

The Philips logo is displayed in a white rounded rectangle on a dark blue background. The word "PHILIPS" is written in a bold, blue, sans-serif font.

Annual Report
2014

Employee highlights

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 2014. The information in this PDF has been derived from the audited financial statements 2014 of Koninklijke Philips N.V. KPMG has issued unqualified auditors' reports on these financial statements.

A photograph of a surgical team in an operating room. Two surgeons in blue scrubs and masks are working on a patient. A large Philips robotic arm is positioned over the patient. Multiple monitors on the right display medical data, including an ECG and anatomical images. The room is lit with blue light.

Innovating for a
healthier, more
sustainable world

Contents

Grey text indicates parts not included in this selection from the Philips Annual Report 2014.

Significant developments

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

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

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

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

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

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

Further updates will be provided in the course of 2015.

IFRS basis of presentation

The financial information included in this document is based on IFRS, as explained in the note 1, Significant accounting policies, unless otherwise indicated.

Forward-looking statements and other information

Please refer to chapter 19, 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).

1 Performance highlights	3
2 Message from the CEO	5
3 Philips in 2014 at a glance	8
4 Our strategic focus	9
4.1 Addressing global challenges	9
4.2 How we create value	11
4.3 Accelerate! journey continues	13
4.4 Lives improved	14
4.5 Global presence	14
4.6 Our strategy in action	15
5 Group performance	20
5.1 Financial performance	20
5.2 Social performance	31
5.3 Environmental performance	37
5.4 Proposed distribution to shareholders	42
5.5 Outlook	42
6 Sector performance	43
6.1 Healthcare	44
6.2 Consumer Lifestyle	50
6.3 Lighting	55
6.4 Innovation, Group & Services	61
7 Risk management	-
8 Management	66
9 Supervisory Board	68
10 Supervisory Board report	-
11 Corporate governance	-
12 Group financial statements	-
13 Company financial statements	-
14 Sustainability statements	-
15 Reconciliation of non-GAAP information	-
16 Five-year overview	-
17 Investor Relations	-
18 Definitions and abbreviations	70
19 Forward-looking statements and other information	72

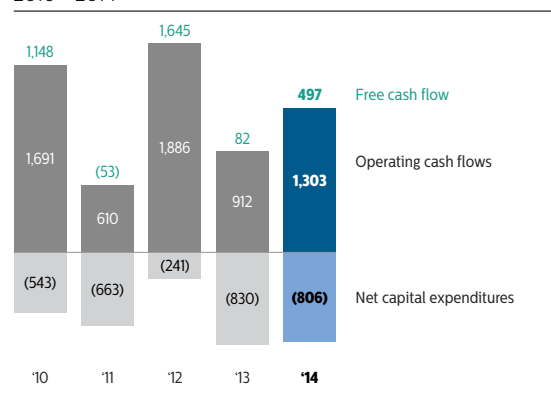
1 Performance highlights

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

Philips Group
Key data in millions of EUR unless otherwise stated
2013 - 2014

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

Philips Group
Free cash flow in millions of EUR
2010 - 2014

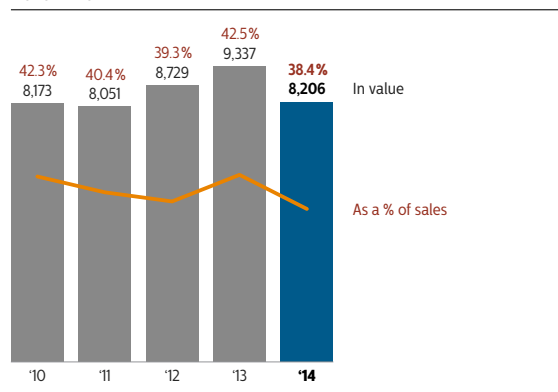


Performance in millions of EUR unless otherwise stated
2013 - 2014

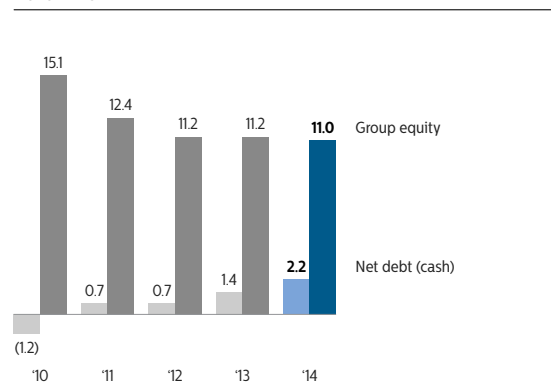
	Group			Healthcare		Consumer Lifestyle			Lighting			
	2013	2014		2013	2014	2013	2014		2013	2014		
Sales	21,990	21,391	3% ▼	9,575	9,186	4% ▼	4,605	4,731	3% ▲	7,145	6,869	4% ▼
Green Product sales	10,997	11,065	1% ▲	3,690	3,508	4% ▼	2,270	2,605	15% ▲	5,037	4,952	2% ▼
Sales in mature geographies ¹⁾	14,322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

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

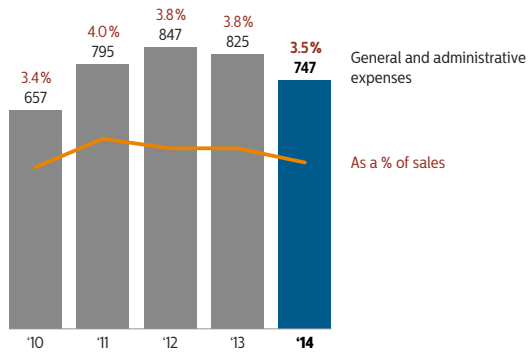
Philips Group
Gross margin in millions of EUR
2010 - 2014



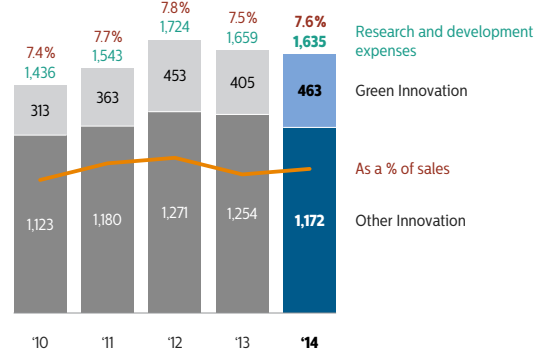
Philips Group
Net debt (cash) to group equity in billions of EUR
2010 - 2014



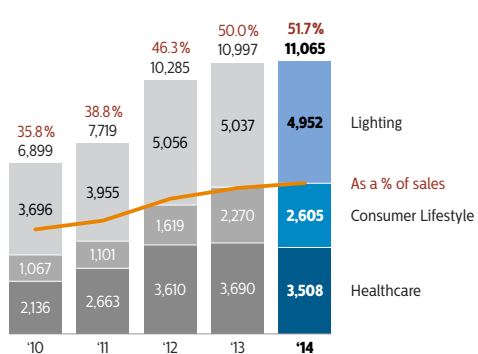
Philips Group
General and administrative expenses in millions of EUR
 2010 - 2014



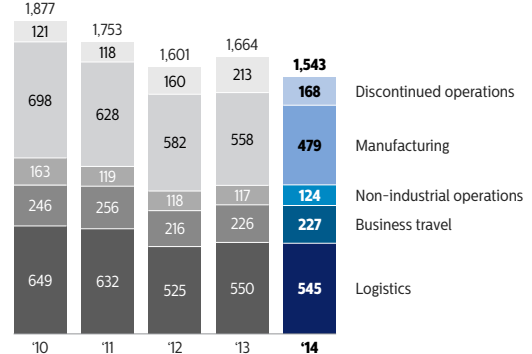
Philips Group
Research and development expenses in millions of EUR
 2010 - 2014



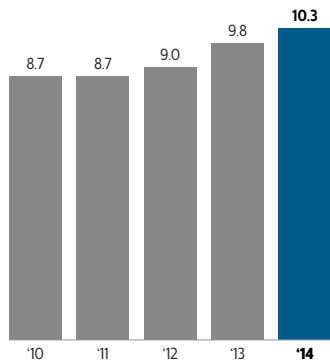
Philips Group
Green Product sales per sector in millions of EUR
 2010 - 2014



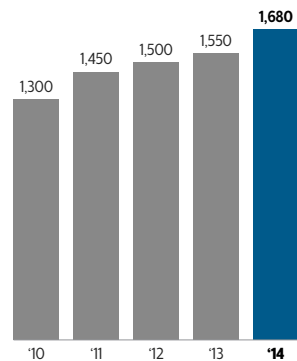
Philips Group
Operational carbon footprint in kilotonnes CO₂-equivalent
 2010 - 2014



Philips Group
Brand value¹⁾ in billions of USD
 2010 - 2014



Philips Group
New patents filed in number of patents
 2010 - 2014



¹⁾ As measured by Interbrand

2 Message from the CEO



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

Dear stakeholder,

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

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

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

The convergence of our consumer technologies that facilitate healthy living, our medical technologies that help clinicians to deliver better treatment, and our

mobile and cloud-based technologies that allow data sharing will help health care systems to improve patient outcomes, quality of care delivery and cost productivity.

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

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

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

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

Performance in 2014 - a challenging year

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

Sales were 1% lower on a comparable basis, reflecting sustained softness in a number of markets, including China and Russia, and the voluntary temporary suspension of production at our Cleveland facility. These factors – compounded by currency effects and the delayed ramp-up of production and shipment from our Cleveland facility – also impacted profitability, resulting in reported EBITA of 3.8% of sales.

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

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

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

Supported by Accelerate!

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

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

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

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

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

Other key developments in 2014

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

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

We continued to deliver on our EcoVision commitments in 2014, and our sustainability drive again received widespread recognition – a #14 ranking in Interbrand's

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

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

An exciting future

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

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

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

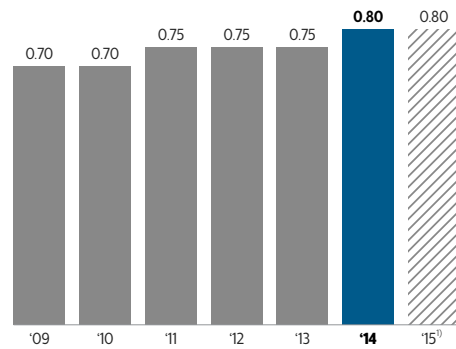
In order to drive growth, we have encouraged locally relevant innovation, invested in developing business with governments, boosted our advertising and promotion investments, and started new business creation in areas such as Healthcare Informatics, Solutions & Services, Healthcare Transformation Services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

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

In conclusion

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

Philips Group
Dividend per common share in EUR
 2009-2015



¹⁾ Subject to approval by the 2015 Annual General Meeting of Shareholders

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

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

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

Frans van Houten
 Chief Executive Officer

3 Philips in 2014 at a glance

100
years



January 9

Centenary of Philips Research improving people's lives through innovation

February 4

Available in over 100 countries, the Airfryer is now a truly global proposition

March 3

Grand total of 47 prestigious awards at 2014 iF design awards

March 17

Joint venture to create leading lighting player in Saudi Arabia



March 20

Establishment of Innovation Hub in Kenya underlines commitment to Africa

April 14

Red Dot Awards jury acknowledges Philips' design leadership

May 27

Health care partnership with Stockholm County Council and Karolinska University Hospital

June 24

Philips a top riser in Interbrand sustainability ranking



June 26

Strategic alliance with Salesforce to deliver cloud-based health care information technology

June 30

Lumileds and Automotive Lighting to be combined in stand-alone company

July 1

Philips becomes official lighting partner of FC Bayern Munich

September 23

Plan to establish two separate companies in HealthTech and Lighting Solutions

USD 10
billion+



October 9

Brand value reaches a record high in Interbrand ranking

October 15

15-year partnership with Reinier de Graaf hospital to enhance future patient care

October 30

Philips jumps 20 places in Boston Consulting Group's innovation ranking

November 13

Philips opens new imaging systems refurbishment facility in the Netherlands



November 17

Philips Lighting named European Frost & Sullivan Lighting Company of the year

November 29

Philips presented with Best in KLAS award for 2014, based on customer feedback, at RSNA

December 17

Announcement of planned acquisition of Volcano to expand leadership in image-guided therapy

December 19

Philips to upgrade Madrid's entire street lighting system with 225,000 connected, energy-efficient lights

4 Our strategic focus

4.1 Addressing global challenges

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

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

Market opportunities

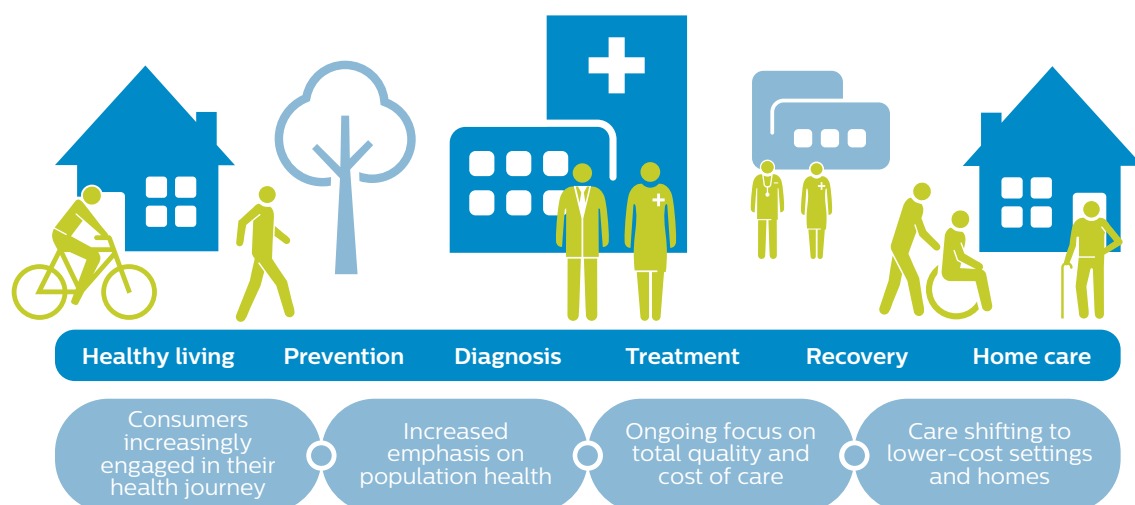
With our understanding of many of the longer-term challenges our world faces, we see major opportunities to apply our innovative competencies and create value for our stakeholders by delivering technology solutions that improve people's lives more effectively.

