Registered number: 00446897

Philips Electronics UK Limited

Annual report and financial statements for the year ended 31 December 2015

Philips Electronics UK Limited

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Philips Electronics UK Limited

Company information

Directors	N Mesher G Tranter J Coles L Best
Company secretary	L Best
Registered number	00446897
Registered office	Philips Centre Guildford Business Park Guildford Surrey GU2 8XG
Auditor	KPMG LLP 15 Canada Square London E14 5GL

Strategic report
for the year ended 31 December 2015

The directors present their strategic report on the company for the year ended 31 December 2015.

Strategy

The company is a wholly owned subsidiary of Koninklijke Philips N.V. ("KPNV") and the company's strategic direction is driven by the Philips' group mission and vision.

Our mission is to deliver "Innovation that matters to you" and the group's vision is to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025.

We execute our strategy through the use of the Philips Business System ("PBS") which is designed to help us deliver on our mission and vision – and to ensure that success is repeatable.

The Philips group strategy is detailed further in the KPNV Annual Report 2015 (pages 10 - 22).

In 2014, Philips announced a plan to establish two pureplay, customer-focused companies in the areas of Health Technology and Lighting - both leveraging the trusted Philips brand. During 2015, the company continued to execute this separation which resulted in the transfer of its Lighting sector business to a fellow group company on 31 January 2016.

Review of business

The company is domiciled in the United Kingdom and carries out principal activities in the field of Health and Wellbeing. These activities are carried out on a sector basis comprising three sectors: Healthcare, Consumer Lifestyle and Lighting, supported by a research and development function.

Turnover for the year decreased by £33m (4%) to £730m. This was primarily due to a reduction in Lighting sector turnover of £44m which was offset by growth in the Heathcare sector of £5m and Consumer Lifestyle sector of £6m. The fall in Lighting sector turnover was due to the expected continued decline in the traditional light bulb market as the industry transformation from conventional lighting to energy efficient LED and connected lighting solutions continues. The increase in Healthcare was primarily driven by growth in Imaging Systems and the increase in Consumer Lifestyle by growth in Personal Care and Health & Wellness categories.

The company's gross profit margin at 22.2% was slightly down on 22.9% for 2014. Operating profit excluding exceptional items decreased from £17m to £2m, largely as a result of the reduced gross profit. Distribution costs and administrative expenses (excluding exceptional items) remained in line with the prior year with operational efficiencies arising from the company's Accelerate! program offset by increases in provisions including increases in restructuring and environmental provisions of £7m.

In December 2015, the company took significant action to de-risk its balance sheet by completing a full settlement of its defined benefit pension scheme. This was achieved by means of the company requesting the scheme Trustee for a wind-up of the scheme which resulted in a complete buy-out transfer of the scheme's liabilities to a third party insurance company (see note 24). As a result of this decision the company incurred exceptional administrative expenses recognised in the profit and loss account of £240m (see note 6). The settlement expense was funded by an increase in the company's share capital for consideration of £108m and an increase in loans from group undertakings.

The overall loss for the year after taxation amounted to £231m (2014: profit of £145m). The performance for 2015 is in line with the expectations of the directors, disregarding the exceptional amounts explained above. The company's total equity decreased by £117m to £99m. This decrease was largely attributable to the loss for the year, though its impact was partially offset by the increase in share capital during the year.

Net current liabilities amounted to £130m (2014: £33m), the increase being principally due to increased loans from group undertakings to fund the pension settlement.

Philips Electronics UK Limited

Strategic report
for the year ended 31 December 2015

Review of business (continued)

Debtor days, a key performance measure for the company, has decreased from 73 days to 69 days (calculated as trade debtors and trading amounts owed by other group companies divided by turnover multiplied by 365 days).

Key financial performance indicators

The company measures its performance on a number of key performance indicators, including turnover, operating profit and debtor days as discussed above.

Principal risks and uncertainties

The company operates a co-ordinated set of risk management and control systems to help anticipate, monitor and manage its exposure to risk. The company's risk management and control systems are aligned and integrated with the systems of its ultimate parent undertaking, KPNV and the Philips group. Philips' risk management focuses on the following risk categories: Strategic, Operational, Compliance and Financial risks. Risk management forms an integral part of the business planning and review cycle. The company's risk and control policy is designed to provide reasonable assurance that objectives are met by integrating management control into the daily operations, by ensuring compliance with legal requirements and by safeguarding the integrity of the company's financial reporting and its related disclosures. It makes management responsible for identifying the critical business risks and for the implementation of fit-for purpose risk responses. Philips' risk management approach is embedded in the areas of corporate governance, Philips Business Control Framework and Philips General Business Principles. These are described in further detail in the KPNV Annual Report 2015 (pages 64 - 73).

Future developments

On 31 January 2016, the company transferred its Lighting sector business to a fellow group company in order to execute the Philips group strategy to create two companies in the areas of Health Technology and Lighting.

The company will continue to be actively involved in delivering the Philips group mission and vision in future periods. The directors expect future developments and activities that are consistent with the Philips group strategic focus as set out in the KPNV Annual Report on pages 10 - 14. Over the coming years, the company will continue to develop new growth initiatives, drive operational excellence and invest in innovation and sales development. The directors will continue to focus on improving profitability, e.g. by further reducing overhead costs and driving value engineering through the group's "Design for Excellence" program and will further embed the PBS to ensure that business success is repeatable.

