materials loop (e.g. by using recycled materials in products and packaging) and the voluntary phase-out of polyvinyl chloride (PVC), brominated flame retardants (BFR) and Bisphenol A (BPA) from food contact products. In particular, more than 80% of the shaving and grooming products are completely PVC/BFR-free.

Lighting

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

Philips Group Innovation

Philips Group Innovation invested EUR 27 million in Green Innovations, spread over projects focused on global challenges related to water, air, waste, energy, food and access to affordable healthcare. Group Innovation deployed the Sustainable Innovations Assessment tool in which innovation projects are mapped, categorized and scored along the environmental and social dimension to identify those innovation projects that drive sustainable innovation. One example of a Group Innovation project is related to low cost solar-powered LED lighting.

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

Energy efficiency of products

Energy efficiency is a key Green Focal Area for our Green Products. About 97% of the energy consumed during the use phase of our products is attributable to Lighting products, according to our analysis. The remaining 3% is split over Consumer Lifestyle and Healthcare. Therefore, we focus on the energy efficiency of our Lighting products in the calculation. The annual energy consumption per product category is calculated by multiplying the power consumption of a product by the average annual operating hours and the annual pieces sold and then dividing the light output (lumens) by the energy consumed (watts). The average energy efficiency of our total product portfolio improved some 2% in 2013 (19% compared to 2009).

In 2013 LED sales continued to advance well, but demand for conventional lighting remained fairly stable due to the challenging economic environment. Since the number of traditional lamps sold is significantly higher than LEDs, the energy efficiency improvement of the total Lighting portfolio in 2013 was limited. As the traditional incandescent lamp will be banned in more countries, we expect the energy efficiency improvement to advance in the coming years. Our target for 2015 is a 50% improvement compared to the 2009 baseline. In this target setting, assumptions were made on the speed of the regulatory developments in this area, which stayed behind expectations. Therefore, in 2015 the target of 50% improvement will probably not yet be achieved. Further details on this parameter and the methodology can be found in the document 'Energy efficiency of Philips products' at www.philips.com/sustainability.

Circular economy

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

In 2013, Philips started its circular economy approach. Key characteristics are customer access over ownership (pay for performance e.g. pay per lux or pay per scan), business model innovations (from transactions to relationships via service and solution models), reverse cycles (including partners outside

current value chains e.g. upstream-downstream integration and co-creation) and logistics, innovations for material-, component-, and product reuse, products designed for disassembly and serviceability. In 2013, Philips became a global partner of the Ellen McArthur Foundation, the leading organization on the concept of circular economy.

Closing the material loop

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

Recycled materials

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

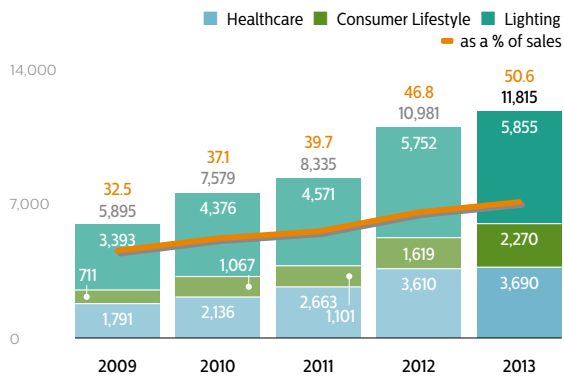
Our target is to double the global collection and recycling and the amount of recycled materials in our products by 2015 compared to 2009. Further details on this parameter and the methodology can be found in the document 'Closing the material loop' at www.philips.com/sustainability.

4.3.2 Green Product sales

Green Products offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Recycling and disposal and Lifetime reliability. Sales from Green Products increased from EUR 11.0 billion in 2012 to EUR 11.8 billion in 2013, or 51% of sales, thereby reaching the target of 50% we set ourselves for 2015.

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

Green Product sales per sector
in millions of euros



New Green Products from each sector include the following examples.

Healthcare

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

Consumer Lifestyle

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

Lighting

An example of a new Green Product introduced in 2013 is the Pacific LED Green Parking system covered parking solution. It ensures safety, whilst offering outstanding energy savings, low maintenance and long lifetimes. Through a mix of LED luminaires, wireless

controls and presence detection, it can save up to 80% in running costs whilst typically delivering back the return on investment in under 3 years. As the solution is wireless, it is an easy retrofit solution that will match the lumen output of traditional fluorescents.

