PHILIPS

Annual Report 2019

Employee selection

Innovating with purpose

Please note: this PDF contains only the pages highlighted in the list of contents below. The contents of this file are qualified in their entirety by reference to the printed version of the Philips Annual Report 2019. The information in this PDF has been derived from the audited financial statements 2019 of Koninklijke Philips N.V. Ernst & Young Accountants has issued unqualified auditors' reports on these financial statements.

IFRS basis of presentation

The financial information included in this document is based on IFRS, as explained in Significant accounting policies, of the Annual Report 2019, unless otherwise indicated.

Forward-looking statements

This document contains certain forward-looking statements. By their nature, these statements involve risk and uncertainty. For more information, please refer to Forward-looking statements and other information, starting on page 59

References to Philips

References to the Company or company, to Philips or the (Philips) Group or group, relate to Koninklijke Philips N.V. and its subsidiaries, as the context requires. Royal Philips refers to Koninklijke Philips N.V.

Philips Lighting/Signify

References to 'Signify' in this Annual Report relate to Philips' former Lighting segment (prior to deconsolidation as from the end of November 2017 and when reported as discontinued operations), Philips Lighting N.V. (before or after such deconsolidation) or Signify N.V. (after its renaming in May 2018), as the context requires.

Dutch Financial Markets Supervision Act

This document comprises regulated information within the meaning of the Dutch Financial Markets Supervision Act *(Wet op het financieel toezicht).*

Statutory financial statements and management report

The chapters Group financial statements and Company financial statements contain the statutory financial statements of the Company. The introduction to the chapter Group financial statements sets out which parts of this Annual Report form the Management report within the meaning of Section 2:391 of the Dutch Civil Code (and related Decrees).

Front cover: In 2019, Philips unveiled a unique augmented-reality concept developed with Microsoft Corp. to intuitively control the operating room of the future, giving doctors a holographic dashboard of data that integrates imaging, device and medical information to drive treatment optimization. This solution capitalizes on the advanced, integrated capabilities of Philips' industry-leading Azurion image-guided therapy platform and is being used to gather clinical insights to support a future commercially available product.

Contents

1 Message from the CEO

“Philips continues to make progress to unlock its full potential as a leader in health technology. Our innovations are driving better health outcomes and increased healthcare productivity, while offering a better experience for consumers, patients and healthcare professionals.”

Frans van Houten, CEO Royal Philips

Dear Stakeholder,

In 2019, we continued our transformation as a focused leader in health technology, pursuing our vision of making the world healthier and more sustainable through innovation. I am pleased with the resilience of our businesses as we recorded 4.5% growth while addressing significant headwinds. We made good progress against our strategic imperatives – driving customer centricity and operational excellence, focusing on quality, growing our core businesses, and pivoting to become a solutions company. Our purpose is clear, and so is our firm belief in our potential to grow and create more value, while doing so in a sustainable manner. Reflecting our confidence in the road ahead and the importance we attach to dividend stability, we propose to maintain the dividend at EUR 0.85 per share.

Innovating with purpose

Time and again, customers tell us they like our strategy and the comprehensive view we take of healthcare along the health continuum – delivering innovations for consumer health, precision diagnosis, image-guided therapy, hospital and home care, leveraging informatics and artificial intelligence. They are keen to engage with Philips for innovations that can help them deliver on the Quadruple Aim – better health outcomes, improved patient and staff experience, and lower cost of care. This is reflected in the sustained growth in the number of long-term strategic partnerships we have signed, e.g. with Inspira Health (USA) and Klinikum Stuttgart (Germany), with solutions and recurring revenues now accounting for over one third of total revenues. There is also substantial interest in how we can contribute to care outside the hospital setting – through solutions that support healthy living, prevention and home care.

Aging populations and the growing incidence of chronic disease, coupled with resource constraints, are necessitating a shift from a volume-based approach towards value-based healthcare models, including care outside of the hospital. I firmly believe that innovative health technology – a growing market with scope for margin expansion, in which Philips has strong positions – will help address these challenges, providing better outcomes and productivity gains, as well as extending access to care to those in need.

Our goal of improving the lives of 3 billion people a year by 2030, including 400 million in underserved healthcare communities, infuses our innovation drive with true purpose, as we strive to make the world healthier and more sustainable, in line with UN Sustainable Development Goals 3 (*Ensure healthy lives and promote well-being for all at all ages*), 12 (*Ensure sustainable consumption and production patterns*) and 13 (*Take urgent action to combat climate change and its impacts*).

Innovating with purpose in mind helps us to create more value for our customers and society – by developing truly relevant solutions. Helping people to stay healthy and prevent disease. Giving clinicians the AI-assisted tools to make precision diagnoses and deliver personalized, minimally invasive treatment. Orchestrating and delivering care outside the hospital, in lower-cost care settings. Helping people to recover, or live with chronic disease, at home in the community. All supported by a seamless flow of data enabled by connected care and health informatics solutions.

Increasingly, AI will enhance the quality and efficiency of care, providing clinical decision support, helping clinical staff to spot emerging risks, and freeing up valuable time for healthcare professionals to focus on their patients. We work with clinical partners around the world to develop AI-enabled solutions, like our IntelliSpace AI Workflow Suite, that are secure, firmly grounded in scientific research, and rigorously validated in clinical practice.

In the consumer domain too, connected personal health solutions like our Philips Sonicare Teledentistry service help people to manage their health with actionable insights, coaching, and where needed, support from care professionals.

Determined to deliver the full benefits of data-enabled care, we have significantly stepped up our activities in informatics and data science in recent years. Today, around one in two Philips R&D professionals is active in these fields, and most of our acquisitions since 2015 have been designed to strengthen our informatics capabilities.

As a purpose-led innovation company, we have made sustainability a cornerstone of the way we do business, as recognized once again in the global 2019 Dow Jones Sustainability Indices (DJSI) list. Increasingly, our customers ask us to help them tackle their sustainability challenges; we believe that, more and more, this will become a competitive differentiator. In 2019, we took another step closer to becoming carbon-neutral in our own operations by the end of 2020, with both our US and Dutch facilities now 100%-powered by renewable energy. We also issued our first Green Innovation Bond under the Philips Green & Sustainability Innovation Bond Framework developed together with Rabobank; the proceeds will be used to help finance our expenditures on green innovation, the transition to the circular economy with zero waste to landfill, and becoming carbon-neutral in our operations.

How we performed in 2019

Our financial performance in 2019 was robust, despite a profitability improvement that was below our plan. Comparable sales growth*) was well within our target bandwidth, driven by innovative products and solutions across our businesses and strong revenue increases in our growth geographies. Profitability improved, though well short of the 100 basis points of the past three years, impacted by tariff headwinds, the underperformance of Connected Care, a decline in license income, and investments in growth. We ended the year with a comparable order intake*) that grew a further 3%, on the back of strong 10% growth in 2018, and delivered a free cash flow*) of over EUR 1 billion. Last but not least, our share price rose 41% in the course of 2019 to a 19-year high, outpacing many of our key peers and reflecting investor confidence in our strategy and portfolio of innovative health technology solutions.

Our Diagnosis & Treatment businesses performed well, with improved revenue and earnings, supported by a strong flow of innovations designed to help clinicians deliver a precision diagnosis and targeted therapies. In Diagnostic Imaging we finalized the revamp of our CT and MR portfolios, including the introduction of an industry-first 'Tube for Life' guarantee with our Incisive CT imaging platform. In Image-Guided Therapy, 2019 saw the landmark one-millionth procedure performed with our Azurion platform. And we continued to add depth and reach to the Azurion success story, with the launch of innovations like FlexArm, for optimal visualization across the whole patient, IntraSight for seamless integration of our smart catheters in the platform, and regulatory clearance to launch Azurion in China. We are particularly pleased by the continued strong performance of our smart catheter portfolio. We also have high expectations of innovations in the areas of precision diagnosis solutions and enterprise diagnostic informatics, the latter strengthened by the recent acquisition of Carestream Health's Healthcare Information Systems business.

Our Connected Care businesses had a challenging year, even as we retained market share. The businesses posted modest growth, though profitability decreased. The fundamentals remain solid – our Connected Care businesses have leading market positions and good scope for margin expansion. We have taken decisive actions and expect these to gradually become visible in performance in the course of 2020. In January 2020, I appointed Roy Jakobs as the new leader of the Connected Care businesses to further drive the turnaround. Several new innovations – such as the next-generation IntelliVue MX750 and MX850 patient monitors, our expanded SmartSleep solutions, the latest iteration of our IntelliSpace Enterprise Edition healthcare informatics platform, and our HealthSuite digital ecosystem – will support accelerated growth, while stronger execution will help improve value creation.

Personal Health rebounded well from a slower 2018 with higher revenue and earnings, driven largely by the performance of our Oral Healthcare and Personal Care businesses on the back of portfolio extension and increased market penetration. We are now reviewing options for future ownership of the Domestic Appliances business. Our Personal Health businesses that are focused on oral care, personal care and mother & child care will therefore continue to play an important role in our health continuum approach, through connected products and services that support people's health and well-being.

Transforming to win

In the face of considerable geopolitical and macroeconomic uncertainty, with strong tariff headwinds, we continue to look first and foremost to improve operational excellence. We remain firmly focused on meeting our customers' needs, while at the same time taking action to innovate compelling solutions, improve the supply chain and boost productivity.

As we step up our transformation, we continue to be guided by our three-pronged strategic roadmap: *Better serve customers and improve quality*; *Boost growth in core business*; *Win with solutions along the health continuum*. We are making steady progress on our commitment to quality and operational excellence, as demonstrated by improving quality indicators, customer Net Promoter Scores and lower waste. The standardization and digitalization of internal processes, levering the Philips Integrated IT landscape, is leading to higher productivity and agility. Our continued focus on boosting growth in the core has delivered market share expansion in the Diagnosis & Treatment segment in particular. Revenues from solutions, long-term contracts and service business models – including new business models, such as software-as-a-service, pay-per-user and technology managed services – now stand at over one third of sales.

Acquisitions have played an important role complementing our organic growth, and we are pleased with the performance of most of these, for example in the area of Image Guided Therapy, where we are now able to 'innovate the procedure' with solutions consisting of combinations of systems, smart devices, software and services, as opposed to being restricted to capital equipment only. With the planned divestiture of the Domestic Appliances business, we are completing the strategic pivot to a health technology-focused portfolio. Domestic Appliances is a strong business that has made a good contribution to Philips, but is not a strategic fit for our future as a health technology leader.

To get the best out of our people and make sure our organization is set up to deliver for our customers and realize our vision, we overhauled our operating model – the Philips Business System (PBS) – in 2019. The renewed PBS touches every aspect of our business and will make Philips a simpler, faster, customer-focused solutions company – a learning organization that aspires to the highest standards of quality in everything we do. Driving a customer-focused culture, where people take ownership and collaborate to deliver with quality, speed and agility, embracing Lean and continuous improvement, is an essential ingredient of the PBS.

Outlook 2020 and beyond

Looking ahead at 2020, we continue to see geopolitical and economic risks. We aim for 4-6% comparable sales growth[*)] and an Adjusted EBITA[*)] margin improvement of around 100 basis points, with a performance momentum that is expected to improve in the course of the year. During 2020 we will issue guidance for the next medium-term period, when we expect to continue to gradually step up growth and expand margins and cash generation as we execute our strategy.

In conclusion

I wish to thank our customers, shareholders and other stakeholders for the support they continue to give to Philips. I would also like to thank our employees for their engagement, perseverance and hard work over the past year.

Energized by our purpose, I remain confident in our ability to perform while we transform – delivering innovative, sustainable solutions that meet the needs of our customers and consumers, at the same time laying a rock-solid foundation for an even brighter future as a leader in health technology.

Frans van Houten
Chief Executive Officer

[*)] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

2 Board of Management and Executive Committee

Frans van Houten
Born 1960, Dutch
Chief Executive Officer (CEO)
Chairman of the Board of Management and the Executive Committee since April 2011
For a full résumé, click here

Sophie Bechu
Born 1960, French/American
Executive Vice President
Chief Operations Officer
For a full résumé, click here

Abhijit Bhattacharya
Born 1961, Indian
Executive Vice President
Member of the Board of Management since December 2015
Chief Financial Officer
For a full résumé, click here

Rob Cascella
Born 1954, American
Executive Vice President
Chief Business Leader Precision Diagnosis and jointly responsible for Diagnosis & Treatment
For a full résumé, click here

Marnix van Ginneken
Born 1973, Dutch/American
Executive Vice President
Member of the Board of Management since November 2017
Chief Legal Officer
For a full résumé, click here

Andy Ho
Born 1961, Chinese
Executive Vice President
Chief Market Leader of Philips Greater China
For a full résumé, click here

Roy Jakobs
Born 1974, Dutch/German
Executive Vice President
Chief Business Leader Personal Health
For a full résumé, click here

Henk Siebren de Jong
Born 1964, Dutch
Executive Vice President
Chief of International Markets
For a full résumé, click here

Carla Kriwet
Born 1971, German
Executive Vice President
Chief Business Leader Connected Care
See below for 2020 Executive Committee changes

Bert van Meurs
Born 1961, Dutch
Executive Vice President
Chief Business Leader Image Guided Therapy and jointly responsible for Diagnosis & Treatment
For a full résumé, click here

Vitor Rocha
Born 1969, Brazilian/American
Executive Vice President
Chief Market Leader of Philips North America
For a full résumé, click here

Daniela Seabrook
Born 1973, Swiss
Executive Vice President
Chief Human Resources Officer
For a full résumé, click here

Jeroen Tas
Born 1959, Dutch
Executive Vice President
Chief Innovation and Strategy Officer
For a full résumé, click here

This page reflects the composition of the Executive Committee as per December 31, 2019. As announced on January 28, 2020, Roy Jakobs was appointed as the new Chief Business Leader of the Connected Care businesses (succeeding Carla Kriwet, who left the company), with Frans van Houten leading the Personal Health businesses on an interim basis (with a successor to be announced in due course). For a current overview of the Executive Committee members, see also https://www.philips.com/a-w/about/company/our-management/executive-committee.html

3 Strategy and Businesses

3.1 Innovating with purpose

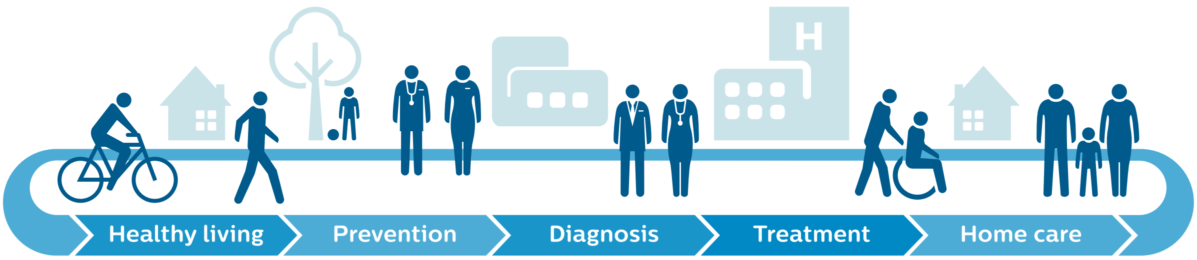
As a company striving for leadership in health technology, we believe that innovation can improve people's health and healthcare outcomes, as well as making care more accessible and affordable. At Philips, it is our goal to improve the lives of 3 billion people a year by 2030, including 400 million in underserved healthcare communities. Guided by our vision of making the world healthier and more sustainable through innovation, it is our strategy to lead with innovative solutions in key markets along the health continuum – helping our customers deliver on the Quadruple Aim (better health outcomes, a better experience for patients and staff, lower cost of care) and helping people take better care of their health at every stage of life.

We seek to act responsibly and sustainably, leveraging our resources to maximize value creation for all stakeholders. Reflecting our commitment to UN Sustainable Development Goals 3 (*Ensure healthy lives and promote well-being for all at all ages*), 12 (*Ensure sustainable consumption and production patterns*) and 13 (*Take urgent action to combat climate change and its impacts*), we continue to embed sustainability deeper in the way we do business, with specific focus on access to care, circular economy and climate action.

How we see healthcare

We visualize healthcare as a continuum, since it puts people at the center and builds on the notion of care pathways. Believing that healthcare should be seamless, efficient and effective, we 'join up the dots' for our customers and consumers, supporting the flow of data needed to care for people in real time, wherever they are. Data and informatics will play an ever-increasing role in helping people to live healthily and cope with disease, and in enabling care providers to meet people's needs, deliver better outcomes and improve productivity.

We see significant value in integrated healthcare, applying the power of predictive data analytics and artificial intelligence at the point of care, while at the same time improving the delivery of care across the health continuum – optimizing workflows, enhancing capacity utilization and leveraging primary and secondary prevention and population health management programs.



Addressing our customers' healthcare challenges

For consumers, we develop connected solutions that support healthier lifestyles, prevent or treat disease, and help people to live well with chronic illness, also in the home and community settings. As well as leveraging retail trade models, we will increasingly deliver products and services direct to consumers, supporting longer-term relationships to maximize the benefit consumers can derive from our solutions.

In hospitals, we are teaming up with healthcare providers in long-term strategic partnerships to innovate and transform the way care is delivered. We listen closely to our customers' needs and together we co-create solutions – packaged combinations of systems, smart devices, software and services, as well as consumables – that help our customers to deliver on the Quadruple Aim of value-based care.

More and more, we are partnering with our customers in new business models, no longer selling products in a transactional manner but engaging in long-term strategic partnerships, where we take co-responsibility for our customers' key performance indicators. The combination of compelling solutions and consultative partnership contracts, including services, drives above-group-average growth rates, as well as a higher proportion of recurring revenues. We are embedding AI and data science in our propositions to unlock the value of data in the operational and clinical aspects of care processes.

With our global reach, deep clinical and technological insights and innovative strength, we are uniquely positioned in 'the last yard' to consumers and care providers, delivering:

- connected products and services supporting the health and well-being of people
- integrated modalities and clinical informatics to deliver precision diagnosis
- real-time guidance and smart devices for minimally invasive interventions
- connected products and services for chronic care.

Underpinning these, and spanning the health continuum, our connected care solutions enable us to:

- connect patients and providers for more effective, coordinated, personalized care
- manage population health, leveraging real-time patient data and clinical analytics.

Our key strategic imperatives and value creation objectives

Our transformation into a focused leader in health technology – shifting from products to solutions and building long-term relationships with our customers – is absolutely critical for Philips' future. Our strategic roadmap is our guide on this multi-year journey.

Focus on	Driven by	Resulting in	
Better serve customers and improve quality	• Improve customer experience, quality systems, operational excellence and productivity • Continue to lead the digital transformation	Customer satisfaction Revenue growth Margin improvement Increased cash generation	**Value creation**
Boost growth in core business	• Capture geographic growth opportunities • Pivot to consultative customer partnerships and services business models		
Win with solutions along the health continuum	• Drive innovative, value-added integrated solutions • Reinforce with M&A, organic investments and partnerships		

Over the last four years, our strategic roadmap has proven itself through the customers we have gained and the significant value we have created.

Looking ahead at 2020, we continue to see geopolitical and economic risks. We aim for 4-6% comparable sales growth*) and an Adjusted EBITA*) margin improvement of around 100 basis points, with a performance momentum that is expected to improve in the course of the year. During 2020 we will issue guidance for the next medium-term period, when we expect to continue to gradually step up growth and expand margins and cash generation as we execute our strategy.

We will continue to deliver meaningful employment and engagement in the communities where we operate, while doing business in a sustainable manner.

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

3.2 How we create value

Based on the International Integrated Reporting Council framework, and with the renewed Philips Business System at the heart of our endeavors, we use six forms of capital to create value for our stakeholders in the short, medium and long term.

Capital input

The six forms of capital (resources and relationships) that Philips draws upon for its business activities; all data refer to 2019

Human

- Employees 80,495, 120 nationalities, 38% female
- Philips University 5,324 courses, 966,813 hours, 683,336 training completions
- 32,650 employees in growth geographies
- Focus on Inclusion & Diversity

Intellectual

- Invested in R&D EUR 1.88 billion (Green Innovation EUR 235 million)
- Employees in R&D 12,287 across the globe including growth geographies

Financial

- Equity EUR 12.6 billion
- Net debt*) EUR 4.0 billion

Manufacturing

- Employees in production 35,640
- Manufacturing sites 35, cost of materials used EUR 5.3 billion
- Total assets EUR 27.0 billion
- Capital expenditure EUR 518 million

Natural

- Energy used in manufacturing 1,400 terajoules
- Water used 890,000 m^3
- Recycled plastics in our products 1,904 tonnes
- Pledge to take back all medical equipment by 2025

Social

- Philips Foundation
- Stakeholder engagement
- Volunteering policy

Philips Business System

- In 2019 we updated our operating model, the Philips Business System (PBS). With its six interconnected elements, the PBS defines how we work together effectively to achieve our company objectives.

- Our **strategy** defines our path to sustainable value creation for customers and shareholders.
- Clear **governance**, roles and responsibilities empower people to collaborate and act fast.
- Standard **processes**, systems and practices enable lean and agile ways of working.
- We value and develop **people** and teams, rewarding them for sustainable results.
- We live the Philips **culture**, which sets standards on behaviors, quality and integrity.
- Through disciplined **performance** management and continuous improvement we achieve our goals.

And this is where the wheel gets going. The better we perform, the more we grow, the more we can re-invest in new business opportunities, and the more value we deliver to our customers, shareholders, and other stakeholders.

Human
We employ diverse and talented people and give them the skills and training they need to ensure their effectiveness and their personal development and employability.

Intellectual
We apply our innovation and design expertise to create new products and solutions that meet local customer needs.

Financial
We generate the funds we need through our business operations and where appropriate raise additional financing from capital providers.

Manufacturing
We apply Lean techniques to our manufacturing processes to produce high-quality products. We manage our supply chain in a responsible way.

Natural
We are a responsible company and aim to minimize the environmental impact of our supply chain, our operations, and also our products and solutions.

Social
We contribute to our customers and society through our products and solutions, our tax payments, the products and services we buy, and our investments in local communities.

Value outcomes

The result of the application of the six forms of capital to Philips' business activities and processes as shaped by the Philips Business System; all data refer to 2019

Human

- Employee Engagement Index 74% favorable
- Sales per employee EUR 242,027
- Safety 224 Total Recordable Cases

Intellectual

- New patent filings 1,015
- Royalties EUR 381 million
- 148 design awards

Financial

- Comparable sales growth*) 4.5%
- 67% Green Revenues
- Adjusted EBITA*) as a % of sales 13.2%
- Free cash flow*) EUR 1.1 billion

Manufacturing

- EUR 14.8 billion revenues from goods sold

Natural

- 13% revenues from circular propositions
- Net CO_2 emissions down to 266 kilotonnes
- 265,000 tonnes (estimated) materials used to put products on the market
- Waste up to 26.4 kilotonnes, of which 83% recycled
- 19 'zero waste to landfill' sites

Social

- Brand value USD 11.7 billion (Interbrand)
- Partnerships with UNICEF, Red Cross, Amref and Ashoka

Societal impact

The societal impact of Philips though its supply chain, its operations, and its products and solutions; all data refer to 2019

Human

- Employee benefit expenses EUR 6,307 million, Living Wage analysis completed
- Appointed 74% of our senior positions from internal sources
- 24% of Leadership positions held by women

Intellectual

- Around 53% of revenues from new products and solutions introduced in the last three years
- Over 60% of sales from leadership positions

Financial

- Market capitalization EUR 38.8 billion at year-end
- Long-term credit rating A- (Fitch), Baa1 (Moody's), BBB+ (Standard & Poor's)
- Dividend EUR 775 million

Manufacturing

- 95% electricity from renewable sources
- 286,000 employees impacted at suppliers participating in the 'Beyond Auditing' program

Natural

- Environmental impact of Philips operations down to EUR 154 million
- First health technology company to have its CO_2 reductions assessed and approved by the Science Based Targets initiative

Social

- 1.64 billion Lives Improved, of which 194 million in underserved healthcare communities
- Total tax contribution EUR 3.1 billion (taxes paid)
- Income tax expense EUR 337 million; the effective income tax rate is 22%

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

3.3 Our businesses

Our reporting structure in 2019

Koninklijke Philips N.V. (Royal Philips) is the parent company of the Philips Group. In 2019, the reportable segments were Diagnosis & Treatment businesses, Connected Care businesses, and Personal Health businesses, each having been responsible for the management of its business worldwide. Additionally, Philips identifies the segment Other.

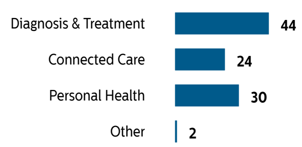
Philips

Diagnosis & Treatment businesses	Connected Care businesses	Personal Health businesses	Other
Diagnostic Imaging	Monitoring & Analytics	Oral Healthcare	Innovation
Image-Guided Therapy	Sleep & Respiratory Care	Mother & Child Care	IP Royalties
Ultrasound	Therapeutic Care	Personal Care	Central costs
Enterprise Diagnostic Informatics	Population Health Management	Domestic Appliances*	Other
	Connected Care Informatics		

Focus of external reporting

*On January 28, 2020, Philips announced that it will review options for future ownership of the Domestic Appliances business, and start the process of creating a separate legal structure for this business.

