

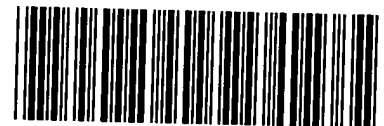
Registered number: 00446897

**Philips Electronics UK Limited**

**Annual report and financial statements**

**for the year ended 31 December 2014**

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# **Philips Electronics UK Limited**

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# **Philips Electronics UK Limited**

## **Company information**

<b>Directors</b>	P Maskell M Armstrong C Petrie H Vivash J Rogers N Mesher
<b>Company secretary</b>	M Armstrong
<b>Registered number</b>	00446897
<b>Registered office</b>	Philips Centre Guildford Business Park Guildford Surrey GU2 8XH
<b>Auditor</b>	KPMG LLP 15 Canada Square London E14 5GL

# **Philips Electronics UK Limited**

## **Strategic report for the year ended 31 December 2014**

The directors present their strategic report on the company for the year ended 31 December 2014.

### **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.

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

The Philips Business System ("PBS") is the way we run our company to deliver on our mission and vision and to ensure our success is repeatable.

The Philips group strategy is detailed further in the KPNV Annual Report 2014 (pages 10 - 20).

### **Review of business**

The company is domiciled in the United Kingdom and is predominantly engaged in the manufacture and supply of HealthTech and Lighting Solutions electrical and electronic equipment, supported by a research and development function.

Total revenue for the year decreased by £25m (3%) to £763m. Personal Health revenue decreased by 5% and Lighting Solutions revenue fell by 4% in the year. The decrease in Personal Health revenue was largely attributable to a strategy of profitability improvement by cutting a number of less profitable lines of products. The fall in Lighting Solutions revenue was due to the anticipated decline in the traditional light bulb market. Health Systems maintained the same revenue levels as in 2013.

The Philips group has also continued its cultural change program called Accelerate! which started in 2011. This program will reduce organisational costs and increase investment in research and development activities and local markets to result in faster growth.

Comparable adjusted underlying operating profit for the year of £17m (2013: profit of £17m) is calculated to be the operating profit for the year excluding certain one-off items set out in note 3. The one-off items for 2014 represent an investment impairment of £2m and loan waivers of £129m from related group undertakings, compared to one-off items for 2013 of an investment impairment of £16m. The improving operating result is attributable to reduced operational costs arising from the Accelerate! program.

The net finance charge for the year amounted to £8m (2013: £5m). The movement year on year reflects a significant decrease in the net finance return in respect of the defined benefit pension scheme operated by the company, the Philips Pension Fund.

The overall profit for the year after taxation amounted to £127m (2013: loss of £21m). The performance for 2014 is in line with the expectations of the directors, disregarding the exceptional amounts explained above.

The company's total equity increased by £126m to £253m, which is largely attributable to the profit for the year.

# **Philips Electronics UK Limited**

## **Strategic report for the year ended 31 December 2014**

### **Review of business (continued)**

The surplus on the defined benefit pension scheme, increased by £71m to £335m largely as a result of an increase in the fair value of scheme assets. As the company has no right to a refund of the surplus in the scheme, no asset has been recognised in respect of the pension scheme surplus in these financial statements. Further details of the movement in the pension asset are provided in note 22 to the financial statements.

Net current assets amounted to £4m (2013: net current liabilities of £145m), the increase is principally due to reduced loans from group undertakings and an increase in trade debtors.

Debtor days, a key performance measure for the company, has increased from 72 days to 73 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, profit from operations 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 2014 (pages 67 - 75).

The company is exposed to a particular uncertainty arising from the valuation of the pension scheme obligations which may have a significant impact on the company's financial position at its reporting date. The valuation is dependent upon a number of factors including market rates and the assumptions applied. The directors, together with the executives of the company's parent undertaking, regularly review the scheme funding position and take appropriate actions if considered necessary. The assumptions applied in valuations are those considered most appropriate for the scheme taking into account market factors. Details of the pension scheme are provided in note 22 to the financial statements.

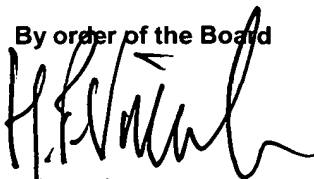
## **Philips Electronics UK Limited**

### **Strategic report for the year ended 31 December 2014**

#### **Future developments**

The company will continue to be actively involved in delivering the Philips group mission and vision in future periods, including the decision to create two companies in the areas of HealthTech and Lighting Solutions. The directors expect future developments and activities that are consistent with the Philips group Path to Value by 2016 as set out in the KPNV Annual Report on page 14. Over the coming years, the company will continue to develop new growth initiatives, drive operational excellence and invest in innovation and sales development. We 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 we will further embed the PBS to ensure our business success is repeatable.