We aim to create products that have significantly less impact on the environment during their whole lifecycle through our EcoDesign process. Overall, the most significant improvements have been realized in our energy efficiency Green Focal Area, an important objective of our EcoVision program, although there was also growing attention for hazardous substances and recyclability in all sectors in 2013, the latter driven by our Circular Economy initiatives.

4.3.3 Green Operations

The Green Operations program focuses on the main contributors to climate change, recycling of waste, reduction of water consumption and reduction of emissions of restricted and hazardous substances.

Full details, can be found in chapter 13, Sustainability statements, of this Annual Report.

Carbon footprint and energy efficiency

After achieving our EcoVision4 carbon emissions reduction target in 2012 (25% operational CO₂ emissions reduction compared to 2007, the baseline year) we continued our energy efficiency improvement programs across different disciplines in 2013. Examples are Work Place Innovation, partnering in the KLM BioFuel program and Green Logistics. However, in 2013 our Carbon Footprint increased by 2% to 1,654 kilotonnes CO₂ as a result of increased carbon emissions from air transport (to mitigate supply shortages), the increased use of SF₆ (a substance with high Global Warming Potential impact) and increased business travel due to our increasing focus on emerging markets. These were, however, partly offset by decreasing emissions resulting from reduced office space (Work Place Innovation), consolidation of warehouses, the changing industrial footprint, and the increase in purchased electricity from renewable sources.

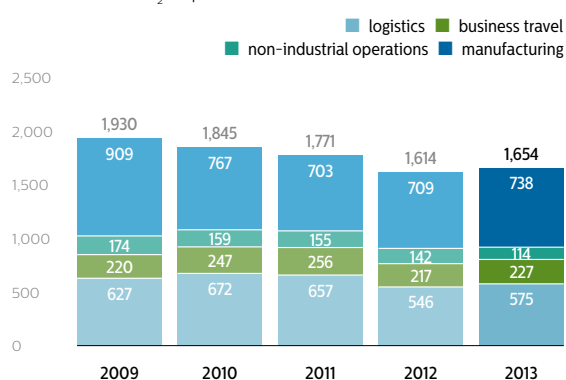
In 2013, CO₂ emissions from non-industrial sites decreased 20%, in large part attributable to our Work Place Innovation program which enables flex-working and thus reduces the floor space in our portfolio. But also our continuing focus on buildings' energy efficiency and the increased share of purchased electricity from renewable sources have helped achieve this.

After a decrease in 2012, total emissions from business travel increased 5% in 2013 as reduced emissions from our lease car fleet were off-set by increased air travel. We continue to promote video conferencing as an alternative to travel. In 2013, logistics CO₂ emissions increased 5% in comparison with 2012. These were mainly caused by increased air shipments to mitigate supply shortages in our Lighting sector.

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

Operational carbon footprint

in kilotonnes CO₂-equivalent



Ratios relating to carbon emissions and energy use

	2009	2010	2011	2012	2013
Operational CO ₂ emissions in kilotonnes CO ₂ -equivalent	1,930	1,845	1,771	1,614	1,654
Operational CO ₂ efficiency in tonnes CO ₂ -equivalent per million euro sales	83	73	70	65	71
Operational energy use in terajoules	31,145	32,766	31,402	28,405	28,162
Operational energy efficiency in terajoules per million euro sales	1.34	1.29	1.24	1.15	1.21

Operational carbon footprint by Greenhouse Gas Protocol scopes

in kilotonnes CO₂-equivalent

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

Water

Total water intake in 2013 was 5.0 million m³, about 4% higher than in 2012. This increase was mainly due to a new acquisition in China that started to report in 2013, which accounted for 6% of group water consumption in 2013 as well as increased water use at two Lighting Lumileds sites, mitigated by water conservation activities across all sectors.

Lighting represents around 79% of total water usage. In this sector, water is used in manufacturing as well as for domestic purpose. The other sectors use water mainly for domestic purposes.