Philips Group
Total sales by reportable segment as a %
2019



3.3.1 Diagnosis & Treatment businesses

Diagnosis & Treatment businesses

Our Diagnosis & Treatment businesses are foundational to our health technology strategy, delivering on the promise of precision diagnosis and image-guided therapies. We enable our customers to realize the full potential of the Quadruple Aim – an improved patient experience, better health outcomes, an improved staff experience and lower cost of care.

We are focused on intelligent, integrated solutions (AI-enabled suites of systems, smart devices, software and services) that help healthcare providers to meet their most pressing clinical, operational and financial goals. By integrating multiple sources of information across imaging, pathology and genomics to create a comprehensive single patient view, we support clinicians to realize a precision diagnosis for each patient: disease-specific, personalized, and predictive.

Informatics is central to everything we do. In 2019, Philips expanded its Enterprise Diagnostic Informatics portfolio with the acquisition of Carestream Health's Healthcare Information Systems business. Adding a state-of-the-art cloud-based informatics platform, our offering now includes advanced Vendor Neutral Archive solutions, diagnostic and enterprise viewers, interactive multimedia reporting, AI-enabled clinical, operational and business analytics tools, as well as tele-radiology and diagnostic patient management services.

We continue to expand the applications for image-guided therapies and improve workflow and integration in the interventional suite. In 2019, less than three years on from its launch, the one-millionth procedure was carried out on Philips' Azurion image-guided therapy platform. In 2019 we also launched Azurion in China, following clearance from the country's National Medical Products Administration.

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

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

- industry-leading clinical applications and excellent image quality to drive growth in the core subspecialties as well as attractive adjacencies in Ultrasound
- our unique suite of innovative procedural solutions to support delivery of the right therapy in real-time in Image-Guided Therapy
- intelligent, AI-enabled applications combined with successful innovations in our systems platforms in Diagnostic Imaging
- enhanced offerings in oncology, cardiology and radiology, and expanding our solutions offering, which comprises systems, smart devices, software and services

In 2019, the Diagnosis & Treatment segment consisted of the following areas of business:

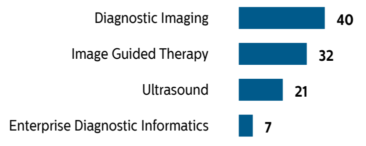
- **Diagnostic Imaging**: Magnetic Resonance Imaging (MRI), Computed Tomography (CT), Advanced Molecular Imaging, Diagnostic X-Ray, as well as integrated clinical solutions, which include radiation oncology treatment planning, disease-specific oncology solutions and X-Ray dose management

- **Image-Guided Therapy**: interventional X-ray systems, encompassing cardiovascular, radiology and surgery, and interventional imaging and therapy devices that include Intravascular Ultrasound (IVUS), fractional flow reserve (FFR) and instantaneous wave-free ratio (iFR), and atherectomy catheters and drug-coated balloons for the treatment of coronary artery and peripheral vascular disease

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

- **Enterprise Diagnostic Informatics**: a suite of integrated products and services that deliver a comprehensive platform designed to connect clinical capabilities and optimize workflows around every step in the patient's journey across a range of diagnostic (radiology, point-of-care, laboratory) and clinical (oncology, cardiology, neurology) service lines.

Diagnosis & Treatment
Total sales by business as a %
2019



In 2019, Digital & Computational Pathology was moved out of the segment Other into Diagnosis & Treatment to enable better access to downstream capabilities. Digital & Computational Pathology digitizes diagnosis in anatomic pathology and uses Artificial Intelligence to aid detection of disease and progression to reduce inter-observer variability and improve outcomes.

Revenue is predominantly earned through the sale of products, leasing, customer services fees, recurring per-procedure fees for disposable devices, and software license fees. For certain offerings, per-study fees or outcome-based fees are earned over the contract term.

Sales channels are a mix of a direct sales force, especially in all the larger markets, third-party distributors and an online sales portal. This varies by product, market and price segment. Our sales organizations have an intimate knowledge of technologies and clinical applications, as well as the solutions necessary to solve problems for our customers.

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

At year-end 2019, Diagnosis & Treatment had around 31,000 employees worldwide.

2019 business highlights

In 2019, Philips continued to renew its Diagnostic Imaging portfolio. Its new Incisive CT imaging platform includes an industry-first 'Tube for Life' guarantee. The platform integrates innovations in imaging, workflow, and lifecycle management, as well as DoseWise Portal, a web-based dose monitoring solution that collects, measures, analyzes and reports patient and staff radiation exposure, helping healthcare providers with smart clinical decision-making, increased efficiency and improved experience for patients and staff.

We introduced IntraSight, which seamlessly integrates intravascular imaging and physiology applications for minimally invasive procedures. The scalable platform is based on Philips' common software and hardware architecture. Following the acquisition of EPD Solutions in 2018, we launched the novel KODEX-EPD cardiac imaging and navigation system commercially and announced a collaboration with Medtronic to further advance the image-guided treatment of atrial fibrillation.

Further expanding our offering in mobile image-guided therapy systems for conventional operating rooms (ORs), we launched Philips Zenition, our new mobile C-arm imaging platform. Zenition is easy to move between ORs and allows hospitals to maximize performance, enhance clinical capabilities, and improve staff experience.

Philips continues to set the standard in integrated solutions for image-guided therapy with the expansion of its Azurion platform with FlexArm and the seamless integration of its smart catheters in the platform. The successful launch of Azurion in China and expansion of its smart catheter offering in Europe and Asia contributed to double-digit comparable sales growth*) for the Image-Guided Therapy business in 2019.

Philips presented the three-year results from two major Stellarex clinical studies involving approximately 600 patients, demonstrating that its Stellarex drug-coated balloon (DCB) is the only low-dose DCB with a significant treatment effect and high safety profile through three years. Both studies showed no difference in mortality compared with the current standard of care. In the US, Philips launched longer 150 mm and 200 mm versions of its Stellarex low-dose drug-coated balloons to broaden treatment options for peripheral artery disease patients.

In Ultrasound, we strengthened our leadership in our core cardiac segment by extending the advanced automation capabilities on our EPIQ CVx cardiology ultrasound platform, making exams faster and easier to conduct while improving clinician productivity. We also continued to expand into attractive adjacencies such as General Imaging and Obstetrics & Gynecology with the launch of EPIQ Elite, a premium ultrasound system that combines the latest advances in transducer innovation and enhanced performance to improve clinical confidence and the patient experience.

Philips' Ambition 1.5T MR platform with its breakthrough fully sealed magnet continued to receive an enthusiastic reception from healthcare providers worldwide. We also marked the completion of the one-millionth patient scan accelerated with Compressed SENSE, an advanced solution that reduces MR exam times by up to 50%. Our innovations in MR combine to help increase productivity, improve the patient and staff experience, and enhance diagnostic confidence.

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

3.3.2 Connected Care businesses

Connected Care businesses

Spanning the entire health continuum, the Connected Care businesses are tasked with improving patient outcomes, increasing efficiency and enhancing patient and caregiver satisfaction, thereby driving towards value-based care. Our solutions build on Philips' strength in verticals (monitoring & analytics, sleep & respiratory care, and therapeutic care) and horizontals (population health management and connected care informatics) to improve clinical and economic outcomes in all care settings, within and outside the hospital.

Philips has a deep understanding of clinical care and the patient experience that, when coupled with our consultative approach, allows us to be an effective partner for transformation, both across the enterprise and at the level of the individual clinician. Philips delivers services that take the burden off hospital staff with optimized patient and data flow, predictive analytics, improved workflow, customized training and improved accessibility across our application landscape.

This requires a secure common digital platform that connects and aligns consumers, patients, payers and healthcare providers. Philips' platforms aggregate and leverage information from clinical, personal and historical data to support care providers in delivering first-time-right diagnoses and treatment.

Philips delivers personalized insights by applying predictive analytics and artificial intelligence across our solutions. For example, we are able to support healthcare professionals caring for elderly patients living independently at home in making clinical decisions and alerting medical teams to potential issues. Our integrated and data-driven approach promotes seamless patient care, helps identify risks and needs of different groups within a population, and provides clinical decision support.

In 2019, the Connected Care segment consisted of the following areas of business:

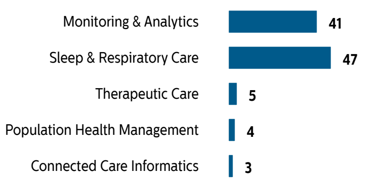
- **Monitoring & Analytics:** Integrated patient monitoring systems for all price levels, wearable biosensors, advanced intelligence platforms for real-time clinical information at the patient's bedside; patient analytics, including diagnostic ECG data management; maintenance, clinical and IT services, as well as consumables.
- **Sleep & Respiratory Care**: Sleep offerings span from consumer sleep solutions, including those for disease-state sleep such as obstructive sleep apnea, to end-to-end solutions that encompass consumer engagement, diagnostics, people-centric therapy, cloud-based connected propositions and care management services. Respiratory offerings include COPD care management with digital and connected solutions; Hospital Respiratory Care (HRC) provides invasive and non-invasive ventilators for acute and sub-acute hospital environments; Home Respiratory Care supports the home care environment.

- **Therapeutic Care:** Emergency Care & Resuscitation (ECR) solutions for both inside and outside the hospital, including cardiac resuscitation and emergency care solutions (including devices, services, and digital/data solutions); consumables across the patient monitoring and therapeutic care businesses; customer service, including clinical, IT, technical and remote customer propositions.

- **Population Health Management**: Data, analytics and actionable workflow products are leveraged for solutions to improve clinical and financial results and increase patient engagement, satisfaction and compliance. These solutions include: technology-enabled monitoring and intervention support outside the hospital (telehealth, remote patient monitoring, personal emergency response systems and care coordination) to improve the experience of elderly people and those living with chronic conditions; actionable programs to predict risk (including medication and care compliance, outreach, and fall prediction); cloud-based solutions for health organizations to manage population health.

- **Connected Care Informatics** was created in 2019 to drive cohesive informatics innovations across the health continuum. Connecting people, technology and processes, Connected Care Informatics' capabilities include a fully integrated Electronic Medical Record (EMR) business called Tasy. Connected Care Informatics also offers an advanced eICU/Tele-ICU program, an informatics solutions business under the umbrella of IntelliSpace Enterprise Edition, Command Center solutions and integration services (Enterprise Integrated Solutions/ IntelliBridge Enterprise).

Connected Care
Total sales by business as a %
2019



In most of the Connected Care businesses, revenue is earned through the sale of products and solutions, customer services fees and software license fees. Where bundled offerings result in solutions for our customers, or offerings are based on the number of people being monitored, we see more usage-based earnings models. In Sleep & Respiratory Care, revenue is generated both through product sales and through rental models, whereby revenue is generated over time.

Sales channels include a mix of a direct salesforce, partly paired with an online sales portal and distributors (varying by product, market and price segment). Sales are mostly driven by a direct salesforce with an intimate knowledge of the procedures that use our integrated solutions' smart devices, systems, software and services. Philips works with customers and partners to co-create solutions, drive commercial innovation and adapt to new models such as monitoring-as-a-service.

Sales at Philips' Connected Care businesses are generally higher in the second half of the year, largely due to customer spending patterns.

At year-end 2019, the Connected Care businesses had around 15,000 employees worldwide.

2019 business highlights

Reinforcing its leadership in patient monitoring solutions, Philips introduced the next-generation IntelliVue MX750 and MX850 bedside patient monitor platforms in Europe. These feature an extensive range of measurements and analytics, as well as new cybersecurity capabilities. Moreover, Philips signed multi-year enterprise patient monitoring agreements with the Kantonsspital Frauenfeld (Switzerland) and the University Clinic of Bonn (Germany) to improve workflow and clinical outcomes in these hospitals.

Philips teamed up with US insurance company Humana to improve care for at-risk, high-cost populations. The pilot program will support independent living for high-acuity patients with congestive heart failure by providing 24/7 access to care. Philips' remote monitoring capabilities will allow care managers to deliver timely interventions for these patients.

Philips signed a 10-year agreement with Centre Hospitalier Régional Universitaire de Nancy in France to implement Philips' IntelliSpace Enterprise Imaging Solution. The collaboration will enable the hospital, which provides 1.2 million consultation visits and inpatient stays each year, to streamline complex medical image data management across its departments.

Philips' solutions to treat obstructive sleep apnea, a condition that affects more than 100 million patients globally, continue to garner healthy demand, supported by the continued strong reception for DreamStation GO's expanded portable therapy options.

Expanding its range of successful patient-centric CPAP (continuous positive airway pressure) mask designs, Philips launched DreamWisp, the first-of-its-kind over-the-nose nasal mask that allows patients with sleep apnea to sleep in any position they want. With its robust nasal cushion and top-of-the-head tube design, DreamWisp delivers a new level of comfort and freedom of movement, providing patients with the therapy option that best suits their needs.

Demonstrating the success of Philips' telehealth solutions for critical care, US-based Health First achieved significant results by using Philips' acute telehealth platform. Powered by Philips' eCareManager, Health First's VitalWatch eICU achieved a 23% reduction in overall mortality, a 49% reduction in ICU length of stay, and a 35% reduction in length of stay across its four hospitals.

Philips expanded its General Care solutions portfolio with the launch of the EarlyVue VS30 in the US. This new vital signs monitor uses automated Early Warning Scoring (EWS) to collect critical vital signs and calculate risk-based alerts that allow clinicians to identify subtle signs of patient deterioration and facilitate communication between caregivers for timely intervention and patient care.

3.3.3 Personal Health businesses

Personal Health businesses

Our Personal Health businesses play an important role on the health continuum – in the healthy living, prevention and home care stages – delivering integrated, connected and personalized solutions that support healthier lifestyles and those living with chronic disease.

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

Supported by meaningful innovation and high-impact marketing, we are focused on three key objectives:

- Growing our core businesses through geographical expansion and increased penetration
- Unlocking business value through direct digital consumer engagement, leading to higher brand preference and recurring revenues
- Extending our core businesses with innovative solutions and new business models to address unmet consumer needs

In 2019, the Personal Health segment consisted of the following areas of business:

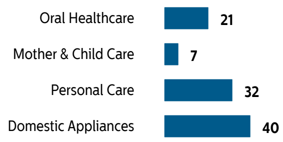
- **Oral Healthcare:** power toothbrushes, including Sonicare app; brush heads/interdental/whitening

- **Mother & Child Care**: infant feeding (breast pumps, baby bottles, sterilizers), digital parental solutions (Pregnancy+ and Baby+ apps)

- **Personal Care**: male grooming (shavers, OneBlade, groomers, trimmers), beauty (skin care, hair care, hair removal)

- **Domestic Appliances**[a]: kitchen appliances (juicers, blenders, Airfryer, food processors), home care (vacuum cleaners, air purifiers), garment care (irons, steam generators), coffee (appliances and accessories)

Personal Health
Total sales by business as a %
2019



Through our Personal Health businesses, we offer a broad range of solutions in various consumer price segments, always aiming to offer and realize premium value. We continue to rationalize our portfolio of locally relevant innovations and increase its accessibility, particularly in lower-tier cities in growth geographies. We are well positioned to capture further growth in online sales and continue to build our digital and e-commerce capabilities.

We are leveraging connectivity to offer new business models, partnering with other players in the health ecosystem with the goal of extending opportunities for people to live healthily, prevent or manage disease. We are engaging consumers in their health journey in new and impactful ways through social media and digital innovation. For example, the Philips Sonicare app acts as a 'virtual hub' for personal oral healthcare, helping users to manage their complete oral care on a daily basis and share brushing data with their dental practitioners, putting personalized guidance and advice at their fingertips.

We also offer solutions that support babies and parents on every step of their journey so that they can more fully enjoy those precious early moments. Philips Pregnancy+ is a pregnancy tracker app that allows moms to follow their baby's development with 3D fetal imagery. The app offers moms customized information at every stage of their pregnancy and enables them to share their pregnancy journey with family and professionals.

The company's wide portfolio of connected consumer health platforms – such as our Sonicare dental solutions – leverages Philips HealthSuite, a cloud-enabled connected health ecosystem of devices, apps and digital tools that enable personalized health and continuous care.

The revenue model is mainly based on product sale at the point in time the products are delivered to the end-user or wholesalers or distributors. As with the Direct to Consumer transformation, we see good traction to further diversify the revenue model with new business models (including subscriptions and services).

The Personal Health businesses experience seasonality, with higher sales around key national and international events and holidays.

At year-end 2019, Personal Health employed around 16,000 people worldwide.

[a] On January 28, 2020, Philips announced that it will review options for future ownership of the Domestic Appliances business, and start the process of creating a separate legal structure for this business.undefinedundefinedundefined

2019 business highlights

The strong performance of the Oral Healthcare business was driven by its innovative portfolio, including the mid-range Philips Sonicare ProtectiveClean toothbrush, which features pressure sensor technology that alerts users when they are applying too much pressure and automatically reduces brushing intensity, for a brushing experience that delivers healthier gums and cleaner teeth.

Further broadening its product range in oral care, Philips has rolled out its connected Philips Sonicare ExpertClean globally. The new smart power toothbrush delivers superior oral care results with its sonic technology and deep clean brushing mode.

Building on the success of Philips' leading oral care solutions, the company rolled out the BrushSmart program in collaboration with Delta Dental of California, the largest provider of dental benefits in the US. The subscription-based program includes a discounted Sonicare toothbrush, coaching and teledentistry, and connects brushing behaviors at home with professional dental care to better understand, motivate and drive improvements in oral health.

Philips launched its new smart S7000 Shaver series globally. Designed to address skin irritation and discomfort from shaving, the company's first connected shaver comes with a personalized solution for sensitive skin and has received highly positive user reviews.

At the 2019 IFA trade show in Berlin, Philips highlighted a range of intelligent, adaptive and personalized consumer health solutions that seamlessly integrate into people's lives and lifestyles, empowering them to make healthier choices and fulfilling their personal needs. These included the Philips Airfryer XXL featuring Smart Sensing technology, which automatically adjusts cooking time and temperature, and the Baby+ app, which provides parents with a dedicated tool to track their baby's growth and receive ongoing advice specific to each stage of their baby's development.

3.3.4 Other

In our external reporting on Other we report on the items Innovation & Strategy, IP Royalties, Central costs, and other small items. At year-end 2019, around 18,000 people worldwide were working in these areas.

About Other

Innovation & Strategy

The Innovation & Strategy organization includes, among others, the Chief Technology Office (CTO), Research, HealthSuite Platforms, the Chief Medical Office, Product Engineering, Experience Design, Strategy, and Sustainability. Our Innovation Hubs are in Eindhoven (Netherlands), Cambridge (USA), Bangalore (India) and Shanghai (China).

Innovation & Strategy, in collaboration with the operating businesses and the markets, is responsible for directing the company strategy, in line with our growth and profitability ambitions.

The Innovation & Strategy function facilitates innovation from 'idea' to 'market' (I2M) as co-creator and strategic partner for the Philips businesses, markets and partners. It does so through cooperation between research, design, marketing, strategy and businesses in interdisciplinary teams along the innovation chain, from exploration and advanced development to first-of-a-kind proposition development. In addition, it opens up new value spaces beyond the direct scope of current businesses through internal and external venturing, manages the company-funded R&D portfolio, and creates synergies for cross-segment initiatives and integrated solutions.

Innovation & Strategy actively participates in Open Innovation through relationships with academic, clinical, industrial partners and start-ups, as well as via public-private partnerships. It does so in order to improve innovation speed, effectiveness and efficiency, to capture and generate new ideas, and to leverage third-party capabilities. This may include sharing the related financial exposure and benefits.

Finally, Innovation & Strategy sets the agenda and drives continuous improvement in the Philips product and solution portfolio, the efficiency and effectiveness of innovation, the creation and adoption of (digital) platforms, and the uptake of high-impact technologies such as Data Science, Artificial Intelligence (AI) and the Internet of Things (IoT).

Chief Technology Office (CTO) and Philips Research

The Chief Technology Office orchestrates innovation strategy and choices, and drives adoption of digital architecture and platforms, as well as excellence in software, Data Science and AI, across Philips' businesses and markets. Philips Research initiates game-changing innovations that disrupt and cross boundaries in health technology to address opportunities for better clinical and economic outcomes and support the associated transformation of Philips into a digital solutions company. CTO and Research encompass the following organizations:

- **Philips Research,** the co-creator and strategic partner of the Philips businesses, markets and complementary Open Innovation ecosystem participants, driving front-end innovation and clinical research at sites across the globe. The role of Research increasingly goes beyond early-stage proof-of-concept, including advanced development on the target product and digital platforms, and market-driven innovation with lead customers.

- **Innovation Management**, responsible for end-to-end innovation strategy and portfolio management, integrated roadmaps linking products, systems and software to solutions, New Business Creation Excellence, R&D competency management, Innovation Transformation and Performance Management and public funding programs.

- **The Chief Architect Office**, responsible for defining, steering and ensuring compliance and uptake of the Philips HealthSuite architecture for configurable and interoperable digital propositions, as well as modular System Architecture with the right balance between functionality allocated to hardware and software.

- **The Software and System Engineering Centers of Excellence**, driving adoption of industry best practices in writing and maintaining application-level software, modular and configurable system design and model-based system engineering.

- **The Data Science and AI Center of Excellence**, defining and deploying strategies and best practices for dealing responsibly and in a compliant way with Data Science and AI, developing common tools to facilitate the development process and co-creation with clinical partners.

Product Engineering
The Product Engineering organization is accountable for building world-class Idea to Market (I2M) capabilities and for driving excellence in product engineering across Philips worldwide. The Product Engineering organization includes the following:

- **Philips Innovation Services** provides hardware and embedded software development & engineering, technology consulting, and low-volume specialized manufacturing.

- **I2M Excellence** is a global program to improve and harmonize Philips capabilities, processes and tools.

- **Technical Expert Group** supports innovation and industrialization teams with technical competences and application experience in materials, physics and chemistry.

- **Product Platforms** build on existing engineering capabilities and best practices within Philips, covering the full life cycle from design, development and engineering to delivery, maintenance and ultimately end of service.

Philips HealthSuite
Philips HealthSuite constitutes our common digital framework that connects consumers, patients, healthcare providers, payers and partners in a hybrid cloud-based connected health ecosystem of solutions, products, systems, services and devices, positioning HealthSuite as the System of Engagement on top of hospital systems of record.

- The **HealthSuite System of Engagement** provides the capabilities and infrastructure for configurable solutions and ecosystems. It ensures consistency across customer touchpoints through a set of industry standards-based ecosystem federation services and APIs. It leverages our hybrid cloud infrastructure that ensures scalability and cost-effectiveness under the most comprehensive and stringent security and privacy standards.

- Philips HealthSuite is implemented in a layered approach with a **Foundation Layer** that provides secure hybrid cloud hosting, operations, customer support and IoT capabilities, as well as industry standards-based federated data access. The **Engagement Layer** leverages this foundation to optimize workflows with embedded intelligence and a seamless user experience.

Philips HealthSuite is managed and orchestrated across Innovation & Strategy and all Philips businesses. The majority of professional and consumer-oriented digital propositions offered by Philips leverage HealthSuite. A growing number of third-party companies have also adopted HealthSuite.

Innovation Hubs
To drive innovation effectiveness and efficiency, and to enable locally relevant solution creation, we have established four main Innovation Hubs for the Philips Group: Eindhoven (Netherlands), Cambridge (USA), Bangalore (India) and Shanghai (China).

- **Philips Innovation Center Eindhoven** is Philips' largest cross-functional Innovation Hub worldwide, hosting the global headquarters of many of our innovation organizations as well as the management of collaboration partnerships. Many of the company's core research programs are run from here.

- **Philips Innovation Center Cambridge, MA** is focused on applications of Data Science and AI in Radiology, Ultrasound, and Acute care. It is the hub for key partnerships in North America, with top engineering institutions like MIT as well as top clinical sites, and for participation in government-funded programs.

- **Philips Innovation Center Bangalore** hosts activities from most of our operating businesses, as well as Innovation & Strategy and IT. This is our largest software-focused site, with over 3,500 engineers. The Center also functions as the hub for market-driven innovation in surrounding geographies in Asia Pacific, Africa, and Middle East & Turkey.

- **Philips Innovation Center Shanghai** combines digital innovation, research and solutions development for the China market, participating in local digital ecosystems, while several of its locally relevant innovations are also finding their way globally.

Alongside the hubs, where most of the central Innovation & Strategy organization is concentrated together with selected business R&D and market innovation teams, we continue to have significant, more focused innovation capabilities integrated into key technology centers at our other global business sites.