We see a growing need for integrated health care delivery

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

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

Health continuum model





We see increasing demand for energy-efficient and digital lighting

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

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

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

Lighting mega-trends



More light



More energy-efficient light



Digital light

4.2 How we create value

Understanding and meeting people’s needs

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

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

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

Our business system

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

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

Our mission

To improve people’s lives through meaningful innovation

Our vision

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



Group strategy

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

CAPs

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

Excellence

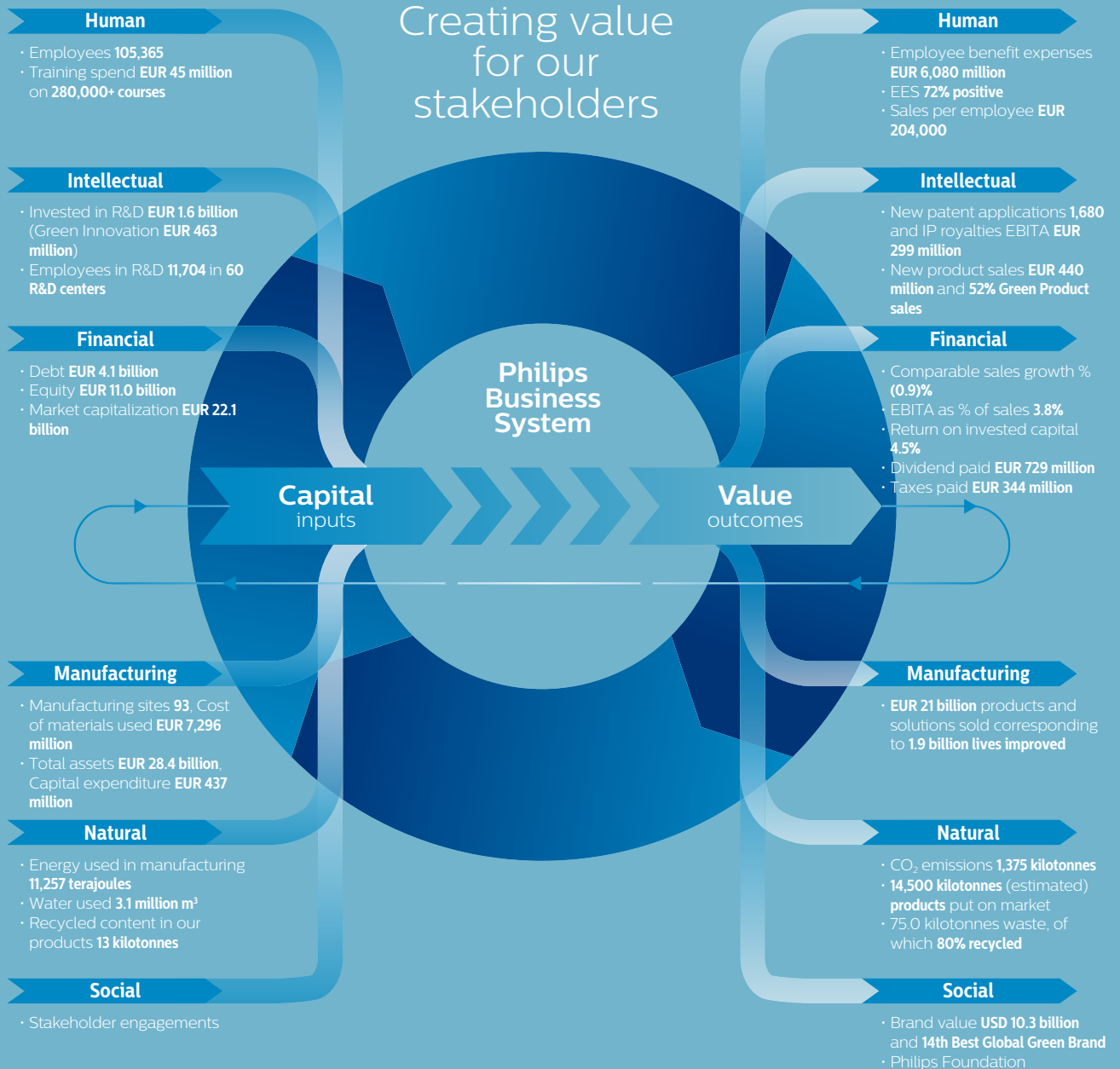
We are a learning organization that applies common operating principles and practices to deliver to our customers with excellence.

Path to Value

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

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

Creating value for our stakeholders



Capitals

Human	Intellectual	Financial	Manufacturing	Natural	Social
 <p>We employ diverse and talented people and give them the skills and training they need to ensure their effectiveness and their personal development and employability.</p>	 <p>We apply our innovation and design expertise to create new products and solutions that meet local customer needs.</p>	 <p>We raise the funds we need for our businesses from capital providers. We then prioritize our investment opportunities, focusing on those areas offering the best prospects for growth and returns.</p>	 <p>We apply Lean techniques also to our manufacturing processes to produce high-quality products. We manage our supply chain in a responsible way.</p>	 <p>We are a responsible company and aim to minimize the environmental impact of our supply chain, our operations, and our products and solutions.</p>	 <p>We engage with stakeholders and contribute to customers and society through our products and solutions, but also through our tax payments, the products and services we buy, and our investments in local communities.</p>

4.3 Accelerate! journey continues

Path to Value

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

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

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

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

Philips Group
Path to Value



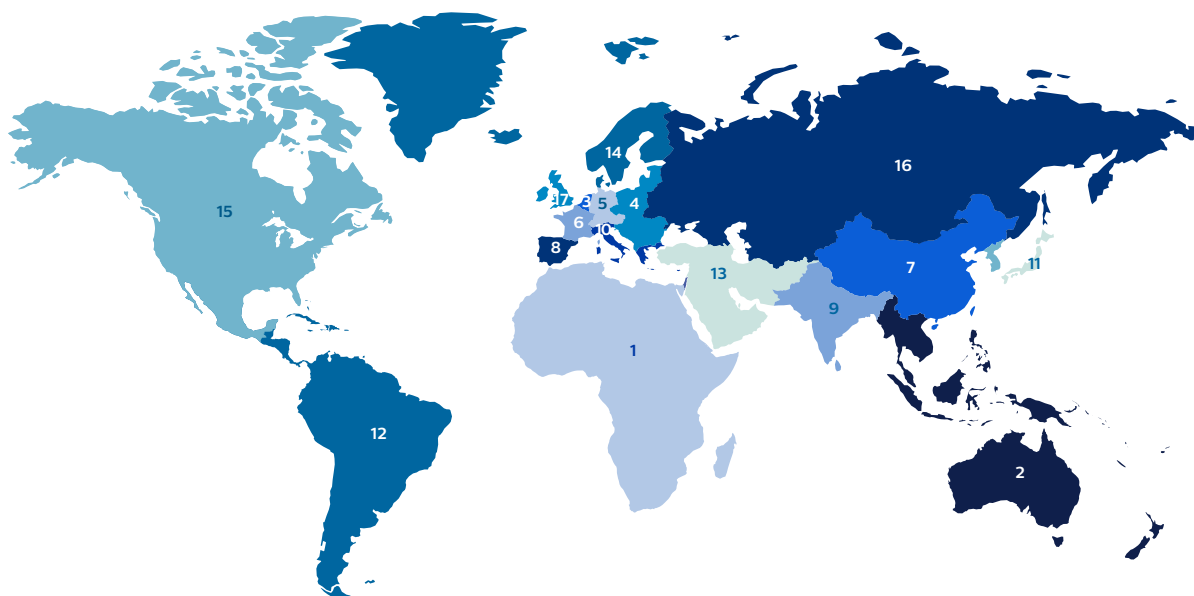
To achieve our value creation goal, we have set ourselves targets to be realized by the end of 2016. These indicate the value we create, as measured by sales growth, profitability and our use of capital.

Group financial targets for 2016

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

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

4.4 Lives improved



Markets	Lives improved (millions) ¹⁾	Population (millions) ²⁾	GDP (USD billions) ³⁾
1. Africa	48	1.137	2.504
2. ASEAN	208	938	5.789
3. Benelux	28	28	1.472
4. Central & East Europe	88	130	1.585
5. DACH	91	98	4.939
6. France	59	66	2.909
7. Greater China	334	1.401	11.626
8. Iberia	44	58	1.633
9. Indian Subcontinent	174	1.476	2.330
10. Italy, Israel and Greece	51	79	2.693
11. Japan	26	126	4.770
12. Latin America	127	500	4.697
13. Middle East & Turkey	95	335	3.445
14. Nordics	26	26	1.722
15. North America	349	478	20.511
16. Russia and Central Asia	81	263	2.623
17. UK & Ireland	49	69	3.105

¹⁾ Source: Philips

²⁾ Source: The World Bank, CIA Factbook & Wikipedia

³⁾ Source: IMF, CIA Factbook & Wikipedia

4.5 Global presence

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

4.6 Our strategy in action



Family-centered care for newborns

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

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

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

This is a great example of the kind of partnership Philips has perfected – improving people's lives through using innovative technologies, skills and know-how throughout the continuum of care. By sharing the

philosophy of the Family Center Care, the collaboration ensures the well-being of all the people involved – the child, the family and the healthcare staff.





Getting to the **heart of health**

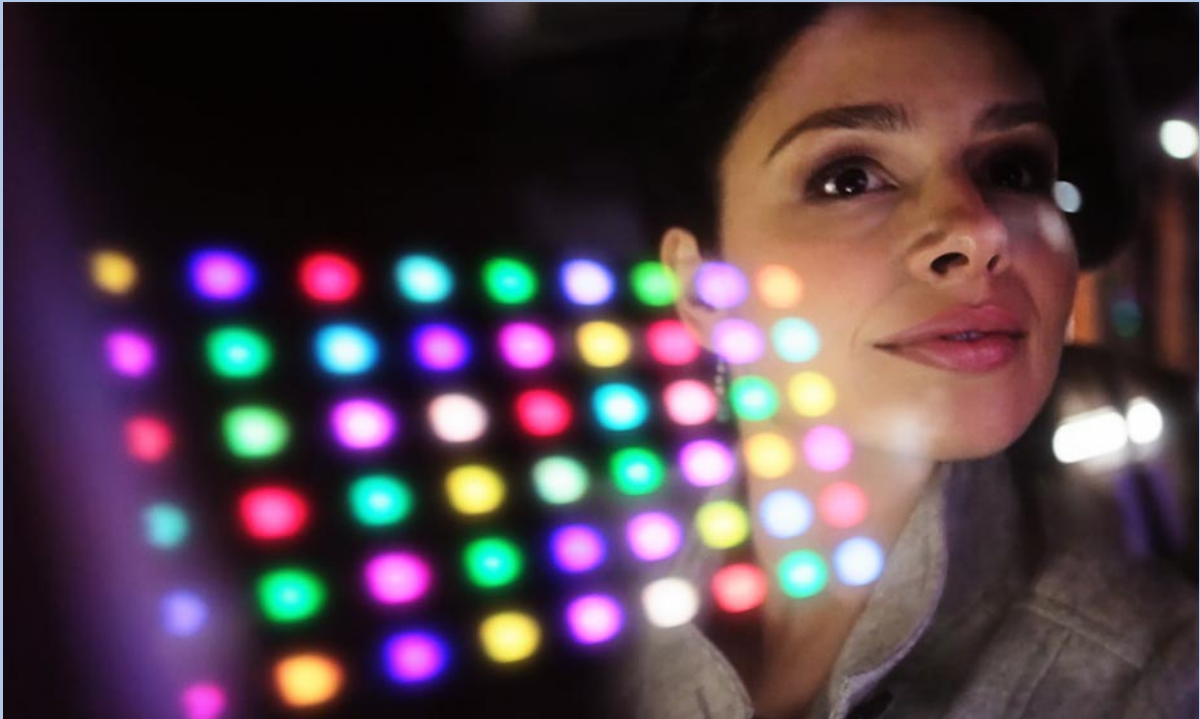
Recent research suggests that the ongoing health of our teeth and gums has a connection with the health of our heart.

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

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



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



Illumination **and beyond**

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

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

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

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

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

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

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

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



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

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

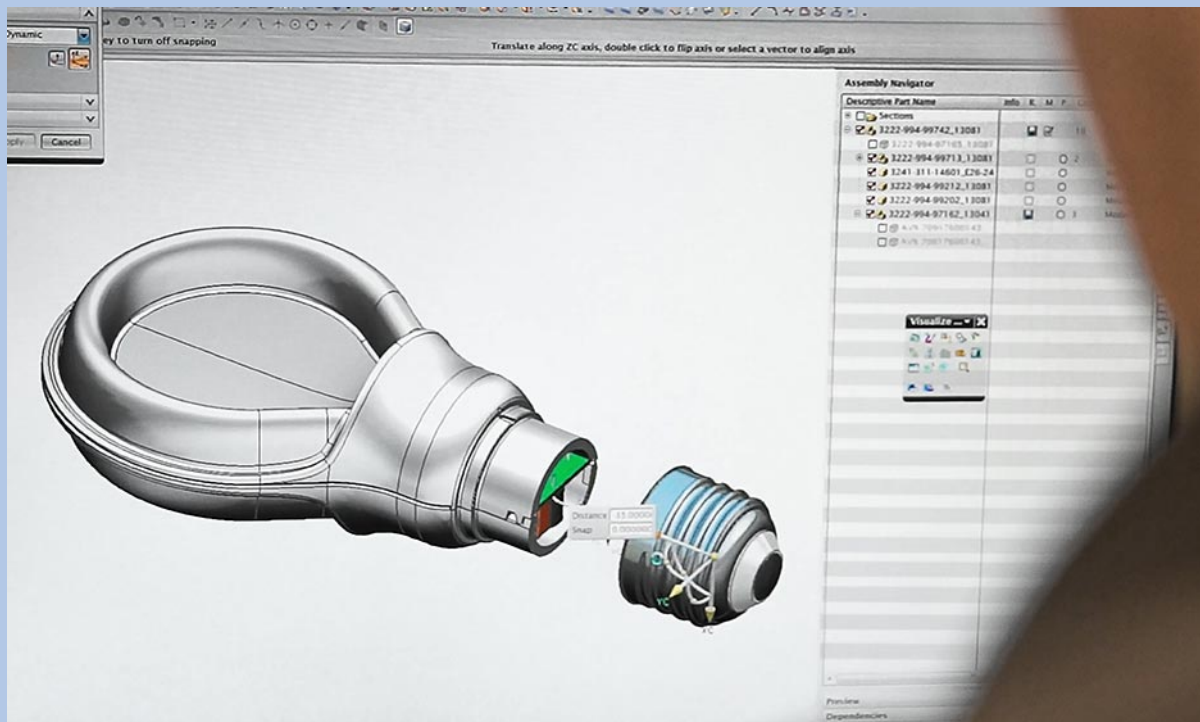
In designing SENSEO® Up – our first one-cup coffee machine aimed at single or double households – we challenged our designers to specify recycled plastics right from the start of the design process.