Water intake

in thousands m³

	2009	2010	2011	2012	2013
Healthcare	363	256	308	421	454
Consumer Lifestyle	315	351	338	303	586
Lighting	3,531	3,604	3,682	4,133	4,004
Innovation, Group & Services	7	7	-	-	-
Philips Group	4,216	4,218	4,328	4,857	5,044

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

Waste

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

Total waste

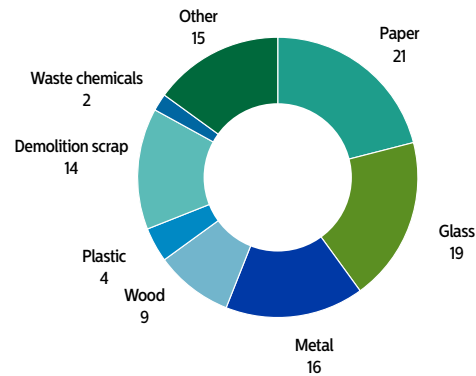
in kilotonnes

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

Total waste consists of waste that is delivered for landfill, incineration or recycling. Materials delivered for recycling via an external contractor comprised 74 kilotonnes, which equated to 81%, an improvement compared to 77% in 2012, as our manufacturing sites

implemented recycling programs. Of the remaining waste, 14% comprised non-hazardous waste and 5% hazardous waste.

Industrial waste delivered for recycling
in %



Emissions

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

Restricted and hazardous substances
in kilos

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

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

4.4 Proposed distribution to shareholders

Pursuant to article 34 of the articles of association of Royal Philips, a dividend will first be declared on preference shares out of net income. The remainder of the net income, after reservations made with the approval of the Supervisory Board, shall be available for distribution to holders of common shares subject to shareholder approval after year-end. As of December 31, 2013, the issued share capital consists only of common shares; no preference shares have been issued. Article 33 of the articles of association of Royal Philips gives the Board of Management the power to determine what portion of the net income shall be retained by way of reserve, subject to the approval of the Supervisory Board.

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

Shareholders will be given the opportunity to make their choice between cash and shares between May 8, 2014 and May 30, 2014. If no choice is made during this election period the dividend will be paid in shares. On May 30, 2014 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume weighted average price of all traded common shares Koninklijke Philips N.V. at NYSE Euronext Amsterdam on 28, 29 and 30 May 2014. The Company will calculate the number of share dividend rights entitled to one new common share (the 'ratio'), such that the gross dividend in shares will be approximately equal to the gross dividend in cash. On June 3, 2014 the ratio and the number of shares to be issued will be announced. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 4, 2014. The distribution of dividend in cash to holders of New York registry shares will be made in USD at the USD/EUR rate fixed by the European Central Bank on June 2, 2014.

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

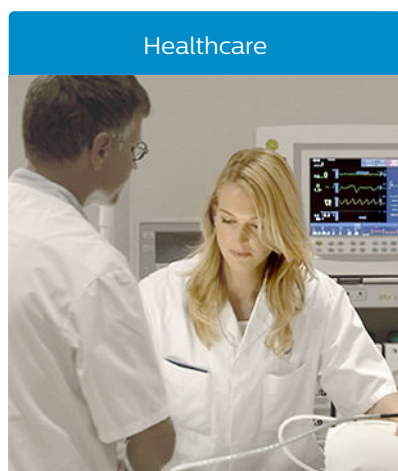
In 2013, a dividend of EUR 0.75 per common share was paid in cash or shares, at the option of the shareholder. Approximately 59.8% elected for a share dividend resulting in the issue of 18,491,337 new common shares, leading to a 2.1% percent dilution. EUR 271,991,204 was paid in cash. For additional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

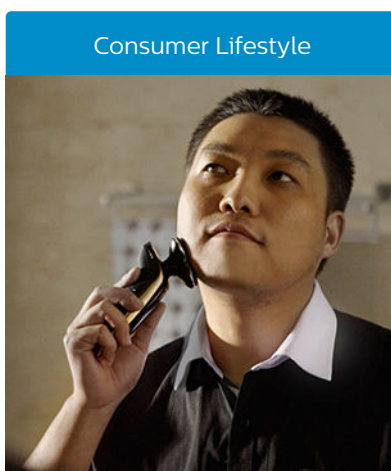
Achieving the 2013 financial targets was an important milestone and we have now set our sights on reaching our 2016 targets. We are confident in our ability to further improve our performance by continuing the strong focus on our Accelerate! transformation program. Looking at 2014, we remain cautious 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



