

Updated reporting Philips Group

Financial update to reflect voluntary accounting policy change presenting costs by function and a presentation change within cash flows from operating activities

- Prior-period financials have been restated for a voluntary accounting policy change in presenting costs by function and a change in the presentation of cash flows from operating activities applied as of January 1, 2014.
- With respect to the voluntary accounting policy change in presenting costs by function, company-wide overhead and indirect Business function costs will be brought more in line with the actual activities performed in our markets. This change has no net effect on Income from operations.
- The presentation change in the cash flow statement relates to the presentation of interest, tax and pension cash flows. Up and until 2013 the cash flows related to interest, tax and pensions were presented in a table separate from the primary consolidated statement of cash flows. The presentation change made as of January 1, 2014 results in the separate presentation of the interest and tax cash flows in the cash flow from operating activities. The pension cash flows are separately presented as part of the pension disclosures. The presentation change has no impact on the net cash flows from operating activities nor the total net cash balance as these cash flows previously used to be part of other aggregated sub lines of the primary consolidated statement of cash flows.

Condensed consolidated statements of income

in millions of euros unless otherwise stated

| | 2012 | 2013 | | | | 2013 |
|---|-----------|---------|---------|---------|---------|-----------|
| | full year | Q1 | Q2 | Q3 | Q4 | full year |
| Sales | 23,457 | 5,258 | 5,654 | 5,618 | 6,799 | 23,329 |
| Cost of sales | (14,376) | (3,134) | (3,288) | (3,248) | (3,902) | (13,572) |
| Gross margin | 9,081 | 2,124 | 2,366 | 2,370 | 2,897 | 9,757 |
| Selling expenses | (5,384) | (1,215) | (1,276) | (1,247) | (1,463) | (5,201) |
| General and administrative expenses | (881) | (188) | (208) | (221) | (231) | (848) |
| Research and development expenses | (1,835) | (434) | (426) | (449) | (468) | (1,777) |
| Impairment of goodwill | - | - | - | - | (28) | (28) |
| Other business income | 275 | 26 | 56 | 20 | 21 | 123 |
| Other business expenses | (608) | (8) | (3) | (9) | (15) | (35) |
| Income from operations | 648 | 305 | 509 | 464 | 713 | 1,991 |
| Financial income | 106 | 18 | 18 | 15 | 19 | 70 |
| Financial expenses | (435) | (101) | (96) | (107) | (96) | (400) |
| Income before taxes | 319 | 222 | 431 | 372 | 636 | 1,661 |
| Income taxes | (185) | (69) | (121) | (108) | (168) | (466) |
| Income after taxes | 134 | 153 | 310 | 264 | 468 | 1,195 |
| Results relating to investments in associates | (211) | 1 | 14 | 6 | (46) | (25) |
| Net income (loss) from continuing operations | (77) | 154 | 324 | 270 | 422 | 1,170 |
| Discontinued operations - net of income tax | 47 | 8 | (7) | 11 | (10) | 2 |
| Net income (loss) | (30) | 162 | 317 | 281 | 412 | 1,172 |
| Attribution of net income for the period | | | | | | |
| Net income (loss) attributable to shareholders | (35) | 161 | 317 | 282 | 409 | 1,169 |
| Net income (loss) attributable to non-controlling interests | 5 | 1 | - | (1) | 3 | 3 |
| Earnings per common share attributable to shareholders | | | | | | |
| Weighted average number of common shares outstanding (after deduction of treasury shares) during the period (in thousands): | | | | | | |
| - basic | 922,101 | 909,723 | 906,446 | 914,431 | 914,385 | 911,072 |
| - diluted | 927,222 | 920,624 | 916,345 | 922,209 | 927,131 | 922,072 |
| Net income (loss) attributable to shareholders per common share in euros: | | | | | | |
| - basic | (0.04) | 0.18 | 0.35 | 0.31 | 0.45 | 1.28 |
| - diluted | (0.04) | 0.17 | 0.35 | 0.31 | 0.44 | 1.27 |