**By order of the Board**

A handwritten signature in black ink, appearing to read 'H Vivash', is written over the text 'By order of the Board'.

**H Vivash  
Director**

3 August 2015

# **Philips Electronics UK Limited**

## **Directors' report for the year ended 31 December 2014**

The directors present their report and the audited financial statements of the company for the year ended 31 December 2014.

### **Results and dividends**

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

The directors do not recommend the payment of a dividend (2013: £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. 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  
M Armstrong  
C Petrie  
H Vivash  
J Rogers  
N Mesher

### **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.

# Philips Electronics UK Limited

## Directors' report for the year ended 31 December 2014

### 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.

### Disclosure of information to auditor

All of the current directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information needed by the company's auditor for the purpose of their audit and to establish that the auditor is aware of that information. The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the auditor is unaware.

### Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements of the company for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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:

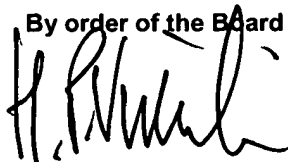
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 of the company 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.

### Auditor

In accordance with Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG LLP will therefore continue in office.

By order of the Board



H Vivash  
Director

3 August 2015



## **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 2014, set out on pages 9 to 35. 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).

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 6, 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](http://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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **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.



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

318/15

# Philips Electronics UK Limited

## Profit and loss account for the year ended 31 December 2014

	Note	2014 £m	2013 £m
<b>Turnover</b>	2	<b>763</b>	<b>788</b>
Cost of sales		<b>(588)</b>	<b>(601)</b>
		<hr/>	<hr/>
<b>Gross profit</b>		<b>175</b>	<b>187</b>
Distribution costs		<b>(16)</b>	<b>(17)</b>
Administrative expenses		<b>(142)</b>	<b>(153)</b>
Exceptional administrative credit / (expenses)	3	<b>127</b>	<b>(16)</b>
Total administrative expenses		<b>(15)</b>	<b>(169)</b>
		<hr/>	<hr/>
<b>Operating profit</b>	4	<b>144</b>	<b>1</b>
Interest receivable and similar income	7	<b>1</b>	<b>1</b>
Interest payable and similar charges	8	<b>(5)</b>	<b>(6)</b>
Other finance costs	22	<b>(4)</b>	<b>-</b>
		<hr/>	<hr/>
<b>Profit / (loss) on ordinary activities before taxation</b>		<b>136</b>	<b>(4)</b>
Tax on profit / (loss) on ordinary activities	9	<b>(9)</b>	<b>(17)</b>
		<hr/>	<hr/>
<b>Profit / (loss) for the financial year</b>	19	<b>127</b>	<b>(21)</b>
		<hr/> <hr/>	<hr/> <hr/>

The company's results are derived from continuing operations.

## Philips Electronics UK Limited

### Statement of total recognised gains and losses for the year ended 31 December 2014

	Note	2014 £m	2013 £m
<b>Profit / (loss) for the financial year</b>		<b>127</b>	<b>(21)</b>
Actuarial gain / (loss) relating to pension scheme	22	72	(100)
Movement in provision against excess pension scheme assets	22	(71)	98
Actuarial (loss) / gain on other post-retirement benefits	22	(3)	2
Movement in deferred tax due to change in tax rate on special pension contribution	15	1	(10)
		<hr/>	<hr/>
<b>Total recognised gains and losses relating to the year</b>		<b>126</b>	<b>(31)</b>
		<hr/>	<hr/>

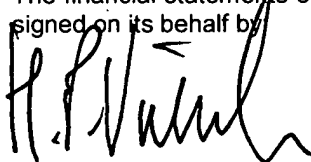
# Philips Electronics UK Limited

Registered number: 00446897

## Balance sheet at 31 December 2014

	Note	£m	2014 £m	£m	2013 £m
<b>Fixed assets</b>					
Intangible assets	10		239		265
Tangible assets	11		63		63
Investments	12		-		2
			<u>302</u>		<u>330</u>
<b>Current assets</b>					
Stocks	13	34		39	
Debtors	14	270		274	
Cash at bank and in hand		13		14	
		<u>317</u>		<u>327</u>	
<b>Creditors: amounts falling due within one year</b>	16	(313)		(472)	
<b>Net current assets / (liabilities)</b>			<u>4</u>		<u>(145)</u>
<b>Total assets less current liabilities</b>			<u>306</u>		<u>185</u>
<b>Provisions for liabilities and charges</b>					
Other provisions	17		(53)		(58)
<b>Net assets</b>			<u>253</u>		<u>127</u>
<b>Capital and reserves</b>					
Called up share capital	18		620		620
Share premium account	19		7		7
Profit and loss reserve	19		(374)		(500)
<b>Equity shareholder's funds</b>	20		<u>253</u>		<u>127</u>

The financial statements on pages 9 to 35 were approved by the board of directors on 3 August 2015 and were signed on its behalf by

  
H Vivash  
Director

# **Philips Electronics UK Limited**

## **Notes to the financial statements for the year ended 31 December 2014**

### **1. Principal accounting policies**

#### **1.1 Basis of preparation**

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### **1.2 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 4.