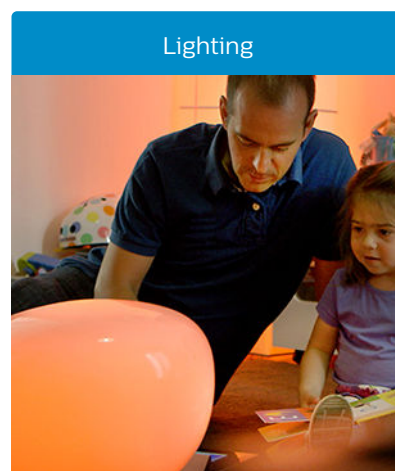
Healthcare

- 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

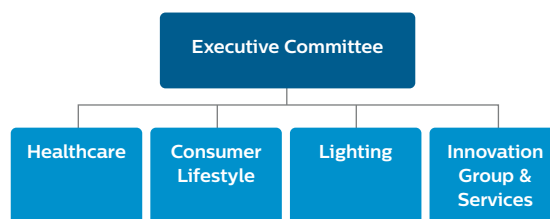
Koninklijke Philips N.V. (the 'Company') is the parent company of the Philips Group ('Philips' or the 'Group'). The Company is managed by the members of the Board of Management and Executive Committee under the supervision of the Supervisory Board. The Executive Committee operates under the chairmanship 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.

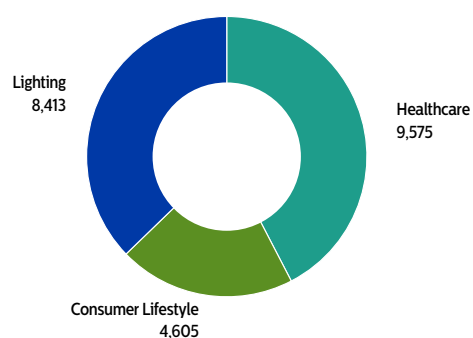
Sales, EBIT and EBITA 2013

in millions of euros unless otherwise stated

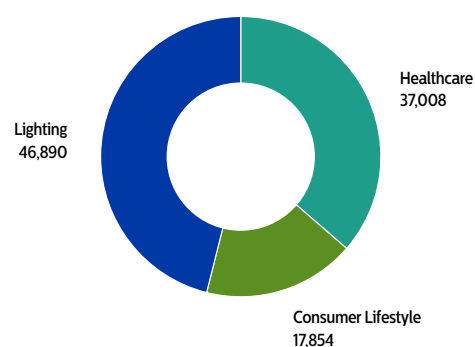
	sales	EBIT	%	EBITA ¹⁾	%
Healthcare	9,575	1,315	13.7	1,512	15.8
Consumer Lifestyle	4,605	429	9.3	483	10.5
Lighting	8,413	489	5.8	695	8.3
Innovation, Group & Services	736	(242)	–	(239)	–
Philips Group	23,329	1,991	8.5	2,451	10.5

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**

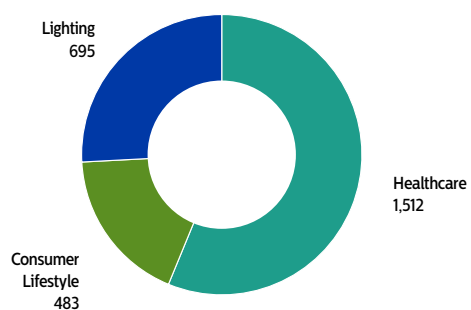
in millions of euros

**Employees per operating sector 2013**

in FTEs at year-end

**EBITA per operating sector 2013¹⁾**

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*:

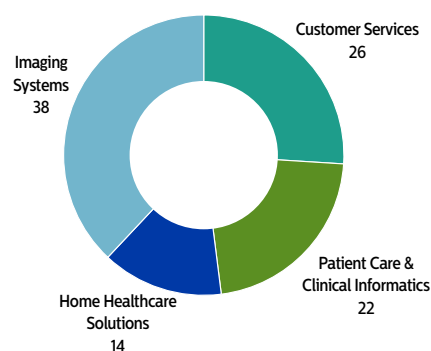
- **Imaging Systems:** Integrated clinical solutions that include radiation oncology, clinical applications and platforms, and portfolio management; advanced diagnostic imaging, including computed tomography

(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.