Chief Medical Office

The Chief Medical Office is responsible for clinical innovation and strategy, hospital economics, clinical evidence and market access, as well as medical thought leadership, with a focus on healthcare governance and organization, the Quadruple Aim and value-based care. This includes engaging with stakeholders across the health continuum to extend Philips' leadership in health technology and acting on new value-based reimbursement models that benefit the patient, health professional and care provider.

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

Philips Experience Design

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

Philips Experience Design partners with stakeholders across the organization to develop methodologies and enablers for defining value propositions, to implement data-enabled design tools and processes to create meaning from data, and to leverage Co-create methodologies. The latter facilitate exploration with customers and patients with the aim of creating solutions that are tailored specifically to the challenges facing them, as local circumstances and workflows are key ingredients in the successful implementation of solutions.

To ensure that we connect end-users along the health continuum, we create a consistent experience across all touchpoints. A key enabler for this is a consistent and differentiating design language that applies to software, hardware and services across our operating businesses. In recognition of our continued excellence, Philips received 148 design awards in 2019.

IP Royalties

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

Royal Philips' total IP portfolio currently consists of 64,500 patent rights, 39,000 trademarks, 88,500 design rights and 3,200 domain names. Philips filed 1,015 new patents in 2019, with a strong focus on the growth areas in health technology services and solutions.

Philips earns substantial annual income from license fees and royalties. These are mostly earned on the basis of usage or fixed fees, recognized over the term of the contract or at a point in time.

Philips believes its business as a whole is not materially dependent on any particular third-party patent or license, or any particular group of third-party patents and licenses.

Central costs

We recharge the directly attributable part of the central costs to the business segments. The remaining part is accounted for as central costs, and includes the Executive Committee, Brand Management and Sustainability, as well as functional services such as IT and Real Estate.

Real estate

Philips is present in more than 70 countries globally and has its group headquarters in Amsterdam, Netherlands. Our real estate sites are spread around the globe, with key manufacturing and R&D sites in Europe, the Americas and Asia.

In 2019, we invested in three Global Business Services locations in the US, Poland and India. To attract R&D talent, we invested across the globe in prime innovation locations, such as Cambridge and Pittsburgh (USA), Tokyo, Eindhoven, Bangalore and others.

The vast majority of our locations consist of leased property, and we manage these closely to keep the overall vacancy rates of our property below 5% and to ensure the right level of space efficiency and flexibility to follow our business dynamic. The net book value of our land and buildings at December 31, 2019, represented EUR 1,510 million; construction in progress represented EUR 100 million. The increase compared with 2019 is mainly due to IFRS 16 implementation; for more information please refer to Significant accounting policies, of the Annual Report 2019. Our current facilities are adequate to meet the requirements of our present and foreseeable future operations.

3.4 Quality, Regulatory Compliance and Integrity

Our business success depends on the quality of our products, services and solutions, and compliance with many regulations and standards on a global basis. We continue on our transformation journey to have customer-focused global processes, procedures, standards, and a quality mindset to help us maintain the highest possible level of quality in all our products.

For Philips, as a business with a significant global footprint, compliance with evolving regulations and standards, including data privacy and cybersecurity, involves increased levels of investment along with the demands of increased regulatory enforcement activity. Our business relies on the secure electronic transmission, storage and hosting of sensitive information, including personal information, protected health information, financial information, intellectual property, and other sensitive information related to our customers and workforce. For information on how Philips manages cybersecurity risk, please refer to Operational risks, of the Annual Report 2019

Responsibility for Quality & Regulatory Compliance rests with the Chief Quality & Regulatory Officer, who reports operationally to the Chief Operations Officer and – for regulatory matters – directly to the Chief Executive Officer.

Quality

Philips is committed to delivering the highest quality products, services and solutions compliant with all applicable laws and standards. We are investing substantially in embedding quality in our organizational culture. We will continue to raise the performance bar. Quality is an integral part of the evaluation of all levels of management. With consistency of purpose, top-down accountability, standardization, leveraging continuous improvement we aim to drive greater speed in the adoption of a quality mindset throughout the enterprise.

Regulatory Compliance

Philips actively maintains Quality Systems globally that establish standards for its product design, manufacturing and distribution processes; these standards are in compliance with Food and Drug Administration (FDA)/International Organization for Standardization (ISO) requirements. Our businesses are subject to compliance with regulatory pre-marketing and quality system requirements in every market we serve, and to specific requirements of local and national regulatory authorities including the US FDA, the European Medicines Agency (EMA), the National Medical Products Administration (NMPA) in China and comparable agencies in other countries. We also must comply with the European Union's Waste from Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substances (RoHS) and Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), Energy-using Products (EuP) and Product Safety Regulations.

We have a growing portfolio of regulated products in our Personal Health and Sleep & Respiratory Care businesses. Through our growing Oral Healthcare, Mother & Child Care and beauty product portfolio, the range of applicable regulations has been extended to include requirements relating to cosmetics and, on a very small scale, pharmaceuticals.

Often, new products that we introduce are subject to a regulatory approval process (e.g. pre-market notification (the 510(k) process), or pre-market approval (PMA) for marketing of FDA regulated devices in the USA, and the CE Mark in the European Union). Failing to comply with the regulatory requirements can have significant legal and business consequences. The number and diversity of regulatory bodies in the various markets we operate in globally adds complexity and time to product introductions.

In the European Union (EU), a new Medical Device Regulation (EU MDR) was published in 2017, which will impose significant additional pre-market and post-market requirements. Since the announcement of the EU MDR, Philips has been developing a comprehensive strategic plan to ensure compliance with the MDR requirements that will come into effect in May 2020. The company has engaged in a top-to-bottom review of our full portfolio of products and solutions that fall under the mandate, and has developed a robust and detailed framework for a seamless transition by the time the Medical Device Regulation is operative. We made a one-time EU MDR investment of around EUR 50 million in 2019, in addition to ongoing compliance costs for the new regulations of around EUR 25 million per year. We believe the global regulatory environment will continue to evolve, which could impact the cost, the time needed to approve, and ultimately, our ability to maintain existing approvals or obtain future approvals for our products.

Consent Decree

In October 2017, Philips North America LLC reached agreement on a consent decree with the US Department of Justice, representing the Food and Drug Administration (FDA), related to compliance with current good manufacturing practice requirements arising from past inspections in and before 2015, focusing primarily on Philips' Emergency Care & Resuscitation (ECR) business operations in Andover (Massachusetts) and Bothell (Washington). The decree also provides for increased scrutiny, for a period of years, of the compliance of the other Monitoring & Analytics businesses at these facilities with the Quality System Regulation.

Under the decree, Philips has suspended the manufacture and distribution, for the US market, of external defibrillators manufactured at these facilities, subject to certain exceptions, until the FDA certifies through inspection the facilities' compliance with the Quality System Regulation and other requirements of the decree. The decree allows Philips to continue the manufacture and distribution of certain automated external defibrillator (AED) models and Philips can continue to provide consumables and the relevant accessories, to ensure uninterrupted availability of these life-saving devices in the US. Philips continues to be able to export ECR devices under certain conditions. Philips is continuing to manufacture and distribute the devices of businesses other than ECR at these facilities.

Substantial progress has been made in our compliance efforts. However, we cannot predict the outcome of this matter, and the consent decree authorizes the FDA, in the event of any violations in the future, to order us to cease manufacturing and distributing ECR devices, recall products, pay liquidated damages and take other actions. We also cannot currently predict whether additional monetary investment will be incurred to resolve this matter or the matter's ultimate impact on our business.

Ethics & Integrity

While pursuing our business objectives, we aim to be a responsible partner in society, acting with integrity towards our employees, customers, business partners and shareholders, as well as the wider community in which we operate. The Philips General Business Principles (GBP) – part of the Philips Business System – represent the fundamental principles by which all Philips businesses and employees around the globe must abide. They set the minimum standard for business conduct, both for individual employees and for the company and our subsidiaries. More information on the Philips GBP can be found in Our approach to risk management, of the Annual Report 2019. The results of the monitoring measures in place are given in General Business Principles, starting on page 41.

3.4.1 Consent Decree

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4 Financial performance

“In 2019 we increased sales to EUR 19.5 billion, with 4.5% comparable sales growth, and delivered a strong operating cash flow of EUR 2 billion, and a free cash flow of more than EUR 1 billion. Income from continuing operations amounted to EUR 1.2 billion. Adjusted EPS increased by 15% to EUR 2.02 per share. The Adjusted EBITA increased by EUR 197 million, however it was short of our plan, partly due to significant headwinds.” **Abhijit Bhattacharya**, CFO Royal Philips

4.1 Performance review

The year 2019

- Sales rose to EUR 19.5 billion, a nominal increase of 8%, with 10% growth in the Diagnosis & Treatment businesses, 8% growth in the Connected Care businesses and 6% growth in the Personal Health businesses. On a comparable basis*) sales growth was 4.5%, with 5% growth in the Diagnosis & Treatment businesses, 5% growth in the Personal Health businesses, and 3% growth in the Connected Care businesses.

- Net income amounted to EUR 1.2 billion, an increase of EUR 76 million compared to 2018, mainly due to improvements in operational performance, lower net financial expenses and lower charges related to discontinued operations, partly offset by higher income tax expense and charges of EUR 97 million related to impairment of goodwill. Net income is not allocated to segments as certain income and expense line items are recorded on a centralized basis.

- Adjusted EBITA*) increased to EUR 2.6 billion, or 13.2% of sales, an increase of EUR 197 million, or 10 basis points as a % of sales, compared to 2018. The productivity programs delivered annual savings of approximately EUR 480 million, and included approximately EUR 166 million procurement savings, led by the Design for Excellence (DfX) program, and EUR 314 million savings from other productivity programs. While the Diagnosis & Treatment and Personal Health businesses delivered good profit expansion, the Connected Care business showed a decline of 200 basis points, primarily due to tariffs, an adverse currency impact, mix and higher material costs.

- Net cash provided by operating activities amounted to EUR 2.0 billion, an increase of EUR 251 million, mainly due to higher earnings that were partly offset by higher working capital outflows and higher tax paid, while 2018 included an outflow of EUR 130 million related to pension liability de-risking. Free cash flow*) amounted to EUR 1.1 billion compared to EUR 984 million in 2018.

- In the second quarter of 2019, Philips completed its EUR 1.5 billion share buyback program that was announced on June 28, 2017. All of the shares acquired under the program were cancelled.

- On January 29, 2019, Philips announced a new EUR 1.5 billion share buyback program for capital reduction purposes. As of the end of 2019, Philips completed 41.5% of this program.

- During 2019 Philips sold all of its remaining shares (16.5%) in Signify (formerly Philips Lighting). For further information, refer to Sell-down Signify shares (former Philips Lighting), starting on page 33.

Coronavirus disease 2019 (COVID-19) outbreak

The impact of the coronavirus outbreak on public life and the industry in China is also affecting the demand for Philips’ consumer portfolio in the country and Philips’ global supply chain. While this is expected to have a negative impact on the financial performance of Philips in the first quarter of 2020, the company cannot quantify the magnitude and duration of such impact at this time given the fluidity of the situation.

Philips Group
Key data in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Sales	17,780	18,121	19,482
Nominal sales growth	2.1%	1.9%	7.5%
Comparable sales growth [1]	3.9%	4.7%	4.5%
Income from operations	1,517	1,719	1,644
as a % of sales	*8.5%*	*9.5%*	*8.4%*
Financial expenses, net	(137)	(213)	(117)
Investments in associates, net of income taxes	(4)	(2)	1
Income tax expense	(349)	(193)	(337)
Income from continuing operations	1,028	1,310	1,192
Discontinued operations, net of income taxes	843	(213)	(19)
Net income	1,870	1,097	1,173
Adjusted EBITA [1]	2,153	2,366	2,563
as a % of sales	*12.1%*	*13.1%*	*13.2%*
Income from continuing operations attributable to shareholders [2] per common share (in EUR) - diluted	1.08	1.39	1.30
Adjusted income from continuing operations attributable to shareholders [2] per common share (in EUR) - diluted [1]	1.54	1.76	2.02

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

[2] Shareholders in this table refers to shareholders of Koninklijke Philips N.V.

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

4.1.1 Results of operations

Philips has realigned the composition of its reporting segments effective as of January 1, 2019, for further details please refer to Significant accounting policies, of the Annual Report 2019.

Sales

The composition of sales growth in percentage terms in 2019, compared to 2018 and 2017, is presented in the table below.

Philips Group
Sales in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Diagnosis & Treatment businesses	7,365	7,726	8,485
Nominal sales growth (%)	2.9	4.9	9.8
Comparable sales growth (%) [1]	3.4	6.6	5.5
Connected Care businesses	4,331	4,341	4,674
Nominal sales growth (%)	2.0	0.2	7.7
Comparable sales growth (%) [1]	4.5	2.7	3.1
Personal Health businesses	5,685	5,524	5,854
Nominal sales growth (%)	2.4	(2.8)	6.0
Comparable sales growth (%) [1]	5.4	2.3	5.0
Other	*400*	*530*	*469*
Philips Group	**17,780**	**18,121**	**19,482**
Nominal sales growth (%)	2.1	1.9	7.5
Comparable sales growth (%) [1]	3.9	4.7	4.5

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

Group sales amounted to EUR 19,482 million in 2019, 8% higher on a nominal basis. Adjusted for a 3.0% positive currency effect and consolidation impact, comparable sales*) were 4.5% above 2018. The positive currency effect is mainly driven by the appreciation of the US dollar against the Euro.

Diagnosis & Treatment businesses

In 2019, sales amounted to EUR 8,485 million, 10% higher than in 2018 on a nominal basis. Excluding a 4.3% positive currency effect and consolidation impact, comparable sales*) increased by 5%, with double-digit growth in Image-Guided Therapy, high-single-digit growth in Ultrasound and low-single-digit growth in Diagnostic Imaging. The positive currency effect is mainly driven by the appreciation of the US dollar against the Euro.

Connected Care businesses

In 2019, sales amounted to EUR 4,674 million, 8% higher on a nominal basis compared to 2018. Excluding a 4.6% positive currency effect and consolidation impact, comparable sales*) increased by 3%, with low-single-digit growth in Sleep & Respiratory Care and Monitoring & Analytics. The positive currency effect is mainly driven by the appreciation of the US dollar against the Euro.

Personal Health businesses

In 2019, sales amounted to EUR 5,854 million, 6% higher on a nominal basis compared to 2018. Excluding a 0.9% positive currency effect and consolidation impact, comparable sales*) were 5% higher year-on-year, driven by double-digit growth in Oral Healthcare.

Other

In 2019, sales amounted to EUR 469 million, compared to EUR 530 million in 2018. The decrease was mainly due to lower royalty income and the divestment of the Photonics business in Q1 2019.

Performance per geographic cluster

Philips Group
Sales by geographic area in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Western Europe	3,802	3,990	4,134
North America	6,409	6,338	6,951
Other mature geographies	1,707	1,892	1,905
Total mature geographies	**11,918**	**12,221**	**12,990**
Nominal sales growth (%)	0.8	2.5	6.3
Comparable sales growth (%) [1]	1.9	3.3	2.1
Growth geographies	**5,862**	**5,901**	**6,492**
Nominal sales growth (%)	4.8	0.7	10.0
Comparable sales growth (%) [1]	8.0	7.6	9.6
Philips Group	**17,780**	**18,121**	**19,482**

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

Sales in mature geographies in 2019 were EUR 769 million higher than in 2018, or 6% higher on a nominal basis and 2% higher on comparable basis*). Sales in Western Europe were 4% higher year-on-year on a nominal basis and 2% higher on a comparable basis*), with mid-single-digit growth in the Personal Health businesses and low-single-digit growth in the Connected Care businesses, while the Diagnosis & Treatment businesses were in line with 2018. Sales in North America increased by EUR 613 million, or 10% on a nominal basis, and increased 4% on a comparable basis*), with mid-single-digit growth in the Diagnosis & Treatment businesses and low-single-digit growth in the Personal Health businesses and Connected Care businesses. Sales in other mature geographies increased by 1% on a nominal basis and declined by 3% on a comparable basis*), as lower IP royalty income offset high-single-digit growth in the Personal Health businesses, mid-single-digit growth in the Connected Care businesses and low-single-digit growth in the Diagnosis & Treatment businesses.

Sales in growth geographies in 2019 were EUR 591 million higher than in 2018, increased by 10% on both a nominal and a comparable basis*) with double-digit growth in the Diagnosis & Treatment businesses, high-single-digit growth in the Connected Care businesses and mid-single-digit growth in the Personal Health businesses. The increase was driven by double-digit growth in China.

Diagnosis & Treatment businesses

Philips Group
Diagnosis & Treatment businesses sales in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Western Europe	1,457	1,557	1,586
North America	2,748	2,879	3,214
Other mature geographies	769	797	851
Total mature geographies	**4,974**	**5,232**	**5,651**
Growth geographies	2,390	2,494	2,834
Sales	**7,365**	**7,726**	**8,485**
Nominal sales growth (%)	3%	5%	10%
Comparable sales growth (%) [1]	3%	7%	5%

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

From a geographic perspective, nominal sales in growth geographies increased by 14% in 2019, while comparable sales*) showed double-digit growth, driven by double-digit growth in China and Latin America. Sales in mature geographies increased by 8% on a nominal basis, while comparable sales*) showed low-single-digit growth, with mid-single-digit growth in North America and low-single-digit growth in other mature geographies, while Western Europe remained flat year-on-year.

Connected Care businesses

Philips Group
Connected care businesses sales in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Western Europe	674	751	782
North America	2,540	2,448	2,624
Other mature geographies	571	580	646
Total mature geographies	**3,785**	**3,779**	**4,052**
Growth geographies	546	562	622
Sales	**4,331**	**4,341**	**4,674**
Nominal sales growth (%)	2%	0%	8%
Comparable sales growth (%) [1]	5%	3%	3%

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

From a geographic perspective, sales on a nominal basis increased by 11% in growth geographies in 2019 and on a comparable basis*) showed high-single-digit growth, with double-digit growth in China and mid-single-digit growth in Latin America. Sales in mature geographies decreased by 7% on a nominal basis and showed low-single-digit growth on a comparable basis*), with mid-single-digit growth in other mature geographies and low-single-digit growth in Western Europe and North America.

Personal Health businesses

Philips Group
Personal Health businesses sales in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Western Europe	1,553	1,516	1,604
North America	1,028	945	1,003
Other mature geographies	322	334	367
Total mature geographies	**2,903**	**2,795**	**2,974**
Growth geographies	2,781	2,730	2,880
Sales	**5,685**	**5,524**	**5,854**
Nominal sales growth (%)	2%	(3)%	6%
Comparable sales growth (%) [1]	5%	2%	5%

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

Sales in growth geographies increased 6% on a nominal basis in 2019 and on a comparable basis*) showed mid-single-digit growth, with double-digit growth in Central & Eastern Europe and mid-single-digit growth in China. Sales in mature geographies increased 6% on a nominal basis and on a comparable basis*) showed mid-single-digit growth, with high-single-digit growth in other mature geographies, mid-single-digit growth in Western Europe, and low-single-digit growth in North America.

Gross margin

In 2019, Philips' gross margin increased to EUR 8,875 million compared to EUR 8,554 million in 2018, while the margin decreased to 45.6% of sales from 47.2% of sales in 2018. The year-on-year decrease in the margin was mainly driven by lower IP royalty income and tariffs. Gross margin in 2019 included EUR 191 million of restructuring, acquisition-related and other charges, whereas 2018 included EUR 107 million of restructuring, acquisition-related and other charges. 2019 also includes charges related to the Consent Decree focused on defibrillator manufacturing in the US of EUR 29 million and a provision of EUR 12 million related to legal matters. 2018 also included EUR 28 million of charges related to the Consent Decree.

Selling expenses

Selling expenses amounted to EUR 4,682 million in 2019, or 24.0% of sales, compared to EUR 4,500 million, or 24.8% of sales, in 2018. Selling expenses in 2019 included EUR 158 million of restructuring, acquisition-related and other charges, compared to EUR 121 million in 2018. 2019 includes charges related to the Consent Decree of EUR 10 million and a provision of EUR 10 million related to legal matters. 2018 also included a EUR 18 million charge related to the conclusion of the European Commission investigation into retail price maintenance, and EUR 16 million related to the Consent Decree.

General and administrative expenses

General and administrative expenses amounted to EUR 631 million, or 3.2% of sales, in 2019, compared to EUR 631 million, or 3.5% of sales, in 2018. 2019 included EUR 24 million of restructuring, acquisition-related and other charges, compared to EUR 30 million in 2018.

Research and development expenses

Research and development costs were EUR 1,884 million, or 9,7% of sales, in 2019, compared to EUR 1,759 million, or 9.7% of sales, in 2018. Research and development costs in 2019 included EUR 151 million of restructuring, acquisition-related and other charges, compared to EUR 76 million in 2018. 2019 includes EUR 92 million related to a value adjustment of capitalized development costs. 2018 also included EUR 12 million of charges related to the Consent Decree.

Philips Group
Research and development expenses in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Diagnosis & Treatment	765	801	928
Connected Care	433	424	465
Personal Health	304	300	302
Other	*262*	*235*	*189*
Philips Group	**1,764**	**1,759**	**1,884**
As a % of sales	*9.9%*	*9.7%*	*9.7%*

Net income, Income from operations (EBIT) and Adjusted EBITA*)

Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis, resulting in them being shown on a Philips Group level only.

The overview below shows Income from operations and Adjusted EBITA*) according to the 2019 segment classifications.

Philips Group
Income from operations and Adjusted EBITA 1) in millions of EUR unless otherwise stated
2017 - 2019

	Income from operations	as a % of sales	Adjusted EBITA 1)	as a % of sales
2019				
Diagnosis & Treatment	660	7.8%	1,078	12.7%
Connected Care	267	5.7%	618	13.2%
Personal Health	844	14.4%	943	16.1%
Other	*(127)*		*(76)*	
Philips Group	**1,644**	**8.4%**	**2,563**	**13.2%**
2018				
Diagnosis & Treatment	629	8.1%	872	11.3%
Connected Care	399	9.2%	662	15.2%
Personal Health	796	14.4%	860	15.6%
Other	*(105)*		*(28)*	
Philips Group	**1,719**	**9.5%**	**2,366**	**13.1%**
2017				
Diagnosis & Treatment	512	7.0%	747	10.1%
Connected Care	424	9.8%	684	15.8%
Personal Health	834	14.7%	879	15.5%
Other	*(252)*		*(157)*	
Philips Group	**1,517**	**8.5%**	**2,153**	**12.1%**

1) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

Net income increased by EUR 76 million compared to 2018, mainly due to improvements in operational performance, lower net financial expenses and lower charges related to discontinued operations, partly offset by higher income tax expense and charges of EUR 97 million related to impairment of goodwill.

In 2019, Income from operations amounted to EUR 1,644 million, or 8.4% of sales, a decrease of EUR 75 million year-on-year . Restructuring, acquisition-related and other charges amounted to EUR 471 million, compared to EUR 299 million in 2018. 2019 includes a gain of EUR 64 million related to a divestment, charges of EUR 99 million related to a value adjustment of capitalized development costs, a charge related to a litigation provision, charges related to the Consent Decree of EUR 44 million and a provision of EUR 22 million related to legal matters. 2018 included a gain of EUR 43 million related to a divestment. 2018 also included: EUR 56 million of charges related to the Consent Decree; EUR 18 million of the total EUR 30 million provision related to the conclusion of the European Commission investigation into retail pricing, of which the other EUR 12 million was recognized in Discontinued operations.

Adjusted EBITA*) amounted to EUR 2,563 million, or 13.2% of sales, and improved by EUR 197 million, or 10 basis points as a percentage of sales, compared to 2018, mainly due to sales growth and productivity, partly offset by lower IP royalty income, tariffs and investments.

The 2019 performance resulted in a decrease in Income from continuing operations attributable to shareholders per common share (in EUR) - diluted of 7% from EUR 1.39 in 2018 to EUR 1.30 in 2019. Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted*) increased by 15% from EUR 1.76 in 2018 to EUR 2.02 in 2019.

Diagnosis & Treatment businesses

Income from operations increased to EUR 660 million compared to EUR 629 million in 2018. The year 2019 included EUR 196 million of charges related to amortization and a goodwill impairment, compared to EUR 98 million of amortization charges in 2018. 2019 includes a charge of EUR 19 million related to an impairment of goodwill; the amortization charges mainly relate to intangible assets in Image-Guided Therapy. Restructuring, acquisition-related and other charges to improve productivity were EUR 222 million, compared to EUR 146 million in 2018. 2019 includes charges of EUR 99 million related to a value adjustment of capitalized development costs.

Adjusted EBITA*) increased by EUR 206 million to 12.7%, mainly due to sales growth and productivity, partly offset by investments and tariffs.