By order of the Board

G Tranter
Director
20 June 2016

Philips Electronics UK Limited

Directors' report
for the year ended 31 December 2015

The directors present their report and the audited financial statements of the company for the year ended 31 December 2015.

Results and dividends

The company's results for the financial year are set out in the profit and loss account on page 9.

The directors do not recommend the payment of a dividend (2014: £Nil).

Future developments

An indication of the likely future developments of the company are provided in the strategic report.

Research and development activities

The company has one establishment devoted entirely to research and development work. In addition, there is an industrial establishment which carries out product development work.

Directors

The directors who held office during the year and to the date of signing the financial statements, unless otherwise indicated, are as follows:

P Maskell	(resigned 1 February 2016)
M Armstrong	(resigned 1 February 2016)
C Petrie	(resigned 1 February 2016)
H Vivash	(resigned 15 December 2015)
J Rogers	(resigned 31 December 2015)
N Mesher	
G Tranter	(appointed 15 December 2015)
L Best	(appointed 1 February 2016)
J Coles	(appointed 1 February 2016)

Employee involvement

Philips values the contribution of all employees. The company has been working to increase organisational effectiveness and to simplify its structure in order to become even more market-driven and people-centric. Philips believes it is important that employees are engaged i.e. that they feel part of a team, know their ideas and suggestions count, trust their manager, and value diverse perspectives. The company continues to provide employees at all locations with information related to their particular business. It is considered crucial that employees communicate properly and that everyone is given full opportunity to use their individual talents. Information such as production targets and achievements is communicated at departmental and establishment levels. Leaders who do well in connecting employees with the long-term Philips ambitions are highly recognised. Employees have the opportunity to participate in the success of the company through the "Share in Success" Philips group share ownership scheme.

The company is committed to equal opportunities for all, free from discrimination and harassment. The company's policy is to consider disabled workers for all suitable vacancies and to continue to employ and assist wherever possible workers who become disabled, giving appropriate training assistance necessary and to develop their skills and capabilities.

Directors' report
for the year ended 31 December 2015

Qualifying third party indemnity provisions

A qualifying third party indemnity provision as defined in Section 232(2) of the Companies Act 2006 is in force for the benefit of each of the directors and the company secretary in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which directors may not be indemnified, a directors' and officers' liability insurance policy was maintained by the Philips group throughout the financial year.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102").

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- that director has taken all the steps that they ought to have taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Philips Electronics UK Limited

Directors' report
for the year ended 31 December 2015

Auditor

KPMG LLP will not seek reappointment as auditor of the company for the forthcoming financial period. Ernst and Young LLP will be appointed as auditor of the company at the forthcoming annual general meeting.

By order of the Board

G Tranter
Director
20 June 2016

Philips Electronics UK Limited

Independent auditor's report to the members of Philips Electronics UK Limited

We have audited the financial statements of Philips Electronics UK Limited for the year ended 31 December 2015, set out on pages 9 to 40. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Philips Electronics UK Limited

Independent auditor's report to the members of Philips Electronics UK Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

21st June 2016

Jonathan Russell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

Philips Electronics UK Limited

Profit and loss account
for the year ended 31 December 2015

	Note	2015 £M	2014 £M
Turnover	5	**730**	763
Cost of sales		**(568)**	(588)
Gross profit		**162**	175
Distribution costs		**(16)**	(16)
Administrative expenses		**(144)**	(142)
Exceptional administrative (expenses) / credit	6	**(240)**	127
Operating (loss) / profit	7	**(238)**	144
Interest receivable and similar income	10	**-**	12
Interest payable and similar charges	11	**(4)**	(5)
(Loss) / profit on ordinary activities before taxation		**(242)**	151
Tax on (loss) / profit on ordinary activities	12	**11**	(6)
(Loss) / profit for the financial year		**(231)**	145

The notes on pages 13 to 40 are an integral part of these financial statements.

The company's results are derived from operations which were continuing at 31 December 2015, in accordance with FRS 102. As explained in note 26, the company transferred its Lighting activity to a fellow group undertaking on 31 January 2016 and discontinued its Lighting operations from this date.

Statement of comprehensive income for the year ended 31 December 2015

	Note	2015 £M	2014 £M
(Loss) / profit for the financial year		**(231)**	145
Other comprehensive income			
Actuarial (loss) / gain relating to pension scheme	24	**(62)**	57
Settlement relating to excess pension scheme assets	24	**(272)**	-
Release of provision against excess pension scheme assets	24	**346**	(71)
Actuarial gain / (loss) on other post-retirement benefits	24	**2**	(3)
Movement in deferred tax relating to post-retirement benefits	19	**(8)**	1
Other comprehensive income / (expense) for the financial year		**6**	(16)
Total comprehensive (expense) / income for the financial year		**(225)**	129

The notes on pages 13 to 40 are an integral part of these financial statements.

