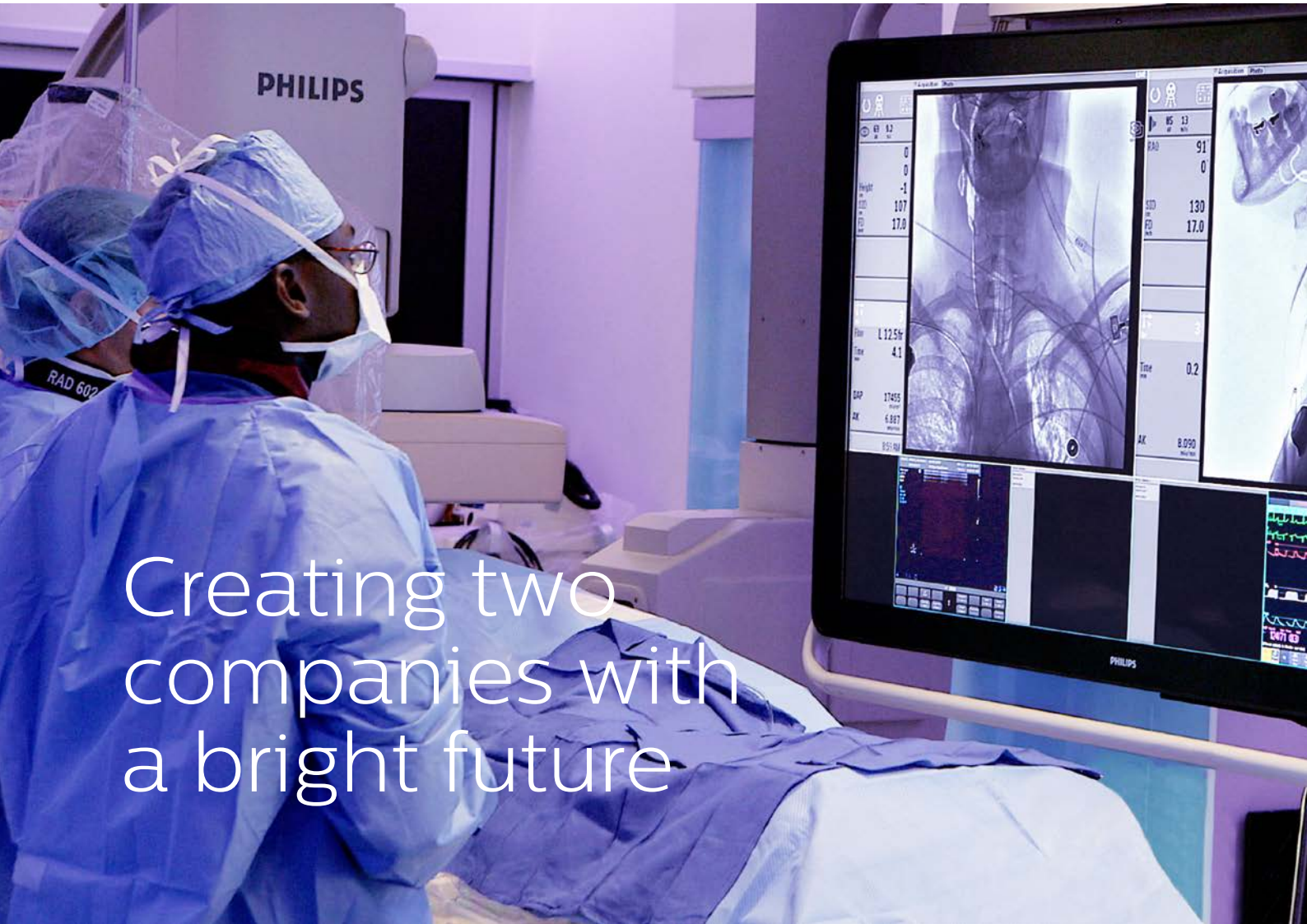


The Philips logo is displayed in a white rounded rectangle on a dark blue background. The logo itself is in blue, bold, sans-serif capital letters.

Annual Report
2015

Analyst selection

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 2015. The information in this PDF has been derived from the audited financial statements 2015 of Koninklijke Philips N.V. KPMG has issued unqualified auditors' reports on these financial statements.



Creating two
companies with
a bright future

Contents

IFRS basis of presentation

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

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).

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 opportunities respectively. We have established a stand-alone structure for Philips Lighting within the Philips Group effective February 1, 2016. We expect to be able to announce the separation of the Lighting business in the first half of 2016, subject to market conditions and other relevant circumstances. As previously stated, we are reviewing all strategic options for Philips Lighting, including an initial public offering and a private sale.

It should however be noted that the completion of the separation could take more time than originally planned or anticipated and that there is no certainty as to the method or timing of the separation of the Lighting business, which may expose Philips to risks of additional cost and other adverse consequences. For further information on specific risks involved in the separation please refer to chapter 7, Risk management, of this Annual Report.

The separation impacts all businesses and markets as well as all supporting functions and all assets and liabilities of the Group. With effect from Q1 2016 onwards Philips plans to report and discuss its financial performance on the basis of different reportable segments than the sectors currently presented and discussed in this Annual Report. For more details on the new segment reporting in 2016 and onwards, please refer to the introduction of chapter 6, Sector performance, of this Annual Report.

As announced on January 22, 2016, the agreement pursuant to which the consortium led by GO Scale Capital would acquire an 80.1% interest in the combined businesses of Lumileds and Automotive, has been terminated. Philips is now actively engaging with other parties that have expressed an interest in the businesses and will continue to report the Lumileds and Automotive businesses as discontinued operations (see note 3, Discontinued operations and other assets classified as held for sale).

Further updates will be provided in the course of 2016.



Philips ArenaVision LED is the world's first LED pitch lighting to meet the stringent requirements of international television broadcasters and sports federations, ensuring a fantastic match experience, both for the fans in the stadium and those watching at home.



Increasingly, Philips is teaming up with hospital and health systems to understand their needs, provide integrated solutions, and engage in multi-year cooperation to drive improvements in terms of patient outcomes, quality of care delivery and cost productivity.

Grey text indicates parts not included in this selection from the Philips Annual Report 2015.

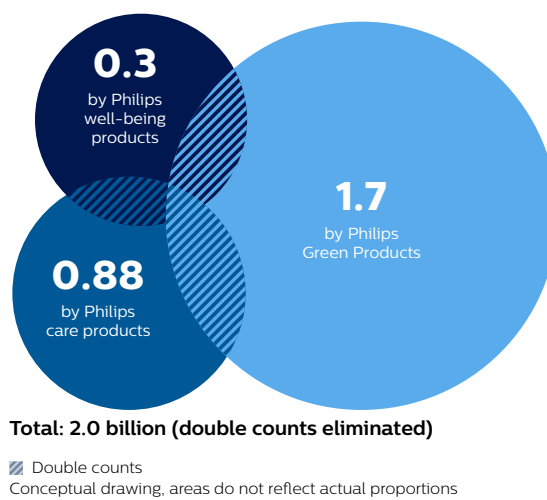
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1 Performance highlights

Philips Group
Key data in millions of EUR unless otherwise stated
 2014 - 2015

	2014	2015
Sales	21,391	24,244
Comparable sales growth	(1)%	2%
EBITA	821	1,372
as a % of sales	3.8%	5.7%
EBIT	486	992
as a % of sales	2.3%	4.1%
Net income	411	659
Net income attributable to shareholders per common share in EUR:		
basic	0.45	0.70
diluted	0.45	0.70
Net operating capital	8,838	11,096
Free cash flow	497	325
Shareholders' equity	10,867	11,662
Employees at December 31	113,678	112,959
continuing operations	105,365	104,204
discontinued operations	8,313	8,755

Philips Group
Lives improved in billions

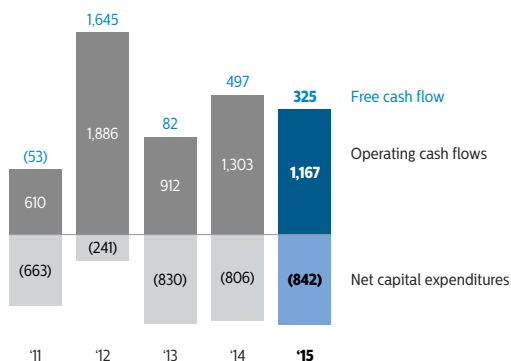


Performance in millions of EUR unless otherwise stated
 2014 - 2015

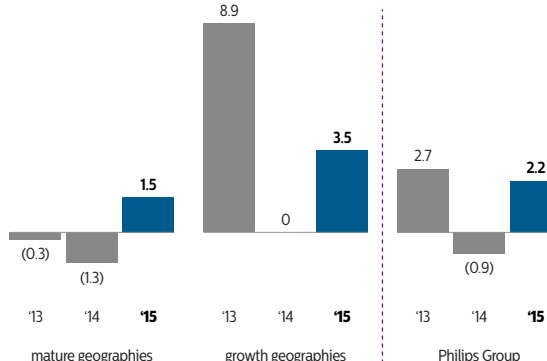
	Group			Healthcare			Consumer Lifestyle			Lighting		
	2014	2015		2014	2015		2014	2015		2014	2015	
Sales	21,391	24,244	13% ▲	9,186	10,912	19% ▲	4,731	5,347	13% ▲	6,869	7,411	8% ▲
Green Product sales	11,065	13,014	18% ▲	3,508	4,580	31% ▲	2,605	3,091	19% ▲	4,952	5,343	8% ▲
Sales in mature geographies ¹⁾	14,004	15,836	13% ▲	6,890	8,207	19% ▲	2,508	2,784	11% ▲	4,182	4,425	6% ▲
Sales in growth geographies ¹⁾	7,387	8,408	14% ▲	2,296	2,705	18% ▲	2,223	2,563	15% ▲	2,687	2,986	11% ▲
EBITA	821	1,372	67% ▲	616	1,024	66% ▲	573	673	17% ▲	293	594	103% ▲
Net operating capital	8,838	11,096	26% ▼	7,565	9,212	22% ▼	1,353	1,453	7% ▼	3,638	3,813	5% ▼

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

Philips Group
Free cash flow in millions of EUR
 2011 - 2015

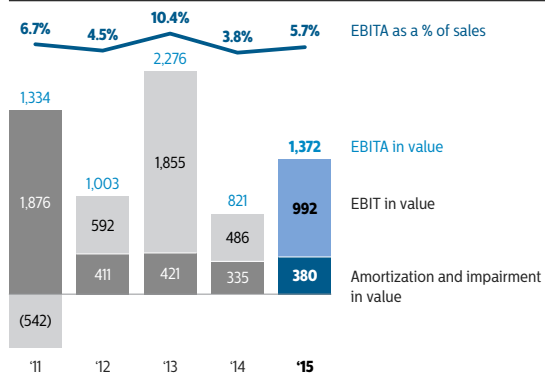


Philips Group
Comparable sales growth by geographic cluster¹⁾ in %
 2013 - 2015



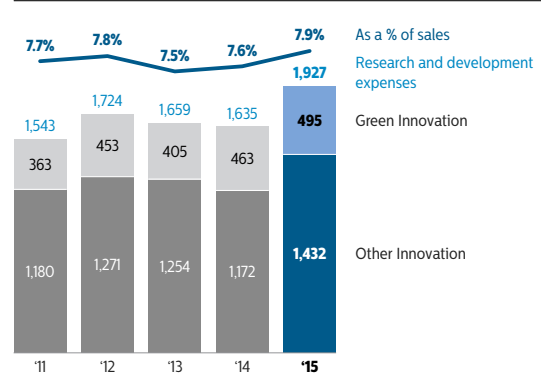
¹⁾ For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

Philips Group
EBIT and EBITA¹⁾ in millions of EUR
 2011 - 2015

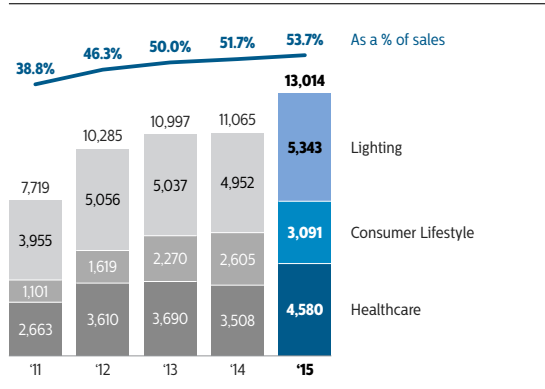


¹⁾ For a reconciliation to the most directly comparable GAAP measures, see chapter 15, Reconciliation of non-GAAP information, of this Annual Report

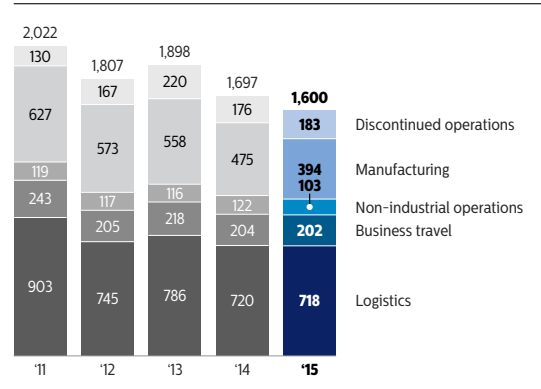
Philips Group
Research and development expenses in millions of EUR
 2011 - 2015



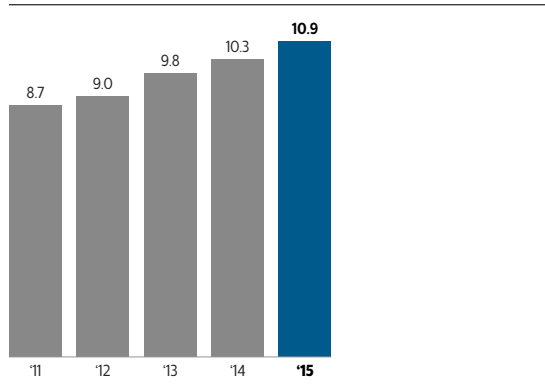
Philips Group
Green Product sales per sector in millions of EUR
 2011 - 2015



Philips Group
Operational carbon footprint in kilotonnes CO₂-equivalent
 2011 - 2015

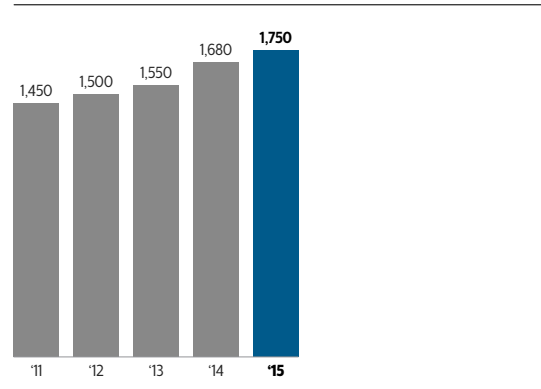


Philips Group
Brand value¹⁾ in billions of USD
 2011 - 2015



¹⁾ As measured by Interbrand

Philips Group
New patents filed in number of patents
 2011 - 2015



2 Message from the CEO



“After separating, Philips will focus on driving higher growth and higher value from its core activities in the field of health technology, and Lighting will have a great future as a stand-alone company.” Frans van Houten, CEO Royal Philips

Dear stakeholder,

2015 was a crucial year for Philips as we restored growth and improved productivity. We also took the decisive next step in our Accelerate! transformation – separating out our Lighting business and moving away from a diversified holding structure to create two stand-alone companies, each with their own clearly defined strategic direction and focus. We believe this is the best way to create lasting value for our customers and shareholders and a bright future for our employees.

Given the major challenges the world faces, for instance in terms of population health management, energy resource constraints and climate change, we see significant opportunities for the two companies – both leveraging the trusted Philips brand – to apply their innovative competencies and capture higher growth in attractive end-markets, which are very much in a state of transition.

Two companies with a bright future

Philips will focus on the exciting opportunities in the area of health technology, delivering meaningful innovation to improve people’s lives across the health continuum – through new, more integrated forms of care delivery.

With an expanding and aging population, the rise of chronic diseases, and global resource constraints, health systems all over the world are under tremendous pressure. At the same time, more and more people are keen to take an active role in managing their own health. And digital technology, whilst bringing vast new opportunities, is shifting value from devices to software and services. All of this is driving the convergence of professional healthcare and consumer end-markets.

By leveraging our advanced technology, deep clinical and consumer insights, long-standing customer relationships, our new HealthSuite digital cloud platform, and integrated solutions portfolio, we can improve people’s health and enable better outcomes at lower cost across the health continuum.

In the field of lighting, the industry is undergoing a radical transformation. Population growth and urbanization are increasing demand for light, specifically energy-efficient light. At the same time, the rapid rise of LED and the mass adoption of digital technology are driving a shift towards connected lighting. With connected lighting, the lighting fixtures not only provide high-quality illumination, but are also fitted with sensors and connected to the building's IT network infrastructure, forming an 'information pathway'. This is opening up new applications where we can deliver extraordinary value beyond illumination, also via new service-based business models.

As a more agile, stand-alone company with direct access to capital markets, we believe that our Lighting business will be better able to strengthen its position as the world leader in lighting solutions, boost scale and capture growth.

2015 a year of solid progress

Amidst all this transformation, it was vital that we improved our performance in 2015, giving our customers the product and service innovation they expect.

Overall, 2015 was a solid year for Philips, in which we recorded consistent performance improvements in the face of challenging economic conditions. Sales were up 2% on a comparable basis, driven by 4.5% growth in our HealthTech portfolio. Profitability also increased thanks to the improved operational performance, overhead cost savings, a reduction in cost of goods sold and process optimization, partly offset by the significant impact of currency headwinds, higher investments in R&D, settlement costs for pension de-risking, and ongoing investments to improve our quality management systems.

We reinvigorated our Healthcare business in North America and gained momentum in winning large-scale multi-year healthcare enterprise deals, e.g. with Westchester Medical Center (USA) and Mackenzie Health (Canada). And at our Imaging Systems facility in Cleveland we saw a gradual ramp-up of production in the course of the year. In February 2015 we completed the acquisition of Volcano, improving our position in the growing image-guided therapy market and strengthening our ability to deliver the benefits of minimally invasive therapies, such as faster recovery and shorter hospital stays. Post-merger integration is making good progress.

We also continued to deliver impressive growth and strong earnings across the majority of our Consumer Lifestyle portfolio. Our Health & Wellness and Personal Care businesses performed very well, delivering another year of high growth and margin expansion. Expanding our offering to help consumers make healthier choices, we launched the first in a series of personal health apps at the IFA trade fair in Berlin. Built on our Philips HealthSuite digital platform, these

personal health programs represent a new era in connected care, as healthcare continues to move outside the hospital and into our homes and everyday lives.

Lighting had another year of excellent operational improvements, recording double-digit growth and margin expansion in LED, the key segment in the industry, while continuing to actively manage the decline of the conventional lighting market. Further improvement in profitability was mainly driven by cost productivity and procurement savings.

The power of our connected lighting propositions, based on IoT (Internet of Things) technology, was underscored by the opening of the world's most sustainable office building, The Edge in Amsterdam, which features Philips' smart connected lighting solution, with Power over Ethernet. In the US, Los Angeles remotely manages more than 100,000 street lights with our CityTouch lighting management system to create a more livable and safe city. And in the home, our Hue connected lighting platform continues to be a resounding success. Towards the end of the year, we teamed up with Cisco and SAP to address the opportunities in the office and street lighting markets respectively.

The termination of the planned sale of Lumileds to a consortium led by GO Scale Capital was of course a disappointing outcome, but we are actively engaging with other parties that have expressed an interest in the Lumileds business.

Accelerate! driving performance improvement

In 2015, our multi-year Accelerate! program again helped us to step up growth and increase margins, despite deteriorating macro-economic conditions in a number of markets. Through Accelerate! and the implementation of the Philips Business System (PBS) we continue to drive improvements across the organization. The PBS is helping us to further tighten our focus on quality and excellence and enhance productivity through continuous improvement methodologies, while embedding new capabilities and making us more agile, entrepreneurial and customer-centric, with a culture of higher performance. This is evidenced by the many large-scale multi-year hospital deals we won in 2015 and our improving growth and margins despite the difficult economic times.

The PBS is also helping to reduce time-to-market for our innovations through Lean transformations of our customer value chains. And it is supporting our drive to become a digital company, both in how we work and in what we offer to the market, e.g. our Philips HealthSuite digital platform and connected LED lighting. Last but not least, it is driving overhead cost and productivity savings, offsetting headwinds and enabling us to improve our operating results over the year, notwithstanding an increase in our Research & Development expenses to 7.9% of sales.

Innovating for a healthier, more sustainable world

In 2015, our innovative solutions and services improved the lives of 2 billion people around the world. Underlining our strength in the creation and protection of intellectual property we filed 1,750 new patents during the year and were named the world’s second-largest patent applicant for patents filed at the European Patent Office.

We also entered into a five-year research alliance with Massachusetts Institute of Technology (MIT) to develop breakthrough innovations in health technology and connected lighting. And our North American research organization moved to the Cambridge, Mass. area to facilitate collaboration with MIT, academic hospitals, and business partners.

In 2015, we again delivered on our sustainability commitments, with Green Products accounting for 54% of total sales. Philips was recognized as a world leader for corporate action on climate change, achieving a perfect score (100A) in the Carbon Disclosure Project (CDP) Climate Change survey for the 3rd year in a row, and being named Leader in the Industrial Conglomerates category in the Dow Jones Sustainability Index. Keeping up the momentum, we committed to making Philips’ operations carbon-neutral by 2020 at the 2015 Paris climate conference.

Underlining the importance we attach to ‘doing good while doing well’, the Philips Foundation entered into global innovation partnerships with the Red Cross and UNICEF, as well as supporting a host of innovation projects designed to make a difference in the communities and lives of those most in need.

Strategic priorities for 2016

In light of the global trends and opportunities outlined above and the innovative competencies we can bring to bear, both our health technology and lighting businesses are well placed to thrive as markets drive greater demand for our solutions and services.

Both companies are deeply committed to delivering on their strategic opportunities. For Philips, serving the health technology markets, this means building strong consultative customer relationships, selling value-added solutions and winning more large-scale, multi-year projects with healthcare providers. It also means delivering growth from innovation investments, establishing the Philips HealthSuite digital platform as a leading cloud-based enabling solution, and boosting scale in its existing businesses.

For Lighting, as a stand-alone company, it means: optimizing returns from conventional products to fund innovation in LED, to outpace the market; leading the shift to LED systems, building the largest IoT connected installed base; capturing adjacent value through new Services business models; and being its customers’ best business partner locally, leveraging its global scale.

Both companies will remain strongly committed to improve performance and capture higher growth, focusing ever more closely on customers’ needs, driving new ways to innovate and leveraging partnerships, embracing digital technology in their ways of working, and relentlessly driving a mindset of continuous improvement and operational excellence.

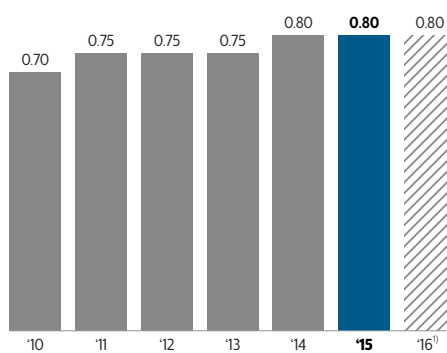
It is my deepest conviction that both Philips and Lighting stand to benefit from the separation, as it will enable greater focus on their respective attractive markets and allow them to capture higher growth and deliver higher profitability.

In conclusion

For 2016, we continue to expect modest comparable sales growth and we will build on our 2015 operational performance improvement. Taking into account ongoing macro-economic headwinds and the phasing of costs and sales, we expect improvements in the year to be back-end loaded.

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 shares.

Philips Group
Dividend per common share in EUR
2010-2016



¹⁾ Subject to approval by the 2016 Annual General Meeting of Shareholders

I would like to thank our customers, shareholders and other stakeholders for their continued support. I also want to thank all our employees for their dedication and effort this past year.

In 2016, Philips celebrates 125 years in business. That’s a tremendous feat for an innovation company, especially in such a fast-changing world. And I’m convinced that there is much more to come, as we continue to improve people’s lives through meaningful innovation.

Frans van Houten
Chief Executive Officer

3 Philips in 2015 at a glance



January 21
Philips Foundation announces global innovation partnerships with the Red Cross and UNICEF



February 17
Philips completes acquisition of Volcano



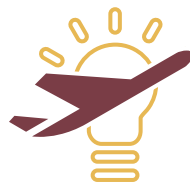
February 26
Philips becomes second-largest patent applicant at the European Patent Office



March 2
A record-breaking number of 52 winners at the iF DESIGN AWARD 2015



April 8
Los Angeles to control its street lighting through mobile and cloud-based technologies from Philips



April 16
Philips provides Light as a Service to Schiphol Airport



May 7
AGM approves separation of Lighting business from Royal Philips



May 19
Philips signs five-year research alliance with Massachusetts Institute of Technology



June 16
Multi-year partnership with Westchester Medical Center Health Network to transform patient care



June 25
Philips connected lighting a key feature of sustainable office building The Edge in Amsterdam



July 6
Philips opens GrowWise City Farming research center in Eindhoven to develop light growth recipes



September 3
Philips introduces personal health programs at IFA in Berlin



September 8
Leading global health institutions digitize pathology workflows with Philips to enhance diagnoses



September 10
Philips industry leader in 2015 Dow Jones Sustainability Index



September 14
Technology agreement with Catharina Hospital for largest cardiovascular center in the Netherlands



October 9
Philips celebrates 90 years of design



November 10
Philips and Canada's Mackenzie Health announce 18-year strategic partnership



December 7
Philips commits to making its operations carbon-neutral by 2020 at COP21 Paris climate conference



December 9
Philips and Cisco form global strategic alliance to address EUR 1 billion office lighting market



December 14
Philips wins a Thomson Reuters 2015 Top 100 Global Innovator Award

4 Our strategic focus

4.1 Addressing global challenges

Guided by our passion to improve people’s lives, Philips has been a leader in building and shaping markets with meaningful innovations for 125 years. With the world facing the challenge of tackling climate change and energy constraints, as well as providing effective and affordable healthcare to a growing global population, we see compelling opportunities in the health technology and lighting markets.

Determined to win in both, we are separating out our Lighting activities as a stand-alone company. This will create more focus, giving Lighting the opportunity to grow and capture the vast opportunities in energy-efficient, digital lighting products, systems and services, and Philips the enhanced focus to expand its core business to address the opportunities in the health technology market.

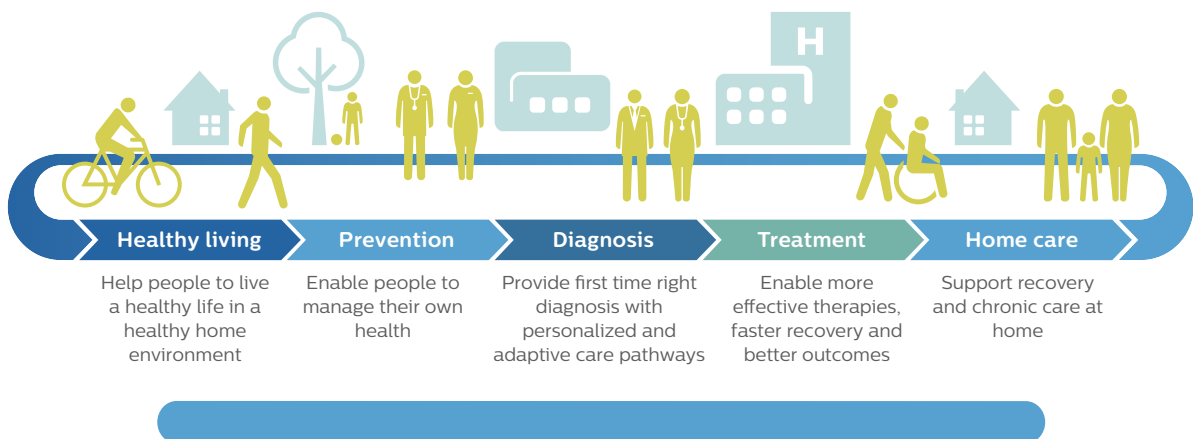
We see a growing need for better health and better care at lower cost

Global resource constraints on health systems are driving a shift to value-based healthcare to reduce cost, increase access and improve outcomes. At the same time, aging populations across the globe and the rise of chronic conditions are driving a shift of care to lower-cost settings and the home.

In parallel, more and more people are looking for new ways to proactively monitor and manage their health. And the digitalization of healthcare is shifting value from devices to software and services.

These challenges can only be met through new, more integrated forms of care delivery across the health continuum, with a shift away from today’s focus on acute care and late-stage interventions.

In an increasingly connected world, the convergence of Philips’ consumer technologies that facilitate healthy living, medical technologies that help clinicians to deliver better diagnosis and treatment, and cloud-based technologies that enable data sharing and analysis, will be a key enabler of more effective, lower-cost integrated health solutions. This fits very well with our core strengths in professional healthcare and in consumer health and well-being.



In a total addressable market estimated at over EUR 140 billion, we are well positioned to leverage advanced technology and our deep clinical and consumer insights to deliver integrated solutions that improve people's health and enable better outcomes across the health continuum.



We have defined five priority areas: personal health, definitive diagnosis, minimally invasive guided therapy, population health management, and connected care delivery. And our focus on cardiology, oncology, respiratory care, and fertility, pregnancy and parenting already gives us a broad-based opportunity to expand our integrated solutions capabilities.

More and more, we are teaming up with hospital and health systems to understand their needs, provide integrated solutions, and engage in multi-year cooperation to drive improvements in terms of patient outcomes, quality of care delivery and cost productivity.

Going forward, we will further drive the benefits of scale in our current businesses while delivering additional growth from continuing investments in innovation. And establishing the Philips HealthSuite digital platform as a leading cloud solution to connect consumers, patients and providers will allow us to introduce value propositions with recurring revenue streams.

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

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



More light



More energy-efficient light



Digital light

The rapid rise in the world's population and in new lighting applications is driving up global demand for light. At the same time, with lighting accounting for 19% of global electricity consumption, the world 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 benefit from the compelling new applications that connected digital lighting can offer, delivering value beyond illumination.

As a stand-alone company, our Lighting business is well positioned to capture the value that 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 65 billion.



Optimizing returns from its conventional products to fund growth, Philips Lighting is committed to innovate in LED to outpace the market. It will continue to lead the shift to Systems, building the industry's largest connected installed base and capturing value through new Services business models with recurring revenue streams, e.g. Light as a Service. And, leveraging its global scale, it will continue to strive to be its customers' best business partner locally.

4.2 How we create value

Understanding and meeting people's needs

Building upon our long history of innovation, we take a systematic approach to value creation. Our starting point is always to understand the specific challenges local people face – whether they be a doctor, a real estate developer, a hospital director, a city planner, a consumer, etc.

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

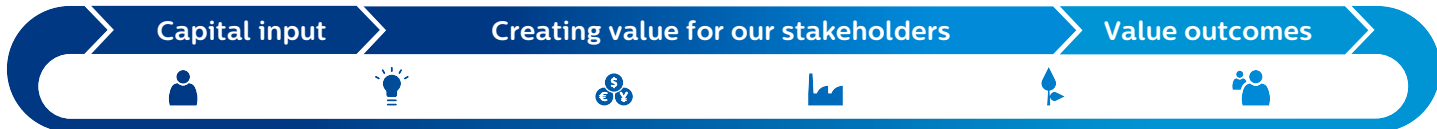
To measure the impact our solutions are having around the world, we have developed our independently verified Lives Improved model. We take a two-dimensional approach – social and ecological – to improving people's lives. Products and solutions that directly support the curative (care) or preventive (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

With its four interlocking elements, the Philips Business System (PBS) is designed to help us deliver on our mission and vision – and to ensure that success is repeatable. As we execute our strategy and invest in the best opportunities, leverage our unique strengths and become operationally excellent, we will be able to consistently deliver value to our customers, consumers and other stakeholders.

- **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 – our deep customer insights, technological innovation, global footprint, our people, and the trusted Philips brand – as they create differential value.
- **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.



Capital input

Creating value for our stakeholders

Value outcomes

Human

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.

Intellectual

We apply our innovation and design expertise to create new products and solutions that meet local customer needs.

Financial

We raise the funds we need from shareholders and other capital providers. We allocate this capital to the businesses and markets we think offer the best prospects for growth and returns.

Manufacturing

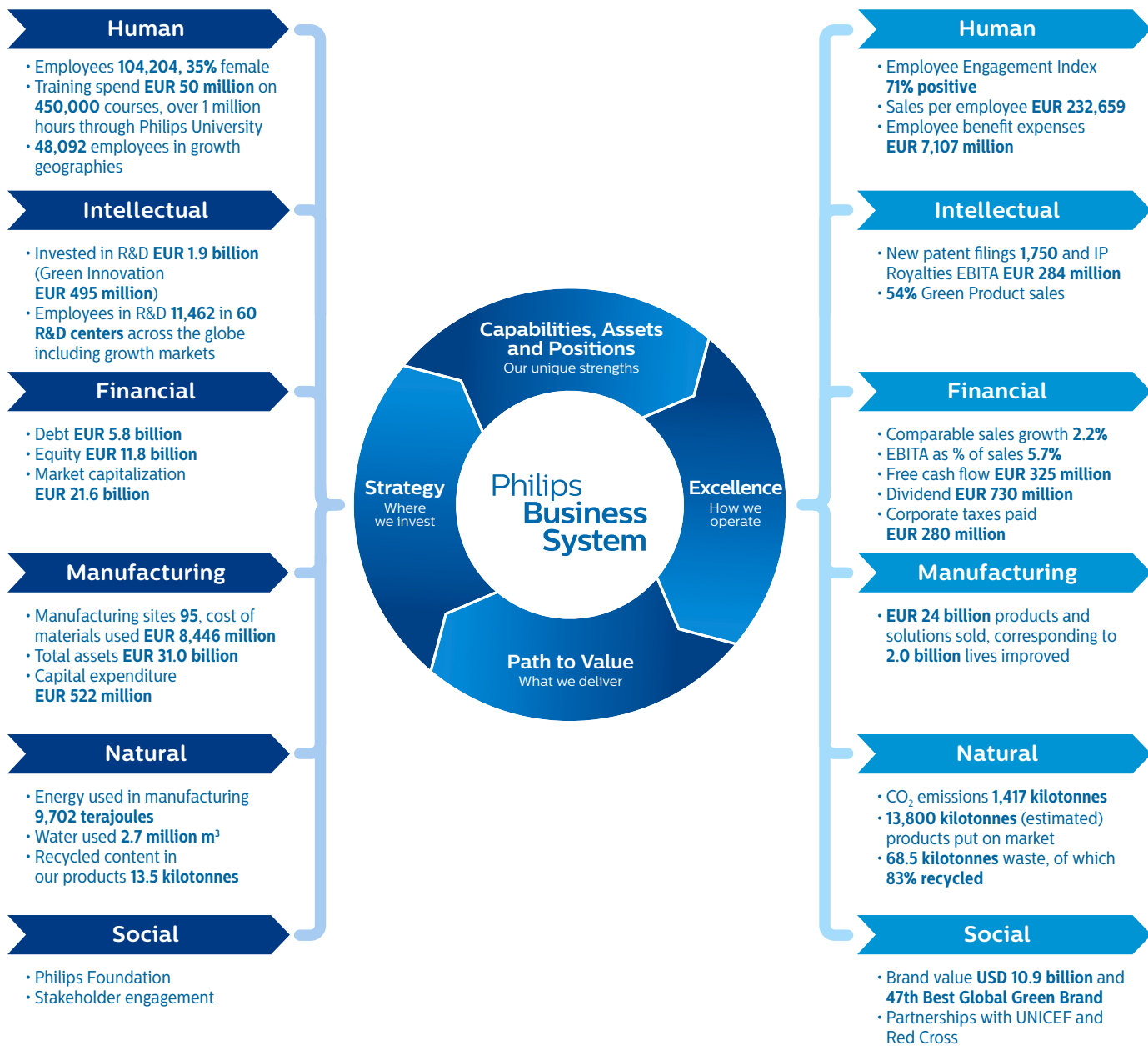
We apply Lean techniques to our manufacturing processes to produce high-quality products. We manage our supply chain in a responsible way.

Natural

We are a responsible company and aim to minimize the environmental impact of our supply chain, our operations, and also our products and solutions.

Social

We contribute to our customers and society through our products and solutions, our tax payments, the products and services we buy, and our investments in local communities.



4.3 Accelerate! journey continues

In 2011 we set out on our Accelerate! journey of change and performance improvement. Designed to transform Philips into an 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.

The program has three main thrusts:

- *transform to address underperformance*
- *expand global leadership positions*
- *initiate new growth engines*

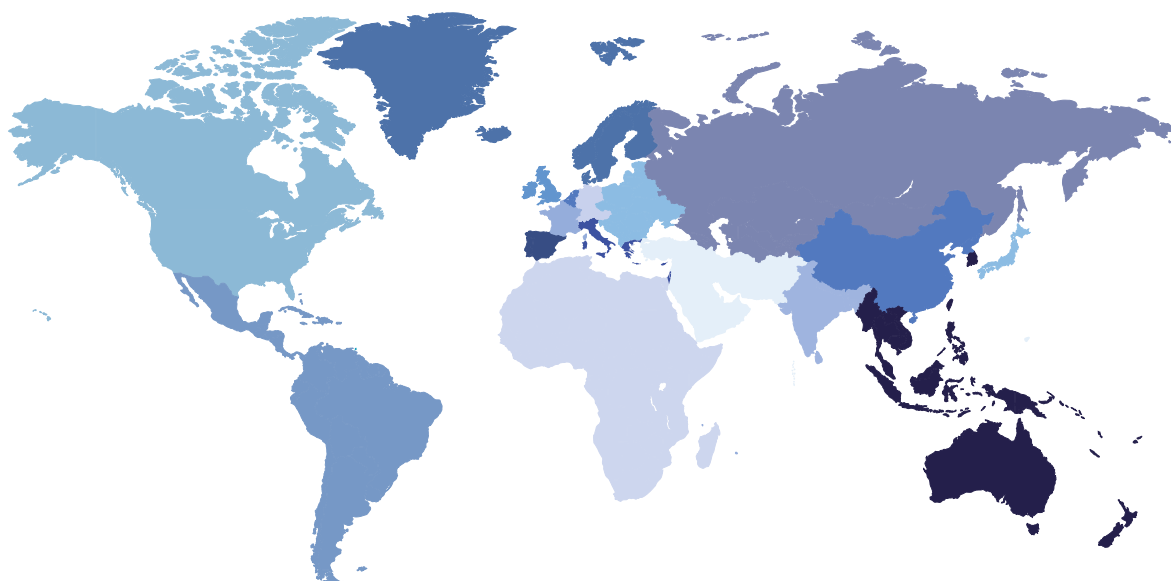
We are now in the fifth year of this transformation process, and our Path to Value is clearly mapped out:

Accelerate! roadmap



For 2016, we continue to expect modest comparable sales growth and we will build on our 2015 operational performance improvement. Taking into account ongoing macro-economic headwinds and the phasing of costs and sales, we expect improvements in the year to be back-end loaded.

4.4 Lives improved



Markets	Lives improved (million) ¹⁾	Population (million) ²⁾	GDP (USD billion) ³⁾
1. Africa	56	1,152	1,959
2. ASEAN	227	935	5,634
3. Benelux	28	29	1,267
4. Central & East Europe	87	125	1,376
5. Germany, Austria & Switzerland	92	99	4,424
6. France	59	65	2,454
7. Greater China	375	1,406	12,263
8. Iberia	45	57	1,424
9. Indian Subcontinent	203	1,503	2,488
10. Italy, Israel and Greece	52	82	2,341
11. Japan	34	127	4,116
12. Latin America	172	626	5,185
13. Middle East & Turkey	108	338	2,824
14. Nordics	26	27	1,425
15. North America	345	357	19,541
16. Russia and Central Asia	86	287	1,810
17. UK & Ireland	50	70	3,108

¹⁾ Source: Philips, double counts eliminated

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

³⁾ Source: IMF, CIA Factbook & Wikipedia

4.5 Global presence

Regions	Sales in millions of EUR	Number of employees	Employees female	Employees male	R&D centers	Manufacturing sites	Tangible and intangible assets in millions of EUR
Asia & Pacific	6,990	32,533	32%	68%	9	20	2,023
EMEA	7,948	39,903	34%	66%	28	35	2,959
Latin America	1,211	8,154	46%	54%	3	11	136
North America	8,095	23,614	36%	64%	20	29	9,420

4.6 Our strategy in action



Training tomorrow's lifesavers

At Philips, we build relationships to ensure that our products and solutions are addressing people's needs in the right way. And that means supplying help as well as hardware.

In a technologically advanced world, it's no good simply investing in pioneering products such as high-tech radiology devices, MRI scanners and other medical imaging tools: doctors need to know how to use them to improve patient care. Which is where Philips comes in, not only providing the technology, but expert developmental medical training too, by partnering with key stakeholders.

At the American University of Beirut, students and professionals from all over the Middle East join colleagues from Lebanon – along with private companies such as Philips – to develop essential life-saving skills that they can take back to their home countries, and to learn how they can make a difference through digital innovations. The medical training is a collaboration that not only teaches new skills, but is spreading the finest medical care through some of the world's most vulnerable populations.





Addressing the community's primary health needs

In Africa, we are partnering with local governments to develop Community Life Centers with the aim of not only improving primary healthcare but also promoting community development.

In most countries in Sub-Saharan Africa, healthcare systems are having to contend with serious challenges. Primary health facilities in particular are facing difficulties in offering quality basic services to local communities and playing the role of gatekeeper to the rest of the healthcare system.

At Philips we believe that the strengthening of health systems has to start at the primary level. That's why, in partnership with local government, we have installed a Community Life Center at Langata in Kiambu County, Kenya. Community Life Centers are a total solution for primary healthcare facilities, combining an integrated set of appropriate technologies with design, implementation and support services.

Since the opening of the Langata Community Life Center the number of children treated has doubled and Ante Natal Care visits have increased 12-fold, supporting our commitment to the UN's 'Every Woman, Every Child' initiative.

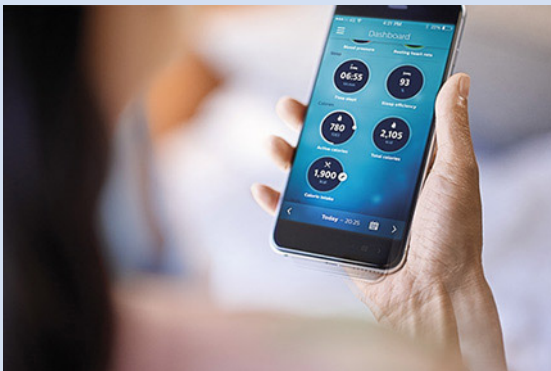




Change your health for life

In 2015, Philips announced the first in a series of personal health programs – including connected health measurement devices, app-based personalized programs and cloud-based data analysis – to help consumers take greater control of their health.

Philips personal health programs represent a new era in connected care for consumers, patients and health providers, as healthcare continues to move outside the hospital, and into our homes and everyday lives. They are built on the Philips HealthSuite digital platform, an open and secure, cloud-based platform that collects and analyzes health and other data from multiple devices and sources.



“Consumers are increasingly engaged in their personal health and they want solutions that empower them to stay healthy and prevent illness,” says Pieter Nota (CEO Philips Consumer Lifestyle in 2015). “Philips personal health programs will help consumers develop healthier habits for life.”

Leveraging Philips’ deep healthcare and consumer expertise, the personal health programs enable individuals to measure vital signs to understand how lifestyle choices affect their body, to set goals and monitor their progress, and to stay motivated with intelligent programs, developed with leading doctors and psychologists, that respond to individual progress and make personalized recommendations.

The Philips personal health programs and health measurement devices are not currently available for sale in the USA.



Offering new parents peace of mind

We believe that every baby deserves the best possible start in life. With the Philips Avent uGrow digital platform, parents can track progress, relish milestones and learn about their baby's development and needs.

Philips Avent uGrow is an innovative digital parenting platform in the form of a mobile application, plus connected digital products, which provides new parents with personalized advice and insights to help them understand and support each stage of their baby's development.

Based on professional guidance and pertinent localized content, and with a timeline that incorporates data ranging from how much baby has eaten to sleep patterns, uGrow gives new parents peace of mind in their baby's development. Interactive photos and virtual stickers can be used to mark occasions and

celebrate milestones on baby's timeline. And the app remembers key dates in order to provide bespoke guidance, e.g. on baby's developing weight, or on weaning as baby grows.

“Being a parent is a life-changing experience, during which we often rely on our intuition,” says Aliette van der Wal, Business Leader Mother & Childcare, Health & Wellness. “At Philips Avent we're harnessing the power of connected technology to empower parents with additional information, tailored to individual needs, which will help them make the best decisions for their baby.”



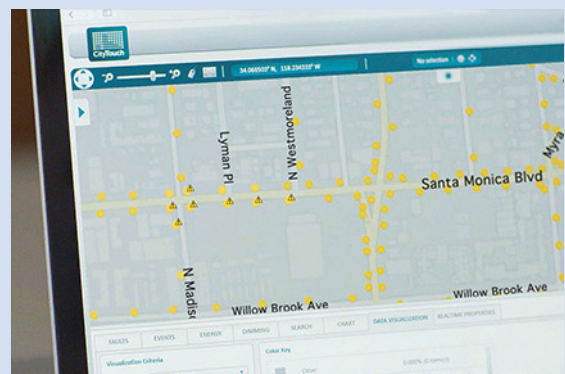
Connected lighting delivering value beyond illumination

With Philips CityTouch, Los Angeles remotely manages more than 100,000 street lights to create a more livable city.

In 2015, Los Angeles became the first city in the world to control its street lighting through an advanced Philips management system that uses mobile and cloud-based technologies.

With Philips CityTouch, the LA Bureau of Street Lighting can remotely control street lighting fixtures, as well as monitor energy use and the status of each light. Using mobile chip technology embedded into each fixture, the street lights are able to identify themselves and network instantly.

This smart plug-and-play approach not only reduces the cost of programming each fixture, it also reduces the time required for commissioning from days to minutes and eliminates on-site commissioning completely. Furthermore, CityTouch offers system managers a real-time, map-based view of all connected light points via any standard web browser.



“I call it priceless,” says Ed Ebrahimian, Director of the LA Bureau of Street Lighting, “because if we can save one life by finding out if a light is out and fixing it right away, we’ve done our job.”



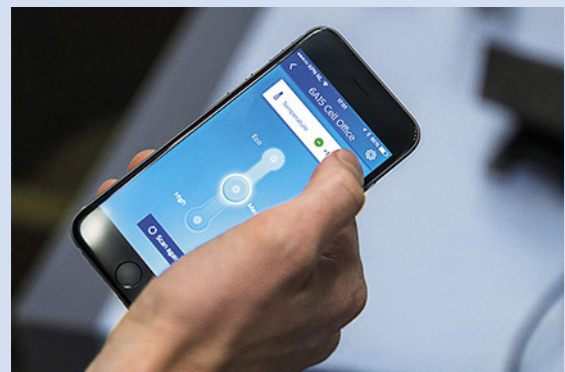
Creating a sustainable office environment

Opened in 2015, innovative office building The Edge in Amsterdam received the highest-ever BREEAM score – the leading assessment method for sustainable buildings. A key aspect of the design is a connected lighting system from Philips.

The Edge's connected lighting system uses nearly 6,500 LED luminaires over the building's 15 stories. These fixtures are connected to the building's IT network by Power over Ethernet (PoE) technology. With PoE, Ethernet cables transmit both power and data, eliminating the need for separate power cabling and creating a sort of 'information pathway'.

With integrated sensors in 3,000 of these luminaires, the connected lighting system captures anonymous data on room occupancy. The LED fixtures interface with other building systems such as heating and ventilation to provide facility managers with an integrated view of a building's occupancy patterns and energy usage. This enables more informed decision making, with unprecedented levels of energy and operational efficiency.

Supporting workplace productivity, employees at The Edge are also able to set the lighting and temperature to suit their personal preferences via an app on their smartphone.





Lighting the steel heart

Innovative lighting can help improve health and safety at work. Nowhere is this more apparent than in Ostrava, where Philips has helped to transform ArcelorMittal's steel plant with a new lighting system.

A steel plant can be a hazardous workplace. When employees work with molten steel, with loads exceeding 350 tons in weight and temperatures exceeding 1,500 degrees, it is important to have good lighting. At its steel plant in Ostrava, the steel heart of the Czech Republic, ArcelorMittal needed a lighting partner who understood their needs, could offer a suitable solution, and, of course, deliver that solution with a minimum of disruption.

With the steel plant in full operation, Philips implemented a complete modernization of the lighting. It was a complex project but ArcelorMittal and Philips worked closely together for the duration of the renovation. "There has been a substantial improvement in health, safety, as well as productivity and energy benefits," says Anoop Nair, Chief Operating Officer,

ArcelorMittal, Ostrava. "This gave kind of an explosive or meteoric effect to the employees. And I think it was thanks to Philips."



5 Group performance



“2015 saw Philips returning to growth and improving profitability in challenging macro-economic conditions as our Accelerate! program continued to deliver results.”