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

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



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



Slim LED bulb, **slimmer utility bills**

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

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

The main architectural challenges in this project were to achieve the lowest cost possible and to fulfill US ENERGY STAR requirements. “From past experience we learned that we needed to reduce the number of components of the lamp,” explains Gon Weijers, Architect, Philips Lighting. “So we moved from more than 10 parts to only five parts in this lamp, which makes disassembly and recycling of the lamp much easier. And also, its compactness and low weight reduces shipping costs and CO₂ emissions. The combination of all these insights led us to the design of this lamp, which is flat, functional and innovative.”

Having defined the required design, there were still significant technical hurdles to be overcome. As Peter Bukkems, Senior Mechanical Engineer, Philips Lighting explains: “For me as mechanical engineer the biggest challenge was to combine the thermal and optical disciplines into one product. We solved the thermal performance by removing the expensive aluminum heat sink and making direct contact from the LED board towards the covers. We integrated the optics into the clean plastic materials. We made the assembly complete by using ultrasonic welding – we didn’t use any screws or glue in the design, but simply melted the two covers together.”

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

5 Group performance



“Overall, 2014 was a setback in our performance trajectory. We have taken clear action to drive stronger operational performance across our business, and expect sales growth and EBITA margin improvements in 2015 and beyond.”

Ron Wirahadiraksa, CFO Royal Philips

5.1 Financial performance

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

Management summary

The year 2014

- In 2014, we continued to improve operational performance in most businesses, yet saw significant headwinds – ranging from geo-political crises and exchange rate fluctuations, to legal matters and the voluntary suspension of production at the Cleveland facility. In 2014, the voluntary suspension of production at our Cleveland facility and the jury verdict in the Masimo litigation strongly impacted our 2014 performance. At our Healthcare facility in Cleveland, Ohio, certain issues in the general area of manufacturing process controls were

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

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

- Net income for the year amounted to EUR 411 million, as lower operational earnings were partly offset by lower income tax expense and higher results from investments in associates and discontinued operations.
- Sales amounted to EUR 21,391 million, a 3% nominal decline for the year. Excluding unfavorable currency effects, comparable sales were 1% below the level of 2013,

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

- Comparable sales in growth geographies were in line with 2013, while mature geographies declined by 1% as a result of the overall macroeconomic developments. In 2014, growth geographies accounted for 35% of total sales.
- EBIT amounted to EUR 486 million, or 2.3% of sales, compared to EUR 1,855 million, or 8.4% of sales, in 2013. EBIT declines at Healthcare, Lighting and IG&S were partly offset by an improvement at Consumer Lifestyle.
- Operating activities generated cash flows of EUR 1,303 million, which was EUR 391 million higher than in 2013. The increase was mainly due to higher cash inflows and working capital reductions in 2014, as well as the payment of the European Commission fine in 2013. Cash flows before financing activities were EUR 269 million higher than in 2013, as an increase in cash flows from operating activities was partly offset by higher outflows related to acquisitions of new businesses.
- By the end of 2014, Philips had completed 41% of the EUR 1.5 billion share buy-back program.

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

	2012	2013	2014
Condensed statement of income			
Sales	22,234	21,990	21,391
EBITA ¹⁾	1,003	2,276	821
as a % of sales	4.5%	10.4%	3.8%
EBIT	592	1,855	486
as a % of sales	2.7%	8.4%	2.3%
Financial income and expenses	(329)	(330)	(301)
Income tax expense	(218)	(466)	(26)
Results of investments in associates	(211)	(25)	62
Income (loss) from continuing operations	(166)	1,034	221
Income from discontinued operations - net of income tax	136	138	190
Net income (loss)	(30)	1,172	411
Other indicators			
Net income (loss) attributable to shareholders per common share in EUR:			
basic	(0.04)	1.28	0.45
diluted	(0.04)	1.27	0.45
Net operating capital (NOC) ¹⁾	9,316	10,238	8,838
Cash flows before financing activities ¹⁾	1,174	50	319
Employees (FTEs)	118,087	116,082	113,678
of which discontinued operations	10,631	10,445	8,313

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

5.1 Sales

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

Philips Group
Sales growth composition in %
 2014 versus 2013

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

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

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

Healthcare sales amounted to EUR 9,186 million, which was EUR 389 million lower than in 2013. Mid-single-digit growth at Customer Services and low-single-digit growth at Patient Care & Monitoring Solutions were offset by a double-digit decline at Imaging Systems. Healthcare Informatics, Solutions & Services sales were in line with 2013. Mature geographies recorded a low-single-digit decline, mainly due to North America and Western Europe. Growth geographies also recorded a low-single-digit decline, with solid growth in Latin America and Middle East & Turkey offset by a double-digit decline in China.

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

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

geographies, largely due to Western Europe and North America. Growth geographies recorded a mid-single-digit decline, mainly driven by China.

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

5.1.2 Earnings

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

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

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

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

The overview below shows sales, EBIT and EBITA according to the 2014 sector classifications.

Philips Group
Sales, EBIT and EBITA
in millions of EUR unless otherwise stated
2013 – 2014

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

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

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

In 2014, EBIT decreased by EUR 1,369 million year-on-year to EUR 486 million, or 2.3% of sales. 2014 included EUR 434 million of restructuring and acquisition-related charges, compared to EUR 100 million in 2013. 2014 included EUR 366 million related to the jury verdict in the Masimo litigation, EUR 49 million mainly related to inventory write-downs in the Cleveland facility, charges of EUR 244 million related to legal matters, EUR 68 million of impairment and other charges related to industrial assets at Lighting, and a EUR 67 million past-service pension cost gain in the Netherlands. 2013 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.

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

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

Healthcare

EBITA decreased from EUR 1,512 million, or 15.8% of sales, in 2013 to EUR 616 million, or 6.7% of sales, in 2014. Restructuring and acquisition-related charges in 2013 were close to zero, compared to EUR 70 million in 2014. 2014 included EUR 366 million related to the jury

verdict in the Masimo litigation, EUR 49 million mainly related to inventory write-downs in the Cleveland facility, and a EUR 16 million past-service pension cost gain in the Netherlands. 2013 included a past-service pension cost gain of EUR 61 million and a gain on the sale of a business of EUR 21 million. The decline in EBITA was largely due to operational losses related to the voluntary suspension of production at the Cleveland facility and negative currency impacts.

Consumer Lifestyle

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

Lighting

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

Innovation, Group & Services

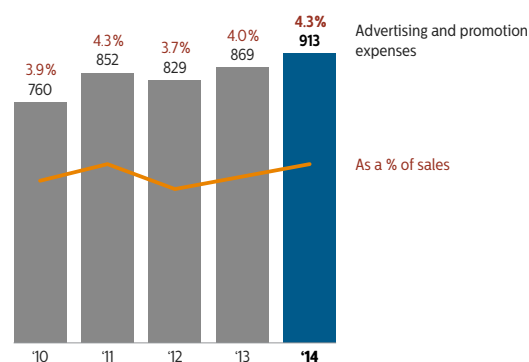
EBITA declined from a loss of EUR 299 million in 2013 to a loss of EUR 661 million in 2014. 2014 EBITA included restructuring and acquisition-related charges of EUR 110 million, provisions of EUR 244 million related to legal matters and a EUR 27 million gain from a past-service pension cost gain in the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

5.1.3 Advertising and promotion

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

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

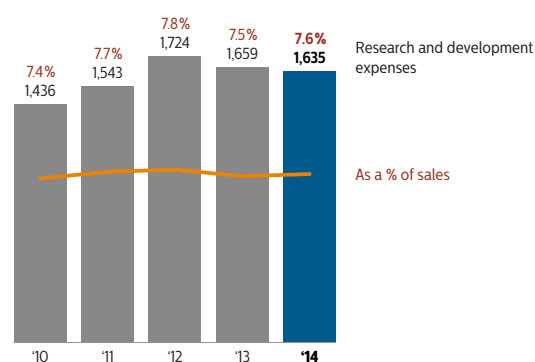
Philips Group
Advertising and promotion expenses in millions of EUR
2010 - 2014



5.1.4 Research and development

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

Philips Group
Research and development expenses in millions of EUR
2010 - 2014



Philips Group
Research and development expenses in millions of EUR
2012 - 2014

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

5.1.5 Pensions

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

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

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

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

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

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

For further information, refer to Post-employment benefits.

5.1.6 Restructuring and impairment charges

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

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

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

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

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

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

Philips Group
Restructuring and related charges in millions of EUR
2012 - 2014

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

5.17 Financial income and expenses

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

Philips Group
Financial income and expenses in millions of EUR
 2012 - 2014

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

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

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

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

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

5.18 Income taxes

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

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

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

5.19 Results of investments in associates

Philips Group
Results of investments in associates in millions of EUR
 2012 - 2014

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

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

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

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

5.110 Non-controlling interests

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

5.111 Discontinued operations

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

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

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

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

Income from discontinued operations increased by EUR 52 million to EUR 190 million in 2014. The year-on-year increase was mainly due to a net gain related to the divestment of our Television business. Income from discontinued operations mainly consisted of net income of EUR 141 million related to the combined businesses of Lumileds and Automotive, EUR 18 million

related to AVM&A, and EUR 31 million mainly related to other discontinued operations mainly net income on the Television business, partly offset by the European Commission's Smartcard fine.

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

5.1.12 Net income

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

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

5.1.13 Acquisitions and divestments

Acquisitions

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

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

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

Divestments

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

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

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

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

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

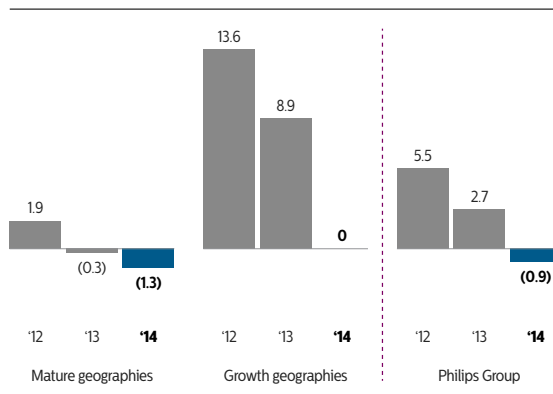
5.1.14 Performance by geographic cluster

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

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

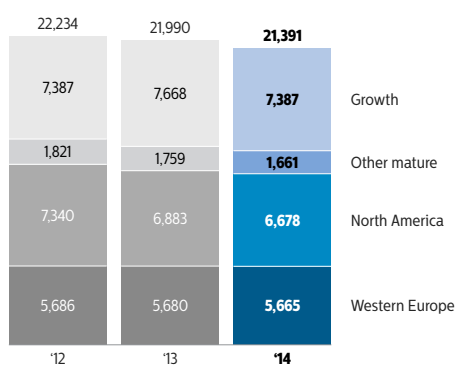
In growth geographies, sales declined by EUR 281 million mainly due to unfavorable foreign exchange impacts and were flat on a comparable basis, with high-single-digit growth at Consumer Lifestyle offset by a decline at Healthcare and Lighting. Strong growth was achieved in India and Middle East & Turkey, while decline was seen in China and Russia & Central Asia.

Philips Group
Comparable sales growth by geographic cluster¹⁾ in %
2012 - 2014



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

Philips Group
Sales by geographic cluster in millions of EUR
2012 - 2014

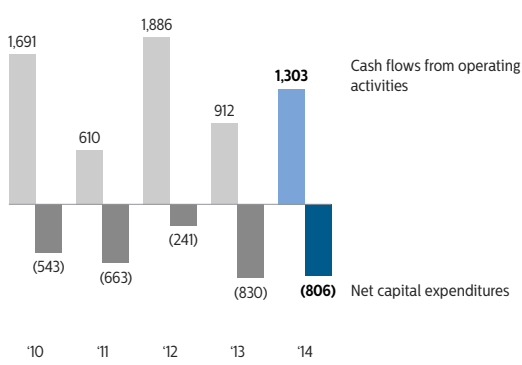


5.1.15 Cash flows provided by continuing operations

Cash flows from operating activities

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

Philips Group
Cash flows from operating activities and net capital expenditures in millions of EUR
2010 - 2014



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

Philips Group
Condensed consolidated cash flow statements¹⁾
in millions of EUR
2012 - 2014

	2012	2013	2014
Net income (loss)	(30)	1,172	411
Adjustments to reconcile net income to net cash provided by operating activities	1,916	(260)	892
Net cash provided by operating activities	1,886	912	1,303
Net cash used for investing activities	(712)	(862)	(984)
Cash flows before financing activities²⁾	1,174	50	319
Net cash used for financing activities	(293)	(1,241)	(1,189)
Cash (used for) provided by continuing operations	881	(1,191)	(870)
Net cash (used for) provided by discontinued operations	(143)	(115)	193
Effect of changes in exchange rates on cash and cash equivalents	(51)	(63)	85
Total change in cash and cash equivalents	687	(1,369)	(592)
Cash and cash equivalents at the beginning of year	3,147	3,834	2,465
Cash and cash equivalents at the end of year	3,834	2,465	1,873