Connected Care businesses

Income from operations in 2019 amounted to EUR 267 million compared to EUR 399 million in 2018. The year 2019 includes EUR 219 million of charges related to amortization and a goodwill impairment, compared to EUR 140 million of amortization charges in 2018. 2019 includes a charge of EUR 78 million related to an impairment of goodwill; the amortization charges mainly relate to acquired intangible assets in Sleep & Respiratory Care and Population Health Management. Restructuring, acquisition-related and other charges amounted to EUR 131 million in 2019, compared to EUR 122 million in 2018. 2019 included EUR 44 million of charges related to the Consent Decree.

Adjusted EBITA*) decreased by EUR 44 million to 13.2%, mainly due to tariffs, an adverse currency impact, mix and higher material costs.

Personal Health businesses

Income from operations in 2019 increased to EUR 844 million compared to EUR 796 million in 2018. The year 2019 included EUR 25 million of amortization charges, compared to EUR 31 million in 2018. These charges mainly relate to intangible assets in Mother & Child Care and Domestic Appliances . Restructuring, acquisition-related and other charges were EUR 73 million, compared to EUR 33 million in 2018. 2019 includes a provision of EUR 22 million related to legal matters.

Adjusted EBITA*) increased by EUR 83 million to 16.1%, mainly due to sales growth, a positive mix impact and productivity, partly offset by tariffs.

Other

In Other we report on the items Innovation, IP Royalties, Central costs and Other.

In 2019, Income from operations totaled EUR (127) million, compared to EUR (105) million in 2018. Restructuring, acquisition-related and other charges amounted to EUR 43 million, compared to EUR 2 million in 2018. 2019 includes a gain of EUR 64 million related to a divestment and a charge related to a litigation provision, while 2018 included a gain of EUR 43 million related to a divestment.

Adjusted EBITA*) decreased by EUR 48 million, mainly due to charges related to movements in environmental provisions and other non-recurring items.

Financial income and expenses

A breakdown of Financial income and expenses is presented in the following table.

Philips Group
Financial income and expenses in millions of EUR
2017 - 2019

	2017	2018	2019
Interest expense (net)	(182)	(157)	(169)
Sale of securities	1	6	2
Impairments	(2)	-	-
Other	46	(62)	50
Financial income and expenses	**(137)**	**(213)**	**(117)**

Net financial expenses decreased by EUR 96 million year-on-year, mainly due to dividend income from investments, while 2018 included financial charges of EUR 46 million related to bond redemptions. For further information, refer to Financial income and expenses, of the Annual Report 2019.

Income taxes

Income taxes amounted to EUR 337 million. The effective income tax rate in 2019 was 22.1%, compared to 12.8% in 2018, mainly due to lower non-cash benefits from tax audit resolutions and business integration compared to 2018, partly offset by lower provisions for tax risks. For 2020, we expect our effective tax rate to be within the 24%-26% range, depending on the geographical mix of taxable income.

Investment in associates

Results related to investments in associates improved from a loss of EUR 2 million in 2018 to EUR 1 million in 2019.

Discontinued operations

Philips Group
Discontinued operations, net of income taxes in millions of EUR
2017 - 2019

	2017	2018	2019
Signify, formerly Philips Lighting	896	(198)	
The combined Lumileds and Automotive businesses	(29)	12	
Other	(24)	(27)	(19)
Net income of Discontinued operations	**843**	**(213)**	**(19)**

Discontinued operations in 2019 mainly include net costs related to other divestments, which were previously reported as discontinued operations.

Discontinued operations in 2018 mainly include dividends received of EUR 32 million and a EUR 218 million loss related to a value adjustment of the remaining interest in Signify.

For further information, refer to Discontinued operations and assets classified as held for sale, of the Annual Report 2019

Non-controlling interests

Net income attributable to non-controlling interests decreased from EUR 7 million in 2018 to EUR 5 million in 2019.

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

4.1.2 Pensions

In 2019, the total costs of post-employment benefits amounted to EUR 56 million for defined benefit plans and EUR 346 million for defined contribution plans. These costs are reported in Income from operations, except for the net interest cost component, which is reported in Financial expense. The net interest cost for defined benefit plans was EUR 22 million in 2019.

The balance sheet position improved in 2019 from a liability of EUR 834 million to a liability of EUR 824 million, mainly due to actuarial gains in the US pension plan.

In 2018, the total costs of post-employment benefits amounted to EUR 46 million for defined benefit plans and EUR 327 million for defined contribution plans. The net interest cost for defined-benefit plans was EUR 23 million in 2018.

The balance sheet position improved in 2018 from from a liability of EUR 972 million to a liability EUR 834 million, mainly due to an additional contribution of EUR 130 million (USD 150 million) in the US.

For further information, refer to Post-employment benefits, of the Annual Report 2019 .

4.1.3 Restructuring and acquisition-related charges and goodwill impairment charges

Philips Group
Restructuring and related charges in millions of EUR
2017 - 2019

	2017	2018	2019
Restructuring and related charges per segment:			
Diagnosis & Treatment	64	74	107
Connected Care	78	40	38
Personal Health	6	14	50
Other	*63*	*31*	*54*
Philips Group	**211**	**159**	**249**
Cost breakdown of restructuring and related charges:			
Personnel lay-off costs	150	136	175
Release of provision	(37)	(37)	(34)
Transfer to Assets held for sale	(5)		
Restructuring-related asset impairment	77	21	44
Other restructuring-related costs	27	39	65
Philips Group	**211**	**159**	**249**

In 2019, the most significant restructuring projects impacted Other and Diagnosis & Treatment and mainly took place in the Netherlands, US and Germany. The restructuring comprised mainly product portfolio rationalization and the reorganization of global support functions.

In 2018, the most significant restructuring projects impacted Diagnosis & Treatment, Connected Care and Other businesses and mainly took place in the Netherlands, Germany and the US. The restructuring mainly comprised product portfolio rationalization and the reorganization of global support functions.

For further information on restructuring, refer to Provisions, of the Annual Report 2019.

Philips Group
Acquisition-related charges in millions of EUR
2017 - 2019

	2017	2018	2019
Diagnosis & Treatment	92	72	42
Connected Care	13	26	26
Personal Health	-	1	1
Other	-		-
Philips Group	**106**	**99**	**69**

In 2019, acquisition-related charges amounted to EUR 69 million. The Diagnosis & Treatment businesses recorded EUR 42 million of acquisition-related charges, mainly related to the acquisition of Spectranetics, a US-based global leader in vascular intervention and lead management solutions

In 2018, acquisition-related charges amounted to EUR 99 million. The Diagnosis & Treatment businesses recorded EUR 72 million of acquisition-related charges, mainly related to the acquisition of Spectranetics.

For further information on the goodwill sensitivity analysis, please refer to Goodwill, of the Annual Report 2019.

4.1.4 Acquisitions and divestments

Acquisitions

In 2019, Philips completed three acquisitions, with the Healthcare Information Systems business of Carestream Health being the most notable. Acquisitions in 2019 and prior years led to acquisition and post-merger integration charges of EUR 42 million in the Diagnosis & Treatment businesses and EUR 26 million in the Connected Care businesses.

In 2018, Philips completed nine acquisitions, with EPD Solutions Ltd. (EPD) being the most notable. Acquisitions in 2018 and prior years led to acquisition and post-merger integration charges of EUR 72 million in the Diagnosis & Treatment businesses and EUR 26 million in the Connected Care businesses.

Divestments

Philips completed two divestments in 2019 which resulted in an aggregated cash consideration of EUR 122 million and a gain of EUR 62 million. The most notable divestment was the Photonics business in Germany.

For details, please refer to Acquisitions and divestments, of the Annual Report 2019.

4.1.5 Changes in cash and cash equivalents, including cash flows

The movements in cash and cash equivalents for the years ended December 31, 2017, 2018 and 2019 are presented and explained below:

Philips Group
Condensed consolidated cash flows statements in millions of EUR
2017 - 2019

	2017	2018	2019
Beginning cash balance	2,334	1,939	1,688
Net cash flows from operating activities	*1,870*	*1,780*	*2,031*
Net capital expenditures	*(685)*	*(796)*	*(978)*
Free cash flow [1)]	1,185	984	1,053
Other cash flows from investing activities	(2,514)	(690)	376
Treasury shares transactions	(414)	(948)	(1,318)
Changes in debt	(205)	160	109
Dividend paid to shareholders of the Company	(384)	(401)	(453)
Sale of shares of Signify (former Philips Lighting), net	1,060		
Other cash flow items	(186)	(3)	(4)
Net cash flows discontinued operations	1,063	647	(25)
Ending cash balance	**1,939**	**1,688**	**1,425**

[1)] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

Net cash provided by (used for) operating activities

Net cash flows provided by operating activities amount to EUR 2,031 million in 2019, compared to EUR 1,780 million in 2018. Free cash flow*) amount to EUR 1,053 million in 2019, compared to EUR 984 million in 2018.

Net cash flows provided by operating activities amounted to EUR 1,780 million in 2018, compared to EUR 1,870 million in 2017. Free cash flow*) amounted to EUR 984 million in 2018, which included a EUR 176 million outflow related to pension liability de-risking in the US and premium payments related to an early bond redemption, compared to EUR 1,185 million in 2017.

Net cash provided by (used for) investing activities

In 2019, cash flows from investing activities amount to a cash inflow of EUR 376 million, mainly due to proceeds from the sale of the remaining Signify shares amounting to EUR 549 million and net cash proceeds from divestment of businesses amounting to EUR 146 million, received mainly from divested businesses held for sale. Other investing activities mainly include acquisition of businesses (including acquisition of investments in associates) of EUR 255 million and EUR 166 million net cash used for foreign exchange derivative contracts related to activities for funding and liquidity management.

In 2018, other cash flows from investing activities amounted to a cash outflow of EUR 690 million, mainly due to acquisition of businesses (including acquisition of investments in associates) amounting to EUR 628 million. EPD was the biggest acquisition in 2018, resulting in a cash outflow of EUR 273 million, including the subsequent payments. Net cash proceeds from divestment of businesses amounted to EUR 70 million and were received mainly from divested businesses held for sale. Other investing activities mainly included EUR 177 million net cash used for foreign exchange derivative contracts related to activities for funding and liquidity management.

Net cash provided by (used for) financing activities

In 2019, treasury shares transactions mainly include the share buy-back activities, which result in EUR 1,318 million net cash outflow. Philips' shareholders were given EUR 775 million including costs in the form of a dividend, of which the cash portion of the dividend amounts to EUR 453 million. Changes in debt mainly includes the net proceeds from the Green Innovation Bond issued of EUR 744 million, partly offset by outflows related to bond maturity of EUR 500 million and lease payments.

In 2018, treasury shares transactions mainly included the share buy-back activities, which resulted in EUR 948 million net cash outflow. Philips' shareholders were given EUR 738 million in the form of a dividend, of which the cash portion of the dividend amounted to EUR 401 million. Changes in debt mainly includes EUR 866 million cash outflow related to the bond redemption and EUR 990 million cash inflow from bonds issued.

Net cash provided by (used for) discontinued operations

Philips Group
Net cash provided by (used for) discontinued operations in millions of EUR
2017 - 2019

	2017	2018	2019
Net cash provided by (used for) operating activities	350	(15)	(11)
Net cash provided by (used for) investing activities	856	662	(14)
Net cash provided by (used for) financing activities	(144)		
Net cash provided by (used for) discontinued operations	**1,063**	**647**	**(25)**

In 2019, net cash used for discontinued operations consists primarily of a divestment formerly reported as discontinued operations.

In 2018, net cash provided by (used for) discontinued operations amounted to EUR 647 million and mainly included a total of EUR 642 million in relation to the sale of Signify shares and the dividend received from Signify reported in investing activities.

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

4.1.6 Financing

Condensed consolidated balance sheets for the years 2017, 2018 and 2019 are presented below:

Philips Group
Condensed consolidated balance sheets in millions of EUR
2017 - 2019

	2017	2018	2019
Intangible assets	11,054	12,093	12,120
Property, plant and equipment	1,591	1,712	2,866
Inventories	2,353	2,674	2,773
Receivables	4,148	4,344	4,909
Assets classified as held for sale	1,356	87	13
Other assets	2,874	3,421	2,910
Payables	(4,492)	(3,957)	(3,820)
Provisions	(2,059)	(2,151)	(2,159)
Liabilities directly associated with assets held for sale	(8)	(12)	-
Other liabilities	(2,017)	(2,962)	(2,965)
Net asset employed	**14,799**	**15,249**	**16,647**
Cash and cash equivalents	1,939	1,688	1,425
Debt	(4,715)	(4,821)	(5,447)
Net debt [1]	**(2,776)**	**(3,132)**	**(4,022)**
Non-controlling interests	(24)	(29)	(28)
Shareholders' equity	(11,999)	(12,088)	(12,597)
Financing	**(14,799)**	**(15,249)**	**(16,647)**

1) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

4.1.7 Debt position

Total debt outstanding at the end of 2019 was EUR 5,447 million, compared with EUR 4,821 million at the end of 2018.

Philips Group
Balance sheet changes in debt in millions of EUR
2017 - 2019

	2017	2018	2019
Additional leases under IFRS16			(1,059)
New borrowings/repayments short-term debt	4	(34)	(23)
New borrowings long-term debt	(1,115)	(1,287)	(847)
Repayments long-term debt	1,332	1,161	761
Forward contracts	(1,018)	124	706
Currency effects, consolidation changes and other	347	(70)	(170)
Transfer to liabilities classified as held for sale	1,342		6
Changes in debt	**891**	**(105)**	**(626)**

In 2019, total debt increased by EUR 626 million compared to 2018. Total debt at December 31, 2019 includes additional lease liabilities of EUR 1,059 million which have been recorded following the adoption of IFRS 16 lease accounting in 2019; this did not have a cash impact. New borrowings of long-term debt include the net proceeds from the issuance of the Green Innovation Bond of EUR 744 million. Repayments of long-term debt amounted to EUR 761 million, mainly due to the repayment of a EUR 500 million bond at its scheduled maturity. Changes in payment obligations from forward contracts are mainly related to maturing forward contracts for the completed 2017 share buyback program and the share repurchase program announced in November 2018. These payment obligations are recorded as financial liabilities under long-term and short-term debt. Other changes, mainly resulting from currency effects, led to an increase of EUR 170 million.

In 2018, total debt increased by EUR 105 million compared to 2017. New borrowings of long-term debt of EUR 1,287 million were mainly due to the issuance of fixed-rate bonds, EUR 500 million due 2024 and EUR 500 million due 2028, and a new long-term loan of EUR 200 million. Repayments of long-term debt amounted to EUR 1,161 million, mainly due to the early redemption of all the 3.750% USD bonds due 2022 with an aggregate principal amount of USD 1.0 billion, the redemption of 6.875% USD bonds due 2038 with an aggregate principal amount of USD 72 million, and the repayment of a loan of EUR 178 million. Changes in payment obligations from forward contracts are mainly related to maturing forward contracts for the 2017 share buyback program and new forward contracts entered into for the extended share repurchase program for LTI and stock purchase plans announced in November 2018. Other changes, mainly resulting from new leases recognized and currency effects, led to an increase of EUR 70 million.

At the end of 2019, long-term debt as a proportion of the total debt stood at 91% with an average remaining term (including current portion) of 8.0 years, compared to 71% and 7.9 years respectively at the end of 2018.

For further information, please refer to Debt, starting on page 0.

4.1.8 Liquidity position

As of December 31, 2019, including the cash position (cash and cash equivalents), as well as its EUR 1 billion committed revolving credit facility, the Philips Group had access to available liquidity of EUR 2,425 million, versus gross debt (including short and long-term) of EUR 5,447 million.

As of December 31, 2018, including the cash position (cash and cash equivalents), as well as its EUR 1 billion committed revolving credit facility, the Philips Group had access to available liquidity of EUR 2,688 million, versus gross debt (including short and long-term) of EUR 4,821 million.

As of December 31, 2017, including the cash position (cash and cash equivalents), as well as its EUR 1 billion committed revolving credit facility, the Philips Group had access to available liquidity of EUR 2,939 million, versus gross debt (including short and long-term) of EUR 4,715 million.

Philips Group
Liquidity position in millions of EUR
2017 - 2019

	2017	2018	2019
Cash and cash equivalents	1,939	1,688	1,425
Committed revolving credit facilities/CP program	1,000	1,000	1,000
Liquidity	**2,939**	**2,688**	**2,425**
Listed equity investments at fair value	49	476	15
Short-term debt	(672)	(1,394)	(508)
Long-term debt	(4,044)	(3,427)	(4,939)
Net available liquidity resources	**(1,728)**	**(1,656)**	**(3,007)**

Philips has a EUR 1 billion committed revolving credit facility which was signed in April 2017 and will expire in April 2024. The facility can be used for general group purposes, such as a backstop of its Commercial Paper Program.

The Commercial Paper Program amounts to USD 2.5 billion, under which Philips can issue commercial paper up to 364 days in tenor, both in the US and in Europe, in any major freely convertible currency. Philips issued and repaid commercial paper in 2019. As of December 31, 2019, Philips did not have any loans outstanding under these facilities.

Additionally, at December 31, 2019 Philips held EUR 15 million of listed (level 1) equity investments at fair value in common shares of companies in various industries. Refer to Other financial assets, starting on page 0 and Fair value of financial assets and liabilities, starting on page 0.

Royal Philips' existing long-term debt is rated A- (with stable outlook) by Fitch, Baa1 (with stable outlook) by Moody's, and BBB+ (with stable outlook) by Standard & Poor's. As part of our capital allocation policy, our net debt*) position is managed with the intention of retaining a strong investment grade credit rating. Ratings are subject to change at any time and there is no assurance that Philips will be able to achieve this goal. The Group's aim when managing the net debt*) position is dividend stability and a pay-out ratio of 40% to 50% of adjusted income from continuing operations attributable to shareholders*). Royal Philips' outstanding long-term debt and credit facilities do not contain financial covenants. Adverse changes in the Company's ratings will not trigger automatic withdrawal of committed credit facilities nor any acceleration in the outstanding long-term debt (provided that the USD-denominated bonds issued by the Company in March 2008 and 2012 contain a 'Change of Control Triggering Event' and the EUR-denominated bonds contain a 'Change of Control Put Event'). A description of Philips' credit facilities can be found in Debt, of the Annual Report 2019.

Philips Group
Credit rating summary
2019

	long-term	short-term	outlook
Fitch	A-		Stable
Moody's	Baa1	P-2	Stable
Standard & Poor's	BBB+	A-2	Stable

Philips pools cash from subsidiaries to the extent legally and economically feasible. Cash not pooled remains available for local operational needs or general purposes. The company faces cross-border foreign exchange controls and/or other legal restrictions in a few countries which could limit its ability to make these balances available on short notice for general use by the group.

Philips believes its current liquidity and direct access to capital markets is sufficient to meet its present financing needs.

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

4.1.9 Shareholders' equity

Shareholders' equity increased by EUR 509 million in 2019 to EUR 12,597 million at December 31, 2019. The increase was mainly due to net results of EUR 1,173 million, the positive impact of currency translation differences of EUR 239 million, net fair value increases of financial assets of EUR 82 million and the impact of the accounting for share-based compensation plans, including the effect of related hedging transactions through forward contracts and share call options (in aggregate EUR 112 million). This was mainly offset by acquired shares because of settlements of earlier concluded forward transactions of EUR 706 million, share repurchases made in the open market of EUR 621 million and dividend payments to shareholders of Koninklijke Philips N.V. of EUR 453 million (including tax and service charges).

Shareholders' equity increased by EUR 89 million in 2018 to EUR 12,088 million at December 31, 2018. The increase was mainly due to net results of EUR 1,097 million and the positive impact of currency translation differences of EUR 347 million. This was mainly offset by share repurchases made in the open market of EUR 514 million, dividend payments to shareholders of Koninklijke Philips N.V. of EUR 400 million (including tax and service charges), net fair value declines of financial assets of EUR 147 million, and the impact of the accounting for share-based compensation plans, including the effect of related hedging transactions through forward contracts and share call options (in aggregate EUR 191 million).

Share capital structure

The number of issued common shares of Royal Philips at December 31, 2019 was 896,733,721. At year-end 2019, the Company held 5.8 million shares in treasury. Of these shares, 5.3 million shares were held in treasury to cover obligations under long-term incentive plans, and 0.5 million shares were held for share capital reduction purposes. Philips repurchased and acquired shares in the course of the year, and cancelled 30 million shares in June 2019 and 8.5 million shares in December 2019. In 2016, Philips purchased call options on Philips shares to hedge options granted to employees up to 2013. As of December 31, 2019, Philips held 2.3 million of such options. In 2017 and 2018, Philips entered into several forward contracts in order to cover obligations under its long-term incentive plans, as well as to reduce its share capital. As of December 31, 2019, the outstanding forward contracts related to 6 million shares.

The number of issued common shares of Royal Philips at December 31, 2018 was 926,195,539. At year-end 2018, the Company held 12.0 million shares in treasury. Of these shares, 7.9 million shares were held in treasury to cover obligations under long-term incentive plans, and 4.1 million shares were held for share capital reduction purposes. Philips repurchased and acquired shares in the course of the year, and cancelled 24.2 million shares in November 2018. As of December 31, 2018, Philips held 3.8 million call options to hedge obligations under its long-term incentive plans. As of December 31, 2018, the outstanding forward contracts to cover obligations under its long-term incentive plans, as well as to reduce its share capital were 28.6 million shares.

Share repurchase methods for long-term incentive plans and capital reduction purposes

During 2019, Royal Philips acquired shares for share-based compensation plans and capital reduction purposes via three different methods: (i) share buy-back repurchases in the open market via an intermediary (ii) repurchase of shares via forward contracts for future delivery of shares (iii) the unwinding of call options on own shares. In 2019, Royal Philips also used methods (i) and (ii) to repurchase shares for capital reduction purposes.

The open market transactions via an intermediary allow for buybacks during both open and closed periods.

Philips Group
Impact of share repurchase on share count in thousands of shares as of December 31
2015 - 2019

	2015	2016	2017	2018	2019
Shares issued	931,131	929,645	940,909	926,196	896,734
Shares in treasury	14,027	7,208	14,717	12,011	5,760
Shares outstanding	917,104	922,437	926,192	914,184	890,974
Shares repurchased	20,296	25,193	19,842	31,994	40,390
Shares cancelled	21,361	18,830		24,247	38,541

Philips Group
Total number of shares repurchased in thousands of shares unless otherwise stated
2019

	share repurchases related to shares acquired for capital reduction	average price paid per share in EUR	shares acquired for LTI's	average price paid per share in EUR	total number of shares purchased as part of publicly announced plans or programs	approximate value of shares that may yet be purchased under the plans or programs in thousands of EUR
January 2019	45	33.13	-	32.43	45	2,393,008
February 2019	1,663	34.38	111	35.10	1,663	2,335,851
March 2019	1,865	35.58	142	36.01	1,865	2,269,505
April 2019	6,200	31.41	308	35.69	6,200	2,074,771
May 2019	10,914	33.00			10,914	1,714,650
June 2019	6,787	31.30	154	37.48	6,787	1,502,258
July 2019	2,086	40.33	187	39.41	2,086	1,418,122
August 2019	1,624	41.61	285	41.09	1,624	1,350,543
September 2019	602	43.03	122	43.12	602	1,324,657
October 2019	479	39.69	1,449	32.85	1,879	1,260,036
November 2019	1,344	40.57	1,300	32.58	2,644	1,163,154
December 2019	1,285	42.75	1,439	33.50	2,585	1,065,884
Total	**34,893**		**5,498**		**38,893**	
of which						
purchased in the open market	16,293				16,293	
acquired through exercise of call options/ settlement of forward contracts	18,600		5,498		22,600	

4.1.10 Cash obligations

Contractual cash obligations

The table below presents a summary of the Group's fixed contractual cash obligations and commitments at December 31, 2019. These amounts are an estimate of future payments, which could change as a result of various factors such as a change in interest rates, foreign exchange, contractual provisions, as well as changes in our business strategy and needs. Therefore, the actual payments made in future periods may differ from those presented in the table below:

Philips Group
Contractual cash obligations [1) 2)] in millions of EUR
2019

		Payments due by period			
	total	less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt [3)]	5,699	256	293	1,218	3,932
Lease obligations	1,533	292	438	261	543
Short-term debt	92	92			
Derivative liabilities	192	68	1	123	
Purchase obligations [4)]	822	370	344	61	48
Trade and other payables	2,089	2,089			
Contractual cash obligations	**10,427**	**3,167**	**1,075**	**1,662**	**4,523**

[1)] Amounts in this table are undiscounted

[2)] This table excludes post-employment benefit plan contribution commitments and income tax liabilities in respect of tax risks because it is not possible to make a reasonably reliable estimate of the actual period of cash settlement

[3)] Long-term debt includes interest and the current portion of long-term debt and excludes lease obligations.

[4)] Purchase obligations are agreements to purchase goods or services that are enforceable and legally binding for the Group. They specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions and the approximate timing of the transaction. They do not include open purchase orders or other commitments which do not specify all significant terms.

IFRS 16, Leases, is effective for the financial year commencing January 1, 2019. Refer to Significant accounting policies, of the Annual Report 2019.