Abhijit Bhattacharya, CFO Royal Philips

5.1 Financial performance

Management summary

The year 2015

- Comparable sales rose 4.5% in our HealthTech portfolio, which combines our Healthcare and Consumer Lifestyle businesses. This illustrates the progress we are making in capturing opportunities in this large and growing market. Overall, comparable sales for the Group increased by 2% to EUR 24.2 billion.
- Our Healthcare business recorded 4% growth. More significantly, our order intake was up 5% for the year. This performance was supported by strong growth in North America and Western Europe – and a substantial rebound in China in Q4.
- Our Consumer Lifestyle business achieved a comparable sales increase of 6% year-on-year, driven by double-digit growth at Health & Wellness and high-single-digit growth at Personal Care.
- Lighting recorded another year of operational improvements, resulting in a substantial increase in profitability. We strongly improved the performance of our LED business, which grew by 25% on a comparable basis and significantly improved profitability. On a full-year basis LED now accounts for 43% of total Lighting sales. In the conventional lamps business we continued to gain market share in a declining market and improved profitability combined with a solid cash flow. The expected decline in conventional lighting led to a comparable sales decrease of 3% for our Lighting business overall.
- In line with our mission to improve people's lives, we have embedded sustainability at the heart of our business processes, and Green Product sales increased to 54% of total revenues in 2015. In recognition of our sustainability achievements, Philips was named industry leader in the Industrial Conglomerates category in the 2015 Dow Jones Sustainability Index.

- EBITA totaled EUR 1.4 billion, compared to EUR 821 million a year earlier. Our three cost savings programs all delivered ahead of plan in 2015. We achieved EUR 290 million of gross savings in overhead costs, EUR 379 million of gross savings in procurement, and our End2End process improvement program delivered productivity savings of EUR 187 million.
- Net income amounted to EUR 659 million, a 60% increase from EUR 411 million in 2014.
- Free cash flow amounted to EUR 325 million in 2015, which was EUR 172 million lower than in 2014, mainly due to CRT litigation claims, higher outflows related to pension de-risking settlements, and net capital expenditures, partly offset by higher earnings.
- By the end of the year we had also completed 74% of the EUR 1.5 billion- share buy-back program.

Philips Group
Key data in millions of EUR unless otherwise stated
 2013 - 2015

	2013	2014	2015
Condensed statement of income			
Sales	21,990	21,391	24,244
EBITA ¹⁾	2,276	821	1,372
as a % of sales	10.4%	3.8%	5.7%
EBIT	1,855	486	992
as a % of sales	8.4%	2.3%	4.1%
Financial income and expenses	(330)	(301)	(369)
Income tax expense	(466)	(26)	(239)
Results of investments in associates	(25)	62	30
Income from continuing operations	1,034	221	414
Income from discontinued operations - net of income tax	138	190	245
Net income	1,172	411	659
Other indicators			
Net income attributable to shareholders per common share in EUR:			
basic	1.28	0.45	0.70
diluted	1.27	0.45	0.70
Net operating capital (NOC) ¹⁾	10,238	8,838	11,096
Free cash flow ¹⁾	82	497	325
Employees (FTEs)	116,082	113,678	112,959
continuing operations	105,637	105,365	104,204
discontinued operations	10,445	8,313	8,755

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

5.1.1 Sales

The composition of sales growth in percentage terms in 2015, compared to 2014, is presented in the table below.

Philips Group
Sales growth composition in %
 2015 versus 2014

	com-parable growth	currency effects	consoli-dation changes	nominal growth
Healthcare	3.8	11.7	3.3	18.8
Consumer Lifestyle	5.8	7.2	0.0	13.0
Lighting	(2.8)	8.5	2.2	7.9
Innovation, Group & Services	5.4	1.7	(12.2)	(5.1)
Philips Group	2.2	9.4	1.7	13.3

Group sales amounted to EUR 24,244 million in 2015, which represents 13% nominal growth compared to 2014.

Adjusted for a 9% positive currency effect and 2% consolidation impact, comparable sales were 2% above 2014.

Healthcare sales amounted to EUR 10,912 million, which was EUR 1,726 million higher than in 2014 or 4% higher on a comparable basis. Imaging Systems achieved high-single-digit growth, Healthcare Informatics, Solutions & Services posted mid-single-digit growth, Customer Services reported low-single-digit growth, while Patient Care & Monitoring Solutions was in line with 2014. From a geographical perspective, comparable sales in growth geographies showed high-single-digit growth, and mature geographies recorded low-single-digit growth.

Consumer Lifestyle reported sales of EUR 5,347 million, which was EUR 616 million higher than in 2014, or 6% higher on a comparable basis. Health & Wellness achieved double-digit growth, Personal Care reported high-single-digit growth, while Domestic Appliances was in line with 2014. From a geographical perspective, growth geographies achieved high-single-digit growth and mature geographies registered low-single-digit growth.

Lighting sales amounted to EUR 7,411 million, which was EUR 542 million higher than in 2014 and 3% lower on a comparable basis. Both Light Sources & Electronics and Consumer Luminaires recorded a mid-single-digit decline, while Professional Lighting Solutions remained flat year-on-year. From a geographical perspective, comparable sales showed a mid-single-digit decline in growth geographies and a low-single-digit decline in mature geographies.

IG&S reported sales of EUR 574 million, which was EUR 31 million lower than in 2014. A decline in revenues as a result of the OEM remote controls divestment, was partly offset by higher sales from emerging business areas.

5.1.2 Earnings

In 2015, Philips' gross margin was EUR 9,856 million, or 40.7% of sales, compared to EUR 8,206 million, or 38.4% of sales, in 2014. Gross margin in 2015 included EUR 176 million of restructuring and acquisition-related charges, whereas 2014 included EUR 249 million of restructuring and acquisition-related charges. 2015 also included charges of EUR 35 million related to the devaluation of the Argentine peso, a EUR 28 million currency revaluation of the provision for the Masimo litigation and EUR 3 million related to the separation of the Lighting business. Gross margin in 2014 included charges of EUR 366 million related to the provision for the Masimo litigation, EUR 68 million of impairment and other charges related to industrial assets at Lighting, EUR 46 million of mainly inventory write-downs related to the voluntary suspension of production at the Cleveland facility, and a past-service pension cost gain of EUR 17 million. Excluding these items, gross margin as a % of sales was broadly in line with 2014.

Selling expenses increased from EUR 5,124 million in 2014 to EUR 5,815 million in 2015. Selling expenses as a % of total sales remained in line with 2014 at 24.0%. 2015 included EUR 62 million of restructuring and acquisition-related charges, compared to EUR 128 million of restructuring charges in 2014. Selling expenses in 2015 included charges of EUR 31 million related to a legal provision and EUR 69 million related to the separation of the Lighting business, while 2014 included a past-service pension cost gain of EUR 20 million. Excluding these items, selling expenses as a % of sales were in line with 2014.

Research and development costs increased from EUR 1,635 million in 2014 to EUR 1,927 million in 2015. Research and development costs in 2015 included EUR 16 million of restructuring and acquisition-related charges, compared to EUR 34 million in 2014. Research and development costs 2014 also included a past-service pension gain of EUR 22 million and charges of EUR 3 million of mainly write-downs related to the voluntary suspension of production at the Cleveland facility. The year-on-year increase was mainly due to currency impact and higher spend at Healthcare and IG&S. As a percentage of sales, research and development costs increased from 7.6% in 2014 to 7.9% in 2015.

General and administrative expenses amounted to EUR 1,209 million, or 5.0% of sales, in 2015, compared to EUR 747 million, or 3.5% of sales, in 2014. 2015 included EUR 30 million of restructuring and acquisition related charges, compared to EUR 23 million in 2014. 2015 also included charges of EUR 345 million mainly related to settlements for pension de-risking and EUR 111 million related to the separation of the Lighting business, while 2014 included a past-service pension cost gain of EUR 8 million. Excluding these items, the year-on-year decrease was driven by reductions in all operating sectors.

The overview below shows sales, EBIT and EBITA according to the 2015 sector classifications.

Philips Group
Sales, EBIT and EBITA
 in millions of EUR unless otherwise stated
 2014 - 2015

	Sales	EBIT	%	EBITA ¹⁾	%
2015					
Healthcare	10,912	819	7.5%	1,024	9.4%
Consumer Lifestyle	5,347	621	11.6%	673	12.6%
Lighting	7,411	486	6.6%	594	8.0%
Innovation, Group & Services	574	(934)	-	(919)	-
Philips Group	24,244	992	4.1%	1,372	5.7%
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%

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

In 2015, EBIT increased by EUR 506 million year-on-year to EUR 992 million, or 4.1% of sales. Restructuring and acquisition-related charges amounted to EUR 283 million, which included the Volcano acquisition, compared to EUR 434 million in 2014. 2015 EBIT also included charges of EUR 345 million mainly related to settlements for pension de-risking, EUR 183 million relating to the separation of the Lighting business, EUR 35 million related to the devaluation of the Argentine peso, EUR 31 million relating to legal provisions, EUR 28 million related to the currency revaluation of the provision for the Masimo litigation, and a EUR 37 million gain related to the sale of real estate assets. EBIT in 2014 included charges of EUR 366 million related to the provision for the Masimo litigation, EUR 244 million related to the CRT antitrust litigation, EUR 68 million of impairment and other charges related to industrial assets at Lighting, EUR 49 million of mainly inventory write-downs related to the Cleveland facility, and a EUR 67 million past-service pension cost gain.

Amortization and impairment of intangibles, excluding software and capitalized product development costs, amounted to EUR 380 million in 2015, compared to EUR 332 million in 2014. In 2015, goodwill impairment charges amounted to nil, while 2014 included charges of EUR 3 million consisting of impairments on divested businesses in Healthcare and Lighting, see note 11, Goodwill.

EBITA increased from EUR 821 million, or 3.8% of sales, in 2014 to EUR 1,372 million, or 5.7% of sales, in 2015. EBITA showed a year-on-year increase at all sectors except IG&S.

Healthcare

EBITA amounted to EUR 1,024 million, or 9.4% of sales, compared to EUR 616 million, or 6.7% of sales, in 2014. EBITA in 2015 included restructuring and acquisition-related charges of EUR 168 million, which included the Volcano acquisition, compared to EUR 70 million in 2014. 2015 EBITA also included charges of EUR 28 million related to the currency revaluation of the provision for the Masimo litigation, EUR 8 million related to the devaluation of the Argentine peso, and a EUR 31 million legal provision. EBITA in 2014 included charges of EUR 366 million related to the provision for the Masimo litigation, charges of EUR 49 million of mainly inventory write-downs related to Cleveland, and a EUR 16 million past-service pension cost gain. Excluding these items, the increase was largely driven by higher volumes, partly offset by an increase in Quality & Regulatory spend and higher planned expenditure for growth initiatives.

Consumer Lifestyle

EBITA amounted to EUR 673 million, or 12.6% of sales, a year-on-year increase of EUR 100 million. 2015 EBITA included restructuring and acquisition-related charges of EUR 36 million and charges related to the devaluation of the Argentine peso of EUR 13 million. 2014 EBITA included restructuring and acquisition-related charges of EUR 9 million and a EUR 11 million past-service pension cost gain. The year-on-year increase was largely driven by cost productivity, higher volumes, and product mix, partly offset by higher restructuring and acquisition-related charges.

Lighting

EBITA amounted to EUR 594 million, or 8.0% of sales, a year-on-year increase of EUR 301 million. 2015 EBITA included EUR 99 million of restructuring and acquisition-related charges and EUR 14 million of charges related to the devaluation of the Argentine peso. 2014 EBITA included EUR 245 million of restructuring and acquisition-related charges, EUR 68 million of impairment and other charges related to industrial assets, and a EUR 13 million past-service pension cost gain. The increase in EBITA was largely driven by cost productivity, improved LED margins and lower restructuring and acquisition-related charges.

Innovation, Group & Services

EBITA amounted to a net cost of EUR 919 million, compared to EUR 661 million in 2014. EBITA in 2015 included a EUR 20 million net release of restructuring charges, compared to EUR 113 million restructuring charges in 2014. EBITA in 2015 also included charges of EUR 183 million related to the separation of the Lighting business, EUR 345 million mainly related to settlements for pension de-risking, and a EUR 37 million gain related to the sale of real estate assets. EBITA in Q4 2014 also included EUR 244 million of charges related to the CRT antitrust litigation and a EUR 27 million past-service pension cost gain. Excluding these items, the decrease in EBITA was largely driven by higher Group and Regional Costs, mainly related to information security

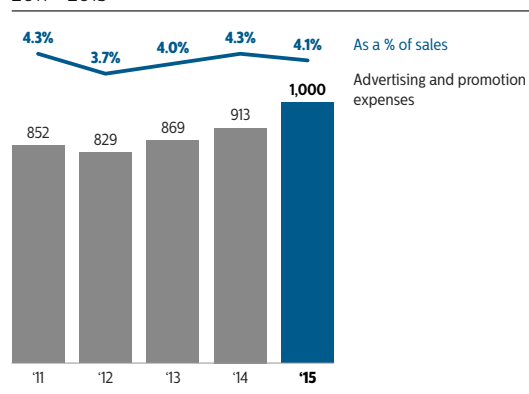
and Quality & Regulatory spend, investments in emerging business areas, and lower licensing revenue in IP Royalties.

5.1.3 Advertising and promotion

Philips' total advertising and promotion expenses were EUR 1,000 million in 2015, an increase of 10% compared to 2014. The increase was mainly due to investments in key growth geographies, such as China and India, and mature geographies such as the United States and Japan. The total advertising and promotion investment as a percentage of sales was 4.1% in 2015, compared to 4.3% in 2014.

Philips brand value increased by 6% to over USD 10.9 billion in the 2015 ranking of the world's 100 most valuable brands, as measured by Interbrand. In the 2015 listing, Philips is ranked the 47th most valuable brand in the world.

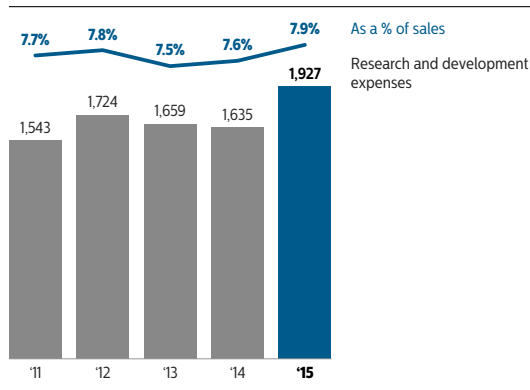
Philips Group
Advertising and promotion expenses in millions of EUR
2011 - 2015



5.1.4 Research and development

Research and development costs increased from EUR 1,635 million in 2014 to EUR 1,927 million in 2015. 2015 included EUR 16 million of restructuring and acquisition-related charges, compared to EUR 34 million in 2014. 2014 also included a past-service pension gain of EUR 22 million and charges of EUR 3 million of mainly inventory write-downs related to Cleveland. The year-on-year increase was mainly due to currency impact and higher spend at Healthcare and IG&S. As a percentage of sales, research and development costs increased from 7.6% in 2014 to 7.9%.

Philips Group
Research and development expenses in millions of EUR
 2011 - 2015



Philips Group
Research and development expenses in millions of EUR
 2013 - 2015

	2013	2014	2015
Healthcare	810	822	1,073
Consumer Lifestyle	268	263	301
Lighting	313	330	315
Innovation, Group & Services	268	220	238
Philips Group	1,659	1,635	1,927

5.1.5 Pensions

In 2015, the total costs of post-employment benefits amounted to EUR 559 million for defined benefit plans and EUR 293 million for defined contribution plans, compared to EUR 241 million and EUR 144 million respectively in 2014. Excluding 2015 pension de-risking cost and the 2014 past service cost gain, defined benefit costs decreased by EUR 92 million compared to 2014.

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 72 million in 2015 (2014: EUR 59 million).

2015 included settlement costs of EUR 329 million mainly related to the settlement of the UK plan, results of other de-risking actions in the UK prior to the settlement and the settlement of parts of the US pension plan. Past-service costs of EUR 14 million were recognized related to de-risking actions taken in the UK prior to the settlement of the plan, including a past-service cost for GMP Equalization in the same UK plan. Some smaller plan changes in other countries resulted in a small past service cost gain. Due to the above, and the change to defined contribution accounting for the Dutch pension plan, which is explained in the pension note, the Company's Defined Benefit Obligation in 2015 decreased from EUR 27 billion to EUR 4.5 billion at the end of 2015.

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.

The overall funded status in 2015 decreased as the surpluses of the Netherlands and the UK plan are no longer included due to their settlements in 2015. The pension deficits recognized in our balance sheet decreased mainly due to the above mentioned de-risking actions in the US. The surpluses of the Netherlands and the UK plan were not recognized in the balance sheet due to the asset ceiling test and therefore their settlement does not impact the pension balances as per the Company's accounting policy.

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

5.1.6 Restructuring and impairment charges

In 2015, EBIT included net charges totaling EUR 171 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 nil.

2014 included EUR 414 million of restructuring charges and a goodwill impairment of EUR 2 million at Lighting and EUR 1 million at Healthcare.

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

In 2015, the most significant restructuring projects related to Lighting and Healthcare and were driven by industrial footprint rationalization and the overhead cost reduction program. Restructuring projects at Lighting centered on the declining conventional lamps industry and Professional Lighting Solutions, the largest of which took place in France and Indonesia. Restructuring projects at Healthcare mainly took place in the US and France. Consumer Lifestyle restructuring projects were mainly related to Italy.

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 Belgium, the Netherlands and France. Innovation, Group & Services restructuring projects were mainly related to IT and group and country overheads and centered primarily on the Netherlands, the 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.

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

Philips Group
Restructuring and related charges in millions of EUR
2013 - 2015

	2013	2014	2015
Restructuring and related charges per sector:			
Healthcare	(6)	68	61
Consumer Lifestyle	10	8	37
Lighting	77	225	93
Innovation, Group & Services	3	113	(20)
Continuing operations	84	414	171
Discontinued operations	33	18	5
Cost breakdown of restructuring and related charges:			
Personnel lay-off costs	95	354	194
Release of provision	(62)	(36)	(88)
Restructuring-related asset impairment	25	57	46
Other restructuring-related costs	26	39	19
Continuing operations	84	414	171
Discontinued operations	33	18	5

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
2013 - 2015

	2013	2014	2015
Interest expense (net)	(269)	(251)	(302)
Sale of securities	-	60	20
Impairments	(10)	(17)	(46)
Other	(51)	(93)	(41)
Financial income and expenses	(330)	(301)	(369)

Net interest expense in 2015 was EUR 51 million higher than in 2014, mainly due to a weaker euro against the US dollar in relation to interest expenses on USD bonds.

The gain from the sale of stakes in 2015 amounted to EUR 20 million, mainly from Assembléon Technologies B.V., Silicon & Software Systems and other equity interest.

Impairments amounted to EUR 46 million mainly due to valuation allowances.

Other financial expense amounted to EUR 41 million in 2015, primarily consisting of interest expense related to the jury verdict in the Masimo litigation, and accretion expense associated with other discounted provisions.

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

5.18 Income taxes

Income taxes amounted to EUR 239 million, compared to EUR 26 million in 2014. The effective income tax rate in 2015 was 38.4%, compared to 14.1% in 2014. The increase was mainly due to a significant change in the geographical mix of actual profits and the absence of various items that reduced the charge in the prior year, in particular favorable tax regulations relating to R&D investments in 2014.

For 2016, we expect our effective tax rate to be in the 30% to 35% range. 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
2013 - 2015

	2013	2014	2015
Company's participation in income	5	30	10
Investment impairment and other items	(30)	-	19
Dilution gain	-	32	1
Results of Investments in associates	(25)	62	30

Results related to investments in associates decreased from a gain of EUR 62 million in 2014 to a gain of EUR 30 million in 2015. 2015 included proceeds from the sale of Assembléon Technologies B.V., while 2014 included a EUR 32 million dilution gain related to Philips' stake in Corindus Vascular Robotics.

The Company's participation in income decreased from EUR 30 million in 2014 to EUR 10 million in 2015. The gain in 2015 was mainly attributable to the results of Philips Medical Capital.

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

5.1.10 Non-controlling interests

Net income attributable to non-controlling interests amounted to a gain of EUR 14 million in 2015, compared to a loss of EUR 4 million in 2014.

5.1.11 Discontinued operations

Discontinued operations consist primarily of the combined businesses of Lumileds and Automotive, the Audio, Video, Multimedia & Accessories 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.

In 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.

As announced on January 22, 2016, Philips and GO Scale Capital have withdrawn their filing with the Committee of Foreign Investment in the United States (CFIUS) and terminated the agreement pursuant to which the consortium led by GO Scale Capital would acquire an 80.1% interest in the combined businesses of Lumileds and Automotive. Despite the parties' extensive efforts to mitigate CFIUS' concern, regulatory clearance has not been granted for this particular transaction. Philips is actively discussing the sale of the business with potential buyers and expects a transaction to be completed in the year 2016.

Income from discontinued operations increased by EUR 55 million to EUR 245 million in 2015. The year-on-year increase was mainly due to the positive impact from the treatment of depreciation and amortization of assets held for sale. Income from discontinued operations mainly consisted of net income of EUR 246 million related to the combined businesses of Lumileds and Automotive and a net loss of EUR 1 million, mainly related to the Audio, Video, Multimedia & Accessories and Television business.

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

5.1.12 Net income

Net income increased from EUR 411 million in 2014 to EUR 659 million in 2015. The increase was largely due to higher EBIT of EUR 506 million and net income from discontinued operations of EUR 55 million, partly offset by higher income tax charges of EUR 213 million and lower results from investments in associates of EUR 32 million.

Basic earnings per common share from net income attributable to shareholders increased from EUR 0.45 per common share in 2014 to EUR 0.70 per common share in 2015.

5.1.13 Acquisitions and divestments

Acquisitions

In 2015, Philips completed four acquisitions, the largest were Volcano Corporation, an image-guided therapy company based in the United States, and Blue Jay Consulting, a leading provider of hospital emergency room consulting services. Acquisitions in 2015 and prior years led to post-merger integration charges of EUR 107 million in Healthcare and EUR 5 million in Lighting.

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.

Philips also purchased some minor magnetic resonance imaging (MRI) activities from Hologic, a US healthcare company. Acquisitions in 2014 and prior 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 prior years led to post-merger integration charges of EUR 6 million in Healthcare, EUR 4 million in Consumer Lifestyle EUR, and 6 million in Lighting.

Divestments

In 2015, Philips completed seven divestments, which include, the sale of Assembléon Holding B.V., OEM Remote Controls, Axsun Technologies LLC, and several small businesses within Healthcare and Lighting.

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.

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

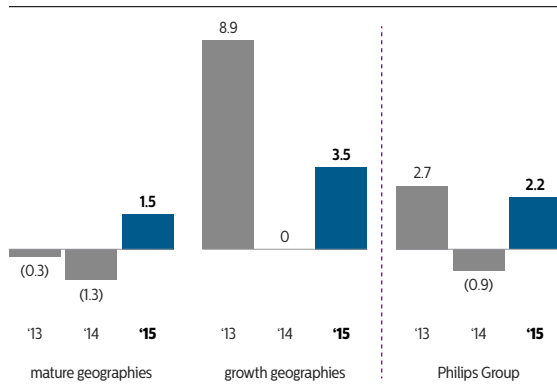
5.1.14 Performance by geographic cluster

In 2015, sales increased 13% nominally, largely due to favorable foreign exchange impacts, and 2% on a comparable basis, driven by Healthcare and Consumer Lifestyle.

Sales in mature geographies were EUR 1,832 million higher than in 2014, or 1% higher on a comparable basis. Sales in Western Europe were 1% higher than in 2014, with growth at Healthcare and Consumer Lifestyle partly offset by a decline at Lighting. Sales in North America increased by EUR 1,417 million, or 1% on a comparable basis. Comparable sales in other mature geographies showed a 3% increase, with growth at Healthcare and Consumer Lifestyle, while Lighting was in line with 2014.

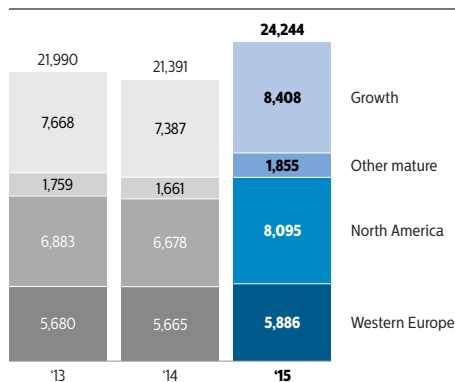
In growth geographies, sales increased by EUR 1,021 million, or 4% on a comparable basis, with high-single-digit growth at Consumer Lifestyle and Healthcare, partly offset by a mid-single digit decline at Lighting. Double-digit growth in Central & Eastern Europe and high-single-digit growth in Asia Pacific and India were partly offset by flat growth year-on-year in China.

Philips Group
Comparable sales growth by geographic cluster¹⁾ in %
 2013 - 2015



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
 2013 - 2015

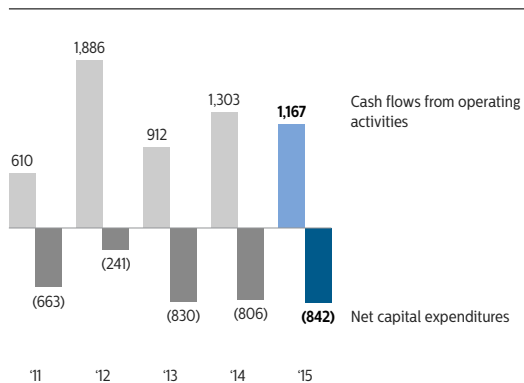


5.1.15 Cash flows provided by continuing operations

Cash flows from operating activities

Net cash flows from operating activities amounted to EUR 1,167 million in 2015, which was EUR 136 million lower than in 2014, mainly due to pension settlement costs and CRT litigation claims, partly offset by higher earnings.

Philips Group
Cash flows from operating activities and net capital expenditures in millions of EUR
 2011 - 2015



Condensed consolidated statements of cash flows for the years ended December 31, 2013, 2014 and 2015 are presented below:

Philips Group
Condensed consolidated cash flow statements¹⁾
 in millions of EUR
 2013 - 2015

	2013	2014	2015
Net income	1,172	411	659
Adjustments to reconcile net income to net cash provided by operating activities	(260)	892	508
Net cash provided by operating activities	912	1,303	1,167
Net cash used for investing activities	(862)	(984)	(1,941)
Cash flows before financing activities²⁾	50	319	(774)
Net cash used for financing activities	(1,241)	(1,189)	508
Cash used for continuing operations	(1,191)	(870)	(266)
Net cash (used for) provided by discontinued operations	(115)	193	79
Effect of changes in exchange rates on cash and cash equivalents	(63)	85	80
Total change in cash and cash equivalents	(1,369)	(592)	(107)
Cash and cash equivalents at the beginning of year	3,834	2,465	1,873
Cash and cash equivalents at the end of year	2,465	1,873	1,766

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

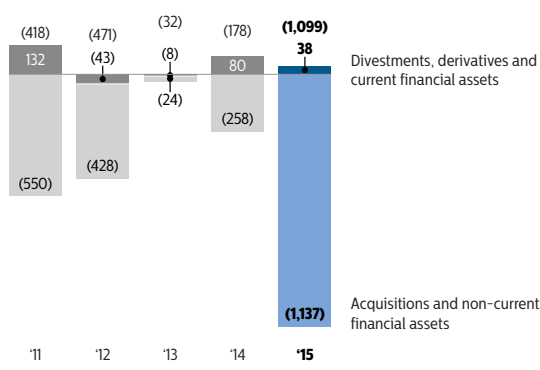
In 2015, cash flows from investing activities resulted in a net outflow of EUR 1,941 million. This was attributable to EUR 1,137 million used for acquisitions of businesses and non-current financial assets, EUR 842 million cash used for net capital expenditures, and EUR 72 million used for derivatives and current financial assets, partly offset by EUR 110 million of net proceeds from non-current financial assets and divestments.

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.

Net capital expenditures

Net capital expenditures amounted to a cash outflow of EUR 842 million, compared to an outflow of EUR 806 million in 2014. The year-on-year increase was mainly due to higher investments at Healthcare and Lighting.

Philips Group
Cash flows from acquisitions and financial assets, divestments and derivatives in millions of EUR
 2011 – 2015



Acquisitions and non-current financial assets

The net cash impact of acquisitions of businesses and non-current financial assets in 2015 was a total of EUR 1,137 million. There was a EUR 1,116 million outflow for acquisitions of businesses, mainly related to the acquisition of Volcano and a EUR 21 million outflow for non-current financial assets.

The net cash impact of acquisitions of businesses and non-current 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, and a EUR 81 million outflow for non-current financial assets, mainly in the form of a EUR 60 million loan to TPV Technology Limited.

Divestments, derivatives and current financial assets

Cash proceeds of EUR 110 million were received, mainly from the divestment of the Assembléon Holding B.V., the OEM remote control business and Axsun Technologies LLC. Cash flows from derivatives and current financial assets led to a net cash outflow of EUR 72 million.

In 2014, cash proceeds of EUR 87 million were received, mainly from the 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.

Cash flows from financing activities

Net cash provided by financing activities in 2015 was EUR 508 million. Philips' shareholders were given EUR 730 million in the form of a dividend, of which the cash portion of the dividend amounted to EUR 298 million. The net impact of changes in debt was an increase of EUR 1,231 million. Additionally, net cash outflows for share buy-back and share delivery totaled EUR 425 million.

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.

5.1.16 Cash flows from discontinued operations

In 2015, cash from discontinued operations reported by the businesses in operating activities contributed with a EUR 79 million cash inflow, mainly attributable to a cash inflow of the Automotive and Lumileds businesses of EUR 115 million offset by Audio, Video, Multimedia & Accessories business of EUR 37 million cash outflow.

In 2014, cash from discontinued operations amounted to an inflow of EUR 193 million. Cash flows from the businesses reported in operating activities contributed with a EUR 105 million cash inflow, mainly attributable to a cash inflow from the Automotive and Lumileds businesses of EUR 240 million offset by Audio, Video, Multimedia & Accessories business of EUR 107 million cash outflow. The cash consideration received for the sale of the Audio, Video, Multimedia & Accessories business reported in cash flow from investing activities contributed with a EUR 88 million cash inflow.

5.1.17 Financing

Condensed consolidated balance sheets for the years 2013, 2014 and 2015 are presented below:

Philips Group
Condensed consolidated balance sheet¹⁾ in millions of EUR
 2013 – 2015

	2013	2014	2015
Intangible assets	9,766	10,526	12,216
Property, plant and equipment	2,780	2,095	2,322
Inventories	3,240	3,314	3,463
Receivables	4,892	5,040	5,287
Assets held for sale	507	1,613	1,809
Other assets	2,909	3,891	4,113
Payables	(5,435)	(5,293)	(5,652)
Provisions	(2,554)	(3,445)	(3,225)
Liabilities directly associated with assets held for sale	(348)	(349)	(407)
Other liabilities	(3,094)	(4,193)	(4,152)
Net asset employed	12,663	13,199	15,774
Cash and cash equivalents	2,465	1,873	1,766
Debt	(3,901)	(4,104)	(5,760)
Net debt	(1,436)	(2,231)	(3,994)
Non-controlling interests	(13)	(101)	(118)
Shareholders' equity	(11,214)	(10,867)	(11,662)
Financing	(12,663)	(13,199)	(15,774)

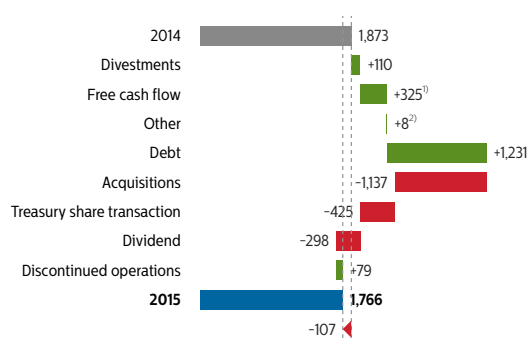
¹⁾ Please refer to section 12.6, Consolidated balance sheets, of this Annual Report

Philips expects the financing in 2016 to be broadly in line with 2015.

5.1.18 Cash and cash equivalents

In 2015, cash and cash equivalents decreased by EUR 107 million to EUR 1,766 million at year-end. The decrease was mainly attributable to an outflow of EUR 1,137 on acquisitions mainly related to Volcano, cash outflows for treasury share transactions of EUR 425 million, and a cash dividend payout of EUR 298 million. This was partly offset by EUR 1,231 million from increases in debt, EUR 325 million free cash flow and EUR 110 million related to divestments.

Philips Group
Cash balance movements in millions of EUR
2015



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 2015 was EUR 5,760 million, compared with EUR 4,104 million at the end of 2014.

Philips Group
Changes in debt in millions of EUR
2013 - 2015

	2013	2014	2015
New borrowings	(64)	(69)	(1,335)
Repayments	471	370	104
Currency effects and consolidation changes	226	(504)	(425)
Changes in debt	633	(203)	(1,656)

In 2015, total debt increased by EUR 1,656 million. New borrowings of EUR 1,335 million were mainly due to a short-term bridging loan with low interest rate used for the Volcano acquisition, while repayments amounted to EUR 104 million. Other changes resulting from consolidation and currency effects led to an increase of EUR 425 million.

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.

At the end of 2015, long-term debt as a proportion of the total debt stood at 71% with an average remaining term of 10.7 years, compared to 90% and 11.6 years at the end of 2014.

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

5.1.20 Shareholders' equity

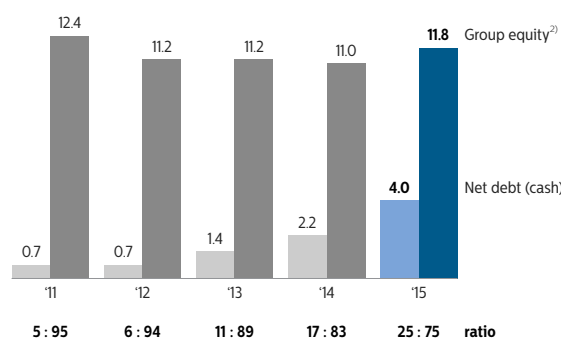
Shareholders' equity increased by EUR 795 million in 2015 to EUR 11,662 million at December 31, 2015. The increase was mainly a result of EUR 645 million net income and EUR 791 million of other comprehensive income, partially offset by EUR 507 million related to the purchase of shares for the share buy-back program. The dividend payment to shareholders in 2015 reduced equity by EUR 298 million including tax and service charges, while the delivery of treasury shares increased equity by EUR 82 million and net share-based compensation plans increased equity by EUR 82 million.

The number of outstanding common shares of Royal Philips at December 31, 2015 was 917 million (2014: 914 million). At the end of 2015, the Company held 11.8 million shares in treasury to cover the future delivery of shares (2014: 17.1 million shares). This was in connection with the 39.1 million rights outstanding at the end of 2015 (2014: 40.8 million rights) under the Company's long-term incentive plans. At the end of 2015, the Company held 2.2 million shares for cancellation (2014: 3.3 million shares).

5.1.21 Net debt to group equity

Philips ended 2015 in a net debt position (total debt less cash and cash equivalents) of EUR 3,994 million, compared to a net debt position of EUR 2,231 million at the end of 2014.

Philips Group
Net debt to group equity¹⁾ in billions of EUR
2011 - 2015



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 3,566 million vs. Gross Debt (including short and long-term) of EUR 5,760 million as of December 31, 2015.

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.

Philips Group
Liquidity position in millions of EUR
2013 - 2015

	2013	2014	2015
Cash and cash equivalents	2,465	1,873	1,766
Committed revolving credit facility/CP program/Bilateral loan	1,800	1,800	1,800
Liquidity	4,265	3,673	3,566
Available-for-sale financial assets at fair value	65	75	75
Short-term debt	(592)	(392)	(1,665)
Long-term debt	(3,309)	(3,712)	(4,095)
Net available liquidity resources	429	(356)	(2,119)

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 and will mature in 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, 2015, Philips did not have any loans outstanding under these facilities.

Philips' existing long-term debt is rated Baa1 (with stable outlook) by Moody's and BBB+ (with stable outlook) by Standard & Poor's. Our net debt position is managed in such a way that we expect to retain a strong investment grade credit rating. Furthermore, the Group's aim when managing the net debt position is dividend stability and a pay-out ratio of 40% to 50% of continuing net income. Following the intended separation of the Lighting business, the dividend pay-out ratio with respect to future years could be subject to change. 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, 2015, Philips had total cash and cash equivalents of EUR 1,766 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 believes its current liquidity and direct access to capital markets is sufficient to meet its present working capital requirements.

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, 2015.

Philips Group
Contractual cash obligations¹⁾ in millions of EUR
2015

	total	Payments due by period			
		less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt ²⁾	4,034	84	1,152	1	2,797
Finance lease obligations	242	72	92	36	42
Short-term debt	1,515	1,515	-	-	-
Operating leases	952	243	280	162	267
Derivative liabilities	995	253	383	156	203
Interest on debt ³⁾	2,767	221	438	334	1,774
Purchase obligations ⁴⁾	175	68	69	30	8
Trade and other payables	2,673	2,673	-	-	-
Contractual cash obligations	13,353	5,129	2,414	719	5,091

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 32% 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, 2015 approximately EUR 395 million of the Philips accounts payable 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 297 million restructuring-related provisions by the end of 2015, of which EUR 228 million is expected to result in cash outflows in 2016. Refer to note 19, Provisions for details of restructuring provisions.

A proposal will be submitted to the upcoming Annual General Meeting of Shareholders to declare a dividend of EUR 0.80 per common share (up to EUR 740 million), in cash or shares at the option of the shareholder, against the net income for 2015 and retained earnings. Further details will be given in the agenda for the Annual General Meeting of Shareholders, to be held on May 12, 2016.

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 2015, the total fair value of guarantees recognized on the balance sheet amounted to EUR nil million (December 31, 2014: EUR nil million). Remaining off-balance-sheet business and credit-related guarantees provided on behalf of third parties and associates increased by EUR 16 million during 2015 to EUR 37 million (December 31, 2014: EUR 21 million).

5.1.24 Analysis of 2014 compared to 2013

The analysis of the 2014 financial results compared to 2013, 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 2015, which will be filed electronically with the US Securities and Exchange Commission.

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5.2 Social performance

...

5.3 Environmental performance

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, 2015, 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 upcoming Annual General Meeting of Shareholders to declare a dividend of EUR 0.80 per common share (up to EUR 740 million), in cash or in shares at the option of the shareholder, against the net income for 2015 and retained earnings.

Shareholders will be given the opportunity to make their choice between cash and shares between May 18, 2016 and June 10, 2016. If no choice is made during this election period the dividend will be paid in shares. On June 10, 2016 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 8, 9 and 10, 2016. 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 14, 2016 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 15, 2016. 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 13, 2016.

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 2015, a dividend of EUR 0.80 per common share was paid in cash or shares, at the option of the shareholder. For 59.2% of the shares, the shareholders elected for a share dividend resulting in the issue of 17,671,990 new common shares, leading to a 1.9% dilution. EUR 298 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, 2015, is before appropriation of the result for the financial year 2015.

5.5 Outlook

For 2016, we continue to expect modest comparable sales growth and we will build on our 2015 operational performance improvement. Taking into account

ongoing macro-economic headwinds and the phasing of costs and sales, we expect improvements in the year to be back-end loaded.

6 Sector performance

Our structure in 2015

Koninklijke Philips N.V. (Royal Philips or 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 2015, 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 2015, Philips had 95 production sites in 25 countries, sales and service outlets in approximately 100 countries, and 112,959 employees.

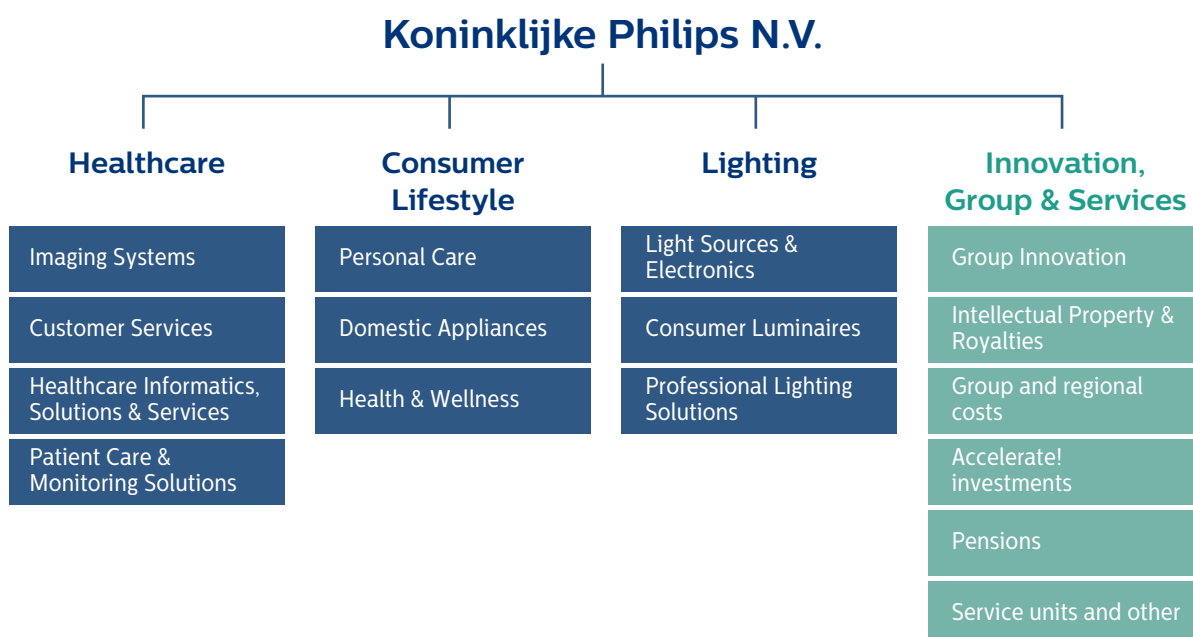
2016 and beyond

In September 2014, Philips announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on the HealthTech and Lighting opportunities respectively. We have established a stand-alone structure for Philips Lighting within the Philips Group, effective February 1, 2016. We expect to be able to announce the separation of the Lighting business in the first half of 2016, subject to market conditions and other relevant circumstances. Accordingly, Innovation, Group & Services will be split and allocated to Philips and Philips Lighting.

In light of its focus on health technology, Philips has eliminated the Healthcare and Consumer Lifestyle sector layers in order to drive the convergence of consumer health and professional healthcare as well as to reduce overhead costs. We plan to change the reporting of Philips' health technology activities to three segments (Personal Health, Diagnosis & Treatment, Connected Care & Health Informatics) with effect from Q1 2016.

Further updates will be provided in the course of 2016.

Our structure in 2015



6.1 Healthcare



“By leveraging our world-class innovation capability, deep clinical and consumer insights, long-standing customer relationships with healthcare providers, and our integrated solutions portfolio, we provide greater value while helping lower the cost of care across the health continuum.”

Frans van Houten, CEO Royal Philips

- We are gaining momentum in delivering large-scale end-to-end healthcare solutions globally with clients like Westchester Medical Center (USA), Mackenzie Health (Canada) and the Kenyan Ministry of Health.
- Our Accelerate! program continues to drive improvements in healthcare, resulting in enhanced customer centricity and service levels, faster time-to-market for our innovations, strengthened quality and compliance systems, and better cost productivity. We increased our investments in, among others, healthcare informatics, personal health solutions and our quality systems. We also strengthened our ability to offer integrated solutions in the growing image-guided therapy market through the acquisition of Volcano.
- We continue to expand the capabilities of Philips' HealthSuite digital platform, which enables connected health propositions to improve the delivery of care at lower cost, which allow us to build recurring revenue streams.

6.1.1 Healthcare landscape

Healthcare 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 healthcare industry to enable the provision of affordable, quality care to those who need it. A shift is under way towards value-based healthcare, which places greater emphasis on results, driving the reduction of waste and inefficiency, increasing access and improving outcomes, while at the same time reducing costs.

Consumers are becoming increasingly engaged in managing their own health, with greater attention being focused on the benefits of healthy living and home care. Mobile and digital technologies are significant enablers of this trend, leading to new care delivery models –

founded upon integrated care, real-time analytics and value-added solutions and services – that give patients greater control over and responsibility for their health.

6.1.2 About Healthcare in 2015

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 healthcare companies (based on sales) along with General Electric and Siemens. The competitive landscape in the healthcare industry is evolving with the emergence of a considerable number of new market players. The United States, our largest market, represented 43% of Healthcare's global sales in 2015, followed by China, Japan and Germany. Growth geographies accounted for 25% of Healthcare sales. In 2015, Philips Healthcare had approximately 40,000 employees worldwide.

In 2015, our Healthcare business (which was organized in six business groups) reported on four segments:

- **Imaging (comprising the business groups Diagnostic Imaging, Image-Guided Therapy, Ultrasound):**

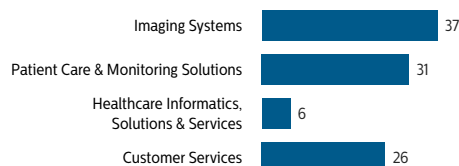
Diagnostic imaging solutions, including computed tomography (CT), magnetic resonance imaging (MRI), advanced molecular imaging (AMI) and diagnostic X-ray, which includes digital X-ray and mammography; integrated clinical solutions, which include radiation oncology planning, disease specific oncology solutions and X-Ray dose management; image-guided therapy solutions including interventional X-ray systems, encompassing cardiology, radiology and surgery, and interventional imaging and therapy devices that include Intravascular Ultrasound (IVUS), Fractional Flow Reserve (FFR) and atherectomy; 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; therapeutic care, including cardiac resuscitation, emergency care solutions, invasive and non-invasive ventilators for acute and sub-acute hospital environments, and respiratory monitoring devices; consumables across the patient monitoring and therapeutic care businesses; and customer service, including clinical, IT, technical, and remote customer propositions.
- **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 agreements.

- **Healthcare Informatics, Solutions & Services:**

Advanced Healthcare IT, clinical and imaging informatics for radiology and cardiology departments, Picture Archiving and Communication systems (PACS) and fully integrated Electronic Medical Record (EMR) systems; technology-enabled services including telehealth, remote patient monitoring, care coordination to make aging and chronic condition experiences better; a professional services business (Healthcare Transformation Services) spanning consulting, education, clinical and business performance improvement, program management, system integration services. 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 %
2015



Sales at Philips' health systems businesses are generally higher in the second half of the year, largely due to the timing of new product availability and customer spending patterns.

Commitment to quality

The implementation of the Philips Business System is embedding a fundamental commitment to quality across all our processes, products, systems and services. This commitment is of vital importance in the extensively regulated health equipment and system business. 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 CFDA in China and comparable agencies in other countries. Obtaining regulatory approval is costly and time-consuming, but a prerequisite for market introduction.

Further progress was made in 2015 in the remediation of the quality management systems at our Healthcare facility in Cleveland, Ohio, with the ramp-up of production and shipments continuing through the year.

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

6.1.3 2015 business highlights

Leveraging our portfolio, insights and capabilities across the health continuum, Philips Healthcare continued to create value for healthcare providers and consumers around the world in 2015, with a strong focus on collaborative innovation, including large-scale partnerships, co-created solutions, and strategic alliances.

We strengthened our leadership position in the fast-growing image-guided therapy market by completing the acquisition of 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.

Philips and Westchester Medical Center entered into a multi-year, USD 500 million managed services partnership to transform and improve healthcare for 3 million patients. The agreement includes consulting services, medical technologies and clinical informatics solutions, and aims to improve all care areas, including radiology, cardiology, neurology, oncology and pediatrics.

We introduced our Lumify app-based ultrasound solution in the US. Combining a dedicated Philips ultrasound transducer, a compatible smart device and app, and secure cloud-enabled services, Lumify has been designed to enable faster diagnosis, improve patient satisfaction and reduce costs, while generating recurring revenues.

With more than 800,000 patient monitors installed and 275 million patients tracked every year, we are leveraging our installed base for expansion of our services and efficient roll-out of our innovations. For example, CareEvent, an enterprise event management solution, which includes a mobile application to send informative alerts directly to a caregiver's smartphone for informed decision making and timely interventions when required.

Philips acquired Blue Jay Consulting, a leading provider of consulting services to hospital emergency departments in the US. Blue Jay's offering complements Philips' enterprise-wide consulting services to help improve clinical care and operational effectiveness across the health continuum.

We expanded the capabilities of our HealthSuite digital platform, a secure cloud infrastructure for health data and devices, and strengthened the associated ecosystem through our collaborations with Amazon Web Services, Radboud University Medical Center and Salesforce.

In 2015, we entered the fifth 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.

6.1.4 2015 financial performance

Philips Healthcare
Key data in millions of EUR unless otherwise stated
2013 - 2015

	2013	2014	2015
Sales	9,575	9,186	10,912
Sales growth			
% increase (decrease), nominal	(4)%	(4)%	19%
% increase (decrease), comparable ¹⁾	1%	(2)%	4%
EBITA ¹⁾	1,512	616	1,024
<i>as a % of sales</i>	15.8%	6.7%	9.4%
EBIT	1,315	456	819
<i>as a % of sales</i>	13.7%	5.0%	7.5%
Net operating capital (NOC) ¹⁾	7,437	7,565	9,212
Cash flows before financing activities ¹⁾	1,292	910	81
Employees (in FTEs)	37,008	37,065	40,099

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

In 2015, sales amounted to EUR 10,912 million, 19% higher than in 2014 on a nominal basis. Excluding a 12% positive currency effect and a 3% positive effect from portfolio changes, mainly related to Volcano, comparable sales increased by 4%. Healthcare Informatics, Solutions & Services achieved mid-single-digit growth, Imaging Systems posted high-single-digit growth, Customer Services reported low-single-digit growth, while Patient Care & Monitoring Solutions was in line with 2014. Green Product sales amounted to EUR 4,580 million, or 42% of sector sales.

From a geographical perspective, comparable sales in growth geographies showed high-single-digit growth, and mature geographies recorded low-single-digit growth.