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

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

Cash flows from investing activities

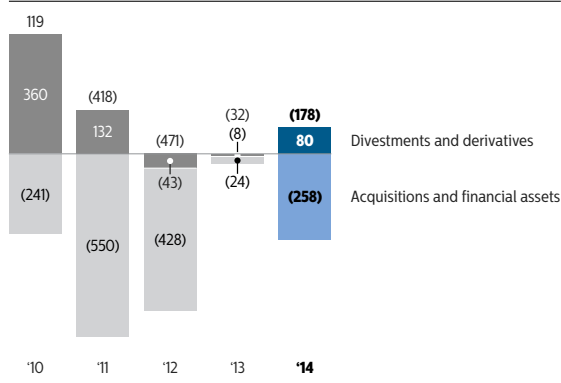
In 2014, cash flows from investing activities resulted in a net outflow of EUR 984 million. This was attributable to EUR 806 million cash used for net capital expenditures, EUR 258 million used for acquisitions of businesses and non-current financial assets, and EUR 7 million used for derivatives and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

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

Net capital expenditures

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

Philips Group
Cash flows from acquisitions and financial assets, divestments and derivatives in millions of EUR
 2010 – 2014



Acquisitions and financial assets

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

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

Divestments and derivatives

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

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

Cash flows from financing activities

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

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

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

5.1.16 Cash flows from discontinued operations

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

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

5.1.17 Financing

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

Philips Group
Condensed consolidated balance sheet¹⁾ in millions of EUR
 2012 – 2014

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

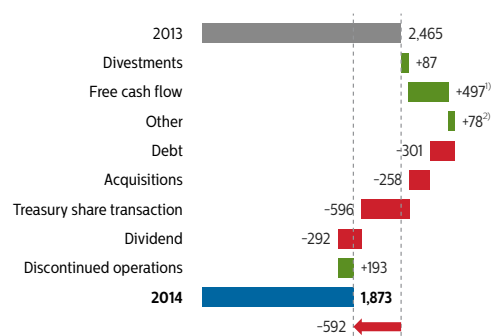
¹⁾ Please refer to section 12.6, Consolidated balance sheets, of this Annual Report

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

5.1.18 Cash and cash equivalents

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

Philips Group
Cash balance movements in millions of EUR
2014



¹⁾ Please refer to chapter 15, Reconciliation of non-GAAP information, of this Annual Report

²⁾ Includes cash flow for derivatives and currency effect

5.1.19 Debt position

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

Philips Group
Changes in debt in millions of EUR
2012 - 2014

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

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

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

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

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

5.1.20 Shareholders' equity

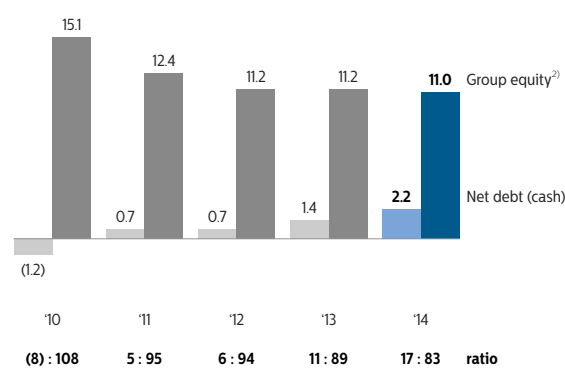
Shareholders' equity decreased by EUR 347 million in 2014 to EUR 10,867 million at December 31, 2014. The decrease was mainly a result of EUR 714 million related to purchase shares for the share buy-back program and coverage for the LTI program, partially offset by EUR 415 million net income and EUR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

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

5.1.21 Net debt to group equity

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

Philips Group
Net debt (cash) to group equity¹⁾ in billions of EUR
2010 - 2014



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

²⁾ Shareholders' equity and non-controlling interests

5.1.22 Liquidity position

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

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

Philips Group
Liquidity position in millions of EUR
2012 - 2014

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

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

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

As at December 31, 2014, Philips had total cash and cash equivalents of EUR 1,873 million. Philips pools cash from subsidiaries to the extent legally and economically feasible. Cash not pooled remains

available for local operational or investment needs. Philips had a total gross debt position of EUR 4,104 million at year-end 2014.

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

5.1.23 Cash obligations

Contractual cash obligations

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

Philips Group
Contractual cash obligations⁹⁾ in millions of EUR
2014

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

¹⁾ Obligations in this table are undiscounted

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

³⁾ Approximately 15% of the debt bears interest at a floating rate. The majority of the interest payments on variable interest rate loans in the table above reflect market forward interest rates at the period end and these amounts may change as the market interest rate changes

⁴⁾ Philips has commitments related to the ordinary course of business which in general relate to contracts and purchase order commitments for less than 12 months. In the table, only the commitments for multiple years are presented, including their short-term portion

Philips has no material commitments for capital expenditures.

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

Certain Philips suppliers factor their trade receivables from Philips with third parties through supplier finance arrangements. At December 31, 2014 approximately EUR 357 million of the Philips accounts payables were known to have been sold onward under such arrangements whereby Philips confirms invoices.

Philips continues to recognize these liabilities as trade payables and will settle the liabilities in line with the original payment terms of the related invoices.

Other cash commitments

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

The Company had EUR 380 million restructuring-related provisions by the end of 2014, of which EUR 230 million is expected to result in cash outflows in 2015. Refer to note 19, Provisions for details of restructuring provisions and potential cash flow impact for 2014 and further.

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

Guarantees

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

5.1.24 Analysis of 2013 compared to 2012

The analysis of the 2013 financial results compared to 2012, 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 2014, which will be filed electronically with the US Securities and Exchange Commission.

5.2 Social performance

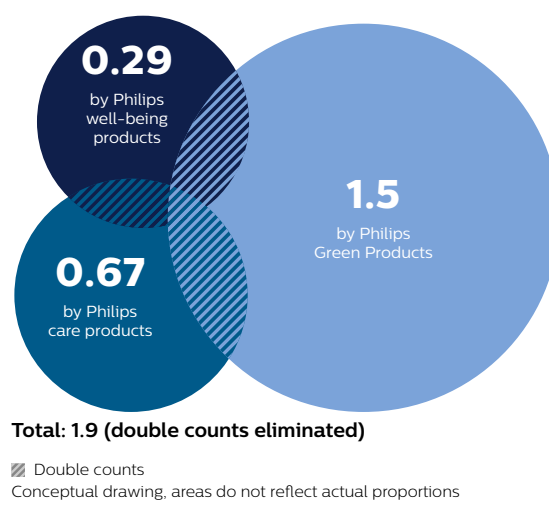
Our businesses provide innovative solutions that address major trends affecting the world – the demand for affordable healthcare, the need for greater energy efficiency, and the desire for personal well-being. Philips further strengthened its focus on sustainability in 2014 through a number of initiatives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

5.2.1 Improving people's lives

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

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

Philips Group
Lives improved (in billions)



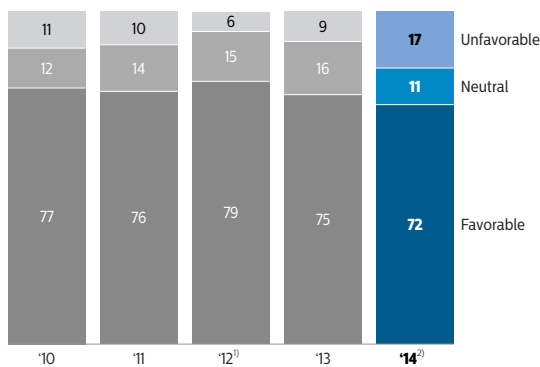
5.2.2 Employee engagement

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

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

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

Philips Group
Employee Engagement Index in %
2010 - 2014



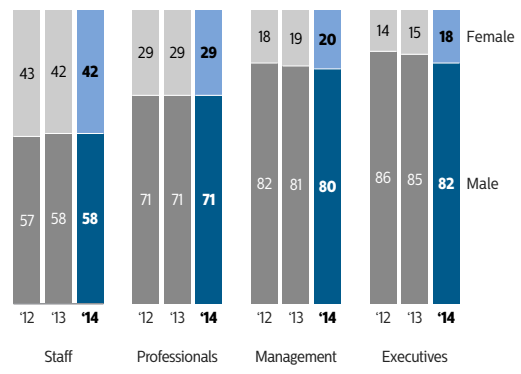
¹⁾ Based on 60 pulse surveys conducted in 2012
²⁾ Based on My Accelerate! Surveys

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

5.2.3 Diversity and inclusion

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

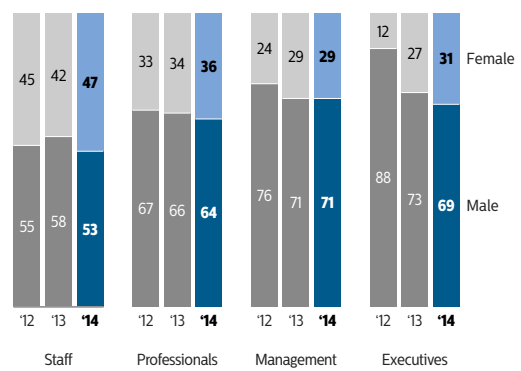
Philips Group
Gender diversity in %
2012 - 2014



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

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

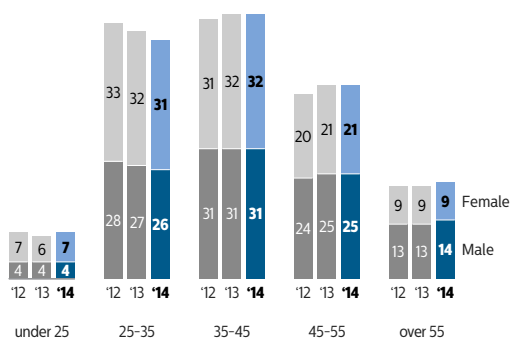
Philips Group
New hire diversity in %
2012 - 2014



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

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

Philips Group
Employees per age category in %
2012 - 2014



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

Philips Group
Employee turnover in %
2014

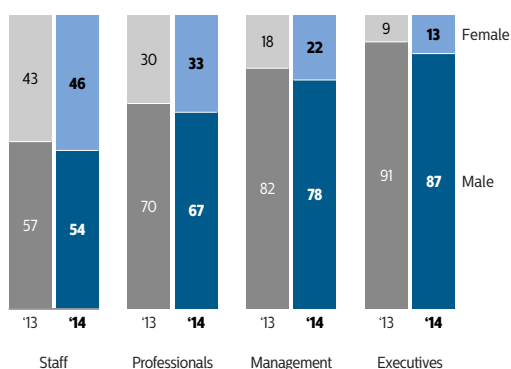
	Staff	Professionals	Management	Executives	Total
Female	22.4	12.0	9.8	9.9	18.2
Male	19.1	10.2	8.8	14.0	14.1
Philips Group	20.5	10.7	9.0	13.3	15.7

Philips Group
Voluntary turnover in %
2014

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

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

Philips Group
Exit diversity in %
2013 - 2014



5.2.4 Employment

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

Philips Group
Employees per sector in FTEs at year-end
2012 - 2014

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

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

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

Philips Group
Employees per geographic cluster in FTEs at year-end
2012 - 2014

	2012	2013	2014
Western Europe	29,803	28,944	29,105
North America	25,375	24,401	22,283
Other mature geographies	3,304	3,419	3,643
Mature geographies	58,482	56,764	55,031
Growth geographies	48,974	48,873	50,334
Continuing operations	107,456	105,637	105,365
Discontinued operations	10,631	10,445	8,313
Philips Group	118,087	116,082	113,678

Philips Group
Employment in FTEs at year-end
2012 - 2014

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

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

5.2.5 Developing our people

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

Training spend

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

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

5.2.6 Health and Safety

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

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

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

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

5.2.7 Philips' General Business Principles renewed

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

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

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

Training and awareness

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

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

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

5.2.8 Working with stakeholders

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

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

5.2.9 Social Investment Programs

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

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

In North America, the [Philips Cares](#) program provides ways for employees to work together to improve people's lives by creating healthy, sustainable communities that contribute to the success and well-being of future generations. This can take many forms: from helping a child to excel in math, or providing safety and energy-efficient home improvements for the disadvantaged, to raising awareness about the importance of cardiac health. In 2014 alone, more than 5,000 employee volunteers participated in community outreach projects that suited their needs, schedules, and passions through partnerships with organizations such as the American Heart Association, Rebuilding Together, and the National 4-H Council.

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

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

5.2.10 Supplier sustainability

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

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

Supplier Sustainability Involvement Program

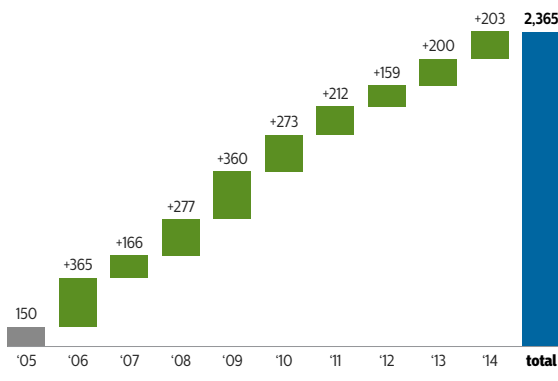
The Philips Supplier Sustainability Involvement Program is our overarching program to help improve the sustainability performance of our suppliers. We create commitment from our suppliers by requiring them to comply with our Regulated Substances List and the Philips Supplier Sustainability Declaration,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

2014 supplier audits in risk countries

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

Philips Group
Accumulative number of initial and continual conformance audits
 2005 - 2014



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

Philips Group
Distribution of supplier audits by country
 2014



Audit findings

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

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

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

Supplier development and capacity building

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

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

also cover supplier factories in the Yangtze River Delta area. A total of 21 Philips suppliers are now participating in the program.

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

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

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

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

5.3 **Environmental performance**

EcoVision

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

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

Philips publishes every year a full Integrated Annual Report with the highest (reasonable) assurance level on the financial, social and environmental performance. With that overall reasonable assurance level Philips is a frontrunner in this field. KPMG has provided reasonable assurance on whether the information in chapter 14, Sustainability statements, of this Annual Report, section 5.2, Social performance, of this Annual Report and section 5.3, Environmental performance, of this Annual Report presents fairly, in all material

respects, the sustainability performance in accordance with the reporting criteria. We refer to section 14.4, Independent Auditor's Assurance Report, of this Annual Report.