Philips has contracts with investment funds where it committed itself to make, under certain conditions, capital contributions to these funds of an aggregated remaining amount of EUR 61 million (2018: EUR 86 million). As at December 31, 2019 capital contributions already made to these investment funds are recorded as non-current financial assets.

Certain Philips suppliers factor their trade receivables from Philips with third parties through supplier finance arrangements. At December 31, 2018 approximately EUR 275 million of the Philips accounts payable were transferred under such arrangements whereby Philips confirms invoices. In accordance with the terms and conditions of the arrangements, Philips continues to recognize these liabilities as trade payables and settles the liabilities after a further 30 day period compared to the original invoices.

Other cash commitments

The Company and its subsidiaries sponsor post-employment benefit plans in many countries in accordance with legal requirements, customs and the local situation in the countries involved. For a discussion of the plans and expected cash outflows, please refer to Post-employment benefits, of the Annual Report 2019.

The company had EUR 156 million restructuring-related provisions by the end of 2019, of which EUR 125 million is expected to result in cash outflows in 2020. Refer to Provisions, of the Annual Report 2019 for details of restructuring provisions.

Please refer to Dividend, starting on page 34 for information on the proposed dividend distribution.

As of December 31, 2019, Philips has completed 41.5% of its EUR 1.5 billion share buyback program for capital reduction purposes that was announced on January 29, 2019. As the program was initiated for capital reduction purposes, Philips intends to cancel all of the shares acquired under the program.

Guarantees

Philips' policy is to provide guarantees and other letters of support only in writing. Philips does not provide other forms of support. The total fair value of guarantees recognized on the balance sheet amounts to EUR nil million for both 2018 and 2019. Remaining off-balance-sheet business and credit-related guarantees provided on behalf of third parties and associates decreased by EUR 19 million during 2019 to EUR 21 million (December 31, 2018: EUR 40 million).

4.1.11 Sell-down Signify shares (former Philips Lighting)

In 2014, Philips announced its plan to sharpen its strategic focus by establishing two standalone companies focused on the HealthTech and Lighting opportunities respectively. After establishing a stand-alone structure for lighting activities within the Philips Group, Philips Lighting (renamed Signify in 2018) was listed and started trading on Euronext in Amsterdam under the symbol 'LIGHT' on May 27, 2016.

Following the listing of Signify, Philips retained a 71.23% stake. Through a series of Accelerated bookbuild offerings (in total four) and open market sales in the course of 2017 and 2018, Philips' shareholding was reduced to 16.5% of Signify's issued share capital as of December 31, 2018. From an accounting perspective, it is noted that Philips' lighting activities (substantially representing Signify shares) were presented as a discontinued operation from April 2017, and that Signify was deconsolidated in November 2017 and presented as an Asset classified as held for sale until December 31, 2018. As from that date, the remaining Signify shares were reclassified to Other current financial assets, with fair value changes recognized through Other comprehensive income.

During 2019, Philips sold Signify shares in the open market, further reducing its shareholding to 10.7% of Signify's issued share capital. Subsequently, in September 2019, Philips successfully completed a fifth Accelerated bookbuild offering, reducing its shareholding in Signify to nil.

4.1.12 Procurement

For the third year in a row, Philips faced adverse market conditions in 2018, due to industry cycles and raw material price trends. Procurement performance was therefore, more than before, dependent on product concept re-engineering and sourcing strategies.

The combination of price erosion, market growth and inflationary pressures impacted Philips suppliers across the board as the anticipated risk of market headwinds became visible. Additionally, there was tightness in the electronic component markets. The trade tensions and US import tariffs implemented from April 2018 resulted in further direct and indirect financial headwinds. From the third quarter the impact of weaker global growth, exacerbated by a slowdown in China and uncertainty over the impact of Brexit, resulted in returned volatility in commodity and raw materials pricing.

Overcoming these headwinds, Philips delivered on its 2018 procurement performance ambition by optimizing design and costs via various programs, including DfX conventions and Total Cost of Ownership (TCO) programs.

4.1.13 Analysis of 2018 compared to 2017

The analysis of the 2018 financial results compared to 2017, and the discussion of the critical accounting policies, have not been included in this Annual Report. These sections are included in Philips' Form 20-F for the financial year 2019, which will be filed electronically with the US Securities and Exchange Commission.

4.2 Investor information

4.2.1 Dividend

Dividend policy

Philips' dividend policy is aimed at dividend stability and a pay-out ratio of 40% to 50% of adjusted income from continuing operations attributable to shareholders*).

For 2019, the key exclusions to arrive at the adjusted income from continuing operations attributable to shareholders*) are described in Net income, Income from operations (EBIT) and Adjusted EBITA*), starting on page 23 in chapter Financial performance.

Proposed distribution

A proposal will be submitted to the Annual General Meeting of Shareholders, to be held on April 30, 2020, to declare a distribution of EUR 0.85 per common share, in cash or shares at the option of the shareholder (up to EUR 761 million if all shareholders would elect cash), against the net income for 2019.

If the above dividend proposal is adopted, the shares will be traded ex-dividend as of May 5, 2020 at the New York Stock Exchange and Euronext Amsterdam. In compliance with the listing requirements of the New York Stock Exchange and Euronext Amsterdam, the dividend record date will be May 6, 2020.

Shareholders will be given the opportunity to make their choice between cash and shares between May 7 and 29, 2020. If no choice is made during this election period the dividend will be paid in cash. On May 29, 2020 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume-weighted average price of all traded common shares of Koninklijke Philips N.V. at Euronext Amsterdam on May 27, 28 and 29, 2020. The company will calculate the number of share dividend rights entitled to one new common share (the ratio), such that the gross dividend in shares will be approximately equal to the gross dividend in cash. The ratio and the number of shares to be issued will be announced on June 3, 2020. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 4, 2020. The distribution of dividend in cash to holders of New York Registry shares will be made in USD at the USD/EUR rate as per WM/ Reuters FX Benchmark 2 PM CET fixing of June 2, 2020.

	ex-dividend date	record date	payment date
Euronext Amsterdam	May 5, 2020	May 6, 2020	June 4, 2020
New York Stock Exchange	May 5, 2020	May 6, 2020	June 4, 2020

Further details will be given in the agenda for the 2020 Annual General Meeting of Shareholders. All dates mentioned remain provisional until then.

Dividend in cash is in principle subject to 15% Dutch dividend withholding tax, which will be deducted from the dividend in cash paid to the shareholders. Dividend in shares paid out of net income and retained earnings is subject to 15% dividend withholding tax, but only in respect of the par value of the shares (EUR 0.20 per share). Shareholders are advised to consult their tax advisor on the applicable situation with respect to taxes on the dividend received.

In 2019, Philips settled a dividend of EUR 0.85 per common share, representing a total value of EUR 775 million including costs. Shareholders could elect for a cash dividend or a share dividend. Approximately 42% of the shareholders elected for a share dividend, resulting in the issuance of 9,079,538 new common shares, leading to a 1.0% dilution. The dilution caused by the newly issued dividend shares was more than offset by the cancellation of 30,000,000 shares in June, and 8,541,356 shares in December 2019. The settlement of the cash dividend involved an amount of EUR 453 million (including costs).

Dividends and distributions per common share

The following table sets forth in euros the gross dividends on the common shares in the fiscal years indicated (from prior-year profit distribution) and such amounts as converted into US dollars and paid to holders of shares of the New York Registry:

Philips Group
Gross dividends on the common shares
2015 - 2019

	2015	2016	2017	2018	2019
in EUR	0.80	0.80	0.80	0.80	0.85
in USD	0.89	0.90	0.90	0.94	0.96

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

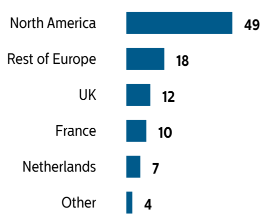
4.2.2 Share information

Philips Group
Share information at year-end
2019

Share listings	Euronext Amsterdam, New York Stock Exchange
Ticker code	PHIA, PHG
No. of shares issued	897 million
No. of shares issued and outstanding	891 million
Market capitalization	EUR 39 billion
Industry classification	
MSCI: Health Care Equipment	35101010
ICB: Medical Equipment	4535
Members of indices	AEX, NYSE, DJSI, STOXX Europe 600 Healthcare, MSCI Europe Health Care

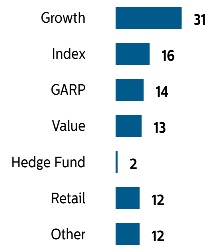
The following information is based on a shareholder base analysis carried out for investor relations purposes by an independent provider in December 2019.

Philips Group
Shareholders by region at year-end [1] in %
2019



[1] Approximate split based on shareholders identified.

Philips Group
Shareholders by style at year-end [1] in %
2019



[1] Approximate split based on shareholders identified.

4.2.3 Financial calendar

Financial calendar

Annual General Meeting of Shareholders	
Record date 2020 AGM	April 2, 2020
2020 AGM	April 30, 2020
Quarterly reports	
First quarter results 2020	April 20, 2020
Second quarter results 2020	July 20, 2020
Third quarter results 2020	October 19, 2020
Fourth quarter results 2020	January 25, 2021

2020 Annual General Meeting of Shareholders

The Agenda and the explanatory notes to the Agenda for the Annual General Meeting of Shareholders on April 30, 2020, will be published on the company's website.

For the 2020 Annual General Meeting of Shareholders, a record date of April 2, 2020 will apply. Those persons who, on that date, hold shares in the Company, and are registered as such in one of the registers designated by the Board of Management for the Annual General Meeting of Shareholders, will be entitled to participate in, and vote at, the meeting.

4.2.4 Investor contact

Shareholder services

Shareholders and other interested parties can make inquiries about the Annual Report 2019 to:

Royal Philips
Annual Report Office
Philips Center
P.O. Box 77900
1070 MX Amsterdam, The Netherlands
E-mail: annual.report@philips.com

The Annual Report on Form 20-F is filed electronically with the US Securities and Exchange Commission.

Holders of shares listed on Euronext Amsterdam

Communications concerning share transfers, share certificates, dividends and change of address should be directed to:

ABN AMRO Bank N.V.
Department Equity Capital Markets/Corporate Broking
HQ7212
Gustav Mahlerlaan 10, 1082 PP Amsterdam
The Netherlands
Telephone: +31-20-34 42000
E-mail: corporate.broking@nl.abnamro.com

Holders of New York Registry shares
Communications concerning share transfers, share certificates, dividends and change of address should be directed to:

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C/O AST
6201 15th Avenue Brooklyn, NY 11219
Telephone (toll-free US): +1-866-706-8374
Telephone (outside of US): +1-718-921-8137
Website: www.astfinancial.com
E-mail: db@astfinancial.com

International direct investment program
Philips offers a Dividend Reinvestment and Direct Stock Purchase Plan designed for the US market. This program provides existing shareholders and interested investors with an economical and convenient way to purchase and sell Philips New York Registry shares (listed at the New York Stock Exchange) and to reinvest cash dividends. Deutsche Bank (the registrar of Philips NY Registry shares) has been authorized to implement and administer both plans for registered shareholders of and new investors in Philips NY Registry shares. Philips does not administer or sponsor the Program and assumes no obligation or liability for the operation of the plan. For further information on this program and for enrollment forms, contact:

Deutsche Bank Global Direct Investor Services
Telephone (toll-free US): +1-866-706-8374
Telephone (outside of US): +1-718-921-8137
Monday through Friday 8:00 AM EST through 8:00 PM EST
Website www.astfinancial.com
E-mail: db@astfinancial.com

or write to:

Deutsche Bank Trust Company Americas
IC/O AST
6201 15th Avenue Brooklyn, NY 11219

Analysts' coverage
Philips is covered by approximately 25 analysts. For a list of our current analysts, please refer to:
www.philips.com/a-w/about/investor/stock-info/analyst-coverage.html

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For media contacts please refer to:
https://www.philips.com/content/corporate/en_AA/about/news/contacts.html/

5 Societal impact

We are a purpose-driven company, aiming to improve the lives of 3 billion people annually by 2030. Our people draw inspiration from the societal impact we achieve through our products and solutions, on both the social and environmental dimensions. In the Annual Report 2017, 2018 and 2019 we quantified the environmental impact that we have as a company in Environmental performance, starting on page 42.

In 2018 we started to apply the True Value methodology to quantify our social impact. This includes the social impact in our supply chain, training of our staff, and taxes we pay. We included these impacts in How we create value, starting on page 10. We have also started to quantify the most complex part, the social impact we have through our products and solutions. We will continue to calculate the impact of our products and solutions in collaboration with knowledge partners and investors.

5.1 Social performance

Our people strategy supports a constantly evolving workforce, capable of delivering strong business performance and executing our strategy. As such we focus on our Workforce of the Future and our deep commitment to Inclusion & Diversity, supported by our culture.

5.1.1 Improving people's lives

At Philips, we strive to make the world healthier and more sustainable through innovation. It is our goal to improve the lives of 3 billion people a year by 2030.

To guide our efforts and measure our progress, we take a two-dimensional approach – social and ecological – to improving people's lives. Products or solutions from our portfolio that directly support the curative or preventive side of people's health determine the contribution to the social dimension. This is also our contribution to UN Sustainable Development Goal 3 (*Ensure healthy lives and promote well-being for all at all ages*). As healthy ecosystems are also needed for people to live a healthy life, the contribution to the ecological dimension is determined by means of our steadily growing Green Products and Solutions portfolio, such as the energy-efficient products in our Personal Health businesses. This is our contribution to Sustainable Development Goal 12 (*Ensure sustainable consumption and production patterns*) and SDG 13 (*Take urgent action to combat climate change and its impacts*).

Philips improved 1.64 billion lives in 2019, an increase of around 100 million compared to 2018, driven by all segments, mainly in China, the ASEAN countries, North America and the Middle East & Turkey. Through Philips products and solutions that support people's health and well-being, we improved the lives of 1.54 billion people in 2019 (2018: 1.43 billion), mainly driven by Diagnosis & Treatment businesses and Connected Care businesses. Our Green Products and Solutions that support a healthy ecosystem contributed 1.07 billion lives (2018: 1.00 billion). After the elimination of double counts – people touched multiple times – we arrived at 1.64 billion lives.

In 2019, Philips extended its commitment to improve the lives of people in underserved healthcare communities to 400 million by 2030. Philips thereby recognized the often critical needs of women and children in many communities, but also the added burden arising from the increase in non-communicable diseases (NCDs) in communities already struggling without adequate access to healthcare. To monitor progress on this extended commitment, we track lives improved in underserved healthcare communities. In 2019 our health and well-being solutions improved the lives of 194 million people in underserved markets (an increase of 20 million compared to 2018).

Lives Improved per market

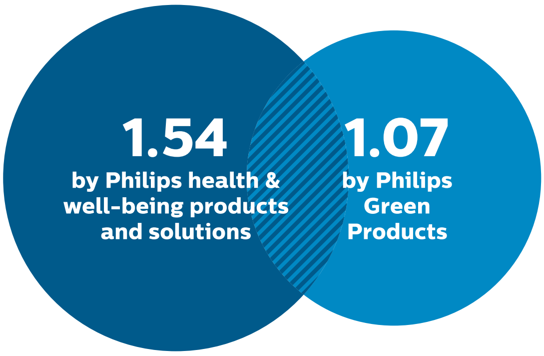
The following table shows the number of Lives Improved per market.

Philips Group
Lives improved per market

Market	Lives Improved (million) [1]	Population (million) [2]	Saturation rate (as % of population)	GDP (USD million) [3]
Africa	33	1,290	3%	2,407
ASEAN & Pacific	158	981	16%	6,700
Benelux	27	29	94%	1,489
Central & Eastern Europe	80	166	48%	1,909
Germany, Austria & Switzerland	81	101	80%	5,033
France	45	66	67%	2,739
Greater China	426	1,432	30%	15,141
Iberia	30	57	52%	1,639
Indian Subcontinent	79	1,570	5%	3,372
Italy, Israel & Greece	35	82	43%	2,631
Japan	42	126	33%	5,155
Latin America	99	645	15%	5,430
Middle East & Turkey	69	372	18%	3,246
Nordics	18	28	67%	1,594
North America	344	367	94%	23,170
Russia & Central Asia	43	251	17%	2,085
UK & Ireland	35	72	48%	3,143

[1] Source: Philips, double counts eliminated
[2] Source: The World Bank, CIA Factbook & Wikipedia
[3] Source: IMF, CIA, Factbook & Wikipedia

Philips Group
Lives improved in billions



Total: 1.64 billion (double counts eliminated)

Double counts

Conceptual drawing, areas do not reflect actual proportions

5.1.2 Workforce of the Future

The challenges presented by the fast-evolving industry landscape demand a networked organization in which cross-functional teams actively draw on resources across the organization and across the world. Our Workforce of the Future program reflects our commitment to meet the challenge of addressing our customers' unmet needs and deliver the full benefits of data-enabled connected care – by attracting, developing and retaining a workforce that will deliver the strategic capabilities we need to win.

By applying Strategic Workforce Planning, in close alignment with the strategic planning of our businesses, we identify and develop the employee capabilities needed to realize our ambitions as a health technology company. In 2019 we implemented company-wide initiatives to retain and staff our most strategic positions with top performers. At the end of 2019 we retained 93% of these employees and staffed 52% of our strategic positions with employees who are considered to be top performers. Key drivers of this are our internal development focus, leadership programs and our focused talent search services.

We have also been addressing the challenge of the expanding workforce and our ability to tap into the gig economy and other less traditional work constructs. We continue to recognize the significant contribution contingent workers make to our company. Therefore, building on earlier initiatives, we have ensured that both our workforce demand management system and our talent acquisition processes include contingent and regular employee solutions in staffing proposals and decisions. Our Total Workforce strategy considers all sources of skills and capabilities we require in the

Workforce of the Future, as well as location-related talent availability and labor market trends. We continued to devote additional attention to our campus, graduate and early-career hiring in 2019, which resulted in an increase in the number of campus hires compared to 2018. Our focus on the Workforce of the Future will continue in 2020, with further emphasis on strategic capabilities.

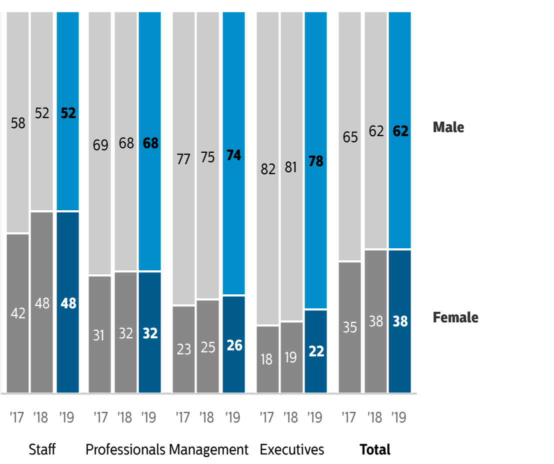
More information on training and learning programs can be found in People development, of the Annual Report 2019.

5.1.3 Inclusion & Diversity

To be able to understand and meet customer and patient needs in a complex and continually changing environment, our workforce should reflect the society in which we operate, our customers, and the markets we serve. We believe that an inclusive culture allows our 120-plus nationalities to bring a rich diversity of capabilities, opinions and perspectives to our decision-making processes, thus driving innovation, enabling faster, targeted responses to market changes, and supporting sustainable improvements in business performance.

Two years ago, we renewed our approach to Inclusion & Diversity. We set a goal of 25% gender diversity in senior leadership positions (a subset of Management and Executive positions) by the end of 2020 (compared with 19% at the end of 2017). In 2019, we again partnered with leading Inclusion & Diversity training providers to further roll out unconscious bias and inclusion trainings. With regard to appointment and promotion opportunities, we transparently share open positions and endeavor to attract candidates from a diverse range of backgrounds. Diverse interview panels are put in place for recruitment to leadership positions. In 2019, we increased the number of Senior Women's Leadership Programs for the third consecutive year.

Philips Group
Gender diversity in %
2017 - 2019



Overall gender diversity remained stable at 38% in 2019 whilst gender diversity among Executives increased from 19% to 22% female executives. Measured against our 2020 goal of 25% gender diversity in leadership positions, we increased from 21% in 2018 to 24% in 2019.

5.1.4 Our culture

As we continue our transformation into a focused leader in health technology – shifting from products to solutions and building long-term relationships with our customers – we are fostering a culture within Philips that will help us achieve operational excellence and extend our solutions capability to address our customers' unmet needs.

All Philips employees are expected to commit to living our behaviors – Customers first, Quality and integrity always, Team up to win, Take ownership to deliver fast, and Eager to improve and inspire – every step of the way.

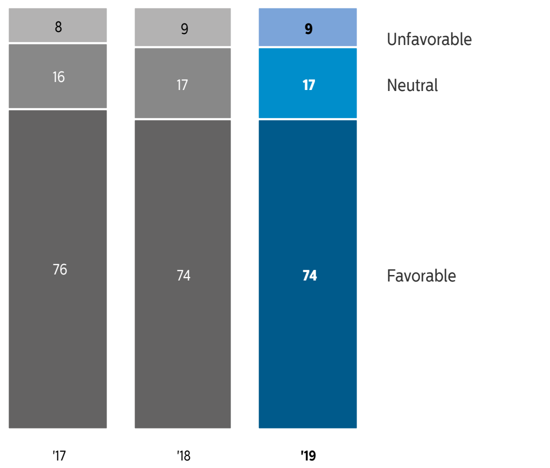
Putting our customers first must be at the heart of everything we do. Only by engaging deeply with our customers can we understand their unmet needs and deliver superior value. We also need to be conscious at all times of the high-stakes environment in which we operate. This environment demands that we apply the highest quality and integrity standards – always. To deliver superior value to our customers and ensure quality and integrity, we need to improve how we team up and leverage the skills, capabilities and expertise right across Philips. At the same time, we all need to take personal ownership, enabling us to move with speed and agility, and deliver what we promise, on time. And by applying operational excellence and Lean ways of working, we will keep improving and inspiring each other through the work we do.

We staff our positions based on assessed behavior, potential and capabilities. In 2019, we filled 74% of our Director-level and more senior positions from within the company. For these internal hires, we ensure our candidates are high performers with strong potential. In 2019, 79% of all internal promotions to Director level and more senior positions were realized by appointing top performers. We supplement this internal growth with targeted external hiring, bringing in employees with the behaviors and capabilities we require for our Workforce of the Future.

5.1.5 Employee engagement

High employee engagement is crucial to the success of our strategy. Our employee survey consistently reports high levels of employee engagement that exceed the high-performance norm of 70%. Our average engagement score for 2019 was 74%, in line with our engagement levels in 2018. We remain substantially above the high-performance norm, driven by our employees' pride to work for Philips and the positive energy they get from their job.

Philips Group
Employee Engagement index in %
2017 - 2019



Our quarterly employee surveys help to keep our finger on the pulse of employee sentiment toward the company. We listen to employees' ideas for improvement, show employees that their feedback is valued, and work to ensure that every person in our company has a role to play in creating lasting value for our customers, shareholders, and other stakeholders.

At Philips, we believe we perform at our best when we look after ourselves and each other. In 2019, we continued to develop our Health & Wellbeing programs, which are designed to engage our employees and help them to adopt a healthier lifestyle and achieve a better work/life integration. Through the ongoing engagement of a network of Health & Wellbeing ambassadors, we also leveraged the energy and experience of our employees to drive local wellbeing initiatives in our markets. These included on-site exercise and fitness clubs, Mindfulness classes and Energy Management workshops.

5.1.6 Employment

The total number of Philips Group employees was 80,495 at the end of 2019, compared to 77,400 at the end of 2018, an increase of 3,095 FTE.

The increase of 1,765 FTE for Diagnosis & Treatment results mainly from acquisitions in healthcare informatics and precision diagnosis and the move of Emerging Businesses out of segment Other into segment Diagnosis & Treatment; for more information please refer to About Diagnosis & Treatment businesses in 2018, starting on page 12.

The 2,481 increase in FTE in 'Other changes' reflects, among other things, the increase in Commercial and Manufacturing employees and the shift of supporting roles to Global Business Services organizations.

Philips Group
Employees per segment in FTEs at year-end
2017 - 2019

	2017	2018	2019
Diagnosis & Treatment	28,904	29,546	31,311
Connected Care	15,010	15,085	14,939
Personal Health	17,253	16,132	16,448
Other	*12,784*	*16,637*	*17,797*
Philips Group	**73,951**	**77,400**	**80,495**

Philips Group
Employment in FTEs
2017 - 2019

	2017	2018	2019
Balance as of January 1	**114,731**	**73,951**	**77,400**
Consolidation changes:			
Acquisitions	1,812	331	900
Divestments	(332)	(107)	(286)
Changes in Discontinued operations	(43,763)		
Other changes	1,502	3,225	2,481
Balance as of December 31	**73,951**	**77,400**	**80,495**

Geographic footprint

Approximately 59% (2018: 61%) of the Philips workforce is located in mature geographies and 41% (2018: 39%) in growth geographies. In 2019, the number of employees in mature geographies increased by 508. The number of employees in growth geographies increased by 2,588.