Philips Electronics UK Limited

Registered number: 00446897

Balance sheet
as at 31 December 2015

	Note		2015 £M		2014 £M
Fixed assets					
Intangible assets	13		**213**		239
Tangible assets	14		**72**		63
Investments	15		**-**		-
			285		302
Current assets					
Stocks	16	**30**		34	
Debtors	17	**221**		233	
Cash at bank and in hand		**11**		13	
		262		280	
Creditors: amounts falling due within one year	18	**(392)**		(313)	
Net current liabilities			**(130)**		(33)
Total assets less current liabilities			**155**		269
Provisions for liabilities					
Other provisions	20		**(56)**		(53)
Net assets			**99**		216
Capital and reserves					
Called up share capital	21		**728**		620
Share premium account			**7**		7
Retained earnings			**(636)**		(411)
Total equity			**99**		216

The notes on pages 13 to 40 are an integral part of these financial statements.

The financial statements on pages 9 to 40 were approved by the board of directors on 20 June 2016 and were signed on its behalf by:

G Tranter
Director

Philips Electronics UK Limited

Statement of changes in equity
for the year ended 31 December 2015

	Called up share capital	Share premium	Retained earnings	Total equity
	£M	£M	£M	£M
At 1 January 2015	**620**	**7**	**(411)**	**216**
Loss for the financial year	**-**	**-**	**(231)**	**(231)**
Other comprehensive income for the financial year	**-**	**-**	**6**	**6**
Proceeds on issue of ordinary shares	**108**	**-**	**-**	**108**
At 31 December 2015	**728**	**7**	**(636)**	**99**

Statement of changes in equity
for the year ended 31 December 2014

	Called up share capital	Share premium	Retained earnings	Total equity
	£M	£M	£M	£M
At 1 January 2014	**620**	**7**	**(540)**	**87**
Profit for the financial year	**-**	**-**	**145**	**145**
Other comprehensive expense for the financial year	**-**	**-**	**(16)**	**(16)**
At 31 December 2014	**620**	**7**	**(411)**	**216**

The notes on pages 13 to 40 are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2015

1. General information

Philips Electronics UK Limited ("the company") carries out principal activities in the field of Health and Wellbeing. These activities are carried out on a sector basis comprising three sectors: Healthcare, Consumer Lifestyle and Lighting.

The company is a private company limited by shares and is incorporated and domiciled in the United Kingdom. The address of its registered office is Philips Centre, Guildford Business Park, Guildford, Surrey, GU2 8XG.

2. Statement of compliance

The individual financial statements of the company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the UK and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements. Details of the transition to FRS 102 are disclosed in note 28.

3.1 Basis of preparation

These financial statements have been prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

3.2 Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the strategic report on pages 2 to 3.

The company is expected to continue to generate positive operational cash flows on its own account for the foreseeable future. The company participates in the Philips group centralised treasury arrangements and so shares banking arrangements with its ultimate parent undertaking, Koninklijke Philips N.V. ("KPNV") and fellow subsidiaries. The company has net current liabilities of £192m (after deduction of the deferred tax asset of £62m) which is primarily due to amounts payable to group companies held as current liabilities. Historically other group companies have not demanded repayment of these intercompany amounts and are not expected to demand repayment in the foreseeable future. The directors, having considered the availability of future group funding if it should be required, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the company to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the company's financial position, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Notes to the financial statements
for the year ended 31 December 2015

3. Summary of significant accounting policies (continued)

3.3 Exemptions for qualifying entities under FRS 102

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102:

- preparing a statement of cash flows;
- disclosure of key management personnel compensation;
- preparing certain financial instrument disclosures; and
- preparing certain share-based compensation disclosures.

The company has taken advantage of these exemptions on the basis that it meets the definition of a qualifying entity and its ultimate parent undertaking, KPNV, includes the related disclosures in its own consolidated financial statements. Details of where those financial statements may be obtained can be found in note 27.

Other than the exemptions taken above, the company has applied the recognition, measurement and disclosure requirements of FRS 102.

3.4 Consolidated financial statements

The company is a wholly owned subsidiary of Philips UK Limited, a company incorporated in the United Kingdom, and of its ultimate parent undertaking, KPNV, a company incorporated in the Netherlands. It is included in the consolidated financial statements of KPNV which are publicly available. Therefore the company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are the company's separate financial statements.

3.5 Foreign currency

(i) Functional and presentational currency

The company's functional and presentational currency is the pound sterling.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

3. Summary of significant accounting policies (continued)

3.6 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes.

The company recognises revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. For products that require substantive installation activities by the company, recognition of revenue occurs when the criteria noted above have been met and the products have been accepted by the customer.

Interest income is recognised using the effective interest rate method.

3.7 Exceptional items

The company classifies certain one-off charges or credits that have a material impact on the company's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the company.

3.8 Employee benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and share-based compensation.

(i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits are recognised as an expense in the period in which the service is received.

(ii) Annual bonus plan

The company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate can be made.

(iii) Share-based compensation

Share-based compensation is treated as equity settled share-based payments as allowed under Section 26 of FRS 102. The cost of granting share options to employees, for shares in KPNV, is recognised in the profit and loss account at their fair value at grant date. They are expensed straight-line over the vesting period over which employees become unconditionally entitled to the options, based on estimates of the shares or options that eventually vest. Charges are reversed if it appears that non-market performance conditions will not be met. Options are valued using the Black-Scholes model. The cost of the share options is recharged by KPNV to the company so that the equity contribution arising under the share option cost is presented as a liability.

Notes to the financial statements for the year ended 31 December 2015

3. Summary of significant accounting policies (continued)

3.9 Pensions and other post-retirement benefits

The company also provides pensions and other post-retirement benefits to employees.