The main elements of the EcoVision program are:

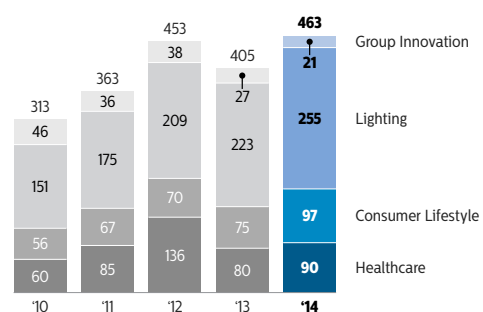
- Improving people's lives
- Green Product sales
- Green Innovation, including Circular Economy
- Green Operations
- Health and Safety
- Supplier Sustainability

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

5.3.1 **Green Innovation**

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

Philips Group
Green Innovation per sector in millions of EUR
2010 - 2014



Healthcare

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

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

Consumer Lifestyle

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

Lighting

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

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

Philips Group Innovation

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

Philips Green Patent portfolio

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

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

Energy efficiency of products

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

In 2014 LED sales advanced well, but demand for conventional lighting remained fairly stable due to the challenging economic environment. Since the number of traditional lamps sold is significantly higher than LEDs, the energy efficiency improvement of the total Lighting portfolio in 2014 was limited. We expect the energy efficiency to improve in the coming years as the traditional incandescent lamp is banned in more countries. Our target for 2015 is a 50% improvement compared to the 2009 baseline. In this target setting, assumptions were made about the speed of the

regulatory developments in this area, which fell short of expectations. Therefore, in 2015 the target of 50% improvement will not yet be achieved. Further details on this parameter and the methodology can be found in the document 'Energy efficiency of Philips products' at www.philips.com/sustainability.

Circular Economy

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

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

Closing the materials loop

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

Recycled materials

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

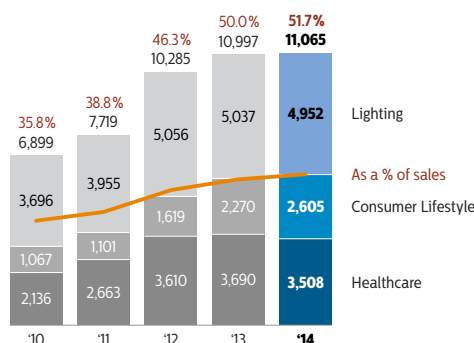
Our target is to double global collection and recycling and the amount of recycled materials in our products by 2015 compared to 2009, when the baseline was set at 7,500 tonnes. Further details on this parameter and the methodology can be found in the document 'Closing the materials loop' at www.philips.com/sustainability.

5.3.2 Green Product sales

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

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

Philips Group
Green Product sales per sector in millions of EUR
2010 - 2014



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

New Green Products from each sector include the following examples.

Healthcare

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

Consumer Lifestyle

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

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

Lighting

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

CityTouch technology is spreading around the world, with installations in Buenos Aires, Rotterdam, and Markham, Ontario, Canada. In the Spanish town of Salobre, CityTouch software combines with LED luminaires to reduce the municipality's energy consumption by more than 70% and cut CO₂ emissions by 29 tons per year. In a number of London boroughs, over 70,000 light points will be managed by CityTouch.

5.3.3 Green Operations

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

Carbon footprint and energy efficiency

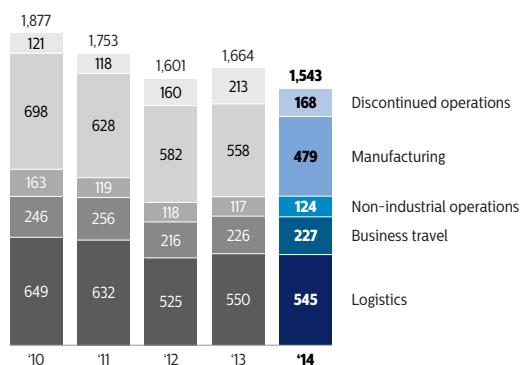
After achieving our EcoVision4 carbon emissions reduction target in 2012, we continued our energy efficiency improvement programs across different disciplines. In 2014 our carbon footprint decreased by 5% compared to 2013, resulting in a total of 1,375

kilotonnes CO₂. This was mainly achieved by emissions reductions in our manufacturing facilities, resulting from operational changes and decreased energy usage due to lower load with an increased share coming from renewable sources (some 55% in 2014), and less transport activities. These reductions were, however, partly offset by increased emissions from our non-industrial activities, the floor space of our global non-industrial property portfolio increased by 2%. Business travel emissions remained stable compared to 2013, however we have noted a decrease in emissions from lease cars due to our successful Green Lease car program, whilst air travel increased over the course of 2014. We continue to promote video conferencing as an alternative to travel.

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

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

Philips Group
Operational carbon footprint in kilotonnes CO₂-equivalent 2010 - 2014



Philips Group
Operational carbon footprint by Greenhouse Gas Protocol scopes in kilotonnes CO₂-equivalent 2010 - 2014

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

Philips Group
Ratios relating to carbon emissions and energy use
 2010 - 2014

	2010	2011	2012	2013	2014
Operational CO₂ emissions in kilotonnes CO ₂ -equivalent	1,756	1,635	1,441	1,451	1,375
Operational CO₂ efficiency in tonnes CO ₂ -equivalent per million EUR sales	91	82	65	66	64
Operational energy use in terajoules	28,030	26,570	25,052	25,646	24,464
Operational energy efficiency in terajoules per million euro sales	1.45	1.33	1.13	1.17	1.14

Water

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

Lighting represents around 66% of total water usage. In this sector, water is used in manufacturing as well as for domestic purpose. The other sectors use water mainly for domestic purposes. The exclusion of Lumileds and Automotive has a significant downward impact on the water consumption of Philips. In 2014, Lumileds and Automotive accounted for 1.7 million m³ of water.

Philips Group
Water intake in thousands of m³
 2010 - 2014

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

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

Waste

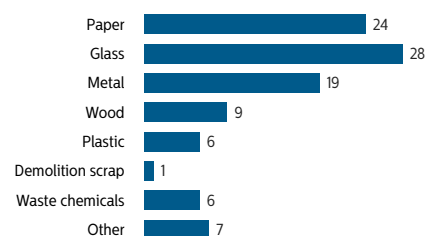
In 2014, total waste was comparable to 2013 at 75 kilotonnes. Lighting contributed to 72% of total waste, Consumer Lifestyle to 15% and Healthcare to 13%. Waste generated by 8 new reporting sites was offset by 5 discontinued sites. The exclusion of Lumileds and Automotive had a 7% downward impact on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

Philips Group
Total waste in kilotonnes
 2010 - 2014

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

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

Philips Group
Industrial waste delivered for recycling in %
 2014



Emissions

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

Philips Group
Restricted and hazardous substances in kilos
 2010 - 2014

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

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

5.4 Proposed distribution to shareholders

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

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

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

Dividend in cash is in principle subject to 15% Dutch dividend withholding tax, which will be deducted from the dividend in cash paid to the shareholders. Dividend in shares paid out of net income and retained earnings

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

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

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

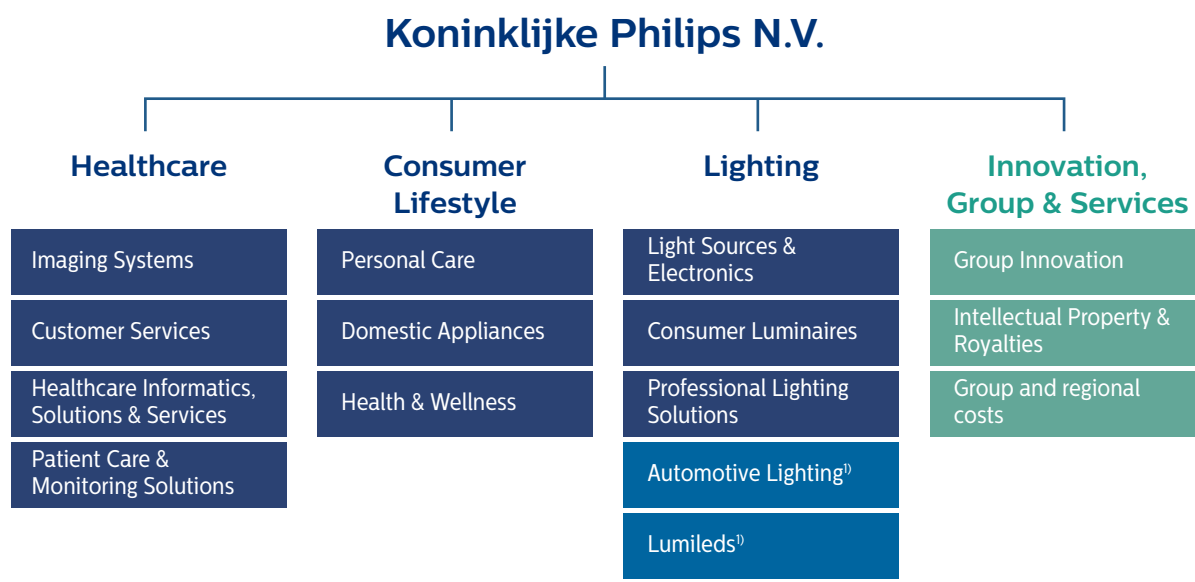
5.5 Outlook

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

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

6 Sector performance

Philips Group
Our structure
2014



¹⁾ On June 30, 2014, Philips announced the start of the process to combine the Lumileds and Automotive Lighting businesses into a stand-alone company and explore strategic options to attract capital from third-party investors for this combined business. The results of the combined Lumileds/Automotive Lighting components business are reported as discontinued operations.

Our structure in 2014

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

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

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

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

2015 and beyond

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

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

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

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

6.1 Healthcare



“We remain steadfast in our commitment to enable the best possible care provision at the lowest cost wherever care is provided, from the hospital to the home.”

Frans van Houten, CEO Royal Philips

- By leveraging world-class innovation, deep clinical expertise and extensive relationships, global access to healthcare providers, and an integrated solutions portfolio, we provide greater value while helping lower the cost of care across the health continuum.
- Our multi-year Accelerate! program continues to improve our operational performance, helping offset market headwinds.
- We are focused on delivering on our financial commitments and driving growth, despite ongoing softness in a number of markets, including the US, Europe and China.
- Capitalizing on the convergence of professional healthcare and consumer end-markets, we will leverage our consumer and healthcare businesses to capture the vast opportunities along the health continuum – from healthy living to preventative care, definitive diagnostics, minimally invasive therapy, and hospital and home care for recovering and chronically ill patients.

6.1.1 Health care landscape

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

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

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

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

6.1.2 About Philips Healthcare

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

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

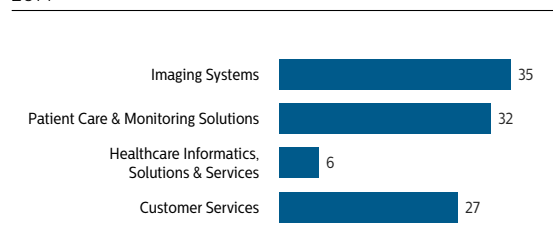
Philips is one of the world's leading health care companies (based on sales) along with General Electric and Siemens. The competitive landscape in the health care industry is evolving with the emergence of a considerable number of new market players. The United States, our largest market, represented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

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

- **Imaging Systems:** Integrated clinical solutions that include radiation oncology and portfolio management; advanced diagnostic imaging, including computed tomography (CT), magnetic resonance imaging (MRI) and molecular imaging (MI); diagnostic X-ray, including digital X-ray and mammography; interventional X-ray, encompassing cardiology, radiology, surgery and other areas; and ultrasound, a modality with diverse customers and broad clinical presence
- **Patient Care & Monitoring Solutions:** Enterprise-wide patient monitoring solutions, from value solutions to sophisticated connected solutions, for real-time clinical information at the patient's bedside; patient analytics, patient monitoring and clinical decision support systems; mother and child care, including products and solutions for pregnancy, labor and delivery, newborn and neonatal intensive care and the transition home; and therapeutic care, including cardiac resuscitation, emergency care solutions, therapeutic temperature management, anesthesia care, hospital respiratory systems and ventilation, sleep management, respiratory care and non-invasive ventilation
- **Customer Services:** Product and solution services and support, including clinical support and performance services; education and value-added services; installation; remote proactive monitoring; and customer service agreement
- **Healthcare Informatics, Solutions & Services:** Advanced Healthcare IT consisting of integrated software solutions, imaging informatics for radiology and cardiology departments, Picture Archiving and Communication systems (PACS) and fully integrated Electronic Medical Record (EMR) systems; a professional services business (Healthcare

Transformation Services) spanning consulting, education, clinical and business performance improvement, program management, system integration services; specialized solutions including care coordination, home monitoring to make the aging experience better, and primary and secondary care solutions to expand access to care in emerging markets. All solutions and software businesses will be supported by the Philips HealthSuite Digital Platform to enable interoperability, Big Data analytics, optimized workflows and care pathways, rapid application development, enhanced patient centricity and engagement.

Philips Healthcare
Total sales by business as a %
2014



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

Regulatory requirements

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

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

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

6.1.3 2014 highlights

The health continuum of healthy living, prevention, diagnosis, treatment, recovery and home care remained a growing and exciting market for Philips Healthcare. Leveraging our portfolio, insights and

capabilities, we focused on creating value across our businesses and markets through collaborative innovation, including:

- **Large-scale partnerships** – We entered into a number of strategic, multi-year agreements that address government and health system goals of improving population health and delivering quality care more effectively. These included a 15-year contract with Reinier de Graaf Hospital in the Netherlands, a 14-year contract with Karolinska University Hospital and the Stockholm County Council in Sweden, and a 10-year contract related to the 700-bed Philippine Orthopedic Centre in the Philippines.
- **Co-created solutions** – We collaborated on smart solutions co-created in the clinical environment, such as working with the University of Washington on advancements in diagnostics and informatics to improve outcomes, drive operational efficiency and reduce costs per patient.
- **Strategic alliances** – We formed key partnerships to help drive healthcare transformation, including an alliance with Salesforce.com to deliver an open, cloud-based healthcare platform that will enable collaborative care management between patients and healthcare professionals.

