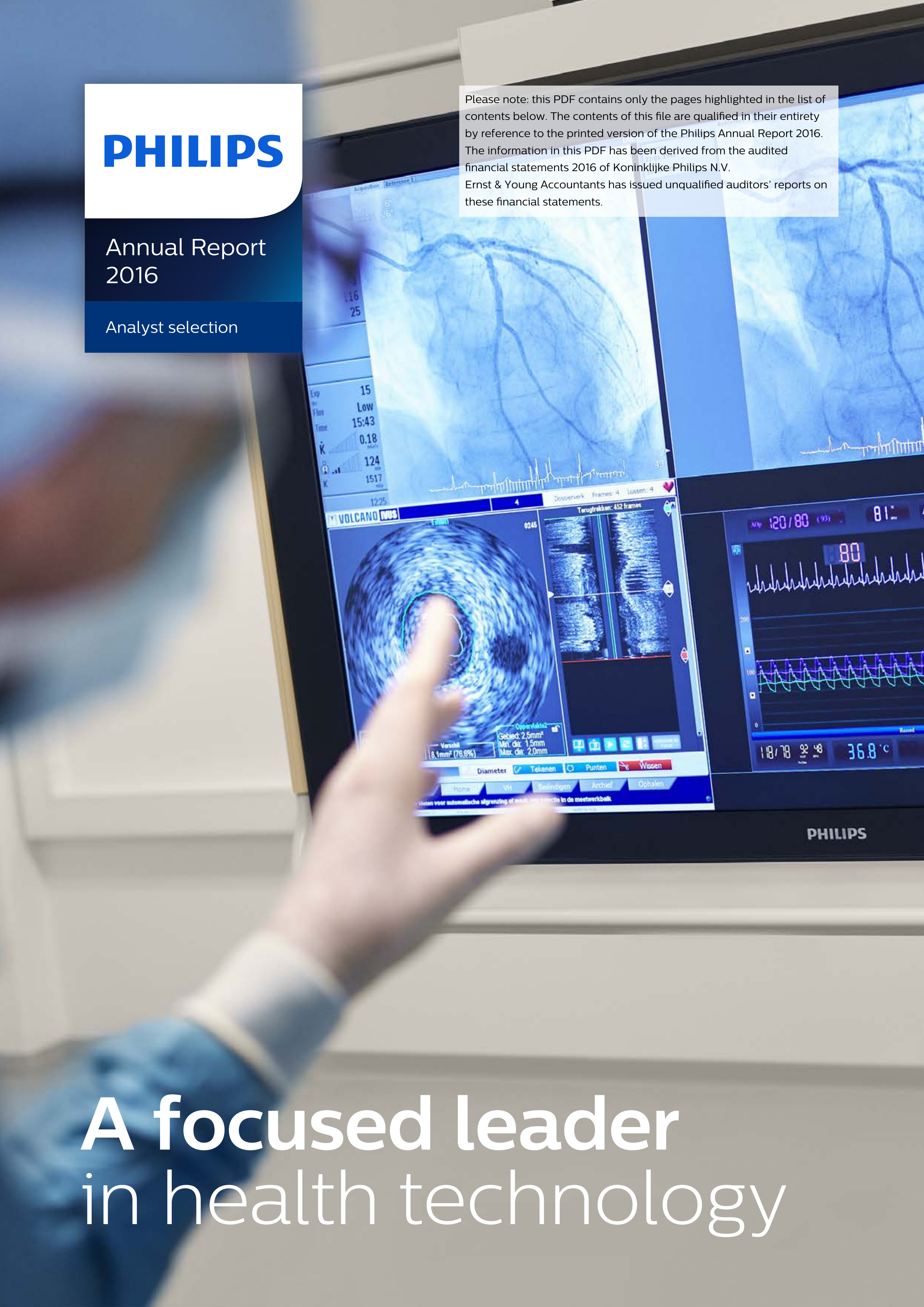
PHILIPS

Annual Report 2016

Analyst selection



A focused leader in health technology

Contents

Grey text indicates parts not included in this selection from the Philips Annual Report 2016.

1 Message from the CEO

“We have transformed Philips into a focused leader in health technology, delivering innovation to help people manage their health and to support care providers in delivering care effectively.” **Frans van Houten**, CEO Royal Philips

Dear Stakeholder,

I am very excited about the future of Philips as a focused leader in health technology, innovating new approaches to global health challenges. 2016 was a defining year for our company as we celebrated our 125th year as an innovation company and continued to advance our transformation. Our strategic focus is already delivering results.

We have successfully integrated our Volcano acquisition, achieving multiple quarters of double-digit growth, significant growth synergies with our image-guided therapy business, and cost synergies well beyond our original plans.

We separated the Lighting business, executing a complex project on time and below budget. In May we successfully listed Philips Lighting on the Amsterdam Euronext stock exchange, giving it the opportunity to build on its leadership position in the exciting Lighting industry. In its first year as a stand-alone company, Philips Lighting delivered strong LED sales growth and a significant increase in profitability, demonstrating the continued progress that the largest Lighting company in the industry is making. In February 2017 we further reduced our stake in Philips Lighting's issued and outstanding share capital to approximately 55%, in line with our stated aim to fully sell down our stake in Philips Lighting over the next several years. Separately, in December we signed an agreement to sell the combined Lumileds and automotive Lighting businesses, effectively completing our portfolio transformation.

I am pleased with the momentum in the overall business performance of our HealthTech portfolio as our health technology businesses posted 5% comparable sales growth[1)] and a significant increase in profitability. At the same time, we again stepped up our investments in quality, growth initiatives and innovation.

Our solutions approach – where we combine suites of systems, smart devices, software and services to help our customers improve patient outcomes and productivity – continues to gain traction, as evidenced by 11% solutions revenue growth in the year and our winning 15 new long-term strategic partnerships around the world with an aggregate value of approximately EUR 900 million.

In 2016, our products and services improved the lives of 2.1 billion people around the world. We also launched our new five-year 'Healthy people, sustainable planet' program, supporting the aim of improving the lives of 3 billion people per year by 2025 and becoming carbon-neutral in our operations by 2020. And at the World Economic Forum in January 2017 the Chairman of our Supervisory Board and I signed the Compact for Responsive and Responsible Leadership, an initiative to promote and align the long-term sustainability of corporations and the long-term goals of society, with an inclusive approach for all stakeholders.

Our overall 2016 performance gives me great confidence for the future as we build upon outstanding positions in the hospital and the home, expand our solutions capability and continue to deliver on the promise of digitization and smart, connected care.

Transforming the delivery of care

As consumers take a more active role in managing their health, we see professional healthcare and consumer health converging. This provides a tremendous opportunity for technology to play a role in data-enabled healthcare delivery, also supporting the shift from hospital care and acute reactive care to more proactive ambulatory and home care.

Through our market-leading propositions in Personal Health, we have natural touchpoints with consumers to promote healthy lifestyles, which are critical to good health. For example, our Dream Family is a comprehensive solution comprising sleep therapy devices, a comfortable mask, therapy management software and services to provide a good night's sleep for people with obstructive sleep apnea. And our connected Sonicare toothbrushes with smart sensor technology help to improve oral healthcare through real-time feedback and post-brush analytics.

In the hospital we are leading in integrated diagnostic solutions across various disciplines including radiology, pathology and genomics, combining advanced imaging modalities and clinical decision support aided by artificial intelligence and practice management software.

We are leading in image-guided, minimally invasive therapies which, compared with open surgery, have the benefits of reduced patient trauma, shorter recovery times

1) Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

and higher productivity. Our suites of interventional imaging technologies and navigation software, combined with interventional devices such as smart catheters, enable complex procedures in cardiology and oncology, for example. Our enterprise patient monitoring informatics solutions greatly reduce adverse events for patients and lighten the workload for nurses. And we are increasing our contribution to improve population health management with data analytics and targeted programs to improve health outcomes of patient cohorts with multiple co-morbidities and to reduce costs.

HealthSuite, our secure yet open healthcare Internet of Things cloud platform, connects patients and millions of devices with care providers, supported by powerful artificial intelligence. It 'connects the dots', enabling the flow of data needed to support first-time-right precision diagnoses and to deliver personalized treatments. At Philips, we believe this will improve outcomes, reduce costs and increase well-being.

Our initiative to build primary care capacity in developing markets through the Community Life Centers has passed its clinical and practical validation tests and will soon be ready for further roll-out, with the aim of cost-effectively improving access to care for millions of people.

Significant opportunities for value creation

Our EUR 17 billion health technology portfolio serves markets that offer attractive prospects in terms of growth and profitability.

We see a great opportunity to **further improve our operational performance** and to deal forthrightly with the possible impact of regulatory investigations. We believe we are making progress in improving our customer excellence programs and in strengthening margins through productivity. This is a continuation of our Accelerate! program, where there is considerable scope for 'self-help' by applying the Philips Business System. We will drive higher productivity by lowering the cost of goods, non-manufacturing cost and the cost of non-quality, while at the same time embedding the digital transformation in everything we do. Digitization is a great enabler of cutting-edge value propositions, as well as driving higher levels of customer service, productivity and quality.

Second, we see opportunities to **boost growth in our existing core health technology businesses**. We will do this by executing more effectively on customer partnerships, further transforming the business model from 'transactional' to one of 'long-term partnerships', with shared business goals and recurring revenue streams. Another proven avenue of growth is via geographical adjacencies. This approach has worked well in our Personal Health businesses, where we have taken products that have been successful in the United States or Japan, for example, and brought them into emerging economies, where there is a huge appetite for innovation and our brand. We anticipate market share gains in several of our businesses, including our Diagnostic Imaging business, which has largely overcome the incidents of the past.

Third, we are **driving future growth and profit expansion with our shift to solutions**. We are investing strongly in research and development for value-added, integrated solutions along the health continuum, most notably in the areas of precision diagnostics, cardiology, oncology, respiratory, and population health.

Roadmap to win

What	How	Resulting in
Better serve customers and improve productivity	Continue 'self-help' journey to improve quality, operational excellence and productivity Continue to lead the digital transformation	• Productivity: lower cost of goods and non-manufacturing costs • Growth enablers in place
Boost growth in core business	Capture geographic growth opportunities Pivot to consultative customer partnerships and business models	• Mid-single-digit revenue growth • Operating leverage • Customer loyalty
Build winning solutions along the health continuum	Drive innovative value-added, integrated solutions Portfolio extensions through organic investments, partnerships, and mergers & acquisitions	• Gross margin expansion • Future growth

We do need to navigate carefully the many potential geo-political risks that we see today. Given that we have a balanced footprint across the world, we believe this is manageable. We are also still exposed to certain risks from legacy issues, which we aim to manage with strong focus and care.

In conclusion

I would like to thank all our customers and stakeholders for their continued support. I would also like to pay tribute to our teams around the world for their outstanding work – and the progress they achieved – in the course of the year.

With a strong commitment to continuous improvement, we will deliver the meaningful innovation and quality our customers expect – and take the next steps on our journey to reach our goal of improving the lives of 3 billion people a year by 2025!

Frans van Houten
Chief Executive Officer

2 Group performance

"Our strategic focus on health technology and the successful separation of Lighting has delivered two winning companies and a significant improvement in Group performance. Our net income more than doubled to EUR 1.5 billion while our income from operations increased to EUR 1.9 billion from EUR 1.0 billion in the previous year. Improved earnings and tight management of working capital generated EUR 1.9 billion of cash from our operating activities."

Abhijit Bhattacharya, CFO Royal Philips

2.1 Financial performance

Management summary

The year 2016

- Sales rose to EUR 17.4 billion, a nominal increase of 4%, in our HealthTech portfolio. On a comparable basis[1] sales increased by 5% in our HealthTech portfolio, which combines our Personal Health businesses, Diagnosis & Treatment businesses, Connected Care & Health Informatics businesses, HealthTech Other and Legacy Items. Lighting posted a 5% decline on a nominal basis and a 2% decline on a comparable basis[1]. Overall, Group sales increased by 1% on a nominal basis and 3% on a comparable basis[1], to EUR 24.5 billion.

- Our Personal Health businesses' sales increased to EUR 7,099 million, an increase of 5% on a nominal basis. The 7% growth on a comparable basis[1] was driven by double-digit growth in Health & Wellness and mid-single-digit growth in Personal Care, Sleep & Respiratory Care and Domestic Appliances.

- Our Diagnosis & Treatment businesses' sales amounted to EUR 6,686 million, an increase of 3% on a nominal basis. The 4% growth on a comparable basis[1] was driven by double-digit growth in Image-Guided Therapy and low-single-digit growth in Diagnostic Imaging, while Ultrasound was in line with 2015.

- Our Connected Care & Health Informatics businesses' sales rose to EUR 3,158 million, an increase of 5% on a nominal basis. The 4% growth on a comparable basis[1] was driven by mid-single-digit growth in Patient Care & Monitoring Solutions and low-single-digit growth in Healthcare Informatics, Solutions & Services, partly offset by a low-single-digit decline in Population Health Management.

- Lighting's operational performance continued to improve year-on-year. Sales in 2016 were EUR 7,094 million. Comparable sales[1] reflected double-digit growth in LED and Home, which was more than offset by a double-digit decline in Lamps and a low-single-digit decline in Professional.

- In line with our mission to improve people's lives, we have embedded sustainability at the heart of our business processes, and Green Revenues, including products and solutions sales, increased to 64% of total revenues in 2016. In recognition of our sustainability achievements, Philips was named industry group leader in the Capital Goods category in the 2016 Dow Jones Sustainability Index.

- Net income amounted to EUR 1.5 billion and increased by EUR 832 million compared to 2015, driven by improved performance in the HealthTech portfolio and in Lighting as well as the Funai arbitration award, partly offset by higher financial expenses and tax charges. Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis.

- EBITA[1] totaled EUR 2.2 billion, compared to EUR 1.4 billion a year earlier. Our three cost savings programs all delivered ahead of plan in 2016. We achieved EUR 269 million of gross savings in overhead costs, EUR

418 million of gross savings in procurement, and our End2End process improvement program delivered productivity savings of EUR 204 million.

- Net cash provided by operating activities increased from EUR 1.2 billion in 2015 to EUR 1.9 billion, mainly due to higher earnings and lower outflows related to pension de-risking settlements, partly offset by a EUR 280 million outflow related to the Masimo agreements and a EUR 91 million premium payment related to the October 2016 bond redemption.
- As of October 20, 2016, Philips had completed the 3-year EUR 1.5 billion share buy-back program. During the year Philips returned EUR 868 million in dividends and shares repurchase.

Philips Group
Key data in millions of EUR unless otherwise stated
2014 - 2016

	2014	2015	2016
Condensed statement of income			
Sales	**21,391**	**24,244**	**24,516**
Income from operations (EBIT)	**486**	**992**	**1,882**
as a % of sales	2.3%	4.1%	7.7%
EBITA [1]	**821**	**1,372**	**2,235**
as a % of sales	3.8%	5.7%	9.1%
Financial income and expenses	(301)	(369)	(493)
Income tax expense	(26)	(239)	(327)
Investments in associates	62	30	13
Income from continuing operations	**221**	**414**	**1,075**
Income from Discontinued operations - net of income tax	190	245	416
Net income	**411**	**659**	**1,491**
Other indicators			
Net income attributable to shareholders per common share in EUR:			
basic	0.45	0.70	1.58
diluted	0.45	0.70	1.56
Net cash provided by operating activities	1,303	1,167	1,904
Net capital expenditures	(806)	(842)	(831)
Employees (FTEs)	113,678	112,959	114,731
Continuing operations	105,365	104,204	105,223
Discontinued operations	8,313	8,755	9,508

2.1.1 Sales

The composition of sales growth in percentage terms in 2016, compared to 2015, is presented in the table below.

Philips Group
Sales growth composition in %
2016 versus 2015

	nominal growth	currency effects	consoli-dation changes	compa-rable growth[1]
Personal Health	5.2	2.0	0.0	7.2
Diagnosis & Treatment	3.1	0.9	(0.4)	3.6
Connected Care & Health Informatics	4.5	0.1	(0.1)	4.5
HealthTech Other	(5.0)	0.0	0.0	(5.0)
Lighting	(4.6)	2.1	0.2	(2.3)
Philips Group	**1.1**	**1.4**	**0.2**	**2.7**

Group sales amounted to EUR 24,516 million in 2016, which represents 1% nominal growth compared to 2015. Adjusted for a 2% negative currency effect and consolidation impact, comparable sales[1] were 3% above 2015.

Our Personal Health businesses' sales amounted to EUR 7,099 million, which was EUR 348 million higher than in 2015, or 5% higher on a nominal basis. The 7% growth on a comparable basis[1] was drive by double-digit growth in Health & Wellness, and mid-single-digit growth in Personal Care, Domestic Appliances and Sleep & Respiratory Care. From a geographic perspective, on a comparable basis[1] both mature and growth geographies, achieved high-single-digit growth.

Our Diagnosis & Treatment businesses' sales amounted to EUR 6,686 million, which was EUR 202 million higher than in 2015, or 3% higher on a nominal basis. The 4% growth on a comparable basis[1] was driven by double-digit growth in Image-Guided Therapy, low-single-digit growth in Diagnostic Imaging, while Ultrasound was in line with 2015. From a geographic perspective, comparable sales[1] in growth geographies showed double-digit growth, while mature geographies sales were in line with 2015.

Our Connected Care & Health Informatics businesses' sales amounted to EUR 3,158 million, which was EUR 136 million higher than in 2015, or 5% higher on a nominal basis. The 4% growth on a comparable basis[1] reflected mid-single-digit growth in Patient Care & Monitoring Solutions, low-single-digit growth in Healthcare Informatics, Solutions & Services and a low-single-digit decline in Population Health Management. From a geographic perspective, comparable sales[1] in mature geographies showed mid-single-digit growth, while growth geographies sales reported low-single-digit growth.

Lighting sales amounted to EUR 7,094 million, which was EUR 344 million lower than in 2015 and 5% lower on a nominal basis. The 2% decline on a comparable basis[1] reflected double-digit growth in LED and Home, which was more than offset by an anticipated double-digit decline at Lamps and a low-single-digit decline at

[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

Professional. From a geographic perspective, comparable sales[1] showed a low-single-digit decline in growth and mature geographies.

HealthTech Other reported sales of EUR 478 million, which reflected EUR 38 million lower royalty income due to the foreseen expiration of licenses, partly offset by one-time patent license deals and strong double-digit growth in Emerging Businesses.

2.1.2 Earnings

In 2016, Philips' gross margin was EUR 10,612 million, or 43.3% of sales, compared to EUR 9,856 million, or 40.7% of sales, in 2015. Gross margin in 2016 included EUR 107 million of restructuring and acquisition-related charges, whereas 2015 included EUR 176 million of restructuring and acquisition-related charges. 2016 also included a EUR 12 million net release of provisions and EUR 4 million of charges related to the separation of the Lighting business. Gross margin in 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. The year-on-year increase was driven by improved performance in the HealthTech portfolio and in Lighting, as well as lower restructuring and acquisition-related charges.

Selling expenses increased from EUR 5,815 million in 2015 to EUR 5,888 million in 2016. Selling expenses as a % of total sales remained in line with 2015 at 24.0%. Selling expenses in 2016 included EUR 67 million of restructuring and acquisition-related charges, compared to EUR 62 million of restructuring and acquisition-related charges in 2015. Selling expenses in 2016 included EUR 38 million related to the separation of the Lighting business, while 2015 included charges of EUR 31 million related to a legal provision and EUR 69 million related to the separation of the Lighting business.

Research and development costs increased from EUR 1,927 million, or 7.9% of sales, in 2015 to EUR 2,021 million, or 8.2% of sales, in 2016. Research and development costs in 2016 included EUR 34 million of restructuring and acquisition-related charges, compared to EUR 16 million in 2015. The year-on-year increase was mainly due to higher spend in the Personal Health businesses and Diagnosis & Treatment businesses, as well as higher restructuring and acquisition-related charges.

General and administrative expenses amounted to EUR 845 million, or 3.4% of sales, in 2016, compared to EUR 1,209 million, or 5.0% of sales, in 2015. 2016 included EUR 5 million of restructuring and acquisition related-charges, compared to EUR 30 million in 2015. 2016 also included charges of EUR 109 million related to the separation of the Lighting business, a EUR 26 million impairment of real estate assets, as well as a EUR 46 million gain from the settlement of a pension-related claim. 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.

The overview below shows sales, income from operations (EBIT) and EBITA[1] according to the 2016 segment classifications.

Philips Group
Sales, Income from operations (EBIT) and EBITA[1]
in millions of EUR unless otherwise stated
2015 - 2016

	Sales	Income from operations (EBIT)	%	EBITA[1]	%
2016					
Personal Health	7,099	953	*13.4%*	1,092	*15.4%*
Diagnosis & Treatment	6,686	546	*8.2%*	594	*8.9%*
Connected Care & Health Informatics	3,158	275	*8.7%*	322	*10.2%*
HealthTech Other	478	(129)		(120)	
Lighting	7,094	432	*6.1%*	542	*7.6%*
Legacy Items	1	(195)		(195)	
Philips Group	**24,516**	**1,882**	***7.7%***	**2,235**	***9.1%***
2015					
Personal Health	6,751	736	*10.9%*	885	*13.1%*
Diagnosis & Treatment	6,484	322	*5.0%*	377	*5.8%*
Connected Care & Health Informatics	3,022	173	*5.7%*	227	*7.5%*
HealthTech Other	503	49		64	
Lighting	7,438	334	*4.5%*	441	*5.9%*
Legacy Items	46	(622)		(622)	
Philips Group	**24,244**	**992**	***4.1%***	**1,372**	***5.7%***

[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

In 2016, income from operations (EBIT) increased by EUR 890 million year-on- year to EUR 1,882 million, or 7.7% of sales. Restructuring and acquisition-related charges amounted to EUR 213 million, compared to EUR 283 million in 2015. Income from operations (EBIT) in 2016 also included EUR 152 million of charges related to the separation of the Lighting business, a EUR 26 million impairment of real estate assets, a EUR 12 million net release of provisions and a EUR 46 million gain from the settlement of a pension-related claim. Income from operations (EBIT) 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, 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.

Amortization and impairment of intangibles, excluding software and capitalized product development costs, amounted to EUR 350 million in 2016, compared to EUR

[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

380 million in 2015. In 2016, goodwill impairment charges amounted to EUR 3 million consisting of impairments on divested businesses in Lighting, see note 11, Goodwill. In 2015 goodwill impairment charges were nil.

EBITA[1] increased from EUR 1,372 million, or 5.7% of sales, in 2015 to EUR 2,235 million, or 9.1% of sales, in 2016. The year-on-year increase was driven by improved performance at all segments except HealthTech Other.

Personal Health businesses

In 2016, income from operations (EBIT) totaled EUR 953 million, compared to EUR 736 million in 2015. EBITA[1] amounted to EUR 1,092 million, or 15.4% of sales, compared to EUR 885 million, or 13.1% of sales, in 2015. EBITA[1] included restructuring and acquisition-related charges of EUR 16 million, compared to EUR 37 million in 2015. EBITA[1] in 2015 also included charges of EUR 31 million relating to legal provisions and charges of EUR 13 million related to the devaluation of the Argentine peso. The year-on-year increase was mainly attributable to higher volumes and cost productivity.

Diagnosis & Treatment businesses

In 2016, income from operations (EBIT) totaled EUR 546 million, compared to EUR 322 million in 2015. EBITA[1] amounted to EUR 594 million, or 8.9% of sales, compared to EUR 377 million, or 5.8% of sales, in 2015. EBITA[1] included restructuring and acquisition-related charges of EUR 37 million, compared to EUR 131 million in 2015. 2015 also included charges of EUR 7 million related to the devaluation of the Argentine peso. The year-on-year increase was largely driven by Image-Guided Therapy and Diagnostic Imaging, as well as lower restructuring and acquisition-related charges.

Connected Care & Health Informatics businesses

In 2016, income from operations (EBIT) totaled EUR 275 million, compared to EUR 173 million in 2015. EBITA[1] amounted to EUR 322 million, or 10.2% of sales, compared to EUR 227 million, or 7.5% of sales, in 2015. EBITA[1] included restructuring and acquisition-related charges of EUR 14 million, compared to EUR 38 million in 2015. 2016 also included a EUR 12 million net release of provisions, while 2015 also included a EUR 28 million charge related to the currency revaluation of the Masimo provisions and charges of EUR 1 million related to the devaluation of the Argentine peso. The increase was mainly driven by higher volumes and lower restructuring and acquisition-related charges and other items, partly offset by higher expenditure on innovation.

HealthTech Other

In 2016, income from operations (EBIT) totaled EUR (129) million, compared to EUR 49 million in 2015. EBITA[1] amounted net cost of EUR 120 million, compared to a gain of EUR 64 million in 2015. EBITA[1] included restructuring and acquisition-related charges of EUR 28 million and a EUR 26 million impairment of real estate assets, compared to a net restructuring release of EUR 19 million and a EUR 37 million gain related to the sale of real estate assets in 2015. The year-on-year decrease was mainly attributable to higher restructuring and acquisition-related charges and other items, investments in Emerging Businesses, brand campaigns and cyber security.

Lighting

In 2016, income from operations (EBIT) totaled EUR 432 million, compared to EUR 334 million in 2015. EBITA[1] amounted to EUR 542 million, or 7.6% of sales, a year-on-year increase of EUR 101 million. Restructuring and acquisition-related charges in 2016 amounted to EUR 119 million, compared to EUR 97 million in 2015. EBITA[1] in 2016 also included a gain of EUR 14 million related to a release of provisions originating from the separation activities, compared to EUR 14 million of charges related to the devaluation of the Argentine peso in 2015. The increase was mainly attributable to cost reduction programs and an increase in gross margin, partly offset by higher restructuring and acquisition-related charges.

Legacy Items

Income from operations (EBIT) mainly included EUR 152 million of charges related to the separation of the Lighting business, a EUR 14 million charge related to provisions originating from the separation of the Lighting business, EUR 9 million of costs of addressing legacy issues related to environmental provisions, EUR 4 million of pension costs, EUR 36 million of stranded costs related to the combined Lumileds and Automotive businesses, EUR 11 million of charges related to various provisions, as well as a EUR 46 million gain from the settlement of a pension-related claim. Income from operations (EBIT) in 2015 included EUR 345 million of settlements mainly related to pension de-risking.

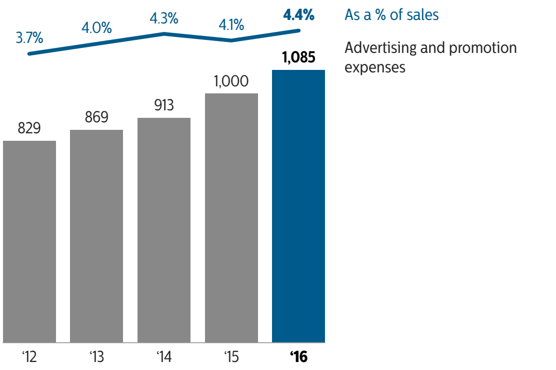
2.1.3 Advertising and promotion

Philips' total advertising and promotion expenses were EUR 1,085 million in 2016, an increase of 9% compared to 2015. The increase was mainly due to investments in key mature geographies such as the United States and Japan, as well as Germany. The total advertising and promotion investment as a percentage of sales was 4.4% in 2016, compared to 4.1% in 2015.

Philips' brand value increased by 4% to over USD 11.3 billion as measured by Interbrand. In the 2016 listing, Philips is ranked the 41st most valuable brand in the world.

[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

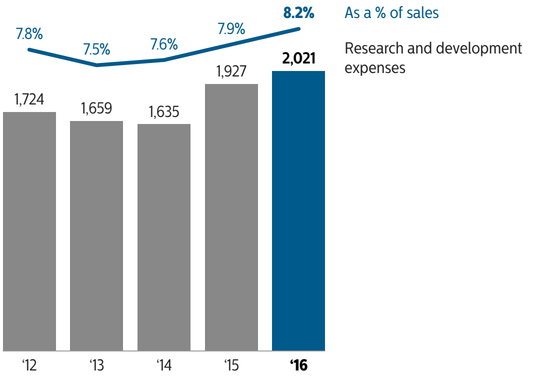
Philips Group
Advertising and promotion expenses in millions of EUR
2012 - 2016



2.1.4 Research and development

Research and development costs increased from EUR 1,927 million in 2015 to EUR 2,021 million in 2016. Research and development costs in 2016 included EUR 35 million of restructuring and acquisition-related charges, compared to EUR 16 million in 2015. The year-on-year increase was mainly due to higher spend at the Personal Health businesses and the Diagnosis & Treatment businesses. As a percentage of sales, research and development costs increased from 7.9% in 2015 to 8.2% in 2016.

Philips Group
Research and development expenses in millions of EUR
2012 - 2016



Philips Group
Research and development expenses in millions of EUR
2014 - 2016

	2014	2015	2016
Personal Health	332	383	412
Diagnosis & Treatment	455	596	629
Connected Care & Health Informatics	289	386	388
HealthTech Other	153	189	219
Lighting	395	365	350
Legacy Items	11	8	23
Philips Group	**1,635**	**1,927**	**2,021**

2.1.5 Pensions

In 2016, the total costs of post-employment benefits amounted to EUR 53 million for defined-benefit plans and EUR 382 million for defined-contribution plans, compared to EUR 559 million and EUR 293 million respectively in 2015.

The above costs are reported in Income from operations except for the net interest cost component which is reported in Financial expense. The net interest cost for defined-benefit plans was EUR 66 million in 2016 (2015: EUR 72 million).

2016 included a legal claim settlement gain of EUR 46 million related to the UK pension plan, a EUR 8 million settlement gain related to de-risking actions in the US and a combined settlement loss of EUR 2 million in other countries. Past-service cost gains of EUR 8 million were recognized in 2016 relating to a number of small plan changes.

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.

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.

The overall funded status improved in 2016, mainly due to contributions of EUR 250 million in the US, partly offset by an increase of the defined-benefit obligation due to lower discount rates. The pension deficit recognized in the balance sheet decreased for the same reasons.

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

2.1.6 Restructuring and impairment charges

2.1.7 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
2014 - 2016

	2014	2015	2016
Interest expense (net)	(251)	(302)	(327)
Sale of securities	60	20	3
Impairments	(17)	(46)	(27)
Other	(93)	(41)	(142)
Financial income and expenses	**(301)**	**(369)**	**(493)**

Net interest expense in 2016 was EUR 25 million higher than in 2015, mainly driven by higher interest expense resulting from higher average debt.

Impairments amounted to EUR 27 million, mainly due to Corindus Vascular Robotics.

Other financial expense amounted to EUR 142 million in 2016, primarily consisting of financial charges related to the early redemption of USD bonds in October 2016 and January 2017.

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

2.1.8 Income taxes

Income taxes amounted to EUR 327 million, compared to EUR 239 million in 2015. The effective income tax rate in 2016 was 23.5%, compared to 38.4% in 2015. The decrease was largely due to a change in the geographical mix of actual profits and one-off tax benefits in 2016 mainly relating to recognition of deferred tax assets.

For 2017, we expect our effective tax rate to be around 30%. However, the actual rate will depend on the geographical mix of profits.

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

2.1.9 Results of investments in associates

Results related to investments in associates decreased from a gain of EUR 30 million in 2015 to a gain of EUR 13 million in 2016, mainly reflecting the proceeds from the sale of Assembléon Technologies B.V. in 2015.

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

2.1.10 Non-controlling interests

Net income attributable to non-controlling interests increased from EUR 14 million in 2015 to EUR 43 million in 2016, mainly as a result of the sale of the 28.775% minority interest in Philips Lighting.

2.1.11 Discontinued operations

Discontinued operations consist primarily of the combined businesses of Lumileds and Automotive, the Audio, Video, Multimedia & Accessories business, and certain divestments formerly reported as Discontinued operations. The results related to these businesses are reported under Discontinued operations in the Consolidated statements of income and Consolidated statements of cash flows.

In 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.

In January 2016, Philips announced that the transaction with Go Scale Capital had been terminated despite efforts to mitigate the concerns of the Committee on Foreign Investment in the United States ('CFIUS').

Philips announced December 12, 2016 that it has signed an agreement to sell an 80.1% interest in Lumileds, a leading supplier of LED components and automotive lighting, to certain funds managed by affiliates of Apollo Global Management, LLC (NYSE: APO). Philips will retain the remaining 19.9% interest in Lumileds.

Philips Group
Net income of Discontinued operations
in millions of EUR unless otherwise stated
2014 - 2016

	2014	2015	2016
The combined Lumileds and Automotive businesses	141	246	282
Other	49	(1)	134
Net income of Discontinued operations	**190**	**245**	**416**

In 2016, income from Discontinued operations increased by EUR 171 million to EUR 416 million. The year-on-year increase was mainly due to improved results of the combined Lumileds and Automotive businesses, which were driven by higher sales and improvements in Gross margin, and the Funai arbitration award of EUR 144 million, which includes disbursements and interest as compensation for damages.

In 2015, income from Discontinued operations increased by EUR 55 million to EUR 245 million. The year-on-year increase was mainly due to the positive impact from the treatment of depreciation and amortization of assets held for sale of the combined Lumileds and Automotive businesses.

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

2.1.12 Net income

Net income increased from EUR 659 million in 2015 to EUR 1,491 million in 2016. The increase was largely due to higher income from operations (EBIT) of EUR 890 million and net income from Discontinued operations of EUR 171 million, partly offset by higher financial charges of EUR 124 million, higher income tax charges of EUR 88 million and EUR 17 million lower net income from investments in associates.

Basic earnings per common share from net income attributable to shareholders increased from EUR 0.70 per common share in 2015 to EUR 1.58 per common share in 2016.

2.1.13 Acquisitions and divestments

Acquisitions

In 2016, Philips completed two acquisitions, the largest being Wellcentive, a leading US-based provider of population health management software solutions. Acquisitions in 2016 and prior years led to post-merger integration charges of EUR 31 million in the Diagnosis & Treatment businesses, EUR 4 million in the Connected Care & Health Informatics businesses and EUR 3 million in Lighting.

In 2015, Philips completed four acquisitions, the largest being 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, mainly in the Diagnosis & Treatment businesses, 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 the Diagnosis & Treatment businesses, EUR 1 million in the Personal Health businesses and EUR 19 million in Lighting.

Divestments

In 2016, Philips completed six divestments, mainly several small businesses within Lighting.

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

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

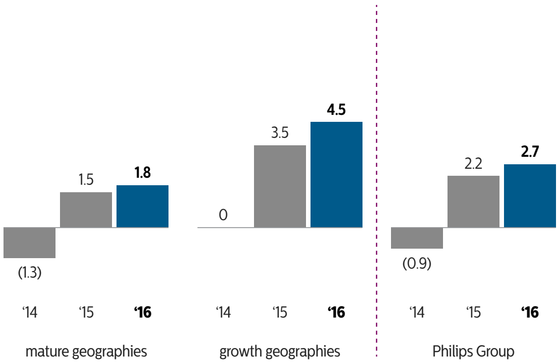
2.1.14 Performance by geographic cluster

In 2016, sales increased 1% nominally, largely due to unfavorable foreign exchange impacts, and 3% on a comparable basis[1], driven by 5% comparable sales growth[1] in the HealthTech portfolio.

Sales in mature geographies were EUR 312 million higher than in 2015, or 2% higher on both a nominal and comparable basis[1]. Sales in Western Europe were 2% higher than in 2015, with growth in the Diagnosis & Treatment businesses and Personal Health businesses, partly offset by a decline in the Connected Care & Health Informatics businesses and Lighting. Sales in North America increased by EUR 166 million, or 2% on a comparable basis[1]. Comparable sales[1] in other mature geographies showed a 2% increase, with growth in the Connected Care & Health Informatics businesses and Personal Health businesses, while Diagnosis & Treatment businesses declined 1% and Lighting was in line with 2015.

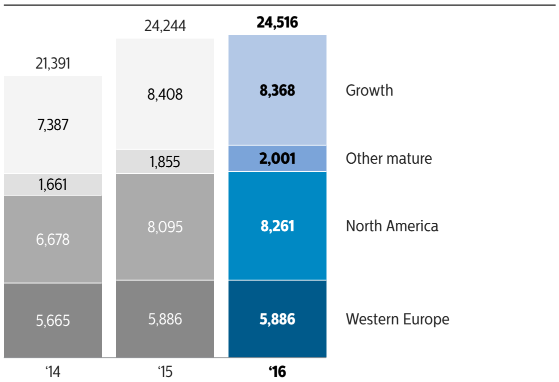
In growth geographies, sales were flat year-on-year on a nominal basis. The 5% increase on a comparable basis[1]reflected double-digit growth in the Diagnosis & Treatment businesses, high-single-digit growth in the Personal Health businesses and low-single-digit growth in the Connected Care & Health Informatics businesses, partly offset by a low-single digit decline at Lighting. The increase was driven by double-digit growth in Central & Eastern Europe, high-single-digit growth in Latin America and mid-single-digit growth in China, partly offset by a mid-single-digit decline in Middle East & Turkey.

Philips Group
Comparable sales growth by geographic cluster[1] in %
2014 - 2016



[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

Philips Group
Sales by geographic cluster in millions of EUR
2014 - 2016



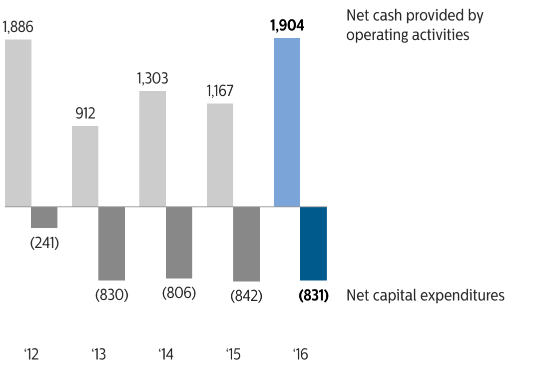
[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

2.1.15 Net cash provided by (used for) continuing operations

Net cash provided by operating activities

Net cash provided by operating activities amounted to EUR 1,904 million in 2016, which was EUR 737 million higher than in 2015, mainly due to higher earnings, net improvements in accounts payable, accrued liabilities and other current liabilities, receivables and other current assets and inventories related inflows and the higher outflows recorded in 2015 related to CRT litigation claims and pension de-risking settlements.