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 £92m (after deduction of the deferred tax asset of £96m) 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.

#### **1.3 Cash flow statement**

Under Financial Reporting Standard 1 "Cash flow statements", the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary of KPNV, whose consolidated financial statements are publicly available.

#### **1.4 Related party disclosures**

The company is exempt from the requirements of Financial Reporting Standard 8, "Related Party Disclosures", insofar as they apply to transactions with group undertakings, as it is a wholly owned subsidiary of KPNV, whose consolidated financial statements are publicly available.

#### **1.5 Consolidation**

The company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. The financial statements presented are therefore those of Philips Electronics UK Limited as an individual undertaking.

# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 1. Principal accounting policies (continued)

#### 1.6 Intangible fixed assets and amortisation

(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

Trademarks acquired which the company intends to maintain and use for the foreseeable future are not amortised and are subject to annual impairment testing.

(c) Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions is capitalised.

Amortisation is provided by the company to write off the cost of goodwill by equal instalments over its estimated useful economic life of between 6 and 16 years.

#### 1.7 Tangible fixed assets and depreciation

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 amortised on a straight-line basis over 50 years or the lease period if shorter. No depreciation is provided on freehold land or assets in the course of construction.

# **Philips Electronics UK Limited**

## **Notes to the financial statements for the year ended 31 December 2014**

### **1. Principal accounting policies (continued)**

#### **1.8 Fixed asset investments**

Fixed asset investments in subsidiary undertakings are shown at original cost to the company less permanent diminution in value.

#### **1.9 Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date, or the appropriate hedged rate, and the gains or losses on translation are included in the profit and loss account. Transactions in foreign currencies accounted for in the profit and loss account are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract.

#### **1.10 Government grants**

Government grants specifically related to capital expenditure are taken to deferred income and credited to the profit and loss account over the useful life of the asset to which they relate. Other grants are credited to the profit and loss account in the period when the related transaction takes place or when received if later.

#### **1.11 Leases**

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rental charges are charged to the profit and loss account on a straight-line basis over the life of the lease.

#### **1.12 Research and development**

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

#### **1.13 Stocks**

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

#### **1.14 Taxation**

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19 "Deferred tax".



# **Philips Electronics UK Limited**

## **Notes to the financial statements for the year ended 31 December 2014**

### **1. Principal accounting policies (continued)**

#### **1.15 Turnover**

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year and is recognised on delivery of goods to customers.

The company recognises turnover 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 turnover occurs when the criteria noted above have been met and the products have been accepted by the customer.

#### **1.16 Pension costs and other post-retirement benefits**

The company reports its pension costs and other post-retirement benefits in accordance with Financial Reporting Standard 17 "Retirement Benefits" and the amendments to this standard published on 7 December 2006.

The company is a member of a group pension scheme operated by the Philips UK group and its contributions to the funds are based on a common rate throughout the group. Pensions are provided under a defined benefit scheme operated by the group. The assets of the scheme are held separately from those of the company in a trustee administered fund.

Pension scheme assets are measured using market values measured at bid price. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement on the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The company also operates a defined contribution scheme, and the contributions payable for the year are charged to the profit and loss account. The assets of the defined contribution scheme are held separately from those of the company in an independently administered fund.

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

#### **1.17 Share-based compensation**

Share-based compensation is treated as equity settled share-based payments. 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.

## Philips Electronics UK Limited

### Notes to the financial statements for the year ended 31 December 2014

#### 2. Turnover

The company's activities fall within the business segment of electrical and electronic equipment, which includes healthcare equipment.

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

	2014 £m	2013 £m
United Kingdom	553	562
Europe	126	145
North America and Canada	45	38
South America	9	12
Asia	30	31
	<hr/>	<hr/>
	763	788
	<hr/>	<hr/>

#### 3. Exceptional administrative credit / (expenses)

	2014 £m	2013 £m
Impairment of fixed asset investments	(2)	(16)
Loans from related group undertakings waived	129	-
	<hr/>	<hr/>
	127	(16)
	<hr/>	<hr/>

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 consider the investments to be permanently impaired and the company has written down the carrying value of these investments by £2m (2013: £16m).

During the year, the company received loan waivers in its favour from related group undertakings and as such recognised a gain in the year of £129m (2013: £Nil).

# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 4. Operating profit

The operating profit is stated after charging:

	2014 £m	2013 £m
Amortisation of intangible fixed assets	26	26
Depreciation of tangible fixed assets:		
- owned by the company	11	15
Operating lease rentals:		
- land and buildings and other	7	7
Foreign exchange result	1	-
Research and development expenditure	5	8
	<u>5</u>	<u>8</u>

Auditor's remuneration in respect of the audit of the company's financial statements amounted to £0.2m (2013: £0.2m).

Auditor's remuneration in respect of the audit of the financial statements of the Philips Pension Fund amounted to £0.1m (2013: £0.1m).

### 5. Staff costs and numbers

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

	2014 No.	2013 No.
Manufacturing	656	963
Commercial	989	781
Research and development	68	69
General and administration	58	80
	<u>1,771</u>	<u>1,893</u>

The aggregate payroll costs of these persons were as follows:

	2014 £m	2013 £m
Wages and salaries	70	70
Social security costs	9	9
Defined contribution pension costs	9	9
Termination benefits	1	1
Share-based compensation	1	1
	<u>90</u>	<u>90</u>

# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 6. Directors' emoluments

The aggregate emoluments paid to the directors for the year ended 31 December 2014 amounted to £1,330,000 (2013: £913,000).

The highest paid director received aggregate emoluments for the year ended 31 December 2014 amounting to £344,000 (2013: £296,000).

No retirement benefits were accruing to directors under the Philips Pension Fund defined benefit scheme at 31 December 2014 or at 31 December 2013. Pension contributions paid to defined contribution schemes for serving directors amounted to £54,000 (2013: £53,000).

During the year, shares were receivable or received under long term incentive schemes by six directors (2013: six).

### 7. Interest receivable and similar income

	2014 £m	2013 £m
Other interest	1	-
Rents receivable	-	1
	<u>1</u>	<u>1</u>

### 8. Interest payable and similar charges

	2014 £m	2013 £m
Interest payable to group undertakings	4	5
Net finance cost in respect of other post-retirement benefits	1	1
	<u>5</u>	<u>6</u>

# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 9. Tax on profit / (loss) on ordinary activities

	2014 £m	2013 £m
<b>Current tax</b>		
UK corporation tax	-	-
<b>Deferred tax</b>		
Origination and reversal of timing differences	8	9
Effect of decreased tax rate	-	6
Adjustment in respect of prior years	1	2
<b>Total deferred tax</b>	<u>9</u>	<u>17</u>
<b>Tax on profit / (loss) on ordinary activities</b>	<u><u>9</u></u>	<u><u>17</u></u>

#### Factors affecting tax charge for the year

The tax assessed for the year is lower (2013: higher) than the standard rate of corporation tax in the UK of 21.49% (2013: 23.25%). The differences are explained below:

	2014 £m	2013 £m
Profit / (loss) on ordinary activities before tax	<u>136</u>	<u>(4)</u>
Profit / (loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.49% (2013: 23.25%)	29	(1)
<b>Effects of:</b>		
Investment impairments	-	4
Expenses not deductible for tax purposes	6	8
Depreciation for year in excess of capital allowances	2	4
Utilisation of tax losses	(9)	-
Short term timing differences relating to provisions	(1)	(1)
Current year tax losses carried forward	1	5
Group relief surrendered	1	1
Pension cash contribution	-	(18)
Transfer pricing adjustment	(1)	(1)
Loan waivers	(27)	-
Research and development tax credit	(1)	(1)
<b>Total current tax charge</b>	<u><u>-</u></u>	<u><u>-</u></u>

# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 9. Tax on profit / (loss) on ordinary activities (continued)

#### Factors affecting future tax charges

A change in the main UK corporation tax rate from 21% to 20% was substantively enacted on 2 July 2013 and became effective from 1 April 2015.

Further changes to the UK corporation tax rate were announced in the Budget on 8 July 2015. These include reductions in the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020. As the changes had not been substantively enacted at the balance sheet date, their effects are not included in these financial statements.

At 31 December 2014, a deferred tax asset amounting to £96m (2013: £104m) has been recognised to the extent that it is expected to be utilised over a foreseeable future period (see note 15).

### 10. Intangible fixed assets

	Software development costs £m	Patents, Trademarks & Relationships £m	Goodwill £m	Total £m
<b>Cost</b>				
At 1 January 2014	4	264	122	390
Disposals	(2)	-	-	(2)
At 31 December 2014	2	264	122	388
<b>Amortisation and diminution in value</b>				
At 1 January 2014	2	60	63	125
Charge for the year	-	16	10	26
On disposals	(2)	-	-	(2)
At 31 December 2014	-	76	73	149
<b>Net book value</b>				
At 31 December 2014	2	188	49	239
At 31 December 2013	2	204	59	265

At 31 December 2014, 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.

# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 11. Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Assets in course of construction £m	Total £m
<b>Cost</b>				
At 1 January 2014	22	90	9	121
Additions	-	1	10	11
Disposals	(1)	(8)	-	(9)
Transfers	1	15	(16)	-
At 31 December 2014	<u>22</u>	<u>98</u>	<u>3</u>	<u>123</u>
<b>Depreciation</b>				
At 1 January 2014	6	52	-	58
Charge for the year	1	10	-	11
On disposals	(1)	(8)	-	(9)
At 31 December 2014	<u>6</u>	<u>54</u>	<u>-</u>	<u>60</u>
<b>Net book value</b>				
At 31 December 2014	<u>16</u>	<u>44</u>	<u>3</u>	<u>63</u>
At 31 December 2013	<u>16</u>	<u>38</u>	<u>9</u>	<u>63</u>

The net book value of land and buildings comprises:

	2014 £m	2013 £m
Freehold buildings	10	10
Freehold land	5	5
Short-term leasehold buildings	1	1
	<u>16</u>	<u>16</u>

Included within the cost of land and buildings amounting to £22m (2013: £22m), are depreciable assets amounting to £17m (2013: £17m). The cost of land amounting to £5m (2013: £5m) is non-depreciable.

# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 12. Fixed asset investments

	Subsidiary undertakings £m
<b>Cost</b>	
At 1 January 2014 and 31 December 2014	308
<b>Permanent diminution in value</b>	
At 1 January 2014	306
Charge for the year (see note 3)	2
At 31 December 2014	308
<b>Net book value</b>	
At 31 December 2014	-
At 31 December 2013	2

At 31 December 2014, 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 Finance Limited	England	Dormant
Avent Group Limited	England	Dormant
Avent Holdings Limited	England	Holding company
Avent Limited	England	Dormant
ECS Lighting Controls Limited	England	Dormant
Industria International Limited	England	Dormant
Mullard Limited	England	Dormant
Philips Impex Limited	England	Dormant
Philips Lamps and Luminaires Limited	England	Dormant
Philips Lighting 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	Dormant



## Philips Electronics UK Limited

### Notes to the financial statements for the year ended 31 December 2014

#### 13. Stocks

	2014 £m	2013 £m
Raw materials and consumables	5	7
Work in progress	6	6
Finished goods and goods for resale	23	26
	<u>34</u>	<u>39</u>

The amounts recorded above are net of allowances for obsolescence. The write-down of inventory to net realisable value amounted to £3m (2013: £6m). 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.

#### 14. Debtors

	2014 £m	2013 £m
Trade debtors	128	116
Loans to group undertakings	2	2
Trading amounts owed by group undertakings	25	39
Other debtors	2	1
Prepayments and accrued income	17	12
Deferred tax asset (see note 15)	96	104
	<u>270</u>	<u>274</u>

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

# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 15. Deferred tax

The movement in the deferred tax asset recognised in these financial statements, which comprises the amount recognised within debtors and the amount related to the defined benefit pension obligation (see note 22), is set out below:

	2014 £m	2013 £m
At 1 January	104	131
Charge to the profit and loss account	(9)	(17)
Credit / (charge) to the statement of total recognised gains and losses	1	(10)
	<hr/>	<hr/>
At 31 December	96	104
	<hr/>	<hr/>

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:

	2014 £m	2013 £m
Accelerated capital allowances	17	15
Provisions	6	7
Losses carried forward	73	82
	<hr/>	<hr/>
	96	104
	<hr/>	<hr/>

The amount of the deferred tax asset which is expected to be realised after more than one year is £90m (2013: £98m).

### 16. Creditors: amounts falling due within one year

	2014 £m	2013 £m
Trade creditors	19	25
Loans from group undertakings	156	307
Trading amounts owed to group undertakings	34	41
Corporation tax payable	1	1
Other taxation and social security	11	3
Other creditors	26	36
Accruals and deferred income	66	59
	<hr/>	<hr/>
	313	472
	<hr/>	<hr/>

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

# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 17. Other provisions

	At 1 January 2014 £m	Utilised £m	Additional provision £m	At 31 December 2014 £m
Other post retirement benefits (see note 22)	33	(1)	4	36
Long service awards	3	(1)	-	2
Future service provision	3	(4)	4	3
Termination benefits	4	(4)	-	-
Onerous contracts	4	(1)	1	4
Share-based compensation (see note 24)	4	(1)	1	4
Property related provision	4	(1)	-	3
Other provisions	3	(3)	1	1
	<u>58</u>	<u>(16)</u>	<u>11</u>	<u>53</u>

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.

Other provisions relates to multiple small sundry provisions.

# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 18. Called up share capital

	2014 £	2013 £
<b>Allotted, called up and fully paid</b>		
620,000,000 ordinary shares of £1 each	<b>620,000,000</b>	<b>620,000,000</b>

### 19. Reserves

	Share premium account £m	Profit and loss reserve £m
At 1 January 2014	7	(500)
Profit for the financial year	-	127
Actuarial gain relating to pension scheme	-	72
Movement in deferred tax due to change in tax rate on special pension contribution	-	1
Movement in provision against excess pension scheme assets	-	(71)
Actuarial loss on other post-retirement benefits	-	(3)
At 31 December 2014	<b>7</b>	<b>(374)</b>

### 20. Reconciliation of movements in shareholder's funds

	2014 £m	2013 £m
Opening shareholder's funds	127	158
Profit / (loss) for the financial year	127	(21)
Actuarial gain / (loss) relating to pension scheme	72	(100)
Movement in deferred tax due to change in tax rate on special pension contribution	1	(10)
Movement in provision against excess pension scheme assets	(71)	98
Actuarial (loss) / gain on other post-retirement benefits	(3)	2
Closing shareholder's funds	<b>253</b>	<b>127</b>

# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 21. Capital commitments

At 31 December 2014, the company had capital commitments for which no provision has been made as follows:

	2014 £m	2013 £m
Contracted	1	2

### 22. Pensions and other post-retirement benefits

#### (a) Defined benefit scheme

As explained in the accounting policies set out in note 1, the company operates a pension scheme, the Philips Pension Fund, providing benefits based on final pensionable pay. The contributions are agreed between the company and the trustees of the pension scheme on the basis of triennial actuarial funding valuations carried out by a qualified actuary. In intervening years an interim valuation update is provided by the actuary.

The scheme was closed for future accrual to active employee members in June 2011. The company pays an additional amount each year, increasing in line with the Retail Price Index, to cover non-investment related expenses. In total the company made employer's contributions of £3m during the year (2013: £2m). The company also pays the cost of any Pension Protection Fund levies due from the scheme.

The company expects no contributions to be paid to its defined benefit pension plan in the year ending 31 December 2015.

The valuation was updated by the actuary for the purpose of Financial Reporting Standard 17 "Retirement Benefits" ("FRS17") as at 31 December 2014 (based on calculations using full membership data as at 31 March 2014, adjusted approximately to the year end). It should be noted that the purpose of funding valuations is different from that of accounting valuations and so the assumptions adopted are not the same.

The amounts recognised in the balance sheet are as follows:

	2014 £m	2013 £m
Present value of funded defined benefit obligations	(3,004)	(2,812)
Fair value of scheme assets	3,339	3,076
Surplus in scheme	335	264
Provision against excess scheme assets	(335)	(264)
Net pension asset	-	-

A provision has been made against the surplus pension asset of £335m (2013: £264m) determined by the actuary for the purpose of FRS17 at 31 December 2014 on the basis that the amount is not recoverable by the company.

# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 22. Pensions and other post-retirement benefits (continued)

#### (a) Defined benefit scheme (continued)

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

	2014 £m	2013 £m
Interest on pension scheme liabilities	(118)	(114)
Expected return on scheme assets	114	114
	<u>(4)</u>	<u>-</u>
Actual return on scheme assets	<u>405</u>	<u>53</u>

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

	2014 £m	2013 £m
Opening defined benefit obligation	2,812	2,796
Interest cost	118	114
Actuarial loss	219	39
Benefits paid	(145)	(137)
Closing defined benefit obligation	<u>3,004</u>	<u>2,812</u>

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

	2014 £m	2013 £m
Opening fair value of scheme assets	3,076	3,158
Expected return on scheme assets	114	114
Actuarial gain / (loss)	291	(61)
Contributions by employer	3	2
Benefits paid	(145)	(137)
Closing fair value of scheme assets	<u>3,339</u>	<u>3,076</u>

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses was £735m (2013: £736m).

# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 22. Pensions and other post-retirement benefits (continued)

#### (a) Defined benefit scheme (continued)

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

	2014	2013
Bonds	91.2%	65.7%
Cash	8.8%	20.6%
Equities	- %	13.7%

The principal actuarial assumptions at the balance sheet date were as follows:

	2014	2013
Discount rate	4.3%	4.3%
Expected return on scheme assets	3.8%	3.8%
Inflation rate	3.3%	3.6%
Increases to benefits in deferment - pre 2009	5.0%	2.8%
Increases to benefits in deferment - post 2009	2.5%	2.8%
Increases to pension in payment - post 5 April 1988	3.0%	3.4%
Increases to pension in payment - pre 6 April 2006 service	2.5%	3.6%
Increases to pension in payment - post 5 April 2006 service	2.5%	3.3%

The pension scheme is closed to active members and no future salary increases are anticipated.