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

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

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

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

6.1.4 2014 financial performance

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

	2012	2013	2014
Sales	9,983	9,575	9,186
Sales growth			
% increase (decrease), nominal	13%	(4)%	(4)%
% increase (decrease), comparable ¹⁾	6%	1%	(2)%
EBITA ¹⁾	1,226	1,512	616
as a % of sales	12.3%	15.8%	6.7%
EBIT	1,026	1,315	456
as a % of sales	10.3%	13.7%	5.0%
Net operating capital (NOC) ¹⁾	7,976	7,437	7,565
Cash flows before financing activities ¹⁾	1,298	1,292	910
Employees (in FTEs)	37,460	37,008	37,065

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

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

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

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

In 2014, the voluntary suspension of production at our Cleveland facility and the jury verdict in the Masimo litigation strongly impacted our 2014 performance. At our Healthcare facility in Cleveland, Ohio, certain issues in the general area of manufacturing process controls were identified during an ongoing US Food and Drug Administration (FDA) inspection. To address these

issues, on January 10, 2014 we started a voluntary, temporary suspension of new production at the facility, primarily to strengthen manufacturing process controls. The suspension negatively impacted Healthcare's sales and EBITA in 2014.

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

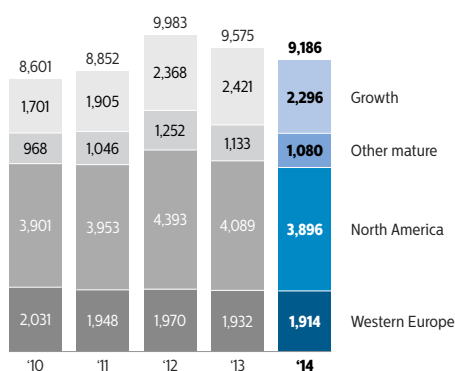
EBITA in 2013 also included EUR 61 million from a past-service pension gain and a EUR 21 million gain on the sale of a business excluding these items. The decrease in EBITA was mainly driven by operational losses related to the voluntary suspension of production at the Cleveland facility and negative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

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

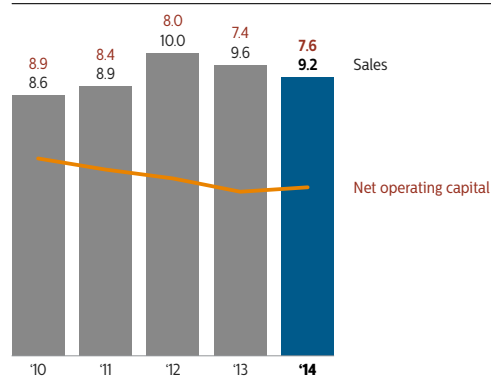
Net operating capital increased by EUR 128 million to EUR 7,565 million. Higher provisions and lower fixed assets were offset by currency impacts.

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

Philips Healthcare
Sales per geographic cluster in millions of EUR
2010 - 2014

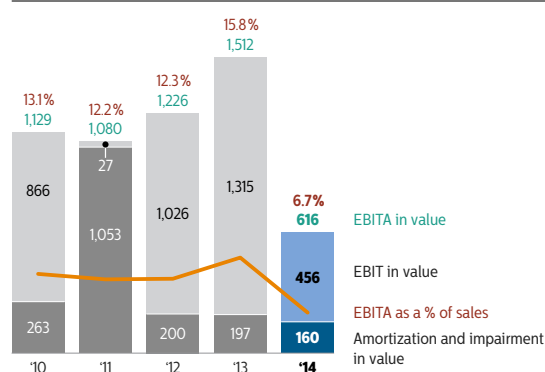


Philips Healthcare
Sales and net operating capital¹⁾ in billions of EUR
2010 - 2014



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

Philips Healthcare
EBIT and EBITA¹⁾ in millions of EUR
2010 - 2014



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

6.1.5 Delivering on EcoVision sustainability commitments

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

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

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

6.1.6 2015 and beyond

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

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

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

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

Further updates will be provided in the course of 2015.



Innovating **on the ward**

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

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

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



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

6.2 Consumer Lifestyle



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

Pieter Nota, CEO Philips Consumer Lifestyle

- We are rigorously executing our strategy, with locally relevant innovation delivering strong growth and driving profitability.
- Future growth drivers are clearly set: grow the core businesses through local and global innovation platforms, and geographical expansion of proven propositions; further expand in the domain of personal health by exploring new business adjacencies and new business areas.
- The sector has made strong progress to reposition towards a healthy living and disease prevention portfolio, in more attractive markets, with better margins.

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

6.2.1 Lifestyle retail landscape

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

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

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

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

6.2.2 About Philips Consumer Lifestyle

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

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.

Consumer Lifestyle is built around businesses and markets, enabling us to direct investments to where the growth is, addressing locally relevant consumer needs. We take locally developed platforms and adapt them for other markets or on a global scale.

Our end-to-end approach is accelerating 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

In 2014 the Consumer Lifestyle sector consisted of the following areas of business:

- Health & Wellness: mother and child care, oral healthcare, pain management
- Personal Care: male grooming, beauty
- Domestic Appliances: kitchen appliances, coffee, garment care, floor care, air purification

Philips Consumer Lifestyle
Total sales by business as a %
2014



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 and increase its accessibility, particularly in lower-tier cities in growth geographies. We are well positioned to increasingly capture growth in online sales. Over the course of 2014 we implemented innovative approaches in online and social media to build our brand and drive sales in local markets and globally. On the Philips Global Facebook page for instance, an educational personal health and well-being campaign helped increase the number of fans from 4 million to 6 million. More locally, a UK-focused Domestic Appliances campaign, which was activated on several social channels, generated interest from almost 2 million consumers in just 3 months.

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

Consumer Lifestyle employs approximately 16,600 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 Argentina, Austria, Brazil, China, India, Indonesia, Italy, the Netherlands, Romania, the UK and the US.

Regulatory requirements

Consumer Lifestyle is subject to 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 and comparable regulations in other countries. Through our growing beauty, oral healthcare and mother and child care 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 14.2.8, Supplier indicators, of this Annual Report.

6.2.3 2014 highlights

- Empowering consumers to take control of their own health with digital solutions for healthy living and disease prevention, Philips launched its latest connected devices and apps at IFA in Berlin. Highlights included a smart air purifier, an app to manage treatment of chronic pain and an oral healthcare app to help kids brush their teeth more effectively.
- Continuing the geographical expansion of Philips product innovations, the Philips Airfryer is now available in more than 100 countries. Philips is a leader in the world's low-fat fryer market.
- The success of established propositions like the Philips Sonicare DiamondClean and the Philips Sonicare AirFloss, along with new introductions like Philips Sonicare for Kids, drove continued growth across the world, in particular in China, Japan, Germany and North America.
- Delivering on its male grooming growth strategy to drive loyalty and create more value among existing users, Philips launched the Philips Shaver Series 9000, our most advanced shaver yet, in 47 countries around the world.
- Award-winning designs and advanced technology further strengthened Philips' leadership position in the Chinese air purification market, with consumers responding to innovations such as the Vitashield Intelligent Purification System, which removes indoor contaminants that can impact health and well-being.
- Professional endorsement and channel expansion are core to the growth momentum of Philips' Mother and Childcare business (Avent). In Germany, distribution was further extended in the drugstore channel, with professional endorsement a key trigger for consumers. In China, distribution was expanded to more cities, with a continued focus to make Philips Avent the brand that is most recommended by mothers.

6.2.4 2014 financial performance

Philips Consumer Lifestyle
Key data in millions of EUR unless otherwise stated
 2012 - 2014

	2012	2013	2014
Sales	4,319	4,605	4,731
Sales growth			
% increase (decrease), nominal	15%	7%	3%
% increase (decrease), comparable ¹⁾	9%	10%	6%
EBITA ¹⁾	456	483	573
as a % of sales	10.6%	10.5%	12.1%
EBIT	400	429	520
as a % of sales	9.3%	9.3%	11.0%
Net operating capital (NOC) ¹⁾	1,205	1,261	1,353
Cash flows before financing activities ¹⁾	413	480	553
Employees (in FTEs)	16,542	17,255	16,639

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

Sales amounted to EUR 4,731 million, a nominal increase of 3% compared to 2013. Excluding a 3% negative currency impact, comparable sales were 6% higher year-on-year. Health & Wellness achieved double-digit-growth and Domestic Appliances recorded high-single-digit growth, while Personal Care recorded low-single-digit growth. Green Product sales amounted to EUR 2,605 million, or 55% of total sector sales.

From a geographical perspective, comparable sales showed an 8% increase in growth geographies and 3% growth in mature geographies. In growth geographies, increase was mainly driven by China and Middle East & Turkey, primarily in the Health & Wellness and Domestic Appliances businesses. Growth geographies' share of sector sales was in line with 2013 at 47%.

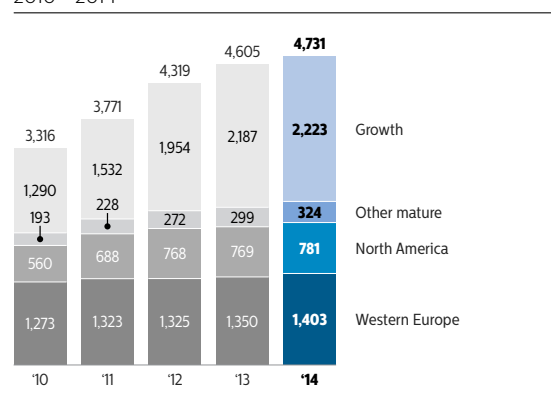
EBITA increased from EUR 483 million, or 10.5% of sales, in 2013 to EUR 573 million, or 12.1% of sales, in 2014. Restructuring and acquisition-related charges amounted to EUR 9 million in 2014, compared to EUR 14 million in 2013. EBITA in 2013 also included a EUR 1 million past-service pension cost gain in the US. The year-on-year EBITA increase was driven by improved earnings in all businesses and more than offset currency headwinds.

EBIT amounted to EUR 520 million, or 11.0% of sales, which included EUR 53 million of amortization charges, mainly related to intangible assets at Health & Wellness and Domestic Appliances.

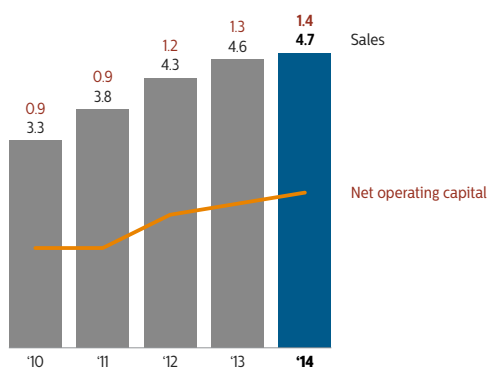
Net operating capital increased from EUR 1,261 million in 2013 to EUR 1,353 million in 2014, due to higher working capital and a reduction in provisions.

Cash flows before financing activities increased from EUR 480 million in 2013 to EUR 553 million in 2014, mainly attributable to higher earnings.

Philips Consumer Lifestyle
Sales per geographic cluster in millions of EUR
 2010 - 2014

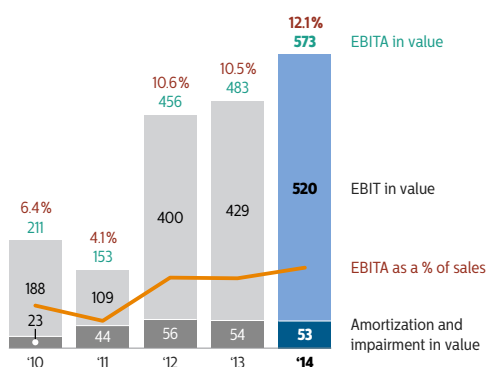


Philips Consumer Lifestyle
Sales and net operating capital¹⁾ in billions of EUR
2010 - 2014



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

Philips Consumer Lifestyle
EBIT and EBITA¹⁾ in millions of EUR
2010 - 2014



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

CO₂-neutral production sites. In 2014, 68% of the electricity used in factories came from renewable sources and 80% of the industrial waste was recycled.

6.2.6 2015 and beyond

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

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

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

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

Further updates will be provided in the course of 2015.

6.2.5 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 area of energy consumption, packaging and/or substances of concern, accounted for 55% of total sales in 2014. All Green Products with rechargeable batteries exceed the stringent California energy efficiency standard. And over 60% of total sales are PVC- and/or BFR-free products (excluding power cords).

In 2014 we continued to increase the use of recycled materials in our products. Over 625 tons of recycled plastics were used in vacuum cleaners, irons and coffee machines. We also launched the new SENSEO® Up, of which the plastic parts consist of 13% recycled material. In our operations we continue to use more energy from renewable sources, with the ultimate aim of having



New ways to fry

Fried food is somewhat of a tradition in Saudi Arabia, as it is in many countries. It has become so popular that almost a quarter of students eschew a healthy diet and are now classified as obese.

In addition, almost three quarters of over-40s in the country are overweight, which puts enormous strain on the medical system.



Dental assistant Mai Matbouli had to change her lifestyle because she was overweight and this was impacting on her health and ability to walk. So, as part

of a unique experiment, Saudi medical professionals gave her a Philips Airfryer, along with other patients suffering from high blood pressure or diabetes, to see if using the Philips Airfryer could help her lose weight.

The Airfryer uses innovative Rapid Air Technology so that up to 80% less fat is used to cook dishes like French fries* – but with remarkably similar results. Nutritious recipes, inspired by a clever and meaningful kitchen tool such as the Airfryer, can transform the health of both kitchen novices and those who think of themselves as culinary experts.

* Compared to frying fresh fries in a conventional Philips deep-fat fryer

6.3 Lighting



“We are leading the industry transformation, capturing market opportunities and creating value for our customers. Going forward, Philips Lighting will become a stand-alone Lighting Solutions company. This will enable us to further capitalize on the fundamental changes taking place in the lighting industry and deliver innovations that create value and boost growth.” 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.
- With our four-pillar strategy our goal is to create further value as a world-class lighting solutions provider.
- We continue on our Accelerate! journey to achieve operational excellence across our businesses.
- The separation process is fully under way and is expected to take approximately 12-18 months.