Philips Group
Net cash provided by operating activities and net capital expenditures in millions of EUR
2012 - 2016



Condensed consolidated statements of cash flows for the years ended December 31, 2014, 2015 and 2016 are presented below:

Philips Group
Condensed consolidated cash flow statements[1)]
in millions of EUR
2014 - 2016

	2014	2015	2016
Net cash provided by operating activities	**1,303**	**1,167**	**1,904**
Net cash used for investing activities	**(984)**	**(1,941)**	**(1,167)**
Net capital expenditures	*(806)*	*(842)*	*(831)*
Other investing cash flows	*(178)*	*(1,099)*	*(336)*
Net cash provided by (used for) financing activities	**(1,189)**	**508**	**(420)**
Net cash provided by (used for) continuing operations	**(870)**	**(266)**	**317**
Net cash provided by (used for) Discontinued operations	193	79	268
Effect of changes in exchange rates on cash and cash equivalents	85	80	(17)
Total change in cash and cash equivalents	**(592)**	**(107)**	**568**
Cash and cash equivalents at the beginning of year	2,465	1,873	1,766
Cash and cash equivalents at the end of year	**1,873**	**1,766**	**2,334**

1) Please refer to section 10.7, Consolidated statements of cash flows, of this Annual Report

Net cash used for investing activities

Other investing cash flows

In 2016, acquisitions of businesses (including acquisition of investments in associates) amounted to a cash outflow of EUR 202 million.

Net cash proceeds from divestment of businesses amounted to EUR 31 million and were received mainly from divested businesses held for sale.

Net cash outflow from non-current financial assets of EUR 45 million was mainly due to the acquisition of stakes in investment funds.

EUR 120 million net cash used for derivatives and current financial assets was mainly due to EUR 132 million cash paid with respect to foreign exchange derivative contracts related to activities for liquidity management funding.

In 2015, acquisitions of businesses (including acquisition of investments in associates) amounted to a cash outflow of EUR 1,116 million which was mainly related to the acquisition of Volcano.

Net cash proceeds from divestment of businesses amounted to EUR 57 million and were received mainly from the divestment of Assembleon Holding B.V., the OEM remote control business and Axsun Technologies LLC.

Net cash inflow from non-current financial assets of EUR 32 million was mainly due to the sale of stakes in Silicon & Software Systems and other equity interest.

EUR 72 million net cash used for derivatives and current financial assets was mainly due to EUR 193 million cash paid with respect to foreign exchange derivative contracts related to activities for liquidity management funding, partially offset by EUR 121 million received with respect to current financial assets mainly related to TPV Technology Limited loans.

Net cash (used for) provided by financing activities

Net cash used for financing activities in 2016 was EUR 420 million. Philips' shareholders were given EUR 732 million in the form of a dividend, of which the cash portion of the dividend amounted to EUR 330 million. The net impact of changes in debt was a decrease of EUR 377 million. Additionally, net cash outflows for share buy-back and share delivery totaled EUR 526 million.

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.

2.1.16 Cash flows from discontinued operations

In 2016, cash inflow from Discontinued operations as reported within operating activities amounted to EUR 268 million, mainly attributable to a cash inflow of EUR 148 million from the Automotive and Lumileds businesses and a cash inflow from the Audio, Video, Multimedia & Accessories business of EUR 119 million.

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

2.1.17 Financing

Condensed consolidated balance sheets for the years 2014, 2015 and 2016 are presented below:

Philips Group
Condensed consolidated balance sheet[1] in millions of EUR
2014 - 2016

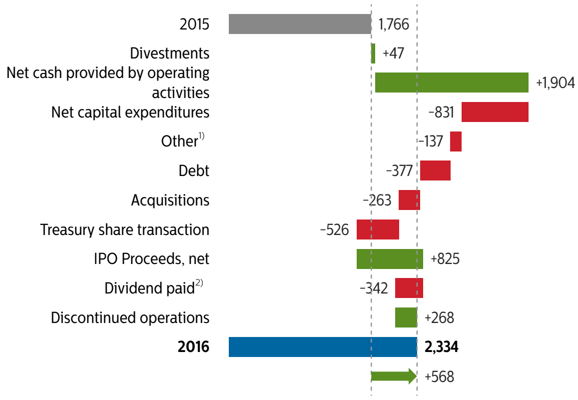
	2014	2015	2016
Intangible assets	10,526	12,216	12,450
Property, plant and equipment	2,095	2,322	2,155
Inventories	3,314	3,463	3,392
Receivables	5,040	5,287	5,636
Assets held for sale	1,613	1,809	2,180
Other assets	3,891	4,113	4,156
Payables	(5,282)	(5,604)	(6,028)
Provisions[3]	(4,517)	(4,243)	(3,606)
Liabilities directly associated with assets held for sale	(349)	(407)	(525)
Other liabilities[3]	(3,132)	(3,182)	(3,030)
Net asset employed	**13,199**	**15,774**	**16,780**
Cash and cash equivalents	1,873	1,766	2,334
Debt	(4,104)	(5,760)	(5,606)
Net debt[2]	**(2,231)**	**(3,994)**	**(3,272)**
Non-controlling interests	(101)	(118)	(907)
Shareholders' equity	(10,867)	(11,662)	(12,601)
Financing	**(13,199)**	**(15,774)**	**(16,780)**

1) Please refer to section 10.6, Consolidated balance sheets, of this Annual Report
2) Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.
3) Adjusted to reflect a reclassification of net defined-benefit obligations into Long-term provisions. See note 1, Significant accounting policies

2.1.18 Cash and cash equivalents

In 2016, cash and cash equivalents increased by EUR 568 million to EUR 2,334 million at year-end. The increase was mainly attributable to cash inflows of EUR 1,904 million from net cash provided by operating activities, EUR 825 million net proceeds from Philips Lighting IPO and EUR 268 million from Discontinued operations. This was partly offset by cash outflows of EUR 831 million from net capital expenditures, EUR 526 million from treasury share transactions, EUR 377 million from decreases in debt, cash dividends paid of EUR 342 million including EUR 12 million of dividends paid to non-controlling interest and EUR 263 million related to acquisitions.

Philips Group
Cash balance movements in millions of EUR
2016



1) Includes cash flow for derivatives and currency effect
2) Includes dividends paid to shareholders of Koninklijke Philips N.V and to non-controlling interests

2.1.19 Debt position

Total debt outstanding at the end of 2016 was EUR 5,606 million, compared with EUR 5,760 million at the end of 2015.

Philips Group
Changes in debt in millions of EUR
2014 - 2016

	2014	2015	2016
New borrowings	(69)	(1,335)	(1,304)
Repayments	370	104	1,681
Currency effects and consolidation changes	(504)	(425)	(223)
Changes in debt	**(203)**	**(1,656)**	**154**

In 2016, total debt decreased by EUR 154 million compared to 2015. New borrowings of EUR 1,304 million were mainly due to new loan facilities for Philips Lighting of EUR 740 million and USD 500 million to replace intragroup financing from Royal Philips. Repayments amounted to EUR 1,681 million, mainly due to the repayment of a USD 1,300 million bridge loan used for the Volcano acquisition, as well as the early redemption of USD 285 million in aggregate principal amount of USD bonds. Other changes resulting from consolidation and currency effects led to an increase of EUR 223 million.

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.

At the end of 2016, long-term debt as a proportion of the total debt stood at 72% with an average remaining term of 7.8 years, compared to 71% and 10.7 years at the end of 2015.

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

2.1.20 Shareholders' equity

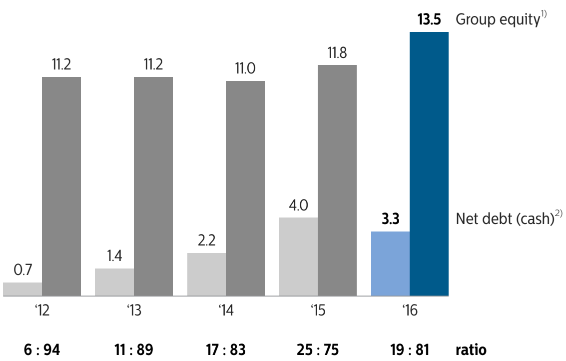
Shareholders' equity increased by EUR 939 million in 2016 to EUR 12,601 million at December 31, 2016. The increase was mainly a result of EUR 1,491 million net income, partially offset by EUR 589 million related to the purchase of shares for the share buy-back program. The dividend payment to shareholders of Koninklijke Philips N.V. in 2016 reduced equity by EUR 330 million including tax and service charges, while the delivery of treasury shares increased equity by EUR 74 million.

The number of outstanding common shares of Royal Philips at December 31, 2016 was 922 million (2015: 917 million). At the end of 2016, the Company held 7.2 million shares in treasury to cover the future delivery of shares (2015: 11.8 million shares). This was in connection with the 33.5 million rights outstanding at the end of 2016 (2015: 39.1 million rights) under the Company's long-term incentive plans. At the end of 2016, the Company did not hold any shares for cancellation (2015: 2.2 million shares). In 2016 Philips purchased call options on Philips shares matching the majority of the options granted to employees until 2013. As of December 31, 2016 Philips held 14.1 million call options as a hedge of 15.9 million remaining options granted to employees.

2.1.21 Net debt to equity

Philips ended 2016 with a position of EUR 3,272 million, compared to a net debt[1] position of EUR 3,994 million at the end of 2015.

Philips Group
Net debt to group equity[2] in billions of EUR
2012 - 2016



1) Shareholders' equity and non-controlling interests
2) Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report

2.1.22 Liquidity position

As of December 31, 2016, including the cash position (cash and cash equivalents), as well as its EUR 2.3 billion committed revolving credit facilities, the Philips Group had access to available liquidity of EUR 4,634 million vs. Gross Debt (including short and long-term) of EUR 5,606 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 3,566 million vs. Gross Debt (including short and long-term) of EUR 5,760 million.

Philips Group
Liquidity position in millions of EUR
2014 - 2016

	2014	2015	2016
Cash and cash equivalents	1,873	1,766	2,334
Committed revolving credit facility/CP program/Bilateral loan	1,800	1,800	2,300
Liquidity	**3,673**	**3,566**	**4,634**
Available-for-sale financial assets at fair value	75	75	36
Short-term debt	(392)	(1,665)	(1,585)
Long-term debt	(3,712)	(4,095)	(4,021)
Net available liquidity resources	**(356)**	**(2,119)**	**(936)**

Royal 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 Programme and will mature in February 2018. The Commercial Paper Programme amounts to USD 2.5 billion, under which Royal 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 Programme. Also, there are no limitations on Philips' use of funds from the program. As of December 31, 2016, Royal Philips did not have any loans outstanding under these facilities.

Royal 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[1] 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[1] position is dividend stability and a pay-out ratio of 40% to 50% of continuing net income. Royal Philips' outstanding long-term debt and credit facilities do not contain financial covenants or cross-acceleration provisions that are based on adverse changes in ratings. A description of Philips' credit facilities, including any covenants, can be found in note 18, Debt.

1) Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

As at December 31, 2016, Philips had total cash and cash equivalents of EUR 2,334 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 financing requirements.

In December 2016, Royal Philips delivered a notice of redemption to the holders of the outstanding 5.750% Notes due 2018 in the aggregate principal amount of USD 1,250 million for redemption in January 2017. For further information, refer to note 31, Subsequent events.

2.1.23 Cash obligations

Contractual cash obligations

Presented below is a summary of the Group's contractual cash obligations and commitments at December 31, 2016.

Philips Group
Contractual cash obligations[1,2] in millions of EUR
2016

		Payments due by period			
	total	less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt[3]	5,117	1,290	104	1,297	2,426
Finance lease obligations	307	93	127	54	33
Short-term debt	210	210	-	-	-
Operating leases	942	227	300	195	220
Derivative liabilities	841	280	410	-	151
Interest on debt[4]	2,229	184	306	295	1,444
Purchase obligations[5]	260	108	73	33	46
Trade and other payables	2,848	2,848	-	-	-
Contractual cash obligations	**12,754**	**5,240**	**1,320**	**1,874**	**4,320**

1) Obligations in this table are undiscounted
2) This table excludes pension contribution commitments and income tax liabilities in respect of tax risks because it is not possible to make a reasonably reliable estimate of the actual period of cash settlement
3) Long-term debt includes short-term portion of long-term debt and excludes finance lease obligations
4) Approximately 30% of the debt bears interest at a floating rate.
5) 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, 2016 approximately EUR 360 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 201 million restructuring-related provisions by the end of 2016, of which EUR 174 million is expected to result in cash outflows in 2017. 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 745 million), in cash or shares at the option of the shareholder, against the net income for 2016. Further details will be given in the agenda for the Annual General Meeting of Shareholders, to be held on May 11, 2017.

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 2016, the total fair value of guarantees recognized on the balance sheet amounted to EUR nil (December 31, 2015: EUR nil). Remaining off-balance-sheet business and credit-related guarantees provided on behalf of third parties and associates decreased by EUR 9 million during 2016 to EUR 28 million (December 31, 2015: EUR 37 million).

2.1.24 Analysis of 2015 compared to 2014

The analysis of the 2015 financial results compared to 2014, 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 2016, which will be filed electronically with the US Securities and Exchange Commission.

Content you didn't download

1) Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

2.4 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, 2016, 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 745 million), in cash or in shares at the option of the shareholder, against the net income for 2016.

If the above dividend proposal is adopted, the shares will be traded ex-dividend as of May 12, 2017 and May 15, 2017 at the New York Stock Exchange and Euronext Amsterdam, respectively. In compliance with the listing requirements of the New York Stock Exchange and the stock market of Euronext Amsterdam, the dividend record date will be May 16, 2017.

Shareholders will be given the opportunity to make their choice between cash and shares between May 17, 2017 and June 9, 2017. If no choice is made during this election period the dividend will be paid in cash. On June 9, 2017 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 7, 8 and 9, 2017. 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. The ratio and the number of shares to be issued will be announced on June 13, 2017. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 14, 2017. The distribution of dividend in cash to holders of New York Registry shares will be made in USD at the USD/EUR rate as per WM/ Reuters FX Benchmark 2 PM CET fixing of June 12, 2017.

Further details will be given in the agenda for the 2017 Annual General Meeting of Shareholders. All dates mentioned remain provisional until then.

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 2016, a dividend of EUR 0.80 per common share was paid in cash or shares, at the option of the shareholder. For 55.0% of the shares, the shareholders elected for a share dividend resulting in the issue of 17,344,462 new common shares, leading to a 1.9% dilution. EUR 330 million was paid in cash. See also chapter 14, 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, 2016, is before appropriation of the result for the financial year 2016.

3 Segment performance

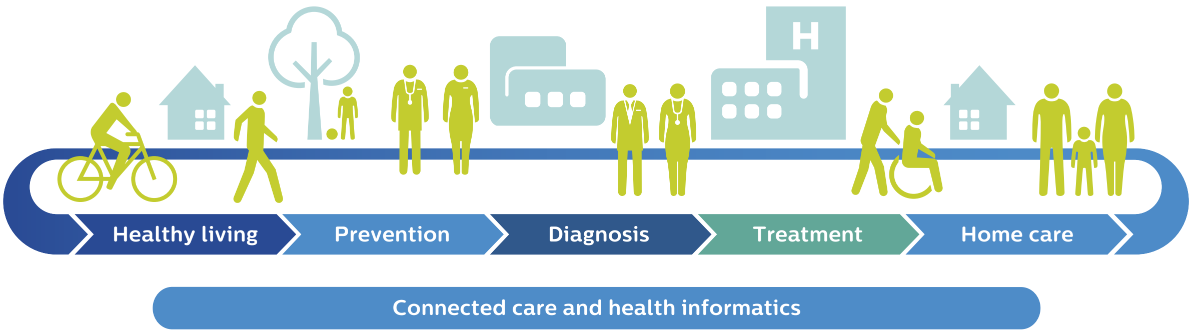
The health technology landscape

Health 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 personalized solutions and services – that give patients greater control over, and responsibility for, their health.

Philips (NYSE: PHG, AEX: PHIA) is a health technology company focused on improving people's lives through meaningful innovation across the health continuum – from healthy living and prevention to diagnosis, treatment and home care. Applying advanced technologies and deep clinical and consumer insights, Philips partners with customers to deliver integrated solutions that enable better outcomes at lower cost.



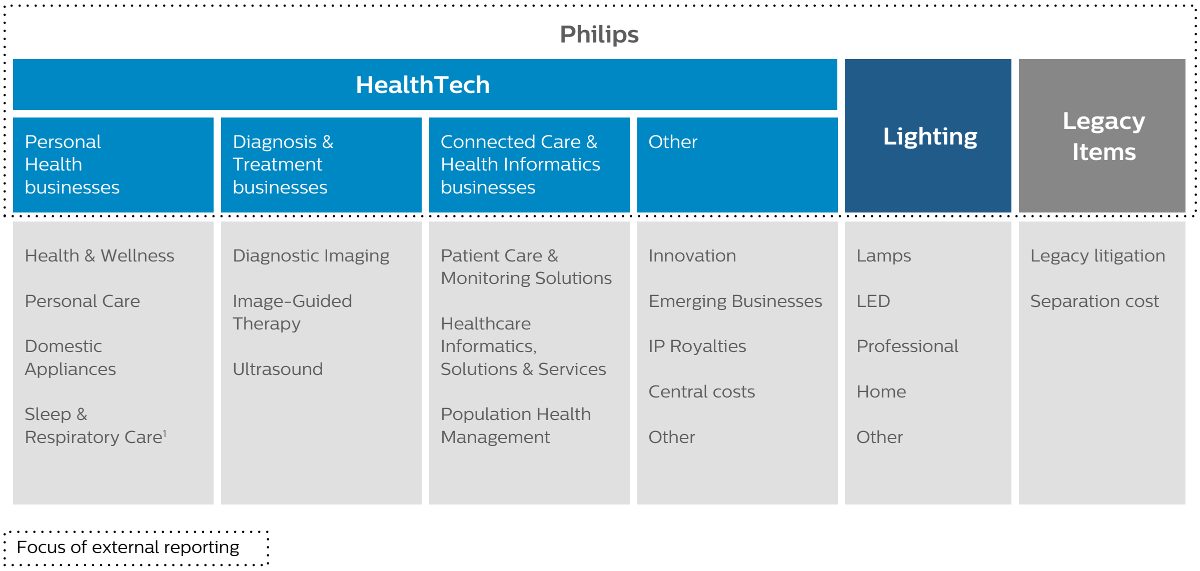
Our structure in 2016

Koninklijke Philips N.V. ('Royal Philips' or the 'Company') is the parent company of the Philips Group ('Philips' or the 'Group'), headquartered in Amsterdam, the Netherlands. The Company is managed by the members of the Executive Committee (comprising the Board of Management and certain key officers) 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 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. To this end, a stand-alone structure was established for Philips Lighting within the Philips Group, effective February 1, 2016. Then, on May 27, 2016, Philips Lighting was listed and started trading on Euronext in Amsterdam under the symbol 'LIGHT'. Following the listing of Philips Lighting, Philips retained a 71.225% stake and continued to consolidate Philips Lighting, through 2016. On February 8, 2017, Philips announced that it had successfully completed an accelerated bookbuild offering to institutional investors and to Philips Lighting of 26.0 million shares in Philips Lighting, reducing Philips' stake in Philips Lighting's issued and outstanding share capital from 71.225% to approximately 55.180%. The transaction is in line with Philips' stated objective to fully sell down its stake in Philips Lighting over the next several years.

In light of its focus on health technology, effective January 1, 2016, Philips eliminated the former 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, and changed the reporting of its health technology activities. At the same time, the former Innovation, Group & Services was split and allocated to Philips and Philips Lighting respectively.

In 2016, Philips’ activities in the field of health technology were organized on a segment basis. The reportable segments are Personal Health businesses, Diagnosis & Treatment businesses, Connected Care & Health Informatics businesses and Lighting, each being responsible for the management of its business worldwide. Additionally, Philips identifies HealthTech Other and Legacy Items, as shown below:



[1] Previously part of the Healthcare sector

At the end of 2016, Philips had 82 production sites in 22 countries, sales and service outlets in approximately 100 countries, and 105,223 employees.

3.1 Personal Health businesses

The Chief Business Leader of the Personal Health businesses segment and Chief Marketing Officer, Pieter Nota, joined Philips in 2010 as CEO of Philips Consumer Lifestyle. Prior to that he was on the Board of Management of Beiersdorf AG as Chief Marketing & Innovation Officer. He started his career at Unilever.

3.1.1 About Personal Health businesses

Our Personal Health businesses play an important role on the health continuum, delivering integrated, connected solutions that support healthier lifestyles and those living with chronic disease.

Leveraging our deep consumer expertise and extensive healthcare know-how, we enable people to live a healthy life in a healthy home environment, and to proactively manage their own health.

Through our various businesses, Personal Health has delivered sustained strong growth and margin expansion in recent years, driven by four main factors:

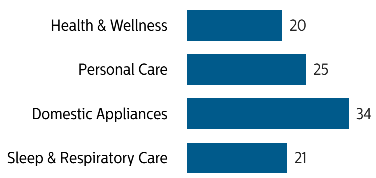
- Innovation at the forefront of digital health, based on deep consumer insights
- Value propositions leveraging consumer data, unlocking recurring revenue streams
- High-impact consumer marketing programs
- Geographical expansion with proven propositions

Through 2016, we have driven above-market growth and are stepping up profitability towards the mid-teens, building on a strong track record. Personal Health has many distinct product categories and associated competitors, including Procter & Gamble in Personal Care and Oral Healthcare, Groupe SEB in Domestic Appliances and ResMed in Sleep & Respiratory Care.

In 2016, the Personal Health segment consisted of the following areas of business:

- **Health & Wellness**: mother and child care, oral healthcare, pain relief
- **Personal Care**: male grooming, beauty
- **Domestic Appliances**: kitchen appliances, coffee, air, garment care, floor care
- **Sleep & Respiratory Care**: sleep, respiratory care, respiratory drug delivery

Personal Health
Total sales by business as a %
2016



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 capture further growth in online sales and continue to build our digital and e-commerce capabilities. We are adapting our web functionality to offer consumers a better user experience via smaller screens, driving improvements from conversion to sales. And we continue to roll-out high-impact consumer marketing programs in support of key innovations. The launch of Philips OneBlade, for example, was accompanied by the deployment of an innovative Digital Advocacy Marketing Program.

The company's wide portfolio of connected consumer health products leverages Philips HealthSuite – a cloud-enabled connected health ecosystem of devices, apps and digital tools that enables personalized health and continuous care.

We are leveraging connectivity to engage consumers in new and impactful ways through social media and digital innovation. For example, in 2016 we launched the Philips Sonicare FlexCare Platinum Connected toothbrush. With unique smart sensor technology inside the toothbrush – connecting to the Philips Sonicare smartphone app via Bluetooth – users receive personalized step-by-step coaching, real-time feedback and post-brush analysis with a visual 3D mouth map to help improve brushing technique. Via the Philips HealthSuite digital platform, the app allows data to be shared with dental practices, so hygienists can mark up areas that need special attention.

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

In 2016, Personal Health employed approximately 22,530 people worldwide. The global sales and service organization covered more than 50 mature 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 they operate. 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-using 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 12.3.8, Supplier indicators, of this Annual Report.

3.1.2 2016 business highlights

Philips introduced a range of personalized health programs at this year's IFA trade show in Berlin, including the Philips Sonicare FlexCare Platinum Connected toothbrush and the uGrow medical-grade baby app. The health programs leverage Philips HealthSuite, a cloud-enabled connected health ecosystem of devices, apps and digital tools.

Personal Care successfully launched Philips OneBlade – a hybrid styler that can trim, shave and create clean lines and edges – in France, the UK, Germany and North America.

Sleep & Respiratory Care launched the cloud-based Patient Adherence Management Service, which supports new patients' transition to sleep therapy. Building on the success of the integrated Dream Family solution in the US, Europe and Japan, the Philips DreamStation Go portable CPAP solution was introduced. DreamStation Go is a compact and lightweight device designed to provide sleep therapy for travelers with obstructive sleep apnea.

Oral Healthcare continued its growth trajectory, supported by a strong performance of the Philips Sonicare FlexCare Platinum Connected toothbrush, which has built-in sensor technology that enables real-time feedback and coaching to help consumers optimize their brushing routine.

3.1.3 2016 financial performance

Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis.

Personal Health
Key data in millions of EUR unless otherwise stated
2014 - 2016

	2014	2015	2016
Sales	5,948	6,751	7,099
Sales growth			
% increase, nominal	3%	14%	5%
% increase, comparable[1]	6%	5%	7%
Income from operations (EBIT)	620	736	953
as a % of sales	*10.4%*	*10.9%*	*13.4%*
EBITA [1]	758	885	1,092
as a % of sales	*12.7%*	*13.1%*	*15.4%*

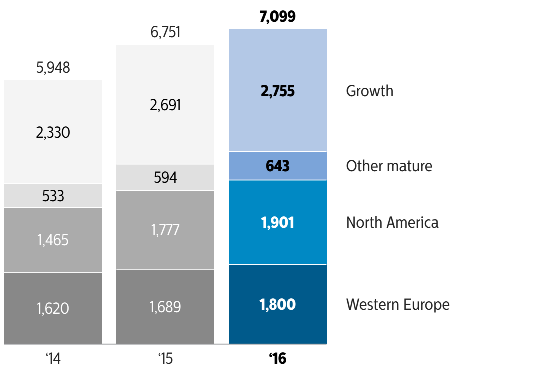
In 2016, sales amounted to EUR 7,099 million, a nominal increase of 5% compared to 2015. Excluding a 2% negative currency impact, comparable sales[1] were 7% higher year-on-year, driven by double-digit growth in Health & Wellness and mid-single-digit growth in Personal Care, Sleep & Respiratory Care and Domestic Appliances. Green Revenues amounted to EUR 3,951 million, or 56% of total segment sales.

From a geographic perspective, on a comparable basis[1] both growth geographies and mature geographies achieved high-single-digit growth. In growth geographies, the increase was mainly driven by Central & Eastern Europe and Middle East & Turkey. Mature geographies recorded high-single-digit growth, driven by high-single-digit growth in Western Europe, mid-single-digit growth in North America and low-single-digit growth in other mature geographies.

Income from operations (EBIT) amounted to EUR 953 million, or 13.4% of sales, which included EUR 139 million of amortization charges, mainly related to intangible assets at Sleep & Respiratory Care.

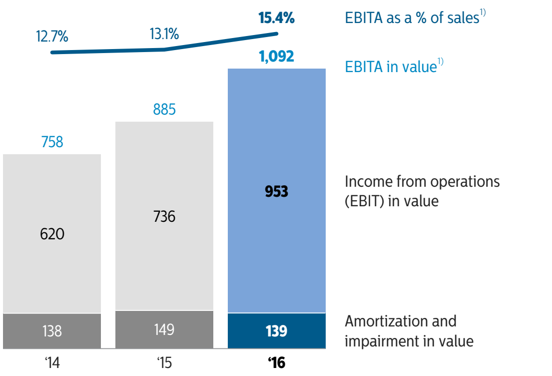
EBITA[1] increased from EUR 885 million, or 13.1% of sales, in 2015 to EUR 1,092 million, or 15.4% of sales, in 2016. Restructuring and acquisition-related charges amounted to EUR 16 million in 2016, compared to EUR 37 million in 2015. EBITA[1] in 2015 also included charges related to the devaluation of the Argentine peso of EUR 13 million. The increase in EBITA[1] was attributable to higher volumes and cost productivity.

Personal Health
Sales per geographic cluster in millions of EUR
2014 - 2016



[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

Personal Health
Income from operations (EBIT) and EBITA [1] in millions of EUR
2014 - 2016



[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report

3.1.4 Healthy people, sustainable planet

Sustainability continued to play an important role in the Personal Health businesses in 2016, with the main focus on optimizing the sustainability performance of our products and operations. Green Revenues, sales of products and solutions which meet or exceed our minimum requirements in the area of energy consumption, packaging and/or substances of concern, accounted for 56% of total sales in 2016. All Green Products with rechargeable batteries exceed the stringent California energy efficiency standard by at least 10%. And over 54% of total sales are PVC- and/or BFR-free products (excluding power cords).

As part of our Circular Economy program we have continued to increase the use of recycled materials in our products. Over 1,440 tons of recycled plastics were used in kitchen appliances, vacuum cleaners, irons, air purification and coffee machines, compared to 900 tons in 2015. The revenue from Circular Products reached over EUR 414 million in 2016, comprised of turnover generated from performance- and access-based business models in Sleep & Respiratory Care and products with recycled plastic materials.

As a concrete example of our commitment to sustainability we launched the new Performer Ultimate vacuum cleaner, for which we have created a closed-loop recycling system. Old Philips vacuum cleaners are collected in Western Europe and recycled separately from other products and brands. The plastics from the old vacuum cleaners are then mixed with other recycled plastics to create a new recycled plastic that is used to produce the new Performer Ultimate, which is free of PVC/BFR, has an A-class energy label and contains 36% recycled plastics.

In our operations we continue to draw most of our electricity from renewable sources, with the ultimate aim of having CO_2-neutral production sites by 2020. In 2016, 47% of the electricity used in manufacturing sites came from renewable sources and 85% of the industrial waste was recycled. We sent 7% of our manufacturing waste to landfill in 2016 and started a detailed analysis of waste streams that are landfilled by our production sites. Based on this we will define actions to reach our goal of zero waste to landfill in 2020.

3.2 Diagnosis & Treatment businesses

The Chief Business Leader of the Diagnosis & Treatment businesses segment, Rob Cascella, joined Philips in April 2015. He has more than 30 years of experience in the healthcare industry and has served on the Boards of several companies, including 10 years as President and later CEO of Hologic Inc.

3.2.1 About Diagnosis & Treatment businesses

Our Diagnosis & Treatment businesses are foundational to our health technology strategy, delivering on the promise of precision medicine and least-invasive treatment and therapy. We enable our customers to realize the full potential of their 'triple aim' – to improve outcomes, lower the cost of care delivery and enhance the patient experience – by enabling first-time-right diagnosis and treatment. We are focused on providing the most efficient path to obtaining a definitive diagnosis by integrating multiple sources of information and combining the data to create a comprehensive patient view. By bringing together imaging morphology, pathology and genomics, we are able to interrogate and extract the information needed to offer very personalized care. Our informatics platform provides the intelligence to make more consistent decisions, as well as making it easier to share and collaborate.

With our image-guided therapy, clinicians are provided with the technology necessary to determine the presence of disease, guide treatment procedures and confirm effectiveness. Our solutions enable patient-specific treatment planning and selection, simplify complex procedures through integrated real-time guidance, and provide clinically proven treatment solutions. We provide image guidance both in our proprietary products and by partnering with radiation therapy companies like Elekta and IBA to deliver real-time, precise cancer treatment.

In addition to our solutions for clinical pathways, we provide a range of technologies to help our customers improve their operational results. This year we introduced a comprehensive suite of software services designed to improve radiology department operations – PerformanceBridge is a multi-vendor offering that provides practice management, dose management and service analytics. It can be delivered as a service offering to promote continuous improvement, or as a professional service where our people partner with our customers to improve operating effectiveness.

The value proposition to our customers is based on leveraging our extensive clinical experience with our broad portfolio of technologies – making us uniquely capable to provide meaningful solutions that ultimately can improve the lives of the patients we serve while lowering the cost of care delivery for our customers.

Through our various businesses, Diagnosis & Treatment is focused on growing market share and profitability by:

- continuing to improve business fundamentals in Diagnostic Imaging; we made substantial progress in 2016, with, amongst others, the full CT (Computed Tomography) portfolio shipping from Cleveland, Haifa, Suzhou and other facilities
- enhancing our offering in oncology and radiology and expanding our solutions offering, which comprises systems, smart devices, software and services
- leveraging the successful integration of Volcano and driving expansion into devices for treatment
- addressing underpenetrated adjacencies in General Imaging and Obstetrics/Gynecology in Ultrasound

Philips is one of the world's leading health technology companies (based on sales) along with General Electric and Siemens. The competitive landscape in the healthcare industry is evolving with the emergence of new market players. The United States, our largest market, represented 34% of Diagnosis & Treatment's global sales in 2016, followed by China, Japan and Germany. Growth geographies accounted for 33% of Diagnosis & Treatment's sales. In 2016, Diagnosis & Treatment had 23,791 employees worldwide .

Through 2016 we consistently focused on our value-creation strategy to ensure continued growth and margin improvement.

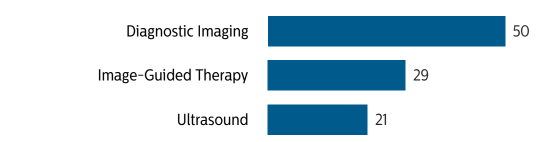
In 2016, the Diagnosis & Treatment segment consisted of the following areas of business:

- **Diagnostic Imaging**: Magnetic Resonance Imaging, Computed Tomography, Diagnostic X-Ray, which includes digital X-ray and mammography, Advanced Molecular Imaging, and integrated clinical solutions, which include radiation oncology planning, disease-specific oncology solutions and X-Ray dose management

- **Image-Guided Therapy**: 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 for the treatment of coronary artery and peripheral vascular disease

- **Ultrasound**: imaging products focused on diagnosis, treatment planning and guidance for cardiology, general imaging, Obstetrics/Gynecology, and point-of-care applications, as well as proprietary software capabilities to enable advanced diagnostics and intervention

Diagnosis & Treatment
Total sales by business as a %
2016



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

Sales channels are a mix of a direct sales force, especially in all the larger markets, combined with online sales portal and distributors – this varies by product, market and price segment. Sales are mostly driven by a direct sales force that has an intimate knowledge of the procedures for which our devices are used, and visits our customer base frequently.

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 requirements of local and national regulatory authorities including the US FDA, the CFDA in China and comparable agencies in other countries, as well as the European Union's Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS) and Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulations.

The imaging businesses and image processing applications are governed by regulatory approvals in the markets that we serve. In almost all cases, new products that we introduce are subject to a regulatory approval process (e.g. 510k for FDA approvals in the USA). Failing to comply with the regulatory requirements can have severe consequences. The number and diversity of regulatory bodies in the various markets we operate in globally adds complexity and time to product introductions. Regulatory approval is a prerequisite for market introduction of medical devices.

Further progress was made in 2016 in strengthening the remediated quality management system at our facility in Cleveland, Ohio, with the ramp-up of production and shipments continuing in 2017.

With regard to sourcing, please refer to sub-section 12.3.8, Supplier indicators, of this Annual Report.

3.2.2 2016 business highlights

In line with its strategy of building multi-year strategic partnerships, Philips signed multiple agreements in 2016, including a 10-year EUR 74 million agreement with Russia's Expert Group of Companies to provide solutions combining advanced imaging systems with clinical informatics to improve cardiac care. In China, leveraging its expertise in cardiology, Philips signed a 5-year interventional cardiology solutions agreement with DeltaHealth for the new DeltaHealth Hospital Shanghai, which will specialize in cardiac care. The agreement comprises interventional X-ray systems, ultrasound imaging, software and services.

Within Image-Guided Therapy, Philips Volcano delivered a strong performance with comparable sales growth[1)] and continued operational improvements. This was driven by growth across the smart catheter product portfolio, synergies with the Image-Guided Therapy Systems business and expansion in therapy solutions and new geographies.

At RSNA 2016, Philips launched new data-driven, intelligent solutions to improve operational efficiencies and enhance diagnostics and patient care. These include Illumeo Adaptive Intelligence and IntelliSpace Portal 9.0 – advanced informatics and visual analysis solutions with machine-learning capabilities to support the physician.

Leveraging its innovation leadership in diagnostic imaging, Philips has installed the Philips IQon Spectral CT across the globe. The system is the world's first and only spectral detector computed tomography modality that provides clinicians with a comprehensive view of the patient's anatomy, with a single, low-dose examination. Market success is the result of the modality's superb image quality and disease assessment, in particular for oncology.

Demonstrating its continued leadership in ultrasound imaging solutions, Philips received the '2016 Best in KLAS' award in the Ultrasound category. KLAS, a leading global research firm, recognizes companies with the Best in KLAS award for outstanding innovation and contributions to improved patient outcomes based on the past 12 months' performance ratings.

Philips introduced the first commercially available MR-only simulation solution indicated for prostate cancer radiation oncology treatment planning in the United States. The solution is part of Philips' Ingenia MR-RT platform, which supports radiation departments that want to rely on MRI as their primary imaging modality for prostate cancer treatment planning.

[1)] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

3.2.3 2016 financial performance

Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis.

Diagnosis & Treatment
Key data in millions of EUR unless otherwise stated
2014 - 2016

	2014	2015	2016
Sales	5,284	6,484	6,686
Sales growth			
% increase (decrease), nominal	(7)%	23%	3%
% increase (decrease), comparable[1]	(5)%	6%	4%
Income from operations (EBIT)	349	322	546
as a % of sales	*6.6%*	*5.0%*	*8.2%*
EBITA [1]	374	377	594
as a % of sales	*7.1%*	*5.8%*	*8.9%*

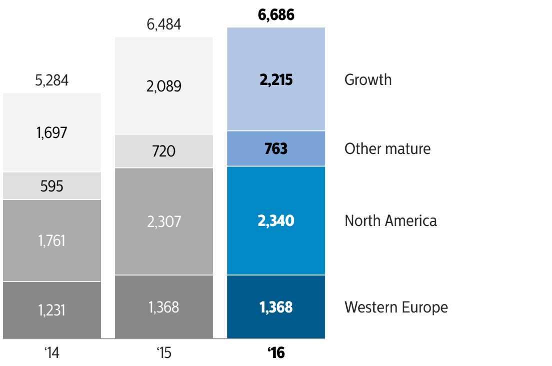
In 2016, sales amounted to EUR 6,686 million, 3% higher than in 2015 on a nominal basis. Excluding a 1% negative currency effect, comparable sales[1] increased by 4%, driven by double-digit growth in Image Guided Therapy, low-single-digit growth in Diagnostic Imaging, while Ultrasound was in line with 2015. Green Revenues amounted to EUR 4,798 million, or 71% of total segment sales.

From a geographic perspective, comparable sales[1] in growth geographies showed double-digit growth, reflecting double-digit growth in Latin America and India and high-single-digit growth in China. Mature geographies were in line with 2015, driven by low-single-digit growth in Western Europe, partly offset by a low-single-digit decline in other mature geographies. North America was in line with 2015.

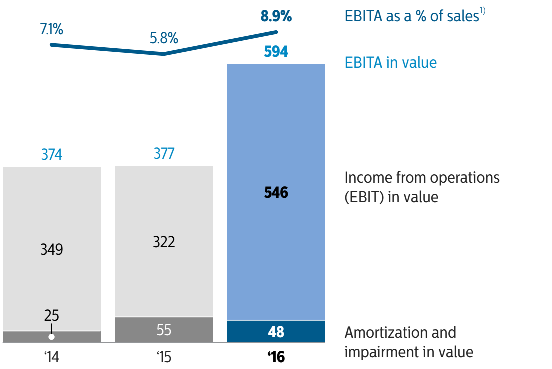
Income from operations (EBIT) amounted to EUR 546 million, or 8.2% of sales, and included EUR 48 million of amortization charges, mainly related to acquired intangible assets in Image-Guided Therapy.