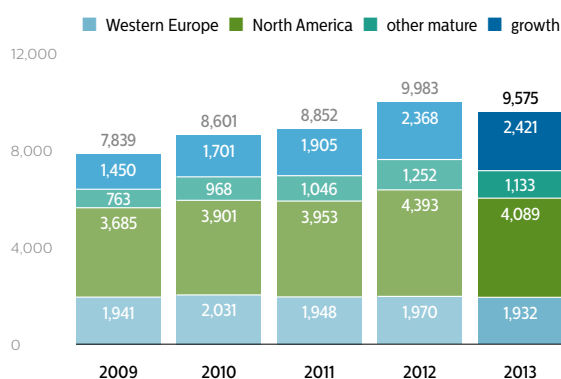
EBIT amounted to EUR 1,315 million, or 13.7% of sales, and included EUR 197 million of charges related to intangible assets.

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.

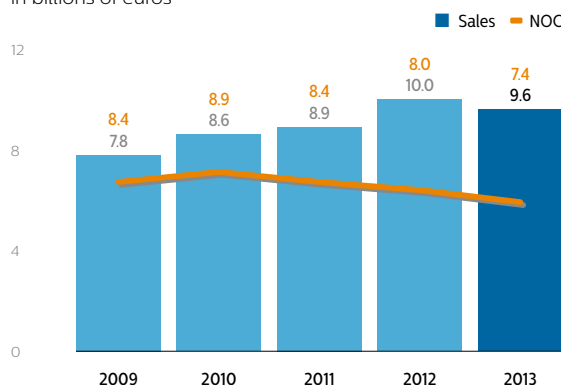
Sales per geographic cluster

in millions of euros

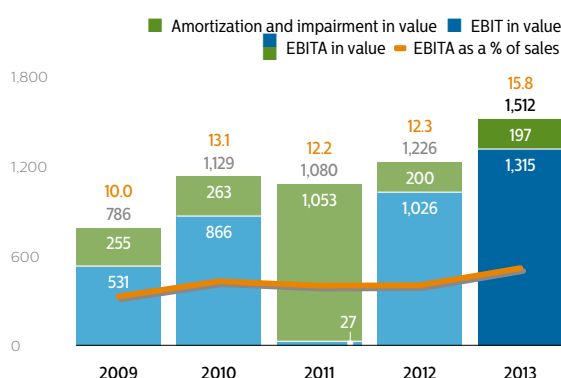


Sales and net operating capital

in billions of euros

EBIT and EBITA¹⁾

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.

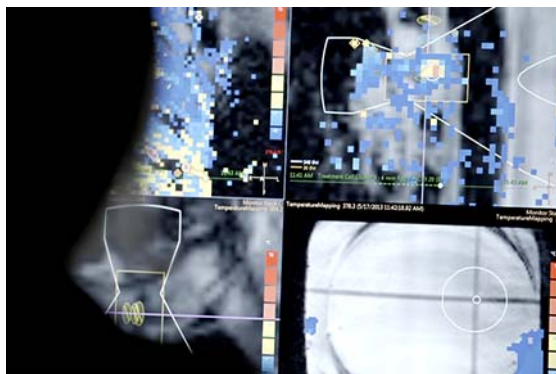
5.1.6 Delivering innovation that matters to you



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.

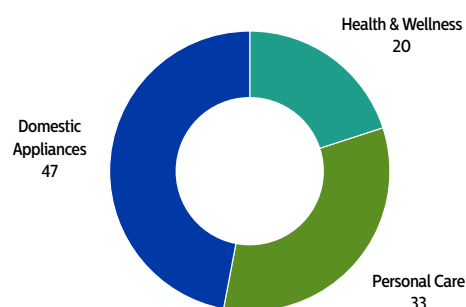
Our end-to-end approach is accelerating our specialist capability development in mature markets, to enable effective partnerships with customers and consumers, and in growth geographies, to enable development of go-to-market strategies. Additionally, an extensive change program has instilled an organizational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