6.3.1 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, the need for energy-efficient lighting, and the need for digital lighting. The world's population is forecast to grow from 7 billion today to

over 9 billion people by 2050. At the same time, we are witnessing unprecedented urbanization, with over 70% of the world's population expected to live in urban areas by 2050. These trends will increase demand for light. In addition, in the face of resource constraints and climate change, the world needs that light to be energy-efficient. 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 sensors, controls and software and linked into a network, is allowing light points to achieve a degree of intelligence. This is further 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 3-5% per annum between 2013 and 2018. The majority of this growth will be driven by LED-based solutions and applications – heading towards a 60-65% share by 2018 – and growth geographies.

6.3.2 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 124 years, laying the basis for our current strength and leading position in the digital transformation.

We have a firm strategy which is based upon four pillars:

- Lead the technological revolution – strengthening our leadership position through continued innovation in high-quality, energy-efficient and connected LED systems.
- Win in the consumer market – meeting consumers' needs by building on our strength in lighting to deliver high-quality LED lamps and luminaires. We are pioneering and shaping the market with innovative products, such as the Hue connected home lighting system that can be controlled by a smartphone or tablet. In addition, we are expanding new channels to market including online, retailers in food and consumer electronics, and children's retail.
- Drive innovation in professional lighting systems and services – providing integrated offerings for this market, which has been an early adopter of energy-efficient LED and now connected lighting technologies.
- Accelerate! – We have entered the next phase and will transition into a separate legal structure to further our position as a world-class provider of lighting solutions. We aim to fuel growth by strengthening our capabilities and simplifying our organizational structure to become faster and more agile.

We aim to further invest in LED leadership while at the same time capitalizing on our broad portfolio, distribution and brand in conventional lighting by flexibly anticipating and managing the phase-out of conventional products.

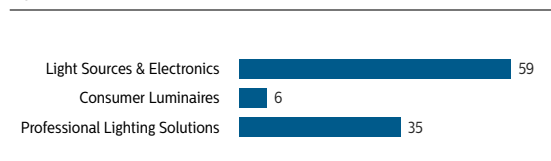
We address people's lighting needs across a full range of market segments. Indoors, we offer lighting solutions for homes, shops, offices, schools, hotels, factories and hospitals. Outdoors, we offer solutions for roads, streets, public spaces, residential areas and sports arenas, as well as solar-powered 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.

In 2014, Philips Lighting spanned 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*

* On June 30, 2014, Philips announced the start of the process to combine the Lumileds and Automotive Lighting businesses into a stand-alone company and explore strategic options to attract capital from third-party investors for this combined business. The results of the combined Lumileds/Automotive Lighting components business are reported as discontinued operations.

Philips Lighting
Total sales by business as a %
2014



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).

The conventional lamps industry is highly consolidated, with GE and Osram as established 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 major 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 37,800 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.

6.3.3 2014 highlights

In 2014, our lighting innovations underlined our four-pillar strategy aimed at delivering even greater value for our customers and other stakeholders.

- Philips is to provide the city of Madrid, Spain with 225,000 energy-efficient street lights. The renewal of the city's entire street lighting system makes it the world's largest street lighting upgrade to date.
- Groundbreaking innovations in LED bulbs include: elimination of the heat sink to make our SlimStyle range flat, so reducing costs; including an innovative lens for a sparkling light effect to mimic the light of an incandescent light bulb; creating CrispWhite, a technological innovation that makes white appear whiter and colors richer, an ideal lighting solution to display products at their best.
- In addition to these innovations for retrofit lamps, we created new concepts by integrating LEDs into carpets and ceiling panels.
- We continued to pioneer innovations in connected lighting, broadening applications in segments such as home, retail, office, sports and city lighting. For offices, we installed the first commercially available Power-over-Ethernet (PoE) connected lighting system, which connects office lighting fixtures to a building's IT network. The lighting system gathers data about how space is being used, helping to reduce energy, heating and cleaning costs, for example, while allowing office workers to set their own personal lighting using their smartphone.
- In cities we continue to install our connected CityTouch lighting system. This intelligent lighting system enables cities to remotely control light points from a single, online user interface to deliver light where and when it is needed, ensuring people feel safe in well-lit streets even while reducing energy consumption. It can dim light points outside of peak hours, detect failures and provide smart lighting workflow support, reducing energy and maintenance costs.
- At the major sports events in Russia (Sochi) and Brazil, we lit up the majority of the stadiums. For Chelsea FC we installed a LED pitch lighting solution designed to provide players, fans and Television broadcasters with an outstanding visual experience. This was the world's first LED pitch lighting to be used by a 'top flight' soccer club that meet the stringent

requirements of broadcasters and sports federations. As the official lighting partner of FC Bayern München, Philips will transform the façade of the Allianz Stadium, into a dynamic and colorful LED display.

- With Philips Hue, our innovative connected lighting system for the home, we continue to transform the way we use light to personalize our homes and bring extraordinary experiences into the living room. We offer the most comprehensive portfolio of lighting products that can be connected to the smart home ecosystem: controls, connected luminaires, connected strips, connected lamps. We also team up with partners like Apple, Logitech, Deutsche Telekom, Syfy Universal and more to deliver a seamless experience, and the ever-growing number of apps developed by third parties will ensure further new experiences over time.
- Philips acquired 51% of General Lighting Company (GLC) in the Kingdom of Saudi Arabia. This company combines Philips' expertise in LED technology and global supply base with GLC's deep local market knowledge and strong commercial capabilities, making it the leading lighting player in the largest economy in the Middle East.

6.3.4 2014 financial performance

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

	2012	2013	2014
Sales	7,303	7,145	6,869
Sales growth			
% increase (decrease), nominal	11%	(2)%	(4)%
% increase (decrease), comparable ¹⁾	4%	1%	(3)%
EBITA ¹⁾	69	580	293
as a % of sales	0.9%	8.1%	4.3%
EBIT	(78)	413	185
as a % of sales	(1.1)%	5.8%	2.7%
Net operating capital (NOC) ¹⁾	4,635	4,462	3,638
Cash flows before financing activities ¹⁾	314	418	442
Employees (in FTEs)	41,757	38,671	37,808

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

In 2014, sales amounted to EUR 6,869 million, 4% lower on a nominal basis. Excluding a 1% negative currency effect, comparable sales decreased by 3%. Light Sources & Electronics recorded mid-single-digit growth and Consumer Luminaires posted a high-single-digit decline, while Professional Lighting Solutions recorded low-single-digit growth.

From a geographical perspective, comparable sales in growth geographies showed a mid-single-digit decline, largely driven by decline across all businesses in China. As a result, sales in growth geographies decreased from 40% of total sales in 2013 to 39% in 2014. Comparable sales in mature geographies showed a low-single-digit

decline, with Western Europe and North America recording a low-single-digit decline and other mature geographies registering a mid-single-digit decline.

Sales of LED-based products grew to 34% of total sales, up from 25% in 2013, driven by Light Sources & Electronics and Professional Lighting Solutions. Sales of energy-efficient Green Products exceeded EUR 4,952 million, or 72% of sector sales.

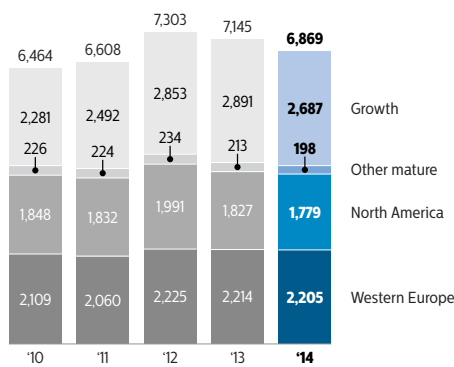
EBITA declined from EUR 580 million, or 8.1% of sales, in 2013 to EUR 293 million, or 4.3% of sales in 2014. Restructuring and acquisition-related charges amounted to EUR 245 million in 2014, compared to EUR 83 million in 2013. 2014 also included a EUR 13 million past-service pension cost gain in the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

EBIT amounted to EUR 185 million, or 2.7% of sales, which included EUR 106 million of amortization charges, mainly related to intangible assets at Professional Lighting Solutions.

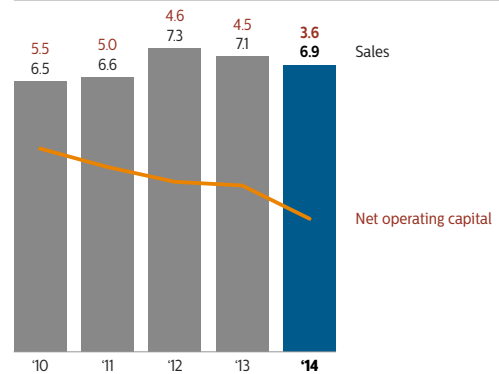
Net operating capital decreased by EUR 824 million to EUR 3.6 billion. The decrease was mainly due to the reclassification of Lumileds and Automotive as assets held for sale in 2014, partly offset by positive currency impacts.

Cash flows before financing activities increased from EUR 418 million in 2013 to EUR 442 million, as lower earnings were partly offset by a reduction in working capital.

Philips Lighting
Sales per geographic cluster in millions of EUR
2010 - 2014

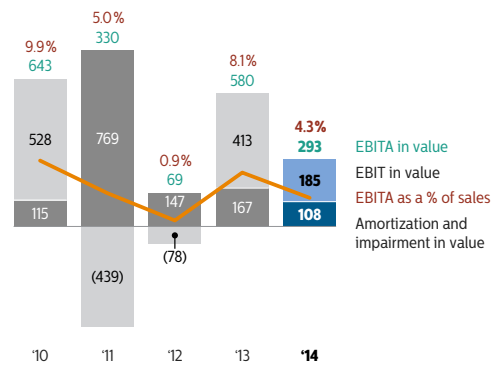


Philips Lighting
Sales and net operating capital¹⁾ in billions of EUR
2010 - 2014



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

Philips Lighting
EBIT and EBITA¹⁾ in millions of EUR
2010 - 2014



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

6.3.5 Delivering on EcoVision sustainability commitments

In 2014, Philips Lighting invested EUR 255 million in Green Innovation, compared to EUR 223 million in 2013 (excluding Lumileds and Automotive at EUR 105 million and EUR 104 million respectively). Investments continue to be made in energy-saving technologies such as LED and connected lighting systems and services. In January, Philips announced the introduction of the new InstantFit LED T8, which reduces costs for facility managers replacing fluorescent tube lighting with energy-efficient LED technology, known as LED tube lamps (TLEDs). TLEDs use up to 40% less energy compared to linear fluorescent tube lighting and require less maintenance due to their long lifetime. If current fluorescent lighting was replaced by TLED lamps globally the energy saving potential would be equivalent to the output of 210 medium-sized power plants.

The energy efficiency of the total product portfolio increased slightly from 40.1 lumens per watt in 2013 to 40.5 lumens per watt in 2014 due to a volume shift in

the portfolio. Within the framework of the Green Operations 2015 program, Philips Lighting has reduced its carbon footprint in manufacturing (scope 1 and 2 emissions) by approximately 40% since the baseline year of 2007. In 2014, 81% of our total industrial waste was re-used as a result of recycling.

6.3.6 2015 and beyond

In September 2014 Philips announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on the HealthTech and Lighting Solutions opportunities. To achieve this transformation, Philips started the process to carve out its Lighting business into a separate legal structure and will consider various options for ownership structures with direct access to capital markets.

As a stand-alone company, the Lighting Solutions business will be better positioned to capture the value which is shifting from individual products to connected LED lighting systems and services.

Philips is also in discussion with external investors for the combined Lumileds and Automotive Lighting businesses and expects to complete a transaction in the first half of 2015. Therefore, the combined businesses of Lumileds and Automotive are reported as discontinued operations in the Consolidated statements of income and cash flows.

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

Further updates will be provided in the course of 2015.



Putting a bridge **back on the map**

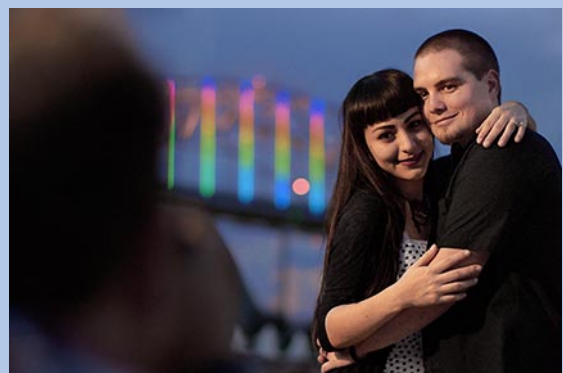
The port city of Corpus Christi, Texas, has always been dominated by its magnificent bridge across the bay. But as times got tougher, the lights on the bridge went out and a nocturnal landmark disappeared.

Happily it's now back – and, with the help of thousands of energy-saving and environmentally-friendly LEDs, it's infinitely more striking than ever before. An exciting new project to re-illuminate the structure, in which the city authorities worked in partnership with Philips, gave the Corpus Christi Harbor Bridge a makeover by treating it as a living work of art.

They didn't just demonstrate how LED lighting in cities can transform a space – they created a vibrant attraction that allowed this industrial design jewel to show itself in a new, 21st century guise. Multi-colored strip lights now pick out the contours of the bridge in a beautiful, ever-changing, ultra-modern display that has become a tourist attraction in its own right and revitalized the area.

“Philips had a very innovative design department. They've been here every day to help us through the process,” says Terry Orf, Senior Architect at Naismith Engineers.

Because the locals love the Corpus Christi Harbor Bridge so much, it has even boosted the fortunes of one local photographer, who now uses the bridge as a dramatic outdoor studio.



6.4 Innovation, Group & Services



“In 2014, we continued to strengthen our innovation process, becoming much more efficient, effective and faster. We are improving our ability to innovate end-to-end and increasing our focus on digital innovation. By using technology, data and algorithms we are making our innovations even more relevant and meaningful for people on an individual level.”

Jim Andrew, Chief Innovation & Strategy Officer

- Philips Research celebrated its 100th anniversary in 2014 – a century-long track record of innovations that improved the world.
- Philips established its Africa Innovation Hub in Nairobi, Kenya, enabling the co-creation of locally relevant solutions, business models and partnerships to address key challenges in the continent.
- Philips rose to number 3 global position of patent applicants at the European Patent Office.
- For Philips Design, 2014 was a record-breaking year with 137 design awards.

Introduction

Innovation, Group & Services comprises the activities of Philips 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.