EBITA[1] amounted to EUR 594 million, or 8.9% of sales, compared to EUR 377 million, or 5.8% of sales, in 2015. 2016 included restructuring and acquisition- related charges of EUR 37 million, compared to EUR 131 million in 2015. 2015 also included charges of EUR 7 million related to the devaluation of the Argentine peso. The improvement in margin was driven by Image-Guided Therapy and Diagnostic Imaging, as well as lower restructuring and acquisition-related charges.

Diagnosis & Treatment
Sales per geographic cluster in millions of EUR
2014 - 2016



Diagnosis & Treatment
Income from operations (EBIT) and EBITA[1] in millions of EUR
2014 - 2016



[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report

3.2.4 Healthy people, sustainable planet

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 diagnosis and treatment solutions that enable first-time-right diagnosis, precision interventions and therapy, while respecting the boundaries of natural resources.

In 2016, Green Revenues in Diagnosis & Treatment amounted to EUR 4,798 million thanks to a large portfolio of Philips Green Products and Solutions that 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.

[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

Supporting the transition to a circular economy, we have continued to expand the Diamond Select refurbishment program and also the SmartPath upgrading program for all modalities in the Diagnosis & Treatment portfolio.

Philips was presented with the ‘Champion for Change’ Award by Practice Greenhealth for the third year in a row. This award honors businesses that go beyond taking steps to improve their own green practices, but also help hospitals to expand their sustainable practices.

3.3 Connected Care & Health Informatics businesses

The Chief Business Leader of the Connected Care & Health Informatics businesses segment, Jeroen Tas, has over 30 years of global experience as an entrepreneur and senior executive in the healthcare, information technology and financial services industries. Previously he was CEO of Philips Healthcare Informatics, Solutions & Services, overseeing digital health and clinical informatics, and Group Chief Information Officer (CIO), leading IT worldwide. In February 2017, Jeroen Tas was appointed as Chief Innovation & Strategy Officer and succeeded by Carla Kriwet who joined the Executive Committee as Chief Business Leader of Connected Care & Health Informatics. Carla Kriwet is also the BG Leader of Patient Care & Monitoring Solutions and previously was the Philips Market Leader of Germany, Austria & Switzerland.

3.3.1 About Connected Care & Health Informatics businesses

Spanning the entire health continuum, the Connected Care & Health Informatics businesses aim to empower consumers, care givers and clinicians with digital solutions that facilitate value-based care by enabling precision medicine and population health management, building on Philips' strengths in consumer technology, patient monitoring and clinical informatics.

This requires a common digital framework that connects and aligns consumers, patients, payers and healthcare providers. A framework that aggregates and leverages information from clinical, personal and historic data, using analytics to support care providers in first-time-right diagnosis and treatment, and helps identify the risk and needs of different groups within a population.

To this end we have developed Philips HealthSuite – a cloud-based connected health ecosystem of devices, apps and digital tools. Applying analytics and algorithms, we can use data to deliver predictive, personalized insights, for example to help motivate healthy behavior through digital coaching, to support healthcare professionals in making clinical decisions, or to alert medical teams to potential problems, e.g. with elderly patients living independently at home.

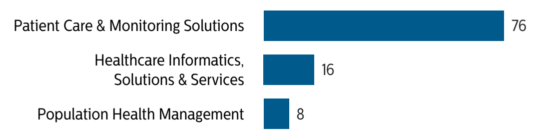
In 2016, the Connected Care & Health Informatics segment consisted of the following areas of business:

- **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 including diagnostic ECG data management for improved quality of cardiac care; 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.

- **Healthcare Informatics, Solutions & Services** comprises advanced healthcare IT, clinical and advanced visualization and quantification informatics solutions for radiology, cardiology, oncology and neurology departments. It also offers Universal Data Management solutions, Picture Archiving and Communication Systems (PACS) and fully integrated Electronic Medical Record (EMR) systems to support healthcare enterprises in optimizing health system performance. The business group also includes a professional services business (Healthcare Transformation Services) spanning consulting, education, clinical and business performance improvement, program management and system integration services, as well as the Philips HealthSuite digital platform. This platform enables interoperability, data security, big data and predictive analytics, optimized workflows and care pathways, rapid application development, enhanced patient centricity and engagement for the solutions part of the Philips HealthSuite connected health ecosystem.

- **Population Health Management**: Our services and solutions leverage our data, analytics and actionable workflow products, and include: personal health programs (app-based with medical grade measurement devices and coaching) to help people manage their health; technology-enabled monitoring and intervention (telehealth, remote patient monitoring, personal emergency response systems, and care coordination) to improve aging and chronic condition experiences; actionable programs to predict risk (including medication and care compliance, outreach, and fall prediction); and cloud-based solutions for health organizations to manage population health, driving quality improvement and business transformation for those transitioning to value-based care.

Connected Care & Health Informatics
Total sales by business as a %
2016



Sales at Philips' Connected Care & Health Informatics businesses are generally higher in the second half of the year, largely due to the timing of new product availability and customer spending patterns.

Sales channels are a mix of a direct sales force, especially in all the larger markets, combined with online sales portal and distributors – this varies by product, market and price segment. Sales are mostly driven by a direct sales force that has an intimate knowledge of the procedures for which our devices are used, and visits our customer base frequently.

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 requirements of local and national regulatory authorities including the US FDA, the CFDA in China and comparable agencies in other countries, as well as the European Union's Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS) and Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulations.

The connected care and health informatics applications are governed by regulatory approvals in the markets that we serve. In almost all cases, new products that we introduce are subject to a regulatory approval process (e.g. 510k for FDA approvals in USA, CE Mark in the European Union). Failing to comply with the regulatory requirements of the target markets can prevent shipment of products. The number and diversity of regulatory bodies in the various markets we operate in globally adds complexity and time to product introductions. Regulatory approval is a prerequisite for market introduction.

Philips' products and related services are subject to various regulations and standards. The Company is committed to quality and over the last years made investments to enable significant progress in this area. The Company is currently in advanced discussions on resolving a civil matter with the US Department of Justice representing the US Food and Drug Administration (FDA), arising from past inspections by the FDA in and prior to 2015. The discussions focus primarily on the Company's compliance with the FDA's Quality System Regulations in the Company's Emergency Care and Resuscitation (ECR) business in the United States. While discussions have not yet concluded, the Company anticipates that the actions necessary to address the FDA's compliance concerns will have a meaningful impact on the operations of its ECR business.

With regard to sourcing, please refer to sub-section 12.3.8, Supplier indicators, of this Annual Report.

3.3.2 2016 business highlights

Philips launched new data-driven, intelligent solutions to improve operational efficiencies and enhance diagnostics and patient care. These include PerformanceBridge, a new suite of operational performance improvement software and services for radiology departments, and Illumeo Adaptive Intelligence and IntelliSpace Portal 9.0, advanced informatics and visual analysis solutions with machine-learning capabilities to support the physician.

Philips acquired Wellcentive, a leading US-based provider of population health management software solutions. Wellcentive complements Philips' portfolio with cloud-based IT solutions to import, aggregate and analyze clinical, claims and financial data across hospital and health systems, to help care providers deliver coordinated care.

In line with its strategy of delivering solutions consisting of smart devices, software and services to address specific customer needs, Philips signed a 3-year patient monitoring solutions agreement with Rush University Medical Center, Chicago. The company also signed a multi-year agreement with the Medical University of South Carolina Health focused on integrated patient monitoring solutions.

Expanding its global leadership in patient monitoring solutions beyond acute care settings, Philips launched the latest version of its IntelliVue Guardian solution in Europe. This solution comprises smart devices including wearable biosensors, clinical decision support software and services. It is designed to aid clinicians in the early recognition of patient deterioration in the hospital's general wards, allowing timely intervention and avoiding adverse events, unplanned transfers back to the ICU and longer lengths of hospitalization.

Building on its expertise in new care models based on telehealth technologies, Philips enabled Macquarie University's MQ Health in Sydney, Australia, and Emory Healthcare in Atlanta, US, to provide continuous nighttime critical care oversight to ICU patients back in Atlanta during daytime hours in Australia.

3.3.3 2016 financial performance

Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis.

Connected Care & Health Informatics
Key data in millions of EUR unless otherwise stated
2014 - 2016

	2014	2015	2016
Sales	2,684	3,022	3,158
Sales growth			
% increase (decrease), nominal	(2)%	13%	5%
% increase (decrease), comparable[1]	0%	0%	4%
Income from operations (EBIT)	(157)	173	275
as a % of sales	*(5.9)%*	*5.7%*	*8.7%*
EBITA[1]	(106)	227	322
as a % of sales	*(3.9)%*	*7.5%*	*10.2%*

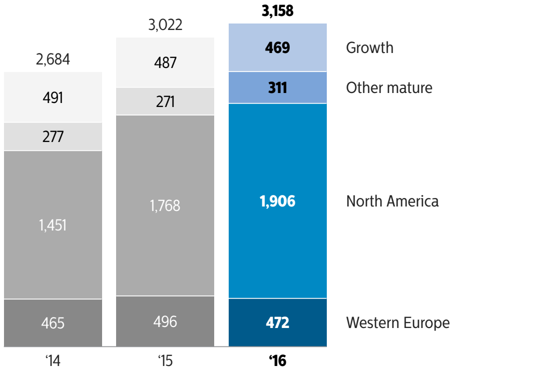
In 2016, sales amounted to EUR 3,158 million, 5% higher than in 2015 on a nominal basis. The 4% increase on a comparable basis[1] was driven by mid-single-digit growth in Patient Care & Monitoring Solutions, low-single-digit growth in Healthcare Informatics, Solutions & Services, partly offset by a low-single-digit decline in Population Health Management. Green Revenues amounted to EUR 1,442 million, or 45% of segment sales.

From a geographic perspective, comparable sales[1] in growth geographies showed high-single-digit growth, and mature geographies recorded low-single-digit growth.

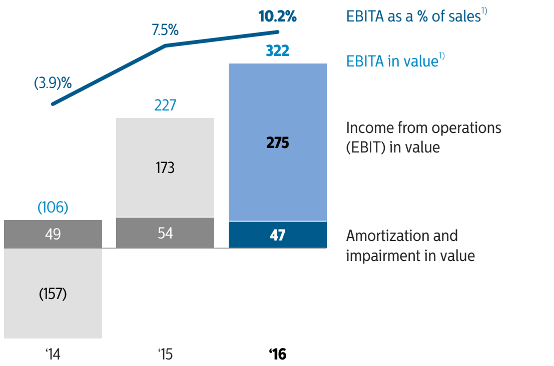
Income from operations (EBIT) amounted to EUR 275 million, or 8.7% of sales, and included EUR 47 million of amortization charges, mainly related to acquired intangible assets at Population Health Management and Patient Care & Monitoring Solutions.

EBITA[1] amounted to EUR 322 million, or 10.2% of sales, compared to EUR 227 million, or 7.5% of sales, in 2015. EBITA[1] in 2016 included restructuring and acquisition-related charges of EUR 14 million compared to EUR 38 million in 2015. 2016 EBITA[1] also included a net release of provisions of EUR 12 million, while in 2015 included charges of EUR 28 million related to the currency revaluation of the Masimo provision and charges of EUR 1 million related to the devaluation of the Argentine peso. The margin increase was mainly driven by higher volumes and lower restructuring and acquisition-related charges and other items, partly offset by higher expenditure on innovation.

Connected Care & Health Informatics
Sales per geographic cluster in millions of EUR
2014 - 2016



Connected Care & Health Informatics
Income from operations (EBIT) and EBITA[1] in millions of EUR
2014 - 2016



[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report

3.3.4 Healthy people, sustainable planet

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 is committed to addressing these challenges with connected health IT solutions that integrate, collect, combine and deliver quality data for actionable insights to help improve access to quality care, while respecting the boundaries of natural resources.

It is our belief that well-designed solutions can reduce the travel-related carbon footprint of healthcare, and improve access and outcomes.

In 2016, Green Revenues increased to EUR 1,442 million and we continued to expand the portfolio of Philips Green Products that support energy efficiency, materials reduction and other sustainability goals.

Supporting the transition to a circular economy, we continue to expand innovative 'access over ownership' service solutions where our customers pay for things where and when required, while Philips can secure high levels of recycling and materials re-use.

[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

Philips was presented with the ‘Champion for Change’ Award by Practice Greenhealth for the third year in a row. This award honors businesses that go beyond taking steps to improve their own green practices, but also help hospitals to expand their sustainable practices.

3.4 HealthTech Other

In our external reporting on HealthTech Other we report on the items Innovation, Emerging Businesses, IP Royalties, Central costs and Other.

3.4.1 About HealthTech Other

Innovation

At Philips, our innovation efforts are aligned with our business strategy. The Innovation & Strategy function feeds the innovation pipeline, enabling 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.

Innovation & Strategy facilitates innovation from idea to product as co-creator and strategic partner for the Philips businesses and complementary 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, it opens up new value spaces beyond the direct scope of current businesses (Emerging Businesses), manages the Company-funded R&D portfolio, and creates synergies for cross-segment initiatives.

Innovation & Strategy includes, among others, the Chief Technology Office and Research, the Chief Medical Office, Innovation Services, Intellectual Property & Standards, Design, Strategy, and Sustainability. Key locations include Eindhoven (Netherlands), Cambridge (USA), Bangalore (India) and Shanghai (China). In total, Innovation & Strategy employs some 5,000 professionals around the globe.

Innovation & Strategy actively participates in Open Innovation through relationships with academic, clinical, and industrial partners, as well as via public-private partnerships. It does so in order to improve innovation effectiveness and efficiency, capture and generate new ideas, enhance technology partnering capabilities, and share the related financial exposure.

Research

Research focuses on exploration of new technologies and business ideas, delivering proofs-of-concept and offering consultancy in technology development projects, particularly for first-of-a-kind products and services. It aims to improve people's lives through technology-enabled meaningful innovations – as co-creator and strategic partner of the Philips businesses, markets and Open Innovation ecosystem participants.

Research investigates trends and creates concepts for solutions within strategic Philips domains linked to societal challenges, such as the increase in cardiovascular diseases and cancer, ageing societies, limited access to healthcare and increasing obesity.

The Eindhoven lab is the core lab of Philips Research. It was awarded the Open Innovation 2.0 award from the European Union in 2016 in recognition of its role in creating the High Tech Campus as a vibrant innovation ecosystem.

In the fall of 2015, Philips Research opened a new Innovation Lab in Cambridge, MA (USA), which is now fully up and running. It is 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 and clinical collaboration partners 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.

Philips Research China broadened its scope in 2016 by adding a Digital Innovation team focused on the creation of local digital propositions.

With the aim of extending our capabilities in research for IT healthcare applications, in 2016 we announced our intention to open an R&D site at the Skolkovo Innovation Centre in Moscow, Russia. The new Center will focus on machine learning, artificial intelligence, and computer and data science.

The Philips Africa Innovation Hub in Nairobi, Kenya, creates locally relevant innovations 'in Africa, for Africa', with particular focus on improving access to affordable healthcare. The Africa Innovation Hub is a collaboration between Philips Research and the Africa market organization. Based on work from this hub, in 2016 Philips and Grand Challenges Canada signed a repayable grant agreement to scale the manufacturing and distribution of the Philips Children's Respiration Monitor (also known as ChARM) to make it affordable and accessible for community-based health workers in low-resource settings throughout the world.

Coming under the Chief Technology Office for reporting purposes, Philips Photonics is a global leader in VCSEL technology. VCSELs are infrared lasers for a rapidly growing range of consumer and professional applications like gesture control, environmental sensing, precise scene illumination for surveillance cameras, and ultra-fast data communication. Following a significant rise in demand for VCSELs, Philips Photonics announced in 2016 that it would double manufacturing capacity at its laser-diode facility in Ulm, Germany.

Chief Medical Office

The Chief Medical Office is responsible for clinical innovation and strategy, health economics and market access, and medical thought leadership. This includes engaging with stakeholders across the care continuum to build Philips' leadership in health technology and acting with agility on new value-based reimbursement models that benefit the patient and care provider.

Leveraging the knowledge and expertise of the medical professional community across Philips, the Chief Medical Office includes many healthcare professionals who practice in the world's leading health systems. Supporting the company's objectives across the health continuum, its activities include strategic guidance, leveraging clinical and scientific knowledge, fostering peer-to-peer relationships in relevant medical communities, liaising with medical regulatory bodies, and supporting clinical and marketing evidence development.

Innovation Services

Innovation Services offers a wide range of expert services in development, realization and consulting. Its skills are leveraged by Philips businesses, markets and Innovation & Strategy in all regions.

Innovation Campus Bangalore

Philips Innovation Campus Bangalore (PIC) hosts activities from most of our operating businesses, Research, Design, IP&S and IT. R&D activities at the PIC include Diagnostic Imaging, Patient Care & Monitoring Solutions, Sleep & Respiratory Care, Personal Health, and Healthcare Informatics, Solutions & Services.

PIC plays a key role in Philips' digital transformation journey. Originally a software center, today PIC is a broad product development center including mechanical, electronics, and supply chain capabilities. PIC works with growth geographies to build market-specific solutions, and several businesses have also located business organizations focusing on growth geographies at PIC.

Philips Design

Philips Design is the global design function for the company, ensuring that innovations are meaningful, people-focused and locally relevant. Design is also responsible for ensuring that the Philips brand experience is differentiating, consistently expressed, and drives customer preference.

Philips Design partners with the Philips businesses, Innovation & Strategy, markets 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.

Increasingly we leverage our design capabilities and processes to work directly with our customers and our customer-facing teams. Innovating directly with our customers enables Philips Design to deliver people-focused solutions that optimize the user and patient experience and the overall performance of their healthcare systems across the health continuum.

Emerging Businesses

Emerging Businesses is a group dedicated to identifying, developing and bringing to market breakthrough products and services that will help shape the future of healthcare. The group focuses on innovating at the intersection between supportive technologies and current care models that drive improved outcomes, higher patient satisfaction/engagement and reductions in overall cost of care.

One of the businesses is Digital Pathology Solutions, which empowers pathologists with a complete connected digital pathology solution that is designed to optimize productivity and workflow, and ultimately improve the quality of diagnosis. In June 2016, Philips acquired Northern Ireland-based PathXL, an innovator in digital pathology image analysis, workflow software and educational tools, to further expand its Digital Pathology Solutions offering and leadership in Computational Pathology.

Another business is Handheld Diagnostics, with its Minicare proposition launched in May 2016, which provides direct point-of-care diagnostic information at the patient's 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.

A third business is Light & Health, a pioneer in photo dermatology. Leveraging its advanced understanding of the biological effects of light, the team of Philips Light & Health researchers, collaborating with leading research institutions and hospitals, has developed a number of products, for instance Philips BlueControl for treating patients with psoriasis, which feature LED light and offer proven medical benefits.

Finally, a fourth team in Emerging Businesses is working on computational neurology, neuro-mapping and neuro-monitoring.

IP Royalties

Philips Intellectual Property & Standards proactively pursues the creation of new Intellectual Property (IP) in close co-operation with Philips' operating businesses and Innovation & Strategy. IP&S is a leading industrial IP organization providing world-class IP solutions to Philips' businesses to support their growth, competitiveness and profitability.

Royal Philips' total IP portfolio currently consists of 79,000 patent rights, 49,000 trademarks, 86,000 design rights and 4,400 domain names. Philips filed 1,690 patents in 2016, 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.

Central costs

The central cost organization supports the creation of value, connecting Philips with key stakeholders, especially our employees, customers, governments and society. It includes 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. It also includes functional services to businesses in areas such as IT, Real Estate and Accounting, thereby helping to drive global cost efficiencies.

3.4.2 2016 business highlights

Strengthening its Digital Pathology business, Philips acquired PathXL, an innovator in digital pathology image analysis, workflow software and educational tools. Philips also signed a licensing agreement with Visiopharm to offer their breast cancer panel software algorithms with Philips' IntelliSite digital pathology solution to support pathologists in providing an objective diagnosis of breast cancer.

In the 2016 Interbrand annual ranking of the world's most valuable brands, Philips' ranking improved to #41 from #47, with a total estimated brand value of approximately USD 11.3 billion.

Philips rose to first place in the European Patent Office's 2015 ranking of patent applicants for patents filed at the EPO. In addition, the company ranked first in three of the ten leading fields of technology: Medical Technology; Electrical machinery, apparatus, energy; and Measurement.

Building on its commitment to sustainability, Philips launched its new 5-year 'Healthy people, sustainable planet' program to improve the lives of 2.5 billion people per year, increase its Green Revenues to 70% of sales, generate 15% of its sales from Circular Revenues and become carbon-neutral in its operations by 2020.

Philips became the Industry Group Leader in the Capital Goods category in the 2016 Dow Jones Sustainability Index, achieving the highest possible scores in three sections, including climate strategy and operational eco-efficiency.

Philips Design received 158 design awards, including becoming the #1 ranked company in the prestigious international iF ranking for design.

3.4.3 2016 financial performance

Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis.

HealthTech Other
Key data in millions of EUR unless otherwise stated
2014 - 2016

	2014	2015	2016
Sales	487	503	478
Income from operations (EBIT)	37	49	(129)
EBITA of: [1]			
IP Royalties	299	284	286
Emerging businesses	(38)	(63)	(98)
Innovation	(92)	(118)	(127)
Central costs	(105)	(31)	(173)
Other	(13)	(8)	(8)
EBITA [1]	51	64	(120)

In 2016, sales amounted to EUR 478 million and reflected EUR 38 million lower royalty income due to the foreseen expiration of licenses, partly offset by new patent license agreements and strong double-digit growth in Emerging Businesses.

In 2016, income from operations (EBIT) totaled to EUR (129) million compared to EUR 49 million in 2015. EBITA[1] amounted to a net cost of EUR 120 million, compared to net gain of EUR 64 million in 2014. EBITA[1] in 2016 included restructuring and acquisition-related charges of EUR 28 million and a EUR 26 million impairment of real estate assets. EBITA[1] in 2015 included a net restructuring release of EUR 19 million and a EUR 37 million gain related to the sale of real estate assets. The year-on-year decrease was mainly attributable to higher restructuring and acquisition-related charges and other items, investments in Emerging Businesses, brand campaigns and cyber security.

[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

3.5 Lighting

Philips Lighting is led by Eric Rondolat, who has held the position of Chief Executive Officer since the company was listed on the Euronext Amsterdam stock exchange (ticker symbol: LIGHT) on May 27, 2016. Prior to that, he was Chief Executive Officer of Lighting at Royal Philips from April 2012 to May 27, 2016.

Following the listing of Philips Lighting, Philips retained a 71.225% stake and continued to consolidate Philips Lighting through 2016, with the aim of fully selling down over the next several years. On February 8, 2017, Philips announced that it had successfully completed an accelerated bookbuild offering to institutional investors and to Philips Lighting of 26.0 million shares in Philips Lighting, reducing Philips' stake in Philips Lighting's issued and outstanding share capital from 71.225% to approximately 55.180%. The transaction is in line with Philips' stated objective to fully sell down its stake in Philips Lighting over the next several years.

3.5.1 Lighting landscape

A number of trends and transitions are affecting the lighting industry and changing the way people use and experience light.

Philips Lighting serves 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 10 billion by 2050. At the same time, we are witnessing rapid urbanization, with about two-thirds 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.

3.5.2 About Lighting

Philips Lighting is a global market leader with recognized expertise in the development, manufacture and application of innovative, energy-efficient lighting products, systems and services that improve people's lives. It has pioneered many of the key breakthroughs in lighting over the past 125 years, laying the basis for its current strength and leading position in the digital transformation to connected lighting.

Philips Lighting has a firm strategy which is based upon six priorities:

- Optimize cash from conventional products to fund our 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
- Accelerate! on our operational excellence improvement journey

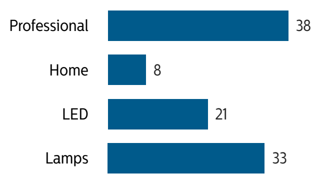
The work Philips Lighting did in 2016 saw it extend its lighting leadership into the Internet of Things and allowed it to unlock new experiences and value for customers. It announced many connected lighting innovations, and new customers and partnerships, for street lighting, retail, offices and homes.

The company aims to further invest to support its leadership in LED and connected lighting systems and services while at the same time capitalizing on its broad portfolio, distribution and brand in conventional lighting by successful implementation of its 'last man standing' strategy.

Philips Lighting addresses people's lighting needs across a full range of market segments. Indoors, it offers lighting products, systems and services for homes, shops, offices, schools, hotels, factories and hospitals. Outdoors, it offers 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, it addresses the desire for light-inspired experiences through architectural projects. Finally, it offers specific applications of lighting in specialized areas, such as entertainment, horticulture, and water purification.

In 2016, 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 business groups Lamps, LED, Professional and Home.

Lighting
Total sales by business as a %
2016



Philips Lighting is one of the few companies in the world to offer solutions across the lighting value chain – including software, controls, luminaires, light sources, and modules. It will build on its global reach with current commercial activities that cover approximately 180 countries. Philips Lighting has operational manufacturing plants in 22 countries in all major regions of the world, and more than 70 sales offices worldwide.

Commitment to quality

The implementation of the Philips Business System is embedding a fundamental commitment to quality across all Philips Lighting's 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-related Products (ErP) and Energy Performance of Buildings (EPBD) directives.

3.5.3 2016 business highlights

Philips Lighting is actively building partnerships for its connected lighting systems for both professional and consumer markets. The company announced a partnership with US company Aisle411 for digital mapping of retail stores. It also teamed up with Amazon Alexa, Google Home and with Huawei's OceanConnect for the interoperability of the Philips Hue connected lighting system, making this the first connected lighting system that can be used with all leading smart home platforms.

Philips Lighting's partnership with Cisco resulted in Power-over-Ethernet connected lighting systems for the headquarters of Smartworld in Dubai, Intel's new research campus in Bangalore and Infinorsa's Torre Europa building in Madrid.

In the retail segment Philips Lighting implemented its first connected lighting indoor positioning system in the Middle East with United Arab Emirates-based retailer aswaaq, one of the world's most innovative supermarkets and community malls. The new system uses lights that act as a positioning system and allows customers to use smartphones to access location-based services.

Philips Lighting also extended the number of connected street lighting contracts, supplying nearly 90,000 connected street luminaires in Jakarta as one of its biggest projects to date. The system will be managed by the Philips CityTouch street lighting management system, which has been installed in more than 700 projects across 35 countries since its inception in 2012.

The range of LED lighting was extended with Philips SceneSwitch, which combines multiple light settings in one lamp, enabling users to select the right light for their needs using an existing wall switch. It also introduced a range of spots and decorative bulbs that use WarmGlow for dimming, meaning the more you dim, the warmer the light effect. With Dubai Municipality the company developed the Dubai lamp, the world's most energy-efficient commercially available lamp. This family of six lamps and two spots covers 80% of the light sockets in the city.

The company broadened the appeal of its Philips Hue connected lighting system for the home by adding an innovative motion sensor, which allows users to switch their Philips Hue lights on and off simply by walking in or leaving a room.

The Philips Hue range was also extended with Philips Hue white ambiance, providing users with every shade of white light.

Philips Lighting expanded the number of sports stadiums using its Philips ArenaVision dynamic LED pitch lighting, adding the Amsterdam Arena, the Juventus Stadium in Turin, the Volkswagen Arena in Wolfsburg and the indoor stadium in Cairo. The company also provided pitch, façade and office lighting for Atletico Madrid. Philips Lighting is responsible for the pitch lighting of over 65% of stadiums involved in major international sports events.

3.5.4 2016 financial performance

Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis.

Lighting
Key data in millions of EUR unless otherwise stated
2014 - 2016

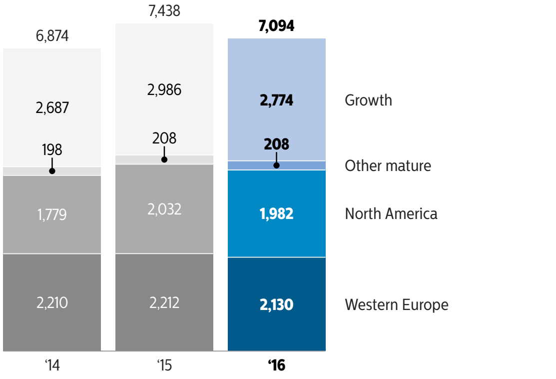
	2014	2015	2016
Sales	6,874	7,438	7,094
Sales growth			
% increase (decrease), nominal	(4)%	8%	(5)%
% increase (decrease), comparable[1]	(3)%	(3)%	(2)%
Income from operations (EBIT)	25	334	432
as a % of sales	*0.4%*	*4.5%*	*6.1%*
EBITA [1]	133	441	542
as a % of sales	*1.9%*	*5.9%*	*7.6%*

In 2016, sales amounted to EUR 7,094 million, 5% decrease on a nominal basis. Excluding a 3% negative currency effect and portfolio changes, comparable sales[1] decreased by 2%, reflecting double-digit growth in LED and Home, a low-single-digit decline Professional and a double-digit decline in Lamps. Green Revenues amounted to EUR 5,536 million, or 78% of total segment sales.

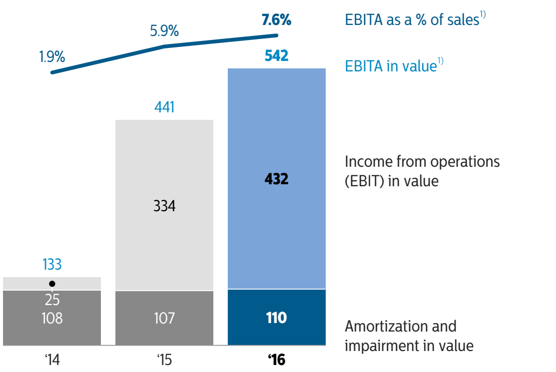
Income from operations (EBIT) amounted to EUR 432 million, or 6.1% of sales, which included EUR 110 million of amortization charges, mainly related to acquired intangible assets at Professional.

EBITA[1] increased from EUR 441 million, or 5.9% of sales, in 2015 to EUR 542 million, or 7.6% of sales in 2016. Restructuring and acquisition-related charges were EUR 119 million, compared to EUR 97 million in 2015. EBITA[1] in 2016 also included a gain of EUR 14 million related to a release of provisions originating from the separation activities. EBITA[1] in 2015 also included EUR 14 million of charges related to the devaluation of the Argentine peso. The increase was mainly attributable to cost reduction programs and an increase in gross margin, partly offset by higher restructuring and acquisition-related charges.

Lighting
Sales per geographic cluster in millions of EUR
2014 - 2016



Lighting
Income from operations (EBIT) and EBITA[1] in millions of EUR
2014 - 2016



[1] For a reconciliation to the most directly comparable GAAP measures, see chapter 4, Reconciliation of non-GAAP information, of this Annual Report

3.5.5 Brighter Lives, Better World

During Climate Week NYC, Eric Rondolat launched Philips Lighting's new sustainability program 'Brighter Lives, Better World', building on the long legacy of Philips' EcoVision programs. The new program is built on two pillars: Green Revenues and Sustainable operations. With 78% of 2016 sales coming from sustainable products, systems and services (72% in 2015), Green Revenues reached a record level for Philips Lighting.

In 2016, approximately 15% of the world's electricity is still being used for lighting. Through its digital LED technology, Philips Lighting offers light that is up to 80% more energy-efficient than conventional technologies, which are still commonly used globally. For this reason, the company has pledged to cumulatively sell 2 billion LED light bulbs by 2020, for which it has already sold 628 million units thus far. In addition, Philips Lighting effectively reduced its operational carbon footprint year-on-year by 20%, also increasing the share of renewable electricity to 67%. Its solutions to effectively reduce, recycle, and re-use the waste in its sites as much as possible resulted in 85% of its total industrial waste being recycled, as part of its journey towards zero waste to landfill.

3.5.6 Separation of Lighting

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. Before the listing of Philips Lighting on Euronext in May 2016, a stand-alone structure was established for Philips Lighting within the Philips Group, effective February 1, 2016. To effectuate the separation and to provide a framework for the relationship between the two companies after the separation, Philips and Philips Lighting entered into a separation agreement and a set of ancillary agreements (collectively, the "Separation Agreement"). The Separation Agreement allocated assets, liabilities, employees and contracts of the Philips Group between the current groups of Philips and Philips Lighting. The separation was guided by the principle that the Philips Lighting group comprises substantially all of Philips' former lighting business, related assets and liabilities, employees and contracts, as well as allocated activities from the former Innovation, Group & Services sector. Furthermore, certain historical exposures and liabilities of the Philips Group were allocated to each of the groups of Philips and Philips Lighting, which are unrelated to their respective businesses.

Upon the listing of Philips Lighting in May 2016, Philips and Philips Lighting also entered into a relationship agreement (the "Relationship Agreement") to manage the continuing relationship between Philips Lighting and Philips as a large shareholder of Philips Lighting upon such listing. The Relationship Agreement will terminate when the stake of Philips falls below 10% (with the exception of certain specific provisions).

[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

3.6 Legacy Items

Legacy Items consists mainly of separation costs, legacy legal items, legacy pension costs, environmental provisions and stranded costs.

3.6.1 2016 financial performance

Legacy Items
Key data in millions of EUR unless otherwise stated
2014 - 2016

	2014	2015	2016
Separation costs		(183)	(152)
Other	(388)	(439)	(43)
Income from operations (EBIT)	**(388)**	**(622)**	**(195)**

Income from operations (EBIT) mainly included EUR 152 million of charges related to the separation of the Lighting business, a EUR 14 million charge related to provisions originating from the separation of the Lighting business, EUR 9 million of costs of addressing legacy issues related to environmental provisions, EUR 4 million of pension costs, EUR 36 million of stranded costs related to the combined Lumileds and Automotive businesses, EUR 11 million of charges related to various provisions, as well as a EUR 46 million gain from the settlement of a pension-related claim. Income from operations (EBIT) in 2015 included EUR 345 million of settlements mainly related to pension de-risking.

4 Reconciliation of non-GAAP information

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, such as Comparable sales growth, Adjusted income from operations / EBITA and Net debt. In this chapter these measures are further explained and reconciled to GAAP measures.

Non-GAAP measures referred to in this report are cross referenced to this chapter.

Comparable sales growth

Comparable sales exclude the effects of currency movements and changes in consolidation. As indicated in the note 1, Significant accounting policies, sales and income are translated from foreign currencies into the Company's reporting currency, the euro, at the exchange rate on transaction dates during the respective years. As a result of significant currency movements during the years presented, the effects of translating foreign currency sales amounts into euros could have a material impact. Therefore, these impacts have been excluded in arriving at the comparable sales in euros. Currency effects have been calculated by translating previous years' foreign currency sales amounts into euros at the following year's exchange rates in comparison with the sales in euros as historically reported. The years under review were characterized by a number of acquisitions and divestments, as a result of which activities were consolidated or deconsolidated. The effect of consolidation changes has also been excluded in arriving at the comparable sales. For the purpose of calculating comparable sales, 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 segment in %
2014 - 2016

	nominal growth	currency effects	consolidation changes	comparable growth
2016 versus 2015				
Personal Health	5.2	2.0	0.0	7.2
Diagnosis & Treatment	3.1	0.9	(0.4)	3.6
Connected Care & Health Informatics	4.5	0.1	(0.1)	4.5
HealthTech Other	(5.0)	0.0	0.0	(5.0)
Lighting	(4.6)	2.1	0.2	(2.3)
Philips Group	**1.1**	**1.4**	**0.2**	**2.7**
2015 versus 2014				
Personal Health	13.5	(8.6)	0.0	4.9
Diagnosis & Treatment	22.7	(10.9)	(5.7)	6.1
Connected Care & Health Informatics	12.6	(12.2)	0.0	0.4
HealthTech Other	3.3	(0.3)	(1.9)	1.1
Lighting	8.2	(8.5)	(2.2)	(2.5)
Philips Group	**13.3**	**(9.4)**	**(1.7)**	**2.2**
2014 versus 2013				
Personal Health	3.0	2.7	0.2	5.9
Diagnosis & Treatment	(6.6)	1.5	0.5	(4.6)
Connected Care & Health Informatics	(2.2)	1.7	0.3	(0.2)
HealthTech Other	(8.5)	0.0	(3.7)	(12.2)
Lighting	(3.9)	2.2	(1.0)	(2.7)
Philips Group	**(2.7)**	**2.0**	**(0.2)**	**(0.9)**

Philips Group
Sales growth composition per geographic cluster in %
2014 - 2016

	nominal growth	currency effects	consolidation changes	comparable growth
2016 versus 2015				
Western Europe	0.0	1.6	0.2	1.8
North America	2.1	(0.3)	(0.1)	1.7
Other mature geographies	7.9	(5.5)	(0.4)	2.0
Mature geographies	**2.0**	**(0.2)**	**0.0**	**1.8**
Growth geographies	**(0.5)**	**4.6**	**0.4**	**4.5**
Philips Group	**1.1**	**1.4**	**0.2**	**2.7**
2015 versus 2014				
Western Europe	3.9	(1.9)	(0.7)	1.3
North America	21.2	(18.4)	(1.4)	1.4
Other mature geographies	11.7	(5.3)	(3.7)	2.7
Mature geographies	**13.1**	**(10.2)**	**(1.4)**	**1.5**
Growth geographies	**13.8**	**(7.9)**	**(2.4)**	**3.5**
Philips Group	**13.3**	**(9.4)**	**(1.7)**	**2.2**
2014 versus 2013				
Western Europe	(0.3)	(0.4)	(0.2)	(0.9)
North America	(3.0)	0.9	0.3	(1.8)
Other mature geographies	(5.6)	4.7	0.0	(0.9)
Mature geographies	**(2.2)**	**0.8**	**0.1**	**(1.3)**
Growth geographies	**(3.7)**	**4.4**	**(0.7)**	**0.0**
Philips Group	**(2.7)**	**2.0**	**(0.2)**	**(0.9)**

EBITA

The Company uses the terms EBIT and EBITA to evaluate the performance of the Philips Group and its operating segments. The term EBIT has the same meaning as Income from operations and the term EBITA has the same meaning as Adjusted income from operations. EBITA represents income from operations before amortization and impairment on intangible assets (excluding software and capitalized development expenses). Referencing EBITA is considered appropriate as the Company uses it as one of its strategic drivers to increase profitability through re-allocation of its resources towards opportunities offering more consistent and higher returns and it will make the underlying performance of our businesses more transparent as it will not be distorted by the unpredictable effects of future, unidentified acquisitions.

EBITA is not a financial measure in accordance with IFRS. Below is a reconciliation of EBITA to the most directly comparable IFRS measure, Net income, for the years indicated. Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis, resulting in them being shown on a Philips Group level only.