Philips Group
Employees per geographic cluster in FTEs at year-end
2017 - 2019

	2017	2018	2019
Western Europe	21,055	21,399	21,645
North America	20,937	21,703	21,483
Other mature geographies	3,962	4,236	4,718
Mature geographies	45,954	47,338	47,846
Growth geographies	27,997	30,062	32,650
Philips Group	**73,951**	**77,400**	**80,495**

Employee turnover

In 2019, employee turnover amounted to 15.0%, of which 8.6% was voluntary, compared to 14.2% (8.6% voluntary) in 2018. External benchmarks show that our voluntary employee turnover remains well below similar-sized companies, and that we are reasonably successful in retaining our employees.

With our focus on increasing gender diversity in leadership positions, we reduced voluntary female executive turnover from 8.8% in 2018 to 4.2% in 2019.

Philips Group
Employee turnover in %
2019

	Staff	Professionals	Management	Executives	Total
Female	22.3	12.9	11.5	16.7	17.7
Male	17.8	11.0	10.6	17.8	13.4
Philips Group	**20.0**	**11.6**	**10.9**	**17.5**	**15.0**

Philips Group
Voluntary turnover in %
2019

	Staff	Pro-fes-sionals	Man-age-ment	Ex-ecu-tives	Total
Female	9.5	9.0	6.6	4.2	9.1
Male	10.6	7.3	5.1	6.3	8.3
Philips Group	**10.1**	**7.8**	**5.5**	**5.8**	**8.6**

5.1.7 Human rights

We believe that businesses have the responsibility to respect human rights and the ability to contribute to positive human rights impacts. Consistent with our commitment, as reflected in our policy, we do all that is reasonable and practicable to proactively identify and mitigate (potential) adverse human rights impacts in our operations and value chain. For many years already, our General Business Principles (GBP) have expressed our support and respect for human rights as set out in the International Bill of Human Rights and the International Labor Organization's Declaration on Fundamental Principles and Rights at Work. In this, we follow the guidance given in the United Nations Guiding Principles on Business and Human Rights (UNGP) and the OECD Guidelines for Multinational Enterprises. Philips has also been a signatory to the UN Global Compact since 2007. Our commitment to respect human rights and avoid negative human rights impacts is led from the top. The avoidance of negative human rights impacts is on the agenda of the Sustainability Board, which meets quarterly.

In 2019, we created new channels of internal communication and developed a plan to advance training and awareness among our employees. Moreover, we further integrated human rights as part of our internal processes: we referenced additional human rights considerations in the Supplier Sustainability Program, acted upon the outcomes of our Human Rights Impact Assessment, and, based on that, explored how to advance our human rights due diligence globally. Our Human Rights Report contains detailed information regarding our progress and plans for continuous improvement.

5.1.8 General Business Principles

In the highly regulated world of healthcare, integrity requires in-depth knowledge of the applicable rules and regulations and a sensitivity to healthcare-specific issues. The Philips General Business Principles (GBP) incorporate and represent the fundamental principles by which all Philips businesses and employees around the globe must abide. They set the minimum standard for business conduct, both for individual employees and for the company and our subsidiaries. Our GBP also serve as a reference for the business conduct we expect from our business partners and suppliers.

Translations of the GBP text are available in 31 languages, allowing almost every employee to read the GBP in their native language. Detailed underlying policies, manuals, training, and tools are in place to give employees practical guidance on how to apply and uphold the GBP in their daily work environment. Details can be found at www.philips.com/gbp.

In 2019, a total of 545 concerns were reported via the Philips Ethics Line and through our network of GBP Compliance Officers. This represents a 24% increase over the previous reporting period (2018: 438 concerns reported).

This is a continuation of the upward trend reported since 2014, the year in which Philips updated its General Business Principles and deployed a strengthened global communication campaign. Specifically in 2019, we focused on increasing awareness on Integrity, and on the importance of speaking up through, and following, the deployment of our biennial Business Integrity Survey. We believe the upward trend in reporting remains in line with our multi-year efforts to encourage our employees to express their concerns, in combination with a growing workforce.

More information on the Philips GBP can be found in Risk management, of the Annual Report 2019.

The results of the monitoring measures in place are given in General Business Principles, of the Annual Report 2019

5.1.9 Health and Safety

At Philips, we strive for an injury-free and illness-free work environment. Since 2016, the Total Recordable Cases (TRC) rate has been defined as a Key Performance Indicator (KPI). A TRC is a case where an injured employee is unable to work for one or more days, has medical treatment, or sustains an industrial illness. We set yearly TRC targets for the company, Businesses and industrial sites.

We recorded 224 TRCs in 2019, a 13% increase compared to 198 in 2018. While our workforce continued to expand in 2019, the TRC rate increased from 0.28 per hundred FTEs in 2018 to 0.30 in 2019.

In 2019 we recorded 103 Lost Workday Injury Cases (LWIC). These are occupational injury cases where an injured person is unable to work for one or more days after the injury. This represents a 13% increase compared with 91 in 2018. The LWIC rate increased to 0.14 per 100 FTEs in 2019, compared with 0.13 in 2018. The number of Lost Workdays caused by injuries decreased by 17 days (0.4%) to 4,633 days in 2019.

For more information on Health and Safety, please refer to Health and Safety performance, of the Annual Report 2019

5.1.10 Working with stakeholders

In organizing ourselves around customers and markets, we conduct dialogues with our stakeholders in order to explore common ground for addressing societal challenges, building partnerships and jointly developing supporting ecosystems for our innovations around the world.

An overview of stakeholders and topics discussed is provided in Sustainability statements, of the Annual Report 2019.

For more information on our stakeholder engagement activities in 2019, please refer to Stakeholder engagement, of the Annual Report 2019.

5.1.11 Supplier sustainability

Philips' mission to improve people's lives applies throughout our value chain. Since 2003 we have dedicated supplier sustainability programs as part of our sustainability strategy. We have a direct business relationship with approximately 4,900 product and component suppliers and 19,000 service providers. In many cases the sustainability issues deeper in our supply chain require us to intervene beyond tier 1 of the chain.

Supplier sustainability strategy

Managing our large and complex supply chain in a socially and environmentally responsible way requires a structured and innovative approach while being transparent and engaging with a wide variety of stakeholders. Insights gained through our regular stakeholder engagement process are used as an input to manage our supplier sustainability strategy. At present, our programs focus on compliance with our policies, improvement of suppliers' sustainability performance, responsible sourcing of minerals, and circular procurement practices.

Please refer to Supplier indicators, of the Annual Report 2019 and to the Philips supplier sustainability website for more details on the Philips supplier sustainability program.

5.2 Environmental performance

Our latest five-year sustainability program, 'Healthy people, Sustainable planet', was launched in 2016. It addresses both social and environmental challenges and includes associated targets to be achieved by 2020.

Besides our social impact, focusing on SDG 3, described in the previous section, we have an environmental impact through our global operations, but even more so through our products and solutions. This is our contribution to SDG 12 (*Ensure sustainable consumption and production patterns*) and to SDG 13 (*Take urgent action to combat climate change and its impacts*).

In this Environmental performance section an overview is given of the most important environmental parameters of the 'Healthy people, Sustainable planet' program. Details can be found in the Sustainability statements, of the Annual Report 2019.

Environmental impact

Since 1990, Philips has been performing Life-Cycle Assessments (LCAs). These LCAs provide insight into the lifetime environmental impact of our products and are used to steer our EcoDesign efforts and to grow our Green Solutions portfolio. As a logical next step, we have measured our environmental impact on society at large via a so-called Environmental Profit & Loss (EP&L) account, which includes the hidden environmental costs associated with our activities and products. It supports the direction of our 'Healthy people, Sustainable planet' program by providing insights into the main environmental hotspots and innovation areas to reduce the environmental impact of our products and solutions.

The EP&L account is based on LCA methodology, in which the environmental impacts are expressed in monetary terms using conversion factors developed by CE Delft. These conversion factors are subject to further refinement and are expected to change over time. We used expert opinions and estimates for some parts of the calculations. The figures reported are Philips' best possible estimates. As we gain new insights and retrieve more and better data, we will enhance the methodology, use cases and accuracy of results in the future. For more information we refer to our methodology report.

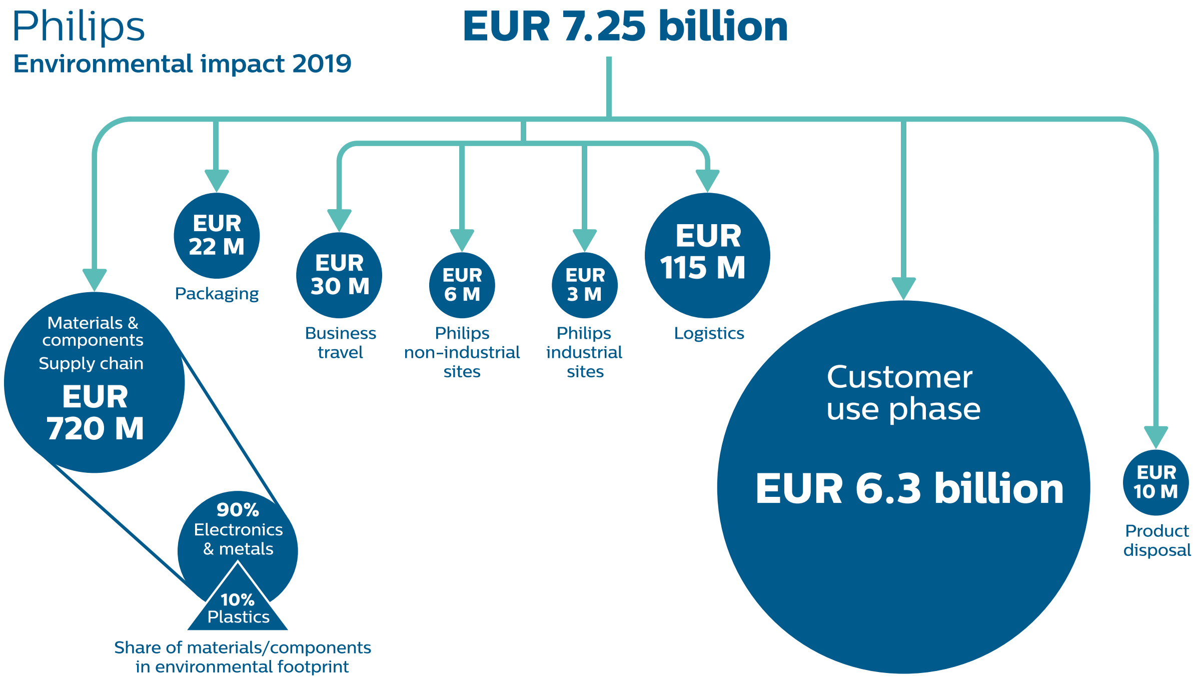
An important learning that we derived from the 2017 and 2018 EP&L is that, in addition to the conversion factors, the definition of the use case scenarios also has a significant impact on the result. This is especially true of consumer products which have large sales volumes, long lifetimes and frequently high energy consumption (e.g. haircare products and steam irons). It is our aim to look into the feasibility of standardizing the use cases and calculation of the yearly energy consumption.

The current EP&L account only includes the hidden environmental costs. It does not yet include the benefits to society that Philips generates by improving people's lives through our products and solutions. We have a well-established methodology to calculate the number of lives we positively touch with our products and solutions. It is our aim to look into valuing these societal benefits in monetary terms as well and include them in our future EP&L account.

Results 2019

In 2019, Philips reduced its environmental impact from EUR 7.5 billion to EUR 7.25 billion, a 3% improvement compared to 2018. The main environmental impact, 88% of the total, is related to the usage of our products, which is due to electricity consumption. Particulate matter formation and climate change are the main environmental impacts, accounting for 43% and 28% respectively of the total impact. The environmental costs include the environmental impact of the full lifetime of the products that we put on the market in 2019, e.g. 10 years in the case of a medical system or 7 years of usage in the case of a domestic appliance. As we grow our portfolio of Green Products and Solutions, we expect the environmental impact to reduce.

Of the total 2019 impact, just EUR 154 million (2%) is directly caused by Philips' own operations, mainly driven by outbound logistics. Compared to EUR 175 million in 2018, this is an 11% reduction, mainly due to a shift from air freight to ocean freight.



The environmental costs have been positively influenced by our long-term EcoDesign efforts to increase the energy efficiency of our products and sales mix changes, reducing the impact during the use phase from EUR 6.5 billion in 2018 to EUR 6.3 billion in 2019. Our supply chain currently has an environmental impact of some EUR 720 million, which is 10% of our total environmental impact. The main contributors are the electronic components, cables and steel used in our products. Through our Circular Economy and Supplier Sustainability programs we will continue to focus on reducing the environmental impact caused by the materials we source and apply in our products.

In order to deliver on our carbon neutrality commitment, we have set ambitious reduction targets. In 2018, we were the first health technology company to have its 2020-2040 targets (including the use phase of our products) approved by the Science Based Targets initiative – a collaboration between CDP (formerly Carbon Disclosure Project), the United Nations Global Compact (UNGC), the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) aimed at driving ambitious corporate climate action. Approval confirms that Philips' long-term targets are in line with the level of decarbonization required to keep the global temperature increase below 2 °C.

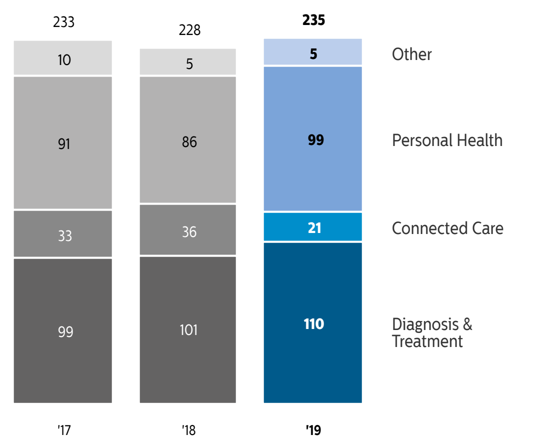
5.2.1 Green Innovation

Green Innovation is the Research & Development spend related to the development of new generations of Green Products and Solutions and Green Technologies, addressing SDG 12 (*Ensure sustainable consumption and production patterns*).

Sustainable Innovation is the Research & Development spend related to the development of new generations of products and solutions that address the United Nations' Sustainable Development Goals 3 (*Ensure healthy lives and promote well-being for all at all ages*) or 12. With regard to Sustainable Innovation spend, Philips set a target of EUR 7.5 billion (cumulative) for the period 2016-2020 as part of the 'Healthy people, Sustainable planet' program.

In 2019, Philips invested EUR 235 million in Green Innovation and some EUR 1.6 billion in Sustainable Innovation.

Philips Group
Green Innovation per segment in millions of EUR
2017 - 2019



Diagnosis & Treatment businesses

Philips develops innovative diagnosis and treatment solutions that support precision diagnosis and effective, minimally invasive interventions and therapy, while respecting the boundaries of natural resources. Investments in Green Innovation in 2019 amounted to EUR 110 million, a significant increase compared to 2018. All Philips Green Focal Areas are taken into account as we aim to reduce environmental impact over the total lifecycle. Energy efficiency is an area of focus, especially for our large imaging systems such as MRI. Philips also pays particular attention to enabling upgrading pathways, so our customers can benefit from enhancements in workflow, dose management and imaging quality with the equipment they already own. Our Diagnosis & Treatment businesses actively support a voluntary industry initiative with European trade association COCIR to improve the energy efficiency and material efficiency of medical imaging equipment, as well as lowering its hazardous substances content. Moreover, we are actively partnering with multiple leading care providers to look together for innovative ways to reduce the environmental impact of healthcare, for example by maximizing energy-efficient use of medical equipment and optimizing lifecycle value. Additionally, Philips aims to close the loop on all large medical equipment that becomes available to us by the end of 2020, and to extend circular practices to all medical equipment by 2025. To achieve this target, we will actively drive trade-ins in markets where de-install, trade-in and reverse logistics capabilities are in place, and build these capabilities in countries that do not yet have them.

Connected Care businesses

Philips' connected health IT solutions integrate, collect, combine and deliver quality data for actionable insights to help improve access to quality care, while respecting the boundaries of natural resources. It is our belief that well-designed e-health solutions can reduce the travel-related carbon footprint of healthcare, increase efficiency in hospitals, and improve access to care and outcomes. Investments in Green Innovation in 2019 amounted to EUR 21 million. Green Innovation projects delivered, among other things, new green patient monitors in 2019, with lower environmental footprints reflecting all the Philips Green Focal Areas. Energy efficiency and material reduction are the main areas of focus.

Personal Health businesses

The continued high level of R&D investments at our Personal Health businesses is also reflected in the Green Innovation spend, which amounted to EUR 99 million in 2019, compared with EUR 86 million in 2018. The Personal Health businesses continued their work on improving the energy efficiency of their products, closing the materials loop (e.g. by using recycled materials in products and packaging) and the voluntary phase-out of polyvinyl chloride (PVC), brominated flame retardants (BFR), Bisphenol A (BPA) and phthalates from, among others, food contact products. Mother & Child Care introduced a reusable sterilization box for soothers and breastfeeding accessories, eliminating the need for separate packaging. In our Oral Healthcare portfolio, we have been able to achieve a 40% average packaging reduction for the Protective Clean products for US retail. In our Garment Care portfolio, we launched our first green optimal-temperature pressurized steam generator; this energy-efficient product contains recycled plastic and is free of PVC and BFR.

Other

The segment Other invested EUR 5 million in Green Innovation, spread over projects focused on global challenges relating to water, air, energy, food, Circular Economy, and access to affordable healthcare.

Circular Economy

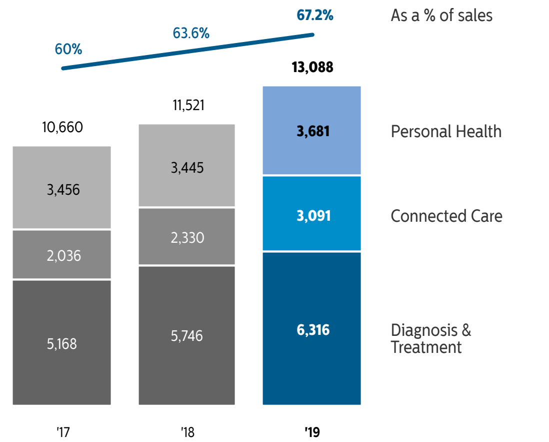
For a sustainable world, the transition from a linear to a circular economy is essential. A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using these resources more effectively. It is a driver of innovation in the areas of material, component and product re-use, as well as new business models such as system solutions and services. At Philips, we have set ambitious targets to guide this journey. By 2020, we want 15% of our revenues to come from circular products and services, and we want to send zero waste to landfill in our own operations. At the beginning of 2018, we added a pledge to take back and repurpose all the large medical systems equipment (e.g. MRI and CT scanners) that our customers are prepared to return to us, and to extend those practices across our professional portfolio by 2025. As of 2019, we are well on track to achieve our ambitious circular economy goals.

For more information on our Circular Economy activities and the progress towards targets in 2019, please refer to Circular Economy, of the Annual Report 2019.

5.2.2 Green Revenues

Green Revenues are generated through products and solutions that offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Circularity, and Lifetime reliability, and thereby deliver a contribution to SDG 12 (*Ensure sustainable consumption and production patterns*). Green Revenues increased to EUR 13.1 billion in 2019, or 67.2% of sales (63.7% in 2018), reaching again a record level for Philips.

Philips Group
Green Revenues per segment in millions of EUR unless otherwise stated
2017 - 2019



Through our EcoDesign process we aim to create products and solutions that have significantly less impact on the environment during their whole lifecycle. Overall, the most significant improvements have been realized in energy efficiency, although there was also growing attention given to hazardous substances and recyclability in all segments in 2019, the latter driven by our Circular Economy initiatives.

Diagnosis & Treatment businesses

In 2019, our Diagnosis & Treatment businesses maintained their Green Products and Solutions portfolio with redesigns of various Green Products with further environmental improvements. These products improve patient outcomes, provide better value, and help secure access to high-quality care, while reducing environmental impact. A good example is BlueSeal magnet technology, which is designed to reduce lengthy and costly disruptions in MRI practice, and help healthcare facilities transition to more productive and sustainable almost helium-free operations.

Connected Care businesses

Our Connected Care businesses continued to develop their Green Products and Solutions portfolio in 2019. New patient monitors and the MMX multi-measurement module came onto the market with lower energy usage thanks to the introduction of an ambient light sensor, improved power supply (MX750, 28% reduction in energy usage) and optimization for battery use. The IntelliVue X3, MX100 and MMX patient monitor platforms feature lower energy usage (18%) and reduced product and packaging weight (11% and 25% respectively) compared to their predecessor products.

Personal Health businesses

Our Personal Health businesses focus on Green Products and Solutions that meet or exceed our minimum requirements in the areas of energy consumption, packaging, substances of concern, and application of recycled plastics. Green Revenues in 2019 amounted to 63% of total sales, compared to 62% in 2018. We continue to make steady progress in developing PVC/BFR-free products. More than 75% of our consumer product sales consist of PVC/BFR-free products, with the exception of the power cords, for which there are not yet economically viable alternatives available. Through ongoing scouting and collaboration with our suppliers we have been able to achieve a breakthrough in PVC/BFR-free performance for our Haircare portfolio, from around 5% in 2017 to over 15% in 2019. In our Kitchen Appliances portfolio, we stepped up the application of recycled plastic for our Eole and Viva/Bond Airfryers, switching over from virgin plastic to recycled plastic for the internal housing parts.

5.2.3 Sustainable Operations

Philips' Sustainable Operations programs focus on the main contributors to climate change, recycling of waste, reduction of water consumption, and reduction of emissions.

Full details can be found in Sustainability statements, of the Annual Report 2019.

Carbon footprint and energy efficiency

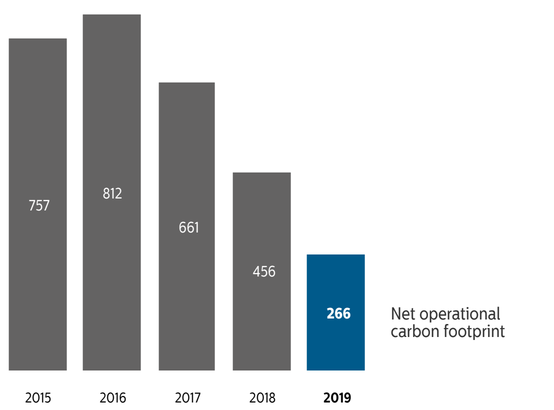
At Philips, we see climate change as a serious threat. Therefore, we are taking action to rethink our business models and decouple economic growth from the impact we have on the environment. This will not only benefit the environment, but will positively impact social and economic aspects as well.

We have the ambition to become carbon-neutral in our operations, sourcing all our electricity from 100% renewable sources by year-end 2020, and our efforts are being acknowledged. We report our climate performance to CDP (formerly known as the Carbon Disclosure Project), a global NGO that assesses the greenhouse gas (GHG) emission performance and management of reporting companies, and have been ranked on the CDP Climate Change 'A' List for our continued climate performance and transparency for the seventh year in a row. We have set ambitious emission reduction targets to ensure we contribute to limiting the impact of global warming, not only in our operations, but throughout our value chain – collaborating with suppliers and customers to amplify our impact. That is why Philips has set new long-term emission reduction targets, which have been assessed and approved by the Science Based Targets initiative (SBTi). Locking down our commitment to driving climate action across the value chain and ensuring that we contribute to deliver on the decarbonization required to keep the global temperature increase well below 2 °C.

In 2019, our operational carbon footprint resulted in 706 kilotonnes of carbon dioxide-equivalent (CO_2-e), a decrease of 10% compared to 2018, mainly driven by increased use of electricity from renewable sources and a significant reduction in air freight. As a result of our carbon neutrality program, some of our emissions have been compensated via carbon offsets, resulting in a total of 266 kilotonnes carbon dioxide-equivalent (CO_2-e).

Philips reports all its emissions in line with the Greenhouse Gas Protocol (GHGP) as further described in Data definitions and scope, of the Annual Report 2019.

Philips Group
Net operational carbon footprint in kilotonnes CO_2 -equivalent
2015 - 2019



In 2019, our operational carbon intensity (in tonnes CO_2e/EUR million sales) improved by 17%, even as our company recorded 4.5% comparable sales growth*). This still excludes the acquired carbon offsets. As part of our 'Healthy people, Sustainable planet' program we are continuing our efforts to decouple economic growth from our environmental impact.