(i) Defined contribution pension scheme

The company operates a defined contribution scheme for its employees. A defined contribution scheme is a pension scheme under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the scheme are held separately from the company in independently administered funds.

(ii) Defined benefit pension scheme

The company was a member of a group defined benefit pension scheme operated by the Philips UK group. A defined benefit scheme defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit scheme is a pension scheme that is not a defined contribution scheme. The scheme was closed to future accrual to active employee members in 2011.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in pound sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of scheme assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income.

The cost of the defined benefit scheme, recognised in the profit and loss account comprises:

(a) the increase in pension benefit liability arising from employee service during the period; and

(b) the cost of scheme introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of scheme assets.

(iii) Other post-retirement benefits

The cost of providing other post-retirement benefits is recognised on a similar basis to that adopted for pensions.

Notes to the financial statements for the year ended 31 December 2015

3. Summary of significant accounting policies (continued)

3.10 Research and development

Expenditure on research and general development is recognised in the profit and loss account in the year in which it is incurred.

3.11 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to capital expenditure are credited to the profit and loss account at the same rate as the depreciation on the assets to which the grant relates, being the useful life of the asset. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the profit and loss account in the same period as the related expenditure.

3.12 Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred tax assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in the tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

3. **Summary of significant accounting policies (continued)**

3.13 Intangible fixed assets

Intangible fixed assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives as described below:

(a) Software development costs

The costs of creating or purchasing software, insofar as they relate to its development, and to the extent that the software is for the company's own use, are capitalised and amortised on a straight-line basis over three years.

(b) Patents, Trademarks & Relationships

This represents the cost of purchasing patents, trademarks and relationships. Insofar as they are for the company's own use, the costs are capitalised and amortised on a straight-line basis over the estimated economic useful life as follows:

Distributor relationships	- 11 years
Agent & direct sales relationships	- 25 years
Patents	- 5 years

(c) Goodwill

Goodwill recognised represents the excess of the fair value (and directly attributable costs) of the purchase consideration over the fair values to the company's interest in the identifiable net assets, liabilities and contingent liabilities arising on business combinations.

Goodwill is amortised by equal instalments over its expected useful economic life of between 6 and 16 years.

Philips Electronics UK Limited

Notes to the financial statements
for the year ended 31 December 2015

3. Summary of significant accounting policies (continued)

3.14 Tangible fixed assets

Tangible fixed assets are stated at cost. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised.

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	2%
Plant and machinery:		
Computers	-	33%
Precision plant	-	25%
Other plant	-	10% - 20%
Motor vehicles	-	20% - 30%
Furniture, fixtures and fittings	-	5% - 20%

Leasehold properties are depreciated on a straight-line basis over the lease period.

No depreciation is provided on freehold land or assets in the course of construction.

3.15 Borrowing costs

Borrowing costs are capitalised gross during the period of construction where they relate to the financing of major projects.

All other borrowing costs are recognised in the profit and loss account in the year in which they are incurred.

3.16 Operating leased assets

Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Benefits received and receivable as an incentive to sign an operating lease in existence at the date of transition to FRS 102 are recognised on a straight-line basis over the term of the lease.

3. **Summary of significant accounting policies (continued)**

3.17 Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the profit and loss account.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

3.18 Investments

Fixed asset investments in subsidiary undertakings are held at cost less accumulated impairment losses.

3.19 Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value less progress payments.

At the end of each reporting period, stocks are assessed for impairment. If an impairment is identified, it is charged to the profit and loss account.

3.20 Cash and cash equivalents

Cash and cash equivalents includes deposits held with banks and bank overdrafts.

Bank overdrafts are shown within current liabilities.

3.21 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

3. Summary of significant accounting policies (continued)

3.22 Financial instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other debtors, loans and amounts owed by group undertakings and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the profit and loss account.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the profit and loss account.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including trade and other creditors and loans and amounts owed to group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Basic debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the financial statements for the year ended 31 December 2015

3. Summary of significant accounting policies (continued)

3.23 Share capital

Ordinary shares are classified as equity.

3.24 Distributions to equity holders

Dividends and other distributions to company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. These amounts are recognised in the statement of changes in equity.

3.25 Related party transactions

The company discloses transactions with related parties which are not wholly owned within the Philips group. It does not disclose transactions with members of the Philips group that are wholly owned.

4. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the company's accounting policies

At 31 December 2015, the company did not make any critical judgements in applying its accounting policies.

(b) Critical accounting estimates and assumptions

The areas where the most significant judgements and estimates are made are deferred tax asset recoverability, impairment testing and other provisions and contingencies. Judgement is also applied when actuarial assumptions are used in calculating post-employment benefit expense and liabilities. These assumptions include interest rates, rates of increase in healthcare costs and life expectancy.