Philips Group
Net income to EBITA in millions of EUR
2014 - 2016

	Philips Group	Personal Health	Diagnosis & Treatment	Connected Care & Health Informatics	HealthTech Other	Lighting	Legacy Items
2016							
Net Income	1,491						
Discontinued operations, net of income taxes	(416)						
Investments in associates, net of income taxes	(13)						
Income tax expense	327						
Financial expenses	569						
Financial income	(76)						
Income from operations (EBIT)	1,882	953	546	275	(129)	432	(195)
Amortization of intangible assets[1]	350	139	48	47	9	108	(1)
Impairment of goodwill	3	-	-	-	-	2	1
EBITA	**2,235**	**1,092**	**594**	**322**	**(120)**	**542**	**(195)**
Sales	24,516	7,099	6,686	3,158	478	7,094	
EBITA as a % of sales	*9.1%*	*15.4%*	*8.9%*	*10.2%*		*7.6%*	
2015							
Net Income	659						
Discontinued operations, net of income taxes	(245)						
Investments in associates, net of income taxes	(30)						
Income tax expense	239						
Financial expenses	467						
Financial income	(98)						
Income from operations (EBIT)	992	736	322	173	49	334	(622)
Amortization of intangible assets[1]	380	149	55	54	15	107	-
Impairment of goodwill	-	-	-	-	-	-	-
EBITA	**1,372**	**885**	**377**	**227**	**64**	**441**	**(622)**
Sales	24,244	6,751	6,484	3,022	503	7,438	
EBITA as a % of sales	*5.7%*	*13.1%*	*5.8%*	*7.5%*		*5.9%*	
2014							
Net Income	411						
Discontinued operations, net of income taxes	(190)						
Investments in associates, net of income taxes	(62)						
Income tax expense	26						
Financial expenses	415						
Financial income	(114)						
Income from operations (EBIT)	486	620	349	(157)	37	25	(388)
Amortization of intangible assets[1]	332	138	25	50	14	106	(1)
Impairment of goodwill	3	-	-	1	-	2	-
EBITA	**821**	**758**	**374**	**(106)**	**51**	**133**	**(389)**
Sales	21,391	5,948	5,284	2,684	487	6,874	
EBITA as a % of sales	*3.8%*	*12.7%*	*7.1%*	*(3.9)%*		*1.9%*	

[1] Excluding amortization of software and product development.

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 used by Treasury management of the Company and investment analysts and is therefore included in the disclosure.

Philips Group
Composition of net debt and group equity in millions of EUR unless otherwise stated
2014 - 2016

	2014	2015	2016
Long-term debt	3,712	4,095	4,021
Short-term debt	392	1,665	1,585
Total debt	**4,104**	**5,760**	**5,606**
Cash and cash equivalents	1,873	1,766	2,334
Net debt[1]	**2,231**	**3,994**	**3,272**
Shareholders' equity	10,867	11,662	12,601
Non-controlling interests	101	118	907
Group equity	**10,968**	**11,780**	**13,508**
Net debt and group equity	13,199	15,774	16,780
Net debt divided by net debt and group equity (in %)	17%	25%	19%
Group equity divided by net debt and group equity (in %)	83%	75%	81%
Net debt and group equity ratio	17:83	25:75	19:81

[1] Total debt less cash and cash equivalents

5 Risk management

5.1 Our approach to risk management

The Executive Committee, supported by the Risk Management Support Team, oversees and manages enterprise risk. The Risk Management Support Team consists of a number of functional experts covering the various categories of enterprise risk and supports by increasing the understanding of the Enterprise Risk profile and continuously working to improve the enterprise risk management framework. Management is the primary responsible for identifying the critical risks and for the implementation of appropriate risk responses.

Philips believes risk management is a value creating activity and as such it is an integral element of the Philips Business System (PBS). Risk management supports us in taking sound risk-reward strategic decisions to maximize value creation, it supports sustainable results on our Path to Value, it protects our key strengths (Capabilities, Assets, and Positions) and it supports process excellence.

Philips' risk management focuses on the following risk categories: Strategic, Operational, Compliance and Financial risks. The main risks within these categories are further described in section 5.2, Risk categories and factors, of this Annual Report. The overview highlights the material 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 16, Forward-looking statements and other information, of this Annual Report and the overview of risk factors described in section 5.2, Risk categories and factors, of this Annual Report.

Risk Management Framework

Risk management and control forms an integral part of the Philips business planning and performance review cycle. The company's risk and control policy is designed to provide reasonable assurance that objectives are met by integrating risk assessment in the strategic planning process, integrating management control into the daily operations, ensuring compliance with legal requirements and 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 appropriate risk responses. Philips' risk management approach is embedded in the areas of Corporate Governance, elements of the Philips Business System (Strategic Investment Decision Making, Asset Protection, Operational Excellence, Planning & Performance Cycle), Philips Business Control Framework and Philips General Business Principles. The Risk Management Support Team supports management by assessing the Enterprise Risk profile and continuously working to improve the enterprise risk management framework. Structured risk assessments take place according to the Philips process standard for managing risk.

Philips' risk management process addresses risks related to different categories: Strategic, Operational, Compliance and Financial risks. The Executive Committee and management consider risk appetite when taking decisions and seek to manage risks consistently within the risk appetite. 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 the need to anticipate and respond timeously 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 General Business Principles.
- Financial risk include risks related to Treasury, Accounting and Reporting, Pensions and Tax. Philips is prudent with regard to financial risks and the risk appetite is described in various chapters of this annual report, including note 30, Details of treasury / other financial risks.

Philips does not classify these risk categories in order of importance.

Corporate Governance

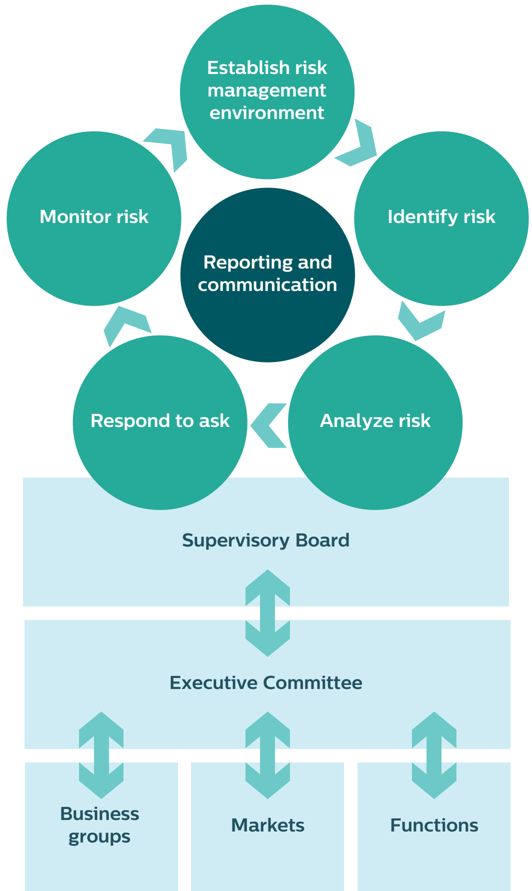
Corporate governance is the system by which a company is directed and controlled. Philips believes that good corporate governance is a critical factor in achieving business success. Good corporate governance derives from, among other things, effective internal controls and high ethical standards. The quality of Philips' system of risk management, business control and other 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 risk management and business controls through risk-based operational audits, inspections of financial reporting controls and compliance audits.

Audit & Risk committees at Group level, Business Groups, Markets and key Functional areas meet quarterly, chaired by first line leadership, to address weaknesses in risk management and business controls structure 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 company-wide internal audit planning as approved by the Audit Committee of the Supervisory Board. In addition to the Audit Committee, the Quality and Regulatory (Q&R) Committee of the Supervisory Board assists 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 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 9, Corporate governance, of this Annual Report.

Risk Management

Taking risks is an inherent part of entrepreneurial behavior and well-structured risk management allows management to take risks in a controlled manner. In order to provide a comprehensive view of Philips' risks, structured risk assessments take place according to the Philips process standard for risk management, combining elements of a top-down and bottom-up approach. The process is supported by workshops with management at Business, Market and Group Function levels. During 2016, several risk management workshops were held.

Risk diagram



Key elements of the Philips risk management process are:

- Annual risk assessment for the Group, Business Groups, Markets and key Functions as part of the annual update of the strategic plan. Risks are assessed and prioritized on their impact on objectives, likelihood of occurrence and effectiveness of controls. Management is accountable for the timely development of effective risk responses.
- Developments in the risk profile and management's initiatives to improve risk responses are explicitly discussed and monitored during the quarterly Audit & Risk Committees and in the Quarterly Performance Reviews (QPR).
- As an integral part of the strategy review, the Executive Committee annually assesses the enterprise risk profile, including appropriate risk scenarios and sensitivity analysis, and reviews the potential impact of the enterprise risk profile versus the Group's risk appetite. This risk assessment is based on the latest annual risk assessments of the Group, Business Groups, Markets and key Functions and changes to these, if any, as reported during the periodic review meetings, findings from Philips Internal Audit, Legal and Insurance, the Materiality analysis as described in chapter 12, Sustainability

statements, of this Annual Report, views from key stakeholders, external analysis, and risks reported in the annual certification statement on Risk Management and Business Controls.
- Developments in the Enterprise Risk profile and management's initiatives to improve risk responses are discussed and monitored during the quarterly Group Audit & Risk Committee.
- The Executive Committee reviews at least annually the Philips risk management approach and improves the process as required.
- The Philips risk profile and the risk management approach are discussed at least annually with the Supervisory Board.

Examples of measures taken to further strengthen the risk management framework include:

- Definition and execution of the Enterprise Risk Management (ERM) improvement roadmap;
- Process standardization for Risk Management, Internal Control, Compliance and Audit processes as part of the Philips Excellence Process Framework (PEPF) to drive efficiency and continuous improvement;
- The establishment of an Information Security Office and Program in light of the increasing exposure to cybercrime and information security requirements resulting from digitalization and a focus on the Healthcare industry;
- The development of risk management related to long-term strategic partnership given the growing importance of service-based business models.

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 its 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). 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 10.1, 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 around the globe. They set the minimum standard for business conduct, both for individual employees and for the company and our subsidiaries. Our GBP also stand as a reference for the business conduct we expect from our business partners and suppliers. Translations of the text 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 environments.

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.

As part of our unyielding effort to raise GBP awareness and create engagement throughout the organization, each year a GBP communications and training plan is deployed. In 2016, a number of new initiatives were undertaken through various channels such as Quick Reference Cards for at-a-glance guidance on how to handle a number of common GBP concerns, as well as returning programs such as e-Learnings for selected high-risk audiences. Many of these initiatives contributed to building momentum toward our now annual GBP Dialogue Week in October. During 2016's Dialogue Week, hundreds of Philips teams held open and frank discussions on what Acting with Integrity means to them, and posted pictures of their sessions on the Philips social platform using the hashtag #integritymatters.

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 affirm their commitment after completing their GBP e-training. In addition, employees in the respective specialized areas must sign off on the Financial and Supply Management Codes of Ethics. Executives are requested to sign off on the GBP each year to reaffirm their awareness of and compliance with them.

The GBP Review Committee is responsible for the effective deployment of the GBP and for generally promoting a culture of compliance and ethics within Philips. The GBP Review Committee is 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 in the implementation of their initiatives by a Committee Secretariat, and a network of GBP Compliance Officers, who are appointed in all markets, 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 2016, in response to external regulatory developments in business ethics and compliance, a revised charter was deployed by the GBP Review Committee. This newly updated charter impacted 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. To strengthen monitoring and oversight of GBP compliance within Philips, the mandatory annual GBP self-assessment questionnaire, part of our Internal Control framework, was completely renewed. The GBP Review Committee Secretariat receives an overview of the results of this self-assessment and can take action when deemed necessary. We believe this has created a more robust network equipped with the requisite skills and support to monitor and enhance compliance in the increasingly regulated environments in which Philips operates.

The GBP are supported by established 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 also third parties to report a concern either by telephone or online in a variety of different languages 24/7 all year round. All concerns raised are registered consistently in a single database hosted outside Philips by a third party and are investigated systematically in accordance with standardized investigation procedures.

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 2016.

For more information, please refer to sub-section 2.2.7, General Business Principles, of this Annual Report.

Risks

Strategic	Operational	Compliance	Financial
• Changes in industry/market • Macroeconomic changes • Focus on Health Technology • Growth of emerging markets • Joint ventures • Acquisitions • Intellectual property rights	• Product quality and liability • IT • Transformation programs • Supply chain • Innovation process • People • Intellectual Property • Reputation and brand	• Product safety/Data privacy • Regulatory • Market practices • Legal • General Business Principles • Internal controls	• Philips Lighting • Treasury • Tax • Pensions • Lumileds • Accounting and reporting

Corporate Governance
Philips Business Control Framework
Philips General Business Principles

5.2 Risk categories and factors

In order to provide a comprehensive view of Philips' enterprise risks, structured risk assessments take place in accordance with the Philips process standard to manage risk as described in section 5.1, Our approach to risk management, of this Annual Report. As a result of this process, amongst others, the following actions were performed during 2016:

- Philips completed the separation of its Lighting business and subsequently listed Philips Lighting on the Amsterdam stock exchange and sold a portion of its ownership. This separation has eliminated the separation risk discussed in the 2015 Annual Report. Until the completion of the sale of its entire ownership in Philips Lighting, Philips remains exposed to risks with regard to the value of Philips Lighting.
- The challenging global political and economic developments had an impact on our results. Even though the management of risks related to these developments has not changed compared to 2015, we continuously monitor the impact on our risk profile.

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' 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.

5.3 Strategic risks

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 Healthcare and/or Lighting industries, like the transition towards digital, 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.

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 individual and global markets. Philips experienced the impact from changes in macro-economic development in various geographies during 2016. Economic growth in China was markedly lower compared to average growth over the last two decades. The economic growth of countries which are highly dependent on revenues from energy, raw materials and commodities remains adversely affected by the slowdown of growth in China, most strongly in emerging market countries. Low revenues from oil also affected countries in the Middle East where public spending has been dramatically reduced. Monetary interventions by the European Central Bank did not result in any increase of inflation nor in stronger economic growth in the European Union in 2016. The consensus economic outlook for Great Britain as well as for the European Union has become less favorable as a result of the Brexit vote in June 2016. Although the US economy continued to perform well during 2016, the result of the US presidential election and potential changes in US economic and monetary policies (i.e. expected further rate hikes) may have an impact not only on US dollar but also on a range of emerging market currencies. Both Brexit and the policies of the new US administration may have significant impact on international trade tariffs and customs laws. The disparate macroeconomic outlook for the main geographies, political conflicts and the unknown impact of Eurozone monetary policy continue to create uncertainty as to the levels of (public) 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 make 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, Turkey, 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. The new US administration may implement changes in, among others, US foreign policy, healthcare, trade and tax laws, the impact of which cannot be predicted. Uncertainty on the timing and the nature of Brexit may adversely affect economic growth and the business environment in the United Kingdom and the rest of the European Union. Elections in a number of key European countries during 2017, which could trigger additional exits from the European Union, may have a similar adverse impact. 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 in emerging market countries is correlated to US and European economic growth and that such emerging market countries 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' overall risk profile will be changing as a result of the focus on Health Technology.

The risk profile of Philips will change as and when Philips Lighting is sold and deconsolidated. The risk profile is expected to shift towards risks generally associated to Health Technology companies.

Philips' overall performance in the coming years is expected to depend on the realization of 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 data driven services, invest in local talent, understand developments in end-user preferences and localize the portfolio in order to stay competitive. If Philips fails to achieve these objectives, 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 and may 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 and potentially also use Philips' brand. The joint ventures and associated companies that Philips does not control may make business, financial or investment decisions contrary to Philips' interests or may make decisions different from those that 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 having a material adverse effect on the value of its investments in those entities or potentially subject Philips to additional claims. Lumileds and Philips Lighting are examples of companies in which Philips may continue to have a significant (residual) interest but may not have control.

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

Philips' acquisitions may 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 expected to be implemented following an acquisition and the 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 (see also note 11, Goodwill).

Philips' inability to secure and maintain 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 maintain 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 Personal Health where third-party licenses are important and a loss or impairment could have a material adverse impact on Philips' financial condition and operating results.

5.4 Operational risks

Failure to comply with quality standards and regulations can trigger warranty and product liability claims against Philips and can lead to financial losses and adversely impact Philips' reputation, market share and brand.

Philips is required to comply with the highest standards of quality in the manufacture of its medical devices. Philips hereto is subject to the supervision of various national regulatory authorities. Conditions imposed by such national regulatory authorities could result in product recalls or a temporary ban on products and/or production facilities. In addition such quality issues and/or 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, depending on the product and manufacturing site concerned and the severity of the objection, this could lead to financial losses through lost revenue and costs of any required remedial actions, and have further impacts on Philips' reputation, market share and brand.

Philips has observed 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 vulnerable to attacks, which could lead to the leakage of confidential information, improper use of its systems and networks or defective products, which could in turn have a material adverse effect on 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 and 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, which could lead to financial losses. Additionally, the integration of new companies and successful outsourcing of business processes are highly dependent on secure and well controlled IT systems.

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 continuously seeks to create a more open, standardized and cost-effective IT landscape, including through further outsourcing, off-shoring, commoditization and ongoing reduction in the number of IT systems. These changes create 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.

Transformation programs

In 2011, Philips began a transformation program (Accelerate!) designed to unlock Philips' full potential. 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. The Lighting business was separated in 2016, with Philips selling a portion of its ownership stake and Philips Lighting becoming listed on the Amsterdam Stock Exchange.

Failure to achieve the objectives of any transformation program may have a material adverse effect on the mid-term and long-term financial targets.

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

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

Philips is continuing the process of creating a leaner supply base with fewer suppliers, while maintaining dual/multiple sourcing strategies where possible. This strategy very much requires close cooperation with suppliers to enhance, among other things, time to market and quality. In addition, Philips is continuing its initiatives to replace internal capabilities with less costly outsourced products and services. These processes may result in increased dependency on external suppliers and providers. Although Philips works closely with its suppliers to avoid supply-related problems, there can be no assurance that it will not encounter supply problems in the future or that it will be able to replace a supplier that is not able to meet its demand sufficiently quickly to avoid disruptions.

Shortages or delays could materially harm its business. Most of Philips' activities are conducted outside of the Netherlands, and international operations bring challenges. For example, Philips depends partly on the production and procurement of products and parts from Asian countries, and this constitutes a risk that production and shipping of products and parts could be interrupted by regional conflicts, a natural disaster or extreme weather events resulting from climate changes. A general shortage of materials, components or subcomponents as a result of natural disasters also poses the risk of unforeseeable fluctuations in prices and demand, which could have a material adverse effect on Philips' financial condition and operating results.

Businesses purchase raw materials, including so-called rare earth metals, copper, steel, aluminum, noble gases and oil-related products, which exposes them to fluctuations in energy and raw material prices. In recent times, commodities have been subject to volatile markets, and such volatility is expected to continue. If Philips is not able to compensate for increased costs or pass them on to customers, price increases could have a material adverse impact on Philips' results. In contrast, in times of falling commodity prices, Philips may not fully benefit from such price decreases, since Philips attempts to reduce the risk of rising commodity prices by several means, including long-term contracting or physical and financial hedging.

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 improvement in customer service levels to create sustainable competitive advantages, 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 create and commercialize products or fails to ensure that end-user insights are translated into solution and product creations that improve product mix and consequently contribution, it may lose its market share and competitiveness, which could have a material adverse effect on its financial condition and operating results.

Because 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 particularly in times of economic recovery. The loss of specialized skills could also result in business interruptions. There can be no assurance that Philips will be successful in attracting and retaining highly qualified employees and key personnel needed in the future.

Risk of unauthorized use of intellectual property rights.

Philips produces and sells products and services which incorporate technology protected by intellectual property rights. Philips develops and acquires intellectual property rights on a regular basis. Philips is exposed to the risk that a third party may claim to own the intellectual property rights on technology applied in Philips products and services and that in the event that their claims of infringement of these intellectual property rights are successful, they may be entitled to damages and Philips could incur a fine.

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

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

5.5 Compliance risks

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

Philips' brand image and reputation would be adversely impacted by non-compliance with various product safety laws and data protection. In light of Philips' digital strategy, data privacy laws are increasingly important. Also, Diagnosis & Treatment and Connected Care & Health Informatics are subject to various (patient) data protection and safety laws. In Diagnosis & Treatment and Connected Care & Health Informatics, 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 introducing products in the market. 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. For example the voluntary 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.

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 government reimbursement policies may affect spending on healthcare.

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

National and European authorities are increasingly focused on 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.

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 25, Contingent assets and liabilities, for additional disclosure relating to specific legal proceedings.

Philips is exposed to non-compliance with business conduct rules and regulations.

Philips' attempts to realize its growth ambitions could expose it to the risk of non-compliance with business conduct rules and regulations, 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 25, 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 reliable data. Flaws in internal control systems could adversely affect the financial position and results and hamper expected growth.

Accurate disclosures provide investors and other market professionals with significant information for a better understanding of Philips' businesses. Imperfections or lack of clarity in 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' global business.

5.6 Financial risks

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

In 2016, Philips separated its Lighting business and on May 27, 2016, Philips Lighting was listed on the Amsterdam Stock Exchange. Since then Philips Lighting operates as a separate listed company. Philips has subsequently sold down part of its ownership in Philips Lighting. Philips' overall objective is to fully divest its ownership of Philips Lighting. The nature or form, timing and the level of proceeds from this divestment process are uncertain. The timing and level of proceeds will depend on general market conditions and investor appetite for companies of this size and nature. During this process Philips may lose control over Philips Lighting and deconsolidate the assets, liabilities and financial results of Philips Lighting.

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 liquidity of global capital 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, this could increase the cost of borrowing, reduce our potential investor base and adversely affect our business.

Philips operates in over 100 countries and its earnings and equity 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. Philips' sourcing and manufacturing spend is concentrated in the Eurozone, United States and China. Income from operations is sensitive to movements in currencies from countries where the Group has no manufacturing/sourcing activities or only has manufacturing/sourcing activities on a small scale such as Japan, Canada, Australia and Great Britain and in 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 pass on in good time, 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 30, Details of treasury / other financial risks.

Philips is exposed to tax uncertainties, which could have a significant financial impact.

Philips is exposed to 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 relating to tax loss and tax credits carried forward and potential changes in tax law that could result in higher tax expenses and payments. The uncertainties may have a significant impact on local financial tax results which in turn could adversely affect Philips' financial condition and operating results.

The value of the tax losses carried forward is subject to availability of sufficient taxable income within the tax loss-carry-forward period, but also availability of sufficient taxable income within the foreseeable future in the case of tax losses carried forward with an indefinite carry-forward period. The ultimate realization of the Company's deferred tax assets, including tax losses and tax 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 on periods during 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 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 uncertainty on the timing and proceeds of the 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 subsequently engaged with other parties and on December 12, 2016, Philips announced that it had signed an agreement to sell an 80.1% interest in Lumileds to certain funds managed by affiliates of Apollo Global Management, LLC. Subject to regulatory approvals and completion of other closing obligations Philips expects to receive cash proceeds, before tax and transaction-related costs, of approximately USD 1.5 billion and participating preferred equity. As part of the agreement, Philips will retain a 19.9% interest in the equity of Lumileds by means of common shares for a minimum period of three years following completion of the transaction, subject to the customary drag-along and tag-along conditions or an IPO. There are no voting rights associated with the participating preferred equity held by Philips.

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 of a 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 in accounting characteristics in the prior period compared to the period before that.

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.

6 Management

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

The Executive Committee operates under the chairmanship of the Chief Executive Officer and shares responsibility for the deployment of Philips' strategy and policies, and the achievement of its objectives and results.

Under Dutch Law, the Board of Management is accountable for the actions 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 9, Corporate governance, of this Annual Report.

Frans van Houten

Born 1960, Dutch
Chief Executive Officer (CEO)
Chairman of the Board of Management since April 2011
Responsibilities: Chairman of the Executive Committee, Business Transformation, Internal Audit, Quality and Regulatory, Participations
For a full résumé, click here

Abhijit Bhattacharya

Born 1961, Indian
Executive Vice President &
Chief Financial Officer (CFO)
Member of the Board of Management since December 2015
Responsibilities: Finance, Capital structure, Mergers & Acquisitions, Investor Relations, Information Technology, Global Business Services, Participations
For a full résumé, click here

Sophie Bechu

Born 1960, French/American
Executive Vice President
Responsibilities: Chief of Operations, Order to Cash Excellence, Procurement, Global Services, Quality and Regulatory
For a full résumé, click here

Jean Botti[1)]

Born 1957, French
Executive Vice President
Responsibilities: Chief Innovation and Strategy officer, Innovation, Strategy & Alliances, Design, Intellectual Property, Sustainability, Medical Affairs, Innovation-to-Market Excellence

Rob Cascella

Born 1954, American
Executive Vice President
Responsibilities: Diagnosis & Treatment Businesses
For a full résumé, click here

Marnix van Ginneken

Born 1973, Dutch/American
Executive Vice President
Responsibilities: Chief Legal Officer, General Secretary, Compliance
For a full résumé, click here

Denise Haylor[2)]

Born 1964, English/American
Executive Vice President
Responsibilities: Chief Human Resources Officer, Culture
For a full résumé, click here

Andy Ho

Born 1961, Chinese
Executive Vice President
Responsibilities: Greater China Market
For a full résumé, click here

Ronald de Jong[3)]

Born 1967, Dutch
Executive Vice President
Responsibilities: Global Markets (all except Greater China & North America), Government Affairs, Market-to-Order Excellence
For a full résumé, click here

Pieter Nota

Born 1964, Dutch
Executive Vice President
Member of the Board of Management since April 2011
Responsibilities: Personal Health Businesses; Chief Marketing Officer
For a full résumé, click here

Brent Shafer

Born 1957, American
Executive Vice President
Responsibilities: North American Market
For a full résumé, click here

Jeroen Tas[4)]

Born 1959, Dutch
Executive Vice President
Responsibilities: Connected Care & Health Informatics Businesses
For a full résumé, click here

1) Left Philips in February 2017 and was succeeded by Jeroen Tas.
2) Will leave Philips in March 2017 and will be succeeded by Ronald de Jong.
3) Will take the role of Chief Human Resources Officer in April 2017.
4) Took the role of Chief Strategy & Innovation Officer in February 2017 and was succeeded by Carla Kriwet.

7 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 8, Supervisory Board report, of this Annual Report and section 9.2, Supervisory Board, of this Annual Report.

Jeroen van der Veer

Born 1947, Dutch [2),3)]
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., Royal Boskalis Westminster N.V. and Statoil ASA. Also a senior advisor to Mazarine B.V.

Neelam Dhawan

Born 1959, Indian [1)]
Member of the Supervisory Board since 2012;
second term expires in 2020

Currently Vice President - Asia Pacific & Japan - Global Industries and Strategic Alliances Hewlett Packard Enterprise.

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 Member of the Foundation Board of the World Economic Forum (WEF). Also serves on the Supervisory Board of Renova AG and is a member of the United States Council of Foreign Relations.

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 and Sherwin Williams.

Heino von Prondzynski

Born 1949, German/Swiss [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. Hofmann-La Roche Group and former CEO of Roche Diagnostics. Currently Chairman of the Supervisory Board of Epigenomics AG, member of the Supervisory Board of HTL Strefa and Lead Director of Quotient Ltd.

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., of BioMarin Pharmaceutical Inc. and of privately-held Rani Therapeutics, an InCube Labs company. Also 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.

Jackson Tai

Born 1950, American [1),4)]
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 Eli Lilly and Company HSBC Holdings PLC and MasterCard. Also Non-Executive Director of privately-held Russell Reynolds Associates and Canada Pension Plan Investment Board.

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

10 Group financial statements

10.4 Consolidated statements of income

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

Note		2014	2015	2016
6	Sales	21,391	24,244	24,516
	Cost of sales	(13,185)	(14,388)	(13,904)
	Gross margin	**8,206**	**9,856**	**10,612**
	Selling expenses	(5,124)	(5,815)	(5,888)
	General and administrative expenses	(747)	(1,209)	(845)
	Research and development expenses	(1,635)	(1,927)	(2,021)
	Impairment of goodwill	(3)	-	(3)
6	Other business income	63	137	68
6	Other business expenses	(274)	(50)	(41)
6	**Income from operations**	**486**	**992**	**1,882**
7	Financial income	114	98	76
7	Financial expenses	(415)	(467)	(569)
	Income before taxes	**185**	**623**	**1,389**
8	Income tax expense	(26)	(239)	(327)
	Income after taxes	**159**	**384**	**1,062**
	Investments in associates, net of income taxes	62	30	13
	Income from continuing operations	**221**	**414**	**1,075**
3	Discontinued operations, net of income taxes	190	245	416
	Net income	**411**	**659**	**1,491**
	Attribution of net income			
	Net income attributable to Koninklijke Philips N.V. shareholders	415	645	1,448
	Net income attributable to non-controlling interests	(4)	14	43

Philips Group
Earnings per common share attributable to Koninklijke Philips N.V. shareholders in EUR unless otherwise stated
For the years ended December 31

Note		2014	2015	2016
	Basic earnings per common share in EUR			
9	Income from continuing operations attributable to shareholders	0.25	0.44	1.12
9	Net income attributable to shareholders	0.45	0.70	1.58
	Diluted earnings per common share in EUR			
9	Income from continuing operations attributable to shareholders	0.24	0.43	1.11
9	Net income attributable to shareholders	0.45	0.70	1.56

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

10.5 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

		2014	2015	2016
	Net income for the period	**411**	**659**	**1,491**
20	Pensions and other post-employment plans:			
	Remeasurements	(972)	(101)	(96)
8	Income tax effect on remeasurements	289	9	28
	Revaluation reserve:			
	Release revaluation reserve	(10)	(9)	(4)
	Reclassification directly into retained earnings	10	9	4
	Total of items that will not be reclassified to Income Statement	(683)	(92)	(68)
3	Currency translation differences:			
	Net current period change, before tax	600	643	219
8	Income tax effect	203	187	2
	Reclassification adjustment for gain realized	(5)	(1)	-
13	Available-for-sale financial assets:			
	Net current period change, before tax	30	33	(44)
8	Income tax effect	(4)	-	-
	Reclassification adjustment for loss (gain) realized	(54)	(4)	24
	Cash flow hedges:			
	Net current period change, before tax	(40)	(38)	3
8	Income tax effect	10	-	(9)
	Reclassification adjustment for loss (gain) realized	(7)	63	5
	Total of items that are or may be reclassified to Income Statement	733	883	200
	Other comprehensive income for period	**50**	**791**	**132**
	Total comprehensive income for the period	**461**	**1,450**	**1,623**
	Total comprehensive income attributable to:			
	Shareholders of Koninklijke Philips N.V.	465	1,436	1,550
	Non-controlling interests	(4)	14	73

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

10.6 Consolidated balance sheets

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

Notes		2015		2016	
	Non-current assets				
2 10 24	Property, plant and equipment:				
	- At cost	7,217		7,064	
	- Less accumulated depreciation	(4,895)		(4,909)	
			2,322		2,155
2 11	Goodwill		8,523		8,898
2 12	Intangible assets excluding goodwill:				
	- At cost	9,251		9,782	
	- Less accumulated amortization	(5,558)		(6,230)	
			3,693		3,552
16	Non-current receivables		191		155
5	Investments in associates		181		190
13	Other non-current financial assets		489		335
29	Non-current derivative financial assets		58		59
8	Deferred tax assets		2,758		2,792
14	Other non-current assets		68		92
	Total non-current assets		**18,283**		**18,228**
	Current assets				
15	Inventories		3,463		3,392
13	Current financial assets		12		101
14	Other current assets		444		486
29	Current derivative financial assets		103		101
8	Income tax receivable		114		154
16 26	Receivables:				
	- Accounts receivable	4,727		4,992	
	- Accounts receivable from related parties	16		33	
	- Other current receivables	239		302	
			4,982		5,327
3	Assets classified as held for sale		1,809		2,180
30	Cash and cash equivalents		1,766		2,334
	Total current assets		**12,693**		**14,075**
	Total assets		**30,976**		**32,303**

Note		2015[1]		2016	
	Equity				
17	Shareholders' equity:				
	Preference shares, par value EUR 0.20 per share:				
	- Authorized: 2,000,000,000 shares (2015: 2,000,000,000 shares), issued none				
	Common shares, par value EUR 0.20 per share:				
	- Authorized: 2,000,000,000 shares (2015: 2,000,000,000 shares)				
	- Issued and fully paid: 929,644,864 shares (2015: 931,130,387 shares)	186		186	
	Capital in excess of par value	2,669		3,083	
	Retained earnings	8,040		8,233	
	Revaluation reserve	4		-	
	Currency translation differences	1,058		1,234	
	Available-for-sale financial assets	56		36	
	Cash flow hedges	12		10	
	Treasury shares, at cost 7,208,301 shares (2015: 14,026,801 shares)	(363)		(181)	
			11,662		12,601
17	Non-controlling interests		118		907
	Group equity		**11,780**		**13,508**
	Non-current liabilities				
18 24	Long-term debt		4,095		4,021
29	Non-current derivative financial liabilities		695		590
19 20	Long-term provisions[1]		3,471		2,926
8	Deferred tax liabilities		164		66
22	Other non-current liabilities[1]		812		719
	Total non-current liabilities		**9,237**		**8,322**
	Current liabilities				
18 24	Short-term debt		1,665		1,585
29	Derivative financial liabilities		238		283
8	Income tax payable		116		146
24 26	Accounts and notes payable:				
	- Trade creditors	2,669		2,845	
	- Accounts payable to related parties	4		3	
			2,673		2,848
21	Accrued liabilities[1]		2,815		3,034
19 20	Short-term provisions[1]		772		680
3	Liabilities directly associated with assets held for sale		407		525
22	Other current liabilities		1,273		1,372
	Total current liabilities		**9,959**		**10,473**
	Total liabilities and group equity		**30,976**		**32,303**

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

[1] Adjusted to reflect a reclassification of net defined-benefit obligations into Long-term provisions. See note 1, Significant accounting policies

10.7 Consolidated statements of cash flows

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

Note		2014[1]	2015[1]	2016
	Cash flows from operating activities			
	Net income	411	659	1,491
	Discontinued operations, net of income taxes	(190)	(245)	(416)
	Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
	Depreciation, amortization, and impairments of fixed assets	1,187	1,281	1,267
	Impairment of goodwill and other non-current financial assets	21	48	29
	Net gain on sale of assets	(83)	(110)	(15)
	Interest income	(39)	(48)	(49)
	Interest expense on debt, borrowings and other liabilities	231	278	310
	Income taxes	26	239	327
	Investments in associates, net of income taxes	(62)	(10)	(13)
	Decrease (increase) in working capital[1]	304	29	394
	Decrease (increase) in receivables and other current assets	*(75)*	*161*	*(220)*
	Decrease (increase) in inventories	*(77)*	*22*	*44*
	Increase (decrease) in accounts payable, accrued and other current liabilities [1]	*456*	*(154)*	*570*
	Decrease (increase) in non-current receivables, other assets and other liabilities[1]	(573)	65	(147)
19	Increase (decrease) in provisions[1]	809	(440)	(759)
	Other items	(242)	(99)	120
	Interest paid	(232)	(265)	(311)
	Interest received	38	48	48
	Dividends received from investments in associates	41	17	48
	Income taxes paid	(344)	(280)	(420)
	Net cash provided by (used for) operating activities	**1,303**	**1,167**	**1,904**
	Cash flows from investing activities			
	Net capital expenditures	(806)	(842)	(831)
	Purchase of intangible assets	*(114)*	*(121)*	*(108)*
	Expenditures on development assets	*(295)*	*(314)*	*(318)*
	Capital expenditures on property, plant and equipment	*(437)*	*(522)*	*(443)*
3	*Proceeds from sales of property, plant and equipment*	*40*	*115*	*38*
23	Net proceeds from (cash used for) derivatives and current financial assets	(7)	(72)	(120)
23	Purchase of other non-current financial assets	(81)	(21)	(61)
23	Proceeds from other non-current financial assets	107	53	16
	Purchase of businesses, net of cash acquired	(177)	(1,116)	(202)
3	Proceeds from sale of interests in businesses, net of cash disposed of	(20)	57	31
	Net cash used for investing activities	**(984)**	**(1,941)**	**(1,167)**
	Cash flows from financing activities			
18	Proceeds from issuance (payments) of short-term debt	(37)	1,241	(1,319)
18	Principal payments on short-term portion of long-term debt	(333)	(104)	(362)
18	Proceeds from issuance of long-term debt	69	94	1,304
17	Re-issuance of treasury shares	117	81	80
17	Purchase of treasury shares	(713)	(506)	(606)
5	IPO Philips Lighting proceeds			863
5	IPO Philips Lighting transaction costs paid			(38)
17	Dividends paid to shareholders of Koninklijke Philips N.V.	(292)	(298)	(330)
	Dividends paid to non-controlling interests			(12)
	Net cash provided by (used for) financing activities	**(1,189)**	**508**	**(420)**
	Net cash provided by (used for) continuing operations	**(870)**	**(266)**	**317**
	Cash flows from discontinued operations			
	Net cash provided by (used for) operating activities	105	79	268
	Net cash provided by (used for) investing activities	88		
	Net cash provided by (used for) discontinued operations	**193**	**79**	**268**
	Net cash provided by (used for) continuing and discontinued operations	**(677)**	**(187)**	**585**
	Effect of changes in exchange rates on cash and cash equivalents	85	80	(17)
	Cash and cash equivalents at the beginning of the year	2,465	1,873	1,766
	Cash and cash equivalents at the end of the year	**1,873**	**1,766**	**2,334**

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

[1] Adjusted to reflect a reclassification of net defined-benefit obligations into (Long-term) provisions. See note 1, Significant accounting policies

10.8 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 share	capital in excess of par value	retained earnings	revaluation reserve	currency translation differences[1]	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, 2014	**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 - Other			-						-	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 - Other										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**
Total comprehensive income (loss)			1,384	(4)	191	(20)	(1)		1,550	73	1,623
Dividend distributed	4	398	(732)						(330)		(330)
IPO Philips Lighting			125		(15)		(1)		109	716	825
Cancellation of treasury shares	(4)		(446)					450			
Purchase of treasury shares								(589)	(589)		(589)
Re-issuance of treasury shares		(122)	(35)					231	74		74
Share call options			(103)					90	(13)		(13)
Share-based compensation plans		119							119		119
Income tax share-based compensation plans		19							19		19
Balance as of Dec. 31, 2016	**186**	**3,083**	**8,233**		**1,234**	**36**	**10**	**(181)**	**12,601**	**907**	**13,508**

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

[1] Cumulative translation adjustments related to Investments in associates were EUR 40 million at December 31, 2016 (2015: EUR 34 million, 2014: EUR 19 million).

10.9 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 2016 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 21, 2017, 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 11, 2017.

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.

In the process of applying the accounting policies, management has made estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the reported amounts of assets and liabilities within the next financial year, as well as to 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 bases the estimates on historical experience, current and expected future outcomes, third-party evaluations and various other assumptions that Philips believes are reasonable under the circumstances. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Company's control and are reflected in the assumptions if and when they occur. 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, tax risks 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. For further discussion on these significant judgements and estimates, reference is made to the respective notes within these consolidated financial statements that relate to the above topics.