In our sites we achieved significant reductions in our scope 2 (indirect) emissions, mainly driven by an increase in global renewable electricity share from 90% in 2018 to 95% in 2019. All our US operations were already powered by renewable electricity from the Los Mirasoles wind farm. Then, in 2019, the Krammer and Bouwdokken wind farms in the Dutch province of Zeeland, with which we closed long-term contracts through our renewable electricity purchasing consortium with Nouryon, DSM and Google, powered all our operations in the Netherlands. Combined with the Los Mirasoles wind farm, this covers some 49% of our total electricity demand. Combined with the achieved energy reductions, this led to a 26% reduction in emissions from our energy consumption (scope 1 and scope 2 market-based) in 2019 compared to 2018.

Our business travel emissions, covering emissions from air travel, lease cars and rental cars, increased by 2.8% compared to 2018. We recorded a 3% reduction in our air travel emissions as a result of, among other things, our 2019 'Fly Less, Travel Smarter' campaign. This campaign was initiated to further reduce our business travel emissions by installing more online collaboration rooms as an alternative to travel, stimulating behavioral change via our Global Connect Challenge, and promoting alternative modes of transport. The emission reduction in air travel was mitigated by an 18% increase in emissions from our lease car fleet, mainly caused by an increase in fleet size combined with the implementation of the new improved Worldwide Harmonized Light Vehicle Test Procedure (WLTP). Emissions resulting from rental cars decreased by 11% compared to 2018.

In 2019, we recorded a 12% decrease in emissions in our overall logistics operations compared to 2018. We reduced overall emissions from air freight by 21% and from ocean freight by 8%. Emissions from parcel shipments increased by 22% and from road transport by 8%. To take a tangible step towards the decarbonization of ocean shipping, Philips joined other Dutch multinationals FrieslandCampina, Heineken, DSM, Shell and Unilever - all members of the Dutch Sustainable Growth Coalition (DSGC) - in the world's largest maritime biofuel pilot. It used up to 20% sustainable second-generation biofuels on a large triple-E ocean vessel, which set sail in March 2019 from Rotterdam to Shanghai and back on biofuel blends alone. This project was a world first on this scale, saving 1,500 tonnes CO_2-equivalent and 20,000 kilograms of sulphur.

Although reduction is key to achieving carbon neutrality, unavoidable carbon emissions require offsetting in order to gradually drive down our emissions to zero by year-end 2020. We do this by financing projects in emerging regions that have a strong link with UN Sustainable Development Goals 3 (*Ensure healthy lives and promote well-being for all at all ages*) and 12 (*Ensure sustainable consumption and production patterns*). In 2019, we increased this to 440 kilotonnes, equivalent to the annual uptake of approximately 13 million medium-sized oak trees. This covers the total emissions of our direct emissions in our sites, all our business travel emissions and all our ocean, road and parcel shipments within logistics. We do this by financing carbon reduction projects in emerging regions that drive social, economic and additional environmental progress for the communities in which they operate, such as:

Providing access to safe drinking water while reducing wood consumption

These carbon emission reduction projects will provide millions of liters of safe drinking water in Uganda and Ethiopia and will reduce the mortality risk from water-borne diseases. Additionally, less wood will be required for boiling water, leading to less indoor air pollution and slowing down the deforestation rate.

Fighting against respiratory diseases and deforestation by means of clean cookstoves

By financing highly efficient cookstoves in Kenya and Uganda, less wood will be required for cooking, leading to lower carbon emissions, a reduction in diseases caused by indoor air pollution, and a lower deforestation rate in these regions.

Providing access to clean energy while improving health and education

This project will reduce the demand-supply gap in the Dewas region in India and will provide renewable energy to more than 50,000 households. The project will also provide a mobile medical unit in 24 villages, giving diagnosis and medicines free of charge twice a month. Additional funding will be provided for educational programs and improved sanitation facilities in five local schools in order to maximize the social impact.

Philips Group
Operational carbon footprint by scope in kilotonnes CO_2-equivalent unless otherwise stated
2015 - 2019

	2015	2016	2017	2018	2019
Scope 1	39	42	38	40	35
Scope 2 (market based)	106	121	58	25	14
Scope 2 (location based)	212	252	225	227	203
Scope 3	612	649	785	721	657
Total (scope 1, 2 (market based), and 3)	**757**	**812**	**881**	**786**	**706**
Emissions compensated by carbon offset projects	-	-	220	330	440
Net operational carbon emissions	**757**	**812**	**661**	**456**	**266**
Operational CO_2e efficiency in tonnes CO_2e/mln EUR sales	46.6	47.9	47.5	43.4	36.2

During 2019, the applied emission factors used to calculate our operational carbon footprint remained unchanged compared to 2018. Philips reports all its emissions in line with the Greenhouse Gas Protocol (GHGP) as further described in Data definitions and scope, of the Annual Report 2019. Due to new insights and improved calculation methodologies, the emission results from air freight and air travel have been restated historically.

Philips Group
Energy consumption [1] in terajoules (TJ) unless otherwise stated
2015 - 2019

	2015	2016	2017	2018	2019
Total electricity consumption	1,809	1,742	1,560	1,582	1,531
Fuel consumption	782	652	558	603	550
Purchased heat, steam and cooling	67	83	48	61	60
Total energy	**1,658**	**2,477**	**2,166**	**2,246**	**2,141**
Renewable electricity	**965**	**986**	**1,228**	**1,423**	**1,450**
Renewable electricity share	53%	57%	79%	90%	95%
Renewable energy share	36%	40%	57%	63%	68%
Operational energy efficiency in TJ/mln EUR sales	0.16	0.15	0.12	0.12	0.11

[1] This table reflects Philips energy consumption, excluding potential heat and transmission losses from electricity generation and transport

Water

In 2019, Philips was ranked on the CDP Water Security 'A' List for the first time. Along with our 'A' score for Climate Leadership, this makes us one of the few European companies to receive a double 'A' score. Total water intake in 2019 was 890,000 m^3, comparable to 2018. Personal Health, which consumes 50% of total water usage, recorded a 1% increase. The increase was mainly due to production volume increases at one manufacturing site in Asia, partly mitigated by two manufacturing sites in Europe. Diagnosis & Treatment showed an increase of 2%, mainly caused by the inclusion of a new reporting site. Connected Care showed a decrease of 7% due to a change in organizational footprint.

Philips Group
Water intake in thousands of m^3
2015 - 2019

	2015	2016	2017	2018	2019
Diagnosis & Treatment	268	269	312	288	295
Connected Care	172	152	168	161	150
Personal Health	536	542	408	442	445
Philips Group	**976**	**963**	**888**	**891**	**890**

In 2019, 99% of water was purchased and 1% was extracted from groundwater wells.

Waste

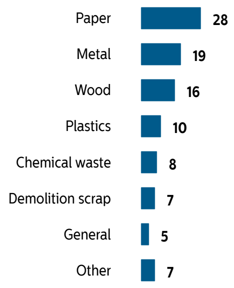
In 2019, our manufacturing sites generated 26.4 kilotonnes of waste, an increase of 8% compared to 2018, mainly driven by construction activities in different locations. The Diagnosis & Treatment businesses increased their waste by 15% (construction activities, operational changes and one new reporting site), now constituting 37% of total waste; Connected Care increased by 3% (construction activities and operational changes); Personal Health increased by 4% (increased production and warehouse clean-up), now constituting 48% of total waste.

Philips Group
Total waste in kilotonnes
2015 - 2019

	2015	2016	2017	2018	2019
Diagnosis & Treatment	8.0	9.2	8.3	8.4	9.7
Connected Care	3.6	3.5	3.9	4.0	4.1
Personal Health	11.6	12.2	12.4	12.1	12.6
Philips Group	**23.2**	**24.9**	**24.6**	**24.5**	**26.4**

Total waste consists of waste that is delivered for landfill, incineration or recycling. Our sites are addressing both the recycling percentage as well as waste sent to landfill as part of the 'Healthy people, Sustainable planet' program. Materials delivered for recycling via an external contractor amounted to 21.9 kilotonnes, which equals 83% of total waste, comparable to 2018 (84%). In some countries, construction waste is regulated and has to go to landfill, which impacted the recycling rate in 2019 negatively. Of the 17% remaining (not recycled) waste, 81% comprised non-hazardous waste and 19% hazardous waste. Our Zero Waste to Landfill KPI excludes one-time-only waste and waste delivered to landfill due to regulatory requirements. According to this definition, in 2019 we reported 1.3 kilotonnes of waste sent to landfill, a reduction of 24% compared to 2018. 19 out of our 35 industrial sites achieved Zero Waste to Landfill status.

Philips Group
Industrial waste delivered for recycling in %
2019



Philips included reduction targets for the substances that are most relevant for its businesses in its ‘Healthy people, Sustainable planet’ program. In order to provide comparable information at Group level, please find below a summary of the emissions of the formerly targeted substances. Emissions of restricted substances were again zero in 2019. The level of emissions of hazardous substances decreased from 3,363 kilos in 2018 to 2,521 kilos in 2019 (-25%), mainly driven by the reduction in styrene emissions in the Personal Health businesses.

Philips Group
Restricted and hazardous substances in kilos
2015 - 2019

	2015	2016	2017	2018	2019
Restricted substances	18	1	0	0	0
Hazardous substances	22,394	10,496	5,243	3,363	2,521

For more details on emissions from substances, please refer to Sustainable Operations, of the Annual Report 2019.

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

6 Supervisory Board

Jeroen van der Veer 2) 3)

Born 1947, Dutch

Chairman

Chairman of the Corporate Governance and Nomination & Selection Committee

Member of the Supervisory Board since 2009; third term expires in 2021

Former Chief Executive and Non-executive Director of Royal Dutch Shell and currently Chairman of the Supervisory Board of Royal Boskalis Westminster N.V. Vice-Chairman of the Supervisory Board of Equinor ASA. Chairman of the Supervisory Council of Delft University of Technology. Chairman of Het Concertgebouw Fonds (foundation). Also a senior advisor at Mazarine Energy B.V.

Neelam Dhawan 1)

Born 1959, Indian

Member of the Supervisory Board since 2012; second term expires in 2020

Head India Advisory Board, IBM. Non-Executive Board Member of ICICI Bank Limited and Yatra Online Inc. Former Vice President, Global Sales and Alliance - Asia Pacific & Japan, Hewlett Packard Enterprise.

Liz Doherty 1)

Born 1957, British/Irish

Member of the Supervisory Board since 2019; first term expires in 2023

Former CFO and board member of Reckitt Benckiser Group PLC, former CFO of Brambles Ltd, former non-executive director and audit committee member at Delhaize Group, Nokia Corp., SABMiller PLC and Dunelm Group PLC. Currently, member of the Supervisory Board and Chairwoman of the audit committee of Novartis AG, member of the Supervisory Board of Corbion N.V. Fellow of the Chartered Institute of Management Accountants. Former non-executive board member of the UK Ministry of Justice and of Her Majesty's Courts and Tribunals Service (UK). Currently advisor to GBfoods and Affinity Petcare SA, subsidiairies of Agrolimen SA.

Orit Gadiesh 2)

Born 1951, Israeli/American

Member of the Supervisory Board since 2014; second term expires in 2022

Currently Chairman of Bain & Company and member of the Foundation Board of the World Economic Forum (WEF) and member of the United States Council of Foreign Relations.

Marc Harrison 4)

Born 1964, American

Member of the Supervisory Board since 2018; first term expires in 2022

Currently President and Chief Executive Officer of Intermountain Healthcare. Former Chief of International Business Development for Cleveland Clinic and Chief Executive Officer of Cleveland Clinic Abu Dhabi.

Christine Poon 2) 3) 4)

Born 1952, American

Vice-Chairwoman and Secretary

Chairwoman of the Remuneration Committee

Member of the Supervisory Board since 2009; third term expires in 2021

Former Vice-Chairwoman of Johnson & Johnson's Board of Directors and Worldwide Chairwoman of the Pharmaceuticals Group. Former dean of Ohio State University's Fisher College of Business. Currently member of the Boards of Directors of Prudential, Regeneron and Sherwin Williams.

David Pyott 1) 4)

Born 1953, British/American

Chairman of the Audit Committee and the Quality & Regulatory Committee

Member of the Supervisory Board since 2015; second term expires in 2023

Former Chairman and Chief Executive Officer of Allergan, Inc. Currently Lead Director of Avery Dennison Corporation. Member of the Board of Directors of Alnylam Pharmaceuticals Inc. and BioMarin Pharmaceutical Inc. Chairman of privately held Bioniz Therapeutics. Deputy Chairman of the Governing Board of London Business School, member of the Board of Trustees of California Institute of Technology, President of the International Council of Ophthalmology Foundation and member of the Advisory Board of the Foundation of the American Academy of Ophthalmology.

Paul Stoffels

Born 1962, Belgian

Member of the Supervisory Board since 2018; first term expires in 2022

Currently Vice Chair of the Executive Committee and Chief Scientific Officer at Johnson & Johnson. Previously, Worldwide Chair of Pharmaceuticals at Johnson & Johnson, CEO of Virco and Chairman of Tibotec.

1) member of the Audit Committee

2) member of the Remuneration Committee

3) member of the Corporate Governance and Nomination & Selection Committee

4) member of the Quality & Regulatory Committee

For a current overview of the Supervisory Board members, see also https://www.philips.com/a-w/about/company/our-management/supervisory-board.htm

Other information

Reconciliation of non-IFRS information

In this Annual Report Philips presents certain financial measures when discussing Philips' performance that are not measures of financial performance or liquidity under IFRS ('non-IFRS'). These non-IFRS measures (also known as non-GAAP or alternative performance measures) are presented because management considers them important supplemental measures of Philips' performance and believes that they are widely used in the industry in which Philips operates as a means of evaluating a company's operating performance and liquidity. Philips believes that an understanding of its sales performance, profitability, financial strength and funding requirements is enhanced by reporting the following non-IFRS measures:

- Comparable sales growth;
- EBITA;
- Adjusted EBITA;
- Adjusted income from continuing operations attributable to shareholders;
- Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted (Adjusted EPS);
- Adjusted EBITDA;
- Free cash flow;
- Net debt : group equity ratio; and
- Comparable order intake.

Non-IFRS measures do not have standardized meanings under IFRS and not all companies calculate non-IFRS measures in the same manner or on a consistent basis. As a result, these measures may not be comparable to measures used by other companies that have the same or similar names. Accordingly, undue reliance should not be placed on the non-IFRS measures contained in this Annual Report and they should not be considered as substitutes for sales, net income, net cash provided by operating activities or other financial measures computed in accordance with IFRS.

This chapter contains the definitions of the non-IFRS measures used in this Annual Report as well as reconciliations from the most directly comparable IFRS measures. The non-IFRS measures discussed in this Annual Report are cross referenced to this chapter. These non-IFRS measures should not be viewed in isolation or as alternatives to equivalent IFRS measures and should be used in conjunction with the most directly comparable IFRS measures.

The non-IFRS financial measures presented are not measures of financial performance or liquidity under IFRS, but measures used by management to monitor the underlying performance of Philips' business and operations and, accordingly, they have not been audited or reviewed by Philips' external auditors.

Additionally, Philips provides forward-looking targets for comparable sales growth, adjusted EBITA margin improvement and free cash flow, which are non-IFRS financial measures. Philips has not provided a quantitative reconciliation of these targets to the most directly comparable IFRS measures because certain information needed to reconcile these non-IFRS financial measures to the most comparable IFRS financial measures are dependent on specific items or impacts which are not yet determined, are subject to uncertainty and variability in timing and amount due to their nature, are outside of Philips' control, or cannot be predicted, including items and impacts such as currency exchange rates, acquisitions and disposals, charges and costs such as impairments, restructuring and acquisition-related charges, amortization of intangible assets and net capital expenditures. Accordingly, reconciliations of these non-IFRS forward looking financial measures to the most directly comparable IFRS financial measures are not available without unreasonable effort. Such unavailable reconciling items could significantly impact our results of operations and financial condition.

Comparable sales growth

Comparable sales growth represents the period-on-period growth in sales excluding the effects of currency movements and changes in consolidation. As indicated in Significant accounting policies, of the Annual Report 2019, foreign currency sales and costs are translated into Philips' presentation currency, the euro, at the exchange rates prevailing at the respective transaction dates. As a result of significant foreign currency sales and currency movements during the periods presented, the effects of translating foreign currency sales amounts into euros could have a material impact on the comparability of sales between periods. Therefore, these impacts are excluded when presenting comparable sales in euros by translating the foreign currency sales of the previous period and the current period into euros at the same average exchange rates. In addition, the years presented were affected by a number of acquisitions and divestments, as a result of which various activities were consolidated or deconsolidated. The effect of consolidation changes has also been excluded in arriving at the comparable sales. For the purpose of calculating comparable sales, when a previously consolidated entity is sold or control is lost, relevant sales for that entity of the corresponding prior year period are excluded. Similarly, when an entity is acquired and consolidated, relevant sales for that entity of the current year period are excluded.

Comparable sales growth is presented for the Philips Group, operating segments and geographic clusters. Philips' believes that the presentation of comparable sales growth is meaningful for investors to evaluate the performance of Philips' business activities over time. Comparable sales growth may be subject to limitations as an analytical tool for investors, because comparable sales growth figures are not adjusted for other effects, such as increases or decreases in prices or quantity/ volume. In addition, interaction effects between currency movements and changes in consolidation are not taken into account.

Philips Group
Sales growth composition per segment in %
2017 - 2019

	nominal growth	consolidation changes	currency effects	comparable growth
2019 versus 2018				
Diagnosis & Treatment	9.8	(1.2)	(3.2)	5.5
Connected Care	7.7	(0.4)	(4.2)	3.1
Personal Health	6.0	0.2	(1.2)	5.0
Philips Group	**7.5**	**(0.3)**	**(2.8)**	**4.5**
2018 versus 2017				
Diagnosis & Treatment	4.9	(2.4)	4.1	6.6
Connected Care	0.2	(1.6)	4.1	2.7
Personal Health	(2.8)	0.6	4.6	2.3
Philips Group	**1.9**	**(1.4)**	**4.2**	**4.7**
2017 versus 2016				
Diagnosis & Treatment	2.9	(1.5)	2.0	3.4
Connected Care	2.0	0.3	2.2	4.5
Personal Health	2.4	1.3	1.7	5.4
Philips Group	**2.1**	**(0.1)**	**1.9**	**3.9**

Philips Group
Sales growth composition per geographic cluster in %
2017 - 2019

	nominal growth	consolidation changes	currency effects	comparable growth
2019 versus 2018				
Western Europe	3.6	(1.0)	(0.2)	2.4
North America	9.7	(0.6)	(5.5)	3.5
Other mature geographies	0.7	(0.3)	(3.7)	(3.4)
Total mature geographies	**6.3**	**(0.7)**	**(3.5)**	**2.1**
Growth geographies	10.0	0.6	(1.0)	9.6
Philips Group	**7.5**	**(0.3)**	**(2.8)**	**4.5**
2018 versus 2017				
Western Europe	4.9	(2.6)	0.4	2.7
North America	(1.1)	(2.6)	4.4	0.7
Other mature geographies	10.8	(0.4)	4.1	14.5
Total mature geographies	**2.5**	**(2.3)**	**3.1**	**3.3**
Growth geographies	**0.7**	**0.4**	**6.5**	**7.6**
Philips Group	**1.9**	**(1.4)**	**4.2**	**4.7**
2017 versus 2016				
Western Europe	1.2	0.5	1.1	2.8
North America	2.1	(1.4)	2.0	2.7
Other mature geographies	(4.7)	(0.1)	2.6	(2.2)
Total mature geographies	**0.8**	**(0.6)**	**1.7**	**1.9**
Growth geographies	4.8	0.9	2.3	8.0
Philips Group	**2.1**	**(0.1)**	**1.9**	**3.9**

Adjusted EBITA

The term Adjusted EBITA is used to evaluate the performance of Philips and its segments. EBITA represents Income from operations excluding amortization and impairment of acquired intangible assets and impairment of goodwill. Adjusted EBITA represents EBITA excluding gains or losses from restructuring costs, acquisition-related charges and other items.

Restructuring costs are defined as the estimated costs of initiated reorganizations, the most significant of which have been approved by the Executive Committee, and which generally involve the realignment of certain parts of the industrial and commercial organization.

Acquisition-related charges are defined as costs that are directly triggered by the acquisition of a company, such as transaction costs, purchase accounting related costs and integration-related expenses.

Other items are defined as any individual item with an income statement impact (loss or gain) that is deemed by management to be both significant and incidental to normal business activity. Other items may extend over several quarters and are not limited to the same financial year.

Philips considers the use of Adjusted EBITA appropriate as Philips uses it as a measure of segment performance and as one of its strategic drivers to increase profitability through re-allocation of its resources towards opportunities offering more consistent and higher returns. This is done with the aim of making the underlying performance of the businesses more transparent.

EBITA excludes amortization and impairment of acquired intangible assets (and impairment of goodwill), which primarily relates to brand names, customer relationships and technology, as Philips believes that such amounts are inconsistent in amount and frequency, are significantly impacted by the timing and/or size of acquisitions and do not factor into its decisions on allocation of its resources across segments. Although we exclude amortization and impairment of acquired intangible assets from our Adjusted EBITA measure, Philips believes that it is important for investors to understand that these acquired intangible assets contribute to revenue generation.

Philips believes Adjusted EBITA is useful to evaluate financial performance on a comparable basis over time by factoring out restructuring costs, acquisition-related charges and other incidental items which are not directly related to the operational performance of Philips Group or its segments.

Adjusted EBITA may be subject to limitations as an analytical tool for investors, as it excludes restructuring costs, acquisition-related charges and other incidental items and therefore does not reflect the expense associated with such items, which may be significant and have a significant effect on Philips' net income.

Adjusted EBITA margin refers to Adjusted EBITA divided by sales expressed as a percentage.

Adjusted EBITA is not a recognized measure of financial performance under IFRS. The reconciliation of Adjusted EBITA to the most directly comparable IFRS measure, Net income, for the years indicated is included in the table below. Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis, resulting in them being shown on a Philips Group level only.

Philips Group
Reconciliation of Net income to Adjusted EBITA in millions of EUR
2017 - 2019

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	Other
2019					
Net Income	1,173				
Discontinued operations, net of income taxes	19				
Income tax expense	337				
Investments in associates, net of income taxes	(1)				
Financial expenses	233				
Financial income	(117)				
Income from operations	**1,644**	**660**	**267**	**844**	**(127)**
Amortization of acquired intangible assets	350	177	141	25	8
Impairment of goodwill	97	19	78		
EBITA	**2,091**	**856**	**486**	**869**	**(119)**
Restructuring and acquisition-related charges	318	149	64	50	54
Other items	153	73	67	23	(11)
Adjusted EBITA	**2,563**	**1,078**	**618**	**943**	**(76)**
2018					
Net Income	1,097				
Discontinued operations, net of income taxes	213				
Income tax expense	193				
Investments in associates, net of income taxes	2				
Financial expenses	264				
Financial income	(51)				
Income from operations	**1,719**	**629**	**399**	**796**	**(105)**
Amortization of acquired intangible assets	347	98	140	31	79
EBITA	**2,066**	**727**	**539**	**827**	**(27)**
Restructuring and acquisition-related charges	258	146	66	15	31
Other items	41	-	56	18	(33)
Adjusted EBITA	**2,366**	**872**	**662**	**860**	**(28)**
2017					
Net Income	1,870				
Discontinued operations, net of income taxes	(843)				
Income tax expense	349				
Investments in associates, net of income taxes	4				
Financial expenses	263				
Financial income	(126)				
Income from operations	**1,517**	**512**	**424**	**834**	**(252)**
Amortization of acquired intangible assets	260	57	138	39	26
Impairment of goodwill	9				9
EBITA	**1,787**	**568**	**562**	**873**	**(217)**
Restructuring and acquisition-related charges	316	156	91	6	64
Other items	50	22	31		(3)
Adjusted EBITA	**2,153**	**747**	**684**	**879**	**(157)**

Adjusted income from continuing operations attributable to shareholders

The term Adjusted income from continuing operations attributable to shareholders represents income from continuing operations less continuing operations non-controlling interests, amortization and impairment of acquired intangible assets, impairment of goodwill, excluding gains or losses from restructuring costs and acquisition-related charges, other items, adjustments to net finance expenses, adjustments to investments in associates and the tax impact of the adjusted items. Shareholders refers to shareholders of Koninklijke Philips N.V.

Restructuring costs, acquisition-related charges and other items are all defined in the Adjusted EBITA section above.

Net finance expenses are defined as either the financial income or expense component of an individual item already identified to be excluded as part of the Adjusted income from continuing operations, or a financial income or expense component with an income statement impact (gain or loss) that is deemed by management to be both significant and incidental to normal business activity.

The Tax impact of the adjusted items is calculated using the Weighted Average Statutory Tax Rate plus any recurring tax costs or benefits.

Philips considers the use of Adjusted income from continuing operations attributable to shareholders appropriate as Philips uses it as the basis for the Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted, a non-IFRS measure.

Adjusted income from continuing operations attributable to shareholders may be subject to limitations as an analytical tool for investors, as it excludes certain items and therefore does not reflect the expense associated with such items, which may be significant and have a significant effect on Philips' net income. Net income, for the years indicated is included in the table below. Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis, resulting in them being shown on a Philips Group level only.

