



Philips
Foundation

Annual report 2014

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Introduction

In July 2014, the Philips Foundation was established as a charity organization dedicated to supporting underprivileged and underserved communities around the world in the areas of healthcare, lighting and healthy futures. The Philips Foundation will run its programs within communities in partnership with selected non-profit organizations. The Philips Foundation is a separate, non-commercial charity organization, founded and funded by Royal Philips. It is an expression of Philips' commitment to improve 3 billion lives per year by 2025.

This is the first annual report published by the Philips Foundation. It outlines the Foundation's mission, vision and strategic direction and implementation developed in the months since its inception and provides the financial report over 2014.

On behalf of the Board of the Philips Foundation,
Ronald de Jong, Chairman

Report from the Foundation Board

Organizational set up of the Philips Foundation

The Philips Foundation was registered as an independent charity organization on July 9, 2014. The Dutch Tax Authorities have granted the Philips Foundation the ANBI status as per the same date.

At its inception, the Foundation appointed three Board Members, each for a period of 3 years:

- Prof. Dr. Mrs. Mirjam van Reisen, as independent Board Member;
- Prof. Dr. Mr. Herman Wijffels, as independent Board Member;
- Mr. Ronald de Jong, on behalf of Royal Philips.



Philips Foundation Board, from left to right: Herman Wijffels, Ronald de Jong, Mirjam van Reisen

During the first Board Meeting, Mr. De Jong and Mrs. Van Reisen were elected as Chairman and Secretary of the Board, respectively.

Next to financially funding the Philips Foundation, Royal Philips supports the Foundation with an operational staff of 3 employees. The Board appointed Mrs. Katy Hartley as Foundation Director, entrusting her with the management of the Foundation's daily operations, and Mrs. Sarah Schaeffer and Mr. Koen Joosse were appointed as program managers.



Operational team, from left to right: Katy Hartley, Koen Joosse, Sarah Schaeffer

At a later stage, the Foundation Board may appoint an Advisory Committee of Philips employees and/or independent experts to support the Board with strategic and operational advice.

A framework contract has been signed between Royal Philips and the Philips Foundation in which all the resources provided by Philips to the Philips Foundation are documented. These include dedicated, ad-hoc staff to support the Foundation's operations, as well as experts to support the projects running under the Foundation's program.

Mission, vision and strategic direction

At the core of the Philips Foundation's approach is the choice to help create solutions for specific issues rather than solely providing financial support or in-kind contributions. When choosing programs and projects, the Foundation focuses on issues that are closely aligned with the business expertise of Royal Philips, such as access to healthcare, access to light and building healthy futures.

This is reflected in the Foundation's mission, vision and three-pillar program structure that were developed in the Foundation's first months after inception:

Mission

The Philips Foundation is an organization dedicated to supporting underprivileged and underserved communities around the world in the areas of healthcare, lighting and healthy futures. The Foundation uses Philips' expertise and knowledge to help develop low-cost, easily-accessible solutions that create meaningful impact on people's lives. Together with partners from selected non-governmental and governmental organizations, we don't aim to generate profit, but to build valuable new knowledge and networks - and drive social innovation.

Vision

The Philips Foundation will use Philips' expertise and knowledge to benefit fragile parts of society, build valuable new knowledge and networks, and drive social innovation. We aim to take learnings from a community level in one country and apply them across multiple communities in numerous countries. Within five years of its establishment, the Foundation aims to have made measurable impact in chosen communities by enabling social innovation projects through donating expertise and innovation resources. The Philips Foundation strives to be recognized within the international development and government communities as a voice that has a valid opinion in societal discussions and debates. The Foundation also aims to serve as a source of pride for all types of Royal Philips stakeholders.

Three-pillar Program Structure

The Philips Foundation is comprised of three program areas: Disaster Relief, Community Investment and Social Entrepreneurship.



Disaster Relief

The Philips Foundation works to provide disaster relief to regions as quickly as possible in the event of large-scale natural disasters.

We do this by providing medical, lighting and consumer appliances to those in need, as well as by facilitating Philips employees to donate funds.



Community Investment

The Foundation will work with NGO partners to identify impactful community programs in the areas of access to healthcare, access to light and building healthy futures.

These programs will be defined on the basis of 'co-creation', where the Philips Foundation provides funding as well leverages innovation, talent and resources from Royal Philips. Over time, this can develop to facilitate community service opportunities around the world for volunteers from Royal Philips.



Social Entrepreneurship

The Foundation's Social Innovation program is dedicated to providing social entrepreneurs with the resources and expertise they need to succeed.

We provide grants to social entrepreneurs and non-profit organizations focused on creating Base of the Pyramid solutions to improve the life in underserved and underprivileged communities.

Strategy implementation

Despite the fact that the Foundation was only established in the second half of 2014, already some strategy implementation results can be reported.