EBITA amounted to EUR 1,024 million, or 9.4% of sales, compared to EUR 616 million, or 6.7% of sales, in 2014. EBITA in 2015 included restructuring and acquisition-related charges of EUR 168 million, which included the Volcano acquisition, compared to EUR 70 million in 2014. 2015 EBITA also included charges of EUR 28 million related to the currency revaluation of the provision for the Masimo litigation, EUR 8 million related to the devaluation of the Argentine peso, and a EUR 31 million legal provision.

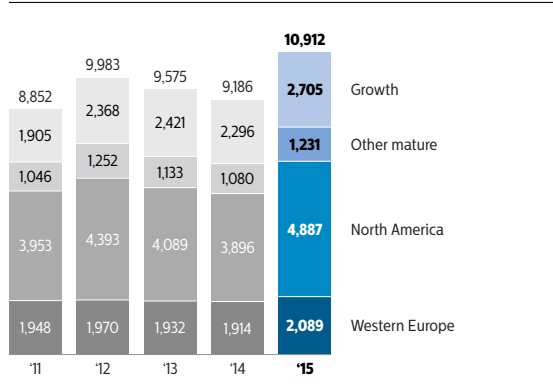
EBITA in 2014 included charges of EUR 366 million related to the provision for the Masimo litigation, charges of EUR 49 million of mainly inventory write-downs related to Cleveland and a EUR 16 million past-service pension cost gain.

EBIT amounted to EUR 819 million, or 7.5% of sales, and included EUR 205 million of charges related to acquired intangible assets.

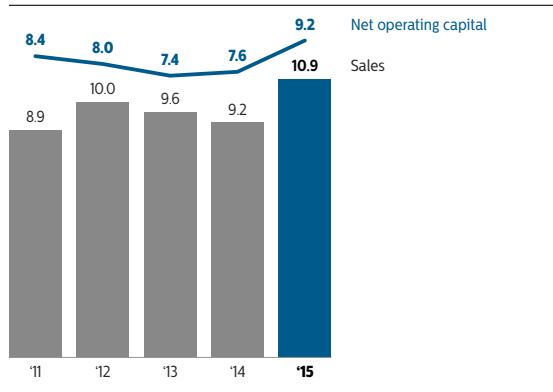
Net operating capital increased by EUR 1,647 million to EUR 9,212 million, mainly driven by the Volcano acquisition and currency impacts.

Cash flows before financing activities decreased from EUR 910 million in 2014 to EUR 81 million in 2015, largely due to higher cash outflows for investments at Imaging Systems.

Philips Healthcare
Sales per geographic cluster in millions of EUR
2011 - 2015

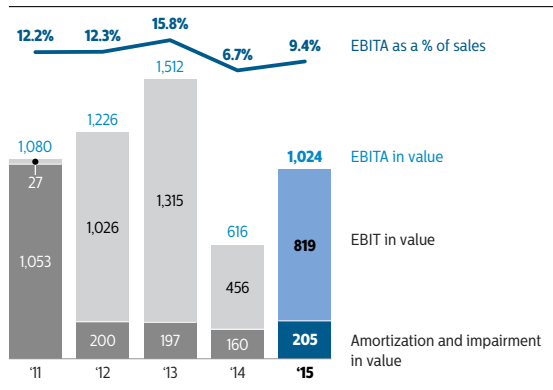


Philips Healthcare
Sales and net operating capital¹⁾ in billions of EUR
2011 - 2015



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
2011 - 2015



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

A growing and aging population, the rise of chronic and lifestyle-related diseases and global resource constraints pose a number of challenges, including pollution and stressed healthcare systems. Philips continues to improve lives around the globe by developing solutions that help secure access to care, while at the same time respecting the boundaries of natural resources.

In 2015, Green Product sales in Healthcare amounted to EUR 4,580 million and we introduced 11 new Green Products to support energy efficiency, materials reduction and other sustainability goals. We also actively collaborate with care providers around the globe to look for ways to minimize the environmental impact of healthcare, for example by reducing the energy use of medical equipment. Supporting the transition to a circular economy, we have continued to focus on expanding the Diamond Select refurbishment program and also the SmartPath upgrading program.

Philips was presented with the 'Champion for Change' Award by Practice Greenhealth for the second consecutive year. This award honors businesses that go beyond taking steps to improve their own green practices, but also help their clients and associates to expand their sustainable practices.

6.1.6 2016 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 opportunities respectively. Philips has transferred its Lighting business into a stand-alone structure effective February 1, 2016 and has moved from a holding company model to an operating company model.

In light of its focus on health technology, Philips has eliminated the Healthcare and Consumer Lifestyle sector layers in order to drive the convergence of consumer health and professional healthcare as well as to reduce overhead costs. We plan to change the reporting of Philips' health technology activities to three segments (Personal Health, Diagnosis & Treatment, Connected Care & Health Informatics) with effect from Q1 2016. For more details on the new segment reporting in 2016 and onwards, please refer to the introduction of Sector performance.

Further updates will be provided in the course of 2016.

6.2 Consumer Lifestyle



“Across the world people are increasingly engaged in their personal health and are looking for solutions to stay healthy and prevent illness. We are leveraging our deep consumer expertise and extensive healthcare know-how to drive the consumerization of health. We’re supporting people to live a healthy life in a healthy home environment; enabling them to proactively manage their own health.”

Pieter Nota, CEO Philips Consumer Lifestyle

- We are 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; leverage connectivity as a further growth driver.
- In 2015, Consumer Lifestyle made further strong progress to reposition towards healthy living and prevention across the health continuum 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 Consumer landscape

Across the world, consumers are looking for solutions that help them to be healthy, live well and enjoy life. They are increasingly tracking their personal health through a combination of hardware and software devices and services, which they expect will deliver insights that are real-time, highly personal and direct them towards better health.

In a connected, digital world, consumers are looking for smart, personalized solutions. Purchase decisions are increasingly made or influenced online. In 2015, economic headwinds, especially in growth markets, created pressure on consumer spending. However, living a healthy life remained a high priority for consumers.

6.2.2 About Consumer Lifestyle in 2015

Through our various businesses, we aim to make a difference to people's lives by enabling them to make healthy choices every day based on locally relevant innovation. In recent years we have been responding to the need and desire of consumers to take charge of their personal health journey. We service our customers across the health continuum, delivering innovation in healthy living and disease prevention. In doing so, we target more attractive markets with better margins.

We are focused on value creation through category leadership and operational excellence, driving global leadership positions. 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.

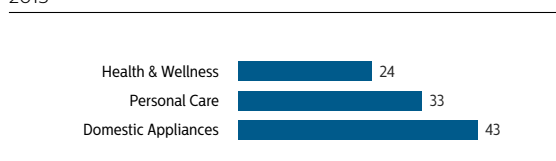
Through 2015, Consumer Lifestyle has been built around businesses and markets, enabling us to direct investments to where the growth is, addressing locally relevant consumer needs. We create global platforms that can be adapted for local relevance.

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 2015, 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, air purification, garment care, floor care

Philips Consumer Lifestyle
Total sales by business as a %
2015



Through our personal health businesses, 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 and are building our digital and e-commerce capabilities across the company. We are adapting our web functionality to offer consumers a better user experience via smaller screens, driving improvements from conversion to sales.

We are leveraging connectivity to engage consumers in new and impactful ways through social media and digital innovation. For example, in 2015 we launched Philips Avent uGrow, a new digital parenting platform which supports the healthy development of babies, and also the latest Philips Sonicare for Kids Connected toothbrush.

Under normal economic conditions, Philips' personal health businesses experience seasonality, with higher sales in the fourth quarter.

In 2015, Consumer Lifestyle employed approximately 16,000 people worldwide. The global sales and service organization covered more than 50 developed and growth geographies. In addition, we operated manufacturing and business creation organizations in Argentina, Austria, Brazil, China, India, Indonesia, Italy, the Netherlands, Romania, the UK and the US.

Commitment to quality

The implementation of the Philips Business System is embedding a fundamental commitment to quality across all our processes, products, systems and services. Philips' personal health businesses are 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. We have a growing portfolio of medically regulated products in our 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 CFDA 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 2015 business highlights

- The success of established propositions like the Philips Sonicare DiamondClean and the Philips Sonicare AirFloss Ultra, along with new innovations like Philips Sonicare for Kids Connected, drove continued growth across the world, in particular in China, Japan, Germany and North America.
- Continuing the geographical expansion of Philips product innovations, we reached the milestone of 5 million Philips Airfryers sold. Philips is the market leader in the world's low-fat fryer market.
- Delivering on its male grooming growth strategy to drive loyalty and create more value among existing users, Philips launched the Philips Smart Shaver Series 7000.

- The new Philips Smart Air Purifier 8000i series is a high-performing air purifier that helps to quickly improve indoor air quality – even in larger rooms.
- At Kind + Jugend, the leading international baby and toddler trade fair in Germany, Philips reinforced its industry leadership, showcasing the Philips Avent uGrow Platform, a new digital parenting platform which supports the healthy development of babies.
- Empowering consumers to take greater control of their health, Philips personal health programs were announced at IFA Berlin, one of the world's leading trade shows for home appliances. Built upon the Philips HealthSuite digital platform, each program comprises connected health measurement devices, an app-based personalized program with coaching, and secure, cloud-based data analysis.

6.2.4 2015 financial performance

Philips Consumer Lifestyle
Key data in millions of EUR unless otherwise stated
 2013 - 2015

	2013	2014	2015
Sales	4,605	4,731	5,347
Sales growth			
% increase, nominal	7%	3%	13%
% increase, comparable ¹⁾	10%	6%	6%
EBITA ¹⁾	483	573	673
as a % of sales	10.5%	12.1%	12.6%
EBIT	429	520	621
as a % of sales	9.3%	11.0%	11.6%
Net operating capital (NOC) ¹⁾	1,261	1,353	1,453
Cash flows before financing activities ¹⁾	480	553	589
Employees (in FTEs)	17,255	16,639	16,254

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 5,347 million, a nominal increase of 13% compared to 2014. Excluding a 7% positive currency impact, comparable sales were 6% higher year-on-year. Health & Wellness achieved double-digit growth, Personal Care reported high-single-digit growth, while Domestic Appliances was in line with 2014. Green Product sales amounted to EUR 3,091 million, or 58% of total sector sales.

From a geographical perspective, growth geographies achieved high-single-digit growth and mature geographies registered low-single-digit growth. In growth geographies, the increase was mainly driven by Central & Eastern Europe, Asia Pacific and India, primarily in the Health & Wellness and Personal Care businesses. Growth geographies' share of sector sales was 48%, compared to 47% in 2014.

EBITA increased from EUR 573 million, or 12.1% of sales, in 2014 to EUR 673 million, or 12.6% of sales, in 2015. Restructuring and acquisition-related charges amounted to EUR 36 million in 2015, compared to EUR 9 million in 2014. EBITA in 2015 also included charges related to the devaluation of the Argentine peso of EUR

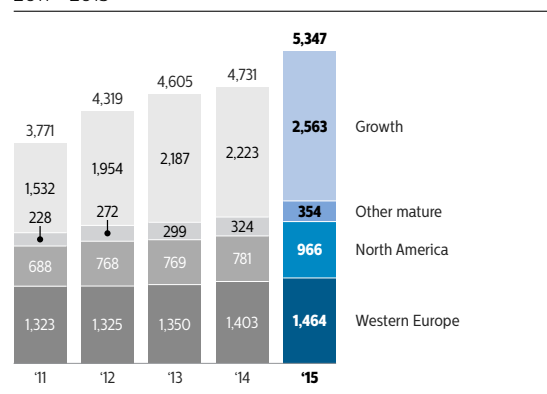
13 million. EBITA in 2014 also included a EUR 11 million past-service pension cost gain. The year-on-year EBITA increase was mainly driven by improved earnings at Health & Wellness and Personal Care.

EBIT amounted to EUR 621 million, or 11.6% of sales, which included EUR 52 million of amortization charges, mainly related to acquired intangible assets at Health & Wellness and Domestic Appliances.

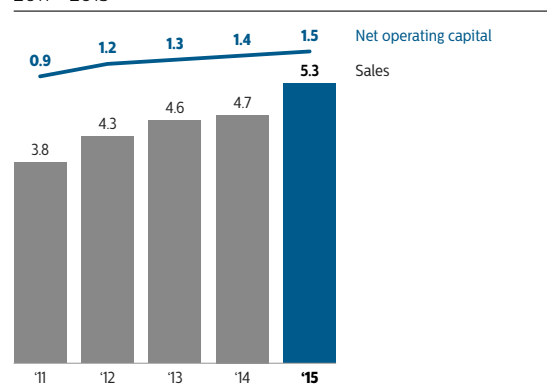
Net operating capital increased from EUR 1,353 million in 2014 to EUR 1,453 million in 2015, due to higher working capital, partly offset by a reduction in intangible fixed assets.

Cash flows before financing activities increased from EUR 553 million in 2014 to EUR 589 million in 2015, mainly due to higher earnings.

Philips Consumer Lifestyle
Sales per geographic cluster in millions of EUR
 2011 - 2015

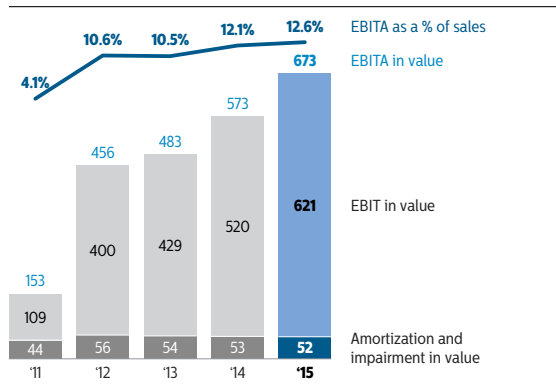


Philips Consumer Lifestyle
Sales and net operating capital¹⁾ in billions of EUR
 2011 - 2015



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
2011 - 2015



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

6.2.5 Delivering on EcoVision sustainability commitments

Sustainability continued to play an important role at Consumer Lifestyle in 2015, 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 58% of total sales in 2015. All Green Products with rechargeable batteries exceed the stringent California energy efficiency standard by at least 10%. And over 65% of total sales are PVC- and/or BFR-free products (excluding power cords). In 2015, we continued to increase the use of recycled materials in our products. Over 900 tons of recycled plastics were used in kitchen appliances, vacuum cleaners, irons and coffee machines, compared to 625 tons in 2014.

As concrete examples of our commitment to sustainability we launched the new Perfect Care Eco Aqua Steam Generator, of which the plastic parts consist of 50% recycled material, and the Performer Expert vacuum cleaner, which is free of PVC/BFR, has an A-class energy label and contains 50% recycled plastics.

In our operations we continue to use most of our electricity from renewable sources, with the ultimate aim of having CO₂-neutral production sites by 2020. In 2015, 65% of the electricity used in manufacturing sites came from renewable sources and 82% of the industrial waste was recycled.

6.2.6 2016 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 opportunities respectively. Philips has transferred its Lighting business into a stand-alone structure effective February 1, 2016 and has moved from a holding company model to an operating company model.

In light of its focus on health technology, Philips has eliminated the Healthcare and Consumer Lifestyle sector layers in order to drive the convergence of consumer health and professional healthcare as well as to reduce overhead costs. We plan to change the reporting of Philips' health technology activities to three segments (Personal Health, Diagnosis & Treatment, Connected Care & Health Informatics) with effect from Q1 2016. For more details on the new segment reporting in 2016 and onwards, please refer to the introduction of Sector performance.

Further updates will be provided in the course of 2016.

6.3 Lighting



“We are successfully leading the industry transformation from conventional lighting to innovative LED and connected lighting systems that unlock new value and experiences for our customers and partners. Embedding lighting into the Internet of Things, we will capture growth opportunities and adjacent value from new services-based business models. Our leadership positions, innovations and strong brand present a catalyst for value creation, growth and a solid foundation on which to become a stand-alone lighting company.” 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 connected lighting applications.
- Recognizing that the growth and profit pool will shift to digitally connected lighting products, systems and services, our goal is to become a lighting solutions company capturing superior growth and profitability.
- We continue on our Accelerate! journey to achieve operational excellence across our businesses.
- The separation process is fully under way and is expected to be completed in the first half of 2016.

6.3.1 Lighting 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 and connected lighting. The world's population is forecast to grow from 7 billion today to over 9 billion by 2050. At the same time, we are witnessing rapid 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. Digital technologies enable connectivity and seamless integration in software architectures, systems and services. Connected lighting allows light points to be used as information pathways opening up new functionalities and services based on the transmission and analysis of data.

The lighting market is expected to grow by 2-4% per annum between 2015 and 2019 (source: BCG). The majority of this growth will be driven by LED-based solutions and applications – heading towards a 60-65% share by 2018.

6.3.2 About Lighting in 2015

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

We have a firm strategy which is based upon six priorities:

- Optimize value from conventional products to support growth
- Innovate in LED products commercially and technologically to outgrow the market
- Lead the shift to systems, building the largest connected installed base
- Capture adjacent value through new services business models
- Be our customers' best business partner locally, leveraging our global scale
- Use our Accelerate! program to improve our operational excellence

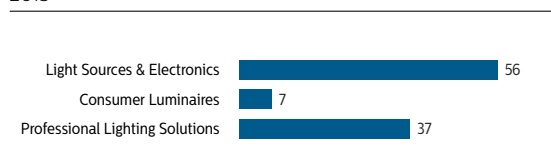
We aim to further invest to support our leadership in LED and connected lighting systems and services while at the same time capitalizing on our broad portfolio, distribution and brand in conventional lighting by flexibly anticipating and managing the phase-out and declining sales of conventional products.

We address people's lighting needs across a full range of market segments. Indoors, we offer lighting products, systems and services for homes, shops, offices, schools, hotels, factories and hospitals. Outdoors, we offer products, systems and services 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 entertainment, horticulture, and water purification.

In 2015, Philips Lighting spanned a full-service lighting value chain – from lamps, luminaires, electronics and controls to connected and 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

Philips Lighting
Total sales by business as a %
2015



In 2015, the Light Sources & Electronics business conducted 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 was organized in a project solutions business (project luminaires, systems and services).

The conventional lamps industry has been highly consolidated, with GE and Osram as main 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 34,000 employees worldwide.

Commitment to quality

The implementation of the Philips Business System is embedding a fundamental commitment to quality across all our processes, products, systems and services. 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.

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

6.3.3 2015 business highlights

In 2015, our lighting innovations supported our six strategic priorities aimed at delivering even greater value for our customers and other stakeholders. These highlights showcase our leading innovations in connected lighting, systems and services, our aspiration to be *the* lighting company for the Internet of Things for both professional and consumer markets.

Philips expanded its portfolio of connected lighting products for the home by introducing Philips Hue Phoenix, a luminaire providing tunable white light, Philips Hue Go, a portable wireless luminaire, Philips Lightstrip Plus, a flexible LED light strip, and a new bridge enabling Philips Hue to interact with other Apple HomeKit devices and become voice-controlled.

Philips and Cisco formed a global strategic alliance that will help enable facilities managers, building owners and office workers to reap the benefits of the Internet of Things in offices. The alliance combines Philips' connected office lighting system with Cisco's highly secure network technology, to increase energy efficiency, provide data to optimize user comfort and improve the office environment.

Philips made further inroads with its Philips CityTouch lighting system, with Los Angeles adopting an advanced Philips management system that uses wireless and cloud-based technologies to control its street lighting. Philips' CityTouch connected lighting management system is now used in more than 262 projects in over 30 countries across the world.

In Lille, France, Carrefour installed 2.5 kilometers of Philips LED lighting that uses light to transmit a location signal to a shopper's smartphone, triggering an app to provide location-based services. This enables Carrefour to provide new services to its shoppers, such as helping them to navigate and find promotions across the 7,800 m² shop floor. It is the world's largest connected lighting indoor positioning system for retail and has reduced the total lighting-based electricity consumption of the hypermarket by 50%.

Philips provided a connected LED lighting system for the New NY Bridge in New York. It will combine roadway and architectural lighting, an industry first, on what will be the most technologically advanced bridge in North America. The system will feature remotely programmed lights that produce dynamic colorful effects and use Philips ActiveSite and Philips CityTouch cloud-based monitoring and management systems.

Philips continues to light up iconic buildings around the world with colorful and dynamic connected LED lighting. New illuminations in 2015 include Europe's largest mosque located in Moscow, Le Meurice hotel in Paris, the Cairo Opera House, the Accra Theater in Ghana, the Big Four Bridge in Louisville, US, the Nanjing Tower in China, and the Edirne Bridge and Butterfly Valley in Turkey.

Philips launched LifeLight, a solar-powered LED lighting range for homes in Kenya and other African countries. The range eliminates the need to use kerosene lamps, with their harmful fumes, in homes in off-grid areas, and also increases productivity and community life by enabling activities to continue after dark.

6.3.4 2015 financial performance

Philips Lighting
Key data in millions of EUR unless otherwise stated
2013 - 2015

	2013	2014	2015
Sales	7,145	6,869	7,411
Sales growth			
% increase (decrease), nominal	(2)%	(4)%	8%
% increase (decrease), comparable ¹⁾	1%	(3)%	(3)%
EBITA ¹⁾	580	293	594
as a % of sales	8.1%	4.3%	8.0%
EBIT	413	185	486
as a % of sales	5.8%	2.7%	6.6%
Net operating capital (NOC) ¹⁾	4,462	3,638	3,813
Cash flows before financing activities ¹⁾	418	442	642
Employees (in FTEs)	38,671	37,808	33,618

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

In 2015, sales amounted to EUR 7,411 million, 8% higher on a nominal basis. Excluding a 9% positive currency effect and a 2% positive effect from portfolio changes, comparable sales decreased by 3%. Both Light Sources & Electronics and Consumer Luminaires recorded a mid-single-digit decline, partly due to the anticipated decline in conventional lighting, while Professional Lighting Solutions remained flat year-on-year.

From a geographical perspective, comparable sales in growth geographies showed a mid-single-digit decrease, largely driven by declines across all businesses in China and at Light Sources & Electronics and Professional Lighting in Middle East & Turkey. Sales in growth geographies increased from 39% of total sales in 2014 to 40% in 2015. 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 remaining flat year-on-year.

Sales of LED-based products grew to 43% of total sales, up from 34% in 2014, driven by Light Sources & Electronics and Professional Lighting Solutions. Sales of energy-efficient Green Products exceeded EUR 5,343 million, or 72% of sector sales.

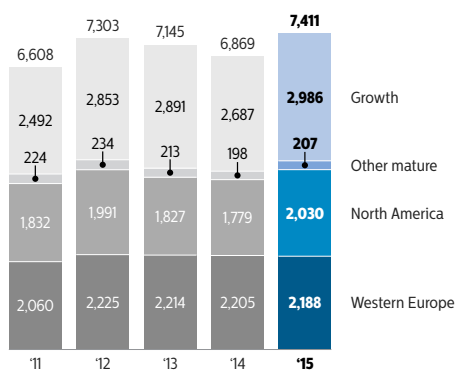
EBITA increased from EUR 293 million, or 4.3% of sales, in 2014 to EUR 594 million, or 8.0% of sales in 2015. Restructuring and acquisition-related charges amounted to EUR 99 million in 2015, compared to EUR 245 million in 2014. EBITA in 2015 also included EUR 14 million of charges related to the devaluation of the Argentine peso, while 2014 included a EUR 13 million past-service pension cost gain and EUR 68 million of impairment and other charges related to industrial assets. The increase in EBITA was mainly attributable to lower restructuring and acquisition-related charges, cost productivity and improved LED gross margins.

EBIT amounted to EUR 486 million, or 6.6% of sales, which included EUR 108 million of amortization charges, mainly related to acquired intangible assets at Professional Lighting Solutions.

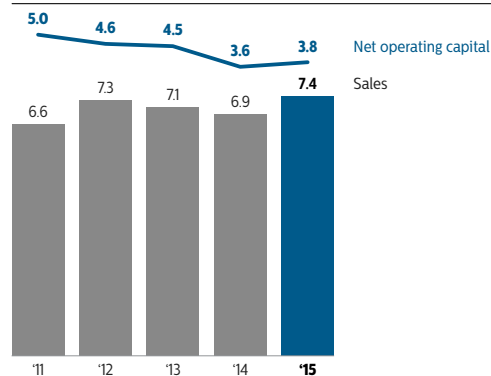
Net operating capital increased by EUR 175 million to EUR 3.8 billion. The current-year increase was mainly due to currency translation effects.

Cash flows before financing activities increased from EUR 442 million in 2014 to EUR 642 million due to higher earnings and a decrease in working capital.

Philips Lighting
Sales per geographic cluster in millions of EUR
2011 - 2015

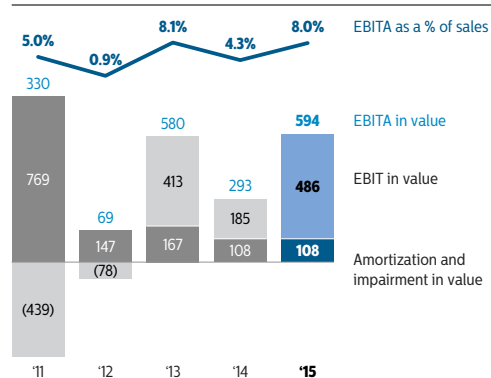


Philips Lighting
Sales and net operating capital¹⁾ in billions of EUR
2011 - 2015



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
2011 - 2015



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

Early in 2015, Philips Lighting engaged in a 'Light as a Service' business arrangement with Amsterdam Airport Schiphol. Under the terms of this agreement Philips will retain ownership of the lighting equipment and Schiphol will pay for the light used. The project will utilize LED-based products that will deliver 50% energy savings relative to legacy lighting. Light as a Service is starting to gain traction in the market as a new business model, because it offers state-of-the-art lighting hassle-free, does not require any customer investment, provides energy efficiency (lower CO₂ emissions), and supports the circular economy (less waste to landfill).

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 58% since the baseline year of 2007. In 2015, 85% of our total industrial waste was re-used as a result of recycling. In December 2015, while speaking at COP 21 in Paris, Eric Rondolat announced Philips' commitment to making its operations carbon-neutral by 2020, both for Royal Philips and for Philips Lighting.

6.3.6 2016 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 opportunities respectively. We have established a stand-alone structure for Philips Lighting within the Philips Group, effective February 1, 2016. We expect to be able to announce the separation of the Lighting business in the first half of 2016, subject to market conditions and other relevant circumstances. As previously stated, we are reviewing all strategic options for Philips Lighting, including an initial public offering and a private sale.

From an external financial reporting perspective, it should be noted that Royal Philips will introduce new segment reporting, from Q1 2016 onwards. The Lighting segment will represent the Philips Lighting businesses and include the relevant allocation of the current Innovation, Group & Services. For more details on the new segment reporting in 2016 and onwards, please refer to the introduction of Sector performance.

Further updates will be provided in the course of 2016.

6.4 Innovation, Group & Services

- Philips moved its North American Research organization to the Cambridge, Mass. area to benefit from the vibrant innovation ecosystem and to facilitate collaboration with Massachusetts Institute of Technology (MIT), academic hospitals, and business partners. Also the new site will be truly interdisciplinary, co-locating various functions like upstream marketing, strategy, design, digital accelerator, and early-stage ventures.
- Philips became the second-largest patent applicant in the world for patents filed at the European Patent Office (EPO).
- Philips Design celebrated 90 years of design legacy with a record-breaking 156 design awards.

Introduction

In 2015, Innovation, Group & Services comprised 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 in 2015

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 management and 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 synergies for cross-sector initiatives.

PGI encompasses Philips Research, Philips Innovation Services, the Philips Innovation Campus in Bangalore, the Philips Innovation Center Shanghai, the Philips Innovation Labs in Cambridge (USA), the Philips Africa Innovation Hub, Philips Design, the Philips HealthTech 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), the Philips Innovation Center in Shanghai (China) and the Philips Cambridge Innovation Labs (USA) are prime examples of environments enabling Open Innovation.

Through Open Innovation, Philips seeks to apply new thinking to solving major societal issues. A great example is the five-year alliance between Philips Research and Massachusetts Institute of Technology (MIT) aimed at speeding up advancements in health technology solutions to help address society's most pressing challenges in healthcare, as well as digital connected lighting systems to address the need to make cities more livable and sustainable. With a total budget of USD 25 million for the five-year term, this is the largest research alliance undertaken by the company in the region. Philips researchers will be collaborating intensely with MIT faculty and PhD students on jointly defined research programs and Open Innovation projects.

Philips Research

Philips Research is the main partner of Philips' operating businesses for technology-enabled innovation. It creates new technologies and the related intellectual property, 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.

In the area of Healthcare, we continue to engage with customers in novel ways to discover unmet needs and co-create solutions with our partners. The Digital Accelerator and the recently opened HealthSuite Lab at the High Tech Campus in Eindhoven, for example, enable us to fast-track the development and execution of new care models and solutions, together with partners and customers such as hospital networks, supported by the latest digital technologies and rapid prototyping. Through research partnerships, such as our agreements with Stockholm County Council and Karolinska University Hospital, researchers from different industries, hospitals and academia are brought together to facilitate closer links between the delivery of care and clinical research.

In the area of Lighting, we remain highly focused on offering solutions across the lighting value chain, including software, controls, luminaires, light sources and modules. We are shifting our lighting portfolio from individual products towards connected LED lighting systems and services, LED luminaires and LED lamps for the professional and consumer markets. In close collaboration with the US Department of Defense/US Army Base Fort Sill (Oklahoma) in North America, Philips Research demonstrated how the use of advanced LED light sources and smart lighting controls can result in substantial energy and cost savings while improving the quality of light in terms of color rendering and brightness. The initiative was honored with the ESTCP (Environmental Security Technology Certification Program) 2015 'Project of the Year Award' for Energy and Water.

Philips Innovation Services

Philips Innovation Services offers a wide range of expert services in development, realization & consulting. Innovation Services' skills are leveraged by Philips Businesses, Markets and Philips Group Innovation in all regions.

Together with Research and a new dedicated Connected Digital Proposition team, Innovation Services has helped realize various connected products as part of personal health programs launched at IFA in Berlin – the health watch, blood pressure monitor, body analysis scale and ear thermometer – as well as the recently announced cooperation with Charité – Universitätsmedizin Berlin on preventing delirium in critical care with lighting and acoustics concepts.

Philips Innovation Services also supported projects such as Philips LifeLight, the new zero-energy, solar-powered LED lighting range designed for homes in off-grid rural and semi-urban communities, as part of Philips' drive to deliver innovations that are locally relevant.

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 Cambridge Innovation Labs (USA)

The new Philips Cambridge Innovation Labs that opened in October 2015 are situated in the hub of the Cambridge/Boston ecosystem. The labs are the new home to approximately 100 Philips Research North America employees and another 150 Philips employees from other innovation functions and ventures. Being within close proximity to the MIT campus allows researchers to collaborate easily with MIT faculties and PhD students on jointly defined research programs, as well as to participate in Open Innovation projects. The joint teams are working on advancements in healthcare and connected lighting systems

Philips Africa Innovation Hub

The Philips Africa Innovation Hub in Nairobi, Kenya, creates locally relevant innovations 'in Africa, for Africa', with particular focus on improving access to lighting and affordable healthcare. The Africa Innovation Hub is a collaboration between Philips Group Innovation and Philips' Africa market organization.

Philips Design

Celebrating its 90th anniversary in 2015, Philips Design is the global design function for the company, ensuring that innovations are meaningful, people-focused and locally relevant. The Design group is also tasked with ensuring that the Philips brand experience is differentiating, consistently expressed and drives customer preference.

Philips Design partners with the Philips businesses, Group Innovation and functions, championing a multidisciplinary co-create approach that brings teams together to understand the different factors that influence how a new product or solution will appear, perform and behave. Philips Design is widely recognized as a world leader in design and in 2015 alone received 156 design awards, including the IDSA silver award for the Connected NICU (Neo-Natal Intensive Care Unit), a concept aimed at supporting family-centered and developmental care, improved parental experience, long-term development and quality of life for pre-term babies.

Increasingly we are leveraging our design capabilities and processes to work directly with our customers and our customer-facing teams. For example, the long-term deals announced in 2015 with Mackenzie Health in Canada and Westchester Medical Center include innovation and design consulting. Innovating directly with our customers enables Philips Design to deliver people-focused improvements that optimize the patient experience and overall performance of their healthcare systems across the health continuum.

Philips Healthcare Incubator

The Philips Healthcare Incubator is a group dedicated to identifying, developing and bringing breakthrough products and services to market that will drive the future of healthcare. One of the ventures is Digital Pathology Solutions, which empowers 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 venture is Handheld Diagnostics, with its Minicare proposition, which 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. The Home Clinical Monitoring venture performs remote monitoring to support patients during chemotherapy. Finally, the acquisition of the Danish medical technology company Unisensor led to the establishment of Philips Biocell, which has released the oCelloScope System, an analytical instrument that is, among other applications, used within microbiological studies on a research application basis.

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 LED Solutions*, Light for Health, Photonics, Wearable Sensing Technologies, Elder Care Solutions and Mental Vitality.

Philips Horticulture LED Solutions stands for solutions that improve growers' business performance. With customized 'light recipes' we can help optimize crop yield and quality. We combine crop growth knowledge and technology, and value long-term partnerships in business and research. Hundreds of projects have been realized in different regions in different segments. In July 2015, Philips CEO Frans van Houten opened the state-of-the-art GrowWise Center at the High Tech Campus in Eindhoven, the Netherlands. Research being conducted by Philips will provide tailor-made LED light recipes, making it possible for producers to increase their yields and grow tasty and healthy food indoors all year round, while reducing waste, limiting food miles and using practically no land or water.

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 like Philips BlueControl, which 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 Elder Care Services provides technology solutions and additional services enabling home care organizations to complement hands-on home care with remote care services to seniors and other care-reliant individuals at home.

Mental Vitality aims to deliver digital solutions for treatment and monitoring of clients with mild and moderate mental disorders.

* Philips Horticulture LED Solutions will move to Philips Lighting in 2016.

Philips Intellectual Property & Standards

Philips IP&S proactively pursues the creation of new Intellectual Property (IP) 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 76,000 patent rights, 47,000 trademarks, 91,000 design rights and 5,000 domain names. Philips filed 1,750 patents in 2015, 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, governments 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 End2End 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.

Pensions

Pensions manage and oversee post-employment benefits of all Philips employees.

Service Units and Other

Service Units and Other provide shared functional services to businesses in areas such as IT, Real Estate and Accounting, thereby helping to drive global cost efficiencies.

6.4.2 2015 financial performance

Philips Innovation, Group & Services
Key data in millions of EUR unless otherwise stated
2013 - 2015

	2013	2014	2015
Sales	665	605	574
Sales growth			
% increase (decrease), nominal	6%	(9)%	(5)%
% increase (decrease), comparable ¹⁾	0%	(12)%	5%
EBITA of:			
Group Innovation	(134)	(197)	(222)
IP Royalties	312	299	284
Group and regional costs	(175)	(205)	(569)
Accelerate! investment	(137)	(131)	(113)
Pensions	(41)	(12)	(355)
Service units and other	(124)	(415)	56
EBITA ¹⁾	(299)	(661)	(919)
EBIT	(302)	(675)	(934)
Net operating capital (NOC) ¹⁾	(2,922)	(3,718)	(3,382)
Cash flows before financing activities ¹⁾	(2,140)	(1,586)	(2,086)
Employees (in FTEs)	12,703	13,853	14,233

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

In 2015, sales amounted to EUR 574 million, and were mainly related to IP Royalties. Sales were EUR 31 million lower than in 2014, mainly due to the divestment of the OEM remote control business, partly offset by higher sales at Philips' emerging businesses such as Digital Pathology and Photonics.

EBITA amounted to a net cost of EUR 919 million, compared to EUR 661 million in 2014. EBITA in 2015 included a EUR 20 million net release of restructuring charges, compared to EUR 113 million restructuring charges in 2014. EBITA in 2015 also included charges of EUR 183 million related to the separation of the Lighting business, EUR 345 million mainly related to settlements for pension de-risking, and a EUR 37 million gain related to the sale of real estate assets. EBITA in 2014 included EUR 244 million of charges related to the CRT settlement and a EUR 27 million past-service pension cost gain.

EBITA at Group Innovation was a EUR 25 million higher net cost than in 2014, mainly due to higher investments in emerging business areas.

EBITA at Group and Regional costs were EUR 364 million lower than in 2014, reflecting EUR 183 million related to the separation of the Lighting business and higher charges mainly related to information security and Quality & Regulatory.

Accelerate! investments amounted to EUR 113 million in 2015 and included investments in IT infrastructure, internal departments and external consultancy dedicated to the Accelerate! program.

EBITA at Pensions amounted to a net cost of EUR 355 million and represents costs related to deferred pensioners covered by company plans. 2015 included charges of EUR 345 million related to pension de-risking settlements.

EBITA at Service Units and Other increased from a loss of EUR 415 million in 2014 to a gain of EUR 56 million in 2015. The increase of EUR 471 million was largely due to lower restructuring costs and CRT antitrust litigation charges reported in 2014.

Net operating capital improved to negative EUR 3.4 billion, mainly due to a decrease in provisions.

Cash flows before financing activities decreased from an outflow of EUR 1,586 million in 2014 to an outflow of EUR 2,086 million.

6.4.3 2016 and beyond

From an external financial reporting perspective, it should be noted that Royal Philips will introduce new segment reporting from Q1 2016 onwards. The current Innovation, Group & Services will be split and allocated to the segments of Royal Philips and Philips Lighting. The remaining unallocated corporate items will contain certain legacy items and separation costs. For more

details on the new segment reporting in 2016 and onwards, please refer to the introduction of chapter 6, Sector performance, of this Annual Report.

Further updates will be provided in the course of 2016.

7 Risk management

7.1 Our approach to risk management and business control

The following section presents an overview of Philips' approach to risk management and business controls and a description of the nature and the extent of its exposure to risks. Philips' risk management focuses on the following risk categories: Strategic, Operational, Compliance and Financial risks. These categories are further described in section 7.2, Risk categories and factors, of this Annual Report. The risk overview highlights the main risks known to Philips, which could hinder it in achieving its strategic and financial business objectives. The risk overview may, however, not include all the risks that may ultimately affect Philips. Some risks not yet known to Philips, or currently believed not to be material, could ultimately have a major impact on Philips' businesses, objectives, revenues, income, assets, liquidity or capital resources.

All forward-looking statements made on or after the date of this Annual Report and attributable to Philips are expressly qualified in their entirety by the factors described in the cautionary statement included in chapter 19, Forward-looking statements and other information, of this Annual Report and the overview of risk factors described in section 7.2, Risk categories and factors, of this Annual Report.

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

Corporate governance

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

The quality of Philips' systems of business controls and the findings of internal and external audits are reported to and discussed by the Audit Committee of the Supervisory Board. Internal auditors monitor the quality of the business controls through risk-based operational audits, inspections of financial reporting controls and compliance audits. Audit & Risk committees at group level (Group, Finance and IT)

and at Business Group, Market and Function level meet quarterly to address weaknesses in the business controls infrastructure as reported by internal and external auditors or revealed by self-assessment of management, and to take corrective action where necessary. These Audit & Risk committees are also involved in determining the desired company-wide internal audit planning as approved by the Audit Committee of the Supervisory Board. Whilst recognizing the responsibilities of the Audit Committee, the Supervisory Board also established the Quality and Regulatory Committee in 2015. The Q&R Committee assist the Supervisory Board in fulfilling its oversight responsibilities particularly in respect of the quality of the Company's products, systems, services and software and the development, testing, manufacturing, marketing and servicing thereof, and regulatory requirements relating thereto. As such, the establishment of the Q&R Committee supports the Company's risk management in the relevant risk areas. An in-depth description of Philips' corporate governance structure can be found in chapter 11, Corporate governance, of this Annual Report.

Philips Business Control Framework

The Philips Business Control Framework (BCF) sets the standard for risk management and business control in Philips. The objectives of the BCF are to maintain integrated management control of the company's operations, in order to ensure the integrity of the financial reporting, as well as compliance with laws and regulations. Philips has designed its BCF based on the "Internal Control-Integrated Framework (2013)" established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Philips continuously evaluates and improves BCF to align with business dynamics and good practice.

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

As part of the Annual Report process, management's accountability for business controls is enforced through the formal issuance of a Statement on Business Controls and a

Letter of Representation by Business Group, Market and Functional management to the Executive Committee. Any deficiencies noted in the design and operating effectiveness of controls over financial reporting which were not completely remediated are evaluated at year-end by the Board of Management. The Board of Management's report, including its conclusions regarding the effectiveness of internal control over financial reporting, can be found in section 12.1, Management's report on internal control, of this Annual Report.

Philips General Business Principles

The Philips General Business Principles (GBP) incorporate the fundamental principles for all Philips businesses. They set the standard for business conduct, both for individual employees and for the company itself. They also provide a reference for the business conduct we expect from our business partners and suppliers. Translations are available in 32 languages, allowing almost every employee to read the GBP in their native language. Detailed underlying policies, manuals, training and tools are in place to give employees practical guidance on how to apply the GBP in their day-to-day work.

In addition, there are separate Codes of Ethics that apply to employees working in specific areas of our business, i.e. the Procurement Code of Ethics and the Financial Code of Ethics. Details can be found at: www.philips.com/gbp.

In a continued effort to raise GBP awareness and create engagement, every year a GBP communications and training plan is deployed. In 2015, over the course of several communication waves, employees were informed about a variety of GBP topics, the Philips Ethics Line, the Business Integrity Survey, and the deployment of e-learnings on the GBP and related legal compliance topics. The mandatory GBP e-learning, which was launched in October, has been sent to all employees with a Philips e-mail account.

The GBP form an integral part of labor contracts in virtually every country in which Philips operates. It is the responsibility of each employee to live up to our GBP, and employees are requested to state their commitment after having completed the GBP e-training. In addition, each year the relevant employees are asked to sign off on the Financial and the Supply Management Codes of Ethics, and all executives are asked to sign off on the General Business Principles to confirm their awareness and compliance with the respective codes.

The GBP Review Committee is responsible for the effective deployment of the GBP. The GBP Review Committee is a virtual body chaired by the Chief Legal Officer, and its members include the Chief HR Officer, the Chief Market Leader and the Chief Financial Officer. They are supported by a secretariat and a network of GBP compliance Officers in all countries and at all major sites where Philips has operations. Related roles and responsibilities are laid down in the Charter of the GBP Review Committee. In December 2015 the GBP Review Committee adopted a revised charter. These revisions were deemed necessary in view of the external

regulatory developments in business ethics and compliance and they have an impact on the composition of the GBP Review Committee, the roles and responsibilities of its members as well as the composition, roles and responsibilities of the GBP Compliance function. Deployment of this revised charter will follow in 2016.

The GBP are supported by mechanisms that ensure standardized reporting and escalation of concerns. These mechanisms are based on the GBP Reporting policy that urges employees to report any concerns they may have regarding business conduct in relation to the GBP either through a GBP Compliance Officer or through the Philips Ethics Line. The Philips Ethics Line enables employees and, as of March 2015, also third parties to report a concern either by telephone or online via a web intake form. All concerns raised are registered consistently in a single database and are investigated in accordance with standardized investigation procedures.

As part of the Philips Business Control Framework, a GBP self-assessment process is fully embedded in an automated workflow application, which helps management to monitor the internal controls. With the GBP self-assessment forming part of ICS, GBP compliance necessarily forms part of management's quarterly ICS/SOx (Sarbanes-Oxley) monitoring process. Management of each business unit signs off on compliance with the GBP, with this confirmation forming part of the annual Statement on Business Controls. Non-compliance issues are highlighted and, if significant, they are reported to the Executive Committee through the Quarterly Certification Statement process.

The results from the monitoring facilities that are in place are given in chapter 14, Sustainability statements, of this Annual Report.

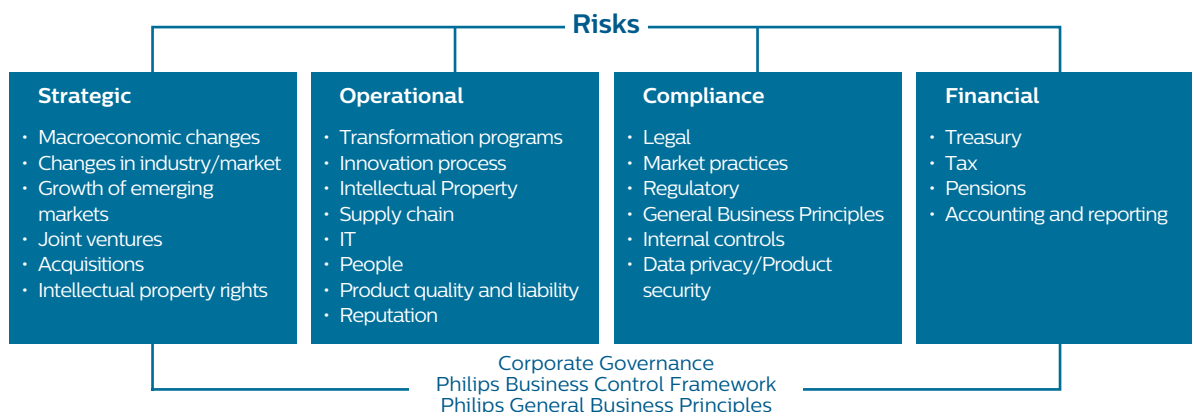
Financial Code of Ethics

The Company recognizes that its businesses have responsibilities within the communities in which they operate. The Company has a Financial Code of Ethics which applies to the CEO (the principal executive officer) and CFO (the principal financial and principal accounting officer), and to the senior management in the Philips Finance Leadership Team who head the Finance departments of the Company. The Company has published its Financial Code of Ethics within the investor section of its website located at www.philips.com. No changes were considered necessary and no changes have been made to the Financial Code of Ethics since its adoption and no waivers have been granted therefrom to the officers mentioned above in 2015.

For more information, please refer to sub-section 5.2.7, General Business Principles, of this Annual Report.

7.2 Risk categories and factors

Risks categories



Taking risks is an inherent part of entrepreneurial behavior. A structured risk management process allows management to take risks in a controlled manner. In order to provide a comprehensive view of Philips' business activities, risks and opportunities are identified in a structured way combining elements of a top-down and bottom-up approach. Risks are reported on a regular basis as part of the 'Business Performance Management' process. All relevant risks and opportunities are prioritized in terms of impact and likelihood, considering quantitative and/or qualitative aspects. The bottom-up identification and prioritization process is supported by workshops with the respective management at Business, Market and Group Function level. During 2015, several risk management workshops were held. The top-down element allows potential new risks and opportunities to be discussed at management level and included in the subsequent reporting process, if found to be applicable. Reported risks and opportunities are analyzed for potential cumulative effects and are aggregated at Business, Market and Group level. In line with the above, amongst others, the following actions were performed during 2015:

- In 2015 the Supervisory Board established the Quality and Regulatory Committee. The establishment of the Q&R Committee further strengthens Philips' risk management efforts in respect of the quality of Philips' products, systems, services and software and the development, testing, manufacturing, marketing and servicing thereof.
- As per February 2015, Philips acquired 100% of US-based Volcano Corporation. Similarly, in the second half of 2014 the Philips acquired 51% of Saudi-based General Lighting Company (GLC). Philips successfully integrated Volcano and GLC into the Philips Business Control Framework in the course of 2015.
- As a next phase in the Accelerate! program, Philips announced in 2014 its plan to establish two stand-alone companies focused on the HealthTech and the Lighting opportunities respectively. The separation risk was described as from 2014 (refer to section 7.7, Separation risk, of this Annual Report) and in 2015 we have paid particular attention to risks related to the separation as this is a very complex process.

- Philips had substantial defined benefit pension plans which carry financial risk. During 2015 the Company further de-risked pension exposure by means of settling the Dutch, UK and (partly) US defined benefit pension plans.
- The challenging global economic developments had an impact on our results. Even though the managing of risks related to these developments did not change compared to 2014, we continuously monitor the impact on our risk profile.

Philips has a structured risk management process to address different risk categories: Strategic, Operational, Compliance and Financial risks. Risk appetite is different for the various risk categories:

- Strategic risks and opportunities may affect Philips' strategic ambitions. Strategic risks include economic and political developments and anticipating and timely responding to market circumstances. Philips is prepared to take considerable strategic risks given the necessity to invest in research & development and manage the portfolio of businesses, including acquisitions and divestments, in a highly uncertain global political and economic environment.
- Operational risks include adverse unexpected developments resulting from internal processes, people and systems, or from external events that are linked to the actual running of each business (examples are solution and product creation, and supply chain management). Philips aims to minimize downside risks due to the need for high quality of its products and services, reliable IT systems and sustainability commitments.
- Compliance risks cover unanticipated failures to implement, or comply with, appropriate laws, regulations, policies and procedures. Philips has a zero tolerance policy towards non-compliance in relation to breaches of its GBP.
- Within the area of Financial risks, Philips identifies risks related to Treasury, Accounting and reporting, Pensions and Tax. Philips does not classify these risk categories in order of importance. Separation risk is

covered in section 7.7, Separation risk, of this Annual Report. Philips is prudent with regard to financial risks and the risk appetite is embedded in various chapters of this annual report, including note 31, Details of treasury / other financial risks.

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

7.3 Strategic risks

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

Philips' business environment is influenced by political and economic conditions in the domestic and global markets. Philips experienced the impact from changes in macro-economic development in various geographies during 2015 in particular in China where economic growth was at the lowest level in the last 25 years. This has triggered interventions by the Chinese government on the official exchange rate of the Chinese Renminbi. Also the economic growth of countries highly dependent on revenues from energy, raw materials and commodities has been adversely affected by the slowdown of growth in China, most strongly in emerging market countries. Monetary interventions by the European Central Bank have not yet resulted in an increase of inflation nor in stronger economic growth in the European Union. The disparate macroeconomic outlook for the main geographies, political conflicts and the unknown impact of Eurozone monetary policy continues to provide uncertainty on the levels of capital expenditures in general, unemployment levels and consumer and business confidence, which could adversely affect demand for products and services offered by Philips. These economic conditions may have an adverse effect on financial markets which could affect the ability of Philips to sell off strategic divestments at reasonable price levels or within a reasonable period of time.