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 that 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 presentation from the prior year

The accounting policies set out in this section have been applied consistently for all periods presented in these consolidated financial statements, except for the presentation of the items mentioned below. Prior-year amounts have been reclassified to conform to the current year presentation.

Reclassification of net defined-benefit obligations

To enhance transparency, the Company presents all net defined-benefit post-employment plan obligations under Long-term provisions in the balance sheet as from this year. Up to 2015, the net defined-benefit post-employment plan obligations were presented under Accrued liabilities and Other non-current liabilities for funded plans and under Short-term and Long-term provisions for unfunded plans. The retrospective reclassifications from these liability captions to Long-term provisions are as follows:

Reclassification of net defined-benefit obligations to Long-term provisions
in millions of EUR

	December 31, 2015	December 31, 2016
From		
Accrued liabilities	(48)	(34)
Other non-current liabilities	(970)	(809)
Short-term provisions	(61)	(58)
To		
Long-term provisions	(1,079)	(901)

Consequential changes were processed in note 21, Accrued liabilities and note 22, Other liabilities. Corresponding retrospective reclassifications were processed and explained in the Consolidated statements of cash flows. Information on net defined-benefit obligation can be found in note 20, Post-employment benefits.

Change in Segment reporting
In 2016, Philips established two stand-alone companies focused on the HealthTech and Lighting opportunities.

As part of this separation, Philips has changed the way it allocates resources and analyzes its performance based on a new segment structure.

Accordingly, from 2016 the operational reportable segments for the purpose of the disclosures required by IFRS 8 Operating Segments are Personal Health businesses, Diagnosis & Treatment businesses, Connected Care & Health Informatics businesses and Lighting, each being responsible for the management of its business worldwide. Additionally, HealthTech Other and Legacy Items are included in the note 2, Information by segment and main country. The new segment structure has no impact in the cash-generating units disclosed in note 11, Goodwill. Consequential changes to comparative segment disclosures were processed in note 14, Other assets, note 16, Receivables, and note 19, Provisions.

Prior-period segment results have been reclassified according to the new reporting structure.

Segment information can be found in note 2, Information by segment and main country.

Specific choices within IFRS
Sometimes IFRS allows alternative accounting treatments for measurement and/or disclosure. Philips has adopted one of the treatments as appropriate to the circumstances of the Company. 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. Further information on Tangible and Intangible fixed assets can be found in note 10, Property, plant and equipmentand note 12, Intangible assets excluding goodwill respectively.

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.

Furthermore, when accounting for the settlement of defined-benefit plans the Company made the accounting policy choice to adjust the amount of the plan assets transferred for the effect of the asset ceiling.

Further information on employee benefit accounting can be found in note 20, Post-employment benefits.

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 in cash flows from financing or investing activities, 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 cash flows from operating activities which is an allowed alternative under IFRS.

Consolidated statements of cash flows can be found in section 10.7, Consolidated statements of cash flows, of this Annual Report.

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 segments Personal Health businesses and Lighting 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 segments Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses 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.

Expenses incurred for shipping and handling of internal movements of goods are recorded as cost of sales. Shipping and handling related to sales to third parties are recorded as selling expenses. When shipping and handling is part of a project and billed to the customer, then the related expenses are recorded as cost or sales. Shipping and handling billed to customers is recognized as revenues. 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 from intellectual property rights, 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 a licensees. Royalty income from an agreement with lump-sum consideration is recognized on accrual basis based on the contractual terms and substance of the relevant agreement with a licensee.

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 as a reduction of the related costs over the period necessary to match them with the costs that they are intended to compensate. Grants related to assets are deducted from the cost of the asset and presented net in the Statement of financial position.

Income taxes

Income taxes comprises current and deferred tax. Income taxes 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 taxes is the expected taxes payable on the taxable income for the year, using tax rates enacted or substantively-enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Tax liabilities are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the income tax expense in the period that such a determination is made.

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, joint ventures and associates where the reversal of the respective temporary difference can be controlled by the Company and it is probable that it will not reverse in the foreseeable future. Deferred taxes are 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 substantively 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 substantively enacted by the reporting date.

Further information on income tax can be found in note 8, Income taxes.

Provisions

Provisions are recognized if, as a result of a past event, the Company has a present legal or constructive obligation, the amount 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.

Further information on provisions can be found in note 19, Provisions.

Goodwill

The measurement of goodwill at initial recognition is described under Basis of consolidation note. Goodwill is subsequently measured at cost less accumulated impairment losses. Further information on goodwill can also be found in note 11, Goodwill.

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. Intangible assets are initially capitalized at cost, with the exception of intangible assets acquired as part of a business combination, which 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, the Company has sufficient resources and the intention to complete development and can measure the attributable expenditure reliably.

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.

Further information on intangible assets other than goodwill can be found in note 12, Intangible assets excluding goodwill.

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.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

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; (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 of disposal. 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.

Further information on discontinued operations and non-current assets held for sale can be found in note 3, Discontinued operations and other assets classified as held for sale.

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. In 2016 the Company performed and completed annual impairment tests in the second quarter, in line with all years presented in the Statement of income, and in the fourth quarter. The additional impairment test at year-end was performed in view of the change in the date of test from second quarter to fourth quarter, as from 2017, to better align it with planning and forecasting cycles. 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 of disposal. Value in use is measured as the present value of future cash flows expected to be generated by the asset.

Further information on impairment of goodwill and intangible assets not yet ready for use can be found in note 11, Goodwill.

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 assessed by a comparison of the carrying amount of an asset with the greater of its value in use and fair value less cost of disposal. Value in use is measured as the present value of future cash flows expected to be generated by the asset. Fair value less cost of disposal is measured as the amount obtained from a sale of an asset in an arm's length transaction, less costs of disposal. 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, such as loans and receivables, 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.

Further information on business combinations can be found in note 13, Other financial assets.

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.

Further information on business combinations can be found in note 4, Acquisitions and divestments.

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

Associates are all entities over which the Company has significant influence, but no 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 carrying amount of an investment includes the carrying amount of goodwill identified on acquisition. An impairment loss on such investment is allocated to the investment as a whole.

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 investments in associates.

Further information on investments in associates can be found in note 5, Interests in entities.

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 translations are recognized in the Statement of income, except for available-for-sale equity investments which are recognized in Other comprehensive income. If there is an impairment which results in foreign currency differences being recognized, then these differences are reclassified from Other comprehensive income 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.

Further information on cash and cash equivalents can be found in note 30, Details of treasury / other financial risks.

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.

Philips derecognizes receivables on entering into factoring transactions if Philips has transferred substantially all risks and rewards or if Philips does not retain control over receivables.

Further information on receivables can be found in note 16, Receivables.

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.

Further information on other non-current financial assets can be found in note 13, Other financial assets.

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.

Call options on own shares are treated as equity instruments in accordance with International Financial Reporting Standards criteria.

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

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, 2016, no preference shares have been issued.

Further information on equity can be found in note 17, Equity.

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 Other comprehensive income are recognized immediately in the same line item as they relate to 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 comprise all directly attributable costs (including the cost of material and direct labor).

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 in Other Business Income, in the Consolidated statements of income.

Further information on property, plant and equipment can be found in note 10, Property, plant and equipment.

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 sales in the recent past and/or expected future demand.

Further information on inventories can be found in note 15, Inventories.

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, but to which it does pay non-fixed contributions, are also treated as a 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 at the balance sheet date. The 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. The net pension liability is presented as a long-term provision, no distinction is made for the short-term portion.

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 asset or 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.

Further information on employee benefit accounting can be found in note 20, Post-employment benefits.

Share-based payment

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in note 27, Share-based compensation.

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 cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant-date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant-date fair value.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given innote 9, Earnings per share).

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.

Further information on financial income and expenses can be found in note 7, Financial income and expenses.

Financial guarantees

The Company recognizes a liability at the fair value of the obligation at the inception of a financial guarantee contract if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. 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 flows.

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 segments Personal Health businesses, Diagnosis & Treatment businesses, Connected Care & Health Informatics businesses and Lighting. HealthTech Other and Legacy Items are segments but not separate reportable segments and hold, among others, the Emerging Businesses and Innovation businesses, headquarters overhead, regional/country organization expenses and separation costs. 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.

Further information on earnings per share can be found in note 9, Earnings per share.

New standards and interpretations

IFRS accounting standards adopted as from 2016

Changes to policies, following from amendments to standards, interpretations and the annual improvement cycles, effective 2016, did not have a material impact on the Group financial statements.

IFRS accounting standards to be adopted as from 2017 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, 2017 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 endorsed by the EU. The Company is currently in the process of implementing the new Standard, and based on its current assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2016 and hedging relationships designated during 2016 under IAS 39, the following is noted:

Classification
At this moment the Company does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. At 31 December 2016, the Company had equity investments classified as available-for-sale with a fair value of approximately EUR 140 million that are held for long-term strategic purposes. The Company did not make a decision yet as to classify these investments as fair-value-through-other-comprehensive-income (FVOCI) or fair-value-through-profit-or-loss (FVTPL) financial assets, assuming these investments continue to be held for the same purpose at initial application of IFRS 9.

On the classification of financial liabilities under IFRS 9 the Company's current assessment did not indicate any material impact.

Impairment
IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. While the group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

Hedge accounting
The Company's current plan is that it will elect to apply the new hedge accounting requirements of IFRS 9 rather than to make the accounting policy choice to continue the IAS 39 requirements.

Under IFRS 9 the Company should ensure that hedge accounting relationships are aligned with the Company's risk management objectives and strategy including a more qualitative and forward-looking approach to assessing hedge effectiveness. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting. The Company currently does not undertake hedges of such risk components.

Under IAS 39, the change in fair value of the forward element of the forward exchange contracts ("forward points") is recognized immediately in profit or loss. On adoption of IFRS 9, the Company may elect for the forward points to be separately accounted for as a cost of hedging. In this case, they would be recognized in Other comprehensive income and accumulated in a cost of hedging reserve as a separate component within equity and accounted for subsequently like gains and losses accumulated in the cash flow hedge reserve.

The Company's current assessment indicated that the types of hedge accounting relationships that the Company currently designates should be capable of meeting the requirements of IFRS 9 if the Company completes certain planned changes to its internal documentation and monitoring processes. While the Company will have to finalize the detailed assessment, it would appear that the Company's current hedge relationships would qualify as continuing hedges upon the adoption of IFRS 9. Accordingly, the Company does not expect a significant impact on the accounting for its hedging relationships.

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, however the guidance allows certain exemptions on retrospective application. The Company has not made a decision yet in relation to the exemptions and elections that IFRS 9 allows.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 specifies how and when revenue is recognized as well as prescribing 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.

The Company has completed an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements. The main aspects of the impact assessment are mentioned below:

General
Revenues of transactions that have separately identifiable components are currently recognized based on the relative fair value of the components and mainly occur in the segments Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses. Under IFRS 15, the total consideration of a sale transaction will be allocated to the different elements based on their relative stand-alone selling prices. These prices will be determined based on the country list prices (including standard discounts where applicable) at which the Company sells the elements in separate transactions. If these country list prices are not available Philips will use either the adjusted market assessment approach or the expected costs plus a margin approach. The residual approach is only permissible in limited circumstances.

The Company performed an initial comparison of the fair value and the stand-alone selling prices of the identified components. Based on the initial assessment, these amounts are broadly the same, therefore the Company at this stage does not anticipate material differences in the revenue recognition under multiple component accounting.

Sale of goods
For the sale of products in the segments Personal Health businesses and Lighting, revenue is currently recognized when goods are delivered to the customer, which is the point in time at which the customer accepts the goods and the related risks and rewards of ownership are transferred. Revenue is only recognized at this moment after other requirements are also met, such as no continuing management involvement with goods, revenue and costs can be reliably measured and probable recovery of the considerations. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The overall revenue recognition requirements are captured in the steps of the five-step model.

Based on the initial assessment, the Company did not identify material differences for the mentioned segments, between the transfer of control and the current transfer of risk and rewards. As such, at this stage the Company does not anticipate material differences in the timing of revenue recognition for the sale of products.

Rendering of services
Especially within the segments Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses, the Company currently recognizes revenue from services when the inflow of the amounts involved are deemed probable and revenue and associated costs related to the stage of completion of a contract or transaction can be reliably measured. Furthermore, revenue from services is deferred and recognized in the Statement of income over the period during which the service is rendered. Under IFRS 15, revenue will be recognized when a customer obtains control of the services, which can be at a point in time or over time. For each performance obligation satisfied over time, revenue needs to be recognized by measuring the progress towards complete satisfaction of that performance obligation at the end of each reporting period.

Based on the initial assessment, the Company did not identify material differences between its current accounting treatment and IFRS 15, with respect to the timing of revenue recognition of service revenues.

Royalty income
Currently the Company recognizes revenue from intellectual property (IP) royalties, which is normally generated based upon a percentage of sales or a fixed amount per product sold, on an accrual basis based on actual or reliably estimated sales made by the licensees. Revenue generated from an agreement with lump-sum consideration is recognized on accrual basis based on the contractual terms and substance of the relevant agreement with a licensee. Under IFRS 15, revenues from the license of intellectual property should be recognized based on a right to access the intellectual property or a right to use the intellectual property approach. Under the first option revenue should be recognized over time while under the second option revenue should be recognized at a point in time.

Based on the initial assessment, the Company has identified a potential impact on revenues originating from its IP royalties (Segment HealthTech Other). The potential impact is mainly related to a change in timing of revenue recognition which, under IFRS 15, could be recognized in the Statement of income at an earlier point in time rather than over time under the current methodology.

The Company is currently performing a detailed analysis on a contract by contract basis, to assess the related impact.

Costs of obtaining a contract
Under IFRS 15, the incremental costs of obtaining a contract with a customer are recognized as an asset if the entity expects to recover them. Under the current guidance these costs are expensed when incurred.

The Company identified certain sales commissions that are typical for transactions in the segments Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses to be incremental costs of obtaining a contract. The Company is currently assessing the exact amounts involved as well as the appropriate time in which capitalized contract costs should be amortized.

The Company has significant commission costs that are currently expensed as incurred, hence the IFRS 15 guidance means a change to current practice.

Transition

The Company plans to adopt IFRS 15 in its consolidated financial statements for the year ending December 31, 2018, using the modified retrospective transition approach upon initial adoption of IFRS 15, applying the standard only to contracts that are not completed as of the date of initial application. This would mean that comparative figures will not be restated and that additional clarifying disclosures will be presented in the Annual Report 2018.

IFRS 15 must be applied for periods beginning on or after January 1, 2018. It is endorsed by the EU (except for the Clarifications to IFRS 15 issued by the IASB in April 2016).

IFRS 16 Leases

For lessees, IFRS 16 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. If the interest rate implicit in the lease cannot be readily determined then the incremental borrowing rate should be used for discounting. 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 adopted for periods beginning on or after January 1, 2019, with earlier adoption permitted if the abovementioned IFRS 15 has also been adopted. IFRS 16 is not yet endorsed by the EU.

The Company is currently assessing the impact of the new standard. So far, the most significant impact identified is that the Company will recognize assets and liabilities for its operating leases of real estate, while further assessment is ongoing for other operating leases. In this respect, the Company identified almost EUR 1 billion of off-balance operating lease obligations (undiscounted) per December 31, 2016. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. No significant impact is expected for the Company's finance leases.

The Company has not yet determined whether to early adopt or not and which transition approach to apply, and has not yet decided whether it will use any of the optional exemptions.

2 Information by segment and main country

Philips Group
Information on income statement in millions of EUR unless otherwise stated
2014 - 2016

	sales	sales including intercompany	depreciation and amortization[1]	EBITA[1]
2016				
Personal Health	7,099	7,119	(385)	1,092
Diagnosis & Treatment	6,686	6,741	(229)	594
Connected Care & Health Informatics	3,158	3,213	(184)	322
HealthTech Other	478	620	(177)	(120)
Lighting	7,094	7,115	(291)	542
Legacy Items	1	6	(1)	(195)
Inter-segment eliminations		(298)		
Philips Group	**24,516**	**24,516**	**(1,267)**	**2,235**
2015				
Personal Health	6,751	6,764	(375)	885
Diagnosis & Treatment	6,484	6,531	(249)	377
Connected Care & Health Informatics	3,022	3,080	(198)	227
HealthTech Other	503	657	(156)	64
Lighting	7,438	7,481	(309)	441
Legacy Items	46	84	6	(622)
Inter-segment eliminations		(353)		
Philips Group	**24,244**	**24,244**	**(1,281)**	**1,372**
2014				
Personal Health	5,948	5,958	(334)	758
Diagnosis & Treatment	5,284	5,304	(177)	374
Connected Care & Health Informatics	2,684	2,717	(168)	(106)
HealthTech Other	487	627	(123)	51
Lighting	6,874	6,932	(382)	133
Legacy Items	114	154	(3)	(389)
Inter-segment eliminations		(301)		
Philips Group	**21,391**	**21,391**	**(1,187)**	**821**

1) Includes all depreciation and amortization. For the definition of EBITA and for the amortization not included in EBITA, refer to table below

In 2016, Philips established two stand-alone companies focused on the HealthTech and Lighting opportunities. As part of this separation, Philips has changed the way it allocates resources and analyzes its performance based on a new segment structure. Accordingly, from 2016 the reportable segments for the purpose of the disclosures required by IFRS 8 Operating Segments are Personal Health businesses, Diagnosis & Treatment businesses, Connected Care & Health Informatics businesses and Lighting, each being responsible for the management of its business worldwide. Additionally, HealthTech Other and Legacy Items are included.

The internal management report provided to the chief operating decision maker (the Executive Committee of the Company) has had changes in 2016. Accordingly the disclosure in this note has been updated. The key segmental performance measure provided in the internal management report to the chief operating decision maker (the Executive Committee of the Company) is EBITA[1]. Management believes it is the most relevant measure to evaluate the results of the segments.

The Company uses the terms EBIT and EBITA[1] to evaluate the performance of the Philips Group and its operating segments. The term EBIT has the same meaning as Income from operations and the term EBITA[1] has the same meaning as Adjusted income from operations[1]. EBITA[1] represents income from operations before amortization and impairment on intangible assets (excluding software and capitalized development expenses). Referencing EBITA[1] is considered appropriate as the Company uses it as one of its strategic drivers to increase profitability through re-allocation of its resources towards opportunities offering more consistent and higher returns and it will make the underlying performance of our businesses more transparent as it will not be distorted by the unpredictable effects of future, unidentified acquisitions.

EBITA[1] is not a financial measure in accordance with IFRS. Below is a reconciliation of EBITA[1] to the most directly comparable IFRS measure, Net income, for the years indicated. Certain income and expense line items are monitored on a centralized basis and are not allocated to segments, resulting in them being shown on a Philips Group level only.

Transactions between the segments mainly related to services provided by HealthTech Other to the other segments. The pricing of such transactions was at cost or determined on an arm's length basis.

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

Philips Group
Net income to EBITA in millions of EUR
2014 - 2016

	Philips Group	Personal Health	Diagnosis & Treatment	Connected Care & Health Informatics	HealthTech Other	Lighting	Legacy Items
2016							
Net Income	1,491						
Discontinued operations, net of income taxes	(416)						
Investments in associates, net of income taxes	(13)						
Income tax expense	327						
Financial expenses	569						
Financial income	(76)						
Income from operations (EBIT)	1,882	953	546	275	(129)	432	(195)
Amortization of intangible assets[1]	350	139	48	47	9	108	(1)
Impairment of goodwill	3	-	-	-	-	2	1
EBITA	**2,235**	**1,092**	**594**	**322**	**(120)**	**542**	**(195)**
2015							
Net Income	659						
Discontinued operations, net of income taxes	(245)						
Investments in associates, net of income taxes	(30)						
Income tax expense	239						
Financial expenses	467						
Financial income	(98)						
Income from operations (EBIT)	992	736	322	173	49	334	(622)
Amortization of intangible assets[1]	380	149	55	54	15	107	-
Impairment of goodwill	-	-	-	-	-	-	-
EBITA	**1,372**	**885**	**377**	**227**	**64**	**441**	**(622)**
2014							
Net Income	411						
Discontinued operations, net of income taxes	(190)						
Investments in associates, net of income taxes	(62)						
Income tax expense	26						
Financial expenses	415						
Financial income	(114)						
Income from operations (EBIT)	486	620	349	(157)	37	25	(388)
Amortization of intangible assets[1]	332	138	25	50	14	106	(1)
Impairment of goodwill	3	-	-	1	-	2	-
EBITA	**821**	**758**	**374**	**(106)**	**51**	**133**	**(389)**

[1] Excluding amortization of software and product development.

[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to below.

Philips Group
Main countries in millions of EUR
2014 - 2016

	sales[1]	tangible and intangible assets[2]
2016		
Netherlands	688	1,007
United States	7,713	9,425
China	2,811	1,167
Germany	1,372	201
Japan	1,134	492
France	833	45
India	804	121
Other countries	9,161	2,147
Total main countries	**24,516**	**14,605**
2015		
Netherlands	639	970
United States	7,522	9,291
China	2,774	1,194
Germany	1,357	170
Japan	992	455
France	806	48
India	845	134
Other countries	9,309	2,276
Total main countries	**24,244**	**14,538**
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**

1) The sales are reported based on country of destination.
2) Includes Property plant and equipment, Intangible assets excluding goodwill and Goodwill

3 Discontinued operations and other assets classified as held for sale

Discontinued operations included in the Consolidated statements of income and cash flows consist of the combined Lumileds and Automotive businesses, the Audio, Video, Multimedia & Accessories business and certain divestments formerly 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.

In January 2016, Philips announced that the transaction with Go Scale Capital has been terminated despite efforts to mitigate the concerns of the Committee on Foreign Investment in the United States ('CFIUS').

Philips announced December 12, 2016 that it has signed an agreement to sell an 80.1% interest in Lumileds, a leading supplier of LED components and automotive lighting, to certain funds managed by affiliates of Apollo Global Management, LLC (NYSE: APO). Philips will retain the remaining 19.9% interest in Lumileds.

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
2014 - 2016

	2014	2015	2016
Sales	1,416	1,619	1,711
Costs and expenses	(1,202)	(1,320)	(1,376)
Income before taxes	**214**	**299**	**335**
Income tax expense	(73)	(53)	(53)
Results from discontinued operations	**141**	**246**	**282**

Upon disposal, the associated currency translation differences, part of Shareholders' equity, will be recognized in the Consolidated statement of income. At December 31, 2016, the estimated release amounts to a EUR 63 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 2015.

Philips Group
Assets and liabilities of combined Lumileds and Automotive Lighting businesses in millions of EUR
2015 - 2016

	2015	2016
Property, plant and equipment	762	909
Intangible assets including goodwill	379	450
Inventories	285	289
Accounts receivable	314	323
Other assets	34	69
Assets classified as held for sale	**1,774**	**2,040**
Accounts payable	(192)	(183)
Provisions	(39)	(56)
Other liabilities	(170)	(269)
Liabilities directly associated with assets held for sale	**(401)**	**(508)**

Discontinued operations: Other

Certain results of other divestments, reported as discontinued operations are included, with a net gain of EUR 134 million in 2016 (2015: a net loss of EUR 1 million; 2014: a net gain of EUR 49 million).

The main result in 2016 related to the court decision in favor of Philips in an arbitration case against Funai Electric Co., Ltd. Philips started the arbitration after it terminated the agreement to transfer the Audio, Video, Media & Accessories business to Funai following a breach of contract by Funai. As a consequence the court ordered Funai to pay EUR 144 million, which includes disbursements and interest, as compensation for damages. The amount was received in Q2 2016.

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 87 million (December 31, 2015: EUR 1 million) and businesses' net assets classified as held for sale amounted to EUR 36 million at December 31, 2016 (December 31, 2015 EUR 28 million).

In 2016 assets held for sale of property, plant and equipment had an impairment of EUR 25 million and businesses' net assets classified as held for sale had a goodwill impairment of EUR 2 million.

In 2016, divested property, plant and equipment assets held for sale amounted to EUR 7 million, with proceeds of EUR 19 million. Businesses divested net assets classified as held for sale amounted to EUR 41 million. The businesses divested had proceeds of EUR 44 million.

In 2015, divested property, plant and equipment assets 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.

4 Acquisitions and divestments

2016

Acquisitions

Philips completed two acquisitions in 2016. These acquisitions involved an aggregated net cash outflow of EUR 168 million.

Divestments

Philips completed six divestments during 2016. The six divestments involved an aggregated cash consideration of EUR 43 million.

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 was 100% consolidated as part of the Diagnosis & Treatment businesses segment. 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 was primarily related to synergies expected to be achieved from integrating Volcano within the Diagnosis & Treatment businesses segment. The goodwill was not tax-deductible. Other intangible assets were 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.

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.

IPO Philips Lighting

In May and June 2016, the Company sold 28.775% of its interest in Philips Lighting (a wholly owned subsidiary of the Company) through an IPO (involving 28.75% of the shares) and transactions with the CEO and CFO of Philips Lighting (involving 0.025% of the shares), reducing its remaining interest in Philips Lighting to 71.225%. This transaction involved cash proceeds of EUR 863 million and EUR 38 million transaction costs spend. This partial divestment transaction did not impact the profit and loss account of the Company, as Philips Lighting continues to be fully consolidated.

The transactions had a positive impact on Shareholders' equity of the Company of EUR 109 million. This amount is based on:

- the difference between the proceeds and the carrying value of the 28.775% stake in Philips Lighting (gain of EUR 163 million);
- costs related to the IPO which were directly recognized in Shareholders' equity (loss of EUR 38 million) and;
- certain reallocations of Other comprehensive income items to Non-controlling interests (loss of EUR 16 million).

As a result of the IPO, Non-controlling interests increased by EUR 716 million. Please refer also to note 17, Equity. This amount is based on:

- the carrying value of the 28.775% stake in Philips Lighting (increase of EUR 700 million) and;
- certain reallocations of Other comprehensive income items from Shareholders' equity (increase of EUR 16 million).

Prior to the IPO, the Company completed an internal legal restructuring whereby all Lighting activities were concentrated in Philips Lighting. This legal restructuring resulted in an increase of consolidated legal entities from 450 as of December 31, 2015 to 465 as of December 31, 2016.

Sales and Income from operations of Philips Lighting are reflected in the Lighting segment information included in note 2, Information by segment and main country. Certain differences exist between the Lighting segment information reported by the Company and Philips Lighting's stand-alone Annual Report published on February 21, 2017. Differences in income from operations mainly relate to separation costs (EUR 62 million) that Philips Lighting recognizes in Income from operations, whereas these costs are reflected in the segment Legacy Items by Royal Philips.

Group companies

Set out below is a list of material subsidiaries as per December, 31 2016 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 fully consolidated in the group accounts of the Company. Entities that are 100% owned by Philips Lighting are consequently 71.225% owned by Koninklijke Philips N.V. The remaining entities are 100% owned by the Company.

It is noted that Philips reduced its interest in Philips Lighting to approximately 55.180% as per February 8, 2017. Please refer to note 31, Subsequent events

Philips Group
Interests in group companies in alphabetical order
2016

Legal entity name	Principal country of business
Invivo Corporation	United States
Lifeline Systems Company	United States
Lumileds International B.V.	Netherlands
Lumileds LLC	United States
Lumileds Malaysia Sdn. Bhd.	Malaysia
Philips (China) Investment Company, Ltd.	China
Philips Consumer Lifestyle B.V.	Netherlands
Philips Electronics Hong Kong Limited	Hong Kong
Philips Electronics Nederland B.V.	Netherlands
Philips Electronics North America Corporation	United States
Philips GmbH	Germany
Philips Holding USA Inc.	United States
Philips International B.V.	Netherlands
Philips Lighting B.V.[1]	Netherlands
Philips Lighting Holding B.V.[1]	Netherlands
Philips Lighting Hong Kong Limited[1]	Hong Kong
Philips Lighting North America Corporation[1]	United States
Philips Medical Systems (Cleveland), Inc.	United States
Philips Medical Systems Nederland B.V.	Netherlands
Philips Medizin Systeme Böblingen GmbH	Germany
Philips Oral Healthcare, LLC	United States
Philips Ultrasound, Inc.	United States
RIC Investments, LLC	United States
The Genlyte Group Incorporated[1]	United States
Volcano Corporation	United States

[1] Owned by Philips Lighting

Information related to Non-controlling interests (NCI)

In total, five consolidated subsidiaries are not wholly owned by the Company. Group companies that have significant Non-controlling interests are Philips Lighting (NCI 28.775%) and General Lighting Company (GLC, NCI 49%). The following is combined summarized financial information for Philips Lighting and GLC. The information is before inter-company eliminations with other companies in the Group.

Philips Group
Summarized financial information for Philips Lighting and GLC
in millions of EUR
2016

	2016	
	Philips Lighting	**GLC**
Sales to thirds	7,115	203
Net income	185	(11)
Current assets	3,660	183
Non-current assets	3,795	239
Current liabilities	(2,357)	(126)
Non-current liabilities	(2,290)	(206)
Net assets	**2,808**	**90**
Cashflow from operating activity	505	22
Cashflow from investment activity	(62)	(5)
Cashflow from financing activity	506	(16)
Net increase in cash and cash equivalents	**949**	**1**

Investments in associates

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

The changes during 2016 are as follows:

Philips Group
Investments in associates in millions of EUR
2016

	Total investments
Balance as of January 1, 2016	**181**
Changes:	
Acquisitions/additions	34
Share in income	19
Share in other comprehensive income	(1)
Dividends declared	(48)
Other	5
Balance as of December 31, 2016	**190**

Involvement with unconsolidated structured entities

Philips founded three Philips Medical Capital (PMC) entities, in the United States, France and Germany, in which Philips holds a minority interest. Philips Medical Capital, LLC in the United States is the most significant entity. PMC entities provide healthcare equipment financing and leasing services to Philips customers for diagnostic imaging equipment, patient monitoring equipment, and clinical IT systems.

The Company concluded that it does not control, and therefore should not consolidate the PMC entities. In the United States, PMC operates as a subsidiary of De Lage Landen Financial Services, Inc. The same set up and treatment is applied to the PMC entities in the other countries, with other majority shareholders. Operating agreements are in place for all PMC entities, whereby acceptance of sales and financing transactions resides with the respective majority shareholder. After acceptance of a transaction by PMC, Philips transfers significant risk and rewards and does not retain any obligations towards PMC or its customers.

At December 31, 2016, Philips' stake in Philips Medical Capital, LLC amounted to EUR 25 million (December 31, 2015: EUR 30 million). Philips sold equipment and non-recourse third-party receivables to PMC US amounting to EUR 250 million in 2016 (2015: EUR 255 million; 2014: EUR 220 million).

6 Income from operations

For information related to Sales on a segment and geographical basis, see note 2, Information by segment and main country.

Philips Group
Sales and costs by nature in millions of EUR
2014 - 2016

	2014	2015	2016
Sales	21,391	24,244	24,516
Costs of materials used	(7,296)	(8,446)	(8,045)
Employee benefit expenses	(6,080)	(7,107)	(7,005)
Depreciation and amortization	(1,187)	(1,281)	(1,267)
Shipping and handling	(741)	(806)	(772)
Advertising and promotion	(913)	(1,000)	(1,085)
Lease expense [1]	(318)	(324)	(324)
Other operational costs [2]	(4,156)	(4,375)	(4,160)
Impairment of goodwill	(3)		(3)
Other business income (expenses)	(211)	87	27
Income from operations	**486**	**992**	**1,882**

[1] Lease expense includes EUR 39 million (2015: EUR 35 million, 2014: EUR 35 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, costs for travelling, external legal services and EUR 95 million government grants recognized in 2016 (2015: EUR 66 million, 2014: EUR 45 million). The grants mainly relate to research and development activities and business development.

Sales composition

Philips Group
Sales composition in millions of EUR
2014 - 2016

	2014	2015	2016
Goods	17,972	20,659	20,740
Services	2,948	3,080	3,263
Royalties	471	505	513
Sales	**21,391**	**24,244**	**24,516**

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
2014 - 2016

	2014	2015	2016
Salaries and wages [1]	5,018	5,533	5,832
Post-employment benefits costs	326	780	369
Other social security and similar charges:			
- Required by law	623	664	676
- Voluntary	113	130	128
Employee benefit expenses	**6,080**	**7,107**	**7,005**

[1] Salaries and wages includes Share-based compensation expenses.

The employee benefit expenses 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 28, Information on remuneration.

Employees

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

Philips Group
Employees in FTEs
2014 - 2016

	2014	2015	2016
Production	48,110	46,869	46,114
Research and development	11,714	11,462	11,380
Other	32,684	34,011	34,841
Employees	92,508	92,342	92,335
3rd party workers	12,562	13,314	12,045
Continuing operations	**105,070**	**105,656**	**104,380**
Discontinued operations	**9,222**	**8,556**	**9,192**

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.

Philips Group
Employees per geographical location in FTEs
2014 - 2016

	2014	2015	2016
Netherlands	14,042	14,020	14,569
Other countries	91,028	91,636	89,811
Continuing operations	105,070	105,656	104,380
Discontinued operations	9,222	8,556	9,192
Philips Group	**114,292**	**114,212**	**113,572**

Depreciation and amortization

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

Philips Group
Depreciation and amortization[1] in millions of EUR
2014 - 2016

	2014	2015	2016
Depreciation of property, plant and equipment	592	582	606
Amortization of software	32	48	56
Amortization of other intangible assets	332	380	352
Amortization of development costs	231	271	253
Depreciation and amortization	**1,187**	**1,281**	**1,267**

[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 in section 10.4, Consolidated statements of income, of this Annual Report. Further information on when costs are to be reported to cost of sales or selling expenses can be found in note 1, Significant accounting policies.

Advertising and promotion

Advertising and promotion costs are included in selling expenses in section 10.4, Consolidated statements of income, of this Annual Report.

Audit fees

The table below shows the fees attributable to the fiscal years 2014, 2015 and 2016 for services rendered by the respective Group auditors.

Philips Group
Fees in millions of EUR
2014 - 2016

	2014	2015	2016
Audit fees	14.9	15.3	16.8
- consolidated financial statements	9.6	9.8	12.1
- statutory financial statements	5.3	5.5	4.7
Audit-related fees	3.9	4.9	2.3
- acquisitions and divestments	2.4	3.6	0.9
- sustainability assurance	0.6	0.6	0.7
- other	0.9	0.7	0.7
Tax fees	0.2	1.1	0.0
- tax compliance services	0.2	1.1	0.0
All other fees	0.0	0.0	0.0
- other	0.0	0.0	0.0
Fees [1]	**19.0**	**21.3**	**19.1**

[1] Fees charged by the Dutch organization of the Philips Group auditor were EUR 9.8 million in 2016

Impairment of goodwill

In 2016, goodwill impairment charges amounted to EUR 3 million and mainly related to divested businesses in Lighting. In 2015 and 2014, goodwill impairment charges amounted to EUR nil million and EUR 3 million, respectively. Further information on goodwill movement can be found in 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
2014 - 2016

	2014	2015	2016
Result on disposal of businesses:			
- income	7	4	4
- expense	(2)	(5)	(7)
Result on disposal of fixed assets:			
- income	18	79	21
- expense	(1)	(9)	(6)
Result on other remaining business:			
- income	38	54	43
- expense	(271)	(36)	(28)
Other business income (expenses)	**(211)**	**87**	**27**
Total other business income	63	137	68
Total other business expense	(274)	(50)	(41)

In 2016 and 2015, the result on disposal of businesses was mainly due to divestment of non-strategic businesses.

In 2016 and 2015, the result on disposal of fixed assets was mainly due to sale of real estate assets.

In 2016 and 2015, the 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 25, 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 25, Contingent assets and liabilities - legal proceedings.

Content you didn't download
7 Financial income and expenses
8 Income taxes

9 Earnings per share

Philips Group
Earnings per share in millions of EUR unless otherwise stated[1)]
2014 - 2016

	2014		2015		2016	
Income from continuing operations		221		414		1,075
Income (loss) attributable to non-controlling interest		(4)		14		43
Income from continuing operations attributable to shareholders		**225**		**400**		**1,032**
Income from Discontinued operations		**190**		**245**		**416**
Net income attributable to shareholders		**415**		**645**		**1,448**
Weighted average number of common shares outstanding (after deduction of treasury shares) during the year		915,192,683		916,086,943		918,015,863
Plus incremental shares from assumed conversions of:						
Options	4,617,109		3,565,682		2,456,616	
Performance shares	614,010		2,479,923		6,985,509	
Restricted share rights	2,290,472		1,491,960		1,331,163	
Dilutive potential common shares		7,521,591		7,537,565		10,773,289
Diluted weighted average number of shares (after deduction of treasury shares) during the year		922,714,274		923,624,508		928,789,152
Basic earnings per common share in EUR[2)]						
Income from continuing operations attributable to shareholders		0.25		0.44		1.12
Net income attributable to shareholders		0.45		0.70		1.58
Diluted earnings per common share in EUR[2,3,4)]						
Income from continuing operations attributable to shareholders		0.24		0.43		1.11
Net income attributable to shareholders		0.45		0.70		1.56
Dividend distributed per common share in euros		0.80		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 2016, 2015 and 2014, respectively 9 million, 12 million and 19 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
2016

	land and buildings	machinery and installations	other equipment	prepayments and construction in progress	total
Balance as of January 1, 2016:					
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**
Change in book value:					
Capital expenditures	14	142	101	318	575
Assets available for use	112	108	137	(357)	-
Depreciation	(80)	(257)	(191)	-	(528)
Impairments[1]	(25)	(40)	(13)	-	(78)
Transfer (to) from assets classified as held for sale[1]	(92)	(4)	(2)	(2)	(100)
Translation differences and other	12	(8)	(40)	-	(36)
Total changes	**(59)**	**(59)**	**(8)**	**(41)**	**(167)**
Balance as of December 31, 2016:					
Cost	1,766	3,222	1,897	179	7,064
Accumulated depreciation	(912)	(2,546)	(1,451)	-	(4,909)
Book value	**854**	**676**	**446**	**179**	**2,155**

[1] For more information please refer to note 3, Discontinued operations and other assets classified as held for sale.

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
Depreciation	(83)	(252)	(196)	-	(531)
Impairments	(8)	(27)	(16)	-	(51)
Transfer to assets classified as held for sale	26	(10)	-	(2)	14
Translation differences and other	34	58	15	4	111
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**

Land with a book value of EUR 73 million at December 31, 2016 (2015: EUR 142 million) is not depreciated. Property, plant and equipment includes financial lease assets with a book value of EUR 271 million at December 31, 2016 (2015: EUR 203 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 2015 and 2016 were as follows:

Philips Group
Goodwill in millions of EUR
2015 - 2016

	2015	2016
Balance as of January 1:		
Cost	9,151	10,704
Amortization and impairments	(1,993)	(2,181)
Book value	**7,158**	**8,523**
Changes in book value:		
Acquisitions	644	140
Translation differences and other	721	235
Balance as of December 31:		
Cost	10,704	11,151
Amortization and impairments	(2,181)	(2,253)
Book value	**8,523**	**8,898**

In 2016, goodwill increased by EUR 124 million due to the acquisition of Wellcentive and PathXL. The increase of EUR 235 million is mainly due to translation differences which impacted the goodwill denominated in USD.