5. Turnover

The company's activities fall into the following sectors:

	2015 £M	2014 £M
Healthcare	**214**	209
Consumer Lifestyle	**309**	303
Lighting	**207**	251
	730	763

In 2015, the company's sectors were organised based on the nature of the products and services. A short description of these sectors is as follows:

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

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

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

Turnover, all of which is of United Kingdom origin, is analysed by geographical destination as follows:

	2015 £M	2014 £M
United Kingdom	**525**	553
Europe	**110**	126
Rest of the world	**95**	84
	730	763

Notes to the financial statements for the year ended 31 December 2015

6. Exceptional administrative expenses / (credit)

	2015 **£M**	2014 £M
Fees incurred in relation to the Philips Pension Fund settlement and winding up	**16**	-
Past service costs arising on the defined benefit pension scheme	**12**	-
Settlement cost arising on the defined benefit pension scheme	**212**	-
Loans from related group undertakings waived	**-**	(129)
Impairment of fixed asset investments	**-**	2
	240	(127)

In 2015, the company's defined benefit pension scheme was subject to a buy-out and final settlement. The exceptional past service costs and settlement costs arising in relation to this are explained in note 24. The company incurred exceptional legal and professional fees in relation to this process, which are expensed in the profit and loss account.

During the year ended 31 December 2014, the company received loan waivers in its favour from related group undertakings and as such recognised a gain of £129m.

At 31 December 2014, the directors considered the carrying value of the company's investments in subsidiary undertakings as compared to the underlying net assets represented by the subsidiary undertakings. As a result of this review, the directors considered the investments to be permanently impaired and the company wrote down the carrying value of these investments by £2m.

7. Operating (loss) / profit

Operating (loss) / profit is stated after charging:

	2015 **£M**	2014 £M
Research & development expenditure	**5**	5
Operating lease rentals: - land and buildings and other	**6**	7
Depreciation of tangible fixed assets: - owned by the company	**13**	11
Amortisation of intangible fixed assets	**26**	26
Stock recognised as an expense	**470**	516
Foreign exchange result	**3**	1

Auditor's remuneration in respect of the audit of the company's financial statements amounted to £0.1m (2014: £0.2m).

Auditor's remuneration in respect of the audit of the financial statements of the Philips Pension Fund amounted to £0.1m (2014: £0.1m).

Notes to the financial statements for the year ended 31 December 2015

8. Employees

The average monthly number of persons employed by the company (including directors) during the year was as follows:

	2015 No.	2014 No.
Manufacturing	**810**	656
Commercial	**827**	989
Research and development	**72**	68
General and administration	**43**	58
	1,752	1,771

The aggregate payroll costs of these persons were as follows:

	2015 £M	2014 £M
Wages and salaries	**72**	70
Social security costs	**10**	9
Defined contribution pension costs	**10**	9
Termination benefits	**5**	1
Share-based compensation	**-**	1
	97	90

9. Directors' remuneration

The aggregate emoluments paid to the directors for the year ended 31 December 2015 amounted to £1,261,000 (2014: £1,330,000).

The highest paid director received aggregate emoluments for the year ended 31 December 2015 amounting to £315,000 (2014: £344,000).

No retirement benefits were accruing to directors under the Philips Pension Fund defined benefit scheme at 31 December 2015 or at 31 December 2014. Pension contributions paid to defined contribution schemes for serving directors amounted to £60,000 (2014: £54,000).

During the year, shares were receivable or received under long term incentive schemes by six directors (2014: six).

Philips Electronics UK Limited

Notes to the financial statements for the year ended 31 December 2015

10. Interest receivable and similar income

	2015 £M	2014 £M
Net interest income in respect of defined benefit pension scheme	-	11
Other interest receivable	-	1
	-	12

11. Interest payable and similar charges

	2015 £M	2014 £M
Interest payable to group undertakings	3	4
Net interest cost in respect of other post-retirement benefits	1	1
	4	5

12. Tax on (loss) / profit on ordinary activities

	2015 £M	2014 £M
Current tax		
UK corporation tax	-	-
Deferred tax		
Origination and reversal of timing differences	(13)	5
Adjustments in respect of prior years	1	1
Effect of changes in tax rates	1	-
	(11)	6
Tax on (loss) / profit on ordinary activities	(11)	6

12. Tax on (loss) / profit on ordinary activities (continued)

Factors affecting tax (credit) / charge for the year

The tax assessed for the year is higher (2014: lower) than the standard rate of corporation tax in the UK of 20.25% (2014: 21.49%). The differences are explained below:

	2015 £M	2014 £M
(Loss) / profit on ordinary activities before taxation	(242)	151
(Loss) / profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014: 21.49%)	(49)	32
Effects of:		
Expenses not deductible for tax purposes	5	3
Deferred tax not recognised	33	-
Adjustments in respect of prior years	1	1
Tax rate changes	1	-
Pensions	(2)	(2)
Utilisation of tax losses	-	1
Transfer pricing adjustment	-	(1)
Loan waivers	-	(27)
Research and development tax credit	-	(1)
Total tax (credit) / charge for the year	(11)	6

Factors that may affect future tax charges

A change to the UK corporation tax rate was announced in the Budget on 16 March 2016 to reduce the rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015. As the change to 17% had not been substantively enacted at the balance sheet date, it has not therefore been included in these financial statements. The impact of this reduction on the deferred tax balances is not expected to be material.

Philips Electronics UK Limited

Notes to the financial statements for the year ended 31 December 2015

13. Intangible fixed assets

	Software development costs £M	Patents, Trademarks & Relationships £M	Goodwill £M	Total £M
Cost				
At 1 January 2015 and 31 December 2015	**2**	**264**	**122**	**388**
Amortisation and diminution in value				
At 1 January 2015	**-**	**76**	**73**	**149**
Charge for the year	**-**	**16**	**10**	**26**
At 31 December 2015	**-**	**92**	**83**	**175**
Net book value				
At 31 December 2015	**2**	**172**	**39**	**213**
At 31 December 2014	2	188	49	239

At 31 December 2015, an impairment review was carried out by the directors in respect of Patents, Trademarks and Relationships and Goodwill. The results of the impairment review indicate that the value of the intangible assets held is not less than the recoverable amount and as a result, no impairment to their carrying value is required.