Amounts for the current and previous four years are as follows:

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Present value of funded defined benefit obligations	(3,004)	(2,812)	(2,796)	(2,751)	(2,536)
Fair value of scheme assets	3,339	3,076	3,158	2,960	2,713
Surplus in the scheme	335	264	362	209	177
Experience losses on scheme liabilities	(219)	(39)	(66)	(277)	(247)
Experience gains / (losses) on scheme assets	291	(61)	184	257	470
Total amount recognised in the statement of total recognised gains and losses	1	(2)	(35)	(53)	45

## Philips Electronics UK Limited

### Notes to the financial statements for the year ended 31 December 2014

#### 22. Pensions and other post-retirement benefits (continued)

##### (b) Defined contribution scheme

Contributions charged to the profit and loss account for the year ended 31 December 2014 in respect of amounts paid to the defined contribution pension scheme amounted to £9m (2013: £9m).

Contributions amounting to £0.3m (2013: £0.1m) were payable to the scheme at the year end.

##### (c) Other post-retirement benefits

The company provides unfunded post-retirement health care benefits to certain employees. The scheme is accounted for in accordance with FRS17. 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 £36m (2013: £33m). The actuarial method employed is the projected unit method, and the principal assumptions used in determining the required provision are an interest rate of 2.9% (2013: 4.0%) per annum and medical costs inflation of 6.1% (2013: 5.9%). A flat rate for medical costs has been assumed.

The amounts recognised in the balance sheet are as follows:

	2014 £m	2013 £m
Present value of funded post-retirement benefit obligations	(36)	(33)

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

	2014 £m	2013 £m
Interest cost	1	1

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

	2014 £m	2013 £m
Opening post-retirement benefit obligation	(33)	(35)
Interest cost	(1)	(1)
Actuarial (loss) / gain	(3)	2
Net benefits paid	1	1
Closing post-retirement benefit obligation	(36)	(33)



# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 22. Pensions and other post-retirement benefits (continued)

(c) Other post-retirement benefits (continued)

The principal actuarial assumptions at the balance sheet date were as follows:

	2014	2013
Discount rate	2.9%	4.0%
Healthcare cost trend rate (assumed flat rate)	6.1% p.a.	5.9% p.a.
Inflation rate	3.1%	3.4%

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 of the service cost and interest cost	-	-
Effect on the defined benefit obligation (increase) / decrease	(4)	4

### 23. Financial commitments and contingencies

At 31 December 2014, the company had annual commitments under non-cancellable operating leases expiring as follows:

	Land and buildings		Other	
	2014 £m	2013 £m	2014 £m	2013 £m
Within two to five years	-	2	-	1
After more than five years	-	1	-	-

At 31 December 2014, the company has provided guarantees and performance bonds in respect of contractual obligations amounting to £0.5m (2013: £0.5m).

## Philips Electronics UK Limited

### Notes to the financial statements for the year ended 31 December 2014

#### 24. Share-based compensation

Some of the employees of the company participate in share option schemes for shares in the ultimate parent undertaking, Koninklijke Philips N.V. ("KPNV"). KPNV have granted share options on its common shares and rights to receive common shares in the future (restricted share rights) to members of the Board of Management and other members of the Company Management Committee, Philips Executives and certain non-executives. The purpose of the share-based compensation plans is to align the interests of the management with those of shareholders by providing additional incentives to improve the company's performance on a long-term basis, therefore increasing shareholder value.

All of the KPNV share option schemes are equity settled. The total expense recorded in the year for equity settled share-based compensation was £1m (2013: £1m). KPNV recharges the company for the cost of the options. As 31 December 2014, the total amount payable to KPNV for share options was £4m (2013: £4m). Under KPNV's plans, options are granted at fair market value on the date of grant.

The company's employees were only granted Euro denominated share options and restricted share rights. The share options have an exercise price range from €12.63 to €32.04.

#### **Fixed Option Plan and Restricted Share Rights (excluding Accelerate! Share Rights)**

As from 2003 onwards, KPNV issued restricted share rights that vest in equal annual instalments over a three year period. Restricted shares are Philips shares that the grantee will receive in three successive years, provided that the grantee is still employed by Philips on the respective delivery dates. If the grantee still holds the shares after three years from the delivery date, Philips will grant 20% additional (premium) shares, provided the grantee is still employed by Philips.

As from 2002, KPNV granted fixed share options that expire after 10 years. Generally, the options vest after 3 years, however, a limited number of options granted to certain employees of acquired businesses contain accelerated vesting. In prior years, fixed and variable (performance) options were issued with terms of ten years, vesting one to three years after grant.

In contrast to the year 2001 and certain prior years, when variable (performance) share options were issued, the share-based compensation grants as from 2002 consider the performance of KPNV versus a peer company of multinationals.