In 2015, goodwill increased by EUR 627 million due to the acquisition of Volcano. The increase of EUR 721 million is due to translation differences which impacted the goodwill denominated in USD.

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

Goodwill allocated to the cash-generating units Image-Guided Therapy, Patient Care & Monitoring Solutions, Sleep & Respiratory Care and Professional is considered to be significant in comparison to the total book value of goodwill for the Group at December 31, 2016. The amounts associated as of December 31, 2016, are presented below:

Philips Group
Goodwill allocated to the cash-generating units in millions of EUR
2015 - 2016

	2015	2016
Sleep & Respiratory Care	1,884	1,958
Image-Guided Therapy	1,066	1,106
Patient Care & Monitoring Solutions	1,452	1,506
Professional	1,626	1,671
Other (units carrying a non-significant goodwill balance)	2,495	2,657
Book value	**8,523**	**8,898**

The basis of the recoverable amount used in the annual impairment tests for the units disclosed in this note is the value in use. In the annual impairment test performed in the fourth quarter of 2016, 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 - general

Key assumptions used in the impairment tests for the units were sales growth rates, EBITA[1] and the rates used for discounting the projected cash flows. These cash flow projections were determined using the Royal Philips and Philips Lighting managements' internal forecasts that cover an initial period from 2017 to 2019. 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 EBITA[1] used to estimate cash flows are based on past performance, external market growth assumptions and industry long-term growth averages. EBITA[1] in all units mentioned in this note is expected to increase over the projection period as a result of volume growth and cost efficiencies.

Key assumptions and sensitivity analysis relating to cash-generating units to which a significant amount of goodwill is allocated

Cash flow projections of Image-Guided Therapy, Patient Care & Monitoring Solutions, Sleep & Respiratory Care and Professional are based on the key assumptions included in the table below, which were used in the annual impairment test performed in the fourth quarter:

Philips Group
Key assumptions in %
2016

	compound sales growth rate[1]			
	initial forecast period	**extra-polation period**[2]	**used to calculate terminal value**[3]	**pre-tax discount rates**
Image-Guided Therapy	7.1	5.6	2.7	12.1
Patient Care & Monitoring Solutions	6.4	4.6	2.7	14.3
Sleep & Respiratory Care	6.8	4.6	2.7	12.6
Professional	5.0	4.3	2.7	13.9

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
3) The historical long-term growth rate is only applied to the first year after the 5 year extrapolation period, after which no further growth is assumed for the terminal value calculation

1) Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

The assumptions used for the 2015 cash flow projections were as follows:

Philips Group
Key assumptions in %
2015

	compound sales growth rate[1]			
	initial forecast period	**extra-polation period[2]**	**used to calculate terminal value[3]**	**pre-tax discount rates**
Image-Guided Therapy	3.0	2.4	2.7	12.2
Patient Care & Monitoring Solutions	6.0	4.8	2.7	13.4
Sleep & Respiratory Care	6.9	5.6	2.7	11.5
Professional	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
[3] The historical long-term growth rate is only applied to the first year after the 5 year extrapolation period, after which no further growth is assumed for the terminal value calculation

Among the units mentioned, in 2016 Professional had the lowest excess of the recoverable amount over the carrying amount. The headroom of Professional was estimated at EUR 50 million. The following changes could, individually, cause the value in use to fall to the level of the carrying value:

Philips Group
Sensitivity analysis
2016

	increase in pre-tax discount rate, basis points	**decrease in compound long-term sales growth rate, basis points**	**decrease in terminal value amount, %**
Professional	20	60	2.6

The results of the annual impairment test of Image-Guided Therapy, Patient Care & Monitoring Solutions and Sleep & Respiratory Care 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 relating to cash-generating units to which a non-significant amount relative to the total goodwill is allocated

In addition to the significant goodwill recorded at the units mentioned above, Home Monitoring is sensitive to fluctuations in the assumptions as set out above. Based on the most recent impairment test, it was noted that the headroom for the cash-generating unit Home Monitoring was EUR 50 million. An increase of 160 points in the pre-tax discounting rate, a 390 basis points decline in the compound long-term sales growth rate or a 22% decrease in terminal value would, individually, cause its value to fall to the level of its carrying value. The goodwill allocated to Home Monitoring at December 31, 2016 amounts to EUR 34 million.

12 Intangible assets excluding goodwill

The changes were as follows:

Philips Group
Intangible assets excluding goodwill in millions of EUR
2016

	other intangible assets	product development	product development construction in progress	software	total
Balance as of January 1, 2016:					
Cost	6,539	1,668	522	522	9,251
Amortization/ impairments	(3,993)	(1,167)	(31)	(367)	(5,558)
Book value	**2,546**	**501**	**491**	**155**	**3,693**
Changes in book value:					
Additions	46	-	318	56	420
Acquisitions	37	-	-	-	37
Amortization	(351)	(229)	-	(55)	(635)
Impairments	(1)	(20)	(4)	(2)	(27)
Assets available for use	-	270	(270)	-	-
Translations differences	37	15	7	5	64
Total changes	**(232)**	**36**	**51**	**4**	**(141)**
Balance as of December 31, 2016:					
Cost	6,725	1,899	578	580	9,782
Amortization/ impairments	(4,411)	(1,362)	(36)	(421)	(6,230)
Book value	**2,314**	**537**	**542**	**159**	**3,552**

Philips Group
Intangible assets excluding goodwill in millions of EUR
2015

	other intangible assets	product development	product development construction in progress	software	total
Balance as of January 1, 2015:					
Cost	5,721	1,447	406	446	8,020
Amortization/ impairments	(3,371)	(946)	(18)	(317)	(4,652)
Book value	**2,350**	**501**	**388**	**129**	**3,368**
Changes in book value:					
Additions	50	-	315	70	435
Acquisitions	316	-	-	-	316
Amortization	(372)	(230)	-	(45)	(647)
Impairments	(8)	(26)	(15)	(3)	(52)
Assets available for use	-	226	(226)	-	-
Translations differences	210	30	29	4	273
Total changes	**196**	**-**	**103**	**26**	**325**
Balance as of December 31, 2015:					
Cost	6,539	1,668	522	522	9,251
Amortization/ impairments	(3,993)	(1,167)	(31)	(367)	(5,558)
Book value	**2,546**	**501**	**491**	**155**	**3,693**

The additions for 2016 contain internally generated assets of EUR 52 million (2015: EUR 56 million) for software. The acquisitions through business combinations in 2016 mainly consist of the acquired intangible assets of Wellcentive.

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
2015 -2016

	Balance as of December 31, 2015		Balance as of December 31, 2016	
	gross	amortization/ impairments	gross	amortization/ impairments
Brand names	1,102	(582)	1,088	(633)
Customer relationships	3,324	(1,925)	3,429	(2,188)
Technology	1,977	(1,373)	2,074	(1,491)
Other	136	(113)	134	(99)
Other intangibles	**6,539**	**(3,993)**	**6,725**	**(4,411)**

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

2017	363
2018	329
2019	314
2020	273
2021	248

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 7.9 years as of December 31, 2016 (2015: 8.4 years).

At December 31, 2016 the carrying amount of customer relationships of Sleep & Respiratory Care was EUR 427 million with a remaining amortization period of 7.2 years (2015: EUR 466 million; 8.2 years).

13 Other financial assets

The changes during 2016 were as follows:

Philips Group
Other non-current financial assets in millions of EUR
2016

	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, 2016	**232**	**222**	**2**	**33**	**489**
Changes:					
Reclassifications	(56)	(100)		-	(156)
Acquisitions/ additions	44	26	-	3	73
Sales/ redemptions	(3)	(22)		(1)	(26)
Impairment	(27)	-	-		(27)
Value adjustments	(19)	(2)		(8)	(29)
Other	1	10	-	-	11
Balance as of December 31, 2016	**172**	**134**	**2**	**27**	**335**

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 Acquisitions/additions mainly relates to capital calls for certain investment funds.

Loans and receivables

The reclassification line represents loans transferred to Current financial assets and mainly related to loans to TPV Technology Limited for the amount of EUR 91 million.

14 Other assets

Other non-current assets

Other non-current assets in 2016 relates to prepaid pension costs of EUR 1 million (2015: EUR 3 million) and prepaid expenses of EUR 91 million (2015: EUR 65 million).

Other current assets

Other current assets include EUR 228 million (2015: EUR 214 million) accrued income, mainly related to Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses, and EUR 258 million (2015: EUR 230 million) prepaid expense mainly related to Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses.

15 Inventories

Inventories are summarized as follows:

Philips Group
Inventories in millions of EUR
2015 - 2016

	2015	2016
Raw materials and supplies	1,068	1,040
Work in process	475	446
Finished goods	1,920	1,906
Inventories	**3,463**	**3,392**

The write-down of inventories to net realizable value was EUR 108 million in 2016 (2015: EUR 170 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 Diagnosis & Treatment businesses amounting to EUR 47 million (2015: EUR 58 million) and insurance receivables in Legacy Items in the US amounting to EUR 55 million (2015: EUR 59 million).

Current receivables

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

Philips Group
Accounts receivables-net in millions of EUR
2015 - 2016

	2015	2016
Personal Health	1,143	1,266
Diagnosis & Treatment	1,454	1,476
Connected Care & Health Informatics	604	664
HealthTech Other	78	81
Lighting	1,448	1,477
Legacy Items	-	28
Accounts receivable-net	**4,727**	**4,992**

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

Philips Group
Aging analysis in millions of EUR
2015 - 2016

	2015	2016
Current	4,003	4,273
Overdue 1-30 days	237	267
Overdue 31-180 days	337	310
Overdue > 180 days	150	142
Accounts receivable-net	**4,727**	**4,992**

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
2014 - 2016

	2014	2015	2016
Balance as of January 1	**204**	**227**	**301**
Additions charged to expense	48	78	76
Deductions from allowance[1]	(46)	(25)	(64)
Other movements	21	21	5
Balance as of December 31	**227**	**301**	**318**

[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 the above balances as per December 31, 2016 are allowances for individually impaired receivables of EUR 289 million (2015: EUR 272 million; 2014: EUR 200 million).

17 Equity

Common shares

As of December 31, 2016, the issued and fully paid share capital consists of 929,644,864 common shares, each share having a par value of EUR 0.20. (December 31, 2015: 931,130,387; December 31, 2014: 934,819,413).

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 27, 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 table shows the movements in the outstanding number of shares over the last three years:

Philips Group
Outstanding number of shares in number of shares
2014 - 2016

	2014	2015	2016
Balance as of January 1	**913,337,767**	**914,388,869**	**917,103,586**
Dividend distributed	18,811,534	17,671,990	17,344,462
Purchase of treasury shares	(28,537,921)	(20,296,016)	(25,193,411)
Re-issuance of treasury shares	10,777,489	5,338,743	13,181,926
Balance as of December 31	**914,388,869**	**917,103,586**	**922,436,563**

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

Philips Group
Employee option and share plan transactions
2014 - 2016

	2014	2015	2016
Shares acquired	7,254,606		8,601,426
Average market price	EUR 24.53		EUR 24.73
Amount paid	EUR 178 million		EUR 213 million
Shares delivered	10,777,489	5,338,743	13,181,926
Average price (FIFO)	EUR 30.26	EUR 30.35	EUR 25.86
Cost of delivered shares	EUR 326 million	EUR 162 million	EUR 341 million
Total shares in treasury at year-end	17,127,544	11,788,801	7,208,301
Total cost	EUR 470 million	EUR 308 million	EUR 181 million

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

Philips Group
Share capital transactions
2014 - 2016

	2014	2015	2016
Shares acquired	21,283,315	20,296,016	16,591,985
Average market price	EUR 23.95	EUR 24.39	EUR 23.84
Amount paid	EUR 510 million	EUR 495 million	EUR 396 million
Reduction of capital stock (shares)	21,837,910	21,361,016	18,829,985
Reduction of capital stock	EUR 533 million	EUR 517 million	EUR 450 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 606 million, which includes the impact of taxes. A cash inflow of EUR 80 million from treasury shares mainly includes settlements of share-based compensation plans.

Share call options

During 2016 Philips bought EUR and USD-denominated call options to hedge commitments under share-based compensation plans.

For EUR-denominated call options, option premiums amounting to EUR 64 million (involving 9,393,779 options) were deducted from Retained earnings and were settled in Royal Philips shares held by the Company representing a historical cost of EUR 77 million based on a FIFO method (involving 2,667,203 shares).

For USD-denominated call options, option premiums amounting to EUR 35 million (involving 5,635,360 options) were deducted from Retained earnings and were settled in Royal Philips shares held by the Company representing a historical cost of EUR 32 million based on a FIFO method (involving 1,375,803 shares).

The difference between the option premiums and the historical cost of Royal Philips shares was recorded in Retained earnings. Subsequently, in 2016, the Company sold 837,913 EUR-denominated call options against the same number of Royal Philips shares and an additional EUR 13 million cash payment to the buyer of the call options.

Philips Group
Outstanding call options
2016

exercise price	options	intrinsic value in millions	weighted average remaining contractual term
EUR-denominated			
10-15	2,530,968	37	4.6 yrs
15-20	1,063,968	15	5.1 yrs
20-25	4,960,930	30	3.3 yrs
Outstanding share call options	**8,555,866**	**82**	**3.9 yrs**
USD-denominated			
15-20	1,896,597	22	4.6 yrs
20-25	424,322	4	5.0 yrs
25-30	1,822,875	2	4.3 yrs
30-35	1,491,566	-	3.0 yrs
Outstanding share call options	**5,635,360**	**28**	**4.1 yrs**

Dividend distribution

2016

In June 2016, Philips settled a dividend of EUR 0.80 per common share, representing a total value of EUR 732 million including costs. Shareholders could elect for a cash dividend or a share dividend. Approximately 55% of the shareholders elected for a share dividend, resulting in the issuance of 17,344,462 new common shares. The settlement of the cash dividend involved an amount of EUR 330 million (including costs).

A proposal will be submitted to the 2017 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 shareholders, against the net income of the Company for 2016.

2015

In June 2015, Philips settled a dividend of EUR 0.80 per common share, representing a total value of EUR 730 million including costs. 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 involved an amount of EUR 298 million (including costs).

2014

In June 2014, Philips settled a dividend of EUR 0.80 per common share, representing a total value of EUR 729 million including costs. Shareholders could elect for a cash dividend or a share dividend. Approximately 60% of the shareholders elected for a share dividend, resulting in the issuance of 18,811,534 new common shares. The settlement of the cash dividend involved an amount of EUR 293 million (including costs).

Limitations in the distribution of shareholders' equity

As at December 31, 2016, pursuant to Dutch law, certain limitations exist relating to the distribution of shareholders' equity of EUR 2,181 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 715 million, unrealized currency translation differences of EUR 1,234 million, available-for-sale financial assets of EUR 36 million and unrealized gains related to cash flow hedges of EUR 10 million.

The legal reserve required by Dutch law of EUR 715 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, 2015, these limitations in distributable amounts were EUR 2,274 million and related 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 reserve 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.

Non-controlling interests

Non-controlling interests relate to minority stakes held by third parties in consolidated group companies. As of December 31, 2016, Non-controlling interests mainly relate to Philips Lighting (Non-controlling interest 28.775%) and General Lighting Company (Non-controlling interest 49%). For further details reference is made to note 5, Interests in entities.

Net income attributable to Non-controlling interests amounted to EUR 43 million (2015: EUR 14 million).

Objectives, policies and processes for managing capital

Philips manages capital based upon the GAAP measures, net cash provided by operating activities and net cash used for investing activities and, the non-GAAP measures net operating capital (NOC) and net debt[1]. The definition of these non-GAAP measures and a reconciliation to the GAAP measures is included below.

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 segments. 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 current derivative financial liabilities and (j) other non-current liabilities and other current liabilities.

Net debt[1] is defined as the sum of long and short-term debt minus cash and cash equivalents. The net debt[1] position as a percentage of the sum of group equity (shareholders' equity and non-controlling interests) and net debt[1] is presented to express the financial strength of the Company. This measure is used by Treasury management of the Company and investment analysts and is therefore included in the disclosure. Our net debt[1] 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[1] position is dividend stability and a pay-out ratio of 40% to 50% of continuing net income.

Philips Group
Net operating capital composition in millions of EUR
2014 - 2016

	2014	2015	2016
Intangible assets	10,526	12,216	12,450
Property, plant and equipment	2,095	2,322	2,155
Remaining assets[1]	9,041	9,423	9,766
Provisions	(4,517)	(4,243)	(3,606)
Other liabilities[2]	(8,307)	(8,622)	(8,992)
Net operating capital	**8,838**	**11,096**	**11,773**

[1] Remaining assets are comprised of non-current receivables, non-current derivative financial assets, other non-current assets, inventories, other current assets, current derivative financial assets, income tax receivable and receivables.
[2] Other liabilities are comprised of non-current derivative financial liabilities, other non-current liabilities, derivative financial liabilities, income tax payable, accounts and notes payable, accrued liabilities and other current liabilities.

Philips Group
Composition of net debt and group equity[2] in millions of EUR unless otherwise stated
2014 - 2016

	2014	2015	2016
Long-term debt	3,712	4,095	4,021
Short-term debt	392	1,665	1,585
Total debt	**4,104**	**5,760**	**5,606**
Cash and cash equivalents	1,873	1,766	2,334
Net debt[1]	**2,231**	**3,994**	**3,272**
Shareholders' equity	10,867	11,662	12,601
Non-controlling interests	101	118	907
Group equity	**10,968**	**11,780**	**13,508**
Net debt and group equity[2]	13,199	15,774	16,780
Net debt divided by net debt and group equity (in %)[2]	17%	25%	19%
Group equity divided by net debt and group equity (in %)[2]	83%	75%	81%
Net debt and group equity ratio[2]	17:83	25:75	19:81

[1] Total debt less cash and cash equivalents
[2] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report

The decline in net debt[1] in 2016, was mainly driven by an improved cash position of the Company. 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

Royal Philips has a USD 2.5 billion Commercial Paper Programme and 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 Programme and will mature in February 2018. As of December 31, 2016, Royal Philips did not have any loans outstanding under either facility. Royal Philips' debt instruments and the conditions applicable thereto, which include, but are not limited to, the aforementioned undrawn revolving credit facility, certain bank facilities, the aforementioned Commercial Paper Programme and the indentures applicable to the USD Bonds contain customary and general conditions. These conditions apply to Royal Philips and its subsidiaries (entities which are (in)directly controlled by Royal Philips or of which Royal Philips (in)directly owns more than 50% of the voting stock). In some instances, such conditions are limited to material subsidiaries of Royal Philips (i.e. subsidiaries that exceed certain quantitative thresholds). As per 31

[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

December 2016, Philips Lighting and/or its subsidiaries do, in some instances, qualify as such (material) subsidiaries covered by such conditions. An example of such condition is the prohibition to any subsidiary of Royal Philips, including Philips Lighting and its subsidiaries, from incurring any financial indebtedness outside of the group, subject to a so-called “general basket” exemption of 30% of shareholders’ equity. A material violation of this condition constitutes an event of default under the aforementioned credit/ bank facilities.

Furthermore, nonpayment on the due date or acceleration of financial indebtedness of a material subsidiary, such as Philips Lighting with respect to the IPO Financing or cancellation or suspension of any commitment thereunder as a result of an event of default, in each case of at least EUR 40 million (in case of the undrawn revolving credit facility) or EUR 50 million (in case of a EUR 200 million drawn bank facility) also constitutes an event of default under those facilities.

As per 31 December 2016 Royal Philips was not in breach of the aforementioned conditions.

In May 2016, Philips Lighting entered into a five-year term loan facility agreement. The amounts of the term facility are EUR 740 million and USD 500 million and have been fully drawn to replace intra-group financing from Royal Philips.

In addition, Philips Lighting has a five-year committed revolving credit facility of EUR 500 million which will mature in May 2021. As of December 31, 2016, Philips Lighting did not have any amounts outstanding under this facility.

Philips Lighting’s Term and Revolving Credit Facilities Agreement include a financial covenant which provides that Philips Lighting must maintain a net leverage ratio not greater than 3:1 for any test period ending on or after December 31, 2016. As at 31 December 2016, this ratio was 0.5 which is compliant with the conditions of the covenant. In addition, the Term and Revolving Credit Facilities Agreement also contains customary undertakings. These undertakings include, among others, a negative pledge that provides that (subject to certain exceptions) no member of the Philips Lighting group may grant security over Philips Lighting’s assets without the consent of the lenders, and a restriction on subsidiaries of Philips Lighting (other than the obligors) incurring additional financial indebtedness. There are also restrictions (subject to certain exceptions and thresholds) on engaging in acquisitions, disposals and reorganizations. The facilities are guaranteed by Philips Lighting and certain subsidiaries of Philips Lighting incorporated in Belgium, France, Germany, Hungary, the Netherlands, the People’s Republic of China, Poland, Spain, the United Kingdom and the United States.

Long-term debt

Philips Group
Long-term debt in millions of EUR unless otherwise stated
2015 - 2016

	(range of) interest rates	average rate of interest	amount outstanding in 2016	amount due in 1 year	amount due after 1 year	amount due after 5 years	average remaining term (in years)	amount outstanding in 2015
USD bonds	3.8 - 7.8%	5.5%	3,608	1,184	2,424	2,424	9.6	3,733
Bank borrowings	0.0-11.0%	1.0%	1,470	69	1,401	1	4.3	259
Other long-term debt	0.0 - 7.0%	4.0%	39	37	2	1	1.3	42
Institutional financing			**5,117**	**1,290**	**3,827**	**2,426**		**4,034**
Finance leases	0 - 21.1%	3.0%	279	85	194	28	3.5	211
Long-term debt		**4.1%**	**5,396**	**1,375**	**4,021**	**2,454**	7.8	**4,245**
Corresponding data of previous year		**5.2%**	**4,245**	**150**	**4,095**	**2,831**	10.7	**3,860**

The following amounts of long-term debt as of December 31, 2016, are due in the next five years:

Philips Group
Long-term debts due in the next five years in millions of EUR
2015 - 2016

2017	1,375
2018	115
2019	106
2020	78
2021	1,268
Long term debt	**2,942**
Corresponding amount of previous year	**1,414**

Philips Group
Unsecured USD Bonds in millions of EUR unless otherwise stated
2015 - 2016

	effective rate	2015	2016
Due 5/15/25; 7 3/4%	7.429%	91	60
Due 6/01/26; 7 1/5%	6.885%	152	130
Due 5/15/25; 7 1/8%	6.794%	94	80
Due 3/11/18; 5 3/4%[1)2)]	6.066%	1,144	1,187
Due 3/11/38; 6 7/8%[2)]	7.210%	915	758
Due 3/15/22; 3 3/4%[2)]	3.906%	915	949
Due 3/15/42; 5%[2)]	5.273%	458	475
Adjustments[3)]		(36)	(31)
Unsecured USD Bonds		**3,733**	**3,608**

1) In December 2016, Royal Philips has delivered a notice of redemption for the bond due in 2018 in the aggregate principal amount of USD 1,250 million for redemption in January 2017.
2) 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.
3) Adjustments relate to issued bond discounts, transaction costs and fair value adjustments for interest rate derivatives

In October 2016, the principal amounts of USD bonds due 2025, 2026, 2038 were partially redeemed, which involved an aggregated amount of USD 285 million. This resulted in financial charges of EUR 91 million paid in 2016.

In December 2016, Royal Philips delivered a notice of redemption to the holders of the outstanding 5.750% Notes due 2018 in the aggregate principal amount of USD 1,250 million for redemption in January 2017. This resulted in financial charges of EUR 62 million in 2016.

For further information, refer to note 31, Subsequent events

Short-term debt

Philips Group
Short-term debt in millions of EUR
2015 - 2016

	2015	2016
Short-term bank borrowings	1,510	207
Other short-term loans	5	3
Current portion of long-term debt	150	1,375
Short-term debt	**1,665**	**1,585**

During 2016, the weighted average interest rate on the bank borrowings was 5.4% (2015: 1.6%). The increase was mainly driven by the repayment of the bridge loan with low interest rate used for the Volcano acquisition.

Content you didn't download
19 Provisions

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 (DB) 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 DB retiree medical plans. The benefits provided by these plans typically cover a part of the healthcare costs after retirement.

The largest DB pension plans in 2016 are in the United States and Germany.

These plans account for approximately 80% of the total defined-benefit obligation (DBO) and plan assets.

The United States

The US defined-benefit pension plans are closed plans without further pension accrual. Indexation of benefits is not mandatory. The Company pays contributions to cover a deficit. The assets of the US funded pension plans are in Trusts governed by Trustees. The excess pension plans that covered accrual above the maximum salary of the funded plan are unfunded. De-risking contributions to the funded plans in 2016 amounted to EUR 242 million.

During 2016, in line with the split of the Company, two new Trusts were created covered by ERISA section 4044, which ensures an appropriate split of the plan assets, among others based on the maturity of the respective plans. A group of active employees who opted for a settlement of their rights via a lump sum or via the purchase of an insured annuity contract remained in the original Trust. To enable the settlements the Company provided for additional funding to the original Trust of EUR 14 million on top of the de-risking contributions. The difference between the related DBO and the lump sums paid and the annuity purchase price at transfer date was a EUR 2 million gain which is recognized as a settlement income in the income statement.

In 2016 the Company adopted the new mortality table RP2014-MP2016 for all US plans except for the unfunded excess plan where RP2006-MP2016 + white collar adjustment is the new table adopted. The new tables lowered the DBO by EUR 45 million. The new table published by the US Society of Actuaries adds 5 years of extra observation compared to MP2014 (the previous mortality table) and reconfirmed that the actual improvement in longevity is lower than assumed earlier.

Germany

The Company has several DB plans in Germany which for the largest part are unfunded, meaning that after retirement the Company is responsible for the annuity payments to retirees.

Due to the relatively high level of social security, the Company pension plans mainly provide benefits for the higher earners. Although the benefit design is of a DC type the German plans even when externally funded are accounted for as DB plans due to a minimum return requirement.

Company pension commitments in Germany are covered against employer bankruptcy via the “Pensions Sicherungs Verein” which charges a fee to all companies providing pension promises in a year a claim is paid.

Philips is one of the sponsors of Philips Pensionskasse VVaG in Germany, which is a multi-employer plan. The plan is accounted for as a DC plan.

Pension-related claim in the UK

In 2016 the UK Trustees and the Company succeeded in settling a pension-related legal claim against third parties. The Company and the Fund in the financing of the buy-out in 2015 already anticipated a future claim being awarded. As a result of this settlement the Company received EUR 46 million, recognized as a pension settlement gain in 2016.

This legal settlement did not affect part or all of the benefits provided under the respective plans, as all further legal or constructive obligations for these benefits were already eliminated during the plan settlements in 2015.

Significant events in 2015

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.

The classification of the pension plan in the Netherlands changed in 2015 from a DB plan into a DC plan, triggering a settlement of the plan which at the time had a surplus of EUR 20 million. As the surplus was not recognized on the balance sheet due to the asset ceiling 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.

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 but more importantly in some countries like Germany where indexation of pensions 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 a change to DC are examples of the 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.

Investment policy in our largest pension plans

The 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 plans in the US are invested in well diversified portfolios. 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.

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 deficits of the externally funded US defined-benefit plans and the unfunded plans in the US and Germany account for the largest part of the net balance sheet position.

The measurement date for all DB plans is December 31.

Summary of pre-tax costs for post-employment benefits and reconciliations

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.

Philips Group
Pre-tax costs for post-employment benefits in millions of EUR
2014 - 2016

	2014	2015	2016
Defined-benefit plans	245	561	53
included in income from operations	182	487	(13)[1]
included in financial expense	59	72	66
included in Discontinued operations	4	2	-
Defined-contribution plans including multi-employer plans	148	299	382
included in income from operations	144	293	382
included in Discontinued operations	4	6	-

[1] The net income mainly relates to the settlement of the pension related legal claim in the UK as described earlier in the note.

Reconciliations for the net liabilities and assets for post-employment defined-benefit plans:

Philips Group
Defined-benefit obligations in millions of EUR
2015 - 2016

	2015			2016		
	Pensions	Retiree medical	total	Pensions	Retiree medical	total
Balance as of January 1	**27,081**	**241**	**27,322**	**4,527**	**230**	**4,757**
Service cost	137	-	137	43	1	44
Interest cost	465	12	477	177	12	189
Employee contributions	9	-	9	5	-	5
Actuarial (gains) / losses						
- demographic assumptions	-	-	-	(42)	(3)	(45)
- financial assumptions	1,525	(2)	1,523	195	13	208
- experience adjustment	(149)	(17)	(166)	8	(15)	(7)
(Negative) past service cost	14	-	14	(8)	-	(8)
Acquisitions	-	-	-	-	-	-
Divestments	(12)	-	(12)	-	-	-
Settlements	(24,390)	-	(24,390)	(85)	-	(85)
Benefits paid	(787)	(13)	(800)	(303)	(12)	(315)
Exchange rate differences	635	9	644	185	8	193
Miscellaneous	(1)	-	(1)	51	-	51
Balance as of December 31	**4,527**	**230**	**4,757**	**4,753**	**234**	**4,987**
Present value of funded obligations at December 31	**3,635**	**-**	**3,635**	**3,850**	**-**	**3,850**
Present value of unfunded obligations at December 31	**892**	**230**	**1,122**	**903**	**234**	**1,137**

Philips Group
Plan assets in millions of EUR
2015 - 2016

	2015			2016		
	Pensions	Retiree medical	total	Pensions	Retiree medical	total
Balance as of January 1	**25,863**	**-**	**25,863**	**2,710**	**-**	**2,710**
Interest income on plan assets	434	-	434	137	-	137
Admin expenses paid	(9)	-	(9)	(3)	-	(3)
Return on plan assets excluding interest income	918	-	918	41	-	41
Employee contributions	9	-	9	5	-	5
Employer contributions	547	-	547	246	-	246
Divestments	(7)	-	(7)	-	-	-
Settlements	(24,840)	-	(24,840)	(33)	-	(33)
Benefits paid	(725)	-	(725)	(239)	-	(239)
Exchange rate differences	520	-	520	180	-	180
Miscellaneous	-	-	-	51	-	51
Balance as of December 31	**2,710**	**-**	**2,710**	**3,095**	**-**	**3,095**
				-	-	
Funded status	(1,817)	(230)	(2,047)	(1,658)	(234)	(1,892)
Unrecognized net assets	(90)	-	(90)	(105)	-	(105)
Net balance sheet position	**(1,907)**	**(230)**	**(2,137)**	**(1,763)**	**(234)**	**(1,997)**

The classification of the net balance is as follows:

Philips Group
Net balance of defined-benefit pension plans in millions of EUR
2015 - 2016

	2015			2016		
	Pensions	Retiree medical	total	Pensions	Retiree medical	total
Prepaid pension costs under other non-current assets	3	-	3	1	-	1
Provision for pensions under provisions[1]	(1,910)	(230)	(2,140)	(1,762)	(234)	(1,996)
Provision for pensions under AHFS				(2)	-	(2)
Net balance of defined-benefit plans	**(1,907)**	**(230)**	**(2,137)**	**(1,763)**	**(234)**	**(1,997)**

[1] Adjusted to reflect a reclassification of net defined-benefit obligations into Long-term provisions. See note 1, Significant accounting policies

Philips Group
Changes in the effect of the asset ceiling in millions of EUR
2015 - 2016

	2015	2016
Balance as of January 1	**792**	**90**
Interest on unrecognized assets	29	14
Remeasurements	(733)	(21)
Exchange rate differences	2	22
Balance as of December 31	**90**	**105**

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
2015 - 2016

	2015	2016
- Debt securities	1,523	1,646
- Equity securities	740	902
- Real estate	9	2
- Other	438	545
Total assets	**2,710**	**3,095**

The assets in 2016 contain 58% (2015: 51%) unquoted assets. Plan assets in 2016 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:

- US: RP2014 HA/EE Fully Generational scaled with MP2016; RP2006-MP2016 + white collar adjustment for the unfunded excess plans.
- Germany: Richttafeln 2005 Generational K.Heubeck

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 %
2015 - 2016

	2015	2016
Discount rate	4.0%	3.8%
Inflation rate	2.4%	2.6%
Rate of compensation increase	2.7%	3.3%

The average duration of the defined-benefit obligation of the pension plans is 11 years (2015: 10 years).

Cost trend rates retiree medical plans

Assumed healthcare cost trend rates at December 31:

Philips Group
Assumed healthcare cost trend rates in %
2015 - 2016

	2015	2016
Healthcare cost trend rate assumed for next year	7.5%	8.4%
Rate that the cost trend rate will gradually reach	5.3%	5.4%
Year of reaching the rate at which it is assumed to remain	2025	2028

The average duration of the defined-benefit obligation of the retiree medical plans is 9 years (2015: 8 years).

Cash flows and costs in 2017

The Company expects considerable cash outflows in relation to post-employment benefits which are estimated to amount to EUR 506 million in 2017, consisting of:

- EUR 49 million employer contributions to funded DB pension plans (US: EUR 15 million, DE: EUR 23 million, Other: EUR 11 million);
- EUR 382 million employer contributions to DC pension plans (NL: EUR 204 million, US: EUR 114 million, Other: EUR 64 million);
- EUR 57 million cash outflows in relation to unfunded DB pension plans (US: EUR 8 million, DE: EUR 37 million, Other: EUR 12 million) and
- EUR 18 million in relation to unfunded retiree medical plans (US: EUR 12 million, Other EUR 6 million).

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 2017 is expected to amount to EUR 41 million fully for defined-benefit pension plans. The interest expense for 2017 is expected to amount to EUR 62 million, consisting of EUR 50 million for DB pension plans and EUR 12 million for DB retiree medical plans. The cost for DC pension plans in 2017 is equal to the DC cash flow.

Sensitivity analysis

The table below illustrates the approximate impact on the DBO from movements in 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
Sensitivity of key assumptions in millions of EUR
2016

	Defined benefit obligation	
	Pensions	**Retiree medical**
Increase		
Discount rate (1% movement)	(524)	(20)
Wage change (1% movement)	27	
Inflation (1% movement)	139	
Longevity (see explanation)	134	10
Healthcare cost trend (1% increase)		19
Decrease		
Discount rate (1% movement)	622	22
Wage change (1% movement)	(23)	
Inflation (1% movement)	(126)	

Philips Group
Sensitivity of key assumptions in millions of EUR
2015

	Defined benefit obligation	
	Pensions	**Retiree medical**
Increase		
Discount rate (1% movement)	(468)	(18)
Wage change (1% movement)	23	
Inflation (1% movement)	115	
Longevity (see explanation)	80	7
Healthcare cost trend (1% increase)		13
Decrease		
Discount rate (1% movement)	550	20
Wage change (1% movement)	(20)	
Inflation (1% movement)	(104)	

The mortality table (i.e. longevity) also impacts the DBO. The above sensitivity table illustrates the impact on the DBO 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 the healthcare cost trend rate 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
2015 - 2016

	2015	2016
Personnel-related costs:		
- Salaries and wages	567	684
- Accrued holiday entitlements	180	154
- Other personnel-related costs	148	108
Fixed-asset-related costs:		
- Gas, water, electricity, rent and other	53	52
Communication and IT costs	46	75
Distribution costs	107	123
Sales-related costs:		
- Commission payable	20	22
- Advertising and marketing-related costs	168	183
- Other sales-related costs	54	55
Material-related costs	147	142
Interest-related accruals	69	68
Deferred income	932	957
Other accrued liabilities[1]	324	411
Accrued liabilities	**2,815**	**3,034**

[1] Adjusted to reflect a reclassification of net defined-benefit obligations into Long-term provisions. See note 1, Significant accounting policies

Deferred income is mainly related to Diagnosis & Treatment businesses and Connected Care & Health Informatics businesses, in both 2016 and 2015.

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
2015 - 2016

	2015	2016
Deferred income	257	251
Other tax liability	454	395
Other liabilities	101	73
Other non-current liabilities [1]	**812**	**719**

[1] Adjusted to reflect a reclassification of net defined-benefit obligations previously reported as Accrued pension costs into Long-term provisions. See note 1, Significant accounting policies

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
2015 - 2016

	2015	2016
Accrued customer rebates that cannot be offset with accounts receivables for those customers	544	593
Advances received from customers on orders not covered by work in process	375	451
Other taxes including social security premiums	177	208
Other liabilities	177	120
Other current liabilities	**1,273**	**1,372**

The other liabilities per December 31, 2016 include reclassifications from litigation provisions to liabilities due to settlements reached. For more details reference is made to Litigation provisions in note 19, Provisions and to Legal proceedings in note 25, Contingent assets and liabilities. The decrease of the balance of other liabilities as per December 31, 2016 mainly relates to pay-out of these liabilities as per December 31, 2015.

23 Cash flow statement supplementary information

Cash used for derivatives and current financial assets

In 2016, a total of EUR 132 million cash was paid with respect to foreign exchange derivative contracts related to activities for liquidity management and funding (2015: EUR 193 million outflow; 2014: EUR 13 million outflow).

Purchase and proceeds from non-current financial assets

In 2016, the net cash outflow of EUR 45 million was mainly due to the acquisition of stakes in Abraaj Growth Markets Fund.

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 interests.

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.

Bank error

On December 30, 2016 a financial institution erroneously transferred EUR 150 million of cash to the Philips Lighting bank account. On January 2, 2017 the transfer was reversed by all parties involved for the full amount with retrospective effect to December 30, 2016. As the transaction lacks economic substance and Philips Lighting never had any exposure or benefit, the transaction has not been accounted for in these financial statements.

24 Contractual obligations

Philips Group
Contractual cash obligations[1,2] in millions of EUR
2016

		payments due by period			
	total	less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt[3]	5,117	1,290	104	1,297	2,426
Finance lease obligations	307	93	127	54	33
Short-term debt	210	210	-	-	-
Operating lease obligations	942	227	300	195	220
Derivative liabilities	841	280	410	-	151
Interest on debt[4]	2,229	184	306	295	1,444
Purchase obligations[5]	260	108	73	33	46
Trade and other payables	2,848	2,848	-	-	-
Contractual cash obligations	**12,754**	**5,240**	**1,320**	**1,874**	**4,320**

1) Obligations in this table are undiscounted
2) This table excludes pension contribution commitments and income tax liabilities in respect of tax risks because it is not possible to make a reasonably reliable estimate of the actual period of cash settlement
3) Long-term debt includes short-term portion of long-term debt and excludes finance lease obligations
4) Approximately 30% of the debt bears interest at a floating rate
5) 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 Group
Contractual cash obligations[1,2] in millions of EUR
2015

		payments due by period			
	total	less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt[3]	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[4]	2,767	221	438	334	1,774
Purchase obligations[5]	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) This table excludes pension contribution commitments and income tax liabilities in respect of tax risks because it is not possible to make a reasonably reliable estimate of the actual period of cash settlement
3) Long-term debt includes short-term portion of long-term debt and excludes finance lease obligations
4) 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
5) 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

Certain Philips suppliers factor their trade receivables from Philips with third parties through supplier finance arrangements. At December 31, 2016 approximately EUR 360 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.