Notes to the financial statements for the year ended 31 December 2015

14. Tangible fixed assets

	Land and buildings	Plant and machinery	Assets in course of construction	Total
	£M	£M	£M	£M
Cost				
At 1 January 2015	22	98	3	123
Additions	2	1	19	22
Disposals	-	(3)	-	(3)
Transfers	1	11	(12)	-
At 31 December 2015	25	107	10	142
Depreciation				
At 1 January 2015	6	54	-	60
Charge for the year	2	11	-	13
Disposals	-	(3)	-	(3)
At 31 December 2015	8	62	-	70
At 31 December 2015	17	45	10	72
At 31 December 2014	16	44	3	63

The net book value of land and buildings comprises:

	2015	2014
	£M	£M
Freehold buildings	10	10
Freehold land	5	5
Short-term leasehold buildings	2	1
	17	16

Included within the cost of land and buildings amounting to £25m (2014: £22m), are depreciable assets amounting to £20m (2014: £17m). The cost of land amounting to £5m (2014: £5m) is non-depreciable.

15. Fixed asset investments

	Subsidiary undertakings £M
Cost	
At 1 January 2015 and 31 December 2015	308
Permanent diminution in value	
At 1 January 2015 and 31 December 2015	308
Net book value	
At 31 December 2015	-
At 31 December 2014	-

At 31 December 2015, the company directly or indirectly held the equity of the following subsidiary undertakings. In all cases, the proportion of ordinary shares held in subsidiary undertakings was 100%.

Company name	Country of incorporation	Principal activity
Avent Limited	England	Dormant
Industria International Limited	England	Dormant
Philips Impex Limited	England	Dormant
Philips Lamps and Luminaires Limited	England	Dormant
Philips Lighting Limited	England	Dormant
Philips Lighting UK Limited	England	Dormant
Philips Medical Systems UK Limited	England	Dormant
Philips Pensions Trustees Limited	England	Dormant
Philips Trustee Company Limited	England	Dormant
PYE (Electronic Products) Limited	England	Dormant
Pyecam Company Limited	England	Dormant
Respironics (UK) Limited	England	Dormant
Respironics Limited	England	Holding company
Respironics Respiratory Drug Delivery Limited	England	Dormant
Respironics UK Holding Company Limited	England	Holding company
WRTL Exterior Lighting Limited	England	Non-Trading

Philips Electronics UK Limited

Notes to the financial statements for the year ended 31 December 2015

16. Stocks

	2015 **£M**	2014 £M
Raw materials and consumables	**5**	5
Work in progress	**4**	6
Finished goods and goods for resale	**21**	23
	30	34

The amounts recorded above are net of allowances for obsolescence. The write-down of inventory to net realisable value amounted to £4m (2014: £3m). The write-down is included in cost of sales.

There is no material difference between the replacement cost of stocks and their balance sheet amounts.

17. Debtors

	2015 **£M**	2014 £M
Trade debtors	**121**	128
Loans to group undertakings	**1**	2
Trading amounts owed by group undertakings	**18**	25
Other debtors	**2**	2
Prepayments and accrued income	**17**	17
Deferred tax asset (see note 19)	**62**	59
	221	233

Loans to group undertakings accrue interest at an agreed group rate.

Notes to the financial statements for the year ended 31 December 2015

18. Creditors: amounts falling due within one year

	2015 £M	2014 £M
Trade creditors	**18**	19
Loans from group undertakings	**237**	156
Trading amounts owed to group undertakings	**35**	34
Corporation tax payable	**1**	1
Other taxation and social security	**4**	11
Other creditors	**30**	26
Accruals and deferred income	**67**	66
	392	313

Loans from group undertakings incur interest at an agreed group rate.

19. Deferred tax

	£M
At 1 January 2015	**59**
Credit to the profit and loss account	**11**
Charge to other comprehensive income	**(8)**
At 31 December 2015	**62**

A deferred tax asset has been recognised in respect of losses carried forward to the extent that it is expected to be utilised over a foreseeable future period.

The deferred tax asset included in the balance sheet is as follows:

	2015 £M	2014 £M
Accelerated capital allowances	**17**	17
Losses carried forward	**61**	73
Provisions	**4**	6
Pensions	**11**	-
Intangible assets	**(31)**	(37)
	62	59

The net deferred tax expected to reverse in 2016 is £3m.

20. Other provisions

	At 1 January 2015 £M	Utilised £M	Additional provision £M	At 31 December 2015 £M
Other post retirement benefits (see note 24)	36	(2)	(1)	33
Long service awards	2	-	-	2
Future service provision	3	(6)	7	4
Termination benefits	-	(3)	5	2
Onerous contracts	4	(1)	-	3
Share-based compensation	4	-	1	5
Property related provision	3	-	1	4
Environmental provisions	-	-	2	2
Other provisions	1	-	-	1
	53	(12)	15	56

The provision for long service awards is calculated by the company's actuaries and is based on the anticipated service lives of existing employees. The provision will be utilised when employees satisfy the long service award criteria.