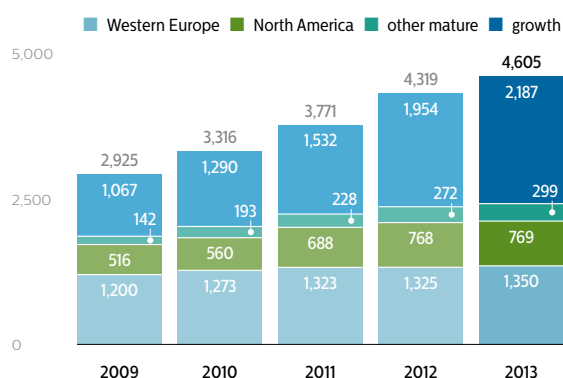
EBIT amounted to EUR 429 million, or 9.3% of sales, which included EUR 54 million of amortization charges, mainly related to intangible assets at Health & Wellness and Domestic Appliances.

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.

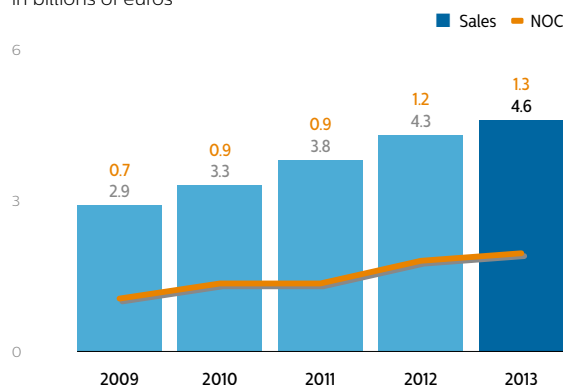
Sales per geographic cluster

in millions of euros



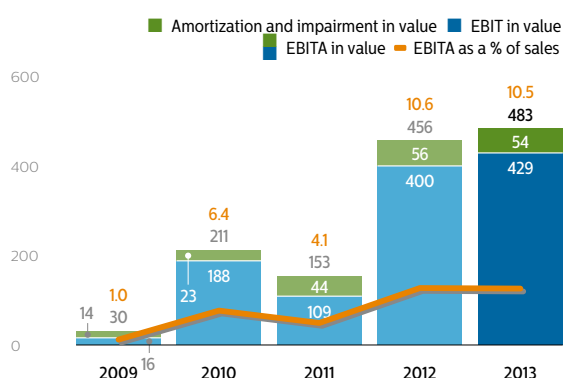
Sales and net operating capital

in billions of euros



EBIT and EBITA¹⁾

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 CO₂-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

dweller. 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.

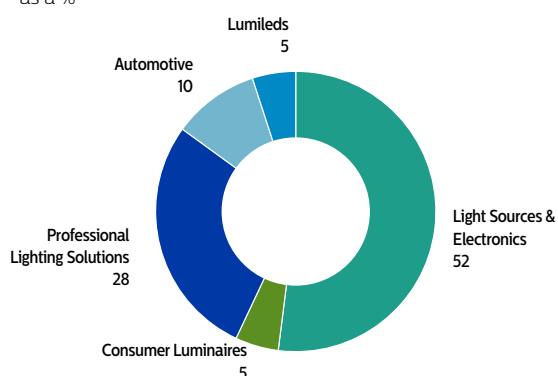
Under normal economic conditions, Lighting's sales are generally not materially affected by seasonality.

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.

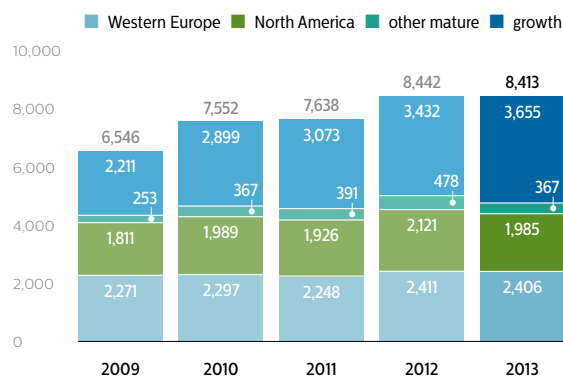
EBIT amounted to EUR 489 million, or 5.8% of sales, which included EUR 180 million of amortization charges, mainly related to intangible assets at Professional Lighting Solutions, and an impairment of EUR 32 million related to customer relationships at Consumer Luminaires. Additionally, a goodwill impairment 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.