The general global political environment remains unfavorable for the business environment due to a rise in political conflicts and terrorism. Numerous other factors, such as sustained lower levels of energy and raw material prices, regional political conflicts in the Middle East, Russia and Ukraine and other regions, as well as large-scale (in)voluntary migration and profound social instability could continue to impact macroeconomic factors and the international capital and credit markets. Economic growth and the business environment in the European Union may be adversely affected by potential exits from the Eurozone (Greece), exits from the European Union (Great Britain) or secession of regions from European countries (e.g. Cataluña and Scotland). Economic and political uncertainty may have a material adverse impact on Philips' financial condition or results of operations and can also make it more difficult for Philips to budget and forecast accurately. Philips may encounter difficulty in planning and managing operations due to the lack of adequate infrastructure and unfavorable political factors, including unexpected legal or regulatory changes such as foreign exchange import or export controls, increased healthcare regulation, nationalization of assets or restrictions on the repatriation of returns from foreign investments. Given that growth geographies are increasingly important in Philips' operations, the above-mentioned risks are also expected to grow and could have a material adverse effect on Philips' financial condition and operating results.

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

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

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

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

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

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

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

[Acquisitions could expose Philips to integration risks and challenge management in continuing to reduce the complexity of the company.](#)

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

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

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

Philips is dependent on its ability to obtain and retain licenses and other intellectual property (IP) rights covering its products and its design and manufacturing processes. The IP portfolio is the result of an extensive patenting process that could be influenced by a number

of factors, including innovation. The value of the IP portfolio is dependent on the successful promotion and market acceptance of standards developed or co-developed by Philips. This is particularly applicable to Consumer Lifestyle where third-party licenses are important and a loss or impairment could have a material adverse impact on Philips' financial condition and operating results.

7.4 Operational risks

Transformation programs

In 2011 Philips started a very extensive transformation program (Accelerate!) to unlock Philips' full potential. Accelerate! spans a time period of several years. In 2014 as a next phase in the Accelerate! transformation program Philips announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on the HealthTech and Lighting opportunities respectively. Failure to achieve the objectives of the transformation programs may have a material adverse effect on the mid-term and long-term financial targets.

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

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

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

may face an erosion of its market share and competitiveness, which could have a material adverse effect on its financial condition and operating results.

Risk of unauthorized use of intellectual property rights

Philips produces and sells products and services which incorporates technology protected by intellectual property rights. Philips develops and acquires intellectual property rights on regular basis. Philips is exposed to the risk that intellectual property rights on technology applied in its products and services is claimed to be owned by third parties, who, in case their claims of infringement of such intellectual property rights are awarded, would be entitled to damages and fines.

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

Global growth remained moderate during 2015. While the advanced economies showed a modest recovery, the emerging markets showed further declines in their growth rates. Main themes in 2015 were further signs of weakening economic growth in emerging markets, especially in China, strongly declining oil prices, commodity prices trending down slightly, and currency volatility.

Growth within the US, Europe and Japan was supported by declining oil and material prices, monetary policies and, in the case of Europe, the euro currency depreciation – the euro fell approximately 15% against the US dollar. The emerging market currencies more generally saw sharp depreciation and volatility during 2015, and the Chinese renminbi devalued as well.

Commodity prices continued to weaken in 2015. After increasing in the spring from their January lows, oil prices declined sharply, reflecting a combination of weaker global demand and steady supply growth, both from conventional oil fields as well as from shale production. The supply outlook was even larger following the nuclear deal with the Republic of Iran, resulting in additional supply from Iran on the global market.

Metal prices also fell on weaker global demand, especially due to the slowdown in manufacturing activity in China, but also because of increases in inventories and supply following the past mining investments. Market prices for steel continued to fall. Current price levels are in some cases below levels seen during the lows of 2009. No change is foreseen in the short-term as demand remains steady but weak, supply remains excessive and the cost of the raw materials iron ore and coking coal are low.

The lower commodity market prices created a tailwind for Philips Procurement in 2015. Depending on economic conditions this may remain so in 2016. On the other hand, the current low level of raw material and energy prices also creates the risk of new headwind once the supply/demand situation reverses.

Concerning shortages, neon gas supply was tight globally, leading to a price peak in the course of 2015. This situation has normalized in the meantime. The helium tightness is not over yet, but supply continuity is not at risk for Philips.

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

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

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

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

The global increase in security threats and higher levels of professionalism in computer crime have increased the importance of effective IT security measures, including proper identity management processes to protect against unauthorized systems access. Nevertheless, Philips' systems, networks, products, solutions and services remain potentially vulnerable to attacks, which could potentially lead to the leakage of confidential information, improper use of its systems and networks or defective products, which could in turn materially adversely affect Philips' financial condition and operating results. In recent years, the risks that we and other companies face from cyber-attacks have increased significantly. The objectives of these cyber-attacks vary widely and may include, among things, disruptions of operations including provision of services to customers or theft of intellectual property or other sensitive information belonging to us or other business partners. Successful cyber-attacks may result in substantial costs and other negative consequences, which may include, but are not limited to, lost revenues, reputational damage, remediation costs, and other

liabilities to customers and partners. Furthermore, enhanced protection measures can involve significant costs. Although we have experienced cyber-attacks but to date have not incurred any significant damage as a result and did not incur significant monetary cost in taking corrective action, there can be no assurance that in the future Philips will be as successful in avoiding damages from cyber-attacks. Additionally, the integration of new companies and successful outsourcing of business processes are highly dependent on secure and well controlled IT systems.

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

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

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

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

[Any damage to Philips' reputation could have an adverse effect on its businesses.](#)

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

7.5 Compliance risks

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

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

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

[Philips is exposed to governmental investigations and legal proceedings with regard to possible anti-competitive market practices.](#)

Philips is facing increased scrutiny by national and European authorities of possible anti-competitive market practices. Philips' financial position and results could be materially affected by an adverse final outcome of governmental investigations and litigation, as well as any potential related claims.

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

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

[Philips is exposed to non-compliance with General Business Principles.](#)

Philips' attempts to realize its growth ambitions could expose it to the risk of non-compliance with the Philips General Business Principles, such as anti-bribery provisions. This risk is heightened in growth geographies as the legal and regulatory environment is less developed in growth geographies compared to mature geographies. Examples include commission

payments to third parties, remuneration payments to agents, distributors, consultants and the like, and the acceptance of gifts, which may be considered in some markets to be normal local business practice (See also note 26, Contingent assets and liabilities).

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

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

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

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

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

Philips' brand image and reputation would be adversely impacted by non-compliance with various data protection and product safety laws. In light of Philips' digital strategy, data privacy laws are increasingly important. Also, Philips Healthcare is subject to various (patient) data protection and safety laws. In Philips Healthcare, privacy and product safety and security issues may arise, especially with respect to remote access or monitoring of patient data or loss of data on our customers' systems. Philips is exposed to the risk that its products, including components or materials procured from suppliers, may prove to be not compliant with safety laws, e.g. chemical safety regulations. Such non-compliance could result in a ban on the sale or use of these products.

Philips operates in a highly regulated product safety and quality environment. Philips' products are subject to regulation by various government agencies, including the FDA (US) and comparable foreign agencies. Obtaining their approval is costly and time consuming, but a prerequisite for market introduction. A delay or inability to obtain the necessary regulatory approvals for new products could have a material adverse effect on business. The risk exists that product

safety incidents or user concerns could trigger FDA business reviews which, if failed, could lead to business interruption which in turn could adversely affect Philips' financial condition and operating results. E.g. the voluntary, temporary suspension in 2014 of new production at our Healthcare facility in Cleveland, Ohio targeted to further strengthen manufacturing process controls after certain issues in this area were identified during an ongoing FDA inspection.

7.6 Financial risks

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

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

Philips operates in approximately 100 countries and its earnings are therefore inevitably exposed to fluctuations in exchange rates of foreign currencies against the euro. Philips' sales are sensitive in particular to movements in the US dollar, Japanese yen and a wide range of other currencies from developed and emerging markets. However, Philips' sourcing and manufacturing spend is concentrated in the Eurozone, United States and China. Therefore the net (revenues less spend) sensitivity of Income from Operations to US dollar and Chinese renminbi is relatively small. Income from Operations is sensitive to movements in currencies from countries where the Group has none or small manufacturing/sourcing activity such as Japan and a range of emerging markets such as Russia, Korea, Indonesia, India and Brazil.

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

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

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

For further analysis, please refer to note 31, Details of treasury / other financial risks.

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

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

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

For further details, please refer to the tax risks paragraph in note 8, Income taxes.

Philips is exposed to uncertainty on the timing and proceeds of a sale of Lumileds.

On January 22, 2016 Philips announced the termination of its agreement with GO Scale Capital to sell a stake of 80.1% in Lumileds due to the inability to mitigate regulatory concerns in the US. Philips is engaging with other parties that have expressed an interest in the Lumileds business. Adverse market conditions during the bidding and sale process and regulatory restrictions may have an adverse effect on the timing of a sale transaction and the potential proceeds from such a transaction. Prolonged adverse conditions could trigger

a requirement to no longer classify Lumileds as being held for sale and being reported as discontinued operations. This would have a material impact on the balance sheet and EBITA as reported by Royal Philips.

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

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

Philips is exposed to a number of reporting risks.

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

For important critical reporting risk areas identified within Philips we refer to the "Use of estimates" section in note 1, Significant accounting policies, as the Company assessed that reporting risk is closely related to the use of estimates and application of judgment.

7.7 Separation risk

Philips is exposed to risks associated with the separation of its Lighting business.

In September 2014 Philips announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on HealthTech and Lighting opportunities respectively. This is a complex process which involves certain risks to Philips. Although a stand-alone structure for Philips Lighting was established on February 1, 2016, there are still a number of important milestones to be completed in the separation process.

Philips is reviewing all strategic options for Philips Lighting, including public offerings of ownership stakes and a private sale. The completion could take more time than originally planned or anticipated. There is no certainty as to the method or timing of the separation, which may expose Philips to risks regarding the proceeds from a sale of Philips Lighting, additional costs and other adverse consequences.

The separation into Royal Philips and Philips Lighting is unlike divestments or carve out transactions that Philips has implemented in the past, which affected very specific parts of the business of Philips. The separation impacts all businesses and markets as well as all supporting functions and all assets and liabilities of the Group and will continue to require complex and time consuming disentanglement efforts.

The design and execution of the separation requires the devotion of substantial time and attention from management and staff. Although Philips has set-up a dedicated senior project team to work on a successful separation, the separation efforts could distract from and have an adverse effect on the conduct of normal business and our strategy. The separation could increase the likelihood of occurrence and/or potential impact of the risks as described in section 7.2, Risk categories and factors, of this Annual Report, such as strategic risks (e.g. insufficient integration of acquisitions), operational risks (e.g. delays in innovation-to-market), compliance risk (e.g. ineffective internal controls) and financial risks (e.g. reporting risks).

The design and execution of the separation will involve and depend on support from external legal, tax, financial and other professional consultants and as a result Philips will incur substantial cost. The separation could take more time than originally anticipated, which may expose Philips to risks of additional cost and other adverse consequences.

The separation of businesses, assets, liabilities, contractual or contingent rights and obligations and legal entities may require Philips to recognize expenses and/or incur financial payments, which otherwise would not have been incurred.

While it is the firm intention to complete the separation, Philips has reserved the right not to proceed with the separation if it determines that it would be in the Company's interest not to do so. If it does proceed with the separation, no assurances can be given that the separation will ultimately lead to the increased benefits contemplated by Philips currently.

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.

In September 2014 Philips announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on the HealthTech and Lighting opportunities respectively. Early 2016, a stand-alone structure for Philips Lighting was established, within the Royal Philips Group. Until the right strategic option for its future is identified and executed, the Royal Philips Executive Committee will, under the supervision of the Supervisory Board, continue to oversee the Philips Lighting business.

Under Dutch Law, the Board of Management is accountable for the actions 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, Health Systems, Internal Audit, Information Technology, Supply Management, Innovation & Strategy, Sustainability, Accelerate! - Overall transformation, End2End, Quality and Regulatory Compliance



Abhijit Bhattacharya
Born 1961, Indian

Executive Vice President & Chief Financial Officer (CFO)

Member of the Board of Management since December 2015

Group responsibilities: Finance, Capital structure, Mergers & Acquisitions, Investor Relations, Accelerate! - Operating Model



Marnix van Ginneken
Born 1973, Dutch/American

Executive Vice President & Chief Legal Officer

Group responsibilities: Legal and General Secretary



Denise Haylor

Born 1964, British/American

**Executive Vice President &
Chief Human Resources Officer**

Group responsibilities: Human Resources, Accelerate! - Culture



Eric Rondolat

Born 1966, Italian/French

**Executive Vice President &
Chief Executive Officer Philips Lighting**

Group responsibilities: Philips Lighting



Ronald de Jong

Born 1967, Dutch

**Executive Vice President &
Chief Market Leader**

Group responsibilities: Markets, Countries (all except Greater China & North America), Government Affairs, Accelerate! - Customer centricity



Pieter Nota

Born 1964, Dutch

**Executive Vice President & Chief Executive Officer of Personal Health,
Chief Marketing Officer, Member of the Board of Management since April
2011**

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

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.

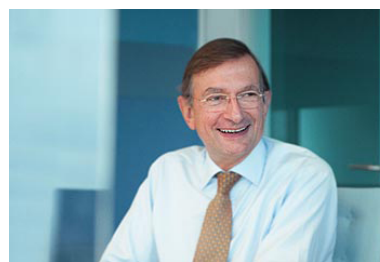
¹⁾ member of the Audit Committee

²⁾ member of the Remuneration Committee

³⁾ member of the Corporate Governance and Nomination & Selection Committee

⁴⁾ member of the Quality & Regulatory Committee

⁵⁾ member of the Separation Committee



Jeroen van der Veer

Born 1947, Dutch ^{2),3),5)}

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 and Non-executive Director of Royal Dutch Shell and currently Chairman of the Supervisory Board of ING Group. Member of the Supervisory Board of Concertgebouw N.V. and Royal Boskalis Westminster N.V.



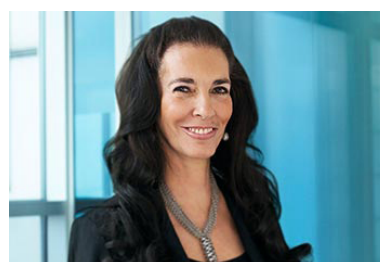
Neelam Dhawan

Born 1959, Indian ¹⁾

Member of the Supervisory Board since 2012;

first term expires in 2016

Currently Managing Director of Hewlett-Packard Enterprise India



Orit Gadiesh

Born 1951, Israeli/American ¹⁾

Member of the Supervisory Board since 2014;

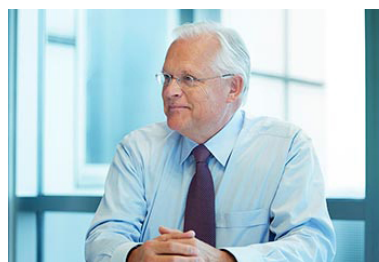
first term expires in 2018

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



Ewald Kist
Born 1944, Dutch ²⁾

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 the Dutch Central Bank, DSM and Moody's Investor Service



Heino von Prondzynski
Born 1949, Swiss/German ^{2),3),4)}

Chairman of the Remuneration Committee
Member of the Supervisory Board since 2007;
third term expires in 2019
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 Board of Quotient Ltd.



Kees van Lede
Born 1942, Dutch ⁵⁾

Chairman of the Separation Committee
Member of the Supervisory Board since 2003;
fourth term expires in 2017
Former Chairman of the Board of Management of Akzo Nobel. Currently member of the Supervisory Boards of AirFrance/KLM and Senior Advisor JP Morgan Plc.



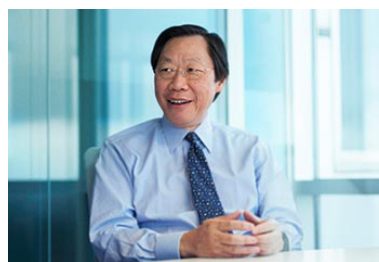
David Pyott
Born 1953, British ^{1),4)}

Member of the Supervisory Board since 2015;
first term expires in 2019
Former Chairman and Chief Executive Officer of Allergan, Inc. (since 2001 and 1998, respectively, until 2015). Currently Director of Avery Dennison Corporation and its Lead Independent Director (since 1999 and 2010, respectively). Member of the Board of Directors of Alnylam Pharmaceuticals Inc. and of BioMarin Pharmaceutical Inc. Also member of the Board of Trustees of Chapman University, member of the Governing Board of the London Business School, President of the International Council of Ophthalmology Foundation and member of the Advisory Board of the Foundation of the American Academy of Ophthalmology.



Christine Poon
Born 1952, American ^{2),3),4)}

Vice-chairman and Secretary
Chairman of the Quality & Regulatory Committee
Member of the Supervisory Board since 2009;
second term expires in 2017
Former Vice-Chairman of Johnson & Johnson's Board of Directors and Worldwide Chairman of the Pharmaceuticals Group and former dean of Ohio State University's Fisher College of Business. Currently member of the Board of Directors of Prudential and Regeneron



Jackson Tai
Born 1950, American ^{1),4),5)}

Chairman of Audit Committee
Member of the Supervisory Board since 2011;
second term expires in 2019
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 Vaporstream

12 Group financial statements

Introduction

This section of the Annual Report contains the audited consolidated financial statements including the notes thereon that have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code. All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective year-end 2015 have been endorsed by the EU, except that the EU did not adopt some paragraphs of IAS 39 applicable to certain hedge transactions. Philips has no hedge transactions to which these paragraphs are applicable. Consequently, the accounting policies applied by Philips also comply fully with IFRS as issued by the IASB.

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

The following sections and chapters:

- chapter 4, Our strategic focus, of this Annual Report
- chapter 5, Group performance, of this Annual Report
- chapter 6, Sector performance, of this Annual Report
- chapter 7, Risk management, of this Annual Report
- chapter 10, Supervisory Board report, of this Annual Report
- section 10.1, Report of the Corporate Governance and Nomination & Selection Committee, of this Annual Report
- section 10.2, Report of the Remuneration Committee, of this Annual Report
- chapter 11, Corporate governance, of this Annual Report
- chapter 19, Forward-looking statements and other information, of this Annual Report

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

The sections Group performance and Sector performance provide an extensive analysis of the developments during the financial year 2015 and the results. The term EBIT has the same meaning as Income from operations (IFO), and is used to evaluate the performance of the business. These sections also provide information on the business outlook, investments, financing, personnel and research and development activities.

The Statement of income included in the section Company financial statements has been prepared in accordance with section 2:402 of the Dutch Civil Code,

which allows a simplified Statement of income in the Company financial statements in the event that a comprehensive Statement of income is included in the consolidated Group financial statements.

For 'Additional information' within the meaning of section 2:392 of the Dutch Civil Code, please refer to section 13.5, Independent auditor's report, of this Annual Report, section 5.4, Proposed distribution to shareholders, of this Annual Report, and note 32, Subsequent events.

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, and revisions and reclassifications.

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

Board of Management

Frans van Houten
Abhijit Bhattacharya
Pieter Nota

February 23, 2016

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12.4 Consolidated statements of income

Philips Group
Consolidated statements of income in millions of EUR unless otherwise stated
 For the years ended December 31

	2013	2014	2015
Sales	21,990	21,391	24,244
Cost of sales	(12,653)	(13,185)	(14,388)
Gross margin	9,337	8,206	9,856
Selling expenses	(5,057)	(5,124)	(5,815)
Research and development expenses	(1,659)	(1,635)	(1,927)
General and administrative expenses	(825)	(747)	(1,209)
Impairment of goodwill	(28)	(3)	-
Other business income	122	63	137
Other business expenses	(35)	(274)	(50)
6 Income from operations	1,855	486	992
7 Financial income	70	114	98
7 Financial expenses	(400)	(415)	(467)
Income before taxes	1,525	185	623
8 Income tax expense	(466)	(26)	(239)
Income after taxes	1,059	159	384
5 Results relating to investments in associates:			
Company's participation in income	5	30	10
Other results	(30)	32	20
Income from continuing operations	1,034	221	414
3 Discontinued operations - net of income tax	138	190	245
Net income	1,172	411	659
Attribution of net income (loss)			
Net income attributable to Koninklijke Philips N.V. shareholders	1,169	415	645
Net income attributable to non-controlling interests	3	(4)	14

Philips Group
Earnings per common share attributable to shareholders⁹⁾ in EUR unless otherwise stated
 For the years ended December 31

	2013	2014	2015
Basic earnings per common share in EUR			
9 Income from continuing operations attributable to shareholders	1.13	0.25	0.44
9 Net income attributable to shareholders	1.28	0.45	0.70
Diluted earnings per common share in EUR			
9 Income from continuing operations attributable to shareholders	1.12	0.24	0.43
9 Net income attributable to shareholders	1.27	0.45	0.70

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

⁹⁾ Shareholders in this table refer to shareholders of Koninklijke Philips N.V.

12.5 Consolidated statements of comprehensive income

Philips Group

Consolidated statements of comprehensive income in millions of EUR unless otherwise stated

For the years ended December 31

	2013	2014	2015
Net income for the period	1,172	411	659
Pensions and other post-employment plans:			
Remeasurements	139	(972)	(101)
Income tax effect on remeasurements	(77)	289	9
Revaluation reserve:			
Release revaluation reserve	(31)	(10)	(9)
Reclassification directly into retained earnings	31	10	9
Total of items that will not be reclassified to profit or loss	62	(683)	(92)
Currency translation differences:			
Net current period change, before tax	(427)	600	643
Income tax effect	(35)	203	187
Reclassification adjustment for gain realized	(14)	(5)	(1)
Available-for-sale financial assets:			
Net current period change, before tax	(5)	30	33
Income tax effect	-	(4)	-
Reclassification adjustment for loss (gain) realized	6	(54)	(4)
Cash flow hedges:			
Net current period change, before tax	68	(40)	(38)
Income tax effect	(2)	10	-
Reclassification adjustment for loss (gain) realized	(62)	(7)	63
Total of items that are or may be reclassified to profit or loss	(471)	733	883
Other comprehensive (loss) income for period	(409)	50	791
Total comprehensive income for the period	763	461	1,450
Total comprehensive income attributable to:			
Shareholders of Koninklijke Philips N.V.	760	465	1,436
Non-controlling interests	3	(4)	14

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

12.6 Consolidated balance sheets

Philips Group
Consolidated balance sheets in millions of EUR unless otherwise stated
 As of December 31

	2014	2015
Non-current assets		
2 10 25 Property, plant and equipment:		
- At cost	6,844	7,217
- Less accumulated depreciation	(4,749)	(4,895)
	2,095	2,322
2 11 Goodwill	7,158	8,523
2 12 Intangible assets excluding goodwill:		
- At cost	8,020	9,251
- Less accumulated amortization	(4,652)	(5,558)
	3,368	3,693
16 Non-current receivables	177	191
5 Investments in associates	157	181
13 Other non-current financial assets	462	489
30 Non-current derivative financial assets	15	58
8 Deferred tax assets	2,460	2,758
14 Other non-current assets	69	68
Total non-current assets	15,961	18,283
Current assets		
15 Inventories	3,314	3,463
13 Current financial assets	125	12
14 Other current assets	411	444
30 Current derivative financial assets	192	103
8 Income tax receivable	140	114
16 27 Receivables:		
- Accounts receivable	4,476	4,727
- Accounts receivable from related parties	14	16
- Other current receivables	233	239
	4,723	4,982
3 Assets classified as held for sale	1,613	1,809
31 Cash and cash equivalents	1,873	1,766
Total current assets	12,391	12,693
Total assets	28,352	30,976

	2014	2015
Equity		
17 Shareholders' equity:		
Preference shares, par value EUR 0.20 per share:		
- Authorized: 2,000,000,000 shares (2014: 2,000,000,000 shares), issued none		
Common shares, par value EUR 0.20 per share:		
- Authorized: 2,000,000,000 shares (2014: 2,000,000,000 shares)		
- Issued and fully paid: 931,130,387 shares (2014: 934,819,413 shares)	187	186
Capital in excess of par value	2,181	2,669
Retained earnings	8,790	8,040
Revaluation reserve	13	4
Currency translation differences	229	1,058
Available-for-sale financial assets	27	56
Cash flow hedges	(13)	12
Treasury shares, at cost 14,026,801 shares (2014: 20,430,544 shares)	(547)	(363)
	10,867	11,662
17 Non-controlling interests	101	118
Group equity	10,968	11,780
Non-current liabilities		
18 25 Long-term debt	3,712	4,095
30 Non-current derivative financial liabilities	551	695
19 20 Long-term provisions	2,500	2,392
8 Deferred tax liabilities	107	164
22 Other non-current liabilities	1,838	1,782
Total non-current liabilities	8,708	9,128
Current liabilities		
18 25 Short-term debt	392	1,665
30 Derivative financial liabilities	306	238
8 Income tax payable	102	116
25 27 Accounts and notes payable:		
- Trade creditors	2,495	2,669
- Accounts payable to related parties	4	4
	2,499	2,673
21 Accrued liabilities	2,692	2,863
19 20 Short-term provisions	945	833
3 Liabilities directly associated with assets held for sale	349	407
22 Other current liabilities	1,391	1,273
Total current liabilities	8,676	10,068
Total liabilities and group equity	28,352	30,976

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

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12.7 Consolidated statements of cash flows

12.8 Consolidated statements of changes in equity

Philips Group

Consolidated statements of changes in equity in millions of EUR unless otherwise stated

For the year ended December 31

	common shares	capital in excess of par value	retained earnings	revaluation reserve	currency translation differences	available-for-sale financial assets	cash flow hedges	treasury shares at cost	total shareholders' equity	non-controlling interests	Group equity
Balance as of Jan. 1, 2013	191	1,304	10,724	54	(93)	54	20	(1,103)	11,151	34	11,185
Total comprehensive income (loss)			1,262	(31)	(476)	1	4	-	760	3	763
Dividend distributed	4	402	(678)					(272)			(272)
Movement in non-controlling interests			-						-	(24)	(24)
Cancellation of treasury shares	(7)		(780)					787	-		-
Purchase of treasury shares			(38)					(631)	(669)		(669)
Re-issuance of treasury shares		(36)	(75)					229	118		118
Share-based compensation plans		105							105		105
Income tax share-based compensation plans		21							21		21
Balance as of Dec. 31, 2013	188	1,796	10,415	23	(569)	55	24	(718)	11,214	13	11,227
Total comprehensive income (loss)			(258)	(10)	798	(28)	(37)	-	465	(4)	461
Dividend distributed	3	433	(729)					(293)			(293)
Movement in non-controlling interests			-						-	92	92
Cancellation of treasury shares	(4)		(529)					533	-		-
Purchase of treasury shares			(26)					(688)	(714)		(714)
Re-issuance of treasury shares		(127)	(83)					326	116		116
Share-based compensation plans		88							88		88
Income tax share-based compensation plans		(9)							(9)		(9)
Balance as of Dec. 31, 2014	187	2,181	8,790	13	229	27	(13)	(547)	10,867	101	10,968
Total comprehensive income (loss)			562	(9)	829	29	25	-	1,436	14	1,450
Dividend distributed	3	429	(730)					(298)			(298)
Movement in non-controlling interests										3	3
Cancellation of treasury shares	(4)		(513)					517	-		-
Purchase of treasury shares			(12)					(495)	(507)		(507)
Re-issuance of treasury shares		(23)	(57)					162	82		82
Share-based compensation plans		101							101		101
Income tax share-based compensation plans		(19)							(19)		(19)
Balance as of Dec. 31, 2015	186	2,669	8,040	4	1,058	56	12	(363)	11,662	118	11,780

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

12.9 Notes

Notes to the Consolidated financial statements of the Philips Group

1 Significant accounting policies

The Consolidated financial statements in the Group financial statements section have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code. All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective year-end 2015 have been endorsed by the EU, except that the EU did not adopt some of the paragraphs of IAS 39 applicable to certain hedge transactions. Koninklijke Philips N.V. (hereafter: the 'Company' or 'Philips') has no hedge transactions to which these paragraphs are applicable. Consequently, the accounting policies applied by Philips also comply with IFRS as issued by the IASB. These accounting policies have been applied by group entities.

The Consolidated financial statements have been prepared under the historical cost convention, unless otherwise indicated. The Consolidated financial statements are presented in euro, which is the presentation currency.

On February 23, 2016, the Board of Management authorized the Consolidated financial statements for issue. The Consolidated financial statements as presented in this report are subject to adoption by the Annual General Meeting of Shareholders, to be held on May 12, 2016.

Use of estimates

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

These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the Consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company evaluates these estimates and judgments on an ongoing basis and base our estimates on historical experience, current and expected future outcomes, third-party evaluations and various other assumptions that we believe are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and

assessing the accounting treatment with respect to commitments and contingencies. The Company revises material estimates if changes occur in the circumstances or there is new information or experience on which an estimate was or can be based.

The areas where the most significant judgments and estimates are made are goodwill, deferred tax asset recoverability, impairments, financial instruments, the accounting for an arrangement containing a lease, revenue recognition (multiple element arrangements), assets and liabilities from employee benefit plans, other provisions, uncertain tax positions and other contingencies, classification of assets and liabilities held for sale and the presentation of items of profit and loss and cash flows as continued or discontinued, as well as when determining the fair values of acquired identifiable intangible assets based on an assessment of future cash flows.

Further judgment is applied when analyzing impairments of goodwill and intangible assets not yet ready for use that are performed annually and whenever a triggering event has occurred to determine whether the carrying value exceeds the recoverable amount. These analyses generally are based on estimates of future cash flows. Furthermore, the Company applies judgment when actuarial assumptions are established to anticipate future events and are used in calculating post-employment benefit expenses and liabilities. These factors include assumptions with respect to interest rates, rates of increase in healthcare costs, rates of future compensation increases, turnover rates and life expectancy.

Changes in accounting policies

The accounting policies set out in this section have been applied consistently for all periods presented in these Consolidated financial statements.

Prior-year information

The presentation of certain prior-year disclosures have been adjusted to align with the current year disclosures.

Specific choices within IFRS

Sometimes IFRS allows alternative accounting treatments for measurement and/or disclosure. The most important of these alternative treatments are mentioned below.

Tangible and intangible fixed assets

Under IFRS, an entity shall choose either the cost model or the revaluation model as its accounting for tangible and intangible fixed assets. In this respect, items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The useful lives and residual values are evaluated annually. Furthermore, the Company chose to apply the cost model meaning that costs relating to product development, the development and

purchase of software for internal use and other intangible assets are capitalized and subsequently amortized over the estimated useful life.

Employee benefit accounting

IFRS does not specify how an entity should present its service costs related to pensions and net interest on the net defined benefit liability (asset) in the Statement of income. With regards to these elements, the Company presents service costs in Income from operations and the net interest expenses related to defined benefit plans in Financial expense.

Cash flow statements

Under IFRS, an entity shall report cash flows from operating activities using either the direct method (whereby major classes of gross cash receipts and gross cash payments are disclosed) or the indirect method (whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows). In this respect, the Company chose to prepare the cash flow statements using the indirect method.

Furthermore, interest cash flows are presented in cash flows from operating activities rather than financing or investing cash flows, because they enter into the determination of profit or loss. The Company chose to present dividends paid to shareholders of Koninklijke Philips N.V. as a component of cash flows from financing activities, rather than to present such dividends as operating cash flows which is an allowed alternative under IFRS.

Policies that are more critical in nature

Revenue recognition

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

Transfer of risks and rewards varies depending on the individual terms of the contract of sale. For consumer-type products in the sectors Lighting and Consumer Lifestyle these criteria are met at the time the product is shipped and delivered to the customer and title and risk have passed to the customer (depending on the delivery conditions) and acceptance of the product has been obtained. Examples of delivery conditions are

‘Free on Board point of delivery’ and ‘Costs, Insurance Paid point of delivery’, where the point of delivery may be the shipping warehouse or any other point of destination as agreed in the contract with the customer and where title and risk for the goods pass to the customer.

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

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

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

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

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

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

a percentage of sales or a fixed amount per product sold, is recognized on an accrual basis based on actual or reliably estimated sales made by the licensees.

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

Income tax

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

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

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

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

Provisions

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

- Product warranty – A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of possible outcomes against their associated probabilities.
- Environmental provisions – Measurement of liabilities associated with environmental obligations, is based on current legal and constructive requirements. Liabilities and expected insurance recoveries, if any, are recorded separately. The carrying amount of environmental liabilities is regularly reviewed and adjusted for new facts and changes in law.
- Restructuring-related provisions – The provision for restructuring relates to the estimated costs of initiated restructurings, the most significant of which have been approved by the Executive Committee, and which generally involve the realignment of certain parts of the industrial and commercial organization. When such restructurings require discontinuance and/or closure of lines of activities, the anticipated costs of closure or discontinuance are included in restructuring provisions. A liability is recognized for those costs only when the Company has a detailed formal plan for the restructuring and has raised a valid expectation with those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. Before a provision is established, the Company recognizes any impairment loss on the assets associated with the restructuring.
- Litigation provisions – In relation to legal claim provisions and settlements, the relevant balances are transferred to Other liabilities at the point the amount and timing of cash outflows are no longer uncertain.

Settlements which are agreed for amounts in excess of existing provisions are reflected as increases of Other liabilities.

Goodwill

The measurement of goodwill at initial recognition is described under Basis of consolidation below. Goodwill is subsequently measured at cost less accumulated impairment losses. In respect of investments in associates, the carrying amount of goodwill is included in the carrying amount of investment, and an impairment loss on such investment is allocated to the investment as a whole.

Intangible assets other than goodwill

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

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

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

Discontinued operations and non-current assets held for sale

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

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations; and (b) is a part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to sell.

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

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

Impairment

Impairment of goodwill and intangible assets not yet ready for use

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

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

Non-financial assets other than goodwill, intangible assets not yet ready for use, inventories and deferred tax assets are reviewed for impairment whenever events or changes in circumstances indicate that the

carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is recognized and measured by a comparison of the carrying amount of an asset with the greater of its value in use and fair value less cost to sell. Value in use is measured as the present value of future cash flows expected to be generated by the asset. If the carrying amount of an asset is deemed not recoverable, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the recoverable amount. The review for impairment is carried out at the level where cash flows occur that are independent of other cash flows.

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

Impairment of financial assets

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

If objective evidence indicates that financial assets that are carried at cost need to be tested for impairment, calculations are based on information derived from business plans and other information available for estimating their fair value, which is based on estimated future cash flows discounted at the asset's original effective interest rate. Any impairment loss is charged to the Statement of income.

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

except for reversals of impairment of available-for-sale equity securities, which are recognized in Other comprehensive income.

Other policies

Basis of consolidation

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

Business combinations

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

The Company measures goodwill at the acquisition date as:

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

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

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

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Acquisitions of and adjustments to non-controlling interests

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

Loss of control

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

Investments in associates (equity-accounted investees)

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

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

equity stake resulting from gaining control over the investee previously recorded as associate are recorded under Results relating to investments in associates.

Foreign currencies

Foreign currency transactions

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

Foreign currency differences arising from translation are recognized in the Statement of income, except for available-for-sale equity investments which are recognized in Other comprehensive income, unless regarding an impairment in which case foreign currency differences that have been recognized in Other comprehensive income are reclassified to the Statement of income.

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

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

Foreign operations

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

Foreign currency differences arising on translation of foreign operations into euro are recognized in Other comprehensive income, and presented as part of Currency translation differences in Equity. However, if

the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to Non-controlling interests.

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

Financial instruments

Non-derivative financial instruments

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

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

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

Cash and cash equivalents

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

Receivables

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

Other non-current financial assets

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

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

Loans receivable are stated at amortized cost, less impairment.

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

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

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

Equity

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

attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

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

Debt and other liabilities

Debt and liabilities other than provisions are stated at amortized cost.

Derivative financial instruments, including hedge accounting

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

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

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

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

Offsetting and master netting agreements

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

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

Property, plant and equipment

The costs of Property, plant and equipment comprises of all directly attributable costs (including the cost of material and direct labor). Government grants for assets are deducted from the cost of the related asset.

Depreciation is generally calculated using the straight-line method over the useful life of the asset. Gains and losses on the sale of property, plant and equipment are included in Other business income. Costs related to repair and maintenance activities are expensed in the period in which they are incurred unless leading to an extension of the original lifetime or capacity.

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

Leased assets

Leases in which the Company is the lessee and has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The interest element of the finance

cost is charged to the Statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in other short-term and other non-current liabilities. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the assets and the lease term.

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

Inventories

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

Employee benefit accounting

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

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Plans for which the Company has no legal or constructive obligation to pay further amounts, however for which contributions paid by the Company are not fixed, are also treated as defined benefit plan. The net pension asset or liability recognized in the Consolidated balance sheets in respect of defined benefit post-employment plans is the fair value of plan assets less the present value of the projected defined benefit obligation (DBO) at the balance sheet date. The projected defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method. Recognized assets are limited to the present value of any reductions in future contributions or any future refunds.

For the Company's major plans, a full discount rate curve of high-quality corporate bonds is used to determine the defined benefit obligation. The curves are based on Towers Watson's RATE:Link methodology which uses data of corporate bonds rated AA or equivalent. For the other plans a single point discount rate is used based on corporate bonds for which there is a deep market and the plan's maturity. Plans in countries without a deep corporate bond market use a discount rate based on the local sovereign curve and the plan's maturity.

Pension costs in respect of defined benefit post-employment plans primarily represent the increase of the actuarial present value of the obligation for post-employment benefits based on employee service during the year and the interest on the net recognized asset or liability in respect of employee service in previous years.

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

The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on settlement is the difference between the present value of the defined benefit obligation being settled, as determined on the date of settlement, and the settlement price, including any plan assets transferred and any payments made directly by the Company in connection with the settlement. In this respect, the amount of the plan assets transferred is adjusted for the effect of the asset ceiling. Past service costs following from the introduction of a change to the benefit payable under a plan or a significant reduction of the number of employees covered by a plan (curtailment), are recognized in full in the Statement of income.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Company recognizes a liability and an expense for bonuses and incentives based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments.

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

Share-based payment

The grant-date fair value of equity-settled share-based payment awards granted to employees is recognized as personnel expense, with a

corresponding increase in equity, over the vesting period of the award. The Company uses the Black-Scholes option-pricing model and Monte Carlo sampling to determine the fair value of the awards, depending on the type of instruments granted and certain vesting conditions.

Financial income and expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, net gains on the disposal of available-for-sale financial assets, net fair value gains on financial assets at fair value through profit or loss, net gains on the remeasurement to fair value of any preexisting available-for-sale interest in an acquiree, and net gains on foreign exchange impacts that are recognized in the Statement of income.

Interest income is recognized on accrual basis in the Statement of income, using the effective interest method. Dividend income is recognized in the Statement of income on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

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

Financial guarantees

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

Cash flow statements

Cash flows arising from transactions in a foreign currency are translated in the Company's functional currency using the exchange rate at the date of the cash flow. Cash flows from derivative instruments that are accounted for as cash flow hedges are classified in the same category as the cash flows from the hedged items. Cash flows from other derivative instruments are classified as investing cash flow.

Segment information

Operating segments are components of the Company's business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Executive Committee of the Company). The Executive Committee decides how to allocate resources and assesses performance. Reportable segments comprise the

operating sectors Healthcare, Consumer Lifestyle and Lighting. Innovation, Group & Services (IG&S) is a sector but not a separate reportable segment and holds, among others, headquarters, overhead and regional/country organization expenses. Segment accounting policies are the same as the accounting policies applied by the Company.

Earnings per Share

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

New standards and interpretations

IFRS accounting standards adopted as from 2015

The Company has adopted the following amended standard as of January 1, 2015:

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

The amendment introduces a relief regarding the accounting for contributions from employees related to defined benefit plans that involve such contributions. The relief is that when certain conditions are met, a company is permitted (but not required) to recognize the employee contributions as a reduction of the service cost in the period in which the related service is rendered. The amendments apply retrospectively for annual periods beginning on or after July 1, 2014.

Philips traditionally deducted employee contributions from service cost as per the above, that became formal guidance with the issuance of this amendment. As such, there was no retrospective impact of the implementation of this amendment.

Changes to other policies, following from amendments to standards, interpretations and the annual improvement cycles, did not have a material impact on the Group financial statements. In case of the absence of explicit transition requirements for new accounting pronouncements, the Company accounts for any change in accounting policies retrospectively.

IFRS accounting standards to be adopted as from 2016 and onwards

A number of new standards and amendments to existing standards have been published and are mandatory for the Company beginning on or after January 1, 2016 or later periods, and the Company has not early adopted them. Those which may be the most

relevant to the Company are set out below. Changes to other standards, following from amendments and the annual improvement cycles, are not expected to have a material impact on the Company's financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 adds a new expected loss impairment model and amendments to classification and measurement for financial assets. The impairment model is based on the concept of providing for expected losses at inception of a contract, except in the case of purchased or originated credit-impaired financial assets, where expected credit losses are incorporated into the effective interest rate.

The standard supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after January 1, 2018. It is not yet endorsed by the EU. The Company is currently in the process of assessing the impact of the new Standard.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies how and when revenue is recognized as well as describes more informative and relevant disclosures. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and a number of revenue-related interpretations.

The new standard provides a single, principles based five-step model to be applied to all contracts with customers. Furthermore, it provides new guidance on whether revenue should be recognized at a point in time or over time. The standard also introduces new guidance on costs of fulfilling and obtaining a contract, specifying the circumstances in which such costs should be capitalized. Costs that do not meet the criteria must be expensed when incurred.

IFRS 15 must be applied for periods beginning on or after January 1, 2018. It is not yet endorsed by the EU. The Company is currently assessing the impact of the new standard.

IFRS 16 Leases

For lessees, IFRS 16 (issued on January 13, 2016) requires most leases to be recognized on-balance (under a single model), eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 Leases and related interpretations.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and is depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined, and the liability accrues interest. As with current IAS 17, under IFRS 16 lessors classify leases as operating or finance in nature.

IFRS 16 must be applied for periods beginning on or after January 1, 2019, with earlier adoption permitted if abovementioned IFRS 15 has also been applied. IFRS 16 is not yet endorsed by the EU. The Company is currently assessing the impact of the new standard.

2 Information by sector and main country

Philips Group
Information on income statement and cash flow by sector in millions of EUR unless otherwise stated
 2013 - 2015

	sales	sales including intercompany	research and development expenses	income from operations	income from operations as a % of sales	cash flow before financing activities
2015						
Healthcare	10,912	10,933	(1,073)	819	7.5%	81
Consumer Lifestyle	5,347	5,360	(301)	621	11.6%	589
Lighting	7,411	7,454	(315)	486	6.6%	642
Innovation, Group & Services	574	777	(238)	(934)	-	(2,086)
Inter-sector eliminations		(280)				
Philips Group	24,244	24,244	(1,927)	992	4.1%	(774)
2014						
Healthcare	9,186	9,209	(822)	456	5.0%	910
Consumer Lifestyle	4,731	4,739	(263)	520	11.0%	553
Lighting	6,869	6,927	(330)	185	2.7%	442
Innovation, Group & Services	605	934	(220)	(675)	-	(1,586)
Inter-sector eliminations		(418)				
Philips Group	21,391	21,391	(1,635)	486	2.3%	319
2013						
Healthcare	9,575	9,600	(810)	1,315	13.7%	1,292
Consumer Lifestyle	4,605	4,622	(268)	429	9.3%	480
Lighting	7,145	7,211	(313)	413	5.8%	418
Innovation, Group & Services	665	977	(268)	(302)	-	(2,140)
Inter-sector eliminations		(420)				
Philips Group	21,990	21,990	(1,659)	1,855	8.4%	50

In 2015, our sectors were organized based on the nature of the products and services. The four sectors comprised Healthcare, Consumer Lifestyle, Lighting and Innovation, Group & Services. A short description of these sectors is as follows:

Healthcare consisted of the following businesses - Imaging Systems, Healthcare Informatics, Services & Solutions, Patient Care & Monitoring Solutions, and Customer Services.

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

Lighting consisted of the following businesses - Light Sources & Electronics, Professional Lighting Solutions, and Consumer Luminaires.

Innovation, Group & Services consisted of group headquarters, as well as the overhead expenses of regional and country organizations. Also included are the net results of group innovation, intellectual

property & services, the global service units and Philips' pension and other postretirement benefit costs not directly allocated to the other sectors.

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

From an external financial reporting perspective, it should be noted that Royal Philips will introduce new segment reporting, from Q1 2016 onwards. The new reporting structure will be based on different segments than the sectors currently presented and discussed in this Annual Report. Philips' health technology activities will be reported in three segments (Personal Health, Diagnosis & Treatment, Connected Care & Health Informatics), the Philips Lighting businesses within one segment, and the remaining unallocated corporate items will contain certain legacy items and separation costs. For more details on the new segment reporting in 2016 and onwards, please refer to the introduction of chapter 6, Sector performance, of this Annual Report.

Philips Group
Information on balance sheet and capital expenditure in millions of EUR
 2013 - 2015

	total assets	net operating capital	total liabilities excl. debt	current accounts receivable, net	tangible and intangible assets	depreciation and amortization ¹⁾	capital expenditures
2015							
Healthcare	13,363	9,212	4,095	2,343	8,587	(618)	154
Consumer Lifestyle	3,080	1,453	1,627	853	1,658	(205)	107
Lighting	5,875	3,813	2,043	1,442	3,303	(281)	88
Innovation, Group & Services	6,849	(3,382)	5,264	89	990	(177)	173
Sector totals	29,167	11,096	13,029	4,727	14,538	(1,281)	522
Assets classified as held for sale	1,809		407				
Total assets/liabilities (excl. debt)	30,976		13,436				
2014							
Healthcare	11,274	7,565	3,629	2,112	6,934	(480)	127
Consumer Lifestyle	3,049	1,353	1,696	791	1,647	(198)	109
Lighting	5,739	3,638	2,081	1,438	3,167	(351)	84
Innovation, Group & Services	6,677	(3,718)	5,525	135	873	(158)	117
Sector totals	26,739	8,838	12,931	4,476	12,621	(1,187)	437
Assets classified as held for sale	1,613		349				
Total assets/liabilities (excl. debt)	28,352		13,280				
2013							
Healthcare	10,465	7,437	2,943	1,978	6,467	(517)	132
Consumer Lifestyle	2,832	1,261	1,571	743	1,574	(199)	135
Lighting	6,711	4,462	2,229	1,567	3,857	(333)	117
Innovation, Group & Services	6,044	(2,922)	4,340	132	648	(128)	98
Sector totals	26,052	10,238	11,083	4,420	12,546	(1,177)	482
Assets classified as held for sale	507		348				
Total assets/liabilities (excl. debt)	26,559		11,431				

¹⁾ Includes impairments of tangible and intangible assets excluding goodwill

Philips Group
Goodwill assigned to sectors in millions of EUR
 2014 - 2015

	carrying value at January 1	reclassification	acquisitions	purchase price allocation adjustment	impairments	divestments and transfers to assets classified as held for sale	translation differences	carrying value at December 31
2015								
Healthcare	4,779	-	636	-	-	-	514	5,929
Consumer Lifestyle	686	-	-	-	-	-	47	733
Lighting	1,676	-	-	8	-	(1)	161	1,844
Innovation, Group & Services	17	-	-	-	-	1	(1)	17
Philips Group	7,158	-	636	8	-	-	721	8,523
2014								
Healthcare	4,275	-	1	8	-	(2)	497	4,779
Consumer Lifestyle	632	-	-	-	-	-	54	686
Lighting	1,586	-	58	-	-	(155)	187	1,676
Innovation, Group & Services	11	-	9	-	-	(3)	-	17
Philips Group	6,504	-	68	8	-	(160)	738	7,158

Philips Group
Main countries in millions of EUR
 2013 - 2015

	sales ¹⁾	tangible and intangible assets
2015		
Netherlands	639	970
United States	7,522	9,291
China	2,774	1,194
Germany	1,357	170
Japan	992	455
India	845	134
France	806	48
Other countries	9,309	2,276
Total main countries	24,244	14,538
Assets classified as held for sale		1,159
Total tangible and intangible assets		15,697
2014		
Netherlands	594	937
United States	6,160	7,649
China	2,362	1,135
Germany	1,351	153
Japan	908	379
France	839	52
United Kingdom	722	594
Other countries	8,455	1,722
Total main countries	21,391	12,621
Assets classified as held for sale		989
Total tangible and intangible assets		13,610
2013		
Netherlands	649	915
United States	6,325	7,384
China	2,616	1,057
Germany	1,316	288
Japan	943	401
France	890	80
United Kingdom	677	573
Other countries	8,574	1,848
Total main countries	21,990	12,546
Assets classified as held for sale		62
Total tangible and intangible assets		12,608

¹⁾ The sales are reported based on country of destination.

3 Discontinued operations and other assets classified as held for sale

Discontinued operations included in the Consolidated statements of income and the Consolidated statements of cash flows consist of the combined Lumileds and Automotive businesses and certain other divestments reported as discontinued operations.

Discontinued operations: Combined Lumileds and Automotive businesses

The combined businesses of Lumileds and Automotive were reported as discontinued operations in the Consolidated statements of income and Consolidated statements of cash flows with the related assets and liabilities as per the end of November 2014 included as

Assets classified as held for sale and Liabilities directly associated with assets held for sale in the Consolidated balance sheet.