Condensed consolidated statement of cash flows

in millions of euros unless otherwise stated

| | 2012 | 2013 | | | | 2013 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| | full year | Q1 | Q2 | Q3 | Q4 | full year |
| Cash flows from operating activities: | | | | | | |
| Net income (loss) | (30) | 162 | 317 | 281 | 412 | 1,172 |
| Results of discontinued operations - net of income tax | (47) | (8) | 7 | (11) | 10 | (2) |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities | | | | | | |
| Depreciation, amortization, and impairment of fixed assets | 1,398 | 305 | 311 | 330 | 403 | 1,349 |
| Impairment of goodwill and other non-current financial assets | 14 | 1 | 2 | 3 | 32 | 38 |
| Net gain on sale of assets | (141) | (4) | (36) | (9) | (5) | (54) |
| Interest income | (37) | (10) | (11) | (19) | (15) | (55) |
| Interest expense on debt, borrowings and other liabilities | 284 | 66 | 66 | 66 | 61 | 259 |
| Income tax expense | 185 | 69 | 121 | 108 | 168 | 466 |
| Results relating to investments in associates | 5 | (2) | (13) | (7) | 47 | 25 |
| (Increase) decrease in working capital: | 552 | (397) | (460) | (222) | (248) | (1,327) |
| <i>(Increase) decrease in receivables and other current assets</i> | (138) | 128 | (125) | (395) | (165) | (557) |
| <i>(Increase) decrease in inventories</i> | (32) | (205) | (192) | (265) | 497 | (165) |
| <i>Increase (decrease) in accounts payable, accrued and other liabilities</i> | 722 | (320) | (143) | 438 | (580) | (605) |
| Increase in non-current receivables, other assets and other liabilities | (137) | (36) | (85) | (3) | (44) | (168) |
| Increase (decrease) in provisions | 429 | (98) | (69) | (76) | 49 | (194) |
| Other items | 191 | (40) | 90 | 118 | 131 | 299 |
| Interest paid | (270) | (102) | (37) | (101) | (27) | (267) |
| Interest received | 34 | 9 | 11 | 18 | 14 | 52 |
| Dividends received from investments in associates | 15 | - | 6 | - | - | 6 |
| Dividends paid to non-controlling interests | (4) | - | - | - | (7) | (7) |
| Income taxes paid | (359) | (143) | (96) | (139) | (76) | (454) |
| Net cash provided by (used for) operating activities | 2,082 | (228) | 124 | 337 | 905 | 1,138 |
| Cash flows from investing activities: | | | | | | |
| Net capital expenditures | (455) | (203) | (246) | (220) | (297) | (966) |
| Purchase of intangible assets | (34) | (2) | (6) | (9) | (32) | (49) |
| Proceeds from sales of intangibles assets | 160 | - | - | - | - | - |
| Expenditures on development assets | (345) | (80) | (100) | (88) | (89) | (357) |
| Capital expenditures on property, plant and equipment | (661) | (124) | (145) | (137) | (181) | (587) |
| Proceeds from sale of property, plant and equipment | 425 | 3 | 5 | 14 | 5 | 27 |
| Cash to derivatives and current financial assets | (46) | (72) | (10) | (11) | (8) | (101) |
| Purchase of other non-current financial assets | (167) | - | (4) | (1) | (8) | (13) |
| Proceeds from other non-current financial assets | 3 | 2 | 7 | 6 | - | 15 |
| Purchase of businesses, net of cash acquired | (261) | (10) | 4 | 1 | (6) | (11) |
| Net proceeds from sale of interests in businesses | 1 | (1) | 92 | (6) | (6) | 79 |
| Net cash used for investing activities | (925) | (284) | (157) | (231) | (325) | (997) |

| | 2012 | 2013 | | | | 2013 |
|---|------------|--------------|--------------|--------------|------------|----------------|
| | full year | Q1 | Q2 | Q3 | Q4 | full year |
| Cash flows from financing activities: | | | | | | |
| Proceeds from issuance (payments) of short-term debt | 133 | (19) | (108) | (76) | (82) | (285) |
| Principal payments on long-term debt | (631) | (22) | (19) | (126) | (19) | (186) |
| Proceeds from issuance of long-term debt | 1,228 | 17 | 17 | 14 | 16 | 64 |
| Treasury shares transactions | (768) | (222) | (265) | (18) | (57) | (562) |
| Dividend paid | (255) | – | (231) | (41) | – | (272) |
| Net cash used for financing activities | (293) | (246) | (606) | (247) | (142) | (1,241) |
| Net cash provided by (used for) continuing operations | 864 | (758) | (639) | (141) | 438 | (1,100) |
| Cash flows from discontinued operations: | | | | | | |
| Net cash (used for) provided by operating activities | (166) | (50) | (82) | (44) | 17 | (159) |
| Net cash provided by (used for) investing activities | 40 | – | (11) | (39) | 3 | (47) |
| Net cash (used for) provided by discontinued operations | (126) | (50) | (93) | (83) | 20 | (206) |
| Net cash provided by (used for) continuing and discontinued operations | 738 | (808) | (732) | (224) | 458 | (1,306) |
| Effect of change in exchange rates on cash positions | (51) | 40 | (27) | (49) | (27) | (63) |
| Cash and cash equivalents at beginning of period | 3,147 | 3,834 | 3,066 | 2,307 | 2,034 | 3,834 |
| Cash and cash equivalents at end of period | 3,834 | 3,066 | 2,307 | 2,034 | 2,465 | 2,465 |