6.4.1 About Innovation, Group & Services

Philips Group Innovation

At Philips, our innovation efforts are closely aligned with our business strategy. 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.

PGI boosts innovation from idea to product as co-creator and strategic partner for the Philips businesses and complementary Open Innovation ecosystem partners. It does so through cooperation between research, design, marketing, strategy and businesses in interdisciplinary teams along the innovation chain, from front-end to first-of-a-kind product development. In

addition, PGI opens up new value spaces beyond the direct scope of current businesses (Emerging Business Areas), manages the Company-funded 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, and the Emerging Business Areas. In total, PGI employs some 5,000 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 effectiveness and efficiency, capture and 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. Underlining its commitment to locally relevant innovations, Philips established an Innovation Hub for Africa in Nairobi (Kenya), which is enabling the co-creation of new solutions, business models and partnerships to address key challenges in the continent and provide meaningful innovations. This innovation hub cooperates closely with local universities, NGOs and start-ups. As a result, the first Philips Community Life Center was opened in Kenya, which provides access to healthcare, enables social, educational and commercial activities after dark, and enhances neighborhood safety and security.

A joint initiative between PGI, IT and multiple Philips businesses aims at speeding up digital innovation to create personalized solutions. One of the results in 2014 was that Philips, together with Radboud University in Nijmegen, the Netherlands, created the first wearable diagnostic prototype for patients with a chronic obstructive pulmonary disease (COPD) that feeds data collected from patients at home to clinicians through the Philips HealthSuite Digital Platform.

Philips Research

Philips Research, which celebrated its 100th anniversary in 2014, 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 Philips' vision and strategy and inspired by unmet customer needs as well as major societal challenges.

At Light & Building, the world's leading trade fair for lighting and building services technology, Philips launched Power-over-Ethernet connected lighting. This ground-breaking lighting system enables the connection of office lighting fixtures to a building's IT network, via standard network cables. The lighting system acts as an information pathway, enabling workers to control and access other building services via their smartphones and reduces the cost of ownership for building owners.

In the area of Healthcare, Philips Research co-created with John Hopkins University and Hospital a new 3D MRI-based technology to assess liver tumor response after chemo-embolization. This 3D technology can precisely measure living and dying tumor tissue to quickly show whether highly toxic chemotherapy – delivered directly through a tumor's blood supply – is working.

Together with Consumer Lifestyle, several digital propositions for connected products have been co-created, such as the Smart Air Purifier, which provides insights into the cleanness of the air via an app. Another example is the iGrooming app, which provides consumers with a style preview and advice for shaving.

Philips and Eindhoven University of Technology (TU/e) announced a strategic cooperation aimed at accelerating the exploration and development of digital innovations in healthcare, lighting and data science.

Philips Innovation Services

Philips Innovation Services offers a wide range of technical and industry consulting services in development, industrialization and supply chain. Innovation Services' skills are leveraged by Philips Businesses, Markets and Philips Group Innovation in all regions and in a wide range of projects across the end-to-end value chain.

Examples of recent contributions by Innovation Services are: the Vereos PET/CT scanner; the Smart Air Purifier; the SlimStyle LED lamp and Luminous Carpets. Innovation Services also supports Philips' drive to deliver innovations that are locally relevant, such as a low-cost LED lamp for Africa.

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, Patient Care & Monitoring Solutions, and Healthcare Informatics, Solutions & Services. 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 has 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.

Together with the Healthcare Transformation Services business, Philips Design is developing in-depth consulting relationships with our Healthcare partners. The Experience Design team recently supported the complete renovation of the Infusion Center for cancer patients at the Broward Health Medical Center in Florida, USA, in order to improve the experience for patients and optimize workflow for staff. The successful design outcome was recognized with an Avatar Patient Experience award and the Healthcare Design award in 2014.

Philips Design is widely recognized as a world leader in design, and 2014 was a record-breaking year with 137 design awards. Especially worth mentioning is the impressive haul of 47 iF awards and 39 Red Dot Awards, the latter including a 'best of the best' award for the Ambient Experience IBA Proton Therapy Suite installed at the Willis-Knighton Cancer Center in Shreveport, Louisiana (US).

Philips Healthcare Incubator

The Philips Healthcare Incubator is a business group dedicated to identifying, developing and bringing to market breakthrough products and services that drive the future of healthcare. One example is by empowering pathologists with a complete connected

digital pathology solution that is designed to optimize productivity and workflow, and ultimately to improve the quality of diagnosis.

Another proposition called Minicare provides direct diagnostic information at the patients' bedside, enabling physicians to make medical decisions on the spot. Based on innovative technologies, we have designed easy-to-use, patient-centric IVD (in-vitro diagnostics)-enabled solutions and connected services that have the potential to revolutionize health management and improve existing workflows.

In the third quarter of 2014, Philips completed the acquisition of Unisensor, a start-up company offering technology which we plan to leverage for miniaturized, mobile diagnostics solutions.

Philips Emerging Business Areas

Philips Emerging Business Areas identify, create and grow new activities that are outside the scope of the current operating businesses. The portfolio is managed on a venturing basis. The opportunities and business models identified by the individual new business activities determine the approach to commercial partnerships, sourcing of technology, and platforms to reach customers. Current examples of successful new solution businesses or enablers for these include Horticulture, Light for Health, Photonics, and Wearable Sensing Technologies.

Philips is ushering in a new era of indoor farming with LED 'light recipes' that help optimize crop yield and quality. Indoor farms grow vegetables sustainably and locally in areas where traditional field farming is not feasible. Philips Horticulture LED solutions are being applied on a large scale at forward-thinking growers worldwide like Green Sense Farms near Chicago, the city farm of Osaka Prefecture University, and the tomato nurseries Wim Peters in the Netherlands and R&L Holt in the UK.

Leveraging its advanced understanding of the biological effects of light, a team of Philips Light for Health researchers, collaborating with leading research institutions and hospitals, has developed a number of products that feature LED light and offer proven medical benefits.

Philips Photonics is a global leader in VCSEL technology and designs, manufactures, markets and sells VCSEL-based solutions for data communications, consumer and industrial applications. VCSELS are LED-like lasers enabling applications like gesture control, environmental sensing, precise scene illumination for surveillance cameras, and ultra-fast data communication. Philips Photonics has enabled the introduction of laser-based PC mice and high-bit-rate active optical cables, as well as introducing VCSEL-based solutions for industrial processing of plastic materials.

Philips Wearable Sensing Technologies (WeST) delivers accurate and reliable continuous personal health measurements through modules specifically designed for integration in wearable devices. The first-generation module fueled a new product category of heart rate-monitoring sport watches that work without a chest-strap.

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 14,200 patent families (68,400 patent rights), 2,780 trademark families (46,600 trademark rights), 3,650 design families (91,400 design rights) and 2,130 domain name families (4,850 domain names). Philips filed 1,680 patent applications in 2014, 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 Philips operating businesses. A substantial portion of revenue and costs is allocated to the operating businesses. 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.

6.4.2 2014 financial performance

Philips Innovation, Group & Services
Key data in millions of EUR unless otherwise stated
 2012 - 2014

	2012	2013	2014
Sales	629	665	605
Sales growth			
% increase (decrease), nominal	(8)%	6%	(9)%
% increase (decrease), comparable ¹⁾	(6)%	0%	(12)%
EBITA of:			
Group Innovation	(149)	(134)	(197)
IP Royalties	253	312	299
Group and regional costs	(161)	(175)	(205)
Accelerate! investment	(128)	(137)	(131)
Pensions	24	(41)	(12)
Service units and other	(587)	(124)	(415)
EBITA ¹⁾	(748)	(299)	(661)
EBIT	(756)	(302)	(675)
Net operating capital (NOC) ¹⁾	(4,500)	(2,922)	(3,718)
Cash flows before financing activities ¹⁾	(851)	(2,140)	(1,586)
Employees (in FTEs)	11,697	12,703	13,853

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

In 2014, sales amounted to EUR 605 million, and were mainly related to IP Royalty income and our OEM Remote Control business. Sales were EUR 60 million lower than in 2013, mainly due to lower income from Group Innovation and IP Royalties.

EBITA amounted to a loss of EUR 661 million, compared to a loss of EUR 299 million in 2013. In 2014, EBITA included EUR 110 million of restructuring and acquisition-related charges, EUR 244 million of provisions related to various legal matters and a EUR 27 million past-service pension gain in the Netherlands. 2013 EBITA included EUR 3 million of restructuring and acquisition-related charges and a pension settlement loss of EUR 25 million.

EBITA at Group Innovation was a EUR 63 million higher net cost than in 2013, mainly due to higher restructuring charges and higher investments in emerging business areas.

EBITA at Group and Regional Overhead costs were EUR 30 million lower than in 2013, mainly due to higher restructuring costs.

Accelerate! investments amounted to EUR 131 million in 2014, and include investments in IT infrastructure, internal departments and external consultancy dedicated to the Accelerate! program.

EBITA at Pensions amounted to a net cost of EUR 12 million, and represent costs related to deferred pensioners covered by company plans. In 2013, Pensions amounted to a net cost of EUR 41 million and

was impacted by a EUR 31 million settlement loss arising from a lump-sum offering to terminated vested employees in our US pension plan.

EBITA at Service Units and Other decreased from a loss of EUR 124 million in 2013 to a loss of EUR 415 million in 2014. The decrease was largely driven by EUR 243 million of charges related to legal matters.

Net operating capital decreased to negative EUR 3.7 billion, mainly due to an increase in working capital.

Cash flows before financing activities improved from an outflow of EUR 2,140 million in 2013 to an outflow of EUR 1,586 million.

6.4.3 2015 and beyond

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

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

Further updates will be provided in the course of 2015.

8 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 11, Corporate governance, of this Annual Report.



Frans van Houten
Born 1960, Dutch

President/Chief Executive Officer (CEO)

Chairman of the Board of Management since April 2011

Group responsibilities: Chairman of the Executive Committee, Sector Healthcare, Internal Audit, Information Technology, Supply Management, Marketing & Communication, Accelerate! - Overall transformation, End2End



Jim Andrew
Born 1962, American

Executive Vice President &

Chief Strategy and Innovation Officer

Group responsibilities: Strategy, Innovation, Design, Sustainability, Accelerate! - Resource to win



Marnix van Ginneken
Born 1973, Dutch/American

Executive Vice President & Chief Legal Officer

Corporate responsibilities: Legal and General Secretary



Denise Haylor

Born 1964, English/American

Executive Vice President & Chief Human Resources Officer

Corporate responsibilities: Human Resources, Accelerate! - Culture



Pieter Nota

Born 1964, Dutch

Executive Vice President & Chief Executive Officer of Philips Consumer Lifestyle Member of the Board of Management since April 2011

Group responsibilities: Sector Consumer Lifestyle, Accelerate! - Resource to Win



Ronald de Jong

Born 1967, Dutch

Executive Vice President & Chief Market Leader

Group responsibilities: Markets, Areas & Countries (except Greater China & North America), Accelerate! - Customer Centricity



Eric Rondolat

Born 1966, Italian/French

Executive Vice President & Chief Executive Officer Philips Lighting

Group responsibilities: Sector Lighting



Patrick Kung

Born 1951, American

Executive Vice President & Chief Executive Officer Philips Greater China

Group responsibilities: Philips Greater China



Ron Wirahadiraksa

Born 1960, Dutch

Executive Vice President & Chief Financial Officer (CFO)

Member of the Board of Management since April 2011
Group responsibilities: Finance, Mergers & Acquisitions, Accelerate! - Operating Model

9 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 10, Supervisory Board report, of this Annual Report and section 11.2, Supervisory Board, of this Annual Report.



Jeroen van der Veer
Born 1947, Dutch ** ***

Chairman

Chairman of the 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.



Orit Gadiesh
Born 1951, Israeli/American *

Member of the Supervisory Board since 2014; first term expires in 2018

Currently Chairman of Bain & Company. Member of the International Business Leaders' Advisory Council for the Mayor of Shanghai (IBLAC) and the Foundation Board of the World Economic Forum (WEF) and its International Business Council. Member of the Supervisory Board of privately held RMAG-Renova. Also serves on the Advisory Board for the British-American Business council



Kees van Lede
Born 1942, Dutch *

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.

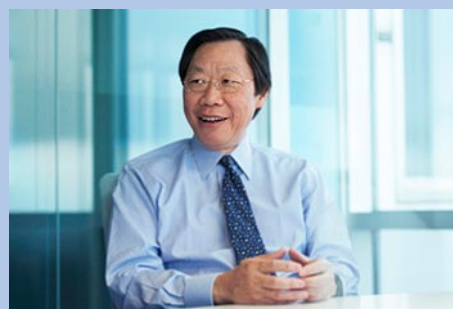


Ewald Kist

Born 1944, Dutch **

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



Jackson Tai

Born 1950, American *

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 Boards of Directors of The Bank of China Limited, MasterCard Incorporated and Eli Lilly and Company. Also Non-Executive Director of privately-held Russell Reynolds Associates and of Vapor Stream



Heino von Prondzynski

Born 1949, German * * * * *

Chairman of the Remuneration Committee
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 Boards of HTL Strefa and Epigenomics AG. Member of the Supervisory Boards of Hospira, Inc. and Quotient Ltd.



Christine Poon

Born 1952, American * * * * *

Vice-chairman and Secretary
Member of the Supervisory Board since 2009;
second term expires in 2017

Former Vice-Chairman of Johnson & Johnson, member of the Board of Directors, and Worldwide Chairman of the Pharmaceuticals Group. Currently Professor of management of Ohio State University's Fisher College of Business and member of the Board of Directors of Prudential, Regeneron and Sherwin-Williams



Neelam Dhawan

Born 1959, Indian *

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

Currently Managing Director of Hewlett-Packard India

* member of the Audit Committee

** member of the Remuneration Committee

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

18 Definitions and abbreviations

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.

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.

Circular economy

A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using those resources more effectively. By definition 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 use of materials enables to create more value, both by cost savings and by developing new markets or growing existing ones.

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 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.

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)

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.

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).

Voluntary turnover

Voluntary turnover covers all employees who resigned of their own volition.

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.

19 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 5.5, Outlook, 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 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 7, Risk management, 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 2014 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, as explained in the significant accounting policies, 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 15, Reconciliation of non-GAAP information, 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).