As announced on January 22, 2016, Philips and GO Scale Capital have withdrawn their filing with the Committee on Foreign Investment in the United States (CFIUS) and terminated the agreement pursuant to which the consortium led by GO Scale Capital would have acquired an 80.1% interest in the combined businesses of Lumileds and Automotive. Despite the parties' extensive efforts to mitigate CFIUS' concern, regulatory clearance has not been granted for this particular transaction. Philips is actively engaging with other parties that have expressed an interest in the businesses.

The following table summarizes the results of the combined businesses of Lumileds and Automotive included in the Consolidated statements of income as discontinued operations.

Philips Group
Results of combined Lumileds and Automotive Lighting businesses in millions of EUR
 2013 - 2015

	2013	2014	2015
Sales	1,268	1,416	1,619
Costs and expenses	(1,134)	(1,202)	(1,320)
Income before taxes	134	214	299
Income tax expense	(1)	(73)	(53)
Results from discontinued operations	133	141	246

Upon disposal, the associated currency translation differences, part of Shareholders' equity, will be recognized in the Consolidated statement of income. At December 31, 2015, the estimated release amounts to a EUR 76 million gain.

The following table presents the assets and liabilities of the combined Lumileds and Automotive business, as Assets classified as held for sale and Liabilities directly associated with assets classified as held for sale in the Consolidated balance sheet as from 2014.

Philips Group
Assets and liabilities of combined Lumileds and Automotive Lighting businesses in millions of EUR
 2014- 2015

	2014	2015
Property, plant and equipment	666	762
Intangible assets including goodwill	295	379
Inventories	248	285
Accounts receivable	278	314
Other assets	14	34
Assets classified as held for sale	1501	1,774
Accounts payable	(134)	(192)
Provisions	(34)	(39)
Other liabilities	(149)	(170)
Liabilities directly associated with assets held for sale	(317)	(401)

Discontinued operations: Other

Certain results of other divestments, including the Audio, Video, Multimedia & Accessories business and the Television business, reported as discontinued operations are included, with a net loss of EUR 1 million in 2015 (2014: a net gain of EUR 49 million; 2013: a net gain of EUR 5 million).

Other assets classified as held for sale

Assets and liabilities directly associated with assets held for sale relate to property, plant and equipment for an amount of EUR 1 million (December 31, 2014: EUR 23 million) and businesses net assets classified as held for sale amounted to EUR 28 million at December 31, 2015 (December 31, 2014 EUR 19 million).

In 2015, property, plant and equipment divested assets classified as held for sale amounted to EUR 43 million with proceeds of EUR 88 million. Other non-current financial assets divested classified as held for sale amounted to EUR 20 million with proceeds of EUR 20 million. Businesses divested net assets classified as held for sale amounted to EUR 9 million. The businesses divested had proceeds of EUR 59 million.

In 2014, property, plant and equipment divested assets classified as held for sale amounted to EUR 17 million with proceeds of EUR 19 million. Other non-current financial assets divested classified as held for sale amounted to EUR 76 million with proceeds of EUR 76 million. Businesses divested net assets classified as held for sale amounted to EUR 46 million. The businesses divested had proceeds of EUR 45 million.

4 Acquisitions and divestments

2015

Acquisitions

Philips completed four acquisitions in 2015. These acquisitions involved an aggregated net cash outflow of EUR 1,116 million, with Volcano Corporation (Volcano) being the most notable acquisition.

On February 17, 2015, Philips completed the acquisition of Volcano for a total cash consideration of EUR 1,250 million. This amount involved the purchase price of shares (EUR 822 million), the payoff of certain debt (EUR 405 million) and the settlement of outstanding stock options (EUR 23 million). The overall cash position of Volcano on the transaction date was EUR 158 million, resulting in a net cash outflow related to this acquisition of EUR 1,092 million.

Volcano is a US-based global leader in catheter-based imaging and measurement solutions for cardiovascular applications and is very complementary to the Philips vision, strategy, and portfolio in image-guided therapy.

Transaction-related costs that were recognized in General and administrative expenses amounted to EUR 15 million. As of February 17, 2015, Volcano is 100% consolidated as part of the Healthcare sector. The condensed balance sheet of Volcano, immediately before and after the acquisition was as follows:

Volcano
Balance sheet in millions of EUR
2015

	before acquisition date	after acquisition date
Goodwill	133	627
Other intangible assets	87	320
Property, plant and equipment	105	105
Other assets	80	50
Other liabilities	(41)	(142)
Working Capital	112	156
Cash	158	158
Total assets and liabilities	634	1,274
Group Equity	(219)	(1,250)
Loans	(415)	(24)
Financed by	(634)	(1,274)

The goodwill is primarily related to synergies expected to be achieved from integrating Volcano within the Healthcare sector. The goodwill is not tax-deductible. Other intangible assets are comprised of the following:

Volcano
Other intangible assets in millions of EUR
2015

	amount	amortization period in years
Installed base	62	6
Developed technology - Systems	155	15
Developed technology - Disposables	58	15
Developed technology - Peripheral Therapeutics	26	15
IPR&D	6	n/a
Trade names	13	10
Total other intangible assets	320	

For the period from February 17, 2015, Volcano contributed sales of EUR 286 million and a loss from operations of EUR 113 million, which includes acquisition related costs of EUR 103 million.

Divestments

Philips completed seven divestments during 2015, with the sale of the 20% interest in Assembléon Holding B.V. and the sale of the Remote Control activities being the most notable divestments. The seven divestments involved an aggregated cash consideration of EUR 59 million.

2014

Acquisitions

Philips completed three acquisitions in 2014. These acquisitions involved an aggregated purchase price of EUR 171 million.

One of the acquisitions in 2014, was General Lighting Company (GLC), domiciled in the Kingdom of Saudi Arabia (KSA). This acquisition enables Philips to grow its business in KSA, the largest economy in the Middle East by GDP, particularly in LED lighting.

On September 2, 2014, the Company acquired 51% of GLC from a consortium of shareholders for a total amount of EUR 146 million (on a cash-free, debt-free basis). Taking into account closing conditions, Philips paid an amount of EUR 148 million.

Divestments

Apart from the divestment of the Audio, Video, Multimedia & Accessories business, Philips completed two other divestments of business activities during 2014, which related to Healthcare and Lighting activities. The two transactions involved an aggregate consideration of EUR 43 million.

5 Interests in entities

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

Interests in entities relates to:

- Interests in subsidiaries
- Investments in associates

Interests in subsidiaries

Wholly owned subsidiaries

The Group financial statements comprise the assets and liabilities of approximately 450 legal entities. Set out below is a list of material subsidiaries representing greater than 5% of either the consolidated group sales, income from operations or net income (before any intra-group eliminations). All of the entities are 100% owned and have been for the last 3 years.

Philips Group
Interests in materially wholly owned subsidiaries
 in alphabetical order
 2015

Legal entity name	Principal country of business
Invivo Corporation	United States
Lumileds Malaysia Sdn. Bhd.	Malaysia
Philips (China) Investment Company, Ltd.	China
Philips Consumer Lifestyle B.V.	Netherlands
Philips Electronics North America Corporation	United States
Philips Electronics Singapore Pte Ltd	Singapore
Philips GmbH	Germany
Philips Innovative Applications	Belgium
Philips Lighting B.V.	Netherlands
Philips Medizin Systeme Böblingen GmbH	Germany
Philips Nederland B.V.	Netherlands
Philips Oral Healthcare, LLC	United States
Philips Respiroics GK	Japan
Philips Ultrasound, Inc.	United States
RI Finance, Inc.	United States
RIC Investments, LLC	United States

Not wholly owned subsidiaries

In total, 19 consolidated subsidiaries are not wholly owned by the Company. Among the consolidated legal entities is Saudi Lighting Company Limited created after the acquisition of General Lighting Company (GLC) where the Company owns 51% of the voting power. The Company controls this entity. The sales, income from operations and net income of this entity is 3% of the consolidated financial data. The non-controlling interest of 49% represents an amount of EUR 102 million as per December 31, 2015.

Also among the consolidated legal entities is Philips India Limited where the Company owns 96% of the voting power. The non-controlling interest of 4% represents an amount of EUR 10 million as per December 31, 2015.

The sales, income from operations and net income of the remaining not wholly owned subsidiaries (before any intra-group eliminations) are less than 2% of the consolidated financial data of the Company and are therefore not considered material.

Investments in associates

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

The changes during 2015 are as follows:

Philips Group
Investments in associates in millions of EUR
 2015

	Total investments
Balance as of January 1, 2015	157
Changes:	
Acquisitions/additions	1
Reclassifications	18
Share in income	10
Share in other comprehensive income	1
Impairments	(2)
Dividends declared	(17)
Translation and exchange rate differences	13
Balance as of December 31, 2015	181

Included in the line reclassifications is an investment of EUR 18 million that was reclassified from available-for-sale financial assets. The Company owns less than 20% in the capital of the underlying company but is able to exercise significant influence and is therefore accounted for as an Investment in associate.

The Company owns one equity interest which represents more than 20% in the capital of the underlying company. With respect to this equity interest, the Company cannot exercise significant influence based on governance agreements concluded among shareholders. This equity interests is accounted for as Other non-current financial assets. In 2015, the Company's share in the net income of this entity was insignificant.

6 Income from operations

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

Philips Group
Sales and costs by nature in millions of EUR
 2013 - 2015

	2013	2014	2015
Sales	21,990	21,391	24,244
Costs of materials used	(7,494)	(7,296)	(8,446)
Employee benefit expenses	(5,814)	(6,080)	(7,107)
Depreciation and amortization	(1,177)	(1,187)	(1,281)
Shipping and handling	(762)	(741)	(806)
Advertising and promotion	(869)	(913)	(1,000)
Lease expense ¹⁾	(344)	(318)	(324)
Other operational costs ²⁾	(3,734)	(4,156)	(4,375)
Impairment of goodwill	(28)	(3)	-
Other business income (expenses)	87	(211)	87
Income from operations	1,855	486	992

¹⁾ Lease expense includes EUR 35 million (2014: EUR 35 million, 2013: EUR 42 million) of other costs, such as fuel and electricity, and taxes to be paid and reimbursed to the lessor

²⁾ Other operational costs contain items which are dissimilar in nature and individually insignificant in amount to disclose separately. These costs contain among others expenses for outsourcing services, mainly in IT and HR, 3rd party workers, consultants, warranty, patents and costs for travelling and external legal services.

Sales composition

Philips Group
Sales composition in millions of EUR
 2013 - 2015

	2013	2014	2015
Goods	18,398	17,972	20,659
Services	3,130	2,948	3,080
Royalties	462	471	505
Sales	21,990	21,391	24,244

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

Costs of materials used

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

Employee benefit expenses

Philips Group
Employee benefit expenses in millions of EUR
 2013 - 2015

	2013	2014	2015
Salaries and wages	4,722	5,018	5,533
Post-employment benefits costs	354	326	780
Other social security and similar charges:			
- Required by law	621	623	664
- Voluntary	117	113	130
Employee benefit expenses	5,814	6,080	7,107

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

For further information on post-employment benefit costs, see note 20, Post-employment benefits.

For details on the remuneration of the members of the Board of Management and the Supervisory Board, see note 29, Information on remuneration.

Employees

The average number of employees by category is summarized as follows:

Philips Group
Employees in FTEs
 2013 - 2015

	2013	2014	2015
Production	50,628	48,110	46,869
Research and development	11,757	11,714	11,462
Other	31,673	32,684	34,011
Employees	94,058	92,508	92,342
3rd party workers	12,194	12,562	13,314
Continuing operations	106,252	105,070	105,656
Discontinued operations	10,792	9,222	8,556

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

Depreciation and amortization

Depreciation of property, plant and equipment and amortization of intangible assets, including impairments, are as follows:

Philips Group
Depreciation and amortization¹⁾ in millions of EUR
 2013 - 2015

	2013	2014	2015
Depreciation of property, plant and equipment	521	592	582
Amortization of software	39	32	48
Amortization of other intangible assets	393	332	380
Amortization of development costs	224	231	271
Depreciation and amortization	1,177	1,187	1,281

¹⁾ Includes impairments

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

Shipping and handling

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

Advertising and promotion

Advertising and promotion costs are included in selling expenses.

Audit fees

Philips Group
Fees KPMG in millions of EUR
 2013 - 2015

	2013	2014	2015
Audit fees	15.6	14.9	15.3
- consolidated financial statements	10.1	9.6	9.8
- statutory financial statements	5.5	5.3	5.5
Audit-related fees ¹⁾	2.2	3.9	4.9
- acquisitions and divestments	0.4	2.4	3.6
- sustainability assurance	0.7	0.6	0.6
- other	1.1	0.9	0.7
Tax fees ²⁾	0.8	0.2	1.1
- tax compliance services	0.8	0.2	1.1
Other fees	1.3	0.0	0.0
- other	1.3	0.0	0.0
Fees KPMG	19.9	19.0	21.3

¹⁾ The percentage of audit-related fees in 2015 is 23.0% of the total fees

²⁾ The percentage of tax fees in 2015 is 5.2% of the total fees

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

Impairment of goodwill

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 result of reduced growth expectations in Consumer Luminaires, see note 11, Goodwill.

Other business income (expenses)

Other business income (expenses) consists of the following:

Philips Group
Other business income (expenses) in millions of EUR
2013 - 2015

	2013	2014	2015
Result on disposal of businesses:			
- income	50	7	4
- expense	(1)	(2)	(5)
Result on disposal of fixed assets:			
- income	18	18	79
- expense	(13)	(1)	(9)
Result on other remaining businesses:			
- income	54	38	54
- expense	(21)	(271)	(36)
Other business income (expenses)	87	(211)	87
Total other business income	122	63	137
Total other business expense	(35)	(274)	(50)

In 2015, result on disposal of businesses was mainly due to divestment of non-strategic businesses. For further information, see note 4, Acquisitions and divestments.

In 2015, result on disposal of fixed assets was mainly due to sale of real estate assets.

In 2015, result on other remaining businesses mainly relates to non-core revenue and various legal matters.

In 2014 remaining business expense mainly relates to certain parts of the Cathode Ray Tube antitrust litigation as mentioned in note 26, Contingent assets and liabilities for which the Company concluded it was able to make a reliable estimate of the cash outflow or was able to reach a settlement with the relevant plaintiffs. For more details reference is made to note 19, Provisions - litigation provisions and note 26, Contingent assets and liabilities - legal proceedings.

7 Financial income and expenses

Philips Group
Financial income and expenses in millions of EUR
2013 - 2015

	2013	2014	2015
Interest income	54	39	48
Interest income from loans and receivables	32	22	21
Interest income from cash and cash equivalents	22	17	27
Dividend income from available for sale financial assets	5	4	6
Net gains from disposal of financial assets	-	60	20
Net change in fair value of financial assets at fair value through profit or loss	-	-	4
Other financial income	11	11	20
Financial income	70	114	98
Interest expense	(323)	(290)	(350)
Interest on debt and borrowings	(245)	(224)	(271)
Finance charges under finance lease contract	(7)	(7)	(7)
Interest expenses - pensions	(71)	(59)	(72)
Provision-related accretion and interest	(25)	(80)	(35)
Net foreign exchange losses	(6)	(1)	(11)
Impairment loss of financial assets	(10)	(17)	(46)
Net change in fair value of financial assets at fair value through profit or loss	(9)	(6)	-
Net change in fair value of financial liabilities at fair value through profit or loss	(3)	(2)	-
Other financial expenses	(24)	(19)	(25)
Financial expense	(400)	(415)	(467)
Financial income and expenses	(330)	(301)	(369)

Net financial income and expense showed a EUR 369 million expenses in 2015, which was 68 million higher than in 2014. Interest expense in 2015 was EUR 60 million higher than in 2014, mainly due to weaker EUR against USD in relation to interest expenses on USD bonds. The gain from disposal of financial assets in 2015 amounted to EUR 20 million, mainly from Assembléon, Silicon & Software Systems and other equity interest. The impairment charges in 2015 amounted to EUR 46 million mainly due to valuation allowances on Other current receivables. Provision-related accretion and interest in 2015 primarily consisted of interest expense related to the jury verdict in the Masimo litigation, and accretion expense associated with other discounted provisions and uncertain tax positions.

Interest expense in 2014 was EUR 33 million lower than in 2013, mainly as a result of lower average outstanding debt and lower interest related to pensions in 2014. The gain from disposal on financial assets in 2014 amounted to EUR 60 million, mainly from Neusoft, Chimei Innolux, Gilde III and Sapiens. In 2014 impairment charges amounted to EUR 17 million. Provision-related accretion and interest in 2014 primarily consisted of interest expense related to the jury verdict in the

Masimo litigation, and accretion expense associated with other discounted provisions and uncertain tax positions.

Net financial income and expense showed a EUR 330 million expense in 2013. Total financial income of EUR 70 million included a EUR 54 million interest income.

8 Income taxes

The income tax expense of continuing operations amounted to EUR 239 million (2014: EUR 26 million, 2013: EUR 466 million).

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

Philips Group
Income tax expense in millions of EUR
2013 - 2015

	2013	2014	2015
Netherlands	281	665	229
Foreign	1,244	(480)	394
Income before taxes of continuing operations	1,525	185	623
Netherlands:			
Current tax (expense) benefit	5	(12)	8
Deferred tax expense	(107)	(29)	-
Total tax (expense) benefit of continuing operations (Netherlands)	(102)	(41)	8
Foreign:			
Current tax expense	(274)	(250)	(242)
Deferred tax (expense) benefit	(90)	265	(5)
Total tax (expense) benefit of continuing operations (foreign)	(364)	15	(247)
Income tax expense of continuing operations	(466)	(26)	(239)

Income tax expense of continuing operations excludes the tax expense of the discontinued operations of EUR 54 million (2014: EUR 11 million, 2013: EUR 11 million).

The components of income tax expense of continuing operations are as follows:

Philips Group
Current income tax expense in millions of EUR
2013 - 2015

	2013	2014	2015
Current year tax expense	(262)	(241)	(244)
Prior year tax (expense) benefit	(7)	(21)	10
Current tax expense	(269)	(262)	(234)

Philips Group
Deferred income tax expense in millions of EUR
2013 - 2015

	2013	2014	2015
Tax loss carryforwards previously unrecognized	20	18	7
Current year tax loss carryforwards unrecognized	(29)	(65)	(86)
Tax assets relating to temporary differences unrecognized	(3)	(47)	(31)
Prior year tax (expense) benefit	15	34	(7)
Tax rate changes	-	12	(19)
Deferred tax (expense) benefit recognized for the current year	(200)	284	131
Deferred tax (expense) benefit	(197)	236	(5)

Philips' operations are subject to income taxes in various foreign jurisdictions. The statutory income tax rates vary from 10.0% to 39.0%, which results in a difference between the weighted average statutory income tax rate and the Netherlands' statutory income tax rate of 25.0% (2014: 25.0%; 2013: 25.0%).

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

Philips Group
Effective tax rate in %
2013 - 2015

	2013	2014	2015
Weighted average statutory income tax rate in %	29.2	7.9	29.8
Increase (Decrease) in tax rate resulting from:			
- recognition of previously unrecognized tax loss carryforwards	(1.3)	(9.6)	(1.2)
- current year tax loss carryforwards unrecognized	1.9	34.9	13.7
- current year temporary differences unrecognized	0.2	25.5	4.9
Non-deductible impairment charges	0.7	1.8	0.1
Non-taxable income	(8.9)	(100.1)	(30.7)
Non-deductible expense	8.1	51.6	20.5
Withholding and other taxes	0.9	13.4	4.9
Tax rate changes	-	(6.3)	3.0
Prior year tax expense	(0.2)	(30.8)	(0.4)
Tax expense (benefit) due to other liabilities	0.3	5.6	(5.9)
Tax incentives	(0.7)	(7.4)	(0.7)
Others, net	0.4	27.6	0.4
Effective tax rate	30.6	14.1	38.4

The weighted average statutory income tax rate increased in 2015 compared to 2014, as a consequence of a significant change in the geographical mix of actual profits.

The effective income tax rate is higher than the weighted average statutory income tax rate in 2015, mainly due to the non-deductible expenses, new loss carryforwards and temporary differences not expected to be realized which are partly offset by non-taxable income. Non-taxable income is partly attributable to favorable tax regulations relating to R&D investments.

Deferred tax assets and liabilities

Net deferred tax assets relate to the following balance sheet captions and tax loss carryforwards (including tax credit carryforwards), of which the movements during the years 2015 and 2014 respectively are as follows:

Deferred tax assets are recognized for temporary differences, unused tax losses, and unused tax credits to the extent that realization of the related tax benefits is probable. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax

assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

The net deferred tax assets of EUR 2,594 million (2014: EUR 2,353 million) consist of deferred tax assets of EUR 2,758 million (2014: EUR 2,460 million) in countries with a net deferred tax asset position and deferred tax liabilities of EUR 164 million (2014: EUR 107 million) in countries with a net deferred tax liability position. Of the

Philips Group
Deferred tax assets and liabilities in millions of EUR
2015

	Balance as of January 1, 2015	recognized in income statement	other ¹⁾	Balance as of December 31, 2015	Assets	Liabilities
Intangible assets	(980)	131	(240)	(1,089)	195	(1,284)
Property, plant and equipment	73	(50)	(4)	19	63	(44)
Inventories	311	10	33	354	360	(6)
Prepaid pensions	98	(142)	41	(3)	-	(3)
Other receivables	49	-	2	51	57	(6)
Other assets	24	13	(20)	17	31	(14)
Provisions:						
- pensions	562	(23)	30	569	569	-
- guarantees	4	(1)	-	3	3	-
- termination benefits	109	(40)	1	70	71	(1)
- other postretirement benefits	71	1	(2)	70	70	-
- other provisions	783	(3)	5	785	805	(20)
Other liabilities	209	(33)	19	195	216	(21)
Deferred tax assets on tax loss carryforwards (including tax credit carryforwards)	1,040	132	381	1,553	1,553	-
Set-off deferred tax positions					(1,235)	1,235
Net deferred tax assets	2,353	(5)	246	2,594	2,758	(164)

¹⁾ Other includes the movements of assets and liabilities recognized in OCI, which includes foreign currency translation differences, and acquisitions and divestments.

Philips Group
Deferred tax assets and liabilities in millions of EUR
2014

	Balance as of January 1, 2014	recognized in income statement	other ¹⁾	Balance as of December 31, 2014	Assets	Liabilities
Intangible assets	(871)	59	(168)	(980)	114	(1,094)
Property, plant and equipment	58	9	6	73	120	(47)
Inventories	264	24	23	311	317	(6)
Prepaid pension	(1)	(40)	139	98	99	(1)
Other receivables	50	6	(7)	49	58	(9)
Other assets	32	(8)	-	24	45	(21)
Provisions:						
- pensions	426	(49)	185	562	562	-
- guarantees	29	(25)	-	4	4	-
- termination benefits	97	23	(11)	109	109	-
- other postretirement benefits	57	2	12	71	71	-
- other provisions	567	126	90	783	791	(8)
Other liabilities	192	(1)	18	209	226	(17)
Deferred tax assets on tax loss carryforwards (including tax credit carryforwards)	699	110	231	1,040	1,040	-
Set-off deferred tax positions					(1,096)	1,096
Net deferred tax assets	1,599	236	518	2,353	2,460	(107)

¹⁾ Other includes the movements of assets and liabilities recognized in OCI, which includes foreign currency translation differences, and acquisitions and divestments.

total deferred tax assets of EUR 2,758 million at December 31, 2015, (2014: EUR 2,460 million), EUR 2,119 million (2014: EUR 1,352 million) is recognized in respect of fiscal entities in various countries where there have been fiscal losses in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilize these deferred tax assets.

At December 31, 2015 and 2014, there were no recognized deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain foreign subsidiaries of Philips Holding USA since it has been determined that undistributed profits of such subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with the investments in subsidiaries of Philips Holding USA, for which a deferred tax liability has not been recognized, aggregate to EUR 78 million (2014: EUR 47 million).

At December 31, 2015, net operating loss carryforwards expire as follows:

Philips Group
Expiry years of net operating loss carryforwards
in millions of EUR

Total	2016	2017	2018	2019	2020	2021/ 2025	later	un- limi- ted
7,566	-	2	9	176	207	2,459	1,456	3,257

The Company also has tax credit carryforwards of EUR 217 million, which are available to offset future tax, if any, and which expire as follows:

Philips Group
Expiry years of tax credit carryforwards in millions of EUR

Total	2016	2017	2018	2019	2020	2021 / 2025	later	un- limi- ted
217	-	4	5	4	2	39	146	17

At December 31, 2015, net operating loss and tax credit carryforwards for which no deferred tax assets have been recognized in the balance sheet, expire as follows:

Philips Group
Net operating loss and tax credit carryforwards for which no deferred tax asset has been recognized in millions of EUR

Total	2016	2017	2018	2019	2020	2021 / 2025	later	un- limi- ted
2,507	-	4	5	84	103	335	550	1,426

At December 31, 2015, the amount of deductible temporary differences for which no deferred tax asset has been recognized in the balance sheet is EUR 139 million (2014: EUR 190 million).

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

Philips Group
Income tax payables and receivables in millions of EUR
2014 - 2015

	2014	2015
Income tax receivables	140	114
Income tax receivables - under non-current receivables	-	-
Income tax payables	(102)	(116)
Income tax payables - under non-current liabilities	(1)	-

Tax risks

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

Transfer pricing uncertainties

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

Tax uncertainties on general and specific service agreements and licensing agreements

Due to the centralization of certain activities in a limited number of countries (such as research and development, IT, Group functions and head office), costs are also centralized. As a consequence, these costs and/or revenues must be allocated to the beneficiaries, i.e. the various Philips entities. For that purpose, service contracts such as intra-group service agreements and licensing agreements are signed with a large number of group entities. Tax authorities review these intra-group service and licensing agreements, and may reject the implemented intra-group charges. Furthermore, buy in/out situations in the case of (de)mergers could affect the cost allocation resulting from the general service agreements between countries. The same applies to the specific service agreements.

Tax uncertainties due to disentanglements and acquisitions

When a subsidiary of Philips is disentangled, or a new company is acquired, related tax uncertainties may arise. Philips creates merger and acquisition (M&A) teams for these disentanglements or acquisitions. In addition to representatives from the involved business, these teams consist of specialists from various group functions and are formed, among other things, to identify hidden tax uncertainties that could subsequently surface when companies are acquired and to reduce tax claims related to disentangled entities. These tax uncertainties are investigated and

assessed to mitigate tax uncertainties in the future to the extent possible. Examples of tax uncertainties are: applicability of participation exemptions, allocation issues, and issues related to (non-)deductibility.

operations in a country involves a Philips organization in another country, there is a risk that tax claims will arise in the former country as well as in the latter country.

Tax uncertainties due to permanent establishments

In countries where Philips starts new operations or alters business models, the issue of permanent establishment may arise. This is because when

9 Earnings per share

Philips Group
Earnings per share in millions of EUR unless otherwise stated¹⁾
 2013 - 2015

	2013	2014	2015
Income from continuing operations	1,034	221	414
Income (loss) attributable to non-controlling interest	3	(4)	14
Income from continuing operations attributable to shareholders	1,031	225	400
Income from discontinued operations	138	190	245
Net income attributable to shareholders	1,169	415	645
Weighted average number of common shares outstanding (after deduction of treasury shares) during the year	911,071,970	915,192,683	916,086,943
Plus incremental shares from assumed conversions of:			
Options	5,464,833	4,617,109	3,565,682
Performance shares	662,973	614,010	2,479,923
Restricted share rights	4,768,777	2,290,472	1,491,960
Convertible debentures	103,899		
Dilutive potential common shares	11,000,482	7,521,591	7,537,565
Adjusted weighted average number of shares (after deduction of treasury shares) during the year	922,072,452	922,714,274	923,624,508
Basic earnings per common share in EUR²⁾			
Income from continuing operations	1.13	0.24	0.45
Income from discontinued operations	0.15	0.21	0.27
Income from continuing operations attributable to shareholders	1.13	0.25	0.44
Net income attributable to shareholders	1.28	0.45	0.70
Diluted earnings per common share in EUR^{2,3,4)}			
Income from continuing operations	1.12	0.24	0.45
Income from discontinued operations	0.15	0.21	0.27
Income from continuing operations attributable to shareholders	1.12	0.24	0.43
Net income attributable to shareholders	1.27	0.45	0.70
Dividend distributed per common share in euros	0.75	0.80	0.80

¹⁾ Shareholders in this table refer to shareholders of Koninklijke Philips N.V.

²⁾ The effect on income of convertible debentures affecting earnings per share is considered immaterial.

³⁾ In 2015, 2014 and 2013, respectively 12 million, 19 million and 14 million securities that could potentially dilute basic EPS were not included in the computation of dilutive EPS because the effect would have been antidilutive for the periods presented.

⁴⁾ The dilutive potential common shares are not taken into account in the periods for which there is a loss, as the effect would be antidilutive.

10 Property, plant and equipment

Philips Group
Property, plant and equipment in millions of EUR
 2015

	land and buildings	machinery and installations	other equipment	prepayments and construction in progress	total
Balance as of January 1, 2015:					
Cost	1,803	3,127	1,745	169	6,844
Accumulated depreciation	(931)	(2,520)	(1,298)	-	(4,749)
Book value	872	607	447	169	2,095
Change in book value:					
Capital expenditures	13	113	62	387	575
Assets available for use	59	139	140	(338)	-
Acquisitions	-	107	2	-	109
Disposals and sales	(3)	(3)	(6)	-	(12)
Depreciation	(83)	(252)	(196)	-	(531)
Impairments	(8)	(27)	(16)	-	(51)
Transfer (to) from assets classified as held for sale	26	(10)	-	(2)	14
Translation differences	37	61	21	4	123
Total changes	41	128	7	51	227
Balance as of December 31, 2015:					
Cost	1,864	3,260	1,873	220	7,217
Accumulated depreciation	(951)	(2,525)	(1,419)	-	(4,895)
Book value	913	735	454	220	2,322

Philips Group
Property, plant and equipment in millions of EUR
 2014

	land and buildings	machinery and installations	other equipment	prepayments and construction in progress	total
Balance as of January 1, 2014:					
Cost	1,899	3,948	1,586	259	7,692
Accumulated depreciation	(872)	(2,885)	(1,155)	-	(4,912)
Book value	1,027	1,063	431	259	2,780
Change in book value:					
Capital expenditures	6	86	68	368	528
Assets available for use	79	220	132	(431)	-
Acquisitions	7	6	4	2	19
Disposals and sales	-	(5)	(7)	-	(12)
Depreciation	(91)	(295)	(178)	-	(564)
Impairments	(26)	(74)	(21)	(1)	(122)
Transfer to assets classified as held for sale	(190)	(451)	(10)	(37)	(688)
Translation differences	60	57	28	9	154
Total changes	(155)	(456)	16	(90)	(685)
Balance as of December 31, 2014:					
Cost	1,803	3,127	1,745	169	6,844
Accumulated depreciation	(931)	(2,520)	(1,298)	-	(4,749)
Book value	872	607	447	169	2,095

Land with a book value of EUR 142 million at December 31, 2015 (2014: EUR 89 million) is not depreciated. The acquisitions through business combinations in 2015 mainly consist of the acquired machinery and installations of Volcano for EUR 104 million. Transfer from assets classified as held for sale mainly includes a property reclassified back to property, plant and equipment for EUR 56 million, as it is no longer expected to be sold in 2016.

Transfer to assets classified as held for sale in 2014 mainly relates to the combined businesses of Lumileds and Automotive. Impairment charges of EUR 49 million are related to industrial assets in Lighting in 2014.

Property, plant and equipment includes financial lease assets with a book value of EUR 203 million at December 31, 2015 (2014: EUR 192 million).

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

Philips Group Useful lives of property, plant and equipment in years	
Buildings	from 5 to 50 years
Machinery and installations	from 3 to 20 years
Other equipment	from 1 to 10 years

11 Goodwill

The changes in 2014 and 2015 were as follows:

Philips Group
Goodwill in millions of EUR
2014 - 2015

	2014	2015
Balance as of January 1:		
Cost	8,596	9,151
Amortization and impairments	(2,092)	(1,993)
Book value	6,504	7,158
Changes in book value:		
Acquisitions	68	636
Purchase price allocation adjustment	8	8
Impairments	-	-
Divestments and transfers to assets classified as held for sale	(160)	-
Translation differences	738	721
Balance as of December 31:		
Cost	9,151	10,704
Amortization and impairments	(1,993)	(2,181)
Book value	7,158	8,523

Goodwill increased by EUR 627 million in 2015 due to the acquisition of Volcano. The increase of EUR 721 million in translation differences was mainly due to the increase in the USD/EUR rate which impacted the goodwill denominated in USD.

In 2014 the movement acquisitions mainly related to the acquisition of General Lighting Company (GLC) for EUR 58 million. Divestments and transfer to assets classified as held for sale in 2014 relate to the sectors Healthcare and Lighting. In 2014 the movement of EUR 738 million in translation differences is mainly explained by the increase of the USD/EUR rate which impacted the goodwill nominated in USD.

In 2015, the activities of Imaging Systems in the sector Healthcare were split over three new cash-generating units: Image-Guided Therapy, Ultrasound and Diagnostic Imaging. As a result of the change, the goodwill associated with Imaging Systems was allocated over these three new units.

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

Goodwill allocated to the cash-generating units Respiratory Care & Sleep Management, Image-Guided Therapy, Patient Care & Monitoring Solutions and Professional Lighting Solutions is considered to be significant in comparison to the total book value of goodwill for the Group at December 31, 2015. The amounts associated as of December 31, 2015, are presented below:

Philips Group
Goodwill allocated to the cash-generating units
in millions of EUR
2014 - 2015

	2014	2015
Respiratory Care & Sleep Management	1,704	1,884
Imaging Systems	1,592	
Image-Guided Therapy		1,066
Patient Care & Monitoring Solutions	1,317	1,452
Professional Lighting Solutions	1,470	1,626
Other (units carrying a non-significant goodwill balance)	1,075	2,495
Book value	7,158	8,523

The basis of the recoverable amount used for the units disclosed in this note is the value in use. In the annual impairment test performed in the second quarter and in the tests performed in the second half of 2015, the estimated recoverable amounts of the cash-generating units tested approximated or exceeded the carrying value of the units, therefore no impairment loss was recognized.

Key assumptions used in the impairment tests for the units were sales growth rates, income from operations and the rates used for discounting the projected cash flows. These cash flow projections were determined using management's internal forecasts that cover an initial period from 2015 to 2019 that matches the period used for our strategic process. Projections were extrapolated with stable or declining growth rates for a period of 5 years, after which a terminal value was calculated. For terminal value calculation, growth rates were capped at a historical long-term average growth rate.

The sales growth rates and margins used to estimate cash flows are based on past performance, external market growth assumptions and industry long-term growth averages.

Income from operations in all mentioned units is expected to increase over the projection period as a result of volume growth and cost efficiencies. In anticipation of the new reporting structure in 2016, the impact of an additional allocation of central overhead costs over the projection period has been considered for units which performed an updated test in the second half of 2015.

Cash flow projections of Respiratory Care & Sleep Management, Image-Guided Therapy, Patient Care & Monitoring Solutions and Professional Lighting Solutions for 2015 were based on the key assumptions

included in the table below. These assumptions are based on the annual impairment test performed in the second quarter except for the unit Professional Lighting Solutions which performed an updated test in Q4 2015.

Philips Group
Key assumptions in %
2015

	compound sales growth rate ¹⁾			pre-tax discount rates
	initial forecast period	extra-polation period ²⁾	used to calculate terminal value	
Respiratory Care & Sleep Management	6.9	5.6	2.7	11.5
Image-Guided Therapy	3.0	2.4	2.7	12.2
Patient Care & Monitoring Solutions	6.0	4.8	2.7	13.4
Professional Lighting Solutions	5.0	5.1	2.7	15.1

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

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

The assumptions used for the 2014 cash flow projections were as follows:

Philips Group
Key assumptions in %
2014

	compound sales growth rate ¹⁾			pre-tax discount rates
	initial forecast period	extra-polation period ²⁾	used to calculate terminal value	
Respiratory Care & Sleep Management	4.2	3.6	2.7	11.4
Imaging Systems	3.3	3.1	2.7	12.8
Patient Care & Clinical Informatics	4.9	3.8	2.7	12.8
Professional Lighting Solutions	10.1	6.5	2.7	13.8

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

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

Among the mentioned units, Professional Lighting Solutions has the lowest excess of the recoverable amount over the carrying amount. The headroom of Professional Lighting Solutions was estimated at EUR 100 million. The following changes could, individually, cause the value in use to fall to the level of the carrying value:

Philips Group
Sensitivity analysis

	increase in pre-tax discount rate, basis points	decrease in compound long-term sales growth rate, basis points	decrease in terminal value amount, %
Professional Lighting Solutions	40	80	5.5

The results of the annual impairment test of Respiratory Care & Sleep Management, Image-Guided Therapy and Patient Care & Monitoring Solutions indicate that a reasonably possible change in key assumptions would not cause the value in use to fall to the level of the carrying value.

Additional information 2015

In addition to the units with significant goodwill, other cash-generating units are sensitive to fluctuations in the assumptions as set out above.

Based on the annual impairment test, it was noted that the headroom for the cash-generating unit Home Monitoring was estimated at EUR 30 million. An increase of 130 points in the pre-tax discounting rate, a 320 basis points decline in the compound long-term sales growth rate or a 19% decrease in terminal value would cause its value in use to fall to the level of its carrying value. The goodwill allocated to Home Monitoring at December 31, 2015 amounts to EUR 32 million.

Based on the most recent impairment test, it was noted that with regard to the headroom for the cash-generating unit Consumer Luminaires the estimated recoverable amount approximates the carrying value of this cash-generating unit. Consequently, any adverse change in key assumptions would, individually, cause an impairment loss to be recognized. The goodwill allocated to Consumer Luminaires at December 31, 2015 amounts to EUR 127 million.

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

12 Intangible assets excluding goodwill

The changes were as follows:

Philips Group
Intangible assets excluding goodwill in millions of EUR
 2015

	other intangible assets	product development	software	total
Balance as of January 1, 2015:				
Cost	5,721	1,853	446	8,020
Amortization/ impairments	(3,371)	(964)	(317)	(4,652)
Book value	2,350	889	129	3,368
Changes in book value:				
Additions	50	315	70	435
Acquisitions	326	-	-	326
Purchase price allocation adjustment	(10)			(10)
Amortization	(372)	(230)	(45)	(647)
Impairments	(8)	(41)	(3)	(52)
Divestments and transfers to assets classified as held for sale	-	(2)	-	(2)
Translation differences	210	61	4	275
Total changes	196	103	26	325
Balance as of December 31, 2015:				
Cost	6,539	2,190	522	9,251
Amortization/ impairments	(3,993)	(1,198)	(367)	(5,558)
Book Value	2,546	992	155	3,693

Philips Group
Intangible assets excluding goodwill in millions of EUR
 2014

	other intangible assets	product development	software	total
Balance as of January 1, 2014:				
Cost	5,533	1,761	344	7,638
Amortization/ impairments	(3,173)	(916)	(287)	(4,376)
Book value	2,360	845	57	3,262
Changes in book value:				
Additions	15	323	101	439
Acquisitions	170	2	1	173
Purchase price allocation adjustment	(8)			(8)
Amortization	(355)	(231)	(31)	(617)
Impairments	(1)	(25)	(2)	(28)
Divestments and transfer to assets classified as held for sale	(62)	(96)	-	(158)
Translation differences	231	71	3	305
Total changes	(10)	44	72	106
Balance as of December 31, 2014:				
Cost	5,721	1,853	446	8,020
Amortization/ impairments	(3,371)	(964)	(317)	(4,652)
Book value	2,350	889	129	3,368

The additions for 2015 contain internally generated assets of EUR 315 million (2014: EUR 323 million) for product development, and EUR 56 million (2014: EUR 83 million) for software. The acquisitions through business combinations in 2015 mainly consist of the acquired intangible assets of Volcano for EUR 320 million.

In addition, other intangible fixed assets changed due to the finalization of purchase price accounting related to acquisitions in the prior year. Transfer to assets classified as held for sale in 2014 mainly relate to combined businesses of Lumileds and Automotive.

The impairment charges in 2015 for product development relate to various projects mainly within Healthcare.

The increase of EUR 275 million in translation differences was mainly due to the increase of the USD/EUR rate which impacted the intangibles denominated in USD.

The amortization of intangible assets is specified in note 6, Income from operations.

Other intangible assets consist of:

Philips Group
Amortization of other intangible assets in millions of EUR
2014 -2015

	Balance as of December 31, 2014		Balance as of December 31, 2015	
	gross	amortization/impairments	gross	amortization/impairments
Brand names	1,018	(497)	1,102	(582)
Customer relationships	3,045	(1,622)	3,324	(1,925)
Technology	1,543	(1,151)	1,977	(1,373)
Other	115	(101)	136	(113)
Other intangibles	5,721	(3,371)	6,539	(3,993)

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

Philips Group Estimated amortization expense for other intangible assets in years	
2016	357
2017	328
2018	318
2019	298
2020	281

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

Philips Group Expected useful lives of intangible assets excluding goodwill in years	
Brand names	2-20
Customer relationships	2-25
Technology	3-20
Other	1-8
Software	1-10
Product development	3-7

The weighted average expected remaining life of other intangible assets is 8.4 years as of December 31, 2015 (2014: 8.5 years).

The capitalized product development costs and software, for which amortization has not yet commenced, amounted to EUR 491 million as of December 31, 2015 (2014: EUR 450 million).

At December 31, 2015 the carrying amount of customer relationships of Respiratory Care & Sleep Management was EUR 466 million (USD 509 million) with a remaining amortization period of 8.2 years (2014: EUR 468 million, USD 569 million; 9.2 years).

At December 31, 2015 the carrying amount of developed technology related to systems for Volcano (now "Image Guided Technology - Devices") was EUR 150 million (USD 164 million) with a remaining amortization period of 14.1 years.

13 Other financial assets

The changes during 2015 were as follows:

Philips Group
Other non-current financial assets in millions of EUR
2015

	available-for-sale financial assets	loans and receivables	held-to-maturity investments	financial assets at fair value through profit or loss	total
Balance as of January 1, 2015	210	226	2	24	462
Changes:					
Reclassifications	(18)	(9)			(27)
Acquisitions/additions	31	35	-	5	71
Sales/redemptions/reductions	(23)	(13)		(1)	(37)
Impairment	(4)	-	-		(4)
Transfer from and (to) assets classified as held for sale	1	(2)			(1)
Value adjustments	31	1		3	35
Translation and exchange differences	4	(16)	-	2	(10)
Balance as of December 31, 2015	232	222	2	33	489

Available-for-sale financial assets

The Company's investments in available-for-sale financial assets mainly consist of investments in common shares of companies in various industries. The line reclassifications mainly represents an investment transferred to investments in associates due to the fact that the Group is able to exercise significant influence. The line additions/acquisitions includes investments of EUR 21 million which relate to the acquisition of Volcano (refer to note 4 Acquisitions and divestments). The remainder mainly relates to capital calls for certain investment funds. The line sales/redemptions/reductions includes the sale of one of Volcano's investments for an amount of EUR 16 million and the sale of certain government bonds for an amount of EUR 6 million.

Loans and receivables

The acquisitions/additions line mainly relates to vendor loans issued to an amount of EUR 17 million in relation to the sale of an equity interest. The current portion of this loan (EUR 8 million) was in the course of 2015 reclassified to Current financial assets. The remainder of the loan will be redeemed in 2017.

14 Other assets

Other non-current assets

Other non-current assets in 2015 are comprised of prepaid pension costs of EUR 3 million (2014: EUR 2 million) and prepaid expenses of EUR 65 million (2014: EUR 67 million).

For further details see note 20, Post-employment benefits.

Other current assets

Other current assets include prepaid expenses of EUR 444 million (2014: EUR 411 million).

15 Inventories

Inventories are summarized as follows:

Philips Group
Inventories in millions of EUR
2014 - 2015

	2014	2015
Raw materials and supplies	962	1,068
Work in process	481	475
Finished goods	1,871	1,920
Inventories	3,314	3,463

The write-down of inventories to net realizable value amounted in 2015 to EUR 170 million (2014: EUR 217 million). The write-down is included in cost of sales.

16 Receivables

Non-current receivables

Non-current receivables are associated mainly with customer financing in Healthcare and insurance receivables in Innovation, Group & Services. The balance as per December 31, 2015 includes an allowance for doubtful accounts of EUR 1 million (2014: EUR 2 million).

Current receivables

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

Philips Group
Accounts receivable-net in millions of EUR
2014 - 2015

	2014	2015
Healthcare	2,112	2,343
Consumer Lifestyle	791	853
Lighting	1,438	1,442
Innovation, Group & Services	135	89
Accounts receivable-net	4,476	4,727

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

Philips Group
Aging analysis in millions of EUR
2014 - 2015

	2014	2015
current	3,719	4,003
overdue 1-30 days	251	237
overdue 31-180 days	335	337
overdue > 180 days	171	150
Accounts receivable-net	4,476	4,727

The above net accounts receivable represent current and overdue but not impaired receivables.

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

Philips Group
Allowance for doubtful accounts receivable
in millions of EUR
2013 - 2015

	2013	2014	2015
Balance as of January 1	230	204	227
Additions charged to expense	29	48	78
Deductions from allowance ¹⁾	(33)	(46)	(25)
Other movements	(22)	21	21
Balance as of December 31	204	227	301

¹⁾ Write-offs for which an allowance was previously provided

The allowance for doubtful accounts receivable has been primarily established for receivables that are past due.

Included in above balances as per December 31, 2015 are allowances for individually impaired receivables of EUR 272 million (2014: EUR 200 million; 2013: EUR 172 million).

17 Equity

Common shares

As of December 31, 2015, the issued and fully paid share capital consists of 931,130,387 common shares, each share having a par value of EUR 0.20.

In June 2015, Philips settled a dividend of EUR 0.80 per common share, representing a total value of EUR 730 million. Shareholders could elect for a cash dividend or a share dividend. Approximately 59% of the shareholders elected for a share dividend, resulting in the issuance of 17,671,990 new common shares. The settlement of the cash dividend resulted in a payment of EUR 298 million including tax and service charges.

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

Philips Group
Outstanding number of shares in number of shares
 2014 - 2015

	2014	2015
Balance as of January 1	913,337,767	914,388,869
Dividend distributed	18,811,534	17,671,990
Purchase of treasury shares	(28,537,921)	(20,296,016)
Re-issuance of treasury shares	10,777,489	5,338,743
Balance as of December 31	914,388,869	917,103,586

Preference shares

The 'Stichting Preferente Aandelen Philips' has been granted the right to acquire preference shares in the Company. Such right has not been exercised. As a means to protect the Company and its stakeholders against an unsolicited attempt to acquire (de facto) control of the Company, the General Meeting of Shareholders in 1989 adopted amendments to the Company's articles of association that allow the Board of Management and the Supervisory Board to issue (rights to acquire) preference shares to a third-party. As of December 31, 2015, no preference shares have been issued.

Options, restricted and performance shares

The Company has granted stock options on its common shares and rights to receive common shares in the future (see note 28, Share-based compensation).

Treasury shares

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

When treasury shares are reissued under the Company's option plans, the difference between the cost and the cash received is recorded in retained earnings. When treasury shares are reissued under the Company's share plans, the difference between the market price of the shares issued and the cost is recorded in retained earnings, the market price is recorded in capital in excess of par value.

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

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

Philips Group
Employee option and share plan transactions
 2014 - 2015

	2014	2015
Shares acquired	7,254,606	
Average market price	EUR 24.53	
Amount paid	EUR 178 million	
Shares delivered	10,777,489	5,338,743
Average market price	EUR 30.26	EUR 30.35
Cost of delivered shares	EUR 326 million	EUR 162 million
Total shares in treasury at year-end	17,127,544	11,788,801
Total cost	EUR 470 million	EUR 308 million

In 2015, no additional share purchase was needed to cover our share-based compensation plan commitments.

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

Philips Group
Share capital transactions
 2014 - 2015

	2014	2015
Shares acquired	21,283,315	20,296,016
Average market price	EUR 23.95	EUR 24.39
Amount paid	EUR 510 million	EUR 495 million
Reduction of capital stock (shares)	21,837,910	21,361,016
Reduction of capital stock (EUR)	EUR 533 million	EUR 517 million
Total shares in treasury at year-end	3,303,000	2,238,000
Total cost	EUR 77 million	EUR 55 million

Share purchase transactions related to share plans, as well as transactions related to the reduction of share capital involved a cash outflow of EUR 506 million, which includes the impact of taxes. Settlements of share-based compensation plans involved a cash inflow of EUR 81 million.

Dividend distribution

A proposal will be submitted to the 2016 Annual General Meeting of Shareholders to pay a dividend of EUR 0.80 per common share, in cash or shares at the option of the shareholder, from the 2015 net income and retained earnings of the Company.

Limitations in the distribution of shareholders' equity

As at December 31, 2015, pursuant to Dutch law, certain limitations exist relating to the distribution of shareholders' equity of EUR 2,274 million. Such limitations relate to common shares of EUR 186 million, as well as to legal reserves required by Dutch law included under retained earnings of EUR 958 million, revaluation reserves of EUR 4 million, unrealized currency translation differences of EUR 1,058 million,

available-for-sale financial assets of EUR 56 million and unrealized gains related to cash flow hedges of EUR 12 million.

The legal reserve required by Dutch law of EUR 958 million included under retained earnings relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

As at December 31, 2014, these limitations in distributable amounts were EUR 1,515 million and related to common shares of EUR 187 million, as well as to legal reserves required by Dutch law included under retained earnings of EUR 1,059 million, revaluation reserves of EUR 13 million, available-for-sale financial assets of EUR 27 million and unrealized currency translation gains EUR 229 million. The unrealized losses related to cash flow hedges of EUR 13 million, although qualifying as a legal reserve, reduce the distributable amount by their nature.