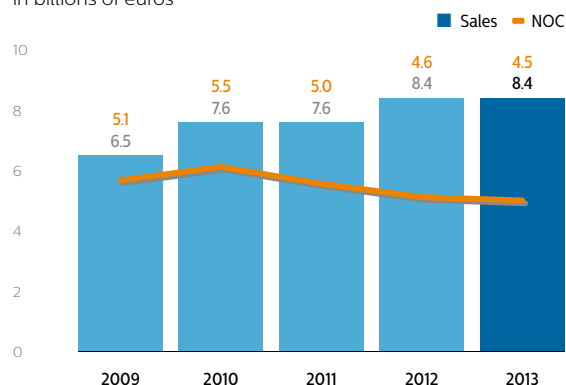
Sales per geographic cluster

in millions of euros



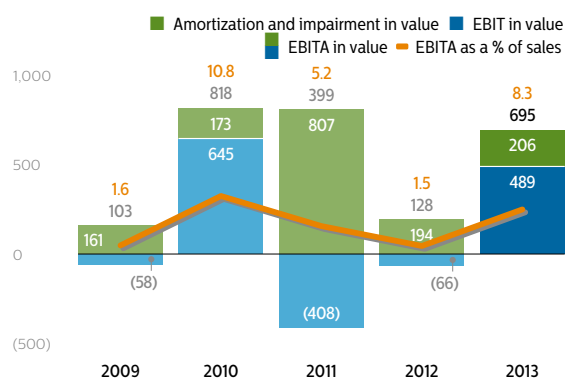
Sales and net operating capital

in billions of euros



EBIT and EBITA[¶]

in millions of euros



[¶] 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.

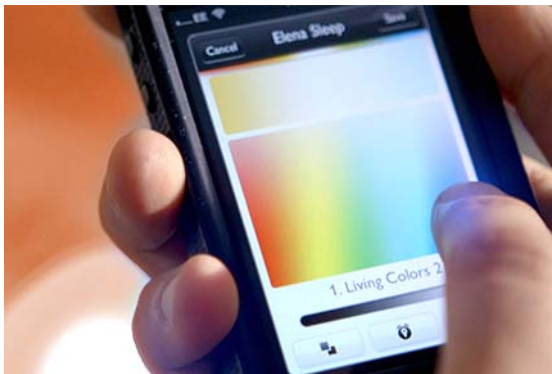
5.3.6 Delivering innovation that matters to you



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.

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

Eric Coutinho

Executive Vice President, General Secretary & Chief Legal Officer

Corporate responsibilities: Legal, General Business Principles

Born 1951, Dutch

Ronald de Jong

Executive Vice President & Chief Market Leader

Corporate responsibilities: Markets, Areas & Countries (except Greater China), Accelerate! – Customer Centricity

Born 1967, Dutch

Pieter Nota

Executive Vice President & Chief Executive Officer of Philips Consumer Lifestyle

Member of the Board of Management since April 2011

Corporate responsibilities: Sector Consumer Lifestyle, Accelerate! – Resource to Win

Born 1964, Dutch

Carole Wainaina

Executive Vice President & Chief Human Resources Officer

Corporate responsibilities: Human Resource Management, Accelerate! – Culture and change management

Born 1966, Kenyan

Jim Andrew

Executive Vice President & Chief Strategy and Innovation Officer

Corporate responsibilities: Strategy, Innovation, Design, Sustainability

Born 1962, American

Deborah DiSanzo

Executive Vice President & Chief Executive Officer of Philips Healthcare

Corporate responsibilities: Sector Healthcare

Born 1960, American

Patrick Kung

Executive Vice President & Chief Executive Officer Philips Greater China

Corporate responsibilities: Philips Greater China

Born 1951, American

Eric Rondolat

Executive Vice President & Chief Executive Officer Philips Lighting

Corporate responsibilities: Sector Lighting

Born 1966, Italian/French

Ron Wirahadiraksa

Executive Vice President & Chief Financial Officer (CFO)

Member of the Board of Management since April 2011

Corporate responsibilities: Finance, Mergers & Acquisitions, Accelerate! – Operating Model

Born 1960, Dutch



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. Hoffmann-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

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.

CO₂-equivalent

CO₂-equivalent or carbon dioxide equivalent is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO₂ 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 CO₂-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.

SF₆

SF₆ (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.