The Company has entered into contracts with venture capitalists where it committed itself to make, under certain conditions, capital contributions to its investment funds to an aggregated amount of EUR 90 million (2015: EUR 22 million) until June 30, 2021. As at December 31, 2016 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 2016 totaled EUR 36 million (2015: EUR 36 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
2016

2017	36
2018	34
2019	33
2020	29
2021	27
Thereafter	91

Finance lease liabilities

The below table discloses the reconciliation between the total of future minimum lease payments and their present value.

Philips Group
Finance lease liabilities in millions of EUR
2015 - 2016

	2015			2016		
	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	72	6	66	93	8	85
Between one and five years	128	17	111	181	15	166
More than five years	42	8	34	33	5	28
Finance lease	**242**	**31**	**211**	**307**	**28**	**279**

25 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. The Zoll liability judgment was appealed by both parties to the United States Court of Appeal for the Federal Circuit (CAFC) in August 2014. In a July 28, 2016 decision, the liability judgment was affirmed-in-part, reversed-in-part and vacated-in-part by the CAFC. In view of the CAFC decision, Philips continues to expect a net difference in damages in its favor. Resolution of the amount ultimately owed to Philips is contingent upon a damages trial now scheduled to begin on July 24, 2017.

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 2016, the total fair value of guarantees recognized on the balance sheet amounted to EUR nil million (December 31, 2015: EUR nil million). Remaining off-balance-sheet business and credit-related guarantees provided on behalf of third parties and associates decreased by EUR 9 million during 2016 to EUR 28 million (December 31, 2015: EUR 37 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 was approved by the United States District Court for the Northern District of California in 2016 and is now pending before the Ninth Circuit Court of Appeals. 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. In 2016, settlements were reached with the state attorneys general of Illinois and Oregon which settlements are awaiting final approval in their respective state courts. The action brought by the state attorney of Washington is pending; a trial date has not been set.

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 leading to class certification in the second 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 September 2015, PLDS entered into a settlement agreement with the direct purchaser plaintiffs under which the Company was released from the direct purchaser claims. In December 2016, PLDS reached a settlement with the indirect purchaser plaintiffs which is subject to court approval. Under the settlement, the Company will be released from the indirect 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. In December 2016, PLDS reached a settlement with the state attorney general of Florida, which settlement is subject to court approval. Pursuant to the settlement agreement, the Company is also released from the Florida state attorney general's claim.

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.

Furthermore, in the second half of 2016 the Company was named as defendant in a class action in Israel based on allegations similar to the class actions in the United States.

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. In February 2017, the European Commission opened its formal proceedings. 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.

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.

The Company is currently in advanced discussions on resolving a civil matter with the US Department of Justice representing the US Food and Drug Administration (FDA), arising from past inspections by the FDA in and prior to 2015. The discussions focus primarily on the Company's compliance with the FDA's Quality System Regulations in the Company's Emergency Care and Resuscitation (ECR) business in the United States. While discussions have not yet concluded, the Company anticipates that the actions necessary to address the FDA's compliance concerns will have a meaningful impact on the operations of its ECR business.

26 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.

For details of these parties in which Philips typically holds a 50% or less equity interest, refer to the Investments in associates section of note 5, Interests in entities.

Philips Group
Related-party transactions in millions of EUR
2014 - 2016

	2014	2015	2016
Sales of goods and services	215	222	207
Purchases of goods and services	85	87	81
Receivables from related parties	14	16	33
Payables to related parties	4	4	3

In addition to the table above, as part of its operations in the US, Philips sold non-recourse third-party receivables to PMC US amounting to EUR 139 million in 2016 (2015: EUR 129 million; 2014: EUR 123 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 28, Information on remuneration.

For employee benefit plans see note 20, Post-employment benefits.

27 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; and
- 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 are only granted performance shares. Restricted shares are granted to executives, certain selected employees and new employees. Prior to 2013 options were also granted.

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 119 million (2015: EUR 99 million, 2014: EUR 85 million). This includes the employee stock purchase plan of 5 million, which is not a share-based compensation that affects equity. The share-based compensation costs for staff belonging to the combined businesses of Lumileds and Automotive of EUR 6 million are included in Discontinued operations. In the consolidated statements of changes in equity EUR 119 million is recognized in 2016 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 20 companies (2015: 21 companies, 2014: 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 %
2016

	2016
EUR-denominated	
Risk-free interest rate	(0.45)%
Expected dividend yield	3.4%
Expected share price volatility	26%
USD-denominated	
Risk-free interest rate	(0.45)%
Expected dividend yield	3.4%
Expected share price volatility	29%

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.

A summary of the status of the Company's performance share plans as of December 31, 2016 and changes during the year are presented below:

Philips Group
Performance share plans
2016

	shares[1]	weighted average grant-date fair value
EUR-denominated		
Outstanding at January 1, 2016	**8,394,982**	**24.83**
Granted	2,589,991	24.86
Vested/Issued	2,272,590	23.54
Forfeited	910,120	24.80
Outstanding at December 31, 2016	**7,802,263**	**25.21**
USD-denominated		
Outstanding at January 1, 2016	**5,774,700**	**30.35**
Granted	1,673,886	28.36
Vested/Issued	1,660,640	30.79
Forfeited	669,017	30.34
Outstanding at December 31, 2016	**5,118,929**	**29.56**

[1] Excludes dividend declared on outstanding shares between grant date and vesting date that will be issued in shares (EUR-denominated: 548,830 shares and USD-denominated: 362,334 shares).

At December 31, 2016, a total of EUR 124 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.

The Company issues restricted shares that, in general, have a 3 year cliff-vesting period. 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. As of December 31, 2016 all restricted share plans granted before 2013 have vested except their premium shares.

A summary of the status of the Company's restricted shares as of December 31, 2016 and changes during the year are presented below:

Philips Group
Restricted shares
2016

	shares[1)2)]	weighted average grant-date fair value
EUR-denominated		
Outstanding at January 1, 2016	**1,008,675**	**25.02**[3]
Granted	1,171,449	24.09
Vested/Issued	436,326	24.95
Forfeited	76,838	24.67
Outstanding at December 31, 2016	**1,666,960**	**24.40**
USD-denominated		
Outstanding at January 1, 2016	**758,409**	**28.79**[3]
Granted	1,297,750	27.38
Vested/Issued	201,062	28.81
Forfeited	143,194	28.09
Outstanding at December 31, 2016	**1,711,903**	**27.78**

[1] Excludes dividend declared on outstanding shares between grant date and vesting date that will be issued in shares (EUR-denominated: 79,499 shares and USD-denominated: 73,292 shares).
[2] Excludes premium shares on Restricted shares granted before 2013. (20% additional (premium) shares that may be received if shares delivered under the plan are not sold for a three-year period).
[3] The weighted average grant-date fair value was updated for outstanding shares at January 1, 2016 due to an update in the fair value calculation of restricted shares.

At December 31, 2016, a total of EUR 42 million of unrecognized compensation costs relate to non-vested restricted shares. These costs are expected to be recognized over a weighted-average period of 1.5 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. All outstanding options have vested as of December 31, 2016.

The following tables summarize information about the Company's options as of December 31, 2016 and changes during the year:

Philips Group
Options on EUR-denominated listed share
2016

	options	weighted average exercise price
Outstanding at January 1, 2016	**11,647,314**	**22.23**
Exercised	2,784,387	18.69
Forfeited	501,159	27.59
Expired	1,309,703	26.27
Outstanding at December 31, 2016	**7,052,065**	**22.49**
Exercisable at December 31, 2016	**7,052,065**	**22.49**

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, 2016, was 2.9 years. The aggregate intrinsic value of the options outstanding and options exercisable at December 31, 2016, was EUR 49 million.

The total intrinsic value of options exercised during 2016 was EUR 20 million (2015: EUR 21 million, 2014: EUR 11 million).

Philips Group
Options on USD-denominated listed share
2016

	options	weighted average exercise price
Outstanding at January 1, 2016	**9,676,807**	**30.62**
Exercised	724,260	19.79
Forfeited	387,222	34.71
Expired	840,104	32.04
Outstanding at December 31, 2016	**7,725,221**	**31.27**
Exercisable at December 31, 2016	**7,725,221**	**31.27**

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, 2016, was 2.9 years. The aggregate intrinsic value of the options outstanding and options exercisable at December 31, 2016, was USD 22 million.

The total intrinsic value of options exercised during 2016 was USD 6 million (2015: USD 8 million, 2014: USD 9 million).

At December 31, 2016 there were no unrecognized compensation costs related to outstanding options. Cash received from exercises under the Company's option plans amounted to EUR 65 million in 2016 (2015: EUR 72 million, 2014: EUR 77 million). The actual tax deductions realized as a result of option exercises totaled approximately EUR 2 million in 2016 (2015: EUR 3 million, 2014: EUR 3 million).

The outstanding options as of December 31, 2016 are categorized in exercise price ranges as follows:

Philips Group
Outstanding options
2016

exercise price	options	intrinsic value in millions	weighted average remaining contractual term
EUR-denominated			
10-15	1,784,149	26	4.7 yrs
15-20	55,530	1	4.8 yrs
20-25	3,573,585	22	3.3 yrs
25-30	1,683		0.1 yrs
30-35	1,637,118		0.3 yrs
Outstanding options	**7,052,065**	**49**	**2.9 yrs**
USD-denominated			
15-20	1,679,475	20	4.6 yrs
20-25	106,797	1	4.7 yrs
25-30	1,762,125	2	4.3 yrs
30-35	1,470,263		2.9 yrs
35-40	1,337,625		1.2 yrs
40-55	1,368,936		0.3 yrs
Outstanding options	**7,725,221**	**23**	**2.9 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 2016 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, 2016.

The following table summarizes information about the Company's Accelerate! options as of December 31, 2016 and changes during the year:

Philips Group
Accelerate! options
2016

	options	weighted average exercise price
EUR-denominated		
Outstanding at January 1, 2016	**1,304,500**	**16.08**
Exercised	439,200	16.20
Forfeited	5,000	15.24
Outstanding at December 31, 2016	**860,300**	**16.02**
Exercisable at December 31, 2016	**860,300**	**16.02**
USD-denominated		
Outstanding at January 1, 2016	**347,800**	**20.02**
Exercised	90,000	20.02
Forfeited	-	
Outstanding at December 31, 2016	**257,800**	**20.02**
Exercisable at December 31, 2016	**257,800**	**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, 2016 was 5.2 years. The weighted average remaining contractual term for USD-Accelerate! options outstanding and exercisable at December 31, 2016 was 5.1 years. The aggregate intrinsic value of the EUR-denominated Accelerate! options outstanding and exercisable at December 31, 2016, was EUR 11 million. The aggregate intrinsic value of the USD-denominated Accelerate! options outstanding and exercisable at December 31, 2016, was USD 3 million.

The total intrinsic value of Accelerate! options exercised during 2016 was EUR 4 million for EUR-denominated options (2015: EUR 5 million) and USD 1 million for USD-denominated options (2015: USD 1 million).

Cash received from exercises for EUR-denominated and USD-denominated Accelerate! options amounted to EUR 9 million in 2016 (2015: EUR 9 million). The actual tax deductions realized as a result of Accelerate! USD options exercises totaled approximately EUR 0.3 million in 2016 (2015: EUR 0.3 million).

28 Information on remuneration

Remuneration of the Executive Committee

In 2016, the total remuneration costs relating to the members of the Executive Committee (consisting of 12 members, including the members of the Board of Management) amounted to EUR 22,433,827 (2015: EUR 15,098,023, 2014: EUR 16,878,909) consisting of the elements in the table below.

Philips Group
Remuneration costs of the Executive Committee[1] in EUR
2014 - 2016

	2014	2015	2016
Base salary/Base compensation	6,513,027	5,974,928	6,388,667
Annual incentive[2]	1,526,658	2,705,560	5,746,347
Performance shares[3]	3,357,142	2,740,004	5,943,782
Stock options[3]	583,755	88,775	–
Restricted share rights[3]	409,809	91,339	764,311
Pension allowances[4]	–	2,193,409	1,854,129
Pension scheme costs	2,458,759	209,462	180,077
Other compensation[5]	2,029,759	1,094,546	1,556,514

1) The Executive Committee consisted of 12 members as per December 31, 2016 (2015: 8 members; 2014: 9 members)
2) The annual incentives are related to the performance in the year reported which are paid out in the subsequent year
3) 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
4) Pension allowances are gross taxable allowances paid to the Executive Committee members in the Netherlands. These allowances are part of the pension arrangement
5) 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 is the starting point for the value stated.

At December 31, 2016, the members of the Executive Committee (including the members of the Board of Management) held 750,631 (2015: 843,461; 2014: 1,050,080) stock options at a weighted average exercise price of EUR 21.17 (2015: EUR 18.67; 2014: EUR 18.53).

Remuneration of the Board of Management

In 2016, the total remuneration costs relating to the members of the Board of Management amounted to EUR 8,904,859 (2015: EUR 6,612,092; 2014: EUR 6,635,334), see table below.

At December 31, 2016, the members of the Board of Management held 476,200 stock options (2015: 479,881; 2014: 586,500) at a weighted average exercise price of EUR 19.47 (2015: EUR 19.52; 2014: EUR 19.60).

Philips Group
Remuneration costs of individual members of the Board of Management in EUR
2014 - 2016

	base compen-sation/ salary	annual incentive[1]	perfor mance shares[2]	stock options[2]	restric-ted share rights[2]	pension allowan ces[3]	pension scheme costs	other compen-sation[4]	total costs
2016									
F.A. van Houten	1,197,500	1,354,227	1,423,538	-	12,041	536,195	24,838	126,703	4,675,042
A. Bhattacharya	650,000	540,072	362,758	-	3,341	201,524	24,838	73,642	1,856,175
P.A.J. Nota	702,500	619,745	683,101	-	9,251	277,649	24,838	56,558	2,373,642
	2,550,000	**2,514,044**	**2,469,397**	**-**	**24,633**	**1,015,368**	**74,514**	**256,903**	**8,904,859**
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**

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 8.2.6, 2016 Annual Incentive, of this Annual Report
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) Pension allowances are gross taxable allowances paid to members of the Board of Management. These allowances are part of the pension arrangement as agreed upon in the services contracts.
4) 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 is the starting point for the value stated

For further information on remuneration costs, see sub-section 8.2.4, Remuneration costs, of this Annual Report.

The tables below give an overview of the performance share plans and the stock option plans of the Company, held by the members of the Board of Management:

Philips Group
Number of performance shares (holdings) in number of shares
2016

	January 1, 2016	awarded 2016	awarded dividend shares 2016	realized 2016	December 31, 2016	vesting date
F.A. van Houten	69,097	-	-	58,732	-	05.03.2016
	63,117	-	2,182	-	65,299	04.28.2017
	56,677	-	1,959	-	58,636	05.05.2018
	-	59,287	2,049	-	61,336	04.29.2019
A. Bhattacharya	13,086[1]	-	-	11,123	-	05.03.2016
	11,434[1]	-	396	-	11,830	04.28.2017
	12,059[1]	-	417	-	12,476	05.05.2018
	-	26,650	921	-	27,571	04.29.2019
P.A.J. Nota	32,717	-	-	27,809	-	05.03.2016
	29,729	-	1,028	-	30,757	04.28.2017
	27,333	-	945	-	28,278	05.05.2018
	-	29,110	1,006	-	30,116	04.29.2019
Performance shares (holdings)	**315,249**	**115,047**	**10,903**	**97,664**	**326,299**	

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

Philips Group
Stock options (holdings) in number of shares
2016

	January 1, 2016	granted	exercised	expired	December 31, 2016	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[1]	–	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**	–	–	**3,681**	**476,200**			

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

Under the Long-Term Incentive Plan operative until 2013, members of the Board of Management were granted restricted share rights. During 2015 the last release of these restricted share rights took place. However, if the shares from the restricted share rights release were kept for another 3 years, members of the Board of Management received so-called 'premium shares'. As at December 31, 2016, awarded premium shares amounted to 4,002 for F.A. van Houten, 419 for A. Bhattacharya and 1,797 for P.A.J. Nota (all to be released in 2017 and 2018). The premium shares to A. Bhattacharya result from restricted share rights grants awarded before date of appointment as a member of the Board of Management.

See note 27, Share-based compensation for further information on performance shares, stock options and restricted share rights as well sub-section 8.2.7, 2016 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
2016

	age at December 31, 2016	accumulated annual pension as of December 31, 2016[1]	total pension related costs[2]
F.A. van Houten	56	293,351	561,033
A. Bhattacharya	55	23,882	226,362
P.A.J. Nota	52	44,062	302,487
Pension costs			**1,089,882**

[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 2016, 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 1,037,209 (2015: EUR 1,083,667; 2014: EUR 816,668). Former members received no remuneration.

At December 31, 2016 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):

Philips Group
Remuneration of the Supervisory Board in EUR
2014 - 2016

	membership	committees	other compensation[1]	total
2016[2]				
J.A. van der Veer	135,000	26,667	7,000	168,667
C. Poon	90,000	32,500	22,000	144,500
C.J.A. van Lede (Jan.-May)[3]	33,333	4,375	2,000	39,708
E. Kist (Jan.-May)	40,000	4,167	2,000	46,167
H. von Prondzynski	80,000	25,000	19,500	124,500
J.P. Tai	80,000	34,167	32,000	146,167
N. Dhawan	80,000	13,000	27,000	120,000
O. Gadiesh	80,000	13,000	19,500	112,500
D.E.I. Pyott	80,000	23,000	32,000	135,000
	698,333	**175,876**	**163,000**	**1,037,209**
2015[2]				
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**
2014[2]				
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**

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
3) After the separation of the Company, Mr van Lede joined the Supervisory Board of Philips Lighting.

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 members[1] in number of shares
2016

	December 31, 2015	December 31, 2016
J. van der Veer	18,366	18,366
H. von Prondzynski	3,633	3,758
J.P. Tai	3,716	3,844
F.A. van Houten	121,762	189,824
A. Bhattacharya	29,415	42,913
P.A.J. Nota	66,133	89,798

1) Reference date for board membership is December 31, 2016

29 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.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Philips Group
Fair value of financial assets and liabilities in millions of EUR
2015 - 2016

	Balance as of December 31, 2015		Balance as of December 31, 2016	
	carrying amount	**estimated fair value**	**carrying amount**	**estimated fair value**
Financial assets				
Carried at fair value:				
Available-for-sale financial assets	232	232	172	172
Securities classified as assets held for sale	(1)	(1)	1	1
Fair value through profit and loss	33	33	27	27
Derivative financial instruments	161	161	160	160
Financial assets carried at fair value	**425**		**360**	
Carried at (amortized) cost:				
Cash and cash equivalents	1,766		2,334	
Loans and receivables:				
Loans - current	12		101	101
Non-current loans and receivables	88	88		
Other non-current loans and receivables	134		134	
Loans classified as assets held for sale	2			
Receivables - current	4,982		5,327	
Receivables - non-current	191		155	
Held-to-maturity investments	2		2	
Financial assets carried at (amortized) costs	**7,177**		**8,053**	
Financial liabilities				
Carried at fair value:				
Derivative financial instruments	(933)	(933)	(873)	(873)
Financial liabilities carried at fair value	**(933)**		**(873)**	
Carried at (amortized) cost:				
Accounts payable	(2,673)		(2,848)	
Interest accrual	(69)		(68)	
Debt (Corporate bond, finance lease and bank loans)	(3,944)	(4,294)	(5,095)	(5,474)
Debt (Other bank loans, overdrafts etc.)	(1,816)		(511)	
Financial liabilities carried at (amortized) costs	**(8,502)**		**(8,522)**	

Philips Group
Fair value hierarchy in millions of EUR
2016

	level 1	level 2	level 3	total
Balance as of December 31, 2016				
Available-for-sale financial assets	36	29	107	172
Securities classified as assets held for sale	-	-	1	1
Financial assets designated at fair value through profit and loss	-	24	3	27
Derivative financial instruments - assets	-	160	-	160
Current loans and receivables	-	101	-	101
Total financial assets	**36**	**314**	**111**	**461**
Derivative financial instruments - liabilities	-	(873)	-	(873)
Debt	(3,990)	(1,484)	-	(5,474)
Total financial liabilities	**(3,990)**	**(2,357)**	-	**(6,347)**
Balance as of December 31, 2015				
Available-for-sale financial assets	76	68	88	232
Securities classified as assets held for sale	(1)	-	-	(1)
Financial assets designated at fair value through profit and loss	-	33	-	33
Derivative financial instruments - assets	-	161	-	161
Non-current loans and receivables	-	88	-	88
Total financial assets	**75**	**350**	**88**	**513**
Derivative financial instruments - liabilities	-	(933)	-	(933)
Debt	(4,084)	(210)	-	(4,294)
Total financial liabilities	**(4,084)**	**(1,143)**	**-**	**(5,227)**

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, such as third-party pricing information without adjustments, the instrument is included in level 3.

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
2016

	financial assets
Balance as of January 1, 2016	**88**
Gains and losses recognized in:	
- in profit or loss	(3)
- in other comprehensive income	(18)
Purchase	47
Sales	(3)
Balance as of December 31, 2016	**111**

The section below elaborates on transactions in derivatives. Transactions in derivatives are subject to master netting and set-off agreements. In the 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
2015 - 2016

	2015	2016
Derivatives		
Gross amounts of recognized financial assets	161	160
Gross amounts of recognized financial liabilities offset in the balance sheet	-	-
Net amounts of financial assets presented in the balance sheet	**161**	**160**
Related amounts not offset in the balance sheet		
Financial instruments	(81)	(92)
Cash collateral received	-	-
Net amount	**80**	**68**

Philips Group
Financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements in millions of EUR
2015 - 2016

	2015	2016
Derivatives		
Gross amounts of recognized financial liabilities	(933)	(873)
Gross amounts of recognized financial assets offset in the balance sheet	-	-
Net amounts of financial liabilities presented in the balance sheet	**(933)**	**(873)**
Related amounts not offset in the balance sheet		
Financial instruments	81	92
Cash collateral received	-	-
Net amount	**(852)**	**(781)**

30 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 29, 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 on both 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, 2016, Philips had EUR 2,334 million in cash and cash equivalents (2015: EUR 1,766 million), within which short-term deposits of EUR 1,299 million (2015: EUR 855 million) and other liquid assets of EUR 53 million (2015: EUR 171 million). Philips pools cash from subsidiaries to the extent legally and economically feasible; cash not pooled remains available for Company's operational or investment needs.

Furthermore, Royal 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 for its commercial paper program. In January 2013 the EUR 1.8 billion facility was extended by 2 years until February 18, 2018. As of December 31, 2016, Royal Philips did not have any amounts outstanding under any of these facilities. A description of Philips' credit facilities, including any covenants, can be found in note 18, Debt.

Additionally, Philips also held EUR 36 million of equity investments in available-for-sale financial assets (fair value at December 31, 2016).

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.

The following table outlines the estimated nominal value in millions of EUR for committed and anticipated transaction exposure and related hedges for Philips' most significant currency exposures consolidated as of December 31, 2016:

Philips Group
Estimated transaction exposure and related hedges
in millions of EUR
2016

	Receivables		Payables	
	exposure	**hedges**	**exposure**	**hedges**
Balance as of December 31, 2016				
Exposure currency				
USD	1,330	(869)	(804)	629
JPY	843	(375)	(7)	7
GBP	367	(203)	(20)	20
AUD	309	(160)	-	-
CAD	281	(129)	(10)	10
CHF	151	(70)	-	-
PLN	127	(65)	(23)	23
SEK	99	(45)	(1)	1
CZK	56	(27)	-	-
CNY	92	(73)	(744)	524
Others	556	(396)	(155)	130
Total 2016	**4,211**	**(2,412)**	**(1,764)**	**1,344**
Total 2015	**4,215**	**(2,949)**	**(1,959)**	**1,528**

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, 2016, a gain of EUR 10 million was deferred in equity as a result of these hedges. The result deferred in equity will be released to earnings mostly during 2017 at the time when the related hedged transactions affect the income statement. During 2016, a net loss of EUR 5 million was recorded in the consolidated statement of income as a result of ineffectiveness on certain anticipated cash flow hedges.

The total net fair value of hedges related to transaction exposure as of December 31, 2016, was an unrealized asset of EUR 15 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 98 million in the value of the derivatives; including a EUR 46 million increase related to foreign exchange transactions of the USD against the EUR, a EUR 18 million increase related to foreign exchange transactions of the JPY against the EUR, a EUR 10 million increase related to foreign exchange transactions of the GBP against the EUR and a EUR 5 million increase related to foreign exchange transactions of the AUD against the EUR.

The EUR 98 million increase includes a gain of EUR 18 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 80 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, 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 the USD against the EUR, a EUR 18 million increase related to foreign exchange transactions of the GBP against the EUR, 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.

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, 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 1,234 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.

As of December 31, 2016, cross-currency interest rate swaps with a fair value liability of EUR 726 million and external bond funding for a nominal value of USD 3,774 million were designated as net investment hedges of our financing investments in foreign operations. During 2016 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, 2016, was a liability of EUR 728 million. An instantaneous 10% increase in the value of the EUR against all currencies would lead to an increase of EUR 53 million in the value of the derivatives, including a EUR 62 million increase related to the USD.

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 EUR 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.

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 5,606 million, which created an inherent interest rate risk. Failure to effectively hedge this risk could negatively impact financial results. At year-end, Philips held EUR 2,334 million in cash and cash equivalents, and had total long-term debt of EUR 4,021 million and total short-term debt of EUR 1,585 million. At December 31, 2016, Philips had a ratio of fixed-rate long-term debt to total outstanding debt of approximately 70%, compared to 68% one year earlier.

A sensitivity analysis conducted as of January 2017 shows that if long-term interest rates were to decrease instantaneously by 1% from their level of December 31, 2016, with all other variables (including foreign exchange rates) held constant, the fair value of the long-term debt would increase by approximately EUR 260 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 259 million.

If interest rates were to increase instantaneously by 1% from their level of December 31, 2016, with all other variables held constant, the annualized net interest expense would decrease by approximately EUR 7 million. This impact was based on the outstanding net cash position at December 31, 2016.

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.

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 35 million at year-end 2016 (2015: EUR 75 million). Philips does not hold derivatives in its own shares or in the above-mentioned listed companies. Philips also has shareholdings in several privately-owned companies amounting to EUR 105 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 2016, Philips does not have any outstanding commodity derivatives.

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.

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 which 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.

The table below shows A-rated financial instructions with which Philips has cash at hand and short-term deposits above EUR 25 million as of December 31, 2016. The remaining cash at hand and deposits are mainly with BBB+ counterparty banks.

Philips Group
Credit risk with number of A-rated counterparties
for deposits above EUR 25 million
2016

	25-100 million	100-500 million	500 million and above
A rated bank counterparties	3	3	1
	3	**3**	**1**

For an overview of the overall maximum credit exposure of the group's financial assets, please refer to note 29, 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, 2016, the Company had country risk exposure of EUR 10.5 billion in the United States, EUR 1.8 billion in China (including Hong Kong), EUR 1.3 billion in Netherlands and EUR 756 million in Singapore. Other countries higher than EUR 500 million are Germany (EUR 775 million), Japan (EUR 671 million), United Kingdom (EUR 625 million), Belgium (EUR 523 million) and Poland (EUR 508 million). Countries where the risk exceeded EUR 300 million but was less than EUR 500 million are Malaysia, 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 security. The counterparty risk related to the insurance companies participating in the above-mentioned global insurance policies is 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 0.25 million to EUR 5 million 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 2016 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, 2016, for the coming year, whereby the re-insurance captive retentions remained unchanged.

31 Subsequent events

New credit facility

In January 2017, Philips entered into a USD 1 billion and EUR 300 million credit facility with a consortium of international banks. Under this credit facility Philips drew USD 1 billion in January; the facility was used for the early redemption of 5.750% Notes due 2018 in the aggregate principal amount of USD 1,250 million. The maturity date of the new facility is December 29, 2017, however Philips expects to prepay this facility in the course of 2017.

Offering of Philips Lighting shares

On February 9, 2017 Royal Philips completed an accelerated book build offering to institutional investors of 26 million shares in Philips Lighting at a price of EUR 23.40 per share realizing total proceeds of EUR 608 million. This transaction reduced Royal Philips' stake in Philips Lighting's outstanding share capital from 71.225% to 53.892%.

As part of this transaction, Philips Lighting repurchased 3.5 million shares in the offering and intends to cancel these shares. After cancellation of the 3.5 million shares that Philips Lighting has acquired in the offering, Royal Philips' shareholding in Philips Lighting is expected to represent 55.180% of Philips Lighting's outstanding share capital.

11 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 Group 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 2:362 (8) of the 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 of the Group financial Statements and are deemed incorporated and repeated herein by reference.

Investments in group companies in the Company financial statements are accounted for using the equity method.

Presentation of Company financial statements

The structure of the Company balance sheets and Company statements of income are aligned as much as possible with the Consolidated statements in order to achieve optimal transparency between the Group financial statements and the Company financial statements. Consequently, the presentation of the Company statements deviates from Dutch regulations.

The Company balance sheet has been prepared before the appropriation of result.

Additional information

For 'Additional information' within the meaning of Section 2:392 of the Dutch Civil Code, please refer to section 11.5, Independent auditor's report, of this Annual Report.

11.1 Statements of income

Koninklijke Philips N.V.
Statements of income in millions of EUR
For the year ended December 31

		2015	2016
A	Sales	489	422
	Cost of sales	(38)	(34)
	Gross margin	**451**	**388**
	Selling expenses	(26)	(17)
	General and administrative expenses	(26)	(21)
	Impairment of goodwill	3	-
B	Other business income	102	65
	Other business expenses	3	(6)
C	**Income from operations**	**507**	**409**
D	Financial income	472	448
D	Financial expenses	(317)	(466)
	Income before taxes	**662**	**391**
E	Income tax expense	26	(142)
	Income after tax	**688**	**249**
	Results relating to investments in associates	23	4
	Net income (loss) from affiliated companies	(66)	1,195
	Net income	**645**	**1,448**

11.2 Balance sheets before appropriation of results

Koninklijke Philips N.V.
Balance sheets in millions of EUR unless otherwise stated
As of December 31

		2015		2016	
	Assets				
	Non-current assets:				
	Property, plant and equipment	1		1	
G	Intangible assets	81		80	
H	Financial fixed assets	21,176		22,067	
	Non-current receivables	88		79	
	Deferred tax assets	766		548	
I	Other non-current financial assets	279		148	
	Total non-current assets		**22,391**		**22,923**
	Current assets:				
	Current financial assets	10		91	
J	Receivables	8,298		8,458	
	Cash and cash equivalents	730		756	
	Total current assets		**9,038**		**9,305**
	Total assets		**31,429**		**32,228**
	Liabilities and shareholders' equity				
K	Shareholders' equity:				
	Preference shares, par value EUR 0.20 per share:				
	– Authorized: 2,000,000,000 shares (2015: 2,000,000,000 shares)				
	– Issued: none				
	Common shares, par value EUR 0.20 per share:				
	– Authorized: 2,000,000,000 shares (2015: 2,000,000,000 shares)				
	– Issued and fully paid: 929,644,864 shares (2015: 931,130,387 shares)	186		186	
	Capital in excess of par value	2,669		3,083	
	Legal reserve: revaluation	4		-	
	Legal reserve: available-for-sale financial assets	56		36	
	Legal reserve: cash flow hedges	12		10	
	Legal reserve: affiliated companies	958		715	
	Legal reserve: currency translation differences	1,058		1,234	
	Retained earnings	6,437		6,070	
	Net income[1]	645		1,448	
	Treasury shares, at cost: 7,208,301 shares (2015: 14,026,801 shares)	(363)		(181)	
	Total equity		**11,662**		**12,601**
	Non-current liabilities:				
L	Long-term debt	3,933		2,602	
	Long-term provisions	5		7	
	Deferred tax liabilities	12		11	
	Other non-current liabilities	789		667	
	Total non-current liabilities		**4,739**		**3,287**
	Current liabilities:				
L	Short-term debt	14,528		15,815	
M	Other current liabilities	500		525	
	Total current liabilities		**15,028**		**16,340**
	Liabilities and shareholders' equity		**31,429**		**32,228**

[1] Prepared before appropriation of results

11.3 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

	common shares	capital in excess of par value	revaluation	available-for-sale financial assets	cash flow hedges	affiliated companies	currency translation differences	retained earnings	net income	treasury shares	shareholders' equity
			legal reserves								
Balance as of January 1, 2016	**186**	**2,669**	**4**	**56**	**12**	**958**	**1,058**	**6,437**	**645**	**(363)**	**11,662**
Appropriation of prior year result								645	(645)		
Net income									1,448		1,448
Release revaluation reserve			(4)					4			-
Net current period change [1]				(44)	2	(243)	174	300			189
Income tax on net current period change				-	(9)		2				(7)
Reclassification into income				24	5		-				29
Dividend distributed	4	398						(732)			(330)
Cancellation of treasury shares	(4)							(446)		450	-
Purchase of treasury shares										(589)	(589)
Re-issuance of treasury shares		(122)						(35)		231	74
Share call options								(103)		90	(13)
Share-based compensation plans		119									119
Income tax on share-based compensation plans		19									19
Balance as of December 31, 2016	**186**	**3,083**	**-**	**36**	**10**	**715**	**1,234**	**6,070**	**1,448**	**(181)**	**12,601**

[1] The net current period change includes the impact of the IPO of Philips Lighting, which had a positive impact on Shareholders' equity of EUR 109 million.

11.4 Notes

Notes to the Company financial statements

A Sales

Sales relates to external sales and mainly comprises license income from intellectual property rights owned by the Company.

B Other business income

Other business income mainly relates to income from transactions with group companies regarding overhead services and brand license agreements.

C Sales and costs by nature

Koninklijke Philips N.V.
Sales and costs by nature in millions of EUR
2015 - 2016

	2015	2016
Sales	489	422
Costs of materials used	(7)	(6)
Employee benefit expenses	(14)	(13)
Depreciation and amortization	(23)	(14)
Advertising and promotion	(11)	(7)
Other operational costs	(36)	(31)
Impairment of goodwill	3	-
Other business income (expenses)	106	58
Income from operations	**507**	**409**

For a summary of the audit fees related to the Philips Group, please refer to the Group Financial statements note 6, Income from operations, which is deemed incorporated and repeated herein by reference.

D Financial income and expense

Financial income mainly consists of interest received from intercompany financing transactions. Interest received from third parties was EUR 21 million (2015: EUR 20 million).

Financial expense mainly relates to interest charges on external debt (please refer to note L, Debt). In 2016, there are also included financial expenses related to the early redemption of USD bonds in October 2016 and January 2017 of EUR 91 million and EUR 62 million respectively.

E Income tax

Koninklijke Philips N.V. is head of the fiscal unity that exists for Dutch corporate income tax purposes.

The income tax expense of EUR 142 million reported in the Company Statements of income represents the consolidated amount of current and deferred tax expense for all members of the fiscal unity. The effective tax rate increased in 2016 compared to 2015, mainly due to changes in the contribution of income of members of the fiscal unity to the total taxable result of the fiscal unity, compared to the Company's contribution.

At December 31, 2016, net operating loss and tax credit carryforwards for which no deferred tax assets have been recognized in the balance sheet amount to EUR 29 million.

F Employees

The number of persons employed by the Company at the year-end 2016 was 8 (2015: 7). For the remuneration of past and present members of both the Board of Management and the Supervisory Board, please refer to note 28, Information on remuneration, which is deemed incorporated and repeated herein by reference.

G Intangible assets

Intangible assets includes mainly licenses and patents. The changes during 2016 are as follows;

Koninklijke Philips N.V.
Intangible assets in millions of EUR
2016

Balance as of January 1, 2016:	
Cost	131
Amortization/ impairments	(50)
Book value	**81**
Changes in book value:	
Reclassifications	(19)
Additions	32
Amortization	(14)
Total changes	**(1)**
Balance as of December 31, 2016:	
Cost	113
Amortization/ impairments	(33)
Book value	**80**

H 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
2016

	investments in group companies	investments in associates	loans	total
Balance as of January 1, 2016	**11,834**	**73**	**9,269**	**21,176**
Changes:				
Acquisitions/ additions	4,099	3	48	4,150
Sales/ redemptions	(2,966)	-	(1,427)	(4,393)
Net income from affiliated companies	1,195	4	-	1,199
Dividends received	(493)	(27)	-	(520)
Translation differences	277	4	174	455
Balance as of December 31, 2016	**13,946**	**57**	**8,064**	**22,067**

Prior to the IPO of Philips Lighting, the Company completed an internal legal restructuring whereby all lighting activities were concentrated in Philips Lighting. The movements in Acquisitions/additions and Sales/ redemptions reflect the impact of this restructuring. The restructuring qualifies as a transaction under common control and therefore did not affect results or equity of the Company.

Included in Sales/redemptions is the divestment of 28.775% of the shares of Philips Lighting during the IPO completed in May and June 2016, representing an amount of EUR 700 million. Please refer to note 5, Interests in entities.

I Other financial assets

The changes during 2016 were as follows:

Koninklijke Philips N.V.
Other non-current financial assets in millions of EUR
2016

	available -for-sale financial assets	loans and receivables	financial assets at fair value through profit and loss	total
Balance as of January 1, 2016	**132**	**138**	**9**	**279**
Changes:				
Reclassifications	(4)	(100)	-	(104)
Acquisitions/ additions	40	-	-	40
Sales/ redemptions/ reductions	(3)	(15)	-	(18)
Impairments	(27)	-	-	(27)
Value adjustments	(20)	7	(9)	(22)
Balance as of December 31, 2016	**118**	**30**	**-**	**148**

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.

Loans and receivables

The reclassification line represents loans transferred to Current financial assets and mainly relates to loans to TPV Technology Limited in the amount of EUR 91 million.

J Receivables

Koninklijke Philips N.V.
Receivables in millions of EUR
2015 - 2016

	2015	2016
Trade accounts receivable	91	86
Affiliated companies	7,966	8,176
Other receivables	64	50
Advances and prepaid expenses	19	12
Derivative instruments - assets	158	134
Receivables	**8,298**	**8,458**

K Shareholders' equity

Common shares

As of December 31, 2016, the issued and fully paid share capital consists of 929,644,864 common shares, each share having a par value of EUR 0.20.