Non-controlling interests

Non-controlling interests relate to minority stakes held by third parties in consolidated group companies. The Net income attributable to non-controlling interests amounted to EUR 14 million in 2015 (Net loss attributable to non-controlling interests 2014: EUR 4 million).

The non-controlling interests mainly relate to General Lighting Company (GLC), in which Alliance Holding domiciled in Kingdom of Saudi Arabia holds an ownership percentage of 49%.

Objectives, policies and processes for managing capital

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

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

Net debt is defined as the sum of long- and short-term debt minus cash and cash equivalents. The net debt position as a percentage of the sum of group equity (shareholders' equity and non-controlling interests) and net debt is presented to express the financial strength of the Company. This measure is widely used by management and investment analysts and is therefore included in the disclosure. Our net debt position is managed in such a way that we expect to retain a strong investment grade credit rating. Furthermore, the Group's aim when managing the net debt position is dividend stability and a pay-out ratio of 40% to 50% of continuing net income. Following the intended separation of the Lighting business, the dividend pay-out ratio with respect to future years could be subject to change.

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

Philips Group
Net operating capital composition in millions of EUR
2013 - 2015

	2013	2014	2015
Intangible assets	9,766	10,526	12,216
Property, plant and equipment	2,780	2,095	2,322
Remaining assets	8,699	9,041	9,423
Provisions	(2,554)	(3,445)	(3,225)
Other liabilities	(8,453)	(9,379)	(9,640)
Net operating capital	10,238	8,838	11,096

Philips Group

Composition of net debt to group equity in millions of EUR unless otherwise stated
2013 - 2015

	2013	2014	2015
Long-term debt	3,309	3,712	4,095
Short-term debt	592	392	1,665
Total debt	3,901	4,104	5,760
Cash and cash equivalents	2,465	1,873	1,766
Net debt¹⁾	1,436	2,231	3,994
Shareholders' equity	11,214	10,867	11,662
Non-controlling interests	13	101	118
Group equity	11,227	10,968	11,780
Net debt and group equity	12,663	13,199	15,774
Net debt divided by net debt and group equity (in %)	11%	17%	25%
Group equity divided by net debt and group equity (in %)	89%	83%	75%

¹⁾ Total debt less cash and cash equivalents

Philips Group

Composition of cash flows in millions of EUR
2013 - 2015

	2013	2014	2015
Cash flows from operating activities	912	1,303	1,167
Cash flows from investing activities	(862)	(984)	(1,941)
Cash flows before financing activities	50	319	(774)

In 2015, total debt increased by EUR 1,656 million. New borrowings of EUR 1,335 million were mainly due to a short-term bridge loan used for the Volcano acquisition

while repayments amounted to EUR 104 million. Other changes resulting from consolidation and currency effects led to an increase of EUR 425 million.

18 Debt

Long-term debt

Philips Group

Long-term debt in millions of EUR unless otherwise stated
2014 - 2015

	(range of) interest rates	average rate of interest	amount outstanding in 2015	amount due in 1 year	amount due after 1 year	amount due after 5 years	average remaining term (in years)	amount outstanding in 2014
USD bonds	3.8 - 7.8%	5.6%	3,733	-	3,733	2,595	11.7	3,355
Bank borrowings	0.0-11.0%	1.7%	259	45	214	201	5.0	258
Other long-term debt	0.8 - 7.0%	3.8%	42	39	3	1	1.3	52
Institutional financing			4,034	84	3,950	2,797		3,665
Finance leases	0 - 16.4%	3.2%	211	66	145	34	3.4	195
Long-term debt		5.2%	4,245	150	4,095	2,831		3,860
Corresponding data of previous year		5.2%	3,860	148	3,712	2,578		3,671

The following amounts of long-term debt as of December 31, 2015, are due in the next five years:

Philips Group
Long-term debts due in the next five years in millions of EUR
2014 - 2015

	2014	2015
2016		150
2017		53
2018		1,182
2019		18
2020		11
Long term debt		1,414
Corresponding amount of previous year		1,282

Philips Group
Unsecured USD Bonds
in millions of EUR unless otherwise stated
2014 - 2015

	effective rate	2014	2015
Due 5/15/25; 7 3/4%	7.429%	81	91
Due 6/01/26; 7 1/5%	6.885%	136	152
Due 5/15/25; 7 1/8%	6.794%	84	94
Due 3/11/18; 5 3/4% ¹⁾	6.066%	1,028	1,144
Due 3/11/38; 6 7/8% ¹⁾	7.210%	823	915
Due 3/15/22; 3 3/4% ¹⁾	3.906%	823	915
Due 3/15/42; 5% ¹⁾	5.273%	411	458
Adjustments ²⁾		(31)	(36)
Unsecured USD Bonds		3,355	3,733

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

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

Secured liabilities

In 2015, none of the long-term and short-term debt was secured by collateral (2014: EUR nil million).

Short-term debt

Philips Group
Short-term debt in millions of EUR
2014 - 2015

	2014	2015
Short-term bank borrowings	225	1,510
Other short-term loans	19	5
Current portion of long-term debt	148	150
Short-term debt	392	1,665

During 2015, the weighted average interest rate on the bank borrowings was 1.6% (2014: 8.3%) due to the bridging loan with low interest rate used for the Volcano acquisition.

Philips has a USD 2.5 billion Commercial Paper Program and a EUR 1.8 billion revolving credit facility that can be used for general group purposes and as a backstop of its commercial paper program and will mature in February 2018. As of December 31, 2015 Philips did not have any loans outstanding under either facility.

19 Provisions

Philips Group
Provisions in millions of EUR
2014 - 2015

	2014		2015	
	long-term	short-term	long-term	short-term
Provisions for defined-benefit plans (see note 20)	881	52	841	51
Other postretirement benefits (see note 20)	226	16	220	10
Product warranty	77	225	67	222
Environmental provisions	301	59	278	57
Restructuring-related provisions	150	230	69	228
Litigation provisions	480	173	518	60
Other provisions	385	190	399	205
Provisions	2,500	945	2,392	833

Product warranty

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

Philips Group
Provision for product warranty in millions of EUR
2013 - 2015

	2013	2014	2015
Balance as of January 1	319	266	302
Changes:			
Additions	350	332	327
Utilizations	(363)	(316)	(357)
Transfer to assets classified as held for sale	(24)	(3)	-
Translation differences	(16)	23	17
Balance as of December 31	266	302	289

Environmental provisions

The environmental provisions include accrued losses recorded with respect to environmental remediation in various countries. In the United States, subsidiaries of the Company have been named as potentially responsible parties in state and federal proceedings for the clean-up of certain sites.

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

Philips Group
Environmental provisions in millions of EUR
 2013 - 2015

	2013	2014	2015
Balance as of January 1	375	311	360
Changes:			
Additions	30	29	27
Utilizations	(21)	(23)	(24)
Releases	(16)	(15)	(36)
Changes in discount rate	(40)	30	(7)
Accretion	6	8	7
Purchase price allocation adjustment	(15)	-	-
Changes in consolidation	-	4	1
Reclassification	-	-	(8)
Translation differences	(8)	16	15
Balance as of December 31	311	360	335

The release of the provision in 2015 originates from additional insights in relation to factors as the estimated cost of remediation, changes in regulatory requirements and efficiencies in completion of various site work phases.

For more details on the environmental remediation reference is made to note 26, Contingent assets and liabilities.

Approximately half of this provision is expected to be utilized within the next five years. The remaining portion relates to longer-term remediation activities.

Restructuring-related provisions

Philips Group
Restructuring-related provisions in millions of EUR
 2015

	Jan. 1, 2015	additions	utilizations	releases	other changes ¹⁾	Dec. 31, 2015
Healthcare	48	51	(38)	(11)	(1)	49
Consumer Lifestyle	12	30	(6)	(3)	(1)	32
Lighting	195	84	(106)	(25)	-	148
Innovation, Group and Services	125	29	(39)	(49)	2	68
Philips Group	380	194	(189)	(88)	-	297

¹⁾ Other changes primarily relate to translation differences and assets classified as held for sale reclassifications

The most significant projects in 2015

In 2015, restructuring projects at Healthcare mainly took place in the US and France.

Consumer Lifestyle restructuring projects were mainly in Italy.

The most significant restructuring projects were mainly related to the industrial footprint rationalization projects in Lighting.

Restructuring projects at Lighting centered on the conventional lamps industry and Professional Lighting Solutions, the largest of which took place in France and Indonesia.

Innovation, Group & Services restructuring projects were mainly related to Group and Regional organizations and centered primarily in France and the Netherlands. The release mainly results from unforeseen changes to the IT restructuring plan in 2015.

The movements in the provisions and liabilities for restructuring in 2014 by Sector are presented as follows:

Philips Group
Restructuring-related provisions in millions of EUR
 2014

	Jan. 1, 2014	additions	utilizations	releases	other changes ¹⁾	Dec. 31, 2014
Healthcare	17	67	(27)	(9)	-	48
Consumer Lifestyle	21	7	(10)	(7)	1	12
Lighting	130	180	(90)	(16)	(9)	195
Innovation, Group and Services	35	110	(15)	(5)	-	125
Philips Group	203	364	(142)	(37)	(8)	380

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

The most significant projects in 2014

In 2014, restructuring projects at Healthcare mainly took place in the US and the Netherlands.

Consumer Lifestyle restructuring projects were mainly in the Netherlands.

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 Belgium, the Netherlands and France.

Innovation, Group & Services restructuring projects mainly were related to IT and group and country overheads and centered primarily in the Netherlands, US and Belgium.

The Company expects the provision will be utilized mainly within the next year.

The movements in the provisions and liabilities for restructuring in 2013 are presented by sector as follows:

Philips Group
Restructuring-related provisions in millions of EUR
2013

	Jan. 1, 2013	addi- tions	uti- liza- tions	relea- ses	other changes ¹⁾	Dec. 31, 2013
Healthcare	77	14	(50)	(23)	(1)	17
Consumer Lifestyle	48	11	(27)	(10)	(1)	21
Lighting	198	64	(110)	(19)	(3)	130
Innovation, Group and Services	62	16	(30)	(15)	2	35
Philips Group	385	105	(217)	(67)	(3)	203

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

The most significant projects in 2013

In 2013, In Healthcare, the largest projects were undertaken in Customer Services, Home Healthcare Solutions and Imaging Systems in the United States, Italy and the Netherlands to reduce the operating costs and simplify the organization.

Consumer Lifestyle restructuring charges were mainly related to Personal Care (primarily in the Netherlands and Austria) and Coffee (mainly Italy).

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

Restructuring projects at Lighting centered on Luminares businesses and Light Sources & Electronics, the largest of which took place in the United States, France and Belgium.

Innovation, Group & Services restructuring projects mainly focused on the Financial Operations Service Unit, primarily in Italy, France and the United States.

Litigation provisions

The Company and certain of its group companies and former group companies are involved as a party in legal proceedings, including regulatory and other governmental proceedings.

Philips Group
Litigation provisions in millions of EUR
2013 - 2015

	2013	2014	2015
Balance as of January 1	238	236	653
Changes:			
Additions	48	563	66
Utilizations	(17)	(32)	(25)
Transfer to other current liabilities	-	(138)	(161)
Changes in discount rate	-	-	8
Releases	(15)	(23)	(25)
Accretion	-	6	12
Translation differences	(18)	41	50
Balance as of December 31	236	653	578

2015

The majority of the ending balance as of December 31, 2015 relates to the patent infringement lawsuit by Masimo Corporation as mentioned in the 2014 paragraph.

The majority of the transfers to other current liabilities relates to certain parts of the Cathode Ray Tube (CRT) antitrust litigation as mentioned in note 26, Contingent assets and liabilities for which the Company was able to reach a settlement. These settlements were subsequently paid out in 2015.

The movement of EUR 50 million in translation differences is mainly explained by the increase of the USD/EUR rate which impacted the litigation provisions nominated in USD.

The Company expects to use the provisions within the next three years. For more details reference is made to note 26, Contingent assets and liabilities.

2014

The additions and ending balance in 2014 include the patent infringement lawsuit by Masimo Corporation in the United States District Court for the District of Delaware against Philips in which Masimo was awarded a compensation of USD 467 million (EUR 366 million) in 2014.

The majority of the remaining additions and remaining ending balance as of December 31, 2014 relates to certain parts of the CRT antitrust litigation for which the company concluded it was able to make a reliable estimate of the cash outflow or was able to reach settlement.

The transfer to other current liabilities in the schedule above relates to certain parts of the CRT antitrust litigation where the Company was able to reach settlement. Settlements in excess of provisions recognized previously were recognized as an increase of other current liabilities as disclosed in note 22, Other liabilities. These settlements were subsequently paid out in 2015.

As a result of the aforementioned changes in estimates for the CRT antitrust litigation, the results of other business expenses of EUR 271 million in 2014 as included in note 6, Income from operations mainly relate to certain parts of the CRT antitrust litigation for which the company concluded it was able to make a reliable estimate of the cash outflow or where the Company was able to reach settlement.

For more details reference is made to note 26, Contingent assets and liabilities.

Other provisions

Philips Group
Other provisions in millions of EUR
 2013 - 2015

	2013	2014	2015
Balance as of January 1	529	519	575
Changes:			
Additions	198	213	198
Utilizations	(224)	(153)	(186)
Releases	(48)	(37)	(35)
Reclassification	80	17	14
Liabilities directly associated with assets held for sale	(3)	(13)	(1)
Accretion	-	6	7
Changes in consolidation	(1)	(1)	24
Translation differences	(12)	24	8
Balance as of December 31	519	575	604

The main elements of other provisions are: provision for post-employment benefits and obligatory severance payments of EUR 47 million (2014: 50 million), onerous contract provisions for unfavorable supply contracts as part of divestment transactions, onerous (sub)lease contracts and expected losses on existing projects / orders totaling EUR 106 million (2014: 103 million), provision for employee jubilee funds EUR 71 million (2014: EUR 74 million), self-insurance liabilities of EUR 70 million (2014: EUR 65 million), provisions for rights of return of EUR 52 million (2014: EUR 52 million), provision for possible taxes/social security of EUR 99 million (2014: EUR 97 million) and provision for decommissioning costs of EUR 52 million (2014: EUR 36 million).

Provisions of EUR 24 million have been assumed as a result of the acquisition of Volcano.

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

20 Post-employment benefits

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

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

The benefits provided by these plans are typically covering a part of the healthcare insurance costs after retirement.

The largest defined benefit pension plans are in:

- The Netherlands (settled per May 1, 2015),
- The United Kingdom (UK) (settled per December 31, 2015) and
- The United States (US)

At the start of 2015 these plans accounted for more than 90% of the total defined benefit obligation and plan assets. Philips is one of the sponsors of Philips Pensionskasse VVaG in Germany, which is a multi-employer plan and is accounted for as a DC plan.

The Netherlands

For the pension plan in the Netherlands (the Flexplan) the Company has no other financial obligation to the Pension Fund than to pay an agreed fixed contribution for the annual accrual of active members. The pensionable age is 67 year. The Flexplan is executed by a Company Pension Fund. A mandatory cap imposed by Dutch legislation of EUR 100 thousand applies on the pension salary for future pension accrual. Employees earning more than this cap receive a wage allowance and can join a voluntary net pension saving scheme, at their own expense, for the salary part above the cap. The net pension saving scheme and some related risk insurances are executed by an external provider other than the Company Pension Fund.

Up to May 2015, the Company accounted for the Flexplan as a defined benefit (DB) pension plan as it still ran actuarial and investments risks by means of being entitled to a discount arrangement. This discount arrangement would result in potential future variable pension contributions to be paid by the Company. Beginning of May 2015, the Company surrendered its right to future discounts and as a result the plan qualified as a defined contribution plan. Reason for surrendering the discount arrangement was a significant reduction in 2015 of the outlook for a potential discount due to increased pension obligations and a regulatory deficit at the fund (because of a lower regulatory discount rate and higher solvency buffers due to change in investment strategy), combined with the need to avoid unwanted complexity of an allocation of the Dutch fund as a DB plan as part of the separation. Consequently, the plan was classified as a DC plan. This triggered the accounting settlement of the plan which at the time had a EUR 20 million surplus. As the surplus was not recognized in the balance sheet due to the asset ceiling test, and because no further payments were made directly related to the settlement, as per the Company's accounting policy the Company did not recognize a settlement result in the income statement but in remeasurements for pensions in the Consolidated statements of Comprehensive Income.

At the end of 2013 the Company agreed to transfer a one-off EUR 600 million to the Company Pension Fund of which EUR 433 million was paid in 2014; the remainder of EUR 167 million (excluding interest) was paid in the first quarter of 2015.

United Kingdom

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

In November 2015 the Trustee of the UK Fund entered into two further bulk insurance contracts - buy-in contracts - which provide for payment in respect of all remaining parts of the Fund's pensioners not covered under earlier buy-in contracts. Subsequently, the Company requested the Trustee for a wind-up of the UK Fund in December 2015 resulting in a complete buy-out of the plan. As part of the buy-out, an additional payment of EUR 305 million was made by the Company to the insurance company taking over the plan liabilities. The buy-out triggers a complete settlement of the UK defined benefit plan. The existing surplus before the extra payment was EUR 375 million. As this surplus was not recognized in the balance sheet, due to the asset ceiling test, per the Company's accounting policy the Company did not recognize this as a settlement result in the income statement but in remeasurements for pensions in the Consolidated statements of Comprehensive Income. However, the above mentioned payment of EUR 305 million for EUR 274 million is booked as a related settlement loss in the income statement and for EUR 31 million as a past service cost in the income statement being the increase in the DBO for a plan change required by the Insurers. Before and during the wind up of the Fund several other de-risking actions were held resulting in a settlement loss of EUR 27 million and a past service cost gain of EUR 14 million.

United States

The US defined benefit plan covers certain hourly workers and salaried workers hired before January 1, 2005. Indexation of benefits is not mandatory. The Company pays contributions for the annual service costs as well as additional contributions to cover a deficit. The assets of the US plan are in a Trust governed by Trustees.

The accrual for salaried workers in the US plan as decided in 2013 would end per December 31, 2015 after which the remaining members become eligible for the existing US DC plan. In 2015 the end date was accelerated to July 1, 2015 triggering a EUR 1 million past service cost gain.

In 2015 in preparation of the split of the Company into Lighting Solutions and HealthTech the benefits of a group of former US employees not having worked for

any of the current businesses were transferred to a separate plan covered by ERISA section 4044, which ensures a correct split of the plan assets among others based on the maturity of the plan. In October 2015 all the benefits of this plan were transferred to a consortium of three insurance companies. The Company made a EUR 141 million contribution to the plan to enable the transfer. The transfer to the insurance companies triggered a settlement of the plan. The difference between the DBO and settlement price at transfer date amounted to EUR 33 million and is recognized as a settlement loss in the income statement. The effects of ERISA section 4044 for the surviving defined benefit plan will be adjusted by a contribution to the surviving plan early in 2016 which is included in the 2016 cash projection further on in this note. A de-risking action held in the remaining pension plan providing lump sums resulted in a EUR 6 million settlement gain.

Risks related to defined-benefit plans

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

The Company has an active de-risking strategy in which it constantly looks for opportunities to reduce the risks associated with its defined benefit plans. Liability driven investment strategies, lump sum cash-out options, buy-ins, buy-outs and the above mentioned 2015 change to DC for the Dutch plan and the other settlements are examples of that strategy. The larger plans are either governed by independent Boards or by Trustees who have a legal obligation to evenly balance the interests of all stakeholders and operate under the local regulatory framework.

Balance sheet positions

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

- The surplus in our plan in Brazil is not recognized as a net defined benefit asset because in Brazil the regulatory framework prohibits refunds to the employer.
- The deficit of the US defined benefit plan presented under other liabilities and the provisions of the unfunded plans therefore count for the largest part of the net balance sheet position.

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

Summary of pre-tax costs for post-employment benefits

The below table contains the total of current- and past service costs, administration costs and settlement results as included in Income from operations and the interest cost as included in Financial expenses.

Defined benefit plans: Pensions

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

Philips Group
Pre-tax costs for post-employment benefits
in millions of EUR
2013 - 2015

	2013	2014	2015
Defined-benefit plans	297	245	561
included in operating cost	220	182	487
included in financial expense	71	59	72
included in discontinued operations	6	4	2
Defined-contribution plans including multi-employer plans	142	148	299
included in operating cost	134	144	293
included in discontinued operations	8	4	6

Philips Group
Defined-benefit obligations in millions of EUR
2014 - 2015

	2014			2015		
	Netherlands	other	total	Netherlands	other	total
Balance as of January 1	14,294	7,911	22,205	17,616	9,465	27,081
Service cost	174	65	239	77	60	137
Interest cost	478	361	839	120	345	465
Employee contributions	5	4	9	5	4	9
Actuarial (gains) / losses						
- demographic assumptions	(80)	197	117	-	-	-
- financial assumptions	3,487	782	4,269	1,796	(271)	1,525
- experience adjustment	23	25	48	(176)	27	(149)
(Negative) past service cost	(68)	(1)	(69)	-	14	14
Acquisitions	-	12	12	-	-	-
Divestments	-	-	-	-	(12)	(12)
Settlements	-	(9)	(9)	(19,197)	(5,193)	(24,390)
Benefits paid	(699)	(506)	(1,205)	(234)	(553)	(787)
Exchange rate differences	-	624	624	-	635	635
Miscellaneous	2	-	2	-	(1)	(1)
Balance as of December 31	17,616	9,465	27,081	7	4,520	4,527
Present value of funded obligations at December 31	17,609	8,532	26,141	-	3,635	3,635
Present value of unfunded obligations at December 31	7	933	940	7	885	892

Philips Group
Plan assets in millions of EUR
2014 - 2015

	2014			2015		
	Netherlands	other	total	Netherlands	other	total
Balance as of January 1	14,843	6,728	21,571	17,847	8,016	25,863
Interest income on plan assets	508	330	838	123	311	434
Admin expenses paid	(9)	(6)	(15)	(3)	(6)	(9)
Return on plan assets excluding interest income	2,534	674	3,208	1,233	(315)	918
Employee contributions	5	4	9	5	4	9
Employer contributions	665	199	864	245	302	547
Divestments	-	-	-	-	(7)	(7)
Settlements	-	(8)	(8)	(19,217)	(5,623)	(24,840)
Benefits paid	(699)	(445)	(1,144)	(233)	(492)	(725)
Exchange rate differences	-	540	540	-	520	520
Balance as of December 31	17,847	8,016	25,863	-	2,710	2,710
Funded status	231	(1,449)	(1,218)	(7)	(1,810)	(1,817)
Unrecognized net assets	(238)	(554)	(792)	-	(90)	(90)
Net balance sheet position	(7)	(2,003)	(2,010)	(7)	(1,900)	(1,907)

The classification of the net balance is as follows:

Philips Group
Net balance of defined-benefit pension plans in millions of EUR
 2014 - 2015

	2014			2015		
	Netherlands	other	total	Netherlands	other	total
Prepaid pension costs under other non-current assets	-	2	2	-	3	3
Accrued pension costs under other liabilities	-	(1,072)	(1,072)	-	(1,018)	(1,018)
Provision for pensions under provisions	(7)	(926)	(933)	(7)	(885)	(892)
Provision in assets held for sale	-	(7)	(7)	-	-	-
Net balance of defined-benefit plans	(7)	(2,003)	(2,010)	(7)	(1,900)	(1,907)

Philips Group
Changes in the effect of the asset ceiling in millions of EUR
 2014 - 2015

	2014			2015		
	Netherlands	other	total	Netherlands	other	total
Balance as of January 1	555	428	983	238	554	792
Interest on unrecognized assets	19	28	47	2	27	29
Remeasurements	(336)	73	(263)	(240)	(493)	(733)
Exchange rate differences	-	25	25	-	2	2
Balance as of December 31	238	554	792	-	90	90

Plan assets allocation

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

Philips Group
Plan assets allocation in millions of EUR
 2014 - 2015

	2014		2015	
	Netherlands	other	Netherlands	other
Matching portfolio:				
- Debt securities	10,663	5,051		1,523
- Other	-	1,299		
Return portfolio:				
- Equity securities	5,088	388		740
- Real estate	1,784	13		9
- Other	312	1,265		438
Total assets	17,847	8,016		2,710

Asset values related to buy-in contracts are now included in the Matching portfolio under Other.

The assets in 2015 contain 51% (2014: 17%) unquoted assets, the increase compared to 2014 fully related to the exclusion of the UK and NL plan assets. Plan assets in 2015 do not include property occupied by or financial instruments issued by the Company.

Assumptions

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

- Netherlands: Prognosis table 2014 including experience rating TW2014.
- UK: SAPS 2002- Core CMI 2011 projection
- US: RP2014 HA/EE Fully Generational scaled with MP2014

In the US the issued MP-2015 mortality improvement scale, not adopted by the Company yet due to the limited extra period (2 years) of observation, would lower the DBO by about EUR 40 million.

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

Philips Group
Assumptions used for defined-benefit obligations in %
 2014 - 2015

	2014		2015	
	Netherlands	other	Netherlands	other
Discount rate	2.1%	3.7%	-	4.0%
Rate of compensation increase	2.0%	3.0%	-	2.7%

The Discount rate for the Netherlands at the moment of the change to DC was 1.55%. Due to the nature of the pension plan in the Netherlands until May 1, 2015 an assumption was required for the future pension accrual rate. If the fixed premium did not cover the cost of the target accrual of 1.85% per annum a lower percentage must be applied for which the cost will be covered by the fixed premium. The Fund in the Netherlands has set aside part of the EUR 600 million received for active members accrual or indexation. The accrual rate for the next 5 years starting 2015 was expected to be 1.85% but per 31 December 2014 the average future accrual rate used to calculate the defined-benefit obligation and service cost was fixed at 1.74% as after the five year period a lower percentage would apply assuming the current fixed premium level. Per May 1, 2015 this no longer applies due to the change to DC.

The average duration of the defined-benefit obligation of the pension plans is 10 years (2014: 12 years).

Defined-benefit plans: retiree medical plans

Movements in the net liability for retiree medical plans:

Philips Group
Liability for retiree medical plans in millions of EUR
 2014 - 2015

	2014	2015
Balance as of January 1	213	241
Service cost	2	-
Interest cost	11	12
Actuarial (gains) or losses arising from:		
- Demographic assumptions	3	-
- Financial assumptions	9	(2)
- Experience adjustment	(3)	(17)
Past service cost	-	-
Benefits paid	(15)	(13)
Exchange rate differences	21	9
Balance as of December 31	241	230
Present value of funded obligations as of December 31	-	-
Present value of unfunded obligations as of December 31	241	230
Funded status	(241)	(230)
Net balances	(241)	(230)
Classification of the net balance is as follows:		
Provision for other postretirement benefits	(241)	(230)

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

Philips Group
Weighted average assumptions for retiree medical plans in %
 2014 - 2015

	2014	2015
Discount rate	5.0%	5.1%
Compensation increase (where applicable)	0.0%	0.0%

Assumed healthcare cost trend rates at December 31:

Philips Group
Assumed healthcare cost trend rates in %
 2014 - 2015

	2014	2015
Healthcare cost trend rate assumed for next year	7.0%	7.5%
Rate that the cost trend rate will gradually reach	5.3%	5.3%
Year of reaching the rate at which it is assumed to remain	2024	2025

The average duration of the defined-benefit obligation of the retiree medical plans is 8 years (2014: 8 years).

Investment policy in our largest pension plans

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

The plan assets of the Philips pension plan in the US are invested in a well diversified portfolio. The interest rate sensitivity of the fixed income portfolio is closely

aligned to that of the plan's pension liabilities. Any contributions from the sponsoring company are used to further increase the fixed income part of the assets. As part of the investment strategy, any additional investment returns of the return portfolio are used to further decrease the interest rate mismatch between the plan assets and the pension liabilities.

Cash flows and costs in 2016

The Company expects considerable cash outflows in relation to post-employment benefits which are estimated to amount to EUR 660 million in 2016, consisting of:

- EUR 209 million employer contributions to defined benefit pension plans
- EUR 372 million employer contributions to defined contribution pension plans
- EUR 61 million expected cash outflows in relation to unfunded pension plans and
- EUR 18 million in relation to unfunded retiree medical plans.

The employer contributions to defined benefit pension plans are expected to amount to EUR 174 million for the US and EUR 35 million for other countries. For the funding of the deficit in the US plan the Group adheres to the minimum funding requirements of the US Pension Protection Act.

The service and administration cost for 2016 is expected to amount to EUR 43 million, consisting of EUR 42 million for defined-benefit pension plans and EUR 1 million for defined-benefit retiree medical plans. The interest expense for 2016 is expected to amount to EUR 66 million, consisting of EUR 55 million for defined-benefit pension plans and EUR 11 million for defined-benefit retiree medical plans. The cost for defined-contribution pension plans in 2016 is expected to amount to EUR 204 million in the Netherlands and EUR 168 million in other countries.

Sensitivity analysis

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

Philips Group
Key assumptions in millions of EUR
 2015

	Defined benefit obligation		
	Pension Netherlands	Pension other	Retiree medical
Increase			
Discount rate (1% movement)		(468)	(18)
Wage change (1% movement)		23	
Inflation (1% movement)		115	
Longevity (see explanation)		80	7
Medical benefit level (1% price increase)			13
Decrease			
Discount rate (1% movement)		550	20
Wage change (1% movement)		(20)	
Inflation (1% movement)		(104)	

Philips Group
Key assumptions in millions of EUR
 2014

	Defined benefit obligation		
	Pension Netherlands	Pension other	Retiree medical
Increase			
Discount rate (1% movement)	(2,309)	(1,056)	(18)
Wage change (1% movement)	107	31	-
Inflation (1% movement)	1,341	555	-
Longevity (see explanation)	492	267	7
Medical benefit level (1% price increase)	-	-	14
Decrease			
Discount rate (1% movement)	2,998	1,250	19
Wage change (1% movement)	(132)	(28)	-
Inflation (1% movement)	(1,185)	(486)	-

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

Changes in assumed healthcare cost trend rates can have a significant effect on the amounts reported for the retiree medical plans. A 1%-point increase in medical benefit level is therefore included in the above table as a likely scenario.

21 Accrued liabilities

Accrued liabilities are summarized as follows:

Philips Group
Accrued liabilities in millions of EUR
 2014 - 2015

	2014	2015
Personnel-related costs:		
- Salaries and wages	502	567
- Accrued holiday entitlements	179	180
- Other personnel-related costs	119	196
Fixed-asset-related costs:		
- Gas, water, electricity, rent and other	47	53
Communication and IT costs	51	46
Distribution costs	112	107
Sales-related costs:		
- Commission payable	17	20
- Advertising and marketing-related costs	161	168
- Other sales-related costs	68	54
Material-related costs	132	147
Interest-related accruals	56	69
Deferred income	869	932
Other accrued liabilities	379	324
Accrued liabilities	2,692	2,863

22 Other liabilities

Other non-current liabilities

Other non-current liabilities are summarized as follows:

Philips Group
Other non-current liabilities in millions of EUR
 2014 - 2015

	2014	2015
Accrued pension costs	1,061	970
Deferred income	176	257
Other tax liability	499	454
Other liabilities	102	101
Other non-current liabilities	1,838	1,782

The decrease in the accrued pension costs is mainly attributable to the US defined benefit plan. See also note 20, Post-employment benefits.

For further details on tax related liabilities refer to note 8, Income taxes.

Other current liabilities

Other current liabilities are summarized as follows:

Philips Group
Other current liabilities in millions of EUR
 2014 - 2015

	2014	2015
Accrued customer rebates that cannot be offset with accounts receivables for those customers	535	544
Advances received from customers on orders not covered by work in process	312	375
Other taxes including social security premiums	176	177
Other liabilities	368	177
Other current liabilities	1,391	1,273

The decrease of the balance of other liabilities as per December 31, 2015 mainly relates to the pay out of liabilities in 2015 which were accrued as per December 31, 2014 for certain parts of the Cathode Ray Tube antitrust litigation for which the Company was able to reach settlement. The liabilities per December 31, 2014 include transfers of provisions previously recognized. For more details reference is made to note 19, Provisions and note 26, Contingent assets and liabilities - legal proceedings.

23 Cash used for derivatives and current financial assets

In 2015, a total of EUR 193 million cash was paid with respect to foreign exchange derivative contracts related to activities for liquidity management and funding.

(2014: EUR 13 million outflow; 2013: EUR 93 million outflow).

In 2015, a total of EUR 121 million was received with respect to current financial assets mainly related to loans TPV Technology Limited (2014: EUR 6 million inflow; 2013: EUR 8 million outflow).

24 Purchase and proceeds from non-current financial assets

In 2015, the net cash inflow of EUR 32 million was mainly due to the sale of stakes in Silicon & Software Systems and other equity interest.

In 2014, the net cash inflow of EUR 26 million was mainly due to the sale of stakes in Neusoft, Chimei Innolux, and Sapiens, offset by loans provided to TPV Technology Limited.

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

25 Contractual obligations

Philips Group
Contractual cash obligations¹⁾ in millions of EUR
 2015

	total	payments due by period			
		less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt ²⁾	4,034	84	1,152	1	2,797
Finance lease obligations	242	72	92	36	42
Short-term debt	1,515	1,515	-	-	-
Operating lease obligations	952	243	280	162	267
Derivative liabilities	995	253	383	156	203
Interest on debt ³⁾	2,767	221	438	334	1,774
Purchase obligations ⁴⁾	175	68	69	30	8
Trade and other payables	2,673	2,673	-	-	-
Contractual cash obligations	13,353	5,129	2,414	719	5,091

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 32% of the debt bears interest at a floating rate. Majority of the interest payments on variable interest rate loans in the table above reflect market forward interest rates at the period end and these amounts may change as market interest rate changes

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

The Company entered into contracts with several venture capitalists where it committed itself to make, under certain conditions, capital contributions to investment funds for an aggregated remaining amount of EUR 22 million (2014: EUR 35 million) until June 30, 2021. As at December 31, 2015 capital contributions already made to these investment funds are recorded as available-for-sale financial assets within Other non-current financial assets.

The operating lease obligations are mainly related to the rental of buildings. A number of these leases originate from sale-and-leaseback arrangements. Operating lease payments under sale-and-leaseback arrangements for 2015 totaled EUR 36 million (2014: EUR 42 million).

The remaining minimum payments under sale-and-leaseback arrangements included in operating lease obligations above are as follows:

Philips Group
Operating lease - minimum payments under sale-and-leaseback arrangements in millions of EUR
 2015

2016	36
2017	35
2018	34
2019	32
2020	28
Thereafter	115

Finance lease liabilities

Philips Group
Finance lease liabilities in millions of EUR
 2014 - 2015

	2014			2015		
	future minimum lease payments	interest	present value of minimum lease payments	future minimum lease payments	interest	present value of minimum lease payments
Less than one year	61	7	54	72	6	66
Between one and five years	117	19	98	128	17	111
More than five years	54	11	43	42	8	34
Finance lease	232	37	195	242	31	211

26 Contingent assets and liabilities

Contingent assets

Zoll

In June 2010, Philips filed a patent infringement lawsuit against Zoll Medical Corporation claiming that its defibrillator related patents were infringed by Zoll's Automatic External Defibrillator (AED) products. Zoll filed a countersuit claiming patent infringement by Philips' Advanced Life Support (ALS) products and a method for testing defibrillator electrodes.

In December 2013, the liability phase of the Zoll lawsuit was tried before a jury in the United States District Court for the District Massachusetts. Philips and Zoll were both held to infringe each other's patents. Philips expects that it will result in a net difference in favor of Philips. The Zoll liability judgment is now pending before the United States Court of Appeals for the Federal Circuit (CAFC). Resolution of the amount ultimately owed to Philips in the Zoll lawsuit is contingent upon both the CAFC affirming the December 2013 jury decision on liability (expected in the first half of 2016) and the subsequent damages trial (expected to take place during the second half of 2016).

Contingent liabilities

Guarantees

Philips' policy is to provide guarantees and other letters of support only in writing. Philips does not stand by other forms of support. At the end of 2015, the total fair value of guarantees recognized on the balance sheet amounted to EUR nil million (December 31, 2014: EUR nil million). Remaining off-balance-sheet business and credit-related guarantees provided on behalf of third

parties and associates increased by EUR 16 million during 2015 to EUR 37 million (December 31, 2014: EUR 21 million).

Environmental remediation

The Company and its subsidiaries are subject to environmental laws and regulations. Under these laws, the Company and/or its subsidiaries may be required to remediate the effects of certain chemicals on the environment.

Legal proceedings

The Company and certain of its group companies and former group companies are involved as a party in legal proceedings, regulatory and other governmental proceedings, including discussions on potential remedial actions, relating to such matters as competition issues, commercial transactions, product liability, participations and environmental pollution.

While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal proceedings, regulatory and governmental proceedings, the Company is of the opinion that the cases described below may have, or have had in the recent past, a significant impact on the Company's consolidated financial position, results of operations and cash flows.

Cathode Ray Tubes (CRT)

On November 21, 2007, the Company announced that competition law authorities in several jurisdictions had commenced investigations into possible anticompetitive activities in the Cathode Ray Tubes, or CRT industry. On December 5, 2012, the European Commission issued a decision imposing fines on (former) CRT manufacturers including the Company. The European Commission imposed a fine of EUR 313 million on the Company and a fine of EUR 392 million jointly and severally on the Company and LG Electronics, Inc. In total a payable of EUR 509 million was recognized in 2012 and the fine was paid in the first quarter of 2013. The Company appealed the decision of the European Commission with the General Court which appeal was denied on September 9, 2015. On November 23, 2015 the Company lodged an appeal against the decision of the General Court with the European Court of Justice.

United States

Subsequent to the public announcement of these investigations in 2007, certain Philips Group companies were named as defendants in class action antitrust complaints by direct and indirect purchasers of CRTs filed in various federal district courts in the United States. These actions alleged anticompetitive conduct by manufacturers of CRTs and sought treble damages on a joint and several liability basis. In addition, sixteen individual plaintiffs, principally large retailers of CRT products who opted out of the direct purchaser class, filed separate complaints against the Company and other defendants based on the same substantive

allegations. All these actions have been consolidated for pre-trial proceedings in the United States District Court for the Northern District of California.

The Company reached settlements with both the direct purchaser plaintiffs and indirect purchaser plaintiffs fully resolving all claims of the direct and indirect purchaser class. The direct purchaser settlement was approved by the court in 2012, while the indirect purchaser settlement is still subject to court approval with a hearing on the final approval scheduled for March 2016. In the past years the Company also reached settlements with a number of the individual plaintiffs resolving all claims by those retailers on a global basis. The settlements reached to date represent the vast majority of CRT sales attributed to the Company by the individual plaintiffs. In effect, all cases originally scheduled for trial in the Northern District of California have now been resolved, leaving unresolved certain of the cases that were consolidated in the California case for pre-trial purposes that have to be transferred back to their original venue for further proceedings. Trial dates have not yet been set for those cases.

In addition, the state attorneys general of California, Florida, Illinois, Oregon and Washington filed actions against the Company and other defendants seeking to recover damages on behalf of the states and, acting as *parens patriae*, their consumers. In 2012 the Florida complaint was withdrawn. In 2013 a settlement agreement was reached with the state attorney general of California that has been approved subject to review by the California Court of Appeal. The actions brought by the state attorneys general of Illinois, Oregon and Washington are pending in the respective state courts of the plaintiffs. The Oregon Attorney General action has tentatively been set for trial in January 2017. Trial dates for the Washington and Illinois actions have not been set and there is no timetable for resolution of these cases.

Canada

In 2007, certain Philips Group companies were also being named as defendants in proposed class proceedings in Ontario, Quebec and British Columbia, Canada, along with numerous other participants in the industry. After years of inactivity, in 2014, plaintiffs in the Ontario action initiated the class certification proceedings. Class certification hearings took place late January 2016 and a decision on class certification is expected in the first half of 2016.

Other civil claims related to CRT

In 2014, the Company was named as a defendant in a consumer class action lawsuit filed in Israel in which damages are claimed against several defendants based on alleged anticompetitive activities in the CRT industry. In addition, an electronics manufacturer filed a claim against the Company and several co-defendants with a court in the Netherlands, also seeking compensation for the alleged damage

sustained as a result from the alleged anticompetitive activities in the CRT industry. In 2015, the Company became involved in further civil CRT antitrust litigation with previous CRT customers in the United Kingdom, Germany, Brazil and Denmark. In all cases the same substantive allegations about anticompetitive activities in the CRT industry are made and damages are sought. The Company has received indications that more civil claims may be filed in due course.

Except for what has been provided or accrued for as disclosed in note 19, Provisions and note 22, Other liabilities, the Company has concluded that due to the considerable uncertainty associated with certain of these matters, on the basis of current knowledge, potential losses cannot be reliably estimated with respect to these matters.

Optical Disc Drive (ODD)

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

In July 2012, the European Commission issued a Statement of Objections addressed to (former) ODD suppliers including the Company and PLDS. The European Commission granted the Company and PLDS immunity from fines, conditional upon the Company's continued cooperation. The Company responded to the Statement of Objections both in writing and at an oral hearing. On October 21, 2015 the European Commission issued its fining decisions in which it granted immunity to the Company, Lite-On IT Corporation and PLDS.

The antitrust authority in one remaining jurisdiction is still investigating the matter.

Subsequent to the public announcement of these investigations in 2009, the Company, PLDS and Philips & Lite-On Digital Solutions USA, Inc. (PLDS USA), among other industry participants, were named as defendants in numerous class action antitrust complaints filed in various federal district courts in the United States. These actions allege anticompetitive conduct by manufacturers of ODDs and seek treble damages on behalf of direct and indirect purchasers of ODDs and products incorporating ODDs. These actions have been consolidated for pre-trial proceedings in the United States District Court for the Northern District of California. Initially the plaintiffs' applications for certification of both the direct and indirect purchaser

classes were denied. In May 2015, the indirect purchaser plaintiffs filed a revised motion for class certification seeking to certify a class of end consumers as plaintiffs, which was granted on February 8, 2016.

In September 2015, prior to the resubmission of a class certification motion by the direct purchaser plaintiffs, PLDS entered into a settlement agreement with the direct purchaser plaintiffs under which the Company was released from the direct purchaser claims.

In addition, various individual entities have filed separate actions against the Company, PLDS, PLDS USA and other defendants. The allegations contained in these individual complaints are substantially identical to the allegations in the direct purchaser class complaints. All of these matters have been consolidated into the action in the Northern District of California for pre-trial purposes and discovery is being coordinated.

Also, in June 2013, the State of Florida filed a separate complaint in the Northern District of California against the Company, PLDS, PLDS USA and other defendants containing largely the same allegations as the class and individual complaints. Florida seeks to recover damages sustained in its capacity as a buyer of ODDs and, in its *parens patriae* capacity, on behalf of its citizens. The defendants' motion to dismiss has been denied and Philips filed an answer to the complaint. This case has been joined with the ODD class action cases in the Northern District of California for pre-trial purposes.

The Company and certain Philips Group companies have also been named as defendants, in proposed class proceedings in Ontario, Quebec, British Columbia, Manitoba and Saskatchewan, Canada along with numerous other participants in the industry. These complaints assert claims against various ODD manufacturers under federal competition laws as well as tort laws and may involve joint and several liability among the named defendants. Philips intends to vigorously defend these lawsuits. Plaintiffs in the British Columbia case have proceeded with their application to certify that proceeding as a class action. The hearing was held in January 2015. The Court's decision on class certification is still pending.

Due to the considerable uncertainty associated with these matters, on the basis of current knowledge, the Company has concluded that potential losses cannot be reliably estimated with respect to these matters.

Consumer Electronics products and small Domestic Appliances

Several companies, among which the Company, are involved in an investigation by the European Commission into alleged restrictions of online sales of consumer electronic products and small domestic appliances. This investigation commenced in December 2013 when Philips was one of the companies

that was inspected by officials of the European Commission. Philips is fully cooperating with the European Commission.

Due to the considerable uncertainty associated with this matter, on the basis of current knowledge, the Company has concluded that potential losses cannot be reliably estimated with respect to these matters.

Masimo

On October 1, 2014 a jury awarded USD 467 million (EUR 366M) to Masimo Corporation (Masimo) in the patent infringement lawsuit by Masimo in the United States District Court for the District of Delaware against the Company. The decision by the jury is part of extensive litigation, which started in 2009, between Masimo and the Company involving several claims and counterclaims related to a large number of patents in the field of pulse oximetry. The lawsuit filed by Masimo alleges that certain Philips products infringe certain Masimo patents. In response to these claims, the Company filed its answer and counterclaims alleging infringement of a number of Philips' patents and violation of US antitrust laws and patent misuse by Masimo. The Court has decided to handle the litigation in several phases, the first phase of which was tried in September 2014. The October 2014 decision by the jury is associated with this first phase of the litigation. An additional ongoing (i.e. second) phase of the litigation addresses the alleged infringement of certain Masimo patents which were not included in the first phase of the litigation.

In February 2015 the United States District Court for the District of Delaware held a bench trial regarding the enforceability of one of Masimo's patents and a hearing addressing several post-trial motions following the October 2014 jury decision. In May 2015, the Court decided that the Masimo patent was not held unenforceable, denied the Company's motions to reverse the October 2014 jury decision regarding the validity of the Masimo patents-in-suit and/or the damages awarded by the jury to Masimo and denied the Company's request for a new trial. The Court also denied Masimo's motion to dismiss the Company's complaint directed to antitrust violations and patent misuse by Masimo. The antitrust and patent misuse (i.e. third) phase of the litigation has now proceeded to the merits phase. The Company continues to pursue all avenues of appeal regarding the October 2014 decision before the Appellate courts in the US. In September 2015, the Court scheduled both the second and third phases of the litigation for trial during the first quarter of 2017.

Due to the considerable uncertainty associated with these next phases of the litigation, including the impact of the appeals thereon, the Company has concluded that, on the basis of current knowledge, potential losses cannot be reliably estimated with respect to the remaining phases of the litigation.

Miscellaneous

As part of the divestment of the Television and Audio, Video, Multimedia & Accessories businesses in 2012 and 2014, the Company transferred economic ownership and control in some legal entities or divisions thereof, while retaining (partial) legal ownership. Considering the current challenging business environment, the Company might face employee and operational liabilities in case of certain adverse events. Given the uncertain nature of the relevant events and liabilities, it is not practicable to provide information on the estimate of the financial effect, if any, or timing. The outcome of the uncertain events could have a material impact on the Company's consolidated financial position, results of operations and cash flows.

27 Related-party transactions

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

Philips Group
Related-party transactions in millions of EUR
 2013 - 2015

	2013	2014	2015
Sales of goods and services	305	215	222
Purchases of goods and services	143	85	87
Receivables from related parties	39	14	16
Payables to related parties	4	4	4

Non-recourse financing of third-party receivables provided by an associate amounted to EUR 135 million in 2015 (2014: EUR 103 million; 2013: EUR 84 million).

In light of the composition of the Executive Committee, the Company considers the members of the Executive Committee and the Supervisory Board to be the key management personnel as defined in IAS 24 'Related parties'.

For remuneration details of the Executive Committee, the Board of Management and the Supervisory Board see note 29, Information on remuneration.

For employee benefit plans see note 20, Post-employment benefits.

28 Share-based compensation

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

The Company has the following plans:

- performance shares: rights to receive common shares in the future based on performance and service conditions;
- restricted shares: rights to receive common shares in the future based on a service condition;
- Options on its common shares, including the 2012 and 2013 Accelerate! grant.

Since 2013 the Board of Management and other members of the Executive Committee, executives and certain selected employees are granted performance shares. Restricted shares are granted only to new employees or certain selected employees. Prior to 2013, restricted shares and options were granted to members of the Board of Management and other members of the Executive Committee, executives and certain selected employees.

Furthermore, as part of the Accelerate! program, the Company has granted options (Accelerate! options) to a group of approximately 500 key employees below the level of Board of Management in January 2012 and to the Board of Management in January 2013.

Under the terms of employee stock purchase plans established by the Company in various countries, employees are eligible to purchase a limited number of Philips shares at discounted prices through payroll withholdings.

Share-based compensation costs were EUR 99 million (2014: EUR 85 million, 2013: EUR 104 million). This includes the employee stock purchase plan of 4 million, which is not a share-based compensation that affects equity. The share-based compensation costs excludes the cost for discontinued operations of EUR 6 million. In the consolidated statements of changes in equity 101 million is recognized in 2015 related to the share-based compensation plans. The amount recognized as an expense is adjusted for forfeiture. USD-denominated performance shares, restricted shares and options are granted to employees in the United States only.

Performance shares

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

The amount recognized as an expense is adjusted for actual performance of adjusted Earnings Per Share growth since this is a non-market performance condition. It is not adjusted for non-vesting or extra vesting of performance shares due to a relative Total

Shareholders' Return performance that differs from the performance anticipated at the grant date, since this is a market-based performance condition.

The fair value of the performance shares is measured based on Monte-Carlo simulation, which takes into account dividend payments between the grant date and the vesting date by including reinvested dividends, the market conditions expected to impact relative Total Shareholders' Return performance in relation to selected peers, and the following weighted-average assumptions:

Philips Group
Assumptions used in Monte-Carlo simulation for valuation
in %
2015

	2015
EUR-denominated	
Risk-free interest rate	(0.11)%
Expected dividend yield	4.0%
Expected share price volatility	25%
USD-denominated	
Risk-free interest rate	(0.10)%
Expected dividend yield	4.0%
Expected share price volatility	27%

The assumptions were used for these calculations only and do not necessarily represent an indication of Management's expectation of future developments for other purposes. The Company has based its volatility assumptions on historical experience measured over a ten-year period.