Development of key partnerships

At the end of 2014, discussions with the first NGO partners were at the stage of final contract completion. Going into 2015, the Foundation intends to work with 2 key global strategic partners with the following joint mission statements:



The International Red Cross movement

"Philips Foundation and the Red Cross are committed to working together to provide immediate relief to regions affected by humanitarian disasters and leveraging each other's expertise to create innovative health and lighting solutions for disaster areas."

UNICEF

"Philips Foundation and UNICEF want to positively influence the lives of young children. The first 1.000 days, from pregnancy to toddler, are decisive for survival and a healthy future. Still, every day thousands of young children die, as result of preventable causes. We can combine our innovative strengths to make a difference."



Response to Ebola outbreak

Following the outbreak of Ebola in Liberia, Sierra Leone and Guinea, the Foundation set up its first employee fund raising initiative. A global widget on intranet allowed a rapid response and direct individual donations with personal tax relief. A total of EUR 30.298 was donated, a total that will be matched by the Foundation and donated to the International Red Cross's relief program.

In addition, the Foundation responded to needs for goods identified by the Red Cross and donated kettles for use in medical facilities, projectors for education programs on Ebola and WOOX audio equipment to initiatives for kids watching films in Ebola quarantine.

Financial performance

In 2014, the Foundation received an initial donation of EUR 1.5 million from Royal Philips as starting capital for the Foundation. Donations by the Foundation in 2014 have been limited to a commitment to match the employee fund raising in response to the Ebola outbreak by EUR 30.298.

these partners, spread over the duration of the contract. The Foundation will also reserve budget for ad hoc global disaster relief and for local social investment programs in markets in which Philips operates.

Going into 2015, Royal Philips has committed another EUR 10 million donation to the Foundation to fund the Foundation's program. We expect to close multi-year partnership agreements with our intended strategic partners, which will include a financial commitment to

Risk and uncertainties for the Foundation are limited due to the financial and further resource agreements with Royal Philips. The Foundation will not assume financial obligations that exceed the donations committed to the Foundation by Philips or other potential forms of income.

Financial report

Balance Sheet as at 31 December 2014

(after result appropriation)

		2014	
		EUR	EUR
Current assets			
Cash and cash equivalents	1	1,500,000	
Short-term receivable	2	1,218	
Total assets			1,501,218
			1,501,218
Equity			
Other reserves	3	1,457,176	
Current liabilities			
Total liabilities and equity	4	44,042	1,501,218

Statement of income and expenses 2014

		2014	
		EUR	EUR
Contributions	6		1,501,218
Donations	7	31,516	
Other expenses	8	12,526	
Total expenses		44,042	
Result			1,457,176

Notes to the Balance sheet and the Statement of income and expenses

General

The Foundation, having its address at Amstelplein 2, 1096 BC Amsterdam, is a foundation under Dutch law.

Financial reporting period

The foundation has been incorporated on 9 July 2014. These financial statements have been prepared for the reporting period starting at 9 July 2014 and ending at 31 December 2014. The book year of 2015 will start at 1 January 2015 and end at 31 December 2015.

Basis of preparation

The financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code.

Application of Section 396, Book 2 of the Netherlands Civil Code

The Foundation has applied the exemptions in accordance with Section 396, Book 2 of the Netherlands Civil Code.

Going concern

These financial statements have been prepared on the basis of the going concern assumption.

Accounting policies

General

The principles applied for the valuation of assets and liabilities and result determination are based on the historical cost convention. Unless stated otherwise, assets and liabilities are shown at nominal value. Valuation takes place at nominal value less any provision deemed necessary. Provisions for receivables are determined based on individual assessments of the collectability of receivables.

An asset is disclosed in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. A liability is recognized in the balance sheet when it is expected to result in an outflow from the entity of resources embodying economic benefits and the amount of the obligation can be measured with sufficient reliability.

Income is recognized in the statement of income and expenses when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognized when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability. Assets and liabilities are not included in the balance sheet if economic benefits are not probable and/or cannot be measured with sufficient reliability. Income and expenses are allocated to the period to which they relate. Income is recognized when the foundation has received the contribution.

Use of estimates

The preparation of the financial statements requires the Board of the Foundation to make judgments, estimates and assumptions that affect the application of accounting principles and reported amounts of assets, liabilities and income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are continually reviewed. The earnings impact of revised estimates is reflected in the period in which the estimate is revised.

Functional currency

The financial statements are presented in euros, which is the Foundation's functional currency. Transactions denominated in foreign currency are translated into euros at the exchange rate applying on the transaction date. Translation gains and losses are taken to the profit and loss account as expenses.

Financial Instruments

Financial instruments comprise only primary financial instruments, such as receivables and payables. For the principles applying to these instruments, please refer to the treatment of each relevant balance sheet item.