The fair value of KPNV's 2014 and 2013 fixed options and restricted share rights granted were estimated using a Black-Scholes option valuation model and the following weighted average assumptions:

	2014	2013
Risk free interest rate	-	1.20%
Expected dividend yield	-	4.5%
Expected option life	-	6.5 years
Expected share price volatility	-	33.0%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of subjective assumptions, including the expected price volatility. KPNV has based its volatility assumptions on historical experience for a period that approximates the expected life of the options. The expected life of the options is also based upon historical experience. KPNV's employee share options have characteristics significantly different from those of traded options, and changes in the assumptions can materially affect the fair value estimate.

## Philips Electronics UK Limited

### Notes to the financial statements for the year ended 31 December 2014

#### 24. Share-based compensation (continued)

##### Accelerate! Share Rights

In January 2012, as part of the Accelerate! program, KPNV has granted options on its common shares (Accelerate! options) and rights to receive common shares in the future (Accelerate! share rights). These Accelerate! options and share rights are granted to a group of approximately 500 key employees of the Philips group below the level of Board of Management. Only Accelerate! share rights were issued to employees of the company.

KPNV issued Accelerate! share rights that ultimately vested on 31 March 2014. After vesting an additional two-year holding period applies. The actual number of Accelerate! share rights that will ultimately vest is dependent on the performance targets under the Accelerate! program, which are based on the 2013 mid-term financial targets, and provided that the employee is still employed by KPNV.

The fair value of KPNV's 2014 and 2013 Accelerate! share rights granted was estimated using a Black-Scholes option valuation model and the following weighted average assumptions:

	2014	2013
Risk free interest rate	-	0.89%
Expected dividend yield	-	3.9%
Expected option life	-	6.5 years
Expected share price volatility	-	32.0%

##### Long-Term Incentive Plans

In May 2013, a new long-term incentive plan was approved at the KPNV Annual General Meeting of Shareholders granting performance shares to certain selected employees. The performance is measured over a three year performance period. The performance shares have two performance conditions, relative Total Shareholders' Return compared to a peer group of 21 companies and adjusted Earnings Per Share growth. The performance shares vest three years after the grant date. The number of performance shares that will vest is dependent on achieving the two performance conditions, which are equally weighted, and provided that the grantee is still employed by the company.

The fair value of the performance shares granted is measured based on the Monte-Carlo simulation and the following weighted average assumptions:

	2014	2013
Risk free interest rate	0.35%	0.55%
Expected dividend yield	3.9%	3.7%
Expected share price volatility	25.0%	27.0%

The assumptions set out above were used for these calculations only and do not necessarily represent an indication of management's expectations of future developments.

# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 24. Share-based compensation (continued)

The following tables summarise information about Philips share options, for the company's employees as at 31 December 2014 and changes during the year. Transfers into and out of the plan represent movements arising as a result of employees transferring from or to other Philips group companies.

#### (a) Fixed Option Plans

	Number of shares	Weighted average exercise price (€)	Weighted average remaining contractual period (years)
Outstanding at 1 January 2014	308,138	21.66	
Transfers into the plan	123,742	26.36	
Exercised	(77,269)	21.44	
Forfeited	(9,387)	27.38	
Expired	(35,971)	34.52	
Outstanding at 31 December 2014	<u>309,253</u>	<u>21.93</u>	<u>4.51</u>
Exercisable at 31 December 2014	<u>250,819</u>		

#### (b) Restricted Share Rights (excluding Accelerate! Share Rights)

	Number of shares	Weighted average exercise price (€)	Weighted average remaining contractual period (years)
Outstanding at 1 January 2014	50,269	18.90	
Transfers into the plan	23,970	20.38	
Exercised	(31,837)	18.87	
Forfeited	(37,198)	20.91	
Outstanding at 31 December 2014	<u>5,204</u>	<u>12.61</u>	<u>0.3</u>
Exercisable at 31 December 2014	<u>-</u>		

# Philips Electronics UK Limited

## Notes to the financial statements for the year ended 31 December 2014

### 24. Share-based compensation (continued)

(c) Accelerate! Share Rights

	Number of shares	Weighted average exercise price (€)	Weighted average remaining contractual period (years)
Outstanding at 1 January 2014	10,000	15.24	
Transfers into the plan	10,000	15.24	
Exercised	(20,000)	15.24	
	<hr/>		
Outstanding at 31 December 2014	-	-	-
	<hr/>		
Exercisable at 31 December 2014	-		
	<hr/>		

(d) Long-Term Incentive Plan

	Number of shares	Weighted average exercise price (€)	Weighted average remaining contractual period (years)
Outstanding at 1 January 2014	31,283	19.29	
Transfers into the plan	16,590	23.45	
Granted	42,375	22.34	
Forfeited	(2,844)	22.89	
	<hr/>		
Outstanding at 31 December 2014	87,404	22.93	1.8
	<hr/>		
Exercisable at 31 December 2014	-		
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### 25. 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 8XH.