The approach in calculating relative Total Shareholders Return performance was determined to be based on local currency instead of translating to the euro. This clarification in the share-based compensation arrangement did not result in accounting implications for the grant of 2013 and 2014. For the grant of 2015 an incremental fair value of EUR 6 million was recognized in July and will be spread over the remaining vesting period. The incremental fair value was measured using the same assumptions used in the Monte-Carlo simulation for the valuation of the 2015 grant, except for the risk-free interest rate which was updated to (0.17)%.

A summary of the status of the Company's performance share plans as of December 31, 2015 and changes during the year are presented below:

Philips Group
Performance share plans
2015

	shares ¹⁾	weighted average grant-date fair value
EUR-denominated		
Outstanding at January 1, 2015	6,304,002	22.92
Granted	3,067,530	28.54
Forfeited	976,550	24.18
Outstanding at December 31, 2015	8,394,982	24.83
USD-denominated		
Outstanding at January 1, 2015	4,200,900	30.44
Granted	1,985,066	30.19
Forfeited	411,266	30.48
Outstanding at December 31, 2015	5,774,700	30.35

¹⁾ Excludes dividend declared on outstanding shares between grant date and vesting date that will be issued in shares (EUR-denominated: 566,851 shares and USD-denominated: 395,970 shares)

At December 31, 2015, a total of EUR 157 million of unrecognized compensation costs relate to non-vested performance shares. These costs are expected to be recognized over a weighted-average period of 1.8 years.

Restricted shares

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

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

A summary of the status of the Company's restricted shares as of December 31, 2015 and changes during the year are presented below:

Philips Group
Restricted shares
2015

	shares ¹⁾	weighted average grant-date fair value
EUR-denominated		
Outstanding at January 1, 2015	525,462	16.44
Granted	871,881	23.63
Vested/Issued	381,915	15.27
Forfeited	6,753	14.56
Outstanding at December 31, 2015	1,008,675	23.41
USD-denominated		
Outstanding at January 1, 2015	600,679	21.51
Granted	601,206	26.08
Vested/Issued	422,288	19.15
Forfeited	21,188	26.88
Outstanding at December 31, 2015	758,409	26.90

¹⁾ Restricted shares granted before 2013 excludes 20% additional (premium) shares that may be received if shares delivered under the plan are not sold for a three-year period. Restricted shares granted after 2013 excludes dividend declared on outstanding shares between grant date and vesting date that will be issued in shares.

At December 31, 2015, a total of EUR 24 million of unrecognized compensation costs relate to non-vested restricted shares. These costs are expected to be recognized over a weighted-average period of 1.6 years.

Option plans

The Company granted options that expire after 10 years. These options vest after 3 years, provided that the grantee is still employed with the Company.

The following tables summarize information about the Company's options as of December 31, 2015 and changes during the year:

Philips Group
Options on EUR-denominated listed share
2015

	options	weighted average exercise price
Outstanding at January 1, 2015	15,076,954	21.65
Exercised	2,868,531	18.57
Forfeited	466,739	26.68
Expired	94,370	19.45
Outstanding at December 31, 2015	11,647,314	22.23
Exercisable at December 31, 2015	11,630,889	22.23

The exercise prices range from EUR 12.63 to EUR 32.04. The weighted average remaining contractual term for options outstanding and options exercisable at

December 31, 2015, was 3.6 years. The aggregate intrinsic value of the options outstanding and options exercisable at December 31, 2015, was EUR 38 million.

The total intrinsic value of options exercised during 2015 was EUR 21 million (2014: EUR 11 million, 2013: EUR 15 million).

Philips Group
Options on USD-denominated listed share
2015

	options	weighted average exercise price
Outstanding at January 1, 2015	11,361,836	29.84
Exercised	1,013,652	20.90
Forfeited	569,858	33.46
Expired	101,519	25.38
Outstanding at December 31, 2015	9,676,807	30.62
Exercisable at December 31, 2015	9,670,357	30.62

The exercise prices range from USD 16.76 to USD 44.15. The weighted average remaining contractual term for options outstanding and options exercisable at December 31, 2015, was 3.7 years. The aggregate intrinsic value of the options outstanding and options exercisable at December 31, 2015, was USD 16 million.

The total intrinsic value of options exercised during 2015 was USD 8 million (2014: USD 9 million, 2013: USD 17 million).

At December 31, 2015 there were no unrecognized compensation costs related to outstanding options. Cash received from exercises under the Company's option plans amounted to EUR 72 million in 2015 (2014: EUR 77 million, 2013: EUR 84 million). The actual tax deductions realized as a result of option exercises totaled approximately EUR 3 million in 2015 (2014: EUR 3 million, 2013: EUR 5 million).

The outstanding options as of December 31, 2015 are categorized in exercise price ranges as follows:

Philips Group
Outstanding options
2015

exercise price	options	intrinsic value in millions	weighted average remaining contractual term
EUR-denominated			
10-15	3,077,645	30	5.5 yrs
15-20	86,137	1	5.8 yrs
20-25	5,281,935	7	4.2 yrs
25-30	1,306,224		0.3 yrs
30-35	1,895,373		1.3 yrs
Outstanding options	11,647,314	38	3.6 yrs
USD-denominated			
15-20	2,276,293	15	5.6 yrs
20-25	237,689	1	6.0 yrs
25-30	1,907,931		5.2 yrs
30-35	2,339,551		2.7 yrs
35-40	1,435,203		2.2 yrs
40-55	1,480,140		1.3 yrs
Outstanding options	9,676,807	16	3.7 yrs

The aggregate intrinsic value in the tables and text above represents the total pre-tax intrinsic value (the difference between the Company's closing share price on the last trading day of 2015 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders if the options had been exercised on December 31, 2015.

The following table summarizes information about the Company's Accelerate! options as of December 31, 2015 and changes during the year:

Philips Group
Accelerate! options
2015

	options	weighted average exercise price
EUR-denominated		
Outstanding at January 1, 2015	1,768,800	15.86
Exercised	464,300	15.24
Outstanding at December 31, 2015	1,304,500	16.08
Exercisable at December 31, 2015	1,304,500	16.08
USD-denominated		
Outstanding at January 1, 2015	458,800	20.02
Exercised	106,000	20.02
Forfeited	5,000	20.02
Outstanding at December 31, 2015	347,800	20.02
Exercisable at December 31, 2015	347,800	20.02

The exercise prices of the Accelerate! options are EUR 15.24 and EUR 22.43 for EUR-denominated options and is USD 20.02 for USD-denominated options. The weighted average remaining contractual term for EUR-denominated Accelerate! options outstanding and exercisable at December 31, 2015 was 6.2 years. The weighted average remaining contractual term for USD-denominated Accelerate! options outstanding and exercisable at December 31, 2015 was 6.1 years. The aggregate intrinsic value of the EUR-denominated Accelerate! options outstanding and exercisable at December 31, 2015, was EUR 10 million. The aggregate intrinsic value of the USD-denominated Accelerate! options outstanding and exercisable at December 31, 2015, was USD 2 million.

The total intrinsic value of Accelerate! options exercised during 2015 was EUR 5 million for EUR-denominated options (2014: EUR 10 million) and USD 1 million for USD-denominated options (2014: USD 5 million).

Cash received from exercises for EUR-denominated and USD-denominated Accelerate! options amounted to EUR 9 million in 2015 (2014: EUR 21 million). The actual tax deductions realized as a result of Accelerate! options exercises totaled approximately EUR 0.3 million in 2015 (2014: EUR 1 million).

29 Information on remuneration

Remuneration of the Executive Committee

In 2015, the total remuneration costs relating to the members of the Executive Committee (including the members of the Board of Management) amounted to EUR 15,098,023 (2014: EUR 16,878,909, 2013: EUR 24,773,537) consisting of the elements in the table below.

At December 31, 2015, the members of the Executive Committee (including the members of the Board of Management) held 843,461 (2014: 1,050,080; 2013: 1,479,498) stock options at a weighted average exercise price of EUR 18.67 (2014: EUR 18.53; 2013: EUR 18.69).

Remuneration of the Board of Management

In 2015, the total remuneration costs relating to the members of the Board of Management amounted to EUR 6,612,092 (2014: EUR 6,635,334; 2013: EUR 10,928,951).

At December 31, 2015, the members of the Board of Management held 479,881 stock options (2014: 586,500; 2013: 586,500) at a weighted average exercise price of EUR 19.52 (2014: EUR 19.60; 2013: EUR 19.60).

For further information on remuneration costs, see sub-section 10.2.4, Remuneration costs, of this Annual Report.

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

Philips Group
Remuneration costs of the Executive Committee in EUR
2013 - 2015

	2013	2014	2015
Salary/Base compensation	6,011,557	6,513,027	5,974,928
Annual incentive ¹⁾	4,422,732	1,526,658	2,705,560
Performance shares ²⁾	6,478,554	3,357,142	2,740,004
Stock options ²⁾	2,020,040	583,755	88,775
Restricted share rights ²⁾	1,115,504	409,809	91,339
Pension allowances	-	-	2,193,409
Pension scheme costs	2,277,705	2,458,759	209,462
Other compensation ³⁾	2,447,445	2,029,759	1,094,546

¹⁾ The annual incentives are related to the performance in the year reported which are paid out in the subsequent year

²⁾ Costs of performance shares, stock options and restricted share rights are based on accounting standards (IFRS) and do not reflect the value of stock options at the end of the lock up period and the value of performance shares and restricted share rights at the vesting/release date

³⁾ The stated amounts mainly concern (share of) allowances to members of the Executive Committee that can be considered as remuneration. In a situation where such a share of an allowance can be considered as (indirect) remuneration (for example, private use of the company car), then the share is both valued and accounted for here. The method employed by the fiscal authorities in the Netherlands is the starting point for the value stated. In 2013 a crisis levy tax has been imposed by the Dutch government, amounting in total to EUR 1,245,944. This amount is included in the amount stated under Other compensation

Philips Group
Remuneration costs of individual members of the Board of Management in EUR
2013 - 2015

	Base compensation/salary	annual incentive ¹⁾	performance shares ²⁾	stock options ²⁾	restricted share rights ²⁾	pension allowances	pension scheme costs	other compensation ³⁾	total costs
2015									
F.A. van Houten	1,168,750	768,920	1,273,940	17,713	28,279	529,387	25,241	78,035	3,890,265
A. Bhattacharya	23,551	11,937	8,968	-	183	7,315	886	998	53,838
R.H. Wirahadiraksa	664,583	239,250	(652,049)	12,045	(37,210)	290,772	24,002	29,477	570,870
P.A.J. Nota	672,500	383,112	605,749	12,045	21,964	270,529	26,302	104,918	2,097,119
	2,529,384	1,403,219	1,236,608	41,803	13,216	1,098,003	76,431	213,428	6,612,092
2014									
F.A. van Houten	1,137,500	349,600	860,564	101,344	76,951	-	485,655	86,554	3,098,168
R.H. Wirahadiraksa	712,500	156,600	446,337	68,914	52,965	-	298,995	35,909	1,772,220
P.A.J. Nota	643,750	258,180	406,358	68,914	57,200	-	267,037	63,507	1,764,946
	2,493,750	764,380	1,713,259	239,172	187,116	-	1,051,687	185,970	6,635,334
2013⁴⁾									
F.A. van Houten	1,100,000	1,081,520	1,594,675	461,215	190,441	-	468,407	75,906	4,972,164
R.H. Wirahadiraksa	656,250	497,745	1,040,393	307,699	128,856	-	263,451	35,732	2,930,126
P.A.J. Nota	618,750	561,713	1,025,153	352,608	146,626	-	253,605	68,206	3,026,661
	2,375,000	2,140,978	3,660,221	1,121,522	465,923	-	985,463	179,844	10,928,951

¹⁾ The annual incentives are related to the performance in the year reported which are paid out in the subsequent year. For more details on the annual incentives, see sub-section 10.2.6. Annual Incentive, of this Annual Report

²⁾ Costs of performance shares, stock options and restricted share rights (including the once-only Accelerate! Grant) are based on accounting standards (IFRS) and do not reflect the value of stock options at the end of the lock up period and the value of performance shares and restricted share rights at the vesting/release date

³⁾ The stated amounts mainly concern (share of) allowances to members of the Board of Management that can be considered as remuneration. In a situation where such a share of an allowance can be considered as (indirect) remuneration (for example, private use of the company car), then the share is both valued and accounted for here. The method employed by the fiscal authorities in the Netherlands is the starting point for the value stated

⁴⁾ A crisis levy of 16% has been imposed by the Dutch government amounting to in total EUR 681,596 for 2013. This crisis tax levy was payable by the employer and was charged over income of employees exceeding a EUR 150,000 threshold in 2013. These expenses do not form part of the remuneration costs mentioned

Philips Group
Number of performance shares (holdings) in number of shares
 2015

	January 1, 2015	awarded 2015	awarded dividend shares 2015	realized 2015	December 31, 2015	vesting date
F.A. van Houten	66,903	-	2,194	-	69,097	05.03.2016
	61,113	-	2,004	-	63,117	04.28.2017
	-	54,877	1,800	-	56,677	05.05.2018
A. Bhattacharya	12,670	-	416	-	13,086	05.03.2016
	11,071	-	363	-	11,434	04.28.2017
	-	11,676	383	-	12,059	05.05.2018
P.A.J. Nota	31,678	-	1,039	-	32,717	05.03.2016
	28,785	-	944	-	29,729	04.28.2017
	-	26,465	868	-	27,333	05.05.2018
Performance shares (holdings)	212,220	93,018	10,011	-	315,249	

Philips Group
Number of restricted share rights (holdings) in number of shares
 2015

	January 1, 2015	awarded 2015	released 2015	December 31, 2015	potential premium shares
F.A. van Houten	6,667	-	6,667	-	7,010
A. Bhattacharya ¹⁾	1,467	-	1,467	-	1,374
P.A.J. Nota	4,534	-	4,534	-	4,291
Restricted share rights (holdings)	12,668	-	12,668	-	12,675

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

Philips Group
Stock options (holdings) in number of shares
 2015

	January 1, 2015	granted	exercised	expired	December 31, 2015	grant price (in euros)	share (closing) price on exercise date	expiry date
F.A. van Houten	20,400 ¹⁾	-	-	-	20,400	22.88	-	10.18.2020
	75,000	-	-	-	75,000	20.90	-	04.18.2021
	75,000	-	-	-	75,000	14.82	-	04.23.2022
	55,000	-	-	-	55,000	22.43	-	01.29.2023
A. Bhattacharya	3,681 ¹⁾	-	-	-	3,681	26.28	-	04.18.2016
	16,500 ¹⁾	-	-	-	16,500	22.88	-	10.18.2020
	16,500 ¹⁾	-	-	-	16,500	20.90	-	04.18.2021
	20,000 ¹⁾	-	-	-	20,000	15.24	-	01.30.2022
	16,500 ¹⁾	-	-	-	16,500	14.82	-	04.23.2022
P.A.J. Nota	40,800 ¹⁾	-	-	-	40,800	22.88	-	10.18.2020
	51,000	-	-	-	51,000	20.90	-	04.18.2021
	51,000	-	-	-	51,000	14.82	-	04.23.2022
	38,500	-	-	-	38,500	22.43	-	01.29.2023
Stock options (holdings)	479,881	-	-	-	479,881			

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

See note 28, Share-based compensation for further information on performance shares, stock options and restricted share rights as well sub-section 10.2.7, Long-Term Incentive Plan, of this Annual Report.

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

Philips Group
Accumulated annual pension entitlements and pension related costs in EUR
2015

	age at December 31, 2015	accumulated annual pension as of December 31, 2015 ¹⁾	total pension related costs ²⁾
F.A. van Houten	55	291,722	554,628
A. Bhattacharya	54	22,254	8,201
P.A.J. Nota	51	42,434	296,831
R.H. Wirahadiraksa	55	109,141	314,774
Pension costs			1,174,434

¹⁾ Total of entitlements under Philips pension scheme, including - if applicable - transferred pension entitlements under pension scheme(s) of previous employer(s)

²⁾ Cost related to period of board membership and include paid pension allowances as well as pension premium paid by employer to Collective Defined Contribution plan

When pension rights are granted to members of the Board of Management, necessary payments (if insured) and all necessary provisions are made in accordance with the applicable accounting principles. In 2015, no (additional) pension benefits were granted to former members of the Board of Management.

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board amounted to EUR 1,083,667 (2014: EUR 816,668; 2013: EUR 747,000) former members received no remuneration.

At December 31, 2015 the members of the Supervisory Board held no stock options.

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

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

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

Philips Group
Shares held by Board members¹⁾ in number of shares
2015

	December 31, 2014	December 31, 2015
J. van der Veer	17,784	18,366
H. von Prondzynski	3,519	3,633
J.P. Tai	3,284	3,716
F.A. van Houten	109,570	121,762
A. Bhattacharya	26,807	29,415
P.A.J. Nota	59,491	66,133

¹⁾ Reference date for board membership is December 31, 2015

30 Fair value of financial assets and liabilities

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

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

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

Philips Group
Remuneration of the Supervisory Board in EUR
 2013 - 2015

	membership	committees	other compensation ¹⁾	total
2015²⁾				
J.A. van der Veer	135,000	31,667	7,000	173,667
C. Poon	90,000	17,500	15,000	122,500
C.J.A. van Lede	80,000	14,333	7,000	101,333
E. Kist	80,000	10,000	2,000	92,000
H. von Prondzynski	80,000	26,833	19,500	126,333
J.P. Tai	80,000	29,167	35,000	144,167
N. Dhawan	80,000	13,000	20,000	113,000
O. Gadiesh	80,000	13,000	17,000	110,000
D.E.I. Pyott (May-Dec.)	80,000	8,667	12,000	100,667
	785,000	164,167	134,500	1,083,667
2014²⁾				
J.A. van der Veer	110,000	20,500	2,000	132,500
J.J. Schiro (Jan.-Aug.)	65,000	12,334	2,000	79,334
C. Poon	65,000	14,000	17,000	96,000
C.J.A. van Lede	65,000	10,000	2,000	77,000
E. Kist	65,000	8,000	2,000	75,000
H. von Prondzynski	65,000	15,167	2,000	82,167
J.P. Tai	65,000	15,000	23,000	103,000
N. Dhawan	65,000	10,000	23,000	98,000
O. Gadiesh (May-Dec.)	65,000	6,667	2,000	73,667
	630,000	111,668	75,000	816,668
2013²⁾				
J. van der Veer	110,000	20,500	5,000	135,500
J.J. Schiro	65,000	18,500	8,000	91,500
C.J.A. van Lede	65,000	10,000	5,000	80,000
E. Kist	65,000	8,000	5,000	78,000
H. von Prondzynski	65,000	10,000	5,000	80,000
C. Poon	65,000	14,000	11,000	90,000
J.P. Tai	65,000	15,000	20,000	100,000
N. Dhawan	65,000	10,000	17,000	92,000
	565,000	106,000	76,000	747,000

¹⁾ The amounts mentioned under other compensation relate to the fee for intercontinental travel, inter-european travel (effective 2015) and the entitlement of EUR 2,000 under the Philips product arrangement

²⁾ As of 2013, part of the remuneration of members of the Supervisory Board living in the Netherlands is subject to VAT. The amounts mentioned in this table are excluding VAT

Philips Group
Fair value of financial assets and liabilities in millions of EUR
 2014 - 2015

	Balance as of December 31, 2014		Balance as of December 31, 2015	
	carrying amount	estimated fair value	carrying amount	estimated fair value
Financial assets				
Carried at fair value:				
Available-for-sale financial assets - non-current	143	143	199	199
Securities classified as assets held for sale	38	38	(1)	(1)
Fair value through profit and loss - non-current	24	24	33	33
Derivative financial instruments	207	207	161	161
Financial assets carried at fair value	412		392	
Carried at (amortized) cost:				
Cash and cash equivalents	1,873		1,766	
Loans and receivables:				
Loans - current	125	125	12	
Non-current loans and receivables	86	86	88	88
Other non-current loans and receivables	140		134	
Loans classified as assets held for sale	-		2	
Receivables - current	4,723		4,982	
Receivables - non-current	177	177	191	191
Held-to-maturity investments	2		2	
Available-for-sale financial assets	67		33	
Financial assets carried at (amortized) costs	7,193		7,210	
Financial liabilities				
Carried at fair value:				
Derivative financial instruments	(857)	(857)	(933)	(933)
Financial liabilities carried at fair value	(857)		(933)	
Carried at (amortized) cost:				
Accounts payable	(2,499)		(2,673)	
Interest accrual	(56)		(69)	
Debt (Corporate bond and finance lease)	(3,551)	(4,164)	(3,944)	(4,294)
Debt (Bank loans, overdrafts etc.)	(553)		(1,816)	
Financial liabilities carried at (amortized) costs	(6,659)		(8,502)	

Philips Group
Fair value hierarchy in millions of EUR
 2015

	level 1	level 2	level 3	total
Balance as of December 31, 2015				
Available-for-sale financial assets - non-current	76	68	55	199
Securities classified as assets held for sale	(1)	-	-	(1)
Financial assets designated at fair value through profit and loss - non-current	-	33	-	33
Derivative financial instruments - assets	-	161	-	161
Non-current loans and receivables	-	88	-	88
Receivables - non-current	-	191	-	191
Total financial assets	75	541	55	671
Derivative financial instruments - liabilities	-	(933)	-	(933)
Debt	(4,084)	(210)	-	(4,294)
Total financial liabilities	(4,084)	(1,143)	-	(5,227)
Balance as of December 31, 2014				
Available-for-sale financial assets - non-current	17	105	21	143
Securities classified as assets held for sale	1	-	37	38
Financial assets designated at fair value through profit and loss - non-current	-	24	-	24
Derivative financial instruments - assets	-	207	-	207
Loans - current	-	125	-	125
Non-current loans and receivables	-	86	-	86
Receivables - non-current	-	177	-	177
Total financial assets	18	724	58	800
Derivative financial instruments - liabilities	-	(857)	-	(857)
Debt	(3,969)	(195)	-	(4,164)
Total financial liabilities	(3,969)	(1,052)	-	(5,021)

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

Specific valuation techniques used to value financial instruments include:

Level 1

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

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

Level 2

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

inputs required to fair value an instrument are based on observable market data, the instrument is included in level 2.

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

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

Level 3

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

Transfers between levels

At 31 December 2015, an available-for-sale equity security with a carrying amount of EUR 51 million was transferred from Level 2 to Level 1 due to its listing with quoted prices in the market. An available-for-sale equity security with a carrying amount of EUR 23 million was transferred to Level 3 due to the updated fair value from a private financing round. The classifications of fair value hierarchies of financial assets were restated for 2014.

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

Philips Group
Reconciliation of the fair value hierarchy in millions of EUR
2015

	financial assets
Balance as of January 1, 2015	58
Gains and losses recognized in:	
- in profit or loss	9
- in other comprehensive income	15
Transfer into level 3	13
Purchase	7
Sales	(47)
Balance as of December 31, 2015	55

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

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

Philips Group
Financial assets subject to offsetting, enforceable master netting arrangements or similar agreements
in millions of EUR
2014 - 2015

	2014	2015
Derivatives		
Gross amounts of recognized financial assets	207	161
Gross amounts of recognized financial liabilities offset in the balance sheet	-	-
Net amounts of financial assets presented in the balance sheet	207	161
Related amounts not offset in the balance sheet		
Financial instruments	(161)	(81)
Cash collateral received	-	-
Net amount	46	80

Philips Group
Financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements
in millions of EUR
2014 - 2015

	2014	2015
Derivatives		
Gross amounts of recognized financial liabilities	(857)	(933)
Gross amounts of recognized financial assets offset in the balance sheet	-	-
Net amounts of financial liabilities presented in the balance sheet	(857)	(933)
Related amounts not offset in the balance sheet		
Financial instruments	161	81
Cash collateral received	-	-
Net amount	(696)	(852)

31 Details of treasury / other financial risks

Philips is exposed to several types of financial risks. This note further analyzes financial risks. Philips does not purchase or hold derivative financial instruments for speculative purposes. Information regarding financial instruments is included in note 30, Fair value of financial assets and liabilities.

Liquidity risk

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

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

The rating of the Company's debt by major rating services may improve or deteriorate. As a result, Philips' future borrowing capacity may be influenced and its financing costs may fluctuate. Philips has various sources to mitigate the liquidity risk for the group. At December 31, 2015, Philips had EUR 1,766 million in cash and cash equivalents (2014: EUR 1,873 million), within which short-term deposits of EUR 855 million (2014: EUR 1,057 million) and other liquid assets of EUR 171 million (2014: EUR 121 million). Philips pools cash from subsidiaries to the extent legally and economically feasible; cash not pooled remains available for operational or investment needs by the Company.

Furthermore, Philips has a USD 2.5 billion Commercial Paper Program and a EUR 1.8 billion revolving credit facility that can be used for general group purpose and as a backstop for its commercial paper program. In January 2013 the EUR 1.8 billion facility was extended

by 2 years until February 18, 2018. The facility has no financial covenants and repetitive material adverse change clauses and can be used for general group purposes. As of December 31, 2015, Philips did not have any amounts outstanding under any of these facilities. Additionally Philips also held EUR 75 million of equity investments in available-for-sale financial assets (fair value at December 31, 2015).

Currency risk

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

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

It is Philips' policy to reduce the potential year on year volatility caused by foreign-currency movements on its net earnings by hedging the anticipated net exposure of foreign currencies resulting from foreign-currency sales and purchases. In general net anticipated exposures for the Group are hedged during a period of 15 months in layers of 20% up to a maximum hedge of 80%, using forwards and currency options. Philips' policy requires significant committed foreign currency exposures to be fully hedged, generally using forwards. However not every foreign currency can or shall be hedged as there may be regulatory barriers or prohibitive hedging cost preventing Philips from effectively and/or efficiently hedging its currency exposures. As a result, hedging activities cannot and will not eliminate all currency risks for anticipated and committed transaction exposures.

During 2015 Philips has changed its hedging policy with regard to anticipated transaction exposures. The previous hedging policy focused on protecting against changes in value of forecasted individual transactions and cash flows. Under the previous policy the hedging ratio and period were set by individual businesses based on their ability to forecast cash flows, the time horizon for the cash flows and their ability to adapt to changing levels of foreign currency rates. Existing hedges under the old policy are continued until they mature against the original forecasted transactional exposures.

The following table outlines the estimated nominal value in millions of EUR for transaction exposure and related hedges for Philips' most significant currency exposures consolidated as of December 31, 2015:

Philips Group
Estimated transaction exposure and related hedges
in millions of EUR
2015

	Receivables		Payables	
	exposure	hedges	exposure	hedges
Balance as of December 31, 2015				
Exposure currency				
USD	1,691	(1,329)	(1,297)	1,120
GBP	473	(267)	(39)	26
JPY	473	(283)	(25)	22
CAD	199	(86)	(13)	11
AUD	165	(90)	(2)	1
CHF	143	(74)	(2)	1
PLN	112	(90)	(14)	14
SEK	77	(42)	(5)	2
CNY	63	(63)	(358)	200
DKK	42	(22)	-	-
Others	777	(603)	(204)	131
Total 2015	4,215	(2,949)	(1,959)	1,528
Total 2014	5,557	(3,800)	(2,277)	1,492

The derivatives related to transactions are, for hedge accounting purposes, split into hedges of on-balance-sheet accounts receivable/payable and forecasted sales and purchases. Changes in the value of on-balance-sheet foreign-currency accounts receivable/payable, as well as the changes in the fair value of the hedges related to these exposures, are reported in the income statement under costs of sales. Hedges related to forecasted transactions, where hedge accounting is applied, are accounted for as cash flow hedges. The results from such hedges are deferred in other comprehensive income within equity to the extent that the hedge is effective. As of December 31, 2015, a gain of EUR 12 million was deferred in equity as a result of these hedges. The result deferred in equity will be released to earnings mostly during 2016 at the time when the related hedged transactions affect the income statement. During 2015, a net loss of EUR 2 million was recorded in the consolidated statement of income as a result of ineffectiveness on certain anticipated cash flow hedges.

The total net fair value of hedges related to transaction exposure as of December 31, 2015 was an unrealized asset of EUR 17 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 66 million in the value of the derivatives; including a EUR 25 million increase related to foreign exchange transactions of USD against EUR, a EUR 18 million increase related to foreign exchange transactions of the GBP against euro, a EUR 14 million increase related to foreign exchange transactions of the JPY and a EUR 7 million increase related to PLN. This

was partially offset by a EUR 34 million decrease related to foreign exchange transactions of the EUR against the USD.

The EUR 66 million increase includes a gain of EUR 5 million that would impact the income statement, which would largely offset the opposite revaluation effect on the underlying accounts receivable and payable, and the remaining gain of EUR 61 million would be recognized in equity to the extent that the cash flow hedges were effective.

The total net fair value of hedges related to transaction exposure as of December 31, 2014 was an unrealized liability of EUR 27 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 96 million in the value of the derivatives; including a EUR 73 million increase related to foreign exchange transactions of the USD against the EUR, a EUR 14 million increase related to foreign exchange transactions of the JPY against EUR, a EUR 14 million increase related to foreign exchange transactions of the GBP, partially offset by a EUR 46 million decrease related to foreign exchange transactions of the EUR against the USD.

Foreign exchange exposure also arises as a result of inter-company loans and deposits. Where the Company enters into such arrangements the financing is generally provided in the functional currency of the subsidiary entity. The currency of the Company's external funding and liquid assets is matched with the required financing of subsidiaries either directly through external foreign currency loans and deposits, or synthetically by using foreign exchange derivatives, including cross currency interest rate swaps and foreign exchange forward contracts. In certain cases where group companies may also have external foreign currency debt or liquid assets, these exposures are also hedged through the use of foreign exchange derivatives. Changes in the fair value of hedges related to this exposure are either recognized within financial income and expenses in the statements of income, accounted for as cash flow hedges or where such loans would be considered part of the net investment in the subsidiary then net investment hedging would be applied. Translation exposure of foreign-currency equity invested in consolidated entities may be hedged. If a hedge is entered into, it is accounted for as a net investment hedge. Net current period change, before tax, of the currency translation reserve of EUR 644 million relates to the positive impact of the weaker EUR against the foreign currencies of countries in which Philips' operations are located, partially offset by net investment hedging instruments. The change in currency translation reserve was mostly related to development of the USD and to a lesser extent to other currencies such as the CNY, JPY and SAR.

As of December 31, 2015 cross currency interest rate swaps and foreign exchange forward contracts with a fair value liability of EUR 812 million and external bond

funding for a nominal value of USD 4,059 million were designated as net investment hedges of our financing investments in foreign operations. During 2015 a total gain of EUR 0.1 million was recognized in the income statement as ineffectiveness on net investment hedges. The total net fair value of these financing derivatives as of December 31, 2015, was a liability of EUR 794 million. An instantaneous 10% increase in the value of the euro against all currencies would lead to an increase of EUR 187 million in the value of the derivatives, including a EUR 210 million increase related to the USD.

As of December 31, 2014 cross currency interest rate swaps and foreign exchange forward contracts with a fair value liability of EUR 655 million and external bond funding for a nominal value of USD 4,059 million were designated as net investment hedges of our financing investments in foreign operations. During 2014 a total gain of EUR 0.2 million was recognized in the income statement as ineffectiveness on net investment hedges. The total net fair value of these financing derivatives as of December 31, 2014, was a liability of EUR 623 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 301 million in the value of the derivatives, including a EUR 323 million increase related to the USD.

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Philips had outstanding debt of EUR 5,760 million, which created an inherent interest rate risk. Failure to effectively hedge this risk could negatively impact financial results. At year-end, Philips held EUR 1,766 million in cash and cash equivalents, total long-term debt of EUR 4,095 million and total short-term debt of EUR 1,665 million. At December 31, 2015, Philips had a ratio of fixed-rate long-term debt to total outstanding debt of approximately 68%, compared to 85% one year earlier.

A sensitivity analysis conducted as of January 2016 shows that if long-term interest rates were to decrease instantaneously by 1% from their level of December 31, 2015, with all other variables (including foreign exchange rates) held constant, the fair value of the long-term debt would increase by approximately EUR 303 million. If there was an increase of 1% in long-term interest rates, this would reduce the market value of the long-term debt by approximately EUR 302 million.

If interest rates were to increase instantaneously by 1% from their level of December 31, 2015, with all other variables held constant, the annualized net interest

expense would increase by approximately EUR 1 million. This impact was based on the outstanding net cash position at December 31, 2015.

A sensitivity analysis conducted as of January 2015 shows that if long-term interest rates were to decrease instantaneously by 1% from their level of December 31, 2014, with all other variables (including foreign exchange rates) held constant, the fair value of the long-term debt would increase by approximately EUR 342 million. If there was an increase of 1% in long-term interest rates, this would reduce the market value of the long-term debt by approximately EUR 341 million.

If interest rates were to increase instantaneously by 1% from their level of December 31, 2014, with all other variables held constant, the annualized net interest expense would decrease by approximately EUR 13 million. This impact was based on the outstanding net cash position at December 31, 2014.

Equity price risk

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

Philips is a shareholder in some publicly listed companies, including Corindus Vascular Robotics. As a result, Philips is exposed to potential financial loss through movements in their share prices. The aggregate equity price exposure in such financial assets amounted to approximately EUR 75 million at year-end 2015 (2014: EUR 12 million). Philips does not hold derivatives in its own shares or in the above mentioned listed companies. Philips is also a shareholder in several privately-owned companies amounting to EUR 48 million. As a result, Philips is exposed to potential value adjustments.

Commodity price risk

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

Philips is a purchaser of certain base metals, precious metals and energy. Philips hedges certain commodity price risks using derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility. The commodity price derivatives that Philips enters into are accounted for as cash flow hedges to offset forecasted purchases. As of December 2015, a loss of EUR 0.2 million was deferred in equity as a result of these hedges. A 10% increase in the market price of all commodities as of December 31, 2015 would increase the fair value of the derivatives by less than EUR 0.1 million.

As of December 2014, a loss of EUR 0.7 million was deferred in equity as a result of these hedges. A 10% increase in the market price of all commodities as of December 31, 2014 would increase the fair value of the derivatives by EUR 0.7 million.

Credit risk

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

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

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

Below table shows the credit ratings of the financial institutions with which Philips had short-term deposits above EUR 25 million as of December 31, 2015:

Philips Group
Credit risk with number of counterparties
for deposits above EUR 25 million
2015

	25-100 million	100-500 million
AA-rated bank counterparties		2
A-rated bank counterparties	4	2
	4	4

For an overview of the overall maximum credit exposure of the group's financial assets, please refer to note 30, Fair value of financial assets and liabilities for details of carrying amounts and fair value.

Country risk

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

As of December 31, 2015, the Company had country risk exposure of EUR 10.3 billion in the United States, EUR 1.7 billion in China (including Hong Kong), EUR 1.1 billion in Singapore and EUR 1.1 billion in Belgium. Other countries higher than EUR 500 million are Germany (EUR 770 million), United Kingdom (EUR 739 million), Japan (EUR 662 million), Netherlands (EUR 549 million), Poland (EUR 519 million) and Malaysia (EUR 507 million). Countries where the risk exceeded EUR 300 million but was less than EUR 500 million are Saudi Arabia and India. The degree of risk of a country is taken into account when new investments are considered. The Company does not, however, use financial derivative instruments to hedge country risk.

Other insurable risks

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

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

For all policies, deductibles are in place, which vary from EUR 250,000 to EUR 5,000,000 per occurrence and this variance is designed to differentiate between the existing risk categories within Philips. Above this first layer of working deductibles, Philips operates its

own re-insurance captive, which during 2015 retained EUR 2.5 million per occurrence for property damage and business interruption losses and EUR 5 million in the aggregate per year. For general and product liability claims, the captive retained EUR 1.5 million per claim and EUR 6 million in the aggregate. New contracts were signed on December 31, 2015, for the coming year, whereby the re-insurance captive retentions remained unchanged.

32 Subsequent events

Financing Volcano

In 2015, Philips financed the acquisition of Volcano with a short-term loan of USD 1.3 billion. Philips decided in December 2015 to amend and extend the loan which was actually executed in January 2016. The loan will mature in December 2016.

13 Company financial statements

Introduction

Statutory financial statements

The sections Group financial statements and Company financial statements contain the statutory financial statements of Koninklijke Philips N.V. (the Company).

A description of the Company's activities and group structure is included in the Consolidated Financial Statements.

Accounting policies applied

The financial statements of the Company included in this section are prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code. Section 362 (8), Book 2, Dutch Civil Code, allows companies that apply IFRS as endorsed by the European Union in their consolidated financial statements to use the same measurement principles in their company financial statements. The Company has prepared these Company financial statements using this provision.

The accounting policies are described in note 1, Significant accounting policies.

Investments in group companies are accounted for using the equity method in these Company financial statements.

Presentation of Company financial statements

The structure of the Company balance sheets is aligned with the Consolidated balance sheets in order to achieve optimal transparency between the Group financial statements and the Company financial statements. Consequently, the presentation of the Company balance sheets deviates from Dutch regulations.

The Company balance sheet has been prepared before the appropriation of result.

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

Additional information

For 'Additional information' within the meaning of Section 2:392 of the Dutch Civil Code, please refer to section 13.5, Independent auditor's report, of this Annual Report, and section 5.4, Proposed distribution to shareholders, of this Annual Report.

Adjustments

The presentation of certain prior-year disclosures have been adjusted to align with the current year disclosures.

13.1 Balance sheets before appropriation of results

Koninklijke Philips N.V.
Balance sheets in millions of EUR unless otherwise stated
 As of December 31

	2014	2015
Assets		
Non-current assets:		
Property, plant and equipment	1	1
C Intangible assets	57	81
D Financial fixed assets	19,676	21,176
Non-current receivables	61	88
Deferred tax assets	479	766
E Other non-current financial assets	229	279
Total non-current assets	20,503	22,391
Current assets:		
Current financial assets	121	10
F Receivables	8,454	8,298
Assets classified as held for sale	54	-
Cash and cash equivalents	701	730
Total current assets	9,330	9,038
Total assets	29,833	31,429
Liabilities and shareholders' equity		
G Shareholders' equity:		
Preference shares, par value EUR 0.20 per share:		
- Authorized: 2,000,000,000 shares (2014: 2,000,000,000 shares)		
- Issued: none		
Common shares, par value EUR 0.20 per share:		
- Authorized: 2,000,000,000 shares (2014: 2,000,000,000 shares)		
- Issued and fully paid: 931,130,387 shares (2014: 934,819,413 shares)		
	187	186
Capital in excess of par value	2,181	2,669
Legal reserve: revaluation	13	4
Legal reserve: available-for-sale financial assets	27	56
Legal reserve: cash flow hedges	(13)	12
Legal reserve: affiliated companies	1,059	958
Legal reserve: currency translation differences	229	1,058
Retained earnings	7,316	6,437
A Net income ¹⁾	415	645
Treasury shares, at cost: 14,026,801 shares (2014: 20,430,544 shares)	(547)	(363)
Total equity	10,867	11,662
Non-current liabilities:		
H Long-term debt	3,555	3,933
Long-term provisions	10	5
Deferred tax liabilities	12	12
Other non-current liabilities	670	789
Total non-current liabilities	4,247	4,739
Current liabilities:		
H Short-term debt	14,060	14,528
I Other current liabilities	659	500
Total current liabilities	14,719	15,028
K Contractual obligations and contingent liabilities not appearing in the balance sheet		
Liabilities and shareholders' equity	29,833	31,429

¹⁾ Prepared before appropriation of results

13.2 Statements of income

Koninklijke Philips N.V.
Statements of income in millions of EUR unless otherwise stated
 For the year ended December 31

	2014	2015
Net loss from affiliated companies	(432)	(44)
Other net income	847	689
A Net income	415	645

13.3 Statement of changes in equity

Koninklijke Philips N.V.
Statement of changes in equity in millions of EUR unless otherwise stated
 For the year ended December 31

	<i>common shares</i>	<i>capital in excess of par value</i>	<i>revaluation</i>	<i>available-for-sale financial assets</i>	<i>cash flow hedges</i>	<i>affiliated companies</i>	<i>currency translation differences</i>	<i>retained earnings</i>	<i>net income</i>	<i>treasury shares</i>	<i>shareholders' equity</i>
	legal reserves										
Balance as of January 1, 2015	187	2,181	13	27	(13)	1,059	229	7,316	415	(547)	10,867
Appropriation of prior year result								415	(415)		
Net income									645		645
Release revaluation reserve			(9)					9			-
Net current period change				33	(38)	(101)	643	9			546
Income tax on net current period change				-	-		187				187
Reclassification into income				(4)	63		(1)				58
Dividend distributed	3	429						(730)			(298)
Cancellation of treasury shares	(4)							(513)		517	-
Purchase of treasury shares								(12)		(495)	(507)
Re-issuance of treasury shares		(23)						(57)		162	82
Share-based compensation plans		101									101
Income tax on share-based compensation plans		(19)									(19)
Balance as of December 31, 2015	186	2,669	4	56	12	958	1,058	6,437	645	(363)	11,662

13.4 Notes

Notes to the Company financial statements

A Net income

Net income from affiliated companies represents the share of the company in the results of these affiliated companies.

B Audit fees

For a summary of the audit fees, please refer to the Group Financial statements, note 6, Income from operations, which is deemed incorporated and repeated herein by reference.

C Intangible assets

Intangible assets includes mainly licenses and patents. The changes during 2015 are as follows;

Koninklijke Philips N.V.
Intangible assets in millions of EUR
 2015

Balance as of January 1, 2015:	
Cost	87
Amortization/ impairments	(30)
Book value	57
Changes in book value:	
Additions	44
Amortization	(20)
Total changes	24
Balance as of December 31, 2015:	
Cost	131
Amortization/ impairments	(50)
Book value	81

D Financial fixed assets

The investments in group companies and associates are presented as financial fixed assets in the balance sheet using the equity method. Goodwill paid upon acquisition of investments in group companies or associates is included in the net equity value of the investment and is not shown separately on the face of the balance sheet.

Loans provided to group companies are stated at amortized cost, less impairment.

A list of investments in group companies, prepared in accordance with the relevant legal requirements (Dutch Civil Code, Book 2, Sections 379 and 414), is deposited at the Chamber of Commerce in Eindhoven, Netherlands.

Koninklijke Philips N.V.
Financial fixed assets in millions of EUR
 2015

	investments in group companies	investments in associates	loans	total
Balance as of January 1, 2015	12,660	66	6,950	19,676
Changes:				
Acquisitions/ additions	283		8,018	8,301
Sales/ redemptions	(183)		(6,225)	(6,408)
Net income from affiliated companies	(66)			(66)
Dividends received	(1,689)			(1,689)
Translation differences	829	7	526	1,362
Balance as of December 31, 2015	11,834	73	9,269	21,176

Investment in group companies

The acquisitions/additions line mainly relates to capital injections into group companies. One group company made a capital repayment of EUR 127 million which is reflected as part of the movement sales/redemptions. The same group company paid an interim dividend of EUR 1,464 million included in the dividends received line. The remaining movements in sales/redemptions reflect restructuring transactions within the group.

Loans

In December 2015, the Company revisited its foreign based intra-group finance activities. In this context intra-group funding of certain group companies was directly provided by Koninklijke Philips N.V. and no longer via a foreign based group finance entity. The newly provided direct funding by the Company, resulted in loan additions by EUR 6,485 million. The change resulted in the redemption of loans by EUR 5,314 million, which were initially provided by the Company to the foreign based group finance entity.

E Other financial assets

The changes during 2015 were as follows:

Koninklijke Philips N.V.
Other non-current financial assets in millions of EUR
 2015

	available -for-sale financial assets	loans and receivables	financial assets at fair value through profit and loss	total
Balance as of January 1, 2015	96	133	-	229
Changes:				
Reclassifications		(8)		(8)
Acquisitions/ additions	3	17	5	25
Sales/ redemptions/ reductions	(1)	(6)		(7)
Impairments	(4)			(4)
Transfer to assets classified as held for sale	1			1
Value adjustments	37	2	4	43
Balance as of December 31, 2015	132	138	9	279

Available-for-sale financial assets

The Company's investments in available-for-sale financial assets mainly consist of investments in common shares of companies in various industries. The line additions/acquisitions mainly relates to capital calls for certain investment funds. The impairment movement relates to a specific investment's declining financial performance.

Loans and receivables

The acquisitions/additions line mainly relates to vendor loans issued to an amount of EUR 17 million in relation to the sale of an equity interest. The current portion of this loan (EUR 8 million) was in the course of 2015 reclassified to Current financial assets. The remainder of the loan will be redeemed in 2017.

F Receivables

Koninklijke Philips N.V.
Receivables in millions of EUR
 2014 - 2015

	2014	2015
Trade accounts receivable	105	91
Affiliated companies	7,916	7,966
Other receivables	48	64
Advances and prepaid expenses	15	19
Derivative instruments - assets	370	158
Receivables	8,454	8,298

G Shareholders' equity

Common shares

As of December 31, 2015, the issued and fully paid-up share capital consists of 931,130,387 common shares, each share having a par value of EUR 0.20.

In June 2015, Philips settled a dividend of EUR 0.80 per common share, representing a total value of EUR 730 million. Shareholders could elect for a cash dividend or a share dividend. Approximately 59% of the shareholders elected for a share dividend, resulting in the issuance of 17,671,990 new common shares. The settlement of the cash dividend resulted in a payment of EUR 298 million including tax and service charges.

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

Koninklijke Philips N.V.
Outstanding number of shares in number of shares
 2014 - 2015

	2014	2015
Balance as of January 1	913,337,767	914,388,869
Dividend distributed	18,811,534	17,671,990
Purchase of treasury shares	(28,537,921)	(20,296,016)
Re-issuance of treasury shares	10,777,489	5,338,743
Balance as of December 31	914,388,869	917,103,586

Preference shares

The 'Stichting Preferente Aandelen Philips' has been granted the right to acquire preference shares in the Company. Such right has not been exercised. As a means to protect the Company and its stakeholders against an unsolicited attempt to (de facto) take over control of the Company, the General Meeting of Shareholders in 1989 adopted amendments to the Company's articles of association that allow the Board of Management and the Supervisory Board to issue (rights to acquire) preference shares to a third-party. As of December 31, 2015, no preference shares have been issued.

Options, restricted and performance shares

The Company has granted stock options on its common shares and rights to receive common shares in the future. Please refer to note 28, Share-based compensation, which is deemed incorporated and repeated herein by reference.

Treasury shares

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

When treasury shares are reissued under the Company's option plans, the difference between the cost and the cash received is recorded in retained

earnings. When treasury shares are reissued under the Company's share plans, the difference between the market price of the shares issued and the cost is recorded in retained earnings, the market price is recorded in capital in excess of par value.

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

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

Koninklijke Philips N.V.
Employee option and share plan transactions
2014 - 2015

	2014	2015
Shares acquired	7,254,606	
Average market price	EUR 24.53	
Amount paid	EUR 178 million	
Shares delivered	10,777,489	5,338,743
Average market price	EUR 30.26	EUR 30.35
Cost of delivered shares	EUR 326 million	EUR 162 million
Total shares in treasury at year-end	17,127,544	11,788,801
Total cost	EUR 470 million	EUR 308 million

In 2015, there was no need to acquire additional shares to cover our commitments under share-based compensation plans.

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

Koninklijke Philips N.V.
Share capital transactions
2014 - 2015

	2014	2015
Shares acquired	21,283,315	20,296,016
Average market price	EUR 23.95	EUR 24.39
Amount paid	EUR 510 million	EUR 495 million
Reduction of capital stock (shares)	21,837,910	21,361,016
Reduction of capital stock (EUR)	EUR 533 million	EUR 517 million
Total shares in treasury at year-end	3,303,000	2,238,000
Total cost	EUR 77 million	EUR 55 million

Share purchase transactions related to employee option and share plans, as well as transactions related to the reduction of share capital involved a cash outflow of EUR 506 million, which includes the impact of taxes. Settlements of share-based compensation plans involved a cash inflow of EUR 81 million.

Dividend distribution

A proposal will be submitted to the 2016 Annual General Meeting of Shareholders to pay a dividend of EUR 0.80 per common share, in cash or shares at the option of the shareholder, from the 2015 net income and retained earnings of the Company.

Legal reserves

As of December 31, 2015, legal reserves relate to the revaluation of assets and liabilities of acquired companies in the context of multi-stage acquisitions of EUR 4 million (2014: EUR 13 million), unrealized gains on available-for-sale financial assets of EUR 56 million (2014: EUR 27 million), unrealized gains on cash flow hedges of EUR 12 million (2014: EUR 13 million unrealized losses), 'affiliated companies' of EUR 958 million (2014: EUR 1,059 million) and unrealized currency translation gains of EUR 1,058 million (2014: EUR 229 million unrealized losses).

The item 'affiliated companies' relates to the 'wettelijke reserve deelnemingen', which is required by Dutch law. This reserve relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

Limitations in the distribution of shareholders' equity

Pursuant to Dutch law, limitations exist relating to the distribution of shareholders' equity of EUR 2,274 million as at December 31, 2015. Such limitations relate to common shares of EUR 186 million, as well as to legal reserves included under 'revaluation' of EUR 4 million, available-for-sale financial assets of EUR 56 million, unrealized gains related to cash flow hedges of EUR 12 million, unrealized currency translation gains of EUR 1,058 million and 'affiliated companies' of EUR 958 million.

As at December 31, 2014 the limitations on distributable amounts were EUR 1,515 million and related common shares of EUR 187 million, as well as to legal reserves included under 'revaluation' of EUR 13 million, available-for-sale financial assets of EUR 27 million, unrealized currency gains of EUR 229 million and 'affiliated companies' of EUR 1,059 million. The unrealized losses related to cash flow hedges of EUR 13 million, although qualifying as a legal reserve, reduce the distributable amount by their nature.