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

Koninklijke Philips N.V.
Outstanding number of shares in number of shares
2015 - 2016

	2015	2016
Balance as of January 1	**914,388,869**	**917,103,586**
Dividend distributed	17,671,990	17,344,462
Purchase of treasury shares	(20,296,016)	(25,193,411)
Re-issuance of treasury shares	5,338,743	13,181,926
Balance as of December 31	**917,103,586**	**922,436,563**

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, 2016, 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 27, 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
2015 - 2016

	2015	2016
Shares acquired		8,601,426
Average market price		EUR 24.73
Amount paid		EUR 213 million
Shares delivered	5,338,743	13,181,926
Average price (FIFO)	EUR 30.35	EUR 25.86
Cost of delivered shares	EUR 162 million	EUR 341 million
Total shares in treasury at year-end	11,788,801	7,208,301
Total cost	EUR 308 million	EUR 181 million

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

Koninklijke Philips N.V.
Share capital transactions
2015 - 2016

	2015	2016
Shares acquired	20,296,016	16,591,985
Average market price	EUR 24.39	EUR 23.84
Amount paid	EUR 495 million	EUR 396 million
Reduction of capital stock (shares)	21,361,016	18,829,985
Reduction of capital stock	EUR 517 million	EUR 450 million
Total shares in treasury at year-end	2,238,000	
Total cost	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 606 million, which includes the impact of taxes. Settlements of share-based compensation plans involved a cash inflow of EUR 80 million.

Share call options

During 2016 Philips bought EUR and USD-denominated call options to hedge commitments under share-based compensation plans.

For EUR-denominated call options, option premiums amounting to EUR 64 million (involving 9,393,779 options) were deducted from Retained earnings and were settled in Royal Philips shares held by the Company representing a historical cost of EUR 77 million based on a FIFO method (involving 2,667,203 shares).

For USD-denominated call options, option premiums amounting to EUR 35 million (involving 5,635,360 options) were deducted from Retained earnings and were settled in Royal Philips shares held by the Company representing a historical cost of EUR 32 million based on a FIFO method (involving 1,375,803 shares).

The difference between the option premiums and the historical cost of Royal Philips shares was recorded in Retained earnings. Subsequently, in 2016 the Company sold 837,913 EUR call options against the same number of Royal Philips shares and an additional EUR 13 million cash payment to the buyer of the call options.

Koninklijke Philips N.V.
Outstanding call options
2016

exercise price	options	intrinsic value in millions	weighted average remaining contractual term
EUR-denominated			
10-15	2,530,968	37	4.6 yrs
15-20	1,063,968	15	5.1 yrs
20-25	4,960,930	30	3.3 yrs
Outstanding share call options	**8,555,866**	**82**	**3.9 yrs**
USD-denominated			
15-20	1,896,597	22	4.6 yrs
20-25	424,322	4	5.0 yrs
25-30	1,822,875	2	4.3 yrs
30-35	1,491,566	-	3.0 yrs
Outstanding share call options	**5,635,360**	**28**	**4.1 yrs**

Dividend distribution

In June 2016, Philips settled a dividend of EUR 0.80 per common share, representing a total value of EUR 732 million including costs. Shareholders could elect for a cash dividend or a share dividend. Approximately 55% of the shareholders elected for a share dividend, resulting in the issuance of 17,344,462 new common shares. The settlement of the cash dividend involved an amount of EUR 330 million (including costs).

Legal reserves

As of December 31, 2016, legal reserves relate to unrealized gains on available-for-sale financial assets of EUR 36 million (2015: EUR 56 million), unrealized gains on cash flow hedges of EUR 10 million (2015: EUR 12 million unrealized losses), 'affiliated companies' of EUR 715 million (2015: EUR 958 million) and unrealized currency translation gains of EUR 1,234 million (2015: EUR 1,058 million unrealized losses). Last year's legal reserves also included EUR 4 million related to the revaluation of assets and liabilities of acquired companies in the context of multi-stage acquisitions, which were nil as of December 31, 2016.

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 2,181 million as at December 31, 2016. Such limitations relate to common shares of EUR 186 million, as well as available-for-sale financial assets of EUR 36 million, unrealized gains related to cash flow hedges of EUR 10 million, unrealized currency translation gains of EUR 1,234 million and 'affiliated companies' of EUR 715 million.

As at December 31, 2015 the limitations on distributable amounts were EUR 2,274 million and related common shares of EUR 186 million, as well as 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 gains of EUR 1,058 million and 'affiliated companies' of EUR 958 million.

L Debt

Long-term debt

Koninklijke Philips N.V.
Long-term debt in millions of EUR, unless otherwise stated
2015 - 2016

	(range of) interest rates	average interest rate	amount outstanding in 2016	amount due in 1 year	amount due after 1 year	amount due after 5 years	average remaining term (in years)	amount outstanding in 2015
USD bonds	3.8 - 7.8%	5.5%	3,608	1,184	2,424	2,424	10	3,733
Intercompany financing	0.6 - 4.3%	3.2%	584	584				1,660
Bank borrowings	0.9 - 1.1%	1.1%	200	22	178		3	200
Other long-term debt	1.7 - 7.0%	4.2%	37	37			1	39
			4,429	**1,827**	**2,602**	**2,424**		**5,632**
Corresponding data previous year			**5,632**	**1,699**	**3,933**	**2,795**		**6,623**

The following amounts of the long-term debt as of December 31, 2016, are due in the next five years:

Koninklijke Philips N.V.
Long-term debt due in the next five years in millions of EUR
2016

2017	1,827
2018	44
2019	44
2020	45
2021	45
Long -term debt	**2,005**
Corresponding amount previous year	**2,837**

In October 2016, the principal amounts of USD bonds due 2025, 2026, 2038 were partially redeemed, which involved an aggregated amount of USD 285 million. This resulted in financial charges of EUR 91 million paid in 2016.

In December 2016, Royal Philips delivered a notice of redemption to the holders of the outstanding 5.750% Notes due 2018 in the aggregate principal amount of USD 1,250 million for redemption in January 2017. This resulted in financial charges of EUR 62 million in 2016. Please refer to note 18, Debt

For further information, refer to note O, Subsequent events.

Short-term debt

Short-term debt mainly relates to the current portion of outstanding external and intercompany long-term debt of EUR 1,827 million (2015: EUR 1,699 million), other debt to group companies totaling EUR 13,976 million (2015: EUR 11,578 million) and short-term bank borrowings of EUR 7 million (2015: EUR 1,245 million).

M Other current liabilities

Koninklijke Philips N.V.
Other current liabilities in millions of EUR
2015 - 2016

	2015	2016
Other short-term liabilities	59	12
Accrued expenses	127	181
Derivative instruments - liabilities	314	332
Other current liabilities	**500**	**525**

N Contractual obligations and contingent liabilities not appearing in the balance sheet

The Company has entered into contracts with venture capitalists where it committed itself to make, under certain conditions, capital contributions to their investment funds to an aggregated amount of EUR 90 million (2015: EUR 22 million) until June 30, 2021. As at December 31, 2016 capital contributions already made to this investment funds are recorded as available-for-sale financial assets within Other non-current financial assets.

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 1,170 million as of year-end 2016 (2015: EUR 1,374 million). Guarantees totaling EUR 667 million (2015: EUR 698 million) have also been given on behalf of other group companies. As at December 31, 2016 there have been no credit guarantees given on behalf of unconsolidated companies and third parties (2015: nil).

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 25, Contingent assets and liabilities, which is deemed incorporated and repeated herein by reference.

O Subsequent events

New credit facility

In January 2017, Philips entered into a USD 1 billion and EUR 300 million credit facility with a consortium of international banks. Under this credit facility Philips drew USD 1 billion in January; the facility was used for the early redemption of 5.750% Notes due 2018 in the aggregate principal amount of USD 1,250 million. The maturity date of the new facility is December 29, 2017, however Philips expects to prepay this facility in the course of 2017.

Offering of Philips Lighting shares

On February 9, 2017 Royal Philips completed an accelerated book build offering to institutional investors of 26 million shares in Philips Lighting at a price of EUR 23.40 per share realizing total proceeds of EUR 608 million. This transaction reduced Royal Philips' stake in Philips Lighting's outstanding share capital from 71.225% to 53.892%.

As part of this transaction, Philips Lighting repurchased 3.5 million shares in the offering and intends to cancel these shares. After cancellation of the 3.5 million shares that Philips Lighting has acquired in the offering, Royal Philips' shareholding in Philips Lighting is expected to represent 55.180% of Philips Lighting's outstanding share capital.

P Appropriation of profits and profit distributions

Pursuant to article 34 of the articles of association of the Company, 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, 2016, the issued share capital consists only of common shares. No preference shares have been issued. Article 33 of the articles of association of the Company 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 2017 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 shareholders, against the net income of the Company for 2016.

Content you didn't download
11.5 Independent auditor's report

13 Five-year overview

Philips Group
General data in millions of EUR unless otherwise stated
2012 - 2016

	2012	2013	2014	2015	2016
Sales	22,234	21,990	21,391	24,244	24,516
% increase over previous year	12%	(1)%	(3)%	13%	1%
Income from operations (EBIT) (loss)	592	1,855	486	992	1,882
Financial income and expenses - net	(329)	(330)	(301)	(369)	(493)
Income (loss) from continuing operations	(166)	1,034	221	414	1,075
Income (loss) from continuing operations attributable to shareholders	(171)	1,031	225	400	1,032
Income (loss) from Discontinued operations	136	138	190	245	416
Net income (loss)	(30)	1,172	411	659	1,491
Net income (loss) attributable to shareholders	(35)	1,169	415	645	1,448
Net assets	11,185	11,227	10,968	11,780	13,508
Total employees at year-end (FTEs)	118,087	116,082	113,678	112,959	114,731

Philips Group
Income in millions of EUR unless otherwise stated
2012 - 2016

	2012	2013	2014	2015	2016
Income from operations (EBIT)	592	1,855	486	992	1,882
as a % of sales	*2.7%*	*8.4%*	*2.3%*	*4.1%*	*7.7%*
EBITA [1]	1,003	2,276	821	1,372	2,235
as a % of sales	*4.5%*	*10.4%*	*3.8%*	*5.7%*	*9.1%*
Income taxes	(218)	(466)	(26)	(239)	(327)
as a % of income before taxes	*(82.9)%*	*(30.6)%*	*(14.1)%*	*(38.4)%*	*(23.5)%*
Income (loss) from continuing operations	(166)	1,034	221	414	1,075
Net income (loss)	(30)	1,172	411	659	1,491

[1] Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report

Philips Group
Capital employed in millions of EUR unless otherwise stated
2012 - 2016

	2012	2013	2014	2015	2016
Cash and cash equivalents	3,834	2,465	1,873	1,766	2,334
Receivables and other current assets	5,128	5,220	5,591	5,655	6,169
Assets classified as held for sale	43	507	1,613	1,809	2,180
Inventories	3,495	3,240	3,314	3,463	3,392
Non-current financial assets/investments in associates	726	657	619	670	525
Non-current receivables/assets	2,217	1,924	2,721	3,075	3,098
Property, plant and equipment	2,959	2,780	2,095	2,322	2,155
Intangible assets	10,679	9,766	10,526	12,216	12,450
Total assets	**29,081**	**26,559**	**28,352**	**30,976**	**32,303**
Property, plant and equipment:					
Capital expenditures for the year	479	482	437	522	443
Depreciation for the year	588	521	592	582	606
Capital expenditures: depreciation	0.8	0.9	0.7	0.9	0.7
Inventories as a % of sales[1]	14.1%	13.7%	15.3%	14.3%	13.8%
Outstanding trade receivables, in days sales[2]	50	53	56	56	57

[1] Calculated based upon values excluding inventories and sales related to acquisitions and divestments for 2015 and 2016
[2] Calculated based upon the values excluding accounts receivable and sales related to acquisitions, divestments and Discontinued operations

Philips Group
Financial structure in millions of EUR unless otherwise stated
2012 - 2016

	2012	2013	2014	2015	2016
Other liabilities[1]	9,208	7,713	8,414	8,786	9,058
Liabilities directly associated with assets held for sale	27	348	349	407	525
Debt	4,534	3,901	4,104	5,760	5,606
Provisions[1]	4,127	3,370	4,517	4,243	3,606
Total provisions and liabilities	**17,896**	**15,332**	**17,384**	**19,196**	**18,795**
Shareholders' equity	11,151	11,214	10,867	11,662	12,601
Non-controlling interests	34	13	101	118	907
Group equity and liabilities	**29,081**	**26,559**	**28,352**	**30,976**	**32,303**
Net debt: group equity ratio[2)3)]	6:94	11:89	17:83	25:75	19:81
Market capitalization at year-end	18,200	24,340	22,082	21,607	26,751

1) Adjusted to reflect a reclassification of net defined-benefit obligations into Long-term provisions. See note 1, Significant accounting policies.
2) For details on the calculation of net debt and group equity ratio, refer to note 17, Equity.
3) Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report.

Philips Group
Key figures per share in EUR unless otherwise stated
2012 - 2016

	2012	2013	2014	2015	2016
Sales per common share	24.11	24.14	23.37	26.46	26.71
Weighted average amount of shares outstanding:					
- basic[1]	922,101	911,072	915,193	916,087	918,016
- diluted[1]	927,222	922,072	922,714	923,625	928,789
Basic earnings per common share:					
Income (loss) from continuing operations attributable to shareholders per share	(0.19)	1.13	0.25	0.44	1.12
Net income (loss) attributable to shareholders	(0.04)	1.28	0.45	0.70	1.58
Diluted earnings per common share:					
Income (loss) from continuing operations attributable to shareholders per share	(0.19)	1.12	0.24	0.43	1.11
Net income (loss) attributable to shareholders	(0.04)	1.27	0.45	0.70	1.56
Dividend distributed per common share	0.75	0.75	0.80	0.80	0.80
Total shareholder return per common share	4.37	7.50	(1.70)	0.21	6.24
Shareholders' equity per common share	12.19	12.28	11.88	12.72	13.66
Price/earnings ratio	(104.74)	23.58	96.60	53.55	25.89
Share price at year-end	19.90	26.65	24.15	23.56	29.00
Highest closing share price during the year	20.33	26.78	28.10	27.65	29.07
Lowest closing share price during the year	13.76	20.26	20.98	20.79	20.95
Average share price	16.92	23.33	24.00	24.51	24.75
Amount of common shares outstanding at year-end[1]	914,591	913,338	914,389	917,104	922,437

1) In thousands of shares

Philips Group
Sustainability
2012 - 2016

	2012	2013	2014	2015	2016
Lives improved, in billions	1.6	1.7	1.9	2.0	2.1
Green Revenues, as a % of total sales	46%	50%	59%	61%	64%
Green Innovation, in millions of euros	453	405	463	495	558
Operational carbon footprint, in kilotonnes CO_2-equivalent	1,640	1,678	1,521	1,417	1,344
Operational energy efficiency, in terajoules per million euro sales	1.35	1.40	1.34	1.11	1.01
Total energy consumption in manufacturing, in terajoules[1]	12,014	11,963	11,257	9,702	8,987
Total carbon emissions in manufacturing, in kilotonnes CO_2-equivalent	563	518	468	371	323
Water intake, in thousands m^3	3,137	3,289	3,103	2,727	2,414
Total waste, in kilotonnes[1]	80.6	75.9	75.0	68.5	64.8
Materials provided for recycling via external contractor per total waste, in %	77%	79%	80%	83%	83%
Restricted substances, in kilos	67	37	29	26	7
Hazardous substances, in kilos	67,530	35,118	28,310	25,101	12,412
ISO 14001 certification, as a % of all reporting organizations[1]	69%	79%	79%	78%	82%
Employee Engagement Index, % favorable	79%	75%	72%	71%	74%
Female executives, in % of total	14%	15%	18%	19%	18%
Lost Workday Injuries, per 100 FTEs	0.31	0.27	0.23	0.21	0.18
Fatalities	7	3	1	-	2
Initial and continual conformance audits, number of audits	159	200	203	195	226
Suppliers audits, compliance rate, in %	75%	77%	86%	86%	89%

[1] In manufacturing excluding new acquisitions

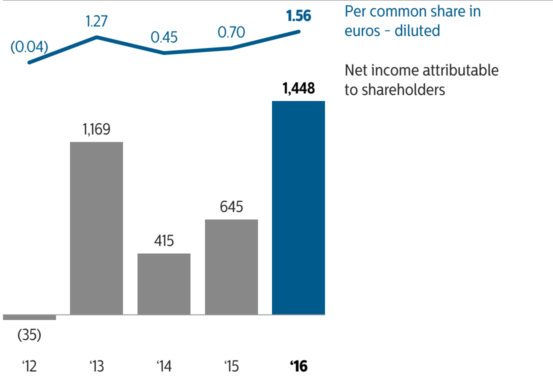
14 Investor Relations

14.1 Key financials and dividend

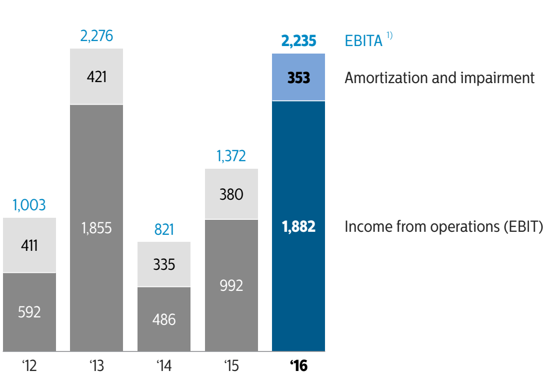
Key financials

Net income attributable to shareholders of Koninklijke Philips N.V. in 2016 was EUR 1,448 million, or EUR 1.56 per common share (diluted; basic EUR 1.58 per common share). This compares to EUR 645 million, or EUR 0.70 per common share (diluted; basic EUR 0.70 per common share), in 2015.

Philips Group
Net income attributable to shareholders in millions of EUR
2012 - 2016

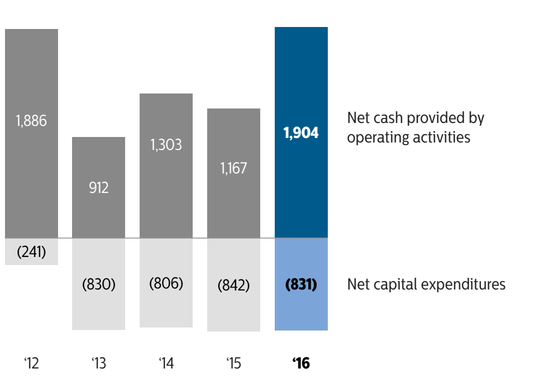


Philips Group
Income from operations (EBIT) and EBITA [1] in millions of EUR
2012 - 2016



1) Non-GAAP financial measure. For the definition and reconciliation to the most directly comparable GAAP measure, refer to chapter 4, Reconciliation of non-GAAP information, of this Annual Report

Philips Group
Total of Net cash provided by operating activities and Net capital expenditures in millions of EUR
2012 - 2016



Dividend policy

Philips' dividend policy is aimed at dividend stability and a pay-out ratio of 40% to 50% of net income after adjustments.

Net income after adjustments is the base figure used to calculate the dividend pay-out for the year. For 2016, the key exclusions to arrive at net income after adjustments are the following: the results that are shown as Discontinued operations, income from a pension settlement, a charge related to the currency revaluation of the provision for the Masimo litigation, financial charges related to bond redemptions, and a release in financial income and expense related to the Masimo settlement. Restructuring, acquisition-related and separation related charges are also excluded.

Proposed distribution

A proposal will be submitted to the Annual General Meeting of Shareholders, to be held on May 11, 2017, to declare a distribution of EUR 0.80 per common share (up to EUR 745 million), in cash or shares at the option of the shareholder, against the net income for 2016.

If the above dividend proposal is adopted, the shares will be traded ex-dividend as of May 12, 2017 and May 15, 2017 at the New York Stock Exchange and Euronext Amsterdam, respectively. In compliance with the listing requirements of the New York Stock Exchange and the stock market of Euronext Amsterdam, the dividend record date will be May 16, 2017.

Shareholders will be given the opportunity to make their choice between cash and shares between May 17, 2017 and June 9, 2017. If no choice is made during this election period the dividend will be paid in cash. On June 9, 2017 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 June 7, 8 and 9, 2017. 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. The ratio and the number of shares to be issued will be announced on June 13, 2017. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 14, 2017. The distribution of dividend in cash to holders of New York Registry shares will be made in USD at the USD/EUR rate as per WM/ Reuters FX Benchmark 2 PM CET fixing of June 12, 2017.

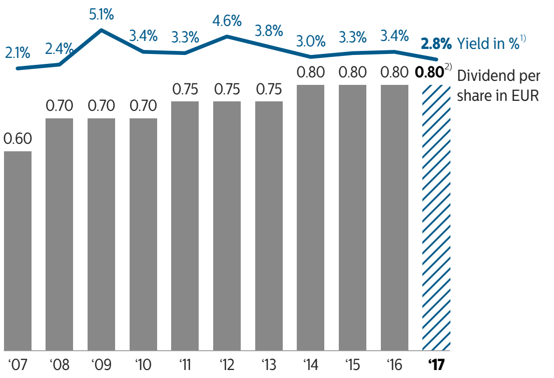
Further details will be given in the agenda for the 2017 Annual General Meeting of Shareholders. All dates mentioned remain provisional until then.

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 2016, a dividend of EUR 0.80 per common share was paid in cash or shares, at the option of the shareholder. For 55.0% of the shares, the shareholders elected for a share dividend, resulting in the issue of 17,344,462 new common shares, leading to a 1.9% dilution. EUR 330 million was paid in cash. See also section 2.4, Proposed distribution to shareholders, of this Annual Report.

	ex-dividend date	record date	payment date
Euronext Amsterdam	May 15, 2017	May 16, 2017	June 14, 2017
New York Stock Exchange	May 12, 2017	May 16, 2017	June 14, 2017

Philips Group
Dividend and dividend yield per common share
2007 - 2017



[1] Dividend yield % is as of December 31 of previous year
[2] Subject to approval by the Annual General Meeting of Shareholders in 2017

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
2012 - 2016

	2012	2013	2014	2015	2016
in EUR	0.75	0.75	0.80	0.80	0.80
in USD	0.94	0.98	1.09	0.89	0.90

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 10, 2017 was EUR 0.9389 per USD 1.

Exchange rate (based on the "Noon Buying Rate")
EUR per USD
2012 - 2016

	period end	average	high	low
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
2016	0.9477	0.9037	0.9639	0.8684

Exchange rate per month (based on the "Noon Buying Rate") EUR per USD
2016 - 2017

	highest rate	lowest rate
August, 2016	0.9027	0.8823
September, 2016	0.8962	0.8872
October, 2016	0.9203	0.8919
November, 2016	0.9470	0.8992
December, 2016	0.9639	0.9295
January, 2017	0.9601	0.9264

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, 2016 (USD 1 = EUR 0.9495). This rate is not materially different from the Noon Buying Rate on such date (USD 1 = EUR 0.9477).

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
2012 - 2016

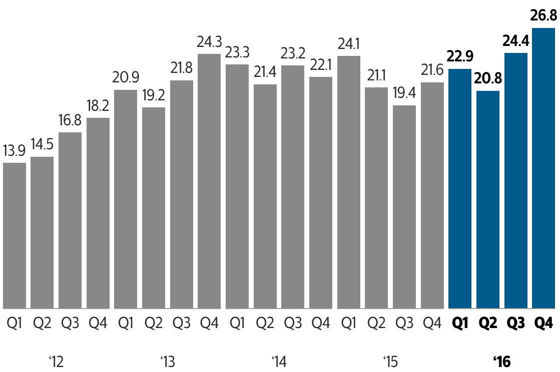
	period end	average	high	low
2012	0.7582	0.7776	0.8166	0.7500
2013	0.7255	0.7527	0.7805	0.7255
2014	0.8227	0.7527	0.8227	0.7201
2015	0.9151	0.9007	0.9410	0.8796
2016	0.9495	0.9078	0.9495	0.8812

14.2 Share information

Market capitalization

Philips' market capitalization was EUR 26.8 billion at year-end 2016. On December 31, 2016, the closing price for shares in Amsterdam was EUR 29.00 and the number of common shares outstanding (after deduction of treasury shares) amounted to 922 million.

Philips Group
Market capitalization in billions of EUR
2012 - 2016



Share capital structure

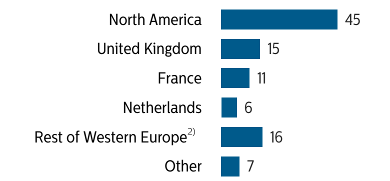
During 2016, Philips' issued share capital decreased by approximately 1 million common shares to approximately 930 million common shares. The main reasons for this are the cancellation of 18,829,985 Philips shares acquired pursuant to the EUR 1.5 billion share repurchase program (which was completed in October 2016) and the issuance of 17,344,462 shares related to the elective dividend. The number of common shares issued and outstanding increased from 917 million at December 31, 2015 to 922 million on December 31, 2016. On December 31, 2016, the shares held in treasury amounted to approximately 7 million, all of which 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 derivatives (settled in kind or in cash) 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 the Company of such disclosures 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.

The AFM register shows the following notification of substantial holdings and/or voting rights at or above the 3% threshold: BlackRock, Inc.: substantial holding of 5.03% and 6.19% of the voting rights (January 5, 2017).

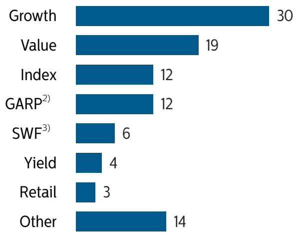
The following shareholder portfolio information is based on information provided by several large custodians and a survey conducted in December 2016.

Philips Group
Shareholders by region (approximated)[1] in %
2016



[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 %
2016



[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 was completed by October 20, 2016. The shares repurchased under this program were held by Philips as treasury shares until they were cancelled. As of December 31, 2016 all treasury shares that were repurchased under this program were cancelled.

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 Philips shares from time to time, on Euronext Amsterdam or otherwise. 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 shares 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 the EU Market Abuse Regulation and Philips' Articles of Association.

In 2016, Philips repurchased a total of 8.6 million shares for LTI coverage. During 2017, Philips may continue with additional repurchases, 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 9, Corporate governance, of this Annual Report.

In 2016 Philips purchased call options on Philips' shares matching the majority of the options granted to employees until 2013. As of December 31, 2016 Philips held 14.1 million call options as a hedge of 15.9 million remaining options granted to employees.

A total of 7,208,301 shares were held in treasury by the Company at December 31, 2016 (2015: 14,026,801 shares). As of that date, a total of 33.5 million rights under long-term incentive plans were outstanding (2015: 39.1 million).

Philips Group
Impact of share repurchases on share count in thousands of shares
2012 - 2016

	2012	2013	2014	2015	2016
Shares issued	957,133	937,846	934,820	931,131	929,645
Shares in treasury	42,542	24,508	20,431	14,027	7,208
Shares outstanding	914,591	913,338	914,389	917,104	922,437
Shares repurchased	46,871	27,811	28,538	20,296	25,193
Shares cancelled	82,365	37,779	21,838	21,361	18,830

Philips Group
Total number of shares repurchased
2016

	share repurchases related to capital reduction program	average price paid per share in EUR	share repurchases related to LTI program	average price paid per share in EUR	total number of shares repurchased	average price paid per share in EUR
January, 2016	1,648,906	22.79	57,094	23.92	1,706,000	22.83
February, 2016	1,974,965	22.67	1,014,035	22.63	2,989,000	22.65
March, 2016	1,703,020	24.42	1,059,980	24.31	2,763,000	24.38
April, 2016	2,195,278	24.35	1,158,953	24.32	3,354,231	24.34
May, 2016	1,474,221	23.27	480,216	23.23	1,954,437	23.26
June, 2016	2,121,090	22.69	593,910	22.69	2,715,000	22.69
July, 2016	2,047,077	23.25	929,385	22.76	2,976,462	23.10
August, 2016	1,171,365	24.92	643,418	25.00	1,814,783	24.95
September, 2016	1,200,653	25.94	439,347	25.94	1,640,000	25.94
October, 2016	1,055,410	26.34	634,088	26.54	1,689,498	26.41
November, 2016	-	-	679,000	27.16	679,000	27.16
December, 2016	-	-	912,000	28.39	912,000	28.39

[1] The program was completed

14.3 Philips' rating

Philips' existing long-term debt is rated BBB+ (with stable outlook) by Standard & Poor's and Baa1 (with stable outlook) by Moody's. As part of its capital allocation policy, Philips is committed to 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. Adverse changes in the Company's ratings will not trigger any acceleration in the outstanding long-term debt nor automatic withdrawal of the committed credit facilities.

Philips Group
Credit rating summary
2016

	long-term	short-term	outlook
Standard & Poor's	BBB+	A-2	Stable
Moody's	Baa1	P-2	Stable

14.4 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:

Philips Group
High and low closing price of common shares
2012 - 2017

		Euronext Amsterdam (EUR)		New York Stock Exchange (USD)	
		high	low	high	low
January, 2017		29.40	27.14	30.74	29.10
December, 2016		29.07	26.60	30.57	28.22
November, 2016		27.90	26.50	30.55	28.61
October, 2016		27.73	26.12	30.19	28.43
September, 2016		26.70	25.25	29.97	28.34
August, 2016		26.18	23.51	29.11	26.28
2016	4th quarter	29.07	26.12	30.57	28.22
	3rd quarter	26.70	21.58	29.97	24.05
	2nd quarter	25.20	21.01	28.58	23.29
	1st quarter	25.13	20.95	28.58	23.68
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		20.33	18.27	26.81	23.52

Euronext Amsterdam

Philips Group
Share price development in Euronext Amsterdam in EUR
2015 - 2016

PHIA	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2016												
High	24.50	24.33	25.13	25.20	24.33	24.11	24.39	26.18	26.70	27.73	27.90	29.07
Low	22.15	20.95	23.56	23.55	22.57	21.01	21.58	23.51	25.25	26.12	26.50	26.60
Average	22.98	22.47	24.37	24.50	23.34	22.80	23.15	25.05	26.08	26.67	27.20	28.18
Average daily volume[1]	10.58	8.31	6.81	5.96	5.58	6.67	5.94	5.41	5.92	5.73	6.94	5.27
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

[1] In millions of shares

New York Stock Exchange

Philips Group
Share price development in New York Stock Exchange in USD
2015 - 2016

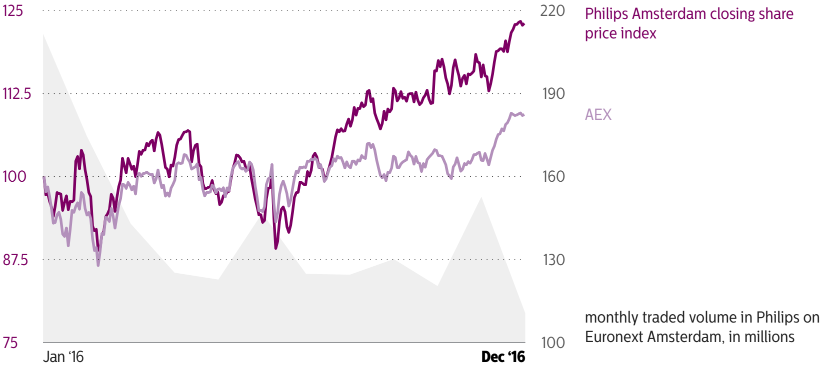
PHG	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2016												
High	26.68	26.57	28.58	28.58	27.62	27.11	26.74	29.11	29.97	30.19	30.55	30.57
Low	24.04	23.68	26.08	26.74	24.97	23.29	24.05	26.28	28.34	28.43	28.61	28.22
Average	24.94	24.98	27.21	27.76	26.29	25.67	25.58	28.04	29.20	29.35	29.31	29.70
Average daily volume[1]	1.72	1.73	1.71	1.26	1.00	1.23	1.98	1.92	1.41	1.10	1.41	1.45
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

[1] In millions of shares

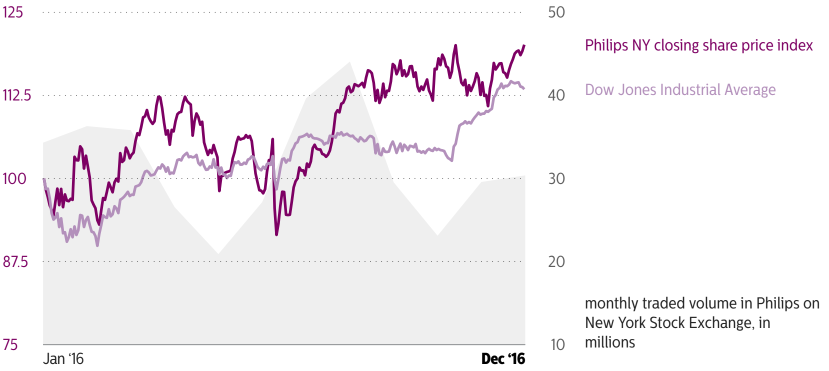
Philips Group
Share information

Share listings	Amsterdam, New York
Ticker code	PHIA, PHG
No. of shares issued at Dec. 31, 2016	930 million
No. of shares outstanding issued at Dec. 31, 2016	922 million
Market capitalization at year-end 2016	EUR 26.8 billion
Industry classification	
MSCI: Capital Goods	20105010
ICB: Medical Equipment	4535
Members of indices	AEX, NYSE, DJSI, and others

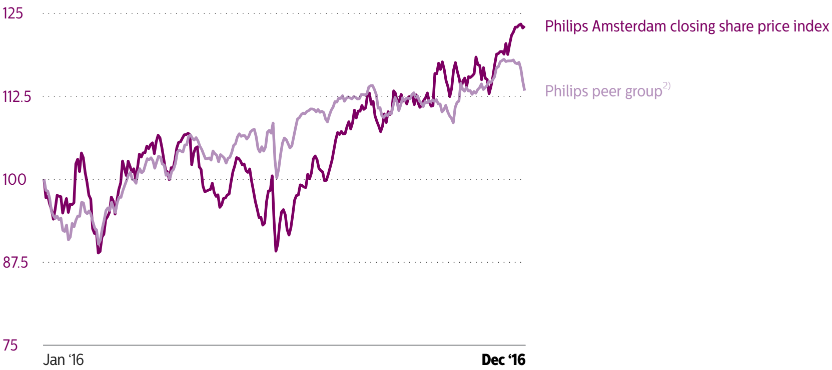
Philips Group
Relative performance: Philips and AEX (indexed)
2016



Philips Group
Relative performance: Philips and Dow Jones Industrial Average (indexed)
2016



Philips Group
Relative performance: Philips and unweighted peer group index (indexed)[1]
2016



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.

14.5 Financial calendar

Financial calendar

Annual General Meeting of Shareholders	
Record date Annual General Meeting of Shareholders	April 13, 2017
Annual General Meeting of Shareholders	May 11, 2017
Quarterly reports	
First quarter results 2017	April 24, 2017
Second quarter results 2017	July 24, 2017
Third quarter results 2017	October 23, 2017
Fourth quarter results 2017	January 23, 2018[1]

[1] Subject to final confirmation

14.6 Investor contact

Shareholder services

Holders of shares listed on Euronext Amsterdam

Non-US shareholders and other non-US interested parties can make inquiries about the Annual Report 2016 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

Holders of New York Registry shares and other interested parties in the US can make inquiries about the Annual Report 2016 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

2017 Annual General Meeting of Shareholders

The Agenda and the explanatory notes to the Agenda for the Annual General Meeting of Shareholders on May 11, 2017, will be published on the Company's website.

For the 2017 Annual General Meeting of Shareholders, a record date of April 13, 2017 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 9, Corporate governance, of this Annual Report.

Analysts' coverage

Philips is covered by approximately 24 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

The registered office of Royal Philips is
High Tech Campus 5
5656 AE Eindhoven, The Netherlands
Switch board, telephone: +31-40-27 91111

Investor Relations contact

Royal Philips
Philips Center
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

Pim Preesman
Head of Investor Relations
Telephone: +31-20-59 77222

Ksenija Gonciarenko
Investor Relations Manager
Telephone: +31-20-59 77055

Sustainability contact

Philips Group Sustainability
High Tech Campus 5 (room 2.67)
5656 AE Eindhoven, The Netherlands
Telephone: +31-40-27 83651
Website: www.philips.com/sustainability
E-mail: philips.sustainability@philips.com

Group Press Office 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

15 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.

CO_2-equivalent
CO_2-equivalent or carbon dioxide equivalent is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO_2 that would have the same global warming potential (GWP), when measured over a specified timescale (generally 100 years).

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.

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.

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.

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.

Hazardous substances
Hazardous substances are generally defined as substances posing imminent and substantial danger to public health and welfare or the environment.

Income from operations (EBIT)
Income from operations (earnings before interest and tax) represents net income, less discontinued operations net of income taxes, investments in associates net of income taxes, income tax expense, financial income and financial expense.

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.

Non-Governmental Organization (NGO)
A non-governmental organization (NGO) is any non-profit, voluntary citizens' group which is organized at a local, national or international level.

OEM
Original Equipment Manufacturer.

Operational carbon footprint
A carbon footprint is the total set of greenhouse gas emissions caused by an organization, event, product or person; usually expressed in kilotonnes CO_2-equivalent. The Philips operational carbon footprint is calculated on a half-year basis and includes industrial sites (manufacturing and assembly sites), non-industrial sites (offices, warehouses, IT centers and R&D facilities), business travel (lease and rental cars and airplane travel) and logistics (air, sea and road transport).

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.

REACH
Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) is a European Union regulation dated 18 December 2006. REACH addresses the production and use of chemical substances, and their potential impacts on both human health and the environment.

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.

VOC
Volatile organic compounds (VOCs) are organic chemicals that have a high vapor pressure at ordinary room temperature. Their high vapor pressure results from a low boiling point, which causes large numbers of molecules to evaporate or sublimate from the liquid or solid form of the compound and enter the surrounding air, a trait known as volatility.

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.

16 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. 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 5, 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 2016 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 audited consolidated financial statements as of December 31, 2016 and 2015, and for each of the years in the three-year period ended December 31, 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective year-end 2016 have been endorsed by the EU, except that the EU did not adopt certain paragraphs of IAS 39 applicable to certain hedge transactions. Philips has no hedge transactions to which these paragraphs are applicable. Consequently, the accounting policies applied by Philips also comply with IFRS as issued by the IASB.

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. These non-GAAP financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measure and should be used in conjunction with the most directly comparable IFRS measures. Non-GAAP financial measures do not have standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. A reconciliation of these non-GAAP measures to the most directly comparable IFRS measures is contained in this document. Reference is made in Reconciliation of non-GAAP information, of this 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).

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