Adjusted income from continuing operations attributable to shareholders is not a recognized measure of financial performance under IFRS. The reconciliation of Adjusted income from continuing operations attributable to shareholders to the most directly comparable IFRS measure, Net income, for the years indicated is included in the table below.

Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted (Adjusted EPS)

Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted is calculated by dividing the Adjusted income from continuing operations attributable to shareholders by the diluted weighted average number of shares (after deduction of treasury shares) outstanding during the period, as defined in Significant accounting policies, of the Annual Report 2019, earnings per share section.

Philips considers the use of Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted appropriate as it is a measure that is useful when comparing its performance to other companies in the HealthTech industry. However, it may be subject to limitations as an analytical tool for investors, as it uses Adjusted income from continuing operations attributable to shareholders which has certain items excluded.

Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted is not a recognized measure of financial performance under IFRS. The most directly comparable IFRS measure, income from continuing operations attributable to shareholders per common share (in EUR) - diluted for the years indicated, is included in the table below.

Philips Group
Adjusted income from continuing operations attributable to shareholders [1] in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Net income	1,870	1,097	1,173
Discontinued operations, net of income taxes	(843)	213	19
Income from continuing operations	**1,028**	**1,310**	**1,192**
Continuing operations non-controlling interests	(11)	(7)	(5)
Income from continuing operations attributable to shareholders [1]	**1,017**	**1,303**	**1,186**
Adjustments for:			
Amortization of acquired intangible assets	260	347	350
Impairment of goodwill	9		97
Restructuring costs and acquisition-related charges	316	258	318
Other items	50	41	153
Net finance expenses		57	14
Tax impact of adjusted items	(194)	(365)	(280)
Adjusted Income from continuing operations attributable to shareholders [1]	**1,459**	**1,643**	**1,839**
Earnings per common share:			
Income from continuing operations attributable to shareholders [1] per common share (in EUR) - diluted	1.08	1.39	1.30
Adjusted income from continuing operations attributable to shareholders [1] per common share (in EUR) - diluted	1.54	1.76	2.02

[1] Shareholders refers to shareholders of Koninklijke Philips N.V.

Adjusted EBITDA

Adjusted EBITDA is defined as Income from operations excluding amortization and impairment of intangible assets, impairment of goodwill, depreciation and impairment of property, plant and equipment, restructuring costs, acquisition-related charges and other items.

Philips understands that Adjusted EBITDA is broadly used by analysts, rating agencies and investors in their evaluation of different companies because it excludes certain items that can vary widely across different industries or among companies within the same industry. Philips considers Adjusted EBITDA useful when comparing its performance to other companies in the HealthTech industry. However, Adjusted EBITDA may be subject to limitations as an analytical tool because of the range of items excluded and their significance in a given reporting period. Furthermore, comparisons with other companies may be complicated due to the absence of a standardized meaning and calculation framework. Our management compensates for the limitations of using Adjusted EBITDA by using this measure to supplement IFRS results to provide a more complete understanding of the factors and trends affecting the business rather than IFRS results alone. In addition to the limitations noted above, Adjusted EBITDA excludes items that may be recurring in nature and should not be disregarded in the evaluation of performance. However, we believe it is useful to exclude such items to provide a supplemental analysis of current results and trends compared to other periods. This is because certain excluded items can vary significantly depending on specific underlying transactions or events. Also, the variability of such items may not relate specifically to ongoing operating results or trends and certain excluded items, while potentially recurring in future periods and may not be indicative of future results. A reconciliation from net income to Adjusted EBITDA is provided below. Net income, for the years indicated is included in the table below. Net income is not allocated to segments as certain income and expense line items are monitored on a centralized basis, resulting in them being shown on a Philips Group level only.

Philips Group
Reconciliation of Net income to Adjusted EBITDA in millions of EUR
2017 - 2019

	Philips Group	Diagnosis & Treatment	Connected Care	Personal Health	*Other*
2019					
Net Income	1,173				
Discontinued operations, net of income taxes	19				
Income tax expense	337				
Investments in associates, net of income taxes	(1)				
Financial expenses	233				
Financial income	(117)				
Income from operations	**1,644**	**660**	**267**	**844**	**(127)**
Depreciation, amortization and impairment of fixed assets	1,402	564	327	186	326
Impairment of goodwill	97	19	78		
Restructuring and acquisition-related charges	318	149	64	50	54
Other items	153	73	67	23	(11)
Adding back impairment of fixed assets included in Restructuring and acquisition-related changes and Other items	(111)	(109)	(2)	-	(1)
Adjusted EBITDA	**3,503**	**1,357**	**802**	**1,104**	**241**
2018					
Net Income	1,097				
Discontinued operations, net of income taxes	213				
Income tax expense	193				
Investments in associates, net of income taxes	2				
Financial expenses	264				
Financial income	(51)				
Income from operations	**1,719**	**629**	**399**	**796**	**(105)**
Depreciation, amortization and impairment of fixed assets	1,089	349	326	171	244
Restructuring and acquisition-related charges	258	146	66	15	31
Other items	41	-	56	18	(33)
Adding back impairment of fixed assets included in Restructuring and acquisition-related changes and Other items	(15)	(7)	(8)	-	1
Adjusted EBITDA	**3,093**	**1,116**	**839**	**1,000**	**139**
2017					
Net Income	1,870				
Discontinued operations, net of income taxes	(843)				
Income tax expense	349				
Investments in associates, net of income taxes	4				
Financial expenses	263				
Financial income	(126)				
Income from operations	**1,517**	**512**	**424**	**834**	**(252)**
Depreciation, amortization and impairment of fixed assets	1,025	301	355	181	188
Impairment of goodwill	9				9
Restructuring and acquisition-related charges	316	156	91	6	64
Other items	50	22	31		(3)
Adding back impairment of fixed assets included in Restructuring and acquisition-related changes and Other items	(86)	(36)	(34)	(1)	(16)
Adjusted EBITDA	**2,832**	**956**	**866**	**1,021**	**(11)**

Free cash flow

Free cash flow is defined as net cash flows from operating activities minus net capital expenditures. Net capital expenditures are comprised of the purchase of intangible assets, expenditures on development assets, capital expenditures on property, plant and equipment and proceeds from sales of property, plant and equipment.

Philips discloses free cash flow as a supplemental non-IFRS financial measure, as Philips believes it is a meaningful measure to evaluate the performance of its business activities over time. Philips understands that free cash flow is broadly used by analysts, rating agencies and investors in assessing its performance. Philips also believes that the presentation of free cash flow provides useful information to investors regarding the cash generated by the Philips operations after deducting cash outflows for purchases of intangible assets, capitalization of product development, expenditures on development assets, capital expenditures on property, plant and equipment and proceeds from disposal of property, plant and equipment. Therefore, the measure gives an indication of the long-term cash generating ability of the business.

In addition, because free cash flow is not impacted by purchases or sales of businesses and investments, it is generally less volatile than the total of net cash provided by (used for) operating activities and net cash provided by (used for) investing activities.

Free cash flow may be subject to limitations as an analytical tool for investors, as free cash flow is not a measure of cash generated by operations available exclusively for discretionary expenditures and Philips requires funds in addition to those required for capital expenditures for a wide variety of non-discretionary expenditures, such as payments on outstanding debt, dividend payments or other investing and financing activities. In addition, free cash flow does not reflect cash payments that may be required in future for costs already incurred, such as restructuring costs.

Philips adopted IFRS 16 on January 1, 2019. As a result, Philips calculation of Free cash flow for the year ended December 31, 2019 includes the impact of IFRS 16. Please refer to note Significant accounting policies, of the Annual Report 2019. Free cash flow calculations for prior periods have not been restated for this impact.

Philips Group
Composition of free cash flow in millions of EUR
2017 - 2019

	2017	2018	2019
Net cash flows provided by operating activities	1,870	1,780	2,031
Net capital expenditures:	(685)	(796)	(978)
Purchase of intangible assets	(106)	*(123)*	*(156)*
Expenditures on development assets	(333)	*(298)*	*(339)*
Capital expenditures on property, plant and equipment	(420)	*(422)*	*(518)*
Proceeds from disposals of property, plant and equipment	175	*46*	*35*
Free cash flow	**1,185**	**984**	**1,053**

Net debt : group equity ratio

Net debt : group equity ratio is presented to express the financial strength of Philips. Net debt is defined as the sum of long- and short-term debt minus cash and cash equivalents. Group equity is defined as the sum of shareholders' equity and non-controlling interests. This measure is used by Philips Treasury management and investment analysts to evaluate financial strength and funding requirements. This measure may be subject to limitations because cash and cash equivalents are used for various purposes, not only debt repayment. The net debt calculation deducts all cash and cash equivalents whereas these items are not necessarily available exclusively for debt repayment at any given time.

Philips Group
Composition of net debt to group equity in millions of EUR unless otherwise stated
2017 - 2019

	2017	2018	2019
Long-term debt	4,044	3,427	4,939
Short-term debt	672	1,394	508
Total debt	**4,715**	**4,821**	**5,447**
Cash and cash equivalents	1,939	1,688	1,425
Net debt	**2,776**	**3,132**	**4,022**
Shareholders' equity	11,999	12,088	12,597
Non-controlling interests	24	29	28
Group equity	**12,023**	**12,117**	**12,625**
Net debt : group equity ratio	**19:81**	**21:79**	**24:76**

Comparable order intake

Comparable order intake represents the period-on-period growth, expressed as a percentage, in order intake excluding the effects of currency movements and changes in consolidation. Comparable order intake is reported for equipment and software in the Diagnoses & Treatment and Connected Care businesses, and is defined as the total contractually committed value of equipment and software to be delivered within a specified timeframe, and is an approximation of expected future revenue growth in the respective businesses. Comparable order intake does not derive from the financial statements and a quantitative reconciliation is thus not provided.

Philips uses comparable order intake as an indicator of business activity and performance. Comparable order intake is not an alternative to revenue and may be subject to limitations as an analytical tool due to differences in amount and timing between booking orders and revenue recognition. Due to divergence in practice, other companies may calculate this or a similar measure (such as order backlog) differently and therefore comparisons between companies may be complicated.

Five-year overview

Philips Group
Other financial data in millions of EUR unless otherwise stated
2015 - 2019

	2015	2016	2017	2018	2019
Nominal sales growth	16%	4%	2%	2%	8%
Comparable sales growth [1]	4%	5%	4%	5%	4%
Free cash flow [1]	(154)	429	1,185	984	1,053
PPE - Capital expenditure for the year	575	575	551	546	1,831
Adjusted EBITA [1]	1,688	1,921	2,153	2,366	2,563
as a % of sales	10.0%	11.0%	12.1%	13.1%	13.2%
Adjusted income from continuing operations attributable to shareholders [1] [2]	1,000	1,153	1,459	1,643	1,839
Adjusted income from continuing operations attributable to shareholders per common share (in EUR) - diluted [1] [2]	1.08	1.24	1.54	1.76	2.02
Cash and cash equivalents	1,766	2,334	1,939	1,688	1,425
Net debt: group equity ratio [1]	25:75	20:80	19:81	21:79	24:76
Market capitalization at year-end	21,607	26,751	29,212	28,276	38,775

[1] Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

[2] Shareholders refers to shareholders of Koninklijke Philips N.V.

Philips Group
Sustainability
2015 - 2019

	2015	2016	2017	2018	2019
Lives improved, in billions	1.25	1.36	1.47	1.54	1.64
Green Revenues, as a % of total sales	56%	58%	60%	64%	67%
Green Innovation, in millions of euros	241	277	233	228	235
Circular revenue	7%	9%	11%	12%	13%
Operational carbon footprint, in kilotonnes CO_2-equivalent	757	812	881	786	706

Due to factors such as acquisitions and divestments, the amounts, percentages and ratios are not directly comparable.

Philips Group
Selected financial data in millions of EUR unless otherwise stated
2015 - 2019

	2015	2016	2017	2018	2019
Sales	16,806	17,422	17,780	18,121	19,482
Income from operations	658	1,464	1,517	1,719	1,644
Financial income and expenses - net	(359)	(442)	(137)	(213)	(117)
Income (loss) from continuing operations	160	830	1,028	1,310	1,192
Income (loss) from continuing operations attributable to shareholders [1]	146	788	814	1,303	1,186
Income (loss) from discontinued operations	479	660	843	(213)	(19)
Net income (loss)	638	1,490	1,870	1,097	1,173
Net income (loss) attributable to shareholders [1]	624	1,448	1,657	1,090	1,167
Total assets	30,943	32,269	25,315	26,019	27,016
Net assets	11,725	13,435	12,023	12,117	12,625
Debt	5,760	5,606	4,715	4,821	5,447
Provisions	4,243	3,605	2,059	2,151	2,159
Shareholders' equity	11,607	12,546	11,999	12,088	12,597
Non-controlling interests	118	907	24	29	28
Weighted average shares outstanding:					
basic	916,087	918,016	928,798	922,987	902,982
diluted	923,625	928,789	945,132	935,851	912,691
Amount of common shares outstanding at year-end	917,104	922,437	926,192	914,184	890,974
Basic earnings per common share:					
Income (loss) from continuing operations attributable to shareholders [1]	0.17	0.90	1.10	1.41	1.31
Net income (loss) attributable to shareholders [1]	0.70	1.58	1.78	1.18	1.29
Diluted earnings per common share:					
Income (loss) from continuing operations attributable to shareholders [1]	0.17	0.89	1.08	1.39	1.30
Net income (loss) attributable to shareholders [1]	0.70	1.56	1.75	1.16	1.28
Dividend distributed per common share	0.80	0.80	0.80	0.80	0.85
Total employees at year-end (FTEs)	112,959	114,731	73,951	77,400	80,495

[1] Shareholders in this table refers to shareholders of Koninklijke Philips N.V.

Forward-looking statements and other information

Forward-looking statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items. Examples of forward-looking statements include statements made about our strategy, estimates of sales growth, future Adjusted EBITA*), future restructuring and acquisition-related charges and other costs, future developments in Philips' organic business and the completion of acquisitions and divestments. Forward-looking statements can be identified generally as those containing words such as "anticipates", "assumes", "believes", "estimates", "expects", "should", "will", "will likely result", "forecast", "outlook", "projects", "may" or similar expressions. By their nature, these statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these statements.

These factors include but are not limited to: changes in industry or market circumstances; economic and political developments; Philips' increasing focus on health technology; the realization of Philips' growth ambitions and results in growth geographies; lack of control over certain joint ventures; integration of acquisitions; securing and maintaining Philips' intellectual property rights and unauthorized use of third-party intellectual property rights; compliance with quality standards, product safety laws and good manufacturing practices; exposure to IT security breaches, IT disruptions, system changes or failures; supply chain management; ability to create new products and solutions; attracting and retaining personnel; financial impacts from Brexit; compliance with regulatory regimes, including data privacy requirements; governmental investigations and legal proceedings with regard to possible anticompetitive market practices and other matters; business conduct rules and regulations; treasury risks and other financial risks; tax risks; costs of defined-benefit pension plans and other post-retirement plans; reliability of internal controls, financial reporting and management process.

As a result, Philips' actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, see also Risk management, of the Annual Report 2019.

Third-party market share data

Statements regarding market share, including those regarding Philips' competitive position, contained in this document, are based on outside sources such as research institutes, industry and dealer panels in combination with management estimates. Where information is not yet available to Philips, those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.

Use of non-IFRS information

In presenting and discussing the Philips Group's financial position, operating results and cash flows, management uses certain non-IFRS financial measures. These non-IFRS financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measure and should be used in conjunction with the most directly comparable IFRS measures. Non-IFRS financial measures do not have standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. A reconciliation of these non-IFRS measures to the most directly comparable IFRS measures is contained in this document. Reference is made in Reconciliation of non-IFRS information, of this report.

Fair value information

In presenting the Philips Group's financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid at the balance sheet date. When quoted prices or observable market values are not readily available, fair values are estimated using appropriate valuation models and unobservable inputs. Such fair value estimates require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the financial statements. In certain cases, independent valuations are obtained to support management's determination of fair values.

Statutory financial statements and management report

The chapters Group financial statements and Company financial statements contain the statutory financial statements of the Company.
The introduction to the chapter Group financial statements sets out which parts of this Annual Report form the management report within the meaning of Section 2:391 of the Dutch Civil Code (and related Decrees).

*) Non-IFRS financial measure. For the definition and reconciliation of the most directly comparable IFRS measure, refer to Reconciliation of non-IFRS information, starting on page 50.

4 Definitions and abbreviations

Brominated flame retardants (BFR)

Brominated flame retardants are a group of chemicals that have an inhibitory effect on the ignition of combustible organic materials. Of the commercialized chemical flame retardants, the brominated variety are most widely used.

CO_2-equivalent

CO_2-equivalent or carbon dioxide equivalent is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO_2 that would have the same global warming potential (GWP), when measured over a specified timescale (generally 100 years).

Circular economy

A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using those resources more effectively. By definition it is a driver for innovation in the areas of material, component and product reuse, as well as new business models such as solutions and services. In a Circular Economy, the more effective use of materials makes it possible to create more value, both by cost savings and by developing new markets or growing existing ones.

Circular Revenues

Circular Revenues are defined by revenues generated through products and solutions that meet specific Circular Economy requirements. These include performance and access-based business models, refurbished, reconditioned and remanufactured products and systems, refurbished, reconditioned and remanufactured components, upgrades or refurbishment on site or remote, and products with a recycled plastics content of >25% post-consumer recycled plastics or >30% post-industrial/post-consumer recycled plastics by total weight of eligible plastics.

Dividend yield

The dividend yield is the annual dividend payment divided by Philips' market capitalization. All references to dividend yield are as of December 31 of the previous year.

Employee Engagement Index (EEI)

The Employee Engagement Index (EEI) is the single measure of the overall level of employee engagement at Philips. It is a combination of perceptions and attitudes related to employee satisfaction, commitment and advocacy.

Energy-using Products (EuP)

An energy-using product is a product that uses, generates, transfers or measures energy (electricity, gas, fossil fuel). Examples include boilers, computers, televisions, transformers, industrial fans and industrial furnaces.

Full-time equivalent employee (FTE)

Full-time equivalent is a way to measure a worker's involvement in a project. An FTE of 1.0 means that the person is equivalent to a full-time worker, while an FTE of 0.5 signals that the worker works half-time.

Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) is a network-based organization that pioneered the world's most widely used sustainability reporting framework. GRI is committed to the framework's continuous improvement and application worldwide. GRI's core goals include the mainstreaming of disclosure on environmental, social and governance performance.

Green Innovation

Green Innovation comprises all R&D activities directly contributing to the development of Green Products or Green Technologies. Innovation projects are characterized as Green based on the innovation brief; this designation is not revised during the project lifetime.

Green Products

Green Products offer a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Circularity, and Lifetime reliability. The life cycle approach is used to determine a product's overall environmental improvement. It calculates the environmental impact of a product over its total life cycle (raw materials, manufacturing, product use and disposal).

Green Products need to prove leadership in at least one Green Focal Area compared to industry standards, which is defined by a segment-specific peer group. This is done either by outperforming reference products (which can be a competitor or predecessor product in the particular product family) by at least 10%, by outperforming product-specific eco-requirements or by being awarded with a recognized eco-performance label. Because of different product portfolios, business segments have specified additional criteria for Green Products, including product specific minimum requirements where relevant.

Green Revenues

Green Revenues are generated through products and solutions which offer a significant environmental improvement in one or more of the Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Circularity, and Lifetime reliability. Green Revenues are determined by classifying the environmental impact of the product or solution over its total life cycle.

Philips uses Green Revenues as a measure of social and economic performance in addition to its environmental results. The use of this measure may be subject to limitations as it does not have a standardized meaning and similar measures could be determined differently by other companies.

A product or solution that has been determined to contribute to Green Revenues will continue to do so until it is decommissioned.

Growth geographies

Growth geographies are the developing geographies comprising of Asia Pacific (excluding Japan, South Korea, Australia and New Zealand), Latin America, Central & Eastern Europe, Middle East & Turkey (excluding Israel) and Africa.

Hazardous substances

Hazardous substances are generally defined as substances posing imminent and substantial danger to public health and welfare or the environment.

Income from operations (EBIT)

Income from operations as reported on the IFRS consolidated statement of income. The term EBIT (earnings before interest and tax) has the same meaning as Income from operations.

Income from continuing operations

Income from continuing operations as reported on the IFRS consolidated statement of income, which is net income from continuing operations, or net income excluding discontinued operations

Lean

The basic insight of Lean thinking is that if every person is trained to identify wasted time and effort in their own job and to better work together to improve processes by eliminating such waste, the resulting enterprise will deliver more value at less expense.

Lives improved by Philips

To calculate how many lives we are improving, market intelligence and statistical data on the number of people touched by the products contributing to the social or ecological dimension over the lifetime of a product are multiplied by the number of those products delivered in a year. After elimination of double counts – multiple different product touches per individual are only counted once – the number of lives improved by our innovative solutions is calculated.

Long-term strategic partnership

Multi-year contractual agreement that represents a partnership to enable long-term collaboration

Market/Market Group

A Market consists of one or more countries operating as a single organization under a Market Leader. Our 17 Market organizations are organized in three market groups: North America, Greater China and International Markets.

Mature geographies
Mature geographies are the highly developed markets comprising of Western Europe, North America, Japan, South Korea, Israel, Australia and New Zealand.

Operational carbon footprint
A carbon footprint is the total set of greenhouse gas emissions caused by an organization, event, product or person; usually expressed in kilotonnes CO_2-equivalent. Philips' operational carbon footprint is calculated on a half-year basis and includes industrial sites (manufacturing and assembly sites), non-industrial sites (offices, warehouses, IT centers and R&D facilities), business travel (lease and rental cars and airplane travel) and logistics (air, sea and road transport).

Polyvinyl chloride (PVC)
Polyvinyl chloride, better known as PVC or vinyl, is an inexpensive plastic so versatile it has become completely pervasive in modern society.

Quadruple Aim
At Philips, we make value-based care principles actionable by addressing the Quadruple Aim – better health outcomes, improved patient experience, improved staff experience, and lower cost of care.

REACH
Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) is a European Union regulation that addresses the production and use of chemical substances, and their potential impact on both human health and the environment.

Responsible Business Alliance (RBA)
The Responsible Business Alliance (formerly known as The Electronic Industry Citizenship Coalition (EICC)) was established in 2004 to promote a common code of conduct for the electronics and information and communications technology (ICT) industry. EICC now includes more than 100 global companies and their suppliers.

Restriction on Hazardous Substances (RoHS)
The RoHS Directive prohibits all new electrical and electronic equipment placed on the market in the European Economic Area from containing lead, mercury, cadmium, hexavalent chromium, poly-brominated biphenyls (PBB) or polybrominated diphenyl ethers (PBDE), except in certain specific applications, in concentrations greater than the values decided by the European Commission. These values have been established as 0.01% by weight per homogeneous material for cadmium and 0.1% for the other five substances.

Solution
A combination of Philips (and 3rd-party) systems, devices, software, consumables and services, configured and delivered in a way to solve customer (segment)-specific needs and challenges.

Sustainable Development Goals
The Sustainable Development Goals (SDGs) are a collection of 17 global goals set by the United Nations. The broad goals are interrelated though each has its own targets. The SDGs cover a broad range of social and economic development issues. These include poverty, hunger, health, education, climate change, water, sanitation, energy, environment and social justice.

Sustainable Innovation
Sustainable Innovation is the Research & Development spend related to the development of new generations of products and solutions that address the United Nations Sustainable Development Goals 3 (*Ensure healthy lives and promote well-being for all at all ages*) or 12 (*Ensure sustainable consumption and production patterns*). This includes all Diagnosis & Treatment and Connected Care innovation spend. In addition, innovation spend that contributes to Green Products and healthy living at Personal Health is included. Finally, innovation spend at Other that addresses the SDGs 3 and 1 is included.

VOC
Volatile organic compounds (VOCs) are organic chemicals that have a high vapor pressure at ordinary room temperature. Their high vapor pressure results from a low boiling point, which causes large numbers of molecules to evaporate or sublimate from the liquid or solid form of the compound and enter the surrounding air, a trait known as volatility.

Voluntary turnover
Voluntary turnover covers all employees who resigned of their own volition.

Waste Electrical and Electronic Equipment (WEEE)
The Waste Electrical and Electronic Equipment Directive (WEEE Directive) is the European Community directive on waste electrical and electronic equipment setting collection, recycling and recovery targets for all types of electrical goods. The directive imposes the responsibility for the disposal of waste electrical and electronic equipment on the manufacturers of such equipment.

Weighted Average Statutory Tax Rate (WASTR)

The reconciliation of the effective tax rate is based on the applicable statutory tax rate, which is a weighted average of all applicable jurisdictions. This weighted average statutory tax rate (WASTR) is the aggregation of the result before tax multiplied by the applicable statutory tax rate without adjustment for losses, divided by the group result before tax.

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