The provision for future service relates to product replacement or free of charge service costs associated with product guarantees.

The provision for termination benefits relates to reorganisation and redundancy costs which are expected to be settled within one year.

The onerous contracts provision relates primarily to operating leases on properties where it has been reasonably calculated that future operating lease rental costs will exceed future income over the remainder of the lease period.

The share-based compensation provision represents the cost of share options recharged by Koninklijke Philips N.V., the ultimate parent undertaking, to the company as per the company's accounting policy and will be utilised when the share options are exercised.

The property related provision relates primarily to dilapidation obligations which are expected to be utilised when the leases expire.

Environmental provisions relate to remediation works required to remove environmental contamination.

Other provisions relates to multiple small sundry provisions.

Notes to the financial statements for the year ended 31 December 2015

21. Called up share capital

	2015 £	2014 £
Allotted, called up and fully paid		
727,500,000 (2014: 620,000,000) ordinary shares of £1 each	**727,500,000**	620,000,000

On 11 December 2015, the company allotted and called up 107,500,000 ordinary shares of £1 each, for consideration of £107,500,000.

22. Contingent liabilities

At 31 December 2015, the company has provided guarantees and performance bonds in respect of contracted obligations amounting to £0.5m (2014: £0.5m).

23. Capital commitments

The company had capital commitments for which no provision had been made as follows:

	2015 £M	2014 £M
Contracted	-	1

24. Pensions and other post-retirement benefits

(a) Defined contribution scheme

Contributions charged to the profit and loss account for the year ended 31 December 2015 in respect of amounts paid to the defined contribution pension scheme amounted to £10m (2014: £9m).

Contributions amounting to £Nil (2014: £0.3m) were payable to the scheme at the year end.

(b) Defined benefit scheme

As explained in the summary of significant accounting policies set out in note 3, the company operated a pension scheme, the Philips Pension Fund ("the scheme"), providing benefits based on final pensionable pay. The contributions were agreed between the company and the trustees of the scheme on the basis of triennial actuarial funding valuations carried out by a qualified actuary. In intervening years an interim valuation was provided by the actuary.

The scheme was closed to future accrual to active employee members in June 2011. The company paid an additional amount each year, increasing in line with the Retail Price Index, to cover non-investment related expenses. The company also paid the cost of any Pension Protection Fund levies due from the scheme.

The defined benefit pension scheme is executed by a company pension fund that is currently being wound up. A legally mandatory indexation for accrued benefits still applies. In November 2015, the Trustee of the UK Fund entered into two further bulk insurance contracts - buy-in contracts - which provided for payment in respect of all remaining parts of the Fund's pensioners that were not covered under earlier buy-in contracts. Subsequently, the company requested the Trustee for a wind-up of the UK Fund in December 2015 resulting in a complete buy-out of the scheme. As part of the buy-out, an additional payment of £215m was made by the company to the insurance company taking over the plan liabilities. The buy-out triggered a complete settlement of the UK defined benefit scheme. The existing surplus before the extra payment was £272m. As this surplus was not recognised in the balance sheet, due to the asset ceiling test, the company did not recognise this as a settlement result in the profit and loss account but in remeasurements for pensions in the statement of comprehensive income. The above mentioned payment of £215m is recognised as a related settlement loss of £193m in the profit and loss account and £22m as a past service cost in the profit and loss account, this being for the increase in the defined benefit obligation for a scheme change required by the insurers. Before and during the wind up of the UK Fund, several other de-risking actions were held resulting in a further settlement loss of £19m and a past service cost gain of £10m. As set out in note 6, the total exceptional cost recognised in the profit and loss account for the settlement is £212m and the total exceptional cost recognised for past service cost is £12m.

The amounts recognised in the balance sheet are as follows:

	2015	2014
	£M	£M
Present value of funded defined benefit obligations	-	(3,004)
Fair value of scheme assets	-	3,339
Surplus in scheme	-	335
Provision against excess scheme assets	-	(335)
Net pension asset	-	-

24. Pensions and other post-retirement benefits (continued)

(b) Defined benefit scheme (continued)

Movements in the present value of the defined benefit obligation were as follows:

	2015 £M	2014 £M
Opening defined benefit obligation	**3,004**	2,812
Interest cost	**94**	118
Actuarial (gain) / loss	**(27)**	219
Benefits paid	**(132)**	(145)
Past service costs on scheme amendments	**12**	-
Settlement	**(2,951)**	-
Closing defined benefit obligation	**-**	3,004

Movements in the fair value of scheme assets were as follows:

	2015 £M	2014 £M
Opening fair value of scheme assets	**3,339**	3,076
Interest income	**105**	129
Actuarial (loss) / gain	**(89)**	276
Administrative expenses	**(2)**	-
Contributions by employer	**23**	3
Benefits paid	**(132)**	(145)
Settlement	**(3,244)**	-
Closing fair value of scheme assets	**-**	3,339

Notes to the financial statements for the year ended 31 December 2015

24. Pensions and other post-retirement benefits (continued)

(b) Defined benefit scheme (continued)

The amounts recognised in profit and loss account are as follows:

	2015 £M	2014 £M
Settlements on de-risking actions	19	-
Past service costs on scheme amendments	12	-
Administrative expenses	2	-
Charge to operating (loss) / profit	33	-
Interest cost	94	118
Interest income	(105)	(129)
Interest on cap on excess scheme assets	11	-
Net interest income (see note 10)	-	(11)
Total charge / (credit)	33	(11)