H Debt

Long-term debt

Koninklijke Philips N.V.
Long-term debt in millions of EUR, unless otherwise stated
 2014 - 2015

	(range of) interest rates	average interest rate	amount outstanding in 2015	amount due in 1 year	amount due after 1 year	amount due after 5 years	average remaining term (in years)	amount outstanding in 2014
USD bonds	3.8 - 7.8%	5.6%	3,733		3,733	2,595	12	3,355
Intercompany financing	0.0 - 7.7%	1.9%	1,660	1,660				3,025
Bank borrowings	1.13-1.33%	1.3%	200		200	200	6	200
Other long-term debt	1.3-7.0%	3.9%	39	39			1	43
			5,632	1,699	3,933	2,795		6,623
Corresponding data previous year			6,623	3,068	3,555	2,533		5,751

The following amounts of the long-term debt as of December 31, 2015, are due in the next five years:

Koninklijke Philips N.V.
Long-term debt due in the next five years in millions of EUR
 2015

2016	1,699
2017	
2018	1,138
2019	
2020	
Long -term debt	2,837
Corresponding amount previous year	4,090

Short-term debt

Short-term debt includes the current portion of outstanding external and intercompany long-term debt of EUR 1,699 million (2014: EUR 3,068 million), other debt to group companies totaling EUR 11,578 million (2014: EUR 10,929 million) and short-term bank borrowings of EUR 1,245 million (2014: EUR 63 million).

I Other current liabilities

Koninklijke Philips N.V.
Other current liabilities in millions of EUR
 2014 - 2015

	2014	2015
Other short-term liabilities	63	59
Accrued expenses	138	127
Derivative instruments - liabilities	458	314
Other current liabilities	659	500

J Employees

The number of persons employed by the Company at year-end 2015 was 7 (2014: 9). For the remuneration of past and present members of both the Board of Management and the Supervisory Board, please refer to note 29, Information on remuneration, which is deemed incorporated and repeated herein by reference.

K Contractual obligations and contingent liabilities not appearing in the balance sheet

The Company has entered into a contract with a venture capitalist where it committed itself to make, under certain conditions, capital contributions to its investment funds to an aggregated amount of EUR 22 million (2014: EUR 35 million) until June 30, 2021. As at December 31, 2015 capital contributions already made to this investment fund are recorded as available-for-sale financial assets within Other non-current financial assets. Furthermore, the Company made commitments to third parties in 2015 of EUR 26 million (2014: EUR 10 million) with respect to sponsoring activities. The majority of the amounts are due over a term of 10 years.

General guarantees as referred to in Section 403, Book 2, of the Dutch Civil Code, have been given by the Company on behalf of several group companies in the Netherlands. The liabilities of these companies to third parties and investments in associates totaled EUR 1,374 million as of year-end 2015 (2014: EUR 1,546 million).

Guarantees totaling EUR 698 million (2014: EUR 636 million) have also been given on behalf of other group companies. As at December 31, 2015 there has been no credit guarantees given on behalf of unconsolidated companies and third-parties (2014: EUR 4 million). The Company is the head of a fiscal unity that contains the most significant Dutch wholly-owned group companies. The Company is therefore jointly and severally liable for the tax liabilities of the tax entity as a whole. For additional information, please refer to note 26, Contingent assets and liabilities, which is deemed incorporated and repeated herein by reference.

Subsequent events

Financing Volcano

In 2015, Philips financed the acquisition of Volcano with a short-term loan of USD 1.3 billion. Philips decided in December 2015 to amend and extend the loan which was actually executed in January 2016. The loan will mature in December 2016.

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13.5 Independent auditor's report

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15 Reconciliation of non-GAAP information

Explanation of Non-GAAP measures

Koninklijke Philips N.V. (the 'Company') believes that an understanding of sales performance, capital efficiency, financial strength and its funding requirements is enhanced by introducing certain Non-GAAP measures, respectively Comparable sales growth, EBITA, Net operating capital, Net debt, and Free cash flow. In this chapter these measures are further explained and reconciled to GAAP measures.

Comparable sales growth

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

Philips Group
Sales growth composition per sector in %
2013 - 2015

	comparable growth	currency effects	consolidation changes	nominal growth
2015 versus 2014				
Healthcare	3.8	11.7	3.3	18.8
Consumer Lifestyle	5.8	7.2	0.0	13.0
Lighting	(2.8)	8.5	2.2	7.9
Innovation, Group & Services	5.4	1.7	(12.2)	(5.1)
Philips Group	2.2	9.4	1.7	13.3
2014 versus 2013				
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)
2013 versus 2012				
Healthcare	0.8	(4.6)	(0.3)	(4.1)
Consumer Lifestyle	10.0	(3.4)	0.0	6.6
Lighting	1.3	(3.5)	0.0	(2.2)
Innovation, Group & Services	(0.3)	(0.4)	6.4	5.7
Philips Group	2.7	(3.9)	0.1	(1.1)

Philips Group
Sales growth composition per geographic cluster in %
2013 - 2015

	comparable growth	currency effects	consolidation changes	nominal growth
2015 versus 2014				
Western Europe	1.3	1.9	0.7	3.9
North America	1.4	18.4	1.4	21.2
Other mature geographies	2.7	5.3	3.7	11.7
Mature geographies	1.5	10.2	1.4	13.1
Growth geographies	3.5	7.9	2.4	13.8
Philips Group	2.2	9.4	1.7	13.3
2014 versus 2013				
Western Europe	(0.9)	0.4	0.2	(0.3)
North America	(1.8)	(0.9)	(0.3)	(3.0)
Other mature geographies	(0.9)	(4.7)	0.0	(5.6)
Mature geographies	(1.3)	(0.8)	(0.1)	(2.2)
Growth geographies	0.0	(4.4)	0.7	(3.7)
Philips Group	(0.9)	(2.0)	0.2	(2.7)
2013 versus 2012				
Western Europe	0.0	(0.6)	0.5	(0.1)
North America	(2.9)	(3.1)	(0.2)	(6.2)
Other mature geographies	10.1	(13.5)	0.0	(3.4)
Mature geographies	(0.3)	(3.3)	0.1	(3.5)
Growth geographies	8.9	(5.1)	0.0	3.8
Philips Group	2.7	(3.9)	0.1	(1.1)

EBITA

The Company uses the term EBIT and EBITA to evaluate the performance of the Philips Group and its operating sectors. The term EBIT has the same meaning as Income from operations (IFO). Referencing EBITA will make the underlying performance of our businesses more transparent by excluding the amortization and impairment on intangible assets (excluding software and capitalized development expenses). As a consequence EBITA represents income from operations before amortization and impairment of intangible assets generated in acquisitions.

Philips Group
EBITA to Income from operations (or EBIT) in millions of EUR
2013 - 2015

	Philips Group	Healthcare	Consumer Lifestyle	Lighting	Innovation, Group & Services
2015					
EBITA	1,372	1,024	673	594	(919)
Amortization of intangible assets ¹⁾	(380)	(205)	(52)	(108)	(15)
Impairment of goodwill	-	-	-	-	-
Income from operations (or EBIT)	992	819	621	486	(934)
2014					
EBITA	821	616	573	293	(661)
Amortization of intangible assets ¹⁾	(332)	(159)	(53)	(106)	(14)
Impairment of goodwill	(3)	(1)	-	(2)	-
Income from operations (or EBIT)	486	456	520	185	(675)
2013					
EBITA	2,276	1,512	483	580	(299)
Amortization of intangible assets ¹⁾	(393)	(195)	(54)	(141)	(3)
Impairment of goodwill	(28)	(2)	-	(26)	-
Income from operations (or EBIT)	1,855	1,315	429	413	(302)

¹⁾ Excluding amortization of software and product development.

Net operating capital (NOC)

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

Philips Group
Net operating capital to total assets in millions of EUR
 2013 - 2015

	Philips Group	Healthcare	Consumer Lifestyle	Lighting	Innovation, Group & Services
2015					
Net operating capital (NOC)	11,096	9,212	1,453	3,813	(3,382)
Exclude liabilities comprised in NOC:					
- payables/liabilities	9,640	3,064	1,356	1,510	3,710
- intercompany accounts	-	128	36	87	(251)
- provisions	3,225	903	235	446	1,641
Include assets not comprised in NOC:					
- investments in associates	181	56	-	19	106
- current financial assets	12	-	-	-	12
- other non-current financial assets	489	-	-	-	489
- deferred tax assets	2,758	-	-	-	2,758
- cash and cash equivalents	1,766	-	-	-	1,766
Total assets excluding assets classified as held for sale	29,167	13,363	3,080	5,875	6,849
Assets classified as held for sale	1,809				
Total assets	30,976				
2014					
Net operating capital (NOC)	8,838	7,565	1,353	3,638	(3,718)
Exclude liabilities comprised in NOC:					
- payables/liabilities	9,379	2,711	1,411	1,422	3,835
- intercompany accounts	-	125	65	129	(319)
- provisions	3,445	793	220	530	1,902
Include assets not comprised in NOC:					
- investments in associates	157	80	-	20	57
- current financial assets	125	-	-	-	125
- other non-current financial assets	462	-	-	-	462
- deferred tax assets	2,460	-	-	-	2,460
- cash and cash equivalents	1,873	-	-	-	1,873
Total assets excluding assets classified as held for sale	26,739	11,274	3,049	5,739	6,677
Assets classified as held for sale	1,613				
Total assets	28,352				
2013					
Net operating capital (NOC)	10,238	7,437	1,261	4,462	(2,922)
Exclude liabilities comprised in NOC:					
- payables/ liabilities	8,453	2,541	1,275	1,672	2,965
- intercompany accounts	-	124	75	105	(304)
- provisions	2,554	278	221	452	1,603
Include assets not comprised in NOC:					
- investments in associates	161	85	-	20	56
- current financial assets	10	-	-	-	10
- other non-current financial assets	496	-	-	-	496
- deferred tax assets	1,675	-	-	-	1,675
- cash and cash equivalents	2,465	-	-	-	2,465
Total assets excluding assets classified as held for sale	26,052	10,465	2,832	6,711	6,044
Assets classified as held for sale	507				
Total assets	26,559				

Net debt

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

Philips Group
Composition of net debt to group equity in millions of EUR unless otherwise stated
 2013 - 2015

	2013	2014	2015
Long-term debt	3,309	3,712	4,095
Short-term debt	592	392	1,665
Total debt	3,901	4,104	5,760
Cash and cash equivalents	2,465	1,873	1,766
Net debt¹⁾	1,436	2,231	3,994
Shareholders' equity	11,214	10,867	11,662
Non-controlling interests	13	101	118
Group equity	11,227	10,968	11,780
Net debt and group equity	12,663	13,199	15,774
Net debt divided by net debt and group equity (in %)	11%	17%	25%
Group equity divided by net debt and group equity (in %)	89%	83%	75%

¹⁾ Total debt less cash and cash equivalents.

Free cash flow

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

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

Philips Group
Free cash flow in millions of EUR
 2013 - 2015

	2013	2014	2015
Cash flows from operating activities	912	1,303	1,167
Cash flows from investing activities	(862)	(984)	(1,941)
Cash flows before financing activities	50	319	(774)
Cash flows from operating activities	912	1,303	1,167
Net capital expenditures:	(830)	(806)	(842)
Purchase of intangible assets	(49)	(114)	(121)
Expenditures on development assets	(326)	(295)	(314)
Capital expenditures on property, plant and equipment	(482)	(437)	(522)
Proceeds from disposals of property, plant and equipment	27	40	115
Free cash flow	82	497	325

16 Five-year overview

Philips Group
General data in millions of EUR unless otherwise stated
 2011 - 2015

	2011	2012	2013	2014	2015
Sales	19,918	22,234	21,990	21,391	24,244
% increase over previous year	3%	12%	(1)%	(3)%	13%
Income from operations (EBIT) (loss)	(542)	592	1,855	486	992
Financial income and expenses - net	(331)	(329)	(330)	(301)	(369)
Income (loss) from continuing operations	(1,106)	(166)	1,034	221	414
Income (loss) from continuing operations attributable to shareholders	(1,110)	(171)	1,031	225	400
Income (loss) from discontinued operations	(350)	136	138	190	245
Net income (loss)	(1,456)	(30)	1,172	411	659
Net income (loss) attributable to shareholders	(1,460)	(35)	1,169	415	645
Free cash flow	(53)	1,645	82	497	325
Net assets	12,362	11,185	11,227	10,968	11,780
Turnover rate of net operating capital ¹⁾	1.81	2.22	2.39	2.30	2.32
Total employees at year-end	125,240	118,087	116,082	113,678	112,959

¹⁾ Calculated based upon the values excluding the businesses restated to discontinued operations.

Philips Group
Income in millions of EUR unless otherwise stated
 2011 - 2015

	2011	2012	2013	2014	2015
EBIT	(542)	592	1,855	486	992
as a % of sales	(2.7)%	2.7%	8.4%	2.3%	4.1%
EBITA	1,334	1,003	2,276	821	1,372
as a % of sales	6.7%	4.5%	10.4%	3.8%	5.7%
Income taxes	(248)	(218)	(466)	(26)	(239)
as a % of income before taxes	28.4%	(82.9)%	(30.6)%	(14.1)%	(38.4)%
Income (loss) from continuing operations	(1,106)	(166)	1,034	221	414
as a % of shareholders' equity (ROE)	(8.2)%	(1.4)%	9.4%	2.0%	3.6%
Net income (loss)	(1,456)	(30)	1,172	411	659

Philips Group
Capital employed in millions of EUR unless otherwise stated
 2011 - 2015

	2011	2012	2013	2014	2015
Cash and cash equivalents	3,147	3,834	2,465	1,873	1,766
Receivables and other current assets	5,567	5,128	5,220	5,591	5,655
Assets classified as held for sale	551	43	507	1,613	1,809
Inventories	3,625	3,495	3,240	3,314	3,463
Non-current financial assets/investments in associates	549	726	657	619	670
Non-current receivables/assets	1,932	2,217	1,924	2,721	3,075
Property, plant and equipment	3,014	2,959	2,780	2,095	2,322
Intangible assets	11,012	10,679	9,766	10,526	12,216
Total assets	29,397	29,081	26,559	28,352	30,976
Property, plant and equipment:					
Capital expenditures for the year	477	479	482	437	522
Depreciation for the year	525	588	521	592	582
Capital expenditures: depreciation	0.9	0.8	0.9	0.7	0.9
Inventories as a % of sales ¹⁾	16.5%	14.1%	13.7%	15.3%	14.2%
Outstanding trade receivables, in days sales ¹⁾	54	50	53	56	56

¹⁾ Calculated based upon the values excluding inventories and sales related to acquisitions, divestments and discontinued operations

Philips Group
Financial structure in millions of EUR unless otherwise stated
 2011 - 2015

	2011	2012	2013	2014	2015
Other liabilities	10,434	10,379	8,529	9,486	9,804
Liabilities directly associated with assets held for sale	61	27	348	349	407
Debt	3,860	4,534	3,901	4,104	5,760
Provisions	2,680	2,956	2,554	3,445	3,225
Total provisions and liabilities	17,035	17,896	15,332	17,384	19,196
Shareholders' equity	12,328	11,151	11,214	10,867	11,662
Non-controlling interests	34	34	13	101	118
Group equity and liabilities	29,397	29,081	26,559	28,352	30,976
Net debt: group equity ratio	5.95	6.94	11.89	17.83	25.75
Market capitalization at year-end	15,077	18,200	24,340	22,082	21,607

Philips Group
Key figures per share in EUR unless otherwise stated
 2011 - 2015

	2011	2012	2013	2014	2015
Sales per common share	20.90	24.11	24.14	23.37	26.46
EBITA per common share - diluted	1.39	1.08	2.47	0.89	1.49
Weighted average amount of shares outstanding:					
- basic ¹⁾	952,809	922,101	911,072	915,193	916,087
- diluted ¹⁾	957,293	927,222	922,072	922,714	923,625
Basic earnings per common share:					
Income (loss) from continuing operations attributable to shareholders per share	(1.16)	(0.19)	1.13	0.25	0.44
Net income (loss) attributable to shareholders	(1.53)	(0.04)	1.28	0.45	0.70
Diluted earnings per common share:					
Income (loss) from continuing operations attributable to shareholders per share	(1.16)	(0.19)	1.12	0.24	0.43
Net income (loss) attributable to shareholders	(1.53)	(0.04)	1.27	0.45	0.70
Dividend distributed per common share	0.75	0.75	0.75	0.80	0.80
Total shareholder return per common share	(5.89)	4.37	7.50	(1.70)	0.21
Shareholders' equity per common share	13.31	12.19	12.28	11.88	12.72
Price/earnings ratio	(14.03)	(104.74)	23.58	96.60	53.55
Share price at year-end	16.28	19.90	26.65	24.15	23.56
Highest closing share price during the year	25.34	20.33	26.78	28.10	27.65
Lowest closing share price during the year	12.23	13.76	20.26	20.98	20.79
Average share price	18.11	16.92	23.33	24.00	24.51
Amount of common shares outstanding at year-end ¹⁾	926,095	914,591	913,338	914,389	917,104

¹⁾ In thousands of shares

Philips Group
Sustainability
2011 - 2015

	2011	2012	2013	2014	2015
Lives improved, in billions		1.6	1.7	1.9	2.0
Energy efficiency of products, in lumen/watt	37.6	39.3	40.1	40.5	44.5
Collection and recycling amount, in tonnes	27,500	30,500	31,000	31,500	28,500
Recycled material in products, in tonnes	10,000	15,000	14,000	13,000	13,500
Green Product sales, as a % of total sales	39%	46%	50%	52%	54%
Green Innovation, in millions of euros	363	453	405	463	495
Operational carbon footprint, in kilotonnes CO ₂ -equivalent	1,892	1,640	1,678	1,521	1,417
Operational energy efficiency, in terajoules per million euro sales	1.59	1.30	1.35	1.29	1.06
Total energy consumption in manufacturing, in terajoules ¹⁾	12,030	12,014	11,963	11,257	9,702
Total carbon emissions in manufacturing, in kilotonnes CO ₂ -equivalent	560	563	518	468	371
Water intake, in thousands m ³	2,895	3,137	3,289	3,103	2,727
Total waste, in kilotonnes ¹⁾	87.0	80.6	75.9	75.0	68.5
Materials provided for recycling via external contractor per total waste, in %	78%	77%	79%	80%	83%
Restricted substances, in kilos	111	67	37	29	26
Hazardous substances, in kilos	63,604	67,530	35,118	28,310	25,101
ISO 14001 certification, as a % of all reporting organizations ¹⁾	87%	69%	79%	79%	78%
Employee Engagement Index, % favorable	76%	79%	75%	72%	71%
Female executives, in % of total	13%	14%	15%	18%	19%
Lost Workday Injuries, per 100 FTEs	0.38	0.31	0.27	0.23	0.21
Fatalities	2	7	3	1	-
Initial and continual conformance audits, number of audits	212	159	200	203	195
Suppliers audits, compliance rate, in %	72%	75%	77%	86%	86%

¹⁾ In manufacturing excluding new acquisitions

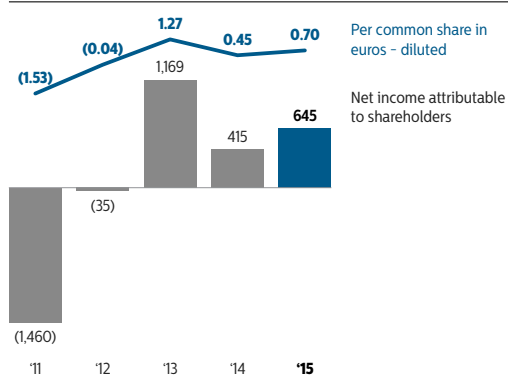
17 Investor Relations

17.1 Key financials and dividend

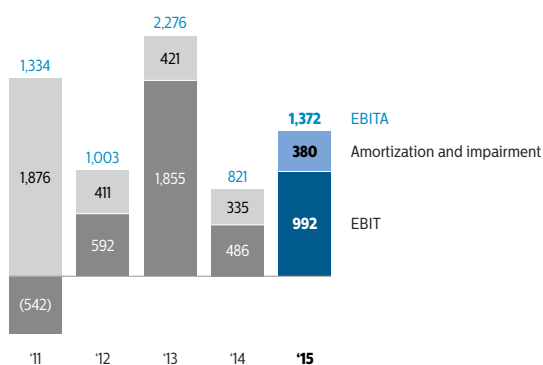
Key financials

Net income attributable to shareholders of Koninklijke Philips N.V. in 2015 showed a gain of EUR 645 million, or EUR 0.70 per common share (diluted; basic EUR 0.70 per common share). This compares to a gain of EUR 415 million, or EUR 0.45 per common share (diluted; basic EUR 0.45 per common share), in 2014.

Philips Group
Net income attributable to shareholders in millions of EUR
2011 - 2015

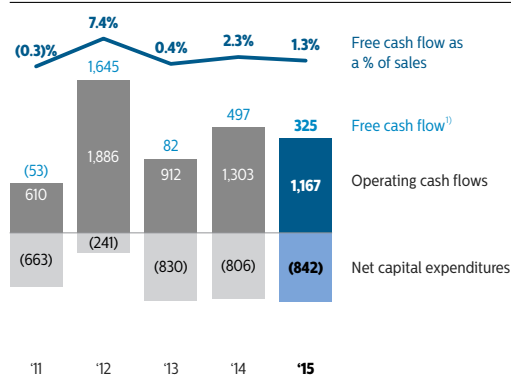


Philips Group
EBIT and EBITA ¹⁾ in millions of EUR
2011 - 2015



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
Free cash flow in millions of EUR
2011 - 2015



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

Dividend policy

Philips' dividend policy is aimed at dividend stability and a pay-out ratio of 40% to 50% of continuing net income. Following the intended separation of the Lighting business, the dividend pay-out ratio with respect to future years could be subject to change.

Continuing net income after adjustments is the base figure used to calculate the dividend payout for the year. For 2015, the key exclusions from net income to arrive at continuing net income after adjustments are the following: the results that are shown as discontinued operations, charges related to pension settlements, charges related to the devaluation of the Argentine Peso, a charge related to the currency revaluation of the provision for the Masimo litigation, a legal matter, and gains on the sale of real estate assets. Restructuring, acquisition-related and separation charges are also excluded.

Proposed distribution

A proposal will be submitted to the 2016 Annual General Meeting of Shareholders to declare a dividend of EUR 0.80 per common share (up to EUR 740 million), in cash or in shares at the option of the shareholder, against the net income for 2015 and retained earnings.

Shareholders will be given the opportunity to make their choice between cash and shares between May 18, 2016, and June 10, 2016. If no choice is made during this election period, the dividend will be paid in shares. On June 10, 2016 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume-weighted average price of all traded common shares of Koninklijke Philips N.V. at Euronext Amsterdam on 8, 9 and 10 June, 2016. The Company will calculate the number of share

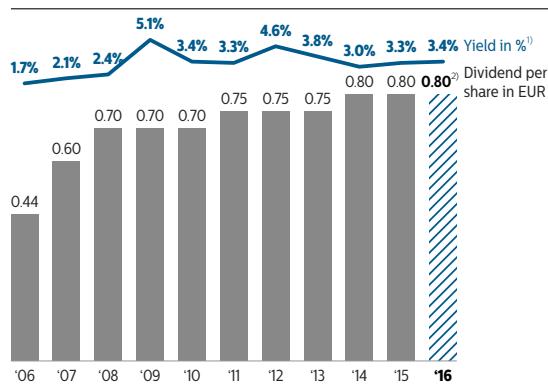
dividend rights entitled to one new common share, such that the gross dividend in shares will be approximately equal to the gross dividend in cash. On June 14, 2016 the ratio and the number of shares to be issued will be announced. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 15, 2016 onwards. 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 13, 2016.

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). Shareholders are advised to consult their tax advisor on the applicable situation with respect to taxes on the dividend received.

In 2015, a dividend of EUR 0.80 per common share was paid in cash or shares, at the option of the shareholder. For 59.2% of the shares, the shareholders elected for a share dividend, resulting in the issue of 17,671,990 new common shares, leading to a 1.9% dilution. EUR 298 million was paid in cash. For additional information, see section 5.4, Proposed distribution to shareholders, of this Annual Report.

	ex-dividend date	record date	payment date
Amsterdam shares	May 16, 2016	May 17, 2016	June 15, 2016
New York shares	May 13, 2016	May 17, 2016	June 15, 2016

Philips Group
Dividend and dividend yield per common share
2006 - 2016



¹⁾ Dividend yield % is as of December 31 of previous year

²⁾ Subject to approval by the 2016 Annual General Meeting of Shareholders

Information for investors in New York Registry shares program

Dividends and distributions per common share

The following table sets forth in euros the gross dividends on the common shares in the fiscal years indicated (from prior-year profit distribution) and such amounts as converted into US dollars and paid to holders of shares of the New York Registry:

Philips Group
Gross dividends on the common shares
2011 - 2015

	2011	2012	2013	2014	2015
in EUR	0.75	0.75	0.75	0.80	0.80
in USD	1.11	0.94	0.98	1.09	0.87

Exchange rates USD : EUR

The following two tables set forth, for the periods and dates indicated, certain information concerning the exchange rate for US dollars into euros based on the Noon Buying Rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"). The Noon Buying Rate on February 12, 2016 was EUR 0.8901 per USD 1.

Exchange rate (based on the "Noon Buying Rate")
EUR per USD
2011 - 2015

	period end	average	high	low
2011	0.7708	0.7186	0.7736	0.6723
2012	0.7584	0.7782	0.8290	0.7428
2013	0.7257	0.7532	0.7828	0.7238
2014	0.8264	0.7533	0.8264	0.7180
2015	0.9209	0.9018	0.9502	0.8323

Exchange rate per month (based on the "Noon Buying Rate")
EUR per USD
2015 - 2016

	highest rate	lowest rate
August, 2015	0.9201	0.8636
September, 2015	0.9006	0.8804
October, 2015	0.9122	0.8744
November, 2015	0.9468	0.9069
December, 2015	0.9458	0.9070
January, 2016	0.9308	0.9121

Unless otherwise stated, for the convenience of the reader, the translations of euros into US dollars appearing in this section have been made based on the closing rate on December 31, 2015 (USD 1 = EUR 0.9151). This rate is not materially different from the Noon Buying Rate on such date (USD 1 = EUR 0.9209).

The following table sets out the exchange rate for US dollars into euros applicable for translation of Philips' financial statements for the periods specified.

Exchange rate (based on Philips' consolidation rate)
EUR per USD
2011 - 2015

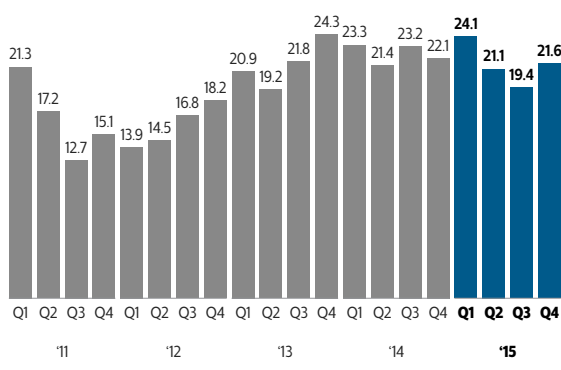
	period end	average	high	low
2011	0.7728	0.7192	0.7728	0.6721
2012	0.7582	0.7776	0.8166	0.7500
2013	0.7255	0.7527	0.7805	0.7255
2014	0.8227	0.7527	0.8227	0.7201
2015	0.9151	0.9007	0.9410	0.8796

17.2 Share information

Market capitalization

Philips' market capitalization was EUR 21.6 billion at year-end 2015. On December 31, 2015, the closing price for Philips' shares in Amsterdam was EUR 23.56 and the number of common shares outstanding (after deduction of treasury shares) amounted to 917 million.

Philips Group
Market capitalization in billions of EUR
2011 - 2015



Share capital structure

During 2015, Philips' issued share capital decreased by approximately 4 million common shares to 931 million common shares. The main reasons for this are the cancellation of 21,361,016 Philips shares acquired pursuant to the EUR 1.5 billion share repurchase program and the issuance of 17,671,990 shares related to the elective dividend. The number of basic shares outstanding increased from 914 million at December 31, 2014 to 917 million at December 31, 2015. At December 31, 2015, the shares held in treasury amounted to 14 million shares, of which 12 million are held by Philips to cover long-term incentive and employee stock purchase plans.

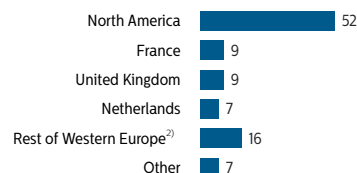
The Dutch Act on Financial Supervision imposes an obligation on persons holding certain interests to disclose (inter alia) percentage holdings in the capital and/or voting rights in the Company when such holdings reach, exceed or fall below 3, 5, 10, 15, 20, 25, 30, 40, 50, 60, 75 and 95 percent (as a result of an acquisition or disposal by a person, or as a result of a change in the company's total number of voting rights or capital issued). Certain cash-settled derivatives are

also taken into account when calculating the capital interest. The statutory obligation to disclose capital interest does not only relate to gross long positions, but also to gross short positions. Required disclosures must be made to the Netherlands Authority for the Financial Markets (AFM) without delay. The AFM then notifies such disclosures to the Company and includes them in a register which is published on the AFM's website. Furthermore, an obligation to disclose (net) short positions is set out in the EU Regulation on Short Selling.

On June 23, 2015 the Company received notification from the AFM that it had received disclosure under the Dutch Act on Financial Supervision of 4.97% of the voting rights by Dodge & Cox. On July 24, 2015 the Company received notification from the AFM that it had received disclosure under such Act of a substantial holding of 4.06%, and of 5% of the voting rights by Blackrock, Inc. On January 7, 2016 the Company received notification from the AFM that it had received disclosure under such Act of a substantial holding (and voting rights) of 4.99% by Harris Associates L.P.

The following shareholder portfolio information is based on information provided by several large custodians and a survey conducted in December 2015.

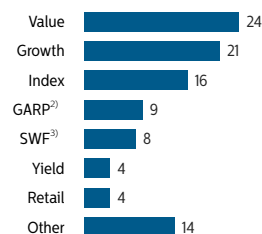
Philips Group
Shareholders by region (approximated)¹⁾ in %
2015



¹⁾ Split based on identified shares in shareholder identification

²⁾ Includes countries in Western Europe with a shareholding of less than 5 %

Philips Group
Shareholders by style (approximated)¹⁾ in %
2015



¹⁾ Split based on identified shares in shareholder identification

²⁾ Growth at a reasonable price

³⁾ Sovereign Wealth Funds

Share repurchase programs

Share repurchases for capital reduction purposes

On September 17, 2013, Royal Philips announced a EUR 1.5 billion share repurchase program. This program started on October 21, 2013 and will be completed by October 2016. The shares repurchased under this program will be held by Philips as treasury shares until they are cancelled. Philips has entered into a subsequent discretionary management agreement with a bank to make the repurchase within the limits of relevant laws and regulations (in particular EC Regulation 2273/2003) and Philips' articles of association.

By the end of 2015, Philips had completed 74% of the EUR 1.5 billion share repurchase program.

Share repurchases related to Long-Term Incentive (LTI) and employee stock purchase programs

To cover outstanding obligations resulting from past and present long-term incentive (LTI) programs, Philips repurchases additional Philips shares on NYSE Euronext Amsterdam from time to time. The shares repurchased to such LTI positions will be held by Philips as treasury shares until these are distributed to participants. In order to repurchase for covering LTI programs, Philips may enter into discretionary management agreements with one or more banks within the limits of relevant laws and regulations (in particular EC Regulation 2273/2003) and Philips' articles of association.

Philips has not repurchased any shares for LTI coverage in 2015. During 2016, Philips may consider to start share repurchases for LTI coverage, the size of which will depend on the movement of the Philips share price.

Further details on the share repurchase programs can be found on the Investor Relations website. For more information see chapter 11, Corporate governance, of this Annual Report.

A total of 14,026,801 shares were held in treasury by the Company at December 31, 2015 (2014: 20,430,544 shares). As of that date, a total of 39 million rights under long-term incentive plans were outstanding (2014: 41 million).

Philips Group
Impact of share repurchases on share count in thousands of shares
2011 - 2015

	2011	2012	2013	2014	2015
Shares issued	1,008,975	957,133	937,846	934,820	931,131
Shares in treasury	82,880	42,542	24,508	20,431	14,027
Shares outstanding	926,095	914,591	913,338	914,389	917,104
Shares repurchased	47,508	46,871	27,811	28,538	20,296
Shares cancelled	-	82,365	37,779	21,838	21,361

Philips Group
Total number of shares purchased
2015

	total number of shares purchased	average price paid per share in EUR	total number of shares purchased as part of publicly announced programs	maximum EUR amount of shares that may yet be purchased under share repurchases for capital reduction purposes
January, 2015	2,453,000	24.12	2,453,000	831,305,431
February, 2015	1,667,000	25.28	1,667,000	789,158,522
March, 2015	1,658,000	26.49	1,658,000	745,246,053
April, 2015	1,254,000	26.76	1,254,000	711,690,985
May, 2015	2,317,000	24.78	2,317,000	654,264,258
June, 2015	1,706,816	24.31	1,706,816	612,769,082
July, 2015	892,700	23.86	892,700	591,469,324
August, 2015	1,592,000	24.12	1,592,000	553,070,885
September, 2015	2,143,500	22.17	2,143,500	505,559,920
October, 2015	1,208,000	22.41	1,208,000	478,493,624
November, 2015	1,371,000	24.70	1,371,000	444,634,342
December, 2015	2,033,000	24.16	2,033,000	395,526,396

17.3 Philips' rating

Philips' existing long-term debt is rated BBB+ (with stable outlook)¹⁾ by Standard & Poor's and Baa1 (with stable outlook)²⁾ by Moody's. As part of the capital allocation policy, it is Philips' ambition to manage its financial ratios to retain a strong investment grade credit 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.

Philips Group Credit rating summary 2015

	long-term	short-term	outlook
Standard & Poor's	BBB+ ¹⁾	A-2	Stable ¹⁾
Moody's	Baa1 ²⁾	P-2	Stable

¹⁾ On July 28, 2015, Standard & Poor's changed the long-term rating from A- to BBB+ and the outlook from negative to stable

²⁾ On March 17, 2015, Moody's changed the long-term rating from A3 to Baa1

Philips Group High and low closing price of common shares 2011 - 2016

	Euronext Amsterdam (EUR)		New York Stock Exchange (USD)		
	high	low	high	low	
January, 2016	24.50	22.15	26.68	24.04	
December, 2015	25.49	23.19	27.14	25.41	
November, 2015	25.88	24.40	27.29	26.05	
October, 2015	24.59	21.09	26.94	23.66	
September, 2015	23.29	20.79	25.86	23.19	
August, 2015	25.71	21.94	28.23	24.79	
2015	4th quarter	25.88	21.09	27.29	23.66
	3rd quarter	25.71	20.79	28.23	23.19
	2nd quarter	27.65	22.82	30.08	25.46
	1st quarter	27.40	23.16	30.31	27.54
2014	4th quarter	24.68	20.98	31.02	26.36
	3rd quarter	25.27	22.11	32.39	29.80
	2nd quarter	25.86	22.22	35.95	30.35
	1st quarter	28.10	23.88	38.36	33.13
2013	4th quarter	26.78	23.17	36.97	31.36
	3rd quarter	25.32	20.89	33.60	27.28
	2nd quarter	23.48	20.36	30.65	26.75
	1st quarter	23.67	20.26	31.72	26.60
2012	4th quarter	20.33	18.27	26.81	23.52
	3rd quarter	19.49	15.51	24.89	19.11
	2nd quarter	15.57	13.76	20.26	17.32
	1st quarter	16.56	14.48	21.51	18.34
2011		25.34	12.23	33.81	16.87

17.4 Performance in relation to market indices

The common shares of the Company are listed on the stock market of Euronext Amsterdam. The New York Registry Shares of the Company, representing common shares of the Company, are listed on the New York Stock Exchange. The principal market for the common shares is Euronext Amsterdam. For the New York Registry Shares it is the New York Stock Exchange.

The following table shows the high and low closing prices of the common shares on the stock market of Euronext Amsterdam as reported in the Official Price List and the high and low closing prices of the New York Registry Shares on the New York Stock Exchange:

Euronext Amsterdam

Philips Group
Share price development in Amsterdam in EUR
2014 - 2015

PHIA	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2015												
High	26.80	26.77	27.40	27.65	25.44	24.94	25.32	25.71	23.29	24.59	25.88	25.49
Low	23.16	24.54	25.98	25.66	24.24	22.82	22.38	21.94	20.79	21.09	24.40	23.19
Average	24.49	25.45	26.64	26.96	24.96	23.94	23.97	24.19	22.11	22.71	25.05	24.06
Average daily volume ¹⁾	9.26	5.64	5.86	7.66	6.96	8.79	7.30	6.88	6.75	6.00	6.08	6.05
2014												
High	28.10	26.47	25.86	25.86	23.64	24.22	23.82	23.46	25.27	24.68	24.26	24.37
Low	25.52	25.09	23.88	22.98	22.43	22.22	23.08	22.11	23.12	20.98	22.05	22.52
Average	27.17	25.79	24.82	24.66	23.21	23.13	23.37	22.82	23.89	22.51	22.91	23.78
Average daily volume ¹⁾	6.23	5.55	6.52	6.94	5.66	5.38	5.03	4.07	5.94	7.75	5.74	5.74

¹⁾ In millions of shares

New York Stock Exchange

Philips Group
Share price development in New York in USD
2014 - 2015

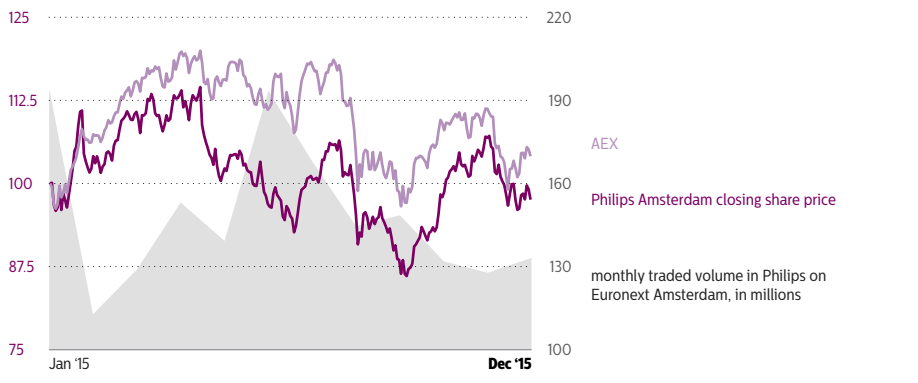
PHG	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2015												
High	30.31	30.10	29.80	30.08	28.77	27.99	27.81	28.23	25.86	26.94	27.29	27.14
Low	27.54	27.80	27.83	28.57	27.29	25.46	24.87	24.79	23.19	23.66	26.05	25.41
Average	28.49	28.96	28.85	29.17	27.90	26.83	26.35	26.84	24.75	25.50	26.82	26.21
Average daily volume ¹⁾	1.34	0.80	0.77	1.56	1.16	1.73	2.04	1.77	1.60	1.21	0.93	0.90
2014												
High	38.36	36.15	35.37	35.95	32.32	32.75	32.39	31.04	32.08	31.02	30.05	30.12
Low	34.61	34.04	33.13	31.75	31.08	30.35	30.80	29.80	30.14	26.36	27.61	28.04
Average	36.86	35.11	34.26	34.05	31.78	31.44	31.68	30.38	30.80	28.52	28.50	29.24
Average daily volume ¹⁾	0.70	0.56	0.49	0.57	0.48	0.69	0.93	0.55	0.77	0.78	0.60	0.57

¹⁾ In millions of shares

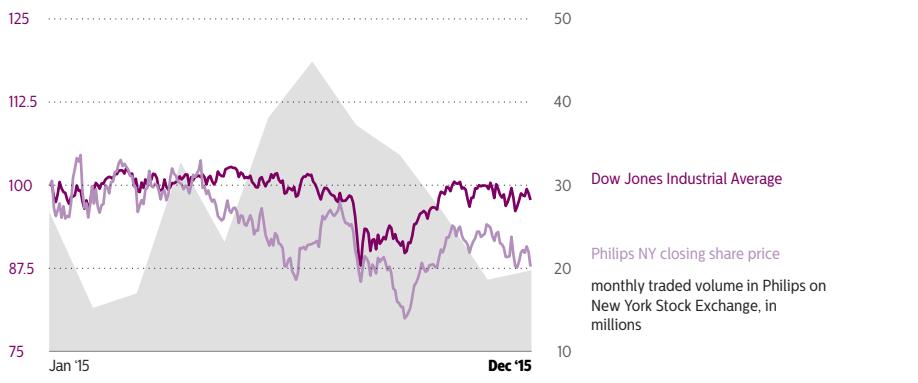
Philips Group Share information

Share listings	Amsterdam, New York
Ticker code	PHIA, PHG
No. of shares issued at Dec. 31, 2015	931 million
No. of shares outstanding issued at Dec. 31, 2015	917 million
Market capitalization at year-end 2015	EUR 21.6 billion
Industry classification	
MSCI: Capital Goods	20105010
ICB: Diversified Industrials	2727
Members of indices	
AEX, NYSE, DJSI, and others	

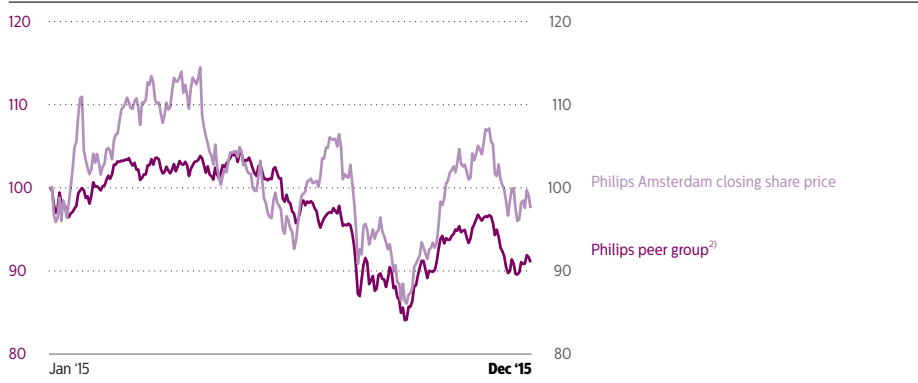
Philips Group
Relative performance: Philips and AEX
 2015



Philips Group
Relative performance: Philips and Dow Jones Industrial Average
 2015



Philips Group
Relative performance: Philips and unweighted peer group index¹⁾
 2015



¹⁾ The peer group companies are separately indexed, and then an unweighted average of these indexed values is used.
²⁾ The peer group consists of: 3M, ABB, Danaher, Eaton, Electrolux, Emerson, General Electric, Hitachi, Honeywell, Johnson Control, Johnson & Johnson, Legrand, LG Electronics, Medtronic, Panasonic, Procter & Gamble, Schneider, Siemens, Smiths Group, Toshiba. The index shows the unweighted average closing share prices of the peer group. This graph is not linked to the TSR performance calculation as part of the Long-Term Incentive Plan.

17.5 Financial calendar

Financial calendar

Annual General Meeting of Shareholders	
Record date Annual General Meeting of Shareholders	April 14, 2016
Annual General Meeting of Shareholders	May 12, 2016
Quarterly reports	
First quarter results 2016	April 25, 2016
Second quarter results 2016	July 25, 2016
Third quarter results 2016	October 24, 2016
Fourth quarter results 2016	January 24, 2017 ¹⁾
Capital Markets Day	
Capital Markets Day - HealthTech	September 13, 2016 ¹⁾

¹⁾ Subject to final confirmation

17.6 Investor contact

Shareholder services

Holders of shares listed on Euronext Amsterdam

Philips offers a dynamic print manager on its Annual Report website that facilitates the creation and download of a customized PDF. Non-US shareholders and other non-US interested parties can make inquiries about the Annual Report 2015 to:

Royal Philips
Annual Report Office
Philips Center, HBT 12
P.O. Box 77900
1070 MX Amsterdam, The Netherlands
E-mail: annual.report@philips.com

Communications concerning share transfers, lost certificates, dividends and change of address should be directed to:

ABN AMRO Bank N.V.
Department Equity Capital Markets/Corporate Broking
HQ7050
Gustav Mahlerlaan 10, 1082 PP Amsterdam
The Netherlands
Telephone: +31-20-34 42000
Fax: +31-20-62 88481
E-mail: corporate.broking@nl.abnamro.com

Holders of New York Registry shares

Philips offers a dynamic print manager on its Annual Report website that facilitates the creation and download of a customized PDF. Holders of New York Registry shares and other interested parties in the US can make inquiries about the Annual Report 2015 to:

Citibank Shareholder Service
P.O. Box 43077 Providence, Rhode Island 02940-3077
Telephone: 1-877-CITI-ADR (toll-free)
Telephone: 1-781-575-4555 (outside of US)

Fax: 1-201-324-3284
Website: www.citi.com/dr
E-mail: citibank@shareholders-online.com

Communications concerning share transfers, lost certificates, dividends and change of address should be directed to Citibank. The Annual Report on Form 20-F is filed electronically with the US Securities and Exchange Commission.

International direct investment program

Philips offers a dividend reinvestment and direct share purchase plan designed for the US market. This program provides existing shareholders and interested investors with an economical and convenient way to purchase and sell Philips New York Registry shares and to reinvest cash dividends. Philips does not administer or sponsor the program and assumes no obligation or liability for the operation of the plan. For further information on this program and for enrollment forms, contact:

Citibank Shareholder Service
Telephone: 1-877-248-4237 (1-877-CITI-ADR)
Monday through Friday 8:30 AM EST
through 6:00 PM EST
Website www.citi.com/dr
E-mail: citibank@shareholders-online.com

or by writing to:

Citibank Shareholder Service
International Direct Investment Program
P.O. Box 2502, Jersey City, NJ 07303-2502

2016 Annual General Meeting of Shareholders

The Agenda and the explanatory notes to the Agenda for the Annual General Meeting of Shareholders on May 12, 2016, will be published on the Company's website.

For the 2016 Annual General Meeting of Shareholders, a record date of April 14, 2016 will apply. Those persons who, on that date, hold shares in the Company, and are registered as such in one of the registers designated by the Board of Management for the Annual General Meeting of Shareholders, will be entitled to participate in, and vote at, the meeting.

Investor Relations activities

From time to time the Company communicates with investors via road shows, broker conferences and a Capital Markets Day, announced in advance on the Company's website. The purpose of these engagements is to inform the market of the results, strategy and decisions made, as well as to receive feedback from shareholders. Furthermore, the Company engages in bilateral communications with investors. These take place either at the initiative of the Company or at the initiative of investors. The Company is generally represented by its Investor Relations department during these interactions, however, on a limited number of occasions the Investor Relations

department is accompanied by one or more members of the senior management. The subject matter of the bilateral communications ranges from individual queries from investors to more elaborate discussions following disclosures that the Company has made, such as its annual and quarterly reports. Also here, the Company is strict in its compliance with applicable rules and regulations on fair and non-selective disclosure and equal treatment of shareholders.

More information on the activities of Investor Relations can be found in chapter 11, Corporate governance, of this Annual Report.

Analysts' coverage

Philips is covered by approximately 30 analysts who frequently issue reports on the company. For a list of our current analysts, please refer to:

www.philips.com/a-w/about/investor/shareholder-info/analyst-coverage.html

How to reach us

Investor Relations contact

Royal Philips
Philips Center, HBT 14
P.O. Box 77900
1070 MX Amsterdam, The Netherlands
Telephone: +31-20-59 77222
Website: www.philips.com/investor
E-mail: investor.relations@philips.com

Robin Jansen
Head of Investor Relations
Telephone: +31-20-59 77222

Vanessa Bruinsma-Kleijkers
Investor Relations Manager
Telephone: +31-20-59 77447

Leandro Mazzoni
Investor Relations Manager
Telephone: +31-20-59 77055

The registered office of Royal Philips is
High Tech Campus 5
5656 AE Eindhoven, The Netherlands
Switch board, telephone: +31-40-27 91111

Sustainability contact

Philips Group Sustainability
High Tech Campus 5 (room 2.56)
5656 AE Eindhoven, The Netherlands
Telephone: +31-40-27 83651
Fax: +31-40-27 86161
Website: www.philips.com/sustainability
E-mail: philips.sustainability@philips.com

Group Communications contact

Royal Philips
Philips Center, HBT 19
Amstelplein 2
1096 BC Amsterdam, The Netherlands
E-mail: group.communications@philips.com
For media contacts please refer to:
www.newscenter.philips.com/main/standard/news/contacts

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 with net income.

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 100 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 include boilers, computers, televisions, transformers, industrial fans and industrial furnaces.

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 works 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. We established our 2012 baseline at 1.6 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 percentage 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 Printed Circuit Board (PCB), 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 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, developments within the euro zone, the successful implementation of our strategy and our ability to realize the benefits of this strategy, our ability to develop and market new products, changes in legislation, legal claims, changes in exchange and interest rates, changes in tax rates, pension costs and actuarial assumptions, raw materials and employee costs, our ability to identify and complete successful acquisitions and to integrate those acquisitions into our business, our ability to successfully exit certain businesses or restructure our operations, the rate of technological changes, political, economic and other developments in countries where Philips operates, industry consolidation and competition, and the state of international capital markets as they may affect the timing and nature of the dispositions by Philips of its interests in the Lighting business and the Lumileds and Automotive business.

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 2015 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).