Receivables

Receivables are measured at initial recognition at fair value. After initial recognition, the assets are measured at amortised costs using the effective interest method, less a provision for uncollectible debts. These provisions are determined by individual assessment of the receivables.

Current liabilities

At initial recognition, current liabilities are measured at fair value. After initial recognition, the liabilities are measured at amortised cost using the effective interest method.

Basis for the determination of results

Income recognition

Income from donations is recognized in the statement of income and expenses, when the amount can be determined in a reliable manner and collection of the related donation to be received is probable. The donations are recognized at the time the rights are transferred or using the straight-line method over the term of the donation.

Expenses

Expenses are recognized in the period to which they relate.

Notes to the Balance sheet

1. Cash and cash equivalents

Cash and cash equivalents relate to current account positions with Citibank. Cash and cash equivalents are available without restrictions.

2. Short-term receivables

The short-term receivables relate to donations granted by Philips employees via the donation of simplicity points. Simplicity points are an internal rewards system in Philips. These donations have been granted and will be converted by Philips into cash in 2015.

3. Equity

Other reserves

	2014
	EUR
Opening balance	0
Additions	1,457,176
	1,457,176

The other reserves consist fully of the results of the current year. During 2015 the other reserves will mainly be used for commitments which have to be paid in 2015.

4. Current liabilities

	2014
	EUR
Accrual Fundraiser Ebola	31,516
Other Accruals	12,526
	44,042

The Ebola fundraiser accrual is fully related to the agreement made by the Philips Foundation to match the employee contributions for the fundraiser for Ebola in 2014. The other accruals are related to audit fees and consultancy expenses.

5. Off-balance sheet commitments

	2015	2016	2017	2018	Total
	EUR	EUR	EUR	EUR	EUR
Red Cross	600,000	600,000	600,000		1,800,000
UNICEF	1,200,000	1,200,000	1,200,000	200,000	3,800,000
Total	1,800,000	1,800,000	1,800,000	200,000	5,600,000

The Philips Foundation committed itself to donate the following amounts to its two strategic partners in the coming three years:

- Red Cross: €600,000 per year (of which €200,000 to The Netherlands Red Cross and €400,000 to the International Committee of the Red Cross) in 2015/2016/2017
- UNICEF: €1.2 million per year in 2015/2016/2017 and €0.2 million in 2018

In 2014, the Philips Foundation also expressed its intention to provide a grant of EUR 128,000 to Gearbox, an open maker-space for design and rapid-prototyping in Nairobi, Kenya. The grant is conditional upon the signing of a joint project agreement between the Philips Foundation, UNICEF, Concern Worldwide and Gearbox that is under development and is expected to be closed in 2015.

Notes to the statement of income and expenses

6. Contribution Koninklijke Philips N.V.

On December 15th 2014, Koninklijke Philips N.V. formally committed itself towards the Foundation to fund €1,5 million of the future initiatives of the Philips Foundation.

7. Donations

The expenses of the year mainly consist out of the matching of Koninklijke Philips N.V. employee donations for the Ebola Fundraiser. It will be donated to the International Red Cross's relief program.

8. Other expenses

The other expenses consist of audit fees and consultancy fees for 2014.

9. Personnel

As at 31 December 2014, the Foundation had, other than three board members, no staff members employed. The Board Members receive no remuneration for their duties. Expenses can be reimbursed. In 2014 no expenses have been reimbursed. The Foundation's operational team consists of employees of Koninklijke Philips N.V. who are seconded to the Foundation. Their salaries and expenses are paid by Koninklijke Philips N.V.

10. Subsequent events

On 24 February 2015 Koninklijke Philips N.V. made the commitment to donate EUR 10 million to the Foundation in 2015.

11. Related party transactions

Refer to note 6 for the related party transactions with respect to the donations received from related parties and to note 9 for the related party transactions with board members.

The Board:

Prof. Dr. M. van Reisen

Prof. Dr. H. Wijffels

R. de Jong

Amsterdam, June 30, 2015

Other Information

Independent auditor's report

To: the Board of the Stichting Philips Foundation

Report on the financial statements

We have audited the accompanying financial statements 2014 of the Stichting Philips Foundation, Amsterdam, which comprise the balance sheet as at 31 December 2014, the statement of income and expenses for the period starting at 9 July 2014 and ending at 31 December 2014 and the notes, comprising a summary of the accounting policies and other explanatory information.

The board's responsibility

The board is responsible for the preparation and fair presentation of these financial statements and for the preparation of the board report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the board is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's

internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Stichting Philips Foundation as at 31 December 2014 and of its result for the period starting at 9 July 2014 and ending at 31 December 2014 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 30 June 2015

KPMG Accountants N.V.

E.J. Oomen RA



Philips Foundation