	2015 £M	2014 £M
Actual return on scheme assets	16	405

The major categories of scheme assets as a percentage of total scheme assets were as follows:

	2015 %	2014 %
Bonds	-	91
Cash	-	9

The principal actuarial assumptions applied for the profit and loss account and at the balance sheet date were as follows:

	2015	2014
Discount rate	3.5%	4.3%
Inflation rate	2.5%	3.3%
Increases to benefits in deferment	1.8%	2.4%

24. Pensions and other post-retirement benefits (continued)

(c) Other post-retirement benefits

The company provides unfunded post-retirement benefits to certain employees. The scheme is accounted for on a similar basis to that adopted for pensions. The actuarial value of the obligations in respect of past service up to the end of the financial year, determined in accordance with the advice of qualified actuaries, amounted to £33m (2014: £36m). The actuarial method employed is the projected unit method, and the principal assumptions used in determining the required provision are an interest rate of 3.1% (2014: 2.9%) per annum and medical cost inflation of 6.0% (2014: 6.1%). A flat rate for medical costs has been assumed.

The amounts recognised in the balance sheet are as follows:

	2015 £M	2014 £M
Present value of unfunded post-retirement benefit obligations	**(33)**	(36)

The total post-retirement cost recognised in the profit and loss account was as follows:

	2015 £M	2014 £M
Interest cost	**1**	1

Movements in the present value of the post-retirement benefit obligation were as follows:

	2015 £M	2014 £M
Opening post-retirement benefit obligation	**(36)**	(33)
Interest cost	**(1)**	(1)
Actuarial gain / (loss)	**2**	(3)
Net benefits paid	**2**	1
Closing post-retirement benefit obligation	**(33)**	(36)

Assumed healthcare cost trend rates have a significant effect on the amounts recognised in the profit and loss account. A one percentage point change in the assumed healthcare cost trend rates would have the following effects:

	One percentage point increase £M	**One percentage point decrease £M**
Effect on the aggregate service cost and interest cost	**-**	**-**
Effect on the defined benefit obligation (increase) / decrease	**(4)**	**4**

25. Commitments under operating leases

The company had future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2015 **£M**	2014 £M
Not later than one year	**4**	4
Later than one year and not later than five years	**9**	7
	13	11

26. Events after the balance sheet date

On 31 January 2016, the company transferred the trade, assets and liabilities of its Lighting business to Philips Lighting UK Limited, a fellow group undertaking and subsidiary of Koninklijke Philips N.V. The company discontinued its Lighting operations from this date. Turnover related to the Lighting business for 2015 amounted to £207m (2014: £251m).

27. Immediate parent undertaking and ultimate parent undertaking

The immediate parent undertaking is Philips UK Limited, a company incorporated in the United Kingdom.

The ultimate parent undertaking and controlling party is Koninklijke Philips N.V., a company incorporated in the Netherlands. Koninklijke Philips N.V. is the parent undertaking of the smallest and largest group to consolidate these financial statements and copies of its consolidated financial statements can be obtained from the Company Secretary, Philips Electronics UK Limited, The Philips Centre, Guildford Business Park, Guildford, Surrey, GU2 8XG.

28. First time adoption of FRS 102

This is the first year that the company has presented its results under FRS 102. The last financial statements under previously extant UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014.

Set out below are the changes in accounting policies which reconcile the profit for the year ended 31 December 2014 and the total equity as at 1 January 2014 and 31 December 2014 between previously extant UK GAAP and FRS 102.

	2014 £M
Profit for the financial year	
UK GAAP (as previously reported)	127
Defined benefit pension scheme (see note A)	15
Deferred tax - intangible fixed assets (see note B)	3
FRS 102	**145**

Philips Electronics UK Limited

Notes to the financial statements for the year ended 31 December 2015

28. First time adoption of FRS 102 (continued)

	2014 £M
Other comprehensive expense	
UK GAAP (as previously reported)	(1)
Defined benefit pension scheme (see note A)	(15)
FRS 102	**(16)**

	At 1 January 2014 £M	At 31 December 2014 £M
Total equity		
UK GAAP (as previously reported)	127	253
Deferred tax - intangible fixed assets (see note B)	(40)	(37)
FRS 102	**87**	**216**

(A) Defined benefit pension scheme

Under previously extant UK GAAP, the company recognised an expected return on defined benefit scheme assets in the profit and loss account. Under FRS 102, net interest income, based on the net defined benefit asset is recognised in the profit and loss account. There is no change to the defined benefit scheme asset at 1 January 2014 or 31 December 2014. The effect of this change has been to reduce the charge to the profit and loss account for the year ended 31 December 2014 by £15m and to reduce the credit in other comprehensive expense by the same amount.

(B) Deferred tax - intangible fixed assets

Under previously extant UK GAAP, the company was not required to provide for deferred tax in respect of the carrying value of certain intangible fixed assets arising on fair value adjustments on historical business combinations. Under FRS 102, deferred tax is provided on the carrying value of these intangible fixed assets. A deferred tax credit to the profit and loss account for the year ended 31 December 2014 of £3m arose on transition to FRS 102. The company recognised a deferred tax liability of £40m at 1 January 2014 and £37m at 31 December